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Provinces – Argentina

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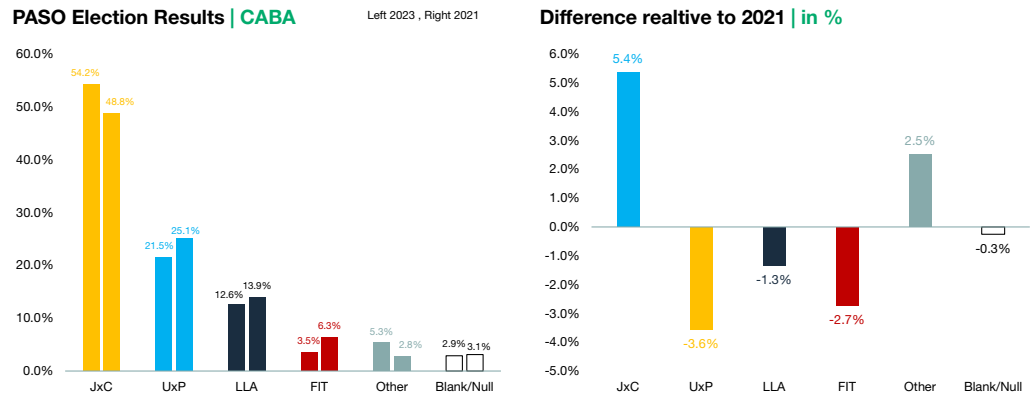
Provinces Strategy Flash: PBA and CABA PASO

In CABA, a competitive JxC primary secured a landslide win, while in PBA the race remains open.

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In yesterday's PASO, JxC managed to overperform its national tally in both CABA and PBA, now being on the verge of winning the first in the first round in the former, while remaining highly competitive in the latter. Starting with the CABA election, JxC obtained 54.2% of the votes, split roughly in half between the frontrunner, Mr. Jorge Macri (27.8%), and Mr. Lousteau (26.4%). In this context, the former emerged as the winner of a surprisingly tight primary, which initially had Mr. Macri running as a heavy favorite. On behalf of Union por la Patria, Mr. Santoro was the third most-voted candidate (21.5%) pushing the party to second place overall. The libertarian candidate, Mr. Marra (12.55%) came in a far fourth, underperforming significantly relative to Mr. Milei's national haul. Finally, the FIT closed a weak election, managing to muster only 3.55% of the total votes. Relative to 2021, these results showcase an improvement for Juntos por el Cambio, mostly to the detriment of the rest of the parties, which performed worse than in the legislative election. In particular, JxC obtained 5.4pp more than in the 2021 PASO, which came partially from kirchnerism (-3.6pp), the FIT (-2.7pp), and the libertarians (-1.35pp), all of which underperformed relative to their voter tally last time around.

Figure 1: CABA Election Results



Source: TPCG Research based on Instituto de Gestión Electoral

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We believe the different systems used to vote at the national level and in the City of Buenos Aires leveled the playing field for Mr. Loustau, who also counted with some tactical voters from UxP. The fact that the City of BA uses an electronic voting system to elect its representatives, while at the national level elected officials are still chosen with paper ballots freed both Mr. Jorge Macri and Mr. Lousteau from being stuck either in Horacio Rodriguez Larreta or Patricia Bullrich's ballot. This made the primary election more competitive, with the separate voting systems unlinking the national primary dispute (which was less competitive), from its departmental counterpart. In this context, Mr. Lousteau managed to present a surprisingly strong opposition to Mr. Macri, which was the favorite to win the election inside JxC, losing by just 1.4pp of the votes. In addition to the beneficial voting system, we do believe Mr. Lousteau could have enjoyed some

extra support from some UxP tactical voters, which saw the chance of intervening in the JxC primary, to support their preferred candidate, as Mr. Santoro's candidacy ran no risks inside the UxP space. This could have been especially relevant considering Mr. Lousteau's political affiliations and past connections with kirchnerism make him a much more palatable candidate for more left-leaning voters and position him closer to Mr. Santoro in the political spectrum, who is also a more moderate candidate, albeit coming from the left.

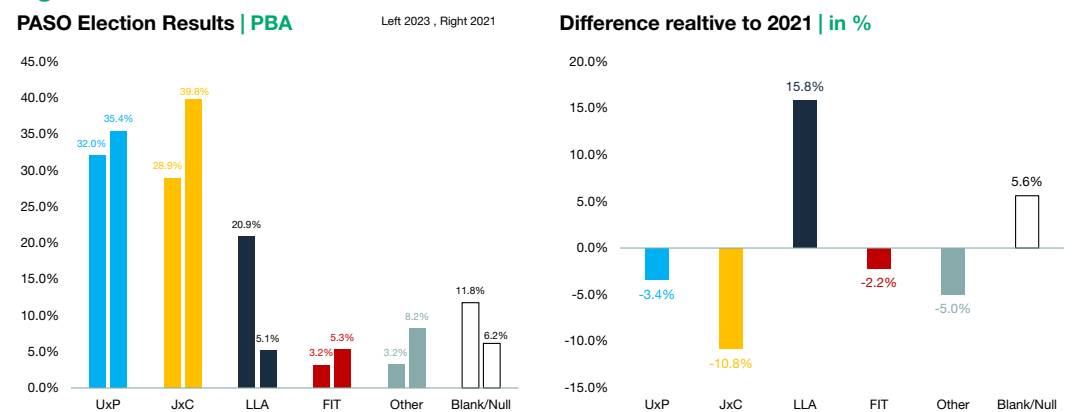
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All in all, policy continuity in CABA looks nearly assured, with the news being credit positive for the space, even if its supporter flow could dwindle slightly after the very competitive primary. With JxC having obtained over 54% of the votes, the race for CABA seems nearly over, as mustering the same support in October would see the JxC space win in the first round, with no need for a ballotage. This would guarantee policy continuity in the City of Buenos Aires, which in our view is a positive development, especially if the change of political color at the national level matches the current administration's political affiliations, even as Mr. Milei's victory in the primaries does put a significant question mark over the developments at the country level going forward. However, we do believe that the dynamics of the primary inside the JxC space fueled some overperformance on the aggregate, as both candidates stretched their support to the limit to win. This could mean the loss of some votes to Mr. Santoro, who could regain some tactical voters who opted to support Mr. Losteau in the PASO. Still, in 2019, Mr. Larreta won the general election in October with 55% of the votes, which would suggest that a similar result is perfectly plausible. However, with CABA's strong fiscal and liquidity positions, we find the credit continues to have a strong outlook not only from a political standpoint but from a fundamental basis too.

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On the PBA side, Mr. Kiciloff emerged as the frontrunner, followed by the JxC space, which was weakened by a very strong election for Mrs. Piparo, Mr. Milei's candidate in the province. Looking at the results, UxP secured a comfortable first place, accruing 32% of the votes. JxC came in second, clocking in at 28.9%, somewhat over the results at the national level. Profiting from Mr. Milei's strong performance, Mrs. Carolina Píparo overperformed substantially relative to polls, obtaining 20.9% of the votes. Finally, coming in a very far fourth place, the FIT managed to get 3.2% of the votes. Relative to the 2021 PASO, the results mark a significant underperformance from JxC, who were unable to maintain their momentum, and lost votes to the liberal Mrs. Píparo, who posted the surprise of the evening at the provincial level. In particular, JxC dropped 10.8pp from its 39.8% in 2021, while UxP also dropped, albeit more marginally (3.4pp), and the FIT lost another 2pp. With all the traditional parties bleeding, La Libertad Avanza capitalized on Mr. Milei's push, overperforming their weak 2021 ratings by 15.8pp, and positioning itself as a very strong third force in PBA. However, the other segment which saw a significant increase was blank and null votes, which increased by 5.6pp to 11.8%.

Figure 2: PBA Election Results



Source: TPCG Research based on Dirección Nacional Electoral

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Inside the JxC space, Mr. Grindetti edged Mr. Santilli by a close margin, a mood which was consistent with Mrs. Bullrich's clear win over Mr. Larreta at the national level. As in CABA, the primary election inside of the JxC space proved extremely competitive, with Mr. Grindetti obtaining 16.6% of the votes, edging Mr. Santilli by just 0.3pp, as the latter obtained 16.3% of the votes. With Mrs. Bullrich winning the internal strife against Mr. Larreta by a landslide in Cordoba, Santa Fe, CABA, and Mendoza, PBA was Mr. Larreta's last hope, but in the end, it also favored Mr. Bullrich, even if it did by a very close margin.

Going forward, Mrs. Piparo's candidacy presents a very uncomfortable question for the PBA electorate, and we expect tactical voting to take a major place in the general elections in October.

All in all, we believe the news are mixed from a credit standpoint. Even as the race remains wide open, the victory of the more right-leaning candidates at the national level suggests Mr. Kiciloff would face a very constrained tenure in the event he manages to remain in office.

Going forward, Mrs. Piparo's candidacy presents a very uncomfortable question for the PBA electorate, and we expect tactical voting to take a major place in the general elections in October. The latest snapshot puts Mr. Kiciloff as the favorite to retain the Province of Buenos Aires, having a slim lead over the JxC space. However, considering opposition votes outnumber him by 1.5 to 1, he needs a very split opposition in order to remain in office. He needs a strong Mrs. Piparo to avoid JxC to catch up to him. However, there is where we might see some tactical voting taking place. In PBA, the election does not have a second round. This means that October presents a winner-takes-all scenario for all of the involved parties. This should hurt Mrs. Piparo's chances, as her 24% is not nearly enough to catch up to UxP. This should allow JxC, the more competitive opposition alternative, to consolidate a larger portion of the non-peronist votes and have significant chances to edge Mr. Kiciloff in the province of Buenos Aires. In this context, we believe that either a tactical weakening of Mrs. Piparo, or an increase in participation rates (which historically JxC has been able to capitalize in between the PASO and general elections), should put Mr. Kiciloff against the ropes.

All in all, we believe the news are mixed from a credit standpoint. Even as the race remains wide open, the victory of the more right-leaning candidates at the national level suggests Mr. Kiciloff would face a very constrained tenure in the event he manages to remain in office. As we discussed above, it is not clear to which side the PBA race will tilt. A scenario where the liberals manage to consolidate their voter base and divide the opposition into two similarly sized blocks should see Mr. Kiciloff retain the governor's seat. However, a scenario where strategic votes take the front seat, and Mrs. Piparo loses votes to JxC, or participation rates increase, should result in a change in the administration of the province. If the second scenario materializes, and Mrs. Bullrich manages to win the national race, then that result should be credit positive, as the national administration should continue to support the PBA government. However, if Mr. Kiciloff remains in office, and either Mr. Milei or Mrs. Bullrich edges Mr. Massa at the national levels, then discretionary transfers (the main driver behind the strong PBA fiscal position), would collapse, pushing it to a wide deficit. In the event Mr. Kiciloff also needs to use the PBA to give refuge to kirchnerist political exiles from the national government, then the situation would become increasingly dire for the provincial treasury. Finally, the more unclear scenario would be a JxC win in the province, joined by a libertarian win at the national level. While the relationship probably wouldn't be as hostile as a UxP- JxC/LLA mix, Mr. Milei's focus on consolidating public expenditure and equilibrating public finances might leave the JxC administration with fewer resources than desirable to face its obligations. All in all, we find the race is still too tight to call, while the financial flows of the province are largely dependent on the result, not only on the provincial election but of the national outcome, with the scenarios tilted to the side where PBA's financial position becomes more constrained in the medium run.

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