

Argentina – Strategy  
August 22, 2023

## Post-PASO outlook: A few thoughts about rationalizing a bad outcome?

- **IN THIS PIECE.** This is the first of a two-piece set looking into the scenario following the Primaries and trying to answer three questions: (i) who voted for Mr. Milei, (ii) what are the scenarios for the October election and potentially a run-off and (iii) what would a Milei Administration look like given what we know about his program. This week we cover the first two questions in depth and cover some top-level thoughts regarding the third question. Next week, we plan to publish a fully fleshed analysis of the Milei Administration's program.
- **OUR KEY TAKEAWAYS.** We look at the Primaries result district by district and find a positive and statistically significant relationship between the Peronist vote loss relative to the 2019 primaries and the gains made by the Libertarians in August 2023. Mr. Milei overperformed in districts with more Peronist, less affluent, and more vulnerable electorates. In the 18 provinces where Mr. Milei was the most voted candidate, Peronism lost between one-third and two-thirds of its voters relative to the 2019 Primaries. By contrast, JxC's underperformance seems more related to the increase in voter non-participation. If we take into account that 36% of voters either didn't participate or voted blank, the Argy electorate has reconfigured from the 50-50 split between Peronists and anti-Peronists that has dominated local politics over the past decade to a 60-40 split between voters who reject the political system and want to see it forged anew (two-fifths of voters non-participating plus one-fifth voting for Mr. Milei) and voters who continue to trust the two mainstream coalitions (evenly split with one-fifth of voters siding with JxC, and another fifth with Peronism). From our analysis of the PASO electorate configuration, we conclude that candidates can target their campaigns at four critical clusters of voters. There are (i) the non-participants (34.5%), (ii) Mr. Milei's voters (20.6%), (iii) JxC votes (19.4%), and (iv) Peronisms' votes (18.7%). Because of the large overlap between the Libertarian and the Peronist voters, we believe that Mr. Massa's obvious choice is to concentrate on getting back some of the Peronist votes that fled to Mr. Milei. Wooing votes from JxC would be almost impossible for Mr. Massa in a context where to most Juntos' voters, Mr. Massa's association with CFK is toxic and trumps any misgivings about Mrs. Bullrich. On the other hand, the economy makes it extremely hard for Mr. Massa to secure votes from non-participants, especially after the devaluation and the ensuing spike in inflation. Therefore, Mr. Massa's most likely strategy should be to increase fiscal impulse and mobilize the Peronist election machinery to dilute Mr. Milei. For Mrs. Bullrich, the strategy is less clear, as her starting point is more uncomfortable. Because of the overlap between the Massa and the Milei electorates, there seem to be few votes for JxC to fish in those two clusters of mostly Peronist voters. In that context, despite the initial JxC diagnostic that they lost about 5pp of votes to the Libertarians (which our figures suggest could be wrong), Mrs. Bullrich's best shot lies with tapping into the non-participant cluster. To find these voters receptive, she needs a different campaign. She needs to offer a cohesive and clear economic view that provides the illusion that Mr. Massa can't deliver and the certainties Mr. Milei's program lacks. The only thing going for Mrs. Bullrich is that for Mr. Massa to go up, Mr. Milei needs to go down, and if Mr. Milei continues to do well, it means that the Government won't bounce back. In this context, her spot in the run-off looks better than what the market expects. Finally, Mr. Milei seems to be in a more comfortable position. The economy will likely continue pushing Peronist voters into his arms, and the JxC strategy issues give him a shot at independent voters.
- **STRATEGY IMPLICATIONS.** We're less constructive about the PASO's outcome than the market consensus. Most creditors add the Milei, JxC, and Schiaretti votes, concluding that over 60% of the electorate sided with a center-right alternative. We do a different math, adding the Libertarian, Peronist, and non-participant votes, and conclude that 75% of the electorate either failed to vote or opted for a magical solution. In this context, we see little evidence that the electorate is ready for a stabilization program.

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### Who voted for Mr. Milei? A dissection of the Libertarian electorate

Mr. Milei's surprise win pushes everyone back to the drawing board. A majority of voters rejected the two coalitions around which politics has gravitated over the past decade. About 60% of the Argentinian electorate either voted for the Libertarians, who vow to dismantle the system and forge it anew, or opted not to participate in the political process. Another Argy presidential Primary, another black swan. Javier Milei, the Libertarian candidate, had a blowup performance and snatched the largest tally of votes, with 30%. Still, the election is as much about Mr. Milei as about the failure of the two large coalitions which have dominated Argy politics over the past decade. Peronism has lost 30pp over the past eight years and 20pp over the past four, while JxC has circled back to its starting point of around 30pp of the valid positive votes (18.9% of the total electorate), ending a string of elections that seemed to cement its position closer to 40pp. In other words, Peronism deepened its gradual but unyielding decay from the single-party regime envisioned by Mr. Kirchner that CFK commanded between 2007 and 2015 to a scathing third-place finish. At the same time, voters seem to have discarded JxC as the alternative to that regime. Despite Peronism performing at its all-time low, JxC pulled a weaker result than the one it got in infancy in 2015. Facing the rot of the two coalition system (calling out for its demise might be hasty, as Mr. Milei will still need to clinch the election), more than half of the voters opted to express their dissatisfaction by either not participating in the election (36.4% of voters either failed to vote or voted blank), or choosing for the disruptive Libertarian alternative (20.1% of voters, or 30.04% of the positive valid votes – which is the official result).

**Figure 1: Voters rejected the two leading coalitions, opting for a disruptive Libertarian alternative or not participating in the election.**

PASO - % of positive valid votes				PASO - % of registered voters				Δ vs 2019
	2015	2019	2023		2015	2019	2023	
Peronism	59.1%	49.9%	27.7%	Peronism	41.7%	36.1%	18.3%	-17.8%
Kirchnerism	38.6%			Kirchnerism	27.2%			
Frente Renovador	20.5%			Frente Renovador	14.5%			
Juntos por el Cambio	30.1%	32.9%	28.7%	Juntos por el Cambio	21.2%	24.0%	18.9%	-5.1%
La Libertad Avanza			30.4%	La Libertad Avanza	-	-	20.1%	-20.1%
Participation Rate	75%	76%	69%	NonParticipants/ Blank	29.7%	27.1%	36.4%	9.2%
				Others	7.5%	12.8%	6.3%	-6.5%

Source: TPCG Research based on the Interior Ministry

**The market emerged from the election with a sanguine view of the outcome, reading that more than 50% of voters chose a center-right alternative. We have a less constructive read, concluding that 38% of voters opted for populist alternatives, and 36% preferred not to get involved in the process. Under that view, there's no evidence that the electorate is ready to endure the cost of a stabilization program.**

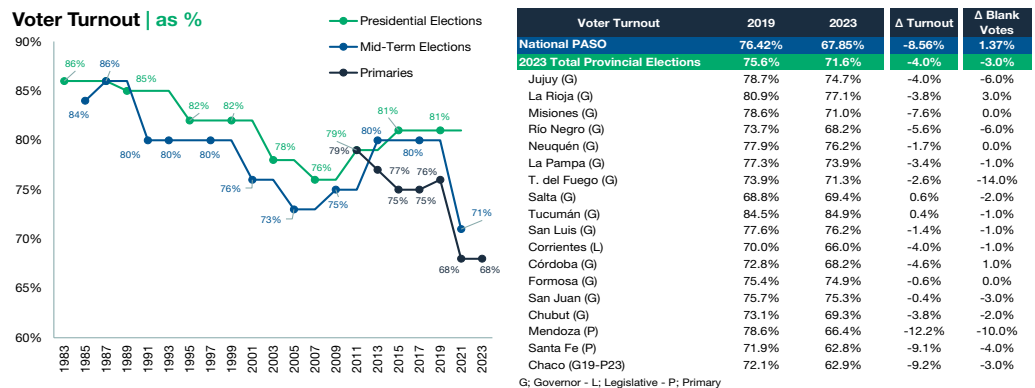
The market emerged from the election with a sanguine view of the outcome, reading that more than 50% of voters chose a center-right alternative. We have a less constructive read, concluding that 38% of voters opted for populist alternatives, and 36% preferred not to get involved in the process. Under that view, there's no evidence that the electorate is ready to endure the cost of a stabilization program. Despite the substantial drop in bond prices (a little over 10% drop relative to the pre-PASO close on Friday 11<sup>th</sup>), a large number of the creditors we've talked to over the past few days came out with a constructive view. They add Mr. Milei's 30.4% of positive valid votes, JxC's 28.7%, and Mr. Schiaretti's 3.8%, concluding that over 50% of voters opted for center-right alternatives. That read would suggest that the electorate is rejecting the Government's Kirchnerist policies and would support a regime change bringing a stabilization plan. We believe that this conclusion overestimates voters' intent. If we look beyond the positive valid votes and bring absentee and blank voting into the mix, 36% of voters opted not to get involved. On the other hand, we question whether Mr. Milei's voters are picking a right-leaning alternative or a populist leader offering a different flavor of magical solutions to the ones that Mr. Massa and Kirchnerism have been peddling for years, but not any less misguided.

**Voter turnout was the lowest since the return of democracy, dropping to 69%. While more voters tend to skip primaries, the turnout was 9pp lower than in 2019.**

If we assume that Mr. Milei and Mr. Massa are just different flavors of populism, then we can conclude that 38% of voters remain enchanted with the lull of populism. Add absentee voting to the mix, and you'll find that 74% of voters either favored populism or failed to participate. In that context, we find little support for the thesis that the electorate is ready to bear the cost of a stabilization program and support a Government that enacts the necessary cuts.

**Voter turnout was the lowest since the return of democracy, dropping to 69%. While more voters tend to skip primaries, the turnout was 9pp lower than in 2019.** Though voting in Argentina is nominally mandatory, turnout has been cyclical over the past forty years. Following the reinstatement of democracy, voter participation hovered in the mid-80s in the context of the expectation created by the Alfonsín Administration. Turnout dropped to 80% after the 1987-90 hyperinflationary period and remained constant at that level throughout most of the 90s before plummeting into the low-70s during the early noughts crisis. After that, it bounced back into the low-80s as (i) Kirchnerism re-politicized large swaths of the young electorate and (ii) a national anti-Kirchnerist movement articulated around JxC sought to prevent the instatement of a hegemonic regime. In other words, the Kirchner – anti-Kirchner fault line re-engaged Argentinians with politics following the collapse of the Convertibilidad. The failure of the Fernández Administration pushed a substantial amount of voters back into not participating, some driven by anger, most by apathy. Participation in the 2023 primaries was the lowest in history, only matching the 2021 mid-terms. About 9pp fewer voters turned out this August relative to the 2019 Primaries and 13pp fewer than in the 2019 general election. Participation in the Federal Election was substantially lower than in the 18 regional races that took place YTD. In the 2023 regional elections, turnout averaged 71.6pp, about 4pp higher than in the Federal election. Compared to 2019, participation in the regional elections dropped by 4pp, less than half of the drop in the Federal race.

**Figure 2: Voter participation was the lowest in recorded history for a Presidential election, underperforming the 2023 regional elections by 4pp.**



Source: TPCG Research based on the Interior Ministry

**Another consensus view voters refuted was that Mrs. Bullrich and Mr. Milei's electorates had a significant overlap.**

**Another consensus view voters refuted was that Mrs. Bullrich and Mr. Milei's electorates had a significant overlap.** Disaffected Peronist voters were the backbone of the Libertarian surprise. The conventional wisdom before the election suggested that there would be three voter spaces in contention. Messers Massa and Grabois would dispute the left-leaning Kirchnerist voters. Messers Massa and Larreta would compete for the moderate, independent vote, and Mrs. Bullrich would vie with Mr. Milei for the hawkish, right-leaning anti-Kirchnerist voters. The election didn't turn that way. On aggregate, when we compare to the 2019 primaries, Peronism dropped 17.8pp of the general electorate (not the positive valid votes), JxC lost 5.1pp, and the remaining forces (incl. the left and Federal Peronism) 6.5pp. In other words, the traditional forces deteriorated by a combined 29.4pp. Two-thirds of that vote went to LLA (20.1pp) and one-third to lower participation (9.2pp). In that context, on the aggregate, most of the Libertarian tally is from disaffected Peronist voters. This view holds when we move from the aggregate figures to the individual districts. The Libertarian surge was grounded on an amazing performance in Kirchnerist strongholds, both in the interior and the Greater BA area. Mr. Milei was the most-voted presidential candidate in 18 provinces. While he had upset wins against JxC in Córdoba, Mendoza, and Santa Fe, he carried the granitical Peronist provinces in the south and the north. In 2015, Argentina's map had three bands, Peronist blue atop, JxC yellow in the middle, and Peronist blue in the lower part. In 2019, it was a sea of blue with a small island of yellow in Córdoba. In 2023 there's purple

everywhere. The Libertarians had a stellar performance even in the Greater BA. Mr. Milei got one-quarter of the vote in the 3<sup>rd</sup> Electoral Section of PBA, which comprises the munis in the south and west of the Greater BA area, where Kirchnerism polled a whopping 59% in 2019. By contrast, the JxC performance was similar (29% in 2019 and 27% in 2023), suggesting that Mr. Milei's expansive growth in PBA came at the expense of Peronism. The more JxC leaning 1<sup>st</sup> Electoral Section tells a similar story. JxC's drop is a little more pronounced, from 37% to 33%, but most of Mr. Milei's 24pp of votes came from Peronism, which plummeted from 52% in 2019 to 36% in 2023.

**Figure 3: The Libertarian surge was grounded on an amazing performance in Kirchnerist strongholds, both in the interior and the Greater BA area.**

Presidential Election results, votes as % of registered voters	Paso 2015				Paso 2019				Paso 2023			
	FpV	JxC	Frete Renovador	Did not vote/Blank	FdT	JxC	Concenso Federal	Did not vote/Blank	UxP	JxC	LLA	Did not vote/Blank
Buenos Aires	28.8%	21.2%	15.0%	27.4%	37.8%	22.3%	5.8%	27.8%	22.3%	20.3%	17.1%	35.0%
City of Buenos Aires	16.7%	35.2%	9.8%	28.2%	24.9%	33.6%	6.6%	27.1%	16.4%	33.6%	12.4%	31.6%
Catamarca	33.0%	21.6%	8.3%	34.6%	36.8%	16.4%	4.1%	40.5%	26.7%	13.6%	16.4%	39.9%
Chaco	38.5%	18.1%	8.8%	30.4%	39.1%	17.8%	3.4%	34.6%	21.9%	16.8%	18.3%	39.1%
Chubut	27.0%	13.0%	10.9%	43.5%	35.7%	15.9%	5.7%	33.9%	15.4%	16.5%	26.7%	34.9%
Córdoba	10.1%	24.3%	26.7%	31.3%	21.4%	34.0%	5.6%	32.2%	5.8%	16.9%	22.6%	33.9%
Corrientes	35.8%	20.9%	11.4%	29.1%	37.6%	23.5%	3.5%	29.9%	19.7%	23.0%	19.6%	34.3%
Entre Ríos	27.9%	24.5%	12.5%	29.8%	33.5%	26.7%	6.4%	27.2%	20.9%	23.1%	15.8%	37.0%
Formosa	43.1%	11.7%	12.1%	30.0%	46.8%	17.1%	2.6%	29.8%	31.0%	14.4%	16.9%	35.3%
Jujuy	30.7%	16.9%	19.7%	26.8%	28.7%	18.1%	6.2%	39.7%	15.2%	17.4%	29.2%	30.0%
La Pampa	23.7%	25.9%	11.8%	28.4%	37.2%	24.0%	5.9%	26.4%	19.2%	18.3%	22.3%	33.2%
La Rioja	25.6%	17.0%	15.2%	37.2%	33.1%	20.8%	4.8%	36.2%	20.6%	13.3%	23.9%	35.6%
Mendoza	24.7%	26.7%	9.9%	26.2%	31.2%	28.8%	7.1%	23.8%	12.0%	20.1%	31.9%	30.2%
Misiones	41.8%	16.0%	10.7%	27.5%	39.9%	18.7%	3.8%	30.8%	17.8%	12.5%	28.3%	37.3%
Neuquén	24.6%	18.9%	15.0%	31.0%	34.1%	21.1%	5.8%	28.9%	14.5%	16.8%	28.7%	30.2%
Río Negro	31.4%	15.9%	15.0%	30.0%	39.5%	16.4%	5.1%	30.6%	18.1%	14.3%	25.3%	35.6%
Salta	28.6%	13.1%	18.0%	35.8%	32.8%	13.9%	12.6%	33.5%	15.3%	10.9%	31.3%	37.5%
San Juan	40.3%	11.8%	16.3%	26.3%	41.6%	20.0%	7.5%	25.7%	20.3%	19.5%	23.9%	32.2%
San Luis*	13.4%	17.0%	31.3%	31.3%	31.8%	24.5%	6.3%	29.5%	11.9%	16.1%	32.8%	33.9%
Santa Cruz	30.8%	17.7%	14.3%	30.8%	32.6%	13.3%	4.5%	43.5%	14.6%	10.7%	19.9%	51.2%
Santa Fe	20.5%	19.9%	13.7%	37.9%	31.1%	24.1%	8.7%	29.6%	13.9%	20.9%	23.3%	36.2%
Santiago del Estero	44.6%	9.5%	10.0%	33.2%	54.8%	10.0%	2.6%	29.2%	24.0%	7.2%	18.2%	34.6%
Tierra del Fuego	32.6%	15.2%	14.2%	31.4%	38.5%	13.9%	6.4%	32.4%	20.1%	14.3%	24.2%	33.4%
Tucumán	42.8%	14.9%	12.1%	25.6%	44.9%	18.8%	5.2%	25.6%	24.0%	15.9%	26.3%	29.0%

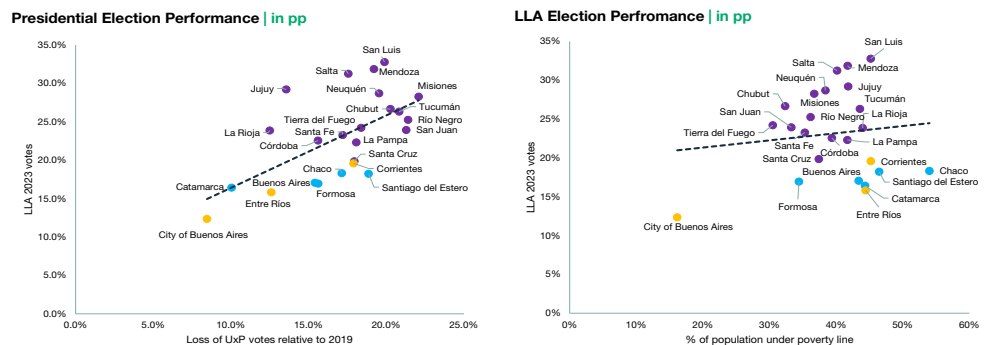
\*In San Luis, Alianza Compromiso Federal won the elections

Source: TPCG Research based on the Interior Ministry

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Most indicators suggest that Mr. Milei's electorate mostly comprises the low-income middle-class soft Peronist voters that turned their back on CFK after 2011, which made Mr. Macri president in 2015 and carried Mr. Fernandez into the top job in 2019. The Libertarian electorate is a mixed bag of true believers, hawkish JxC voters, and disaffected Peronist voters. What we didn't know was the blend between the three groups. Historically, pure liberal voters in Argentina have been in the low-single digits. The most successful Liberal experience was Mr. Alsogaray's candidacy in the late 80s, buoyed by a hyperinflationary context. Still, Mr. Alsogaray never managed to muster enough support to challenge Mr. Menem credibly. So the baseline view was that most of Mr. Milei's voters would come either from Peronism or JxC. The figures suggest that it was mostly from Peronism. We find that there's a strong correlation between the vote loss of Peronism and the Libertarians' gains. Likewise, Mr. Milei's strongest showings took place in Peronist strongholds. Finally, there's a high correlation between poverty and the Libertarians' performance. In other words, the backbone of Mr. Milei's votes seems to come from low-to-middle-income families, most of whom receive transfers from the Federal Government in the shape of social assistance, economic subsidies, or public services like State-run healthcare and schooling. In other words, many of Mr. Milei's electorate come from vulnerable families. By contrast, it seems that JxC's performance drop correlates better with higher absenteeism. This electorate has been flipping back and forth between Peronism and JxC over the past decade, jaded with Mrs. Kirchner's excesses, frustrated by Mr. Macri's failure, and now driven into anger by Mr. Fernandez's catastrophe.

**Figure 4: Mr. Milei's votes correlate highly with Peronism's losses and social vulnerability indices.**

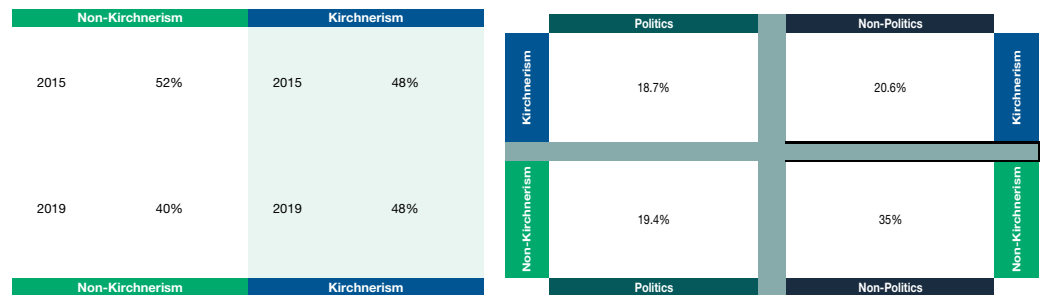


Source: TPCG Research based on the Interior Ministry

Wooring votes from the Libertarian tally is a tougher challenge, considering that support from Peronist voters to Mr. Milei seems to be waning.

The primaries suggest that we're seeing a reconfiguration of the Argy political landscape. The Kirchnerist-AntiK fault line that dominated politics over the past decade is no longer the main axis organizing voters. The accumulation of frustrating experiences resulted in a new, larger fault line dividing a 40% of voters who still trust the two mainstream coalitions and a 60% of voters who seem done with politics. The Argentinan electorate has undergone a series of reconfigurations since the return of democracy in 1983. We've gone through cycles of a two-party system organized around the Peronist-Antiperonist axis (the 1980s), a dominant Peronism that trumped a weak national opposition (the 1990s), a hegemonic Peronism that emerged from the Convertibilidad crisis commanding more than two-thirds of the vote without the challenge of a national opposition (2003-15), and lately a two-coalition system organized around the axis Kirchnerism-Antikirchnerism (which also aligns with a left-right ordering) (2015-23). The 2023 primaries surprise points to a new configuration. After the repeated failures of both coalitions, voters reorganized around a new axis: politics-antipolitics. Over 50% of voters no longer trust the two dominant coalitions, either siding with Mr. Milei or failing to participate. The remaining voters are still involved with the more mainstream political system but remain subject to the Kirchnerist-Antikirchenrist Faultline. That gives Mr. Milei an advantage. On the other side of the divide, voters can't coordinate. On his side, it's less clear whether the border between his electorate and the non-participants is a hard limit or a porous one, which would give him a natural expansion.

**Figure 5: The Argy electorate seems to have reorganized, with the Politics-Antipolitics faultline substituting the Kirchnerist-Antikirchnerist axis as the main voter alignment.**



Source: TPCG Research based on the Interior Ministry

The re-arrangement of the Argy electorate is likely to force candidates to rethink their campaigns ahead of the General election in October. Each candidate has a tough choice to make: go for the non-participants or for voters who picked a different alternative.

**Mr. Milei seems favored to win. Can JxC or UP beat him?**

The re-arrangement of the Argy electorate is likely to force candidates to rethink their campaigns ahead of the General election in October. Each candidate has a tough choice to make: go for the non-participants or for voters who picked a different alternative. The snapshot of the day after the election shows a striking parity between the top three alternatives. There are 655,656 votes between Mr. Milei, who came first, and the third, Mr. Massa, about 2pp of the 34mn-strong electorate. The three top options accumulated just 57% of the vote, with an additional 7pp distributed between Mr. Schiaretti, the Left, and smaller options that didn't make the cut. The remaining 36% of the vote didn't participate or voted blank. That means that, from now on, each candidate needs to target one of three clusters of voters: (i) the voters of the other two leading alternatives, (ii) the votes of the smaller alternatives, or (iii) the non-participants. In our view, however, the re-arrangement of the electorate means that not all clusters are likely to be receptive to every candidate's efforts. To some extent, Mr. Milei has a small advantage in that he's slightly more likely than Mrs. Bullrich and certainly more than Mr. Massa to find receptive voters.

Mr. Massa's path seems the most challenging. Most of his electorate has shifted to Mr. Milei, and the economy is unlikely to help him win them back.

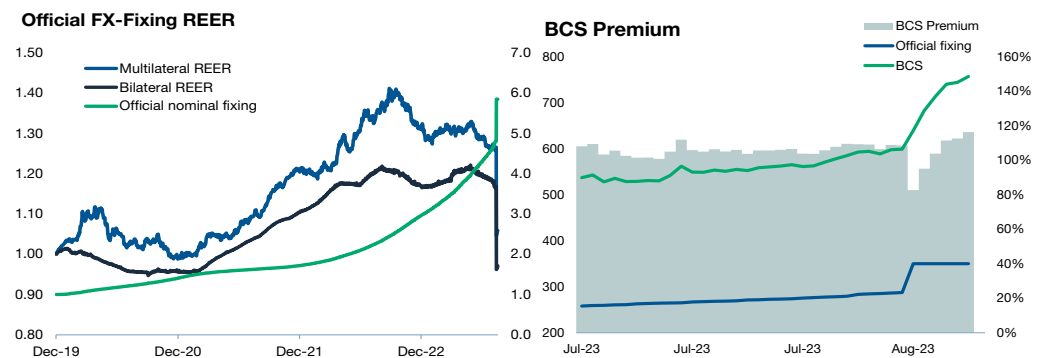
Mr. Massa's path seems the most challenging. Most of his electorate has shifted to Mr. Milei, and the economy is unlikely to help him win them back. Before election night, Mr. Massa's campaign strategy rested on three tenets: (i) the non-Peronist vote would split between JxC and Mr. Milei; (ii) in that division, he could emerge as the single candidate with the most votes, (iii) his biggest challenge came from apathy and voters opting not to participate, which he expected to reverse between the primaries and the General election, especially if he went against Mr. Milei and Mrs. Bullrich, and could frame the campaign to scare moderate and left-wing voters from the prospect of a far-right government. Nothing broke Mr. Massa's way on Sunday 13<sup>th</sup>. It was his electorate from which Mr. Milei built his surprising win in a context where it was the Peronist voter that was split with the Libertarians rather than the JxC's. He wasn't the most voted candidate (that honor fell upon Mr. Milei), and his party dropped to third in what amounted to the worst loss in Peronist history. Finally, with his electorate shared with the Libertarians, he needs to grow his

support among the cluster of voters that opted for Mr. Milei rather than going for the non-Participants, where it would seem the anti-Kirchnerist sentiment is a majority. His critical problem is that the main driver pushing Peronist voters into Mr. Milei's arms is the dismal economy and his questionable tenure at the finance ministry. With the economy going deeper down the rabbit hole in the coming two months following Monday 14<sup>th</sup>'s devaluation, Mr. Massa is more likely to see some of his votes draining to Mr. Milei rather than making any gains.

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**The Government was adamant that nothing would punish its voter support more than devaluating the currency. Following that thesis, Mr. Massa went to unreasonable lengths to prevent a REER correction but failed. Mr. Massa's chances of making it to the run-off are slimming.** One of the central tenets of the Kirchnerist dogma is that winning elections requires an overvalued currency and low FX volatility. Voters are happier when consumption is high, which requires suppressing savings and turbocharging real incomes. The current FX controls framework stems from that conviction. The Fernandez Administration has gone to extreme lengths to prevent a REER correction, vacating the demand from the official FX market, introducing draconian quantitative restrictions to imports, and accumulating substantial arrears. Higher inflation and the prospect of recession seemed acceptable to Mr. Massa, provided that he skirted the dreaded devaluation. But now, the Government has trapped itself in the worst of both worlds. To Kirchnerism's chagrin, despite keeping the official fixing under control, the recession, the acceleration in inflation, and the overall deterioration of living standards and incomes associated with the draconian controls pushed droves of Peronist voters into opting for the disruptive Libertarian alternative. To Mr. Massa's dismay, after his humiliating loss, he had to let the currency go to USDARS350, a 25% devaluation on Monday 14<sup>th</sup>. We argued weeks ago that a REER correction was the most likely scenario after the primaries, in a context where the IMF Staff mentioned that the Argy Government had agreed to implement a series of discretionary measures designed to put the economy on track with the revised QPCs put in place in the July SLA. The external PC requires the BCRA to go from a NIR position that has deteriorated beyond the -USD10bn mark to +USD3.3bn, a USD13bn gain, which seemed impossible without a change in the FX regime. Now Mr. Massa faces three problems: (i) he paid a massive cost trying to avoid a REER correction, (ii) he's likely to pay a political cost for devaluating the currency and the ensuing acceleration of inflation, and (iii) last week's deval is unlikely to anchor expectations, as it failed to compress the "brecha" and the BCRA had to tighten FX controls further.

**Figure 6: The Government depreciated the official fixing 25%, weakening the REER to late 2019 levels. Still, the effect will be fleeting, as the deval didn't compress the "brecha" and substantially accelerated inflation.**



Source: TPCG Research based on the BCRA, Indec, and TPCG Trading Desk

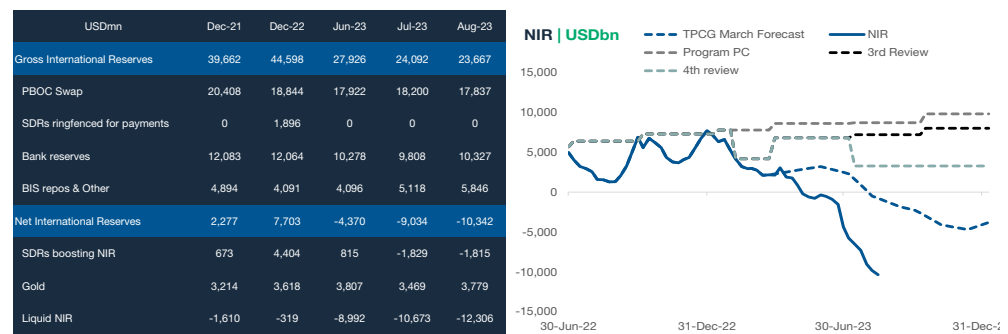
**With a devaluation that changed almost nothing, the Government now relies on tighter capital controls and the IMF disbursement to keep the FX market running until the October election. Our math is that the BCRA will be, in early October, in a very similar position as in early August: needing to muddle through**

**With a devaluation that changed almost nothing, the Government now relies on tighter capital controls and the IMF disbursement to keep the FX market running until the October election. Our math is that the BCRA will be, in early October, in a very similar position as in early August: needing to muddle through the final weeks until the election with almost zero liquid reserves to intervene in the FX market.** The FX market today looks a lot like how it did the day before the election. The BCS premium is at 110%. Not a single person who was regulated away from buying dollars in the official fixing before the election is now allowed to do so. Capital controls remain dialed to 11 with the financial account closed tightly, and the current account distorted by extremely tight import controls and the accumulation of arrears in a context where the BCRA continues to delay the payment of shippings and freight. Moreover, to prevent arbitrages, the Government reintroduced the weekly cap to trading dollarized in the domestic

**the final weeks until the election with almost zero liquid reserves to intervene in the FX market.**

market and has tightened the restrictions on building BCS trades. The only difference is that the nominal level of the FXs rate is 25% higher, and the BCS shot from USDARS600 to over USDARS700. The Government implemented a programless devaluation without a dime in the reserves and at its weakest political point. Ultimately, it seems the Government implemented the REER correction to comply with the IMF's set of conditionalities and secure the disbursement. The problem is that despite the devaluation, that's likely to have a substantial inflationary effect given the large pass-through, the FX framework looks as unsustainable today as it did after the deval. After subtracting the monies due to the IMF in September and early October and the repayment of the bridge loans to the CAF and the Qatar SWF, the BCRA will be left with about USD2.5bn from the IMF disbursement. At the current pace of reserve drainage (which shouldn't change much, given that the devaluation had zero real effects), the BCRA is likely to run out of liquid reserves again by late September or early October. In other words, we expect the outlook by early October to look very similar to what it was in early August, with the BCRA scrambling to find the monies to muddle through the final weeks before the election. Of course, it also means that devaluation expectations will remain elevated, as the market is likely to conclude that there's another REER correction coming after the October general election.

**Figure 7: The IMF disbursement won't change the outlook of the NIR position. At the current pace of NIR drainage, the BCRA is likely to run out of reserves again before the October general election.**



Source: TPCG Research based on the BCRA, Indec, and TPCG Trading Desk

**Parallely, the Government is struggling with financing the primary deficit in a context where revenue shrinks, and the private sector roll-over ratio (excl. the FGS-BCRA financing loop) remains weak. Money printing to cover the primary deficit has accelerated considerably as Kirchnerism calls for a higher fiscal impulse to improve voter support.**

**Parallely, the Government is struggling with financing the primary deficit in a context where revenue shrinks, and the private sector roll-over ratio (excl. the FGS-BCRA financing loop) remains weak. Money printing to cover the primary deficit has accelerated considerably as Kirchnerism calls for a higher fiscal impulse to improve voter support.** Adding to the FX pass-through pressure on prices, the fiscal-monetary policy mix looks increasingly inconsistent, adding to inflation. The Government lost its fiscal discipline in 1H23, in a context where revenue collapsed, dragged by the negative effect of the drought and recession, and Mr. Massa accelerated personnel spending and capex and marginally eased the yoke on discretionary transfers and subsidy cuts. The only fiscal anchor is social security benefits that increasingly lag behind inflation. Following the thrashing that UP took on election day, we expect Kirchnerism to push for an increase in the fiscal impulse to overturn the results. In 2021, Mr. Guzman's "plan platita" added almost 1pp of GDP to fiscal impulse in two months (translating to a 5pp of GDP increase in the fiscal deficit) but helped the Government increase its voter support by 4pp. Back then, the inflationary impact came well after the election, in a context where the Government had the FX market roughly shored up, and Mr. Guzman had applied a massive fiscal consolidation in 1H21. This time is different. Money printing in Jan-Aug 2023 reached a 6pp of GDP record, almost twice as much as in Jan-Aug 2022. Fiscal dominance climbed from 1.8pp of GDP to 2.6pp in a context where direct monetary financing has doubled YTD, and the BCRA has purchased about 2pp in Treasury paper to support the ARS curve. FX dominance has partially compensated for the increase in the fiscal impulse in a context where the BCRA sterilized almost 1pp of GDP by selling dollars to the Treasury so that the Government could pay its EXD maturities and another 1pp of GDP in BCS selling to the private sector. Finally, the quasi-fiscal deficit ballooned from 1.9pp of GDP in Jan-August 2022 to 4.5pp YTD as the BCRA wrestled against a collapsing money demand. With private financing of the primary deficit faltering, the monetary snapshot suggests there's little margin for an increase in fiscal impulse without substantially higher inflationary pressures and additional FX volatility, both of which would hurt Mr. Massa's candidacy far more than what a little additional spending would help it.

**Figure 8: Revenue deteriorated substantially in real terms, the Government decelerated fiscal cuts, and private financing weakened. In that context, base money creation accelerated from 3.6pp of GDP in Jan-Aug 2022 to 6pp YTD.**

	2H22			1H23			Jan-Aug 2022		Jan-Aug 2023	
	ARSbn	Normal	%yoy	ARSbn	Normal	%yoy	Normal	pp of Gdp	Normal	pp of Gdp
<b>Revenue</b>	<b>8817</b>	<b>80.3%</b>	<b>3.0%</b>	<b>11762</b>	<b>82.1%</b>	<b>-24.5%</b>				
Tax revenue	5455	92.0%	3.3%	8572	83.1%	-10.6%	2,688,508	3.6%	8,876,030	6.0%
Social security contributions	2482	85.5%	0.2%	3767	110.2%	1.0%	<b>As a pp of Base Money</b>		<b>73.6%</b>	<b>170.6%</b>
Income from Treasury property	541	137.6%	28.4%	609	20.3%	-42.2%				
Included in EFF target	291	27.6%	-31.1%	609	32.0%	-36.6%				
Not included in EFF target	251			0						
Non-tax revenues	438	64.2%	-11.3%	534	125.2%	8.2%				
<b>Primary spending</b>	<b>9821</b>	<b>67.2%</b>	<b>-9.7%</b>	<b>13863</b>	<b>95.5%</b>	<b>-6.0%</b>				
Personnel spending	1231	91.0%	3.2%	1678	122.1%	6.8%	1,363,029	1.8%	3,854,065	2.6%
Social Security	5344	71.3%	-7.3%	7634	90.5%	-8.4%	620,051	0.8%	2,198,000	1.5%
Subsidies	1210	36.8%	-26.1%	1673	79.9%	-13.5%	620,051	0.8%	1,798,000	1.2%
Energy	946	34.6%	-27.3%	1290	81.5%	-12.7%	0	0.0%	400,000	0.3%
Transportation	250	51.5%	-18.2%	347	64.8%	-20.8%	1,260,501	1.7%	3,000,000	2.0%
COVID & other	14	-13.8%	-53.4%	35	330.3%	106.9%	-517,524	-0.7%	-1,343,935	-0.9%
Transfers to Provinces	319	38.0%	-25.5%	379	60.6%	-22.8%				
Capex	876	117.3%	17.4%	1173	157.0%	23.3%				
Other	841	42.4%	-23.1%	1126	86.9%	-10.1%				
<b>Primary balance</b>	<b>-904</b>	<b>-24.6%</b>	<b>-59.3%</b>	<b>-1881</b>	<b>148.8%</b>	<b>19.6%</b>				
Interest payments	1004	165.4%	43.3%	1278	161.4%	25.6%	1,333,769	1.8%	5,107,873	3.5%
<b>Overall balance</b>	<b>-1908</b>	<b>20.9%</b>	<b>-34.7%</b>	<b>-3159</b>	<b>153.7%</b>	<b>22.0%</b>	1,465,695	1.9%	6,654,478	4.5%
							-131,927	-0.2%	-1,546,605	-1.0%

Source: TPCG Research based on the BCRA and the Treasury

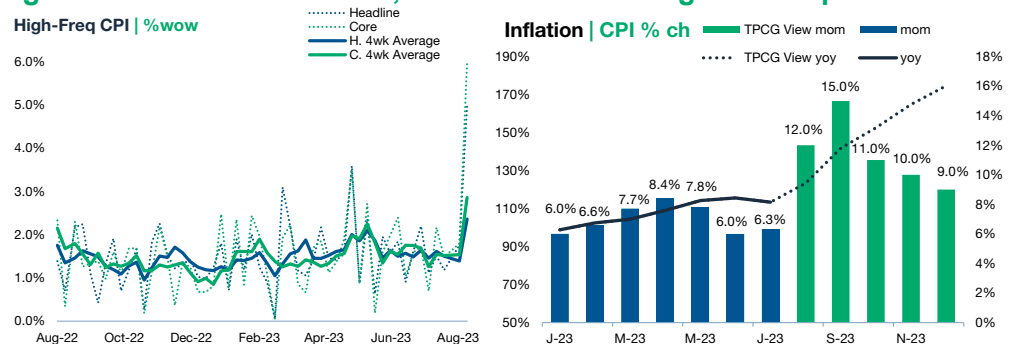
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Finally, the Government announced a new round of tariff hikes, adding to inflation and voter discontent. Following the devaluation, energy prices misaligned once again. Downstreamers were quick to adjust liquid fuel prices, though the Government tried to cap the move by reintroducing the creole barrel at USD56bl after a 12.5% hike in gasoline prices at the pump. Electricity and natural gas tariffs also look lagging. As part of the prior actions agreed with the IMF, Mr. Massa agreed to keep the primary deficit on track to finish the year at 1.9% of GDP, meaning that there's little margin for the subsidy bill to balloon, especially if the campaign (and Kirchnerism) force him to accelerate social spending. Over the past twelve months, electricity bills climbed up to 500% in the Greater BA area, the Kirchnerist stronghold, and natural gas prices as much as 170%. While the seasonal cost of generation eases in the spring, it's unlikely to offset the effect of the deval. Regulated prices have an annualized 123% in Jan-Jul 2023, no longer an anchor to the CPI. That trend is likely to worsen before the election as the Government adjusts tariffs again, further diluting Mr. Massa's chance of reversing his luck.

In this context, inflation is likely to print in the 12-15%mom in August and September, hurting the odds of the Government driving a bounce in its voter support.

In this context, inflation is likely to print in the 12-15%mom in August and September, hurting the odds of the Government driving a bounce in its voter support. Inflation surprised on the downside in June and July, printing 6% and 6.3%, respectively, about 100bp less than what the market expected every month, on the back of a deceleration in beef, water, sanitation, electricity and natural gas, and clothing. Of course, June and July benefitted from low FX volatility, especially in the BCS in a context where the prospect of an IMF deal anchored expectations. The August story is different. High-frequency gauges reported weekly inflation picking up in the first two weeks of the month as accelerating to a 1.8%wow print after averaging 1.3%wow in the previous three weeks. The preliminary measures of the week after the election puts high-freq CPI around 8-10%wow following the devaluation. In this context, we estimate that August inflation could range from 10 to 12%, depending on how many measurements INDEC has done before the devaluation. Unlike high-freq indices, which have continual measurements, INDEC only makes three takes throughout the month. If the Government ran two of those takes before the devaluation, then the August CPI is likely to be closer to 10%, but it would leave a higher statistical carry for September, pushing next month's print close to 15%mom. If not, then the August print would be closer to 15%mom, and the September read could be slightly lower. Either way, Mr. Massa will need to suffer through the highest CPI prints in over 40 years in the two months before the election.

**Figure 9: Before the election, we could see the highest CPI prints since '90**



Source: TPCG Research based on INDEC and Alphacast



The Government hopes to grow its vote by increasing fiscal impulse and making more efficient use of the Peronist election machinery.

The Government hopes to grow its vote by increasing fiscal impulse and making more efficient use of the Peronist election machinery. From this analysis, can we count Mr. Massa out of the race? Not entirely. His chances seem lower than those of his two contenders, but not zero. For starters, the Government now has a clear picture of the electorate. Mr. Massa cannot increase fiscal impulse blindly and massively like CFK in 2011 and 2015 or Mr. Milei in 2021 without running afoul of his IMF commitments and straining monetary financing past the breaking point. Still, he could wriggle some impulse into those districts more likely to make a larger difference, like in the northern provinces and the GBA 3<sup>rd</sup> Electoral District. Additionally, the Peronist election machinery sputtered last week. Most Governors had anticipated their elections and had no skin in the game. Mayors were agnostic as to which Presidential candidate voters in their district supported as long as they voted for them. The October election could be different, as Governors and Mayors would have congressional and assembly seats in play. Mr. Massa expects them to mobilize the base and nudge voters his way (and maybe play some dirty tricks on Mr. Milei's voters since we're at it). Still, while the Peronist machine is enough to dominate some districts nationally, its impact is probably less than 5pp. Even if he managed to get the machinery running on all its cylinders and secures all of Mr. Grabois' votes, Mr. Massa still has a long way to go to turn UP's 18% of voters into a winning majority, especially in a context where voter participation is likely to increase and not favor him. In other words, Mr. Massa is likely to have limited success in sourcing votes from the non-Participan cluster and zero chances of poaching votes from JxC. His best chance to make it to the run-off is to claw back Peronist voters who opted for Mr. Milei. The challenge is to entice those voters who left in anger and won the primaries to change their vote to favor a losing alternative.

Figure 10: The Peronist machinery in PBA's 1st and 3rd Electoral sections failed to mobilize the Kirchnerist base. Absenteeism increased substantially, and Peronism did its worst election in history.

Presidential Election results, votes as % of registered voters	Paso 2019			Paso 2023			
	FdT	JxC	Did not vote/Blank	UxP	JxC	LLA	Did not vote/Blank
<b>1st Electoral Section</b>	<b>37.9%</b>	<b>22.2%</b>	<b>27.2%</b>	<b>22.4%</b>	<b>20.3%</b>	<b>17.1%</b>	<b>34.7%</b>
Campana	35.0%	25.2%	26.6%	17.5%	27.9%	16.8%	33.3%
Escobar	40.5%	19.9%	27.1%	22.9%	16.6%	20.1%	35.3%
Gral. Las heras	39.4%	24.2%	26.5%	22.5%	26.4%	17.7%	29.4%
Gral. Rodríguez	42.7%	19.4%	28.6%	22.2%	16.7%	17.0%	40.0%
Gral. San Martín	36.3%	21.3%	28.3%	23.8%	19.7%	16.4%	34.6%
Hurlingham	40.7%	20.4%	24.2%	26.8%	18.4%	15.8%	33.6%
Ituzaingó	37.7%	22.6%	24.8%	23.4%	22.0%	16.2%	31.6%
Jose c Paz	47.9%	13.0%	28.4%	24.3%	12.1%	17.7%	39.8%
Luján	32.1%	27.5%	28.7%	20.7%	22.7%	17.7%	34.7%
Malvinas Arg.	47.2%	16.5%	24.7%	26.5%	14.0%	18.8%	34.8%
Marcos Paz	43.2%	16.6%	31.5%	25.3%	15.5%	16.1%	37.8%
Mercedes	31.4%	31.1%	26.2%	20.7%	25.2%	18.2%	31.8%
Merlo	45.7%	13.7%	29.7%	23.4%	13.2%	16.4%	40.1%
Moreno	45.8%	14.3%	30.1%	27.3%	12.1%	17.6%	37.6%
Moron	33.8%	25.6%	25.2%	21.4%	24.4%	16.0%	31.5%
Navarro	33.9%	34.1%	24.7%	22.3%	25.8%	17.6%	31.0%
Pilar	38.3%	23.1%	27.0%	23.6%	17.6%	20.5%	33.9%
San Fernando	36.7%	23.4%	26.6%	23.8%	21.1%	17.6%	32.7%
San Isidro	22.9%	37.1%	27.1%	14.0%	35.5%	14.9%	30.9%
San Miguel	37.3%	23.3%	27.5%	21.1%	22.5%	17.3%	34.3%
Suipacha	39.4%	28.4%	24.8%	23.7%	25.9%	18.1%	30.1%
Tigre	37.4%	22.9%	26.3%	21.4%	20.1%	18.1%	35.6%
Tres de Febrero	35.4%	23.0%	26.8%	21.3%	23.8%	16.3%	32.7%
Vicente López	21.4%	37.4%	25.9%	15.0%	35.4%	14.1%	29.9%
<b>3rd Electoral Section</b>	<b>43.7%</b>	<b>17.6%</b>	<b>26.9%</b>	<b>25.9%</b>	<b>16.9%</b>	<b>16.5%</b>	<b>34.7%</b>
Almirante Brown	44.3%	16.6%	26.7%	25.4%	15.7%	16.9%	35.2%
Avellaneda	40.8%	21.1%	25.6%	26.9%	19.8%	14.2%	33.0%
Berazategui	44.7%	17.8%	24.1%	26.3%	16.4%	18.9%	31.9%
Berisso	41.7%	19.7%	26.4%	24.8%	19.2%	14.7%	34.6%
Brandsen	38.8%	26.4%	25.1%	19.5%	24.0%	18.6%	33.4%
Cañuelas	40.1%	23.3%	25.8%	24.3%	19.7%	19.3%	31.5%
Ensenada	45.5%	16.7%	26.8%	30.4%	14.6%	14.9%	33.8%
Esteban Echeverría	42.8%	18.0%	26.7%	23.2%	16.7%	20.1%	33.5%
Ezeiza	42.9%	16.4%	29.5%	25.0%	14.6%	21.1%	34.3%
Florencio Varela	48.9%	13.1%	28.6%	27.2%	11.4%	17.2%	38.0%
La Matanza	47.6%	14.7%	26.0%	27.0%	14.3%	16.0%	36.4%
Lanus	39.7%	21.4%	26.0%	24.9%	21.5%	14.4%	33.2%
Lobos	31.8%	30.0%	27.1%	17.0%	29.0%	17.8%	32.6%
Lomas de Zamora	42.3%	18.2%	27.6%	26.4%	18.3%	16.3%	32.7%
Magdalena	30.8%	30.1%	27.2%	16.9%	27.9%	16.6%	35.5%
Presidente Peron	50.0%	12.4%	28.7%	24.1%	11.3%	19.0%	39.6%
Punta Indio	34.2%	30.0%	25.3%	19.3%	24.8%	16.4%	36.6%
Quilmes	39.7%	19.8%	29.0%	25.4%	20.4%	14.8%	33.9%
San Vicente	39.4%	17.3%	33.3%	26.4%	14.0%	17.2%	38.2%

Source: TPCG Research based on the Interior Ministry

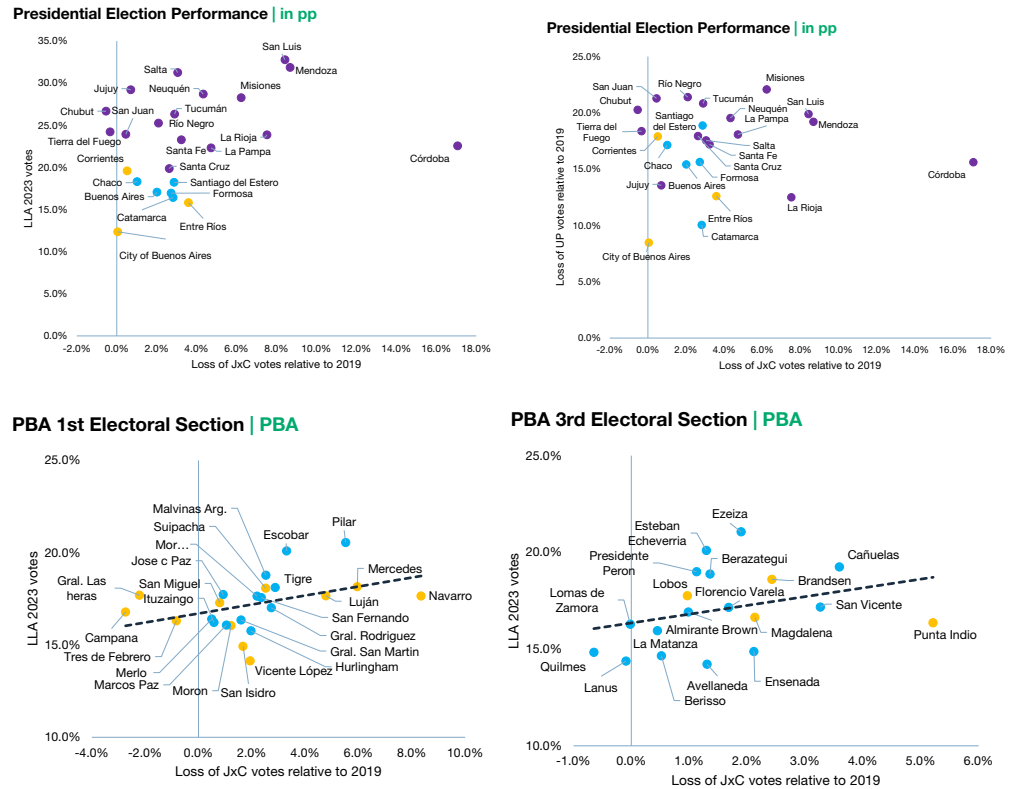
**While JxC's path to the run-off looks slightly more encouraging than Mr. Massa's, crafting a winning option will require rethinking the campaign. Mrs. Bullrich starts the race to enter the run-off in a 'tweener spot. Her best chance is probably to tap into the non-Participant cluster.**

**JxC's underperformance in the August primaries doesn't correlate with Mr. Milei's gains at a national level. Only in the Greater GBA does Mr. Milei seem to have gained votes at the expense of JxC.**

While JxC's path to the run-off looks slightly more encouraging than Mr. Massa's, crafting a winning option will require rethinking the campaign. Mrs. Bullrich starts the race to enter the run-off in a 'tweener spot. Her best chance is probably to tap into the non-Participant cluster. Like Mr. Massa, Mrs. Bullrich didn't have the night she hoped for on August 13<sup>th</sup>. While she defeated Mr. Larreta in the only competitive campaign, JxC underperformed its expectations by 7 or 10pp and came out second, behind the Libertarians. Mrs. Bullrich now starts her path to secure a run-off spot in October between a rock and a hard place. Assuming that she can retain all of Mr. Larreta's vote, Mrs. Bullrich is less than 1pp ahead of Peronism in a context in which the Government will increase fiscal impulse and throttle its election machinery as hard as possible to bounce back in October. On the other hand, Mr. Milei is ahead, having stolen some of Mrs. Bullrich's pizzazz. To voters seeking to punish the Government, Mr. Milei offers an even more extreme and starker opposition profile without being saddled with the failure of the Macri Administration. In other words, to be competitive, Mrs. Bullrich needs to woo voters from a different position to her usual (ballsy, anti-Kirchnerist, hard-liner). Some in JxC ask themselves whether Mrs. Bullrich can out-Milei Mr. Milei. In our view, that's the wrong question. The correct one is: Should Mrs. Bullrich out-Milei Mr. Milei? The answer is probably not. Mrs. Bullrich would do better if she goes after absentee voters, a cluster where JxC usually does very well, especially if our thesis about the overlap between Messers Massa and Milei's electorate is correct.

**JxC's underperformance in the August primaries doesn't correlate with Mr. Milei's gains at a national level. Only in the Greater GBA does Mr. Milei seem to have gained votes at the expense of JxC.** Many in JxC believe that the primary challenge with Mr. Larreta pulling JxC toward more moderate grounds is one of the reasons why Mr. Milei was so successful. Under that view, JxC diluted its positioning as a markedly anti-Peronist alternative by fielding a candidate similar to Messers. Massa and Schiaretti in many ways. Entangled in her primary, Mrs. Bullrich lost the hard-liner branding to Mr. Milei, allowing him to leapfrog JxC. Mr. Macri supports that view, arguing that the primary confused JxC and diluted its profile. The problem is that the election night data doesn't support that view. JxC seems to have done a little worse everywhere in the country, both in places where Mr. Milei did well and where he did not. Granted, JxC failed to capitalize on Peronism's tragedy, getting almost nothing of the vote that UP lost relative to 2019. Most of that vote went to Mr. Milei. Still, the thesis that the Libertarians took votes from JxC only seems to hold in San Luis, Mendoza, Cordoba, and the Greater BA area. There seems to be a very low correlation between JxC's underperformance and Mr. Milei's gains everywhere else. Over the past few years, JxC has had solid performances in San Luis, Mendoza is a JxC stronghold, and Cordoba has always been kind to Mr. Macri. It makes sense that the JxC strategists pay special attention to these districts. Combined, these three provinces account for 13pp of the electorate, and JxC has lost 2pp combined, enough to plug the deficit with Mr. Milei. The correlation between Mr. Milei's growth and JxC's deterioration in the Greater GBA area is weak but not zero. Mr. Milei's growth has displaced JxC as the main opposition candidate in many of the GBA districts. Still, the gains there are limited in a context where the JxC starting point was low enough that losing a couple of percentage points doesn't move the needle nationally. On average, JxC dropped from 22pp in the 1<sup>st</sup> Electoral section in the 2019 primary to 20pp this year and from 17.6% to 16.5% in the 3<sup>rd</sup> Electoral section. Combined, poaching these voters back could add 1pp nationally to JxC. In other words, with a substantial overlap between the Libertarian and the Peronist electorate, Mrs. Bullrich has little to win by polarizing with Mr. Milei and trying to fish from his cluster of voters. This is an uncomfortable position for JxC to be in. Mr. Milei took votes that Peronism lost and JxC hoped to get, but few of the votes belonging to JxC. The question is whether, with a huge cluster of non-Participant voters to work with, it makes sense to focus the campaign on these voters that have flown to the Libertarians.

**Figure 11: JxC's underperformance doesn't correlate with Mr. Milei's gains except in the Greater BA, where there's a weak correlation.**



Source: TPCG Research based on the Interior Ministry

Going for the absentee voter looks like a safer alternative, especially considering that JxC has historically gained from increased participation between the primaries and the generals.

Going for the absentee voter looks like a safer alternative, especially considering that JxC has historically gained from increased participation between the primaries and the generals. If we assume there's little to gain for Mrs. Bullrich from the Peronist cluster (Mr. Milei has higher chances of making inroads there) and that the gains from going after Mr. Milei's votes wouldn't make much of a difference either, then it would seem that the JxC needs to concentrate in efforts on the non-Participants to secure its place in the run-off. In the past two presidential elections, the turnout increased by 5pp on average (6.2pp in 2015 and 4pp in 2019). Voters who skipped the August primaries but joined the process in October sided overwhelmingly with JxC. In 2015, Mauricio Macri added 4.7pp to his vote, compared to a combined 0.9pp for Messers. Scioli and Massa. In 2019, Mr. Macri added 7.9pp to his tally while Mr. Fernandez backtracked 0.2pp. The 2013 and 2017 mid-term elections also showed increased participation rates favoring the opposition, especially in PBA. The only two exceptions since the PASO system was implemented were the 2011 race when the system was new, and participation was elevated both in August and October and in 2021 when Mr. Guzman's "plan platita" drove an increase in the Peronist vote. While Mr. Massa hopes that he can push for a similar dynamic in this election cycle, the coming bad news from the economy and the historical experience suggests that Mrs. Bullrich should have an edge over Mr. Massa in the contest for this cluster of voters.

**Figure 12: JxC's underperformance doesn't correlate with Mr. Milei's gains except in the Greater BA, where there's a weak correlation.**

	2015					2019					
	PASO	General Elections	Δ	PASO	as % of General Elections	PASO	General Elections	Δ	PASO	General Elections	Δ
<b>Total Votes</b>	24,021,816	26,048,446	2,026,630	74.9%	81.1%	25,861,050	27,525,103	1,664,053	76.4%	80.4%	4.0%
<b>Total Positive Valid Votes</b>	22,551,076	25,184,257	2,633,181	70.3%	78.4%	24,660,382	26,838,336	2,177,954	72.9%	78.4%	5.5%
<b>Peronist Votes (Kirchnerism + Massa)</b>	13,359,978	14,725,467	1,365,489	55.6%	56.5%	12,205,938	12,946,037	740,099	47.2%	47.0%	-0.2%
<b>Kirchnerism</b>	8,720,573	9,338,490	617,917	36.3%	35.9%	12,205,938	12,946,037	740,099	0	0	0
<b>Massa</b>	4,639,405	5,386,977	747,572	19.3%	20.7%	-	-	-	-	-	-
<b>JxC votes</b>	6,791,278	8,601,131	1,809,853	28.3%	33.0%	8,121,689	10,811,586	2,689,897	31.4%	39.3%	7.9%

Source: TPCG Research based on the Interior Ministry

**To convince these voters to participate in October, Mrs. Bullrich will need a different campaign positioning and, more importantly, hone her economic message.**

To convince these voters to participate in October, Mrs. Bullrich will need a different campaign positioning and, more importantly, hone her economic message. Mr. Milei has stolen JxC's biggest asset to attract voters in the cluster of non-participants. In every election since 2015, JxC has benefitted from presenting itself to voters as the only credible alternative to Kirchnerism. That has pushed many non-participant voters, who would not otherwise be JxC voters, to enter the fray and support Juntos to prevent a Peronist win. Mrs. Bullrich's problem is that she came second on August 13<sup>th</sup> to Mr. Milei. In other words, many holdouts could conclude that the Libertarians have a better shot at beating Mr. Massa, swelling their ranks. Mr. Milei will pitch that Mrs. Bullrich and Mr. Massa are part of "the Caste," the indictment he uses on mainstream politicians, accusing them of belonging to a fraternity of corrupt officials who care more about themselves than the little guy. Mr. Massa will tell these voters that Mrs. Bullrich and Mr. Milei are the "evil Right" coming to take the populace's entitlements away. Mrs. Bullrich needs to find a message to confront Mr. Massa and Mr. Milei at the same time. Her best shot is probably concentrating on the economy to convince voters that both alternatives offer magical solutions with little chance of correcting Argentina's deeply rooted problem. Unfortunately, the economy seems to be Mrs. Bullrich's weakest spot. Mr. Massa may carry on his back the failure of this Administration, but he offers a state-centric model that still resounds in the Kirchnerist hardcore. The economy is where voters perceive Mr. Milei is at his strongest. He paints a nitid picture of what the Argy economy could become under his stewardship, one that glosses the significant implementation challenges marring his vision. By contrast, Mrs. Bullrich tends to fumble when discussing the economy. In this context, rumors increased over the weekend that Mrs. Bullrich plans to add Mr. Melconian as part of her economic cabinet. Mr. Melconian is an effective communicator who would be comfortable crossing swords with Mr. Milei and his team, zeroing in on the consequences and problems of the Libertarians' economic platform.

**Mrs. Bullrich's biggest advantage is that Mr. Milei and Mr. Massa are likely to fight each other. Since they share the same electorate, if Mr. Massa successfully scares Peronist voters about the Libertarians, UP would improve, but Mr. Milei would drop. If he's unsuccessful, Mr. Milei would remain a strong contender, and Mr. Massa would fail to grow. Either way, Mrs. Bullrich has a decent chance of making it to the run-off.**

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**For Mr. Milei, the path is the easiest one. The Libertarians are favored to get a spot in the run-off in a context where they just need to be themselves and expect the economy to continue to shave votes from the Government.**

For Mr. Milei, the path is the easiest one. The Libertarians are favored to get a spot in the run-off in a context where they just need to be themselves and expect the economy to continue to shave votes from the Government. Mr. Milei emerged from the PASO as the biggest winner. Most polls, and the market consensus, counted him out before the primaries. Now, he's gained the centrality of becoming the frontrunner. The economy plays in his favor in a context where Peronism will likely continue losing votes to FX volatility and accelerating inflation. On the other hand, JxC's campaign problems also play in his favor as voters begin seeing the Libertarians as a viable alternative. Three weeks ago, few voters voiced their preference for the Libertarians openly; now, it seems as if voting for Mr. Milei is in vogue. The experiences of the countries that have gone through similar election processes suggest that this kind of candidate rides a tidal wave to victory. Mr. Milei doesn't seem that different.

**Mr. Milei faces two challenges until October: (i) protect himself from the Peronist electoral machinery, and (ii) prevent his social views from capping his growth.**

Mr. Milei faces two challenges until October: (i) protect himself from the Peronist electoral machinery, and (ii) prevent his social views from capping his growth. The Libertarians benefitted from Peronism reading the pre-election landscape erroneously. Mr. Massa concentrated his fire on JxC and went easy on Mr. Milei, thinking that a stronger Libertarian offering would hurt JxC. Since the Primaries, Mr. Massa has changed gears, putting Mr. Milei as his chief rival and acknowledging that the Libertarians have made substantial inroads into his electorate. In

August, Governors and mayors had little skin in the game. In October, Congressional lists and local assemblies will be in play, which means that Mr. Milei is now more likely to suffer from the Peronist electoral machine. On the other hand, to win the run-off, Mr. Milei needs to grow his vote closer to the 50% mark. The problem is that while the remaining Peronist vote could prove receptive to his economic proposals as the situation continues to deteriorate, the closer you get to CFK's hardcore, the more certain social issues become critical to voters. Among the Kirchnerist faithful, issues like abortion, same-sex marriage, public schooling, and public healthcare are the polar opposite of Mr. Milei's views. In that context, the Libertarians have a risk of seeing their growth capped among those voters.

**Mr. Milei faces two challenges until October: (i) protect himself from the Peronist electoral machinery, and (ii) prevent his social views from capping his growth.**

**In our view, the Libertarians are favored to win because Mr. Milei has three paths to the Presidency: (i) continue to poach Peronist votes, (ii) convince JxC voters or (iii) get voters from non-participants.** Whereas Mr. Massa and Mrs. Bullrich each have a single path to the Presidency, Mr. Milei can opt from all three remaining clusters of voters to grow from. Besides continuing to lose votes because of the economy, if Mr. Massa doesn't make it to the run-off, his votes will be up for grabs, and we guess it's easier for Mr. Milei to secure them than for Mrs. Bullrich. On the other hand, with the Libertarians emerging as the leading opposition alternative, many JxC voters who supported either Mrs. Bullrich or Mr. Larreta, not because their proposals convinced them but because they had the better chance of ousting this Administration, might decide to flip their vote and support Mr. Milei. Finally, suppose the economy continues to worsen, and JxC cannot thread a credible message on how to fix it. In that case, Mr. Milei might have a shot at getting votes from non-participants, especially now that he's the frontrunner. In that context, Mr. Milei has an advantage over Mr. Massa and Mrs. Bullrich. It's his race to lose.

### **Bonus track: A sneak peek into Mr. Milei's program and the role of dollarization (full thoughts about it in a follow-up piece)**

**From our talks with creditors, we believe that the market consensus is rationalizing a bad outcome, assuming that Mr. Milei's program will end up being a copycat of what the consensus expected a Bullrich Administration to do.**

**From our talks with creditors, we believe that the market consensus is rationalizing a bad outcome, assuming that Mr. Milei's program will end up being a copycat of what the consensus expected a Bullrich Administration to do.** Every creditor we talked to had two big concerns a few weeks before the primaries. Could (i) Mr. Massa do better than expected? and (ii) Mr. Milei pull a competitive showing? The preferred outcome for the market was a big JxC win, preferably from Mrs. Bullrich. The consensus understood and supported Mrs. Bullrich's stabilization plan, which was seen as the best balance between policy change aggressiveness and political feasibility. By contrast, Mr. Massa didn't offer any policy change. Mr. Larreta's proposal seemed to sacrifice too much change in exchange for political support. Mr. Milei went to the opposite extreme, with all aggressiveness and zero feasibility. If we stick to that view, which dominated among creditors before the primaries, the PASO outcome was bad. While Mrs. Bullrich beat Mr. Larreta, Mr. Massa remained alive, and Mr. Milei became the frontrunner. Interestingly, we note that since the election, the consensus view shifted. Mr. Milei now seems less scary, nicer than two weeks ago. Creditors now assume that with a slim congressional caucus, Mr. Milei will need to pivot towards a more centrist platform, which following their expectations, closely resembles Mrs. Bullrich's. In other words, despite the weak election by the market's preferred alternative, the consensus is now adamant that the winning alternative will somehow mutate into a Bullrich clone. We can't help but feel that creditors are rationalizing a bad outcome.

**Mr. Milei's plan differs from Mrs. Bullrich's. He seeks a more aggressive fiscal consolidation and harsher deregulation of the economy and international trade.**

**Mr. Milei's plan differs from Mrs. Bullrich's. He seeks a more aggressive fiscal consolidation and harsher deregulation of the economy and international trade.** In our view, any program trying to stabilize Argentina needs to have four prongs: (i) a fiscal consolidation, (ii) a normalization of the BoP and international trade, (iii) deregulation and structural reforms, and (iv) a fix to the BCRA's balance sheet. Compared to Mrs. Bullrich's plan, the Libertarian platform is much more aggressive in items (i-iii). Whereas Mrs. Bullrich initially seeks to cut 3-4pp in spending to balance the primary position, Mr. Milei seeks to double those cuts in year one and lower spending by 13pp of GDP by 2027. Regarding international trade, Mr. Milei seeks to open Argentina up unilaterally to trade, scrapping non-tariff barriers and cutting tariffs to zero. Finally, in terms of deregulation, Mr. Milei's plan is the more ambitious, leaving almost no sector of the economy in which the State's grip gets eased substantially. Compared to Mr. Milei's plan, the JxC proposal is continuist, suggesting to find a better equilibrium between the role of the State and the role of the private sector. Mr. Milei, on the other hand, offers to swing the pendulum as far as possible in the exact opposite direction, mimicking in many ways the economy of the 90s but adding fiscal discipline to that experiment.

**The problem with Mr. Milei's aggressive program is inconsistent with his electorate, which seems highly reliant on fiscal transfers and the effective protection created by the current international trade framework.**

The problem with Mr. Milei's aggressive program is inconsistent with his electorate, which seems highly reliant on fiscal transfers and the effective protection created by the current international trade framework. Our analysis concludes that Mr. Milei's electorate mostly comprises Peronist voters. The poorer and more Peronist the district, the more likely Mr. Milei had a blowout performance among its voters. These voters are highly dependent on many of the programs that would get cuts under the Milei fiscal program (including social aid, public schooling, and public healthcare), or their jobs depend on the effective protection created by the barriers to imports. Most of the high-labor-intensive industry in Argentina focuses on import replacement. Because productivity is low, the cost structures in these industries would not tolerate a flood of cheaper imported competitors, leading to higher unemployment and lower wages, like in the late 70s and early 90s. While the notion of considerably shrinking fiscal spending and deregulating the economy is on the right path, they have substantial political costs in the short run, which the Milei Administration would be more prone to suffer, as its program would overwhelmingly hurt its voters disposable income.

**In this context, dollarization is the linchpin of the Libertarians' program. Mr. Milei is taking a page out of the 1990s playbook, expecting a collapse of inflation to compensate for the negative effect of his plan on disposable income.**

In this context, dollarization is the linchpin of the Libertarians' program. Mr. Milei is taking a page out of the 1990s playbook, expecting a collapse of inflation to compensate for the negative effect of his plan on disposable income. Dollarization in the Milei plan cannot be thought of independently or in the abstract. It's not an end, as Mr. Milei publicly boasts, but a mean—another cog in a machine. The stabilization and reforms program would disproportionately deteriorate Mr. Milei's voter disposable income. By contrast, the sectors that would gain the most from dollarization, like grain exporters, tend to vote for JxC. In this context, the Libertarians face the challenge of preventing their voters from fleeing in anger to other alternatives. To prevent this, Mr. Milei needs a sudden disinflation to boost the disposable income of the lower deciles of the income distribution. In Argentina, every voter below the 7<sup>th</sup> decile receives substantial fiscal transfers (subsidies, services, social aid, etc.) but pays limited taxes other than the inflation tax. If Mr. Milei can massively cut the inflation tax, his voters could end up being exposed to a neutral fiscal impulse, despite seeing substantial cuts to many of the transfers they receive. Mr. Ocampo, the Libertarian dollarization czar, said it in as many words in a primetime TV interview last week, arguing that the need to dollarize quickly resulted from the need to bring running inflation down to single digits by the end of year one to have a strong showing in the 2025 mid-terms and guarantee the Government's stability.

**This makes the program extremely vulnerable. If dollarization doesn't work, the political dynamics could shift against Mr. Milei, who could very quickly resemble Mr. Lasso of Ecuador.**

This makes the program extremely vulnerable. If dollarization doesn't work, the political dynamics could shift against Mr. Milei, who could very quickly resemble Mr. Lasso of Ecuador. With limited Congressional representation (if the October results resemble those of August, the Libertarians would have 8 Senators and 40 representatives, very short of the 37 and 129 seats required for a majority), Mr. Milei has repeatedly announced his plans to resort to referendums to keep his reforms enacted. The problem is that, in Argentina, referendums are not binding. At best, they can show congressional caucuses what voters think, giving the Government some leverage to negotiate with the opposition. They could also reveal a weakness. A failed referendum would signal that the Government no longer has voters on its side. With a weak Congressional representation, losing a referendum could embolden a Peronist opposition. The best example of these dynamics is Ecuador, where the Government miscalculated its voter support and committed to a referendum that revealed its weakness, with no congressional seats and voter support. At that point, dynamics took a turn for the worse, with the Correist opposition seeking to impeach the President, eventually leading to last Sunday's elections.

**This makes the program extremely vulnerable. If dollarization doesn't work, the political dynamics could shift against Mr. Milei, who could very quickly resemble Mr. Lasso of Ecuador.**

In our view, dollarization is a dangerous bet the farm proposition. While the Ocampo plan seeks to reduce the initial REER correction required to implement it, its structured finance vehicle has execution challenges and could become a post-execution nightmare. If dollarization is the critical linchpin of the stabilization program, seeking to lower inflation and drive voter support drastically, then it must avoid a sharp initial REER correction. For reference, in the 1990s, the path into the Convertibilidad included the infamous "Bonex plan," which swapped BCRA's and banks' liabilities for longer-dated bonds and a substantial devaluation of the currency to move the BCRA's balance sheet from NIR-negative to NIR-positive. Only then was entering the currency board possible. Repeating that experience would be a death knell for the Libertarians. Restructuring deposits and navigating a massive devaluation before entering the dollarization would devastate the voter support that dollarization seeks to build. That's why in Mr. Milei's preferred dollarization alternative, Messers. Ocampo and Cachanosky seek to eschew the liability restructuring and the REER correction, opting for what they call a "structured finance solution."

Cut to its core, the proposal would create a resolution SPV holding all of the BCRA's assets, the FGS's Treasury paper holdings, and some other assets like the Treasury's YPF equity stake, add a AAA IFI guarantee and sell tranches of secured CDOs from the SPV to the market. Mr. Ocampo has said that the SPV would hold assets worth USD50bn in notional, but to rescue all of the BCRA's monetary and financial liabilities, the Government would need USD35bn in cash. That means that the Milei Administration would need to sell the CDOs close to 70c on the dollar, a far cry from the current 30c valuations of Argy securities. In other words, for dollarization to work as the political and economic anchor that Mr. Milei envisions, he needs to solve two implementation problems. The first is that if the appetite for Argy assets doesn't improve enough to allow the Government to sell the CDOs at 70c, implementing the dollarization would involve a costly REER correction that would depress wages further, compounding with the rest of the program's recessive impact rather than compensating it. The second is that, even if successfully put in place, the day after the devaluation, Argentina would be a low-productivity country with no local currency and an excessive leverage ratio (because the CDOs, ultimately, mean selling USD50bn in additional debt to the private sector to rescue BCRA ARS liabilities). In other words, Argentina would be Greece, albeit with no ECB to bail us out.

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