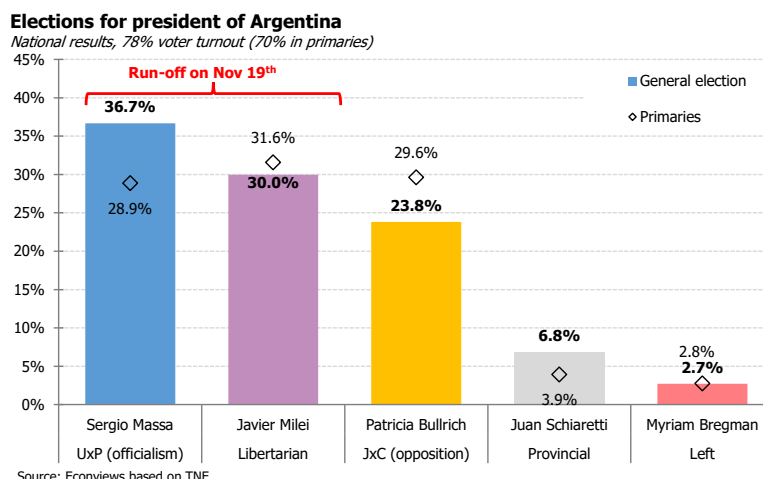


Flash Report – Massa is the likely next president: continuity rather than change

Sergio Massa was the great winner of the general election but will need to beat Javier Milei in a second round on 19 November. The finance minister obtained 36.68% of the total votes, improving by 9 points his performance in the primaries. Javier Milei retained his 30% while Juntos por el Cambio lost votes in all districts going down to less than 24%, a disappointment for the establishment and markets.



Massa is the front runner as he has a good chance of adding a large share of the votes obtained by Schiaretti (a moderate Peronist from Cordoba – 6.78%) and the left (2.70%). In addition, he can attract parts of Juntos por el Cambio who would support Massa or abstain, making Massa the likely winner of the elections, and the market will price that from day one. Clearly high-profile corruption cases and inflation in two digits per month did not generate problems for a government ran a very smart “fear campaign” suggesting the opposition would close schools, multiply by 10 transport prices and other features. Also, the government distributed money through tax cuts and transfers. It is important that Peronist governors and mayors who had been mostly absent in the primaries played a pivotal role in this election. Axel Kicillof was re-elected in the Province of Buenos Aires and Peronism recovered some important municipalities and retained others that seemed at risk before this election.

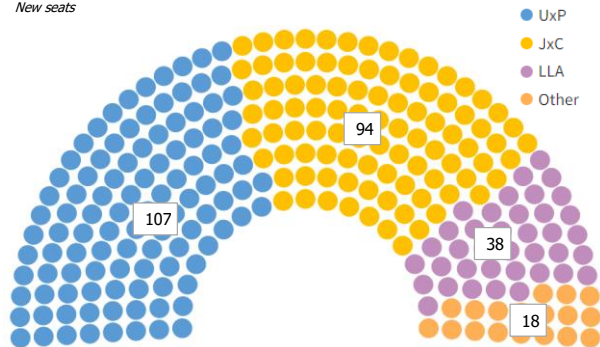
Massa’s ability was to keep the opposition divided (many people claim that he helped Milei with funding and logistics) while Peronism remained united even when it scored the lowest voting number for a presidential election.

Javier Milei requested to start with a clean sheet in a clear wink to Juntos por el Cambio, as both parties face the same enemy: Kirchnerism. He showed a flexibility he had never had during the campaign. We think that it is unlikely to work, but at least Milei looked way more rational than during the entire campaign.

Juntos por el Cambio almost sure will retain the City of Buenos Aires where Jorge Macri obtained 49.6% of the vote and will need a second round unless the final count puts him over 50%. Juntos also displaced Peronism in the Province of Entre Rios, but these were the only smiles of the day. Many political analysts are discussing the chance of a breakup of such coalition. The UCR (social democrats) on one side and PRO (more traditional center-right) on the other side.

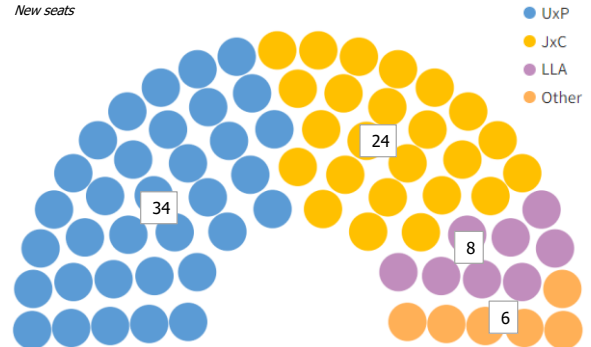
Peronism will be 2 senators short of quorum (34 out of 72) and will have 107 representatives in the House out of 257, so 23 congressmen short of quorum. Both numbers are easy to get in order to pass legislation based on provincial parties, Schiaretti or the left. Moreover, it would not be surprising if the doves of Juntos por el Cambio end up giving support to Massa’s initiatives.

Chamber of Deputies
New seats



Source: Econviews based on CNE

Senate
New seats



Source: Econviews based on CNE

For the markets, this is not good news considering the medium and long term. But in the short term, reducing the likelihood of Milei's victory can be seen as good news, mainly because dollarization raised fears of hyperinflation. The spread between market and official dollar is likely to shrink as the risk of dollarization has diminished. We still see that the risk of default is small, though the initial market reaction has been negative.

Massa is committed to keep the official dollar stable until 15 November and then a crawling peg of 3% per month. Still, the imbalances are huge. Achieving this short-term goal is possible through a combination of using the new tranche of the Chinese swap line and the soviet system to block imports, but at one point Massa will need to try to stabilize the economy.

The problem is that there are no reserves, no credibility, no visible economic team, and the likely next president will need to rebuild bridges with the IMF. Inflation is running at 12% a month even with a lot of repressed inflation through appreciation of the FX, regulated prices and a scheme of price controls that has been having diminishing returns. Inflation in October may come down from the peak of September, but we do not see a stabilization process kicking off soon.

We see more continuity in the short term. Possibly a devaluation in December, but well short of what it would be required to end with the FX restrictions. In the medium term, Massa may seek to assemble a better structured economic team to implement a stabilization plan. He is smart and with 4 years ahead (and a call option for 4 more) it would be hard to sustain it with more of the same. Besides, he will seek an IMF program, and this time the Fund is expected to take a tougher position and to impose more conditionality. We doubt, however, that Argentina can have a reasonable business climate, as it will maintain broad-based intervention.