

Argentina: A historic election

Javier Milei (La Libertad Avanza) is president-elect of Argentina:

- The Libertarian outsider won in the second round of the presidential elections with 55.7% of the vote, beating the incumbent party candidate by more than 11 percentage points.
- The effects of the new government's future policies will depend on how and when they are implemented.
- The market rallied on the first trading day after the results.

HEAVY DEFEAT FOR PERONISM

Radical libertarian candidate Javier Milei is the president-elect of Argentina after obtaining almost 56% of the vote, triumphing by a wide margin over the ruling party's candidate, Sergio Massa (44.3%). The incoming government's inauguration will take place on December 10, 2023

Turnout decreased slightly from almost 78% in the first round to 76.4%. However, part of this is attributable to the fact that the elections were held over a long weekend. According to estimates, a large part of the votes that went to Juntos por el Cambio and to Cordoba Governor Juan Schiaretti were likely to have been captured by Javier Milei, most notably in the province of Cordoba, where he garnered 74% of the tally.

Sergio Massa's Peronist coalition was able to win in only three of the countries' twenty-four provinces, namely the Province of Buenos Aires, Santiago del Estero and Formosa. Massa delivered his formal concession speech before the first batch of results had even been made public. Throughout the night there was speculation that he would resign from his post as Economy minister, which he has denied.

Although former Argentine president and member of the Republican Proposal (PRO) party, Mauricio Macri, endorsed Milei during the campaign, the latter chose not to share his victory speech with any political figure. However, following the fracture of Juntos por el Cambio after October's elections, it is speculated that PRO (the right-wing faction of Juntos por el Cambio spearheaded by Macri) will attempt to join the government, possibly obtaining representation in some ministries.

In any case, the union of Macri's party with La Libertad Avanza (LLA) would not be enough to pass non-consensus radical reforms, as is the case of dollarization and the elimination of the Central Bank. This is due to the fact that, as of December 10, both political forces would combine for only 29% of the seats in the Chamber of Deputies and 20% in the Senate.

The scenario is uncertain, but the president-elect's statements after the victory reflect a certain degree of moderation and pragmatism. In his words during election night, he did not mention dollarization, and in an interview the following day, he hinted that this measure would be implemented over time. However, he also argued that there is no room for gradual reform, so uncertainty is likely to remain.

Milei said he would try to meet with current President Alberto Fernández, which would contribute to a "smoother" transition of power. He also talked about the privatization several state-owned enterprises including most notably YPF (whose stock rose double digits after the elections), as well as a tax reform to change the Federal Administration of Public Revenues. Regarding the formation of his new cabinet, some names were announced, mainly from his party, highlighting the confirmation of Emilio Ocampo as Head of the Central Bank, a key figure in the promotion of dollarization.

Although the market (which remained closed in Argentina on Monday due to a holiday) is taking Milei's victory as something positive, the transition will be uncertain and pressures on the exchange rate and financial markets are expected. Furthermore, the already delicate macro situation would be estimated to add on 40 points of suppressed inflation in the case that the exchange rate is liberalized and the rest of the relative prices of the economy are adjusted (gasoline prices, transportation and public services tariffs and the "*Precios cuidados*" program). In this context, the inflation outlook remains negative.

Market reaction as of Monday November 20, 2023:

- Stocks (ADRs listed in the U.S.) were up around 20%, led by YPF, which was up 40%, while the U.S.-traded Global X MSCI Argentina ETF was up by more than 11%.
- Argentine dollar bonds were up by approximately 7%.
- Regarding the Argentine Peso, although we do not have precise data given the local market's holiday, it is expected that the currency will depreciate with respect to its free quotation (Blue Chip Swap).

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