

## MNI POLITICAL RISK ANALYSIS-Argentina PASO Preview

by Tom Lake

On Sunday 13 August, Argentina holds its Simultaneous and Mandatory Open Primaries (*Primarias Abiertas Simultáneas y Obligatorias*, PASO) in a precursor to the 22 October presidential election and a vote that could provide a reliable indicator of the identity of the next head of state.

With a significant amount of uncertainty surrounding Argentinian politics at present, the PASO vote will deliver at least some important answers. Namely, has the selection of Finance Minister Sergio Massa helped or hindered the prospects of the incumbent Peronists, who will win the nomination for the main centre-right alliance, and will the unorthodox libertarian candidate make a significant dent in support for the main alliances.

Within this preview we outline how the relatively unique PASO primaries work (pages **1 and 2**), identify the main political alliances and candidates seeking their presidential nominations (pages **2 and 3**), provide a chartpack of the latest opinion polling (pages **3 and 4**), assign our own probabilities to the various post-vote scenarios (pages **4, 5 and 6**), and include analyst views on the primaries (pages **6, 7 and 8**)

### Electoral System

The PASO is a so-called 'blanket primary' in which all parties seeking to stand for the presidency or Congress must take part. This includes parties with formalised internal factions and those with a single candidate list. Citizens are permitted to vote for a single candidate from any party or alliance. The PASO serves three official purposes.

1. Deciding presidential nominees - For those alliances where two or more individuals are seeking the nomination, whichever wins the most support in the PASO becomes the presidential candidate for their alliance.
2. Deciding the electoral slate for legislative elections – Each prospective candidate will have their own slate of candidates for their party in the legislative elections taking place at the same time of the presidential vote. If two or more individuals are seeking an alliance's nomination, it is the electoral slate of the winner within each alliance that will be put up for election to the Chamber of Deputies and Senate.
3. Finalising the ballot line-up - Prospective candidates must win at least 1.5% of the nationwide vote to get onto the presidential ballot.

Aside from this, it also provides an historically reliable indicator of voter sentiment two months ahead of the actual election. Given that all parties/coalitions are elected on the same ballot, the combined support for candidates can give an insight as to overall support for their coalition.

In the 2019 presidential election, it was well-known that incumbent President Mauricio Macri from the conservative Together for Change coalition and Alberto Fernández from the left-wing Peronist 'Everyone's Front' would be the main contenders. Opinion polls ahead of the primary gave Fernández a narrow lead over Macri. However, in the primary Fernández topped the poll with 47.7% of the vote to Macri's 32.1%. The sizeable gap changed the nature of the election to one where Fernández, who was seen as the less market and IMF-

friendly candidate, became overwhelmingly likely to take the *Casa Rosada*. This in turn saw an historic crash in the country's stock market, which fell 35%, and a collapse in the peso currency that lost 25% of its value against the US dollar.

## Main Electoral Alliances and Candidates

**Union for the Homeland** – *Unión por la Patria* – UP – Peronist, centre-left/left-wing –  
Founded: 2023 – Chamber of Deputies: 118/257 – Senate: 31/72

- **Sergio Massa** (51)
  - Renewal Front (*Frente Renovador*, FR)
  - Centrist, Federal Peronism
  - Economy Minister (2022-), President of the Chamber of Deputies (2019-22), National Deputy (2013-17, 2019-22), Chief of the Cabinet (2008-09)
  - Running Mate: Augustin Rossi, Justicialist Party (Peronist, Kirchnerist), Chief of the Cabinet of Ministers 2023-, Defence Minister 2013-15 and 2019-21
- **Juan Grabois** (40)
  - Patria Grande Front (*Frente Patria Grande*)
  - Left-wing, Kirchnerism
  - Social/political activist, FPG head (2018)
  - Running mate: Dr Paula Abal Medina, FPG, Social/political activist

**Together for Change** - *Juntos por el Cambio* – JxC – Liberalism, conservatism, centrist/centre-right – Founded: 2015 – Chamber of Deputies: 116/257 – Senate: 33/72

- **Patricia Bullrich** (67)
  - Republican Proposal (*Propuesta Republicana*, PRO)
  - Conservative, right-wing
  - Minister of Security (2015-19), National Deputy (1993-97, 2007-15), Minister of Social Security 2001, Minister of Labour 2000-01
  - Running Mate: Luis Petri, Radical Civic Union (Centrist, radicalism, liberalism), National Deputy 2013-21, Provincial Deputy (Mendoza) 2006-13
- **Horacio Rodríguez Larreta** (57)
  - Republican Proposal (*Propuesta Republicana*, PRO)
  - Economic liberalism, centre-right
  - Mayor of Buenos Aires (2015-), Cabinet Chief of Buenos Aires (2007-15)
  - Running Mate: Geraldo Morales, Radical Civic Union (Centrist, radicalism, liberalism), National Senator 2001-15, Governor of Jujuy 2015-

**Liberty Advances** – *La Libertad Avanza* – LA – Libertarianism, ultraconservatism, anti-Kirchnerism – Founded: 2021 – Chamber of Deputies: 2/257 – Senate: 0.72

- **Javier Milei** (52)
  - Libertarian Party (*Partido Libertario*, PL)
  - Libertarianism, Minarchism, anti-communism
  - Economist, National Deputy (2021-)
  - Running Mate: Victoria Villarruel, Democratic Party (Conservatism, right-wing), Lawyer, Political Activist, National Deputy 2021-

**We Do for Our Country – *Hacemos por Nuestro País* – HpNP/HNP – Federal Peronism, anti-Kirchnerism, centrism – Founded: 2023 – Chamber of Deputies: 7/257 – Senate: 2/72**

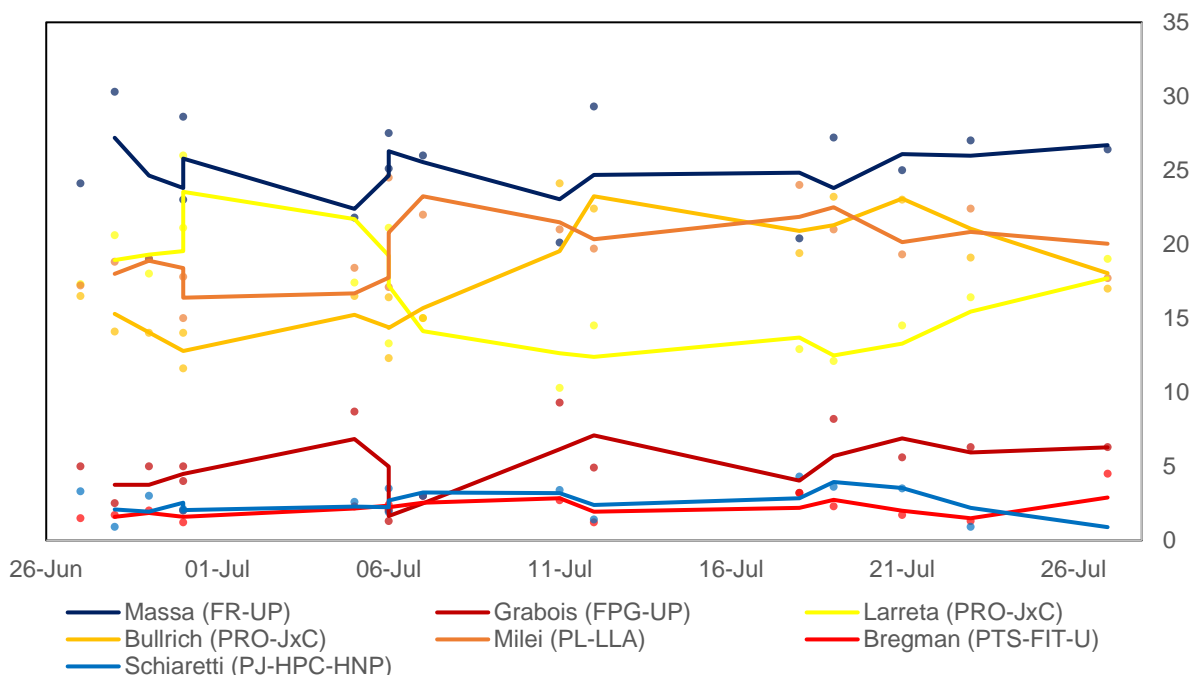
- **Juan Schiaretti (74)**
  - Justicialist Party (*Partido Justicialista, PJ*)
  - Peronism, Federal Peronism, centre-right
  - Governor of Córdoba (2007-11, 2015-), Vice Governor (2003-07), Federal Deputy (1995-97, 2001-02), Federal Interventor of Santiago del Estero (1993-95), Secretary of Industry and Commerce (1991-93)
  - Running Mate: Florencio Randazzo, HACER Front for Social Progress (Centrist, Federal Peronism), National Deputy 2021-, Minister of the Interior and Transport 2007-15

**Workers' Left Front-Unity – *Frente de Izquierda y de los Trabajadores – Unidad* – FIT-U – Far-left, Trotskyism – Founded: 2011 – Chamber of Deputies: 4/257 – Senate: 0/72**

- **Myriam Bregman (52)**
  - Socialist Workers' Party (*Partido de los Trabajadores Socialistas, PTS*)  
Founded 1988
  - Far-left, Trotskyism, Marxism-Leninism
  - National Deputy (2015-16, 2021-), Buenos Aires Deputy (2017-21)
  - Running Mate: Nicolás del Caño, PTS, National Deputy 2013-15, 2017-21, 2021-, FIT-U Presidential Candidate 2015, 2019

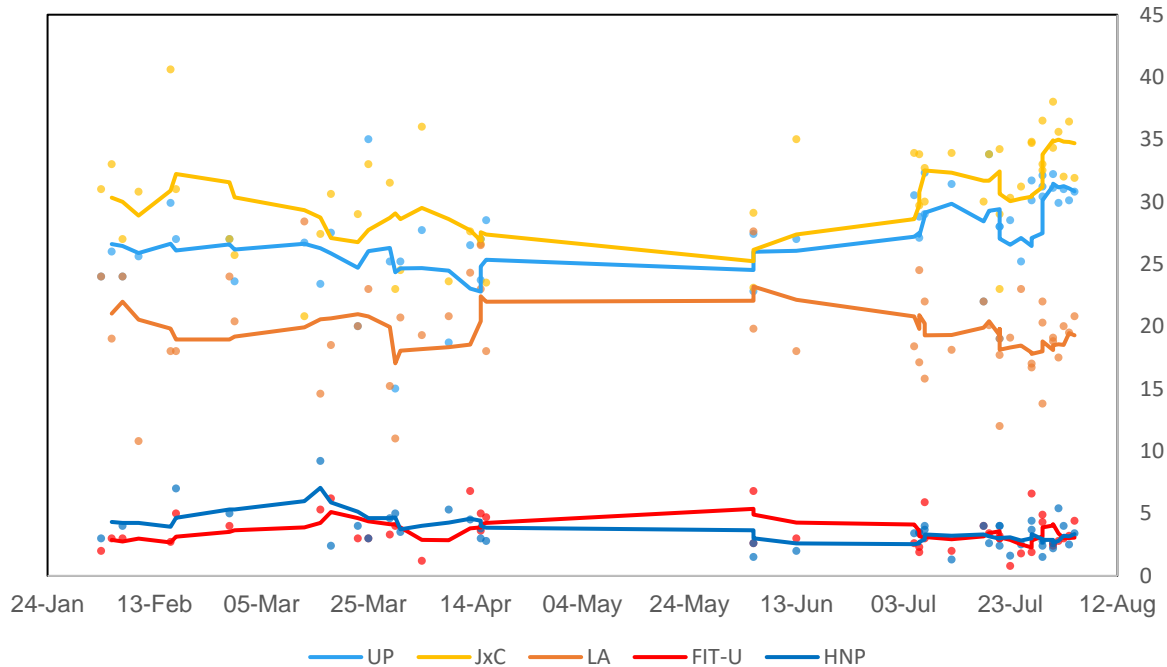
## Opinion Polling

**Chart 1. General Election Opinion Polling by Candidate**



Source: Management & Fit, CEOP, Federico Gonzalez & Assoc., Atlas Intel, Opinia, University of La Matanza, Tacquion, Opnia Argentina, Zuban Cordoba & Assoc., Clivajes Consultoes, Observatorio Electoral Consultores, Analogias, Proyeccion Consultores, CB Consultora, MNI

**Chart 2. Presidential Election Opinion Polling by Party, % and 6-Poll Moving Average**



Source: Management & Fit, CEOP, Federico Gonzalez & Assoc., Atlas Intel, Opinia, University of La Matanza, Tacquion, Opnia Argentina, Zuban Cordoba & Assoc., Clivajes Consultoes, Observatorio Electoral Consultores, Analogias, Proyeccion Consultores, CB Consoltora, MNI

## Election Scenarios

### **Bullrich Wins Nomination, JxC Combined Total Exceeds UP – 45% Probability**

- The killing of 11-year-old schoolgirl Morena Dominguez in a mugging on 9 August has unleashed a wave of public anger regarding the rate of crime in Argentina. While candidates have halted campaigning activities in the wake of her murder, the political impact could be substantial. With the public mood focused on crime and security it is Patricia Bullrich, running as a hardline conservative law and order candidate, who remains favourite to win the JxC nomination. Based on recent polling, the joint support for the two candidates running for the JxC nomination looks set to exceed the joint total for Massa and Grabois on the UP side.
- A win for Bullrich is likely to bolster the JxC's chances of winning the presidency. Come the presidential election, more moderate Laretta supporters are likely to switch their allegiance to Bullrich rather than the Peronists. However, some polls have shown that Bullrich supporters could opt for the libertarian Milei in the first round should Larreta stand as the JxC candidate.
- Bullrich has advocated for 'shock therapy' for the Argentine economy in order to counter triple-digit inflation and a major shortage of dollar reserves, with rapid undoing of capital controls, austerity measures, and allowing the peso currency to fall sharply. If she emerges as the JxC candidate, it will see the presidential first round presenting a stark contrast between Bullrich's shock therapy and a more gradual approach from presumptive UP candidate Sergio Massa.

**Larreta Wins Nomination, JxC Combined Total Exceeds UP – 30% Probability**

- Larreta has trailed Bullrich in opinion polling but has narrowed the gap in the final stages of the primary campaign. There is the prospect that the hardline right-wing vote is split between Bullrich and Milei, allowing the Buenos Aires mayor to come through the middle and claim the JxC nomination.
- As with his PRO colleague, Larreta has advocated for significant economic reforms for Argentina. However, rather than shock therapy he has instead called for a more gradual reset of the economy, stating his team would analyse the budget “line by line, peso by peso” in order to identify areas for spending cuts, while seeking to significantly boost exports to bring in hard currency and overhauling tax and labour laws. This less aggressive stance has seen Larreta gain the backing of the Radical Civic Union and Civic Coalition ARI parties, the former of which is one of Argentina’s oldest political parties and still influential in centre-right politics.
- A first-round election with Larreta on the JxC ticket could win over some moderate voters that may have supported Massa in the event of a Bullrich candidacy. While both Larreta and Bullrich have pledged to support one another, there is no guarantee that more right-wing Bullrich supporters will not shift their support to Milei. This could limit the prospect of JxC winning outright in the first round (where a candidate must win 50%+1 of the vote or 40%+1 with their nearest challenger 10% or more behind).

**UP Combined Total Exceeds JxC – 20% Probability**

- Should the combined vote total for the two UP candidates exceed that of the two JxC candidates it would come as a major shock given that the Peronists have trailed in almost all opinion polling in the run-up to the election. Sergio Massa will garner the large majority of UP votes, with the prospect of left-wing Kirchnerist challenger Juan Grabois winning the nomination seen as slim-to-none.
- While Massa hails from the centrist wing of the UP, rather than the Kirchnerist left-wing of outgoing President Fernandez, an unexpectedly strong showing by the economy minister could still rattle investors banking on major, and potentially rapid, reforms to the Argentina economy under a JxC president.

**LA’s Milei Exceeds UP Total – 5% Probability**

- Argentina’s rampant inflation and plummeting household purchasing power has resulted in significant public anger against the incumbent government. There is the slim prospect that libertarian candidate Javier Milei, who is running as an anti-elite figure, could outperform opinion polls at the same time that the UP candidates significantly underperform, resulting in Milei’s vote share exceeding that of the two Peronists combined.
- In this event it could point towards an eventual run-off between the JxC candidate and Milei, essentially guaranteeing shock therapy for the Argentinian economy. Milei has advocated swingeing government spending cuts, the closure of the central bank, and the dollarization of the country’s economy. While unlikely to win the eventual presidential election, a strong Milei performance could see other candidates tack to the right in order to counter his presence.

- Such an underperformance by the Peronists, the dominant force in Argentinian politics during the country's democratic periods in the latter 20<sup>th</sup> and early 21<sup>st</sup> centuries, could prove a landmark moment in the country's politics. The UP, its forerunner the *Frente dos Todos* and the Justicialist Party from which it sprang are very broad tent encompassing those from the populist and socialist left to the moderate centre-right. A third-placed performance could result in notable splits emerging in the historically strong alliance.

## Analyst Views

### Goldman Sachs

- ...investors should take away two important pieces of information from the PASO. First, the strength of the opposition lead Juntos por el Cambio relative to the governing coalition. A strong showing in favor of the governing Unión por la Patria coalition (e.g., above 35% of the vote) would be a surprise and would suggest a more heavily contested presidential election in October and an increased probability of a stronger-than-expected representation of the Peronist coalition in congress. Second, Javier Milei's popularity. Mr. Milei attracts young, anti-establishment voters, but does not have a well-established base of supporters and lacks a broader party platform to rely upon, unlike candidates from the more traditional parties. A strong performance by the libertarian candidate, who supports outright dollarization and endorses a sharp cut in government spending, would also constitute a surprise and could point to a contested three-candidate race in October.
- ...while the government and Fund staff appear to have reached an agreement to keep the program afloat, we believe that the IMF and the next government will need to holistically review the program as part of a more comprehensive macroeconomic program that puts the economy on a structurally more sustainable trajectory. The macro-policy preferences of the next president, thus, will be fundamental. A macro adjustment is required, the design and execution of such an adjustment will mark the success or failure of Argentina's macroeconomic rebalancing.

### JP Morgan

- ... it appears unlikely to us that Juntos por el Cambio will have a huge advantage over Union por la Patria in the primaries (i.e., more than 10%-pts), particularly if Milei prints close to 20% as polls suggest. Thus, the aggregation of Juntos por el Cambio votes printing in the 36%- 40% range should be interpreted as a positive surprise. Bear in mind that a 40% vote intention could leave the opposition coalition close to a victory in the first round.
- ... we are of the opinion that a final outcome consistent with the current polls should be credit-positive [...]. In the case of the center-right Juntos por el Cambio (JxC) race, [...] we believe the aggregate number of the votes, and JxC's relative performance against La Libertad Avanza (Javier Milei) and Union por la Patria (Sergio Massa) will be more important than the outcome itself...
- Perhaps the more constructive scenario for valuations entails an outperformance of Juntos por el Cambio (say, above 36%) and an underperformance of the incumbent Union por la Patria. The least constructive scenario, in our view, lies in Union por la

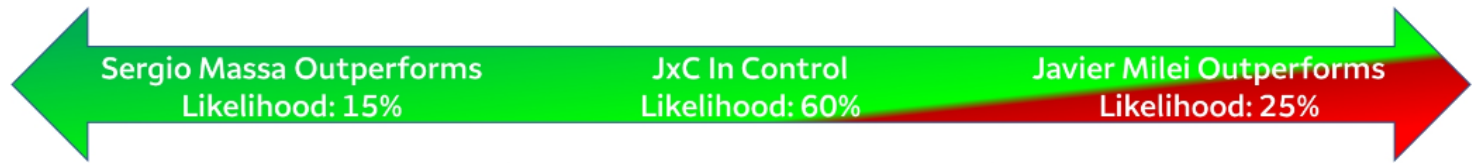
Patria achieving a result above the 33% threshold, which would put Sergio Massa in a competitive spot for October.

- ...considering it would yield a more fragmented landscape heading into the first round, we think a scenario where La Libertad Avanza outperforms at the expense of Juntos por el Cambio would be credit negative as it adds an extra layer of uncertainty to the final outcome in October/November, but also the expected policy path ahead.

### **Wells Fargo**

- Juntos por el Cambio (JxC)—the coalition campaigning on a return to fiscal discipline, strengthening relations with the IMF, and lifting capital controls—is polling well, and in our view, likely to outperform in PASO voting. Should this scenario materialize, Argentina could be headed in a policy direction that includes fiscal restraint, limited central bank deficit financing, and an IMF-supported lifting of capital controls.
- Argentina's central bank has depleted its FX reserves, and while short-term buffers in the form of FX swap lines exist, these are only stopgap measures that are unlikely to prevent a significant depreciation of the currency for much longer.
- In our view, a JxC as well as a Massa victory likely to lead to a peso devaluation in late 2023, but latest by mid-2024. In the event Javier Milei outperforms this weekend and possibly wins the presidency, the peso devaluation could be much sharper and the risk of another sovereign default would be elevated.

## Argentina 2023 Presidential PASO Election Scenario Analysis



**Scenario Description:** Massa outperforms and receives 35%-40% of the PASO vote, with JxC candidates mildly underperforming winning 25%-30% of votes, and Milei performing well receiving ~20% of the vote. Massa's recent track record of keeping Argentina's economy afloat and running on a center-left policy platform makes him an attractive candidate. Voters respond well to the renegotiated IMF program and front-loaded U.S. dollar disbursements, while also believing Massa can deliver a reform agenda to put Argentina on a path toward economic stability. Massa becomes the favorite to win the Presidency.

**Policy Platform:** Massa represents the incumbent Peronist party through the Union for the Homeland (UP) coalition, but is more center-left than prior Peronists. Massa understands the need for fiscal discipline, but is less fiscally conservative relative to the JxC coalition.

**Local Markets Implications:**

- **FX:** 10%-15% ARS devaluation by mid-2024
- **Sovereign Debt:** Government bond prices rise only modestly as Massa is market friendly, although not market participants' preference

**Base Case:** The combination of Juntos por el Cambio (JxC) coalition candidates, Patricia Bullrich and Horacio Laretta, secure ~40% of primary election votes. In this scenario, Massa performs well, but is behind JxC by a fairly wide margin, while Milei receives a respectable amount of votes but winning office is likely unobtainable. Bullrich and Laretta both garner strong positive responses from voters on platforms centered around fiscal discipline, an end to central bank deficit financing, and lifting capital controls. The Macri-style playbook resonates well, and the JxC candidate becomes the overwhelming Presidential favorite.

**Policy Platform:** Both candidates are running on market friendly platforms. Bullrich and Laretta have center-right policy stances, and support achieving fiscal balance and attracting investment. Enhancing IMF relations is critical in an effort to lift capital controls without destabilizing markets.

**Local Market Implications:**

- **FX:** 10%-15% devaluation by Q4-23/Q1-24
- **Sovereign Debt:** Bond prices rise sharply as debt sustainability and economic conditions on track to improve over the long-term

**Scenario Description:** Argentina's storied track record of sovereign default, elevated inflation, recession and suppressed household wealth generation prompts voters to seek an abrupt and significant turn in economic policy. Milei's platform of upending current institutions and taking an unorthodox approach to economic prosperity resonates well with younger voters, but also older generations frustrated with Argentina's lack of economic progress. Milei wins 25%-30% of votes, while the JxC wins ~30%. Massa wins 20%-25% of the PASO vote, and the outcome of the October presidential election is highly uncertain.

**Policy Platform:** Milei's Liberty Advances coalition is on the far-right end of the political spectrum. While he has advocated for fiscal restraint and a balanced budget, he's also suggested eliminating the peso, dollarizing Argentina's economy and abolishing the Central Bank of Argentina.

**Local Market Implications:**

- **FX:** 30%+ devaluation by Q1-24
- **Sovereign Debt:** Sovereign default risks rise as economic policy uncertainty and FX depreciation prompts significant capital flight from Argentina

Source: Wells Fargo

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