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# Argentina Set For Prolonged Recession

Latin America Macro Research Monthly Outlook Presentation

September 2019

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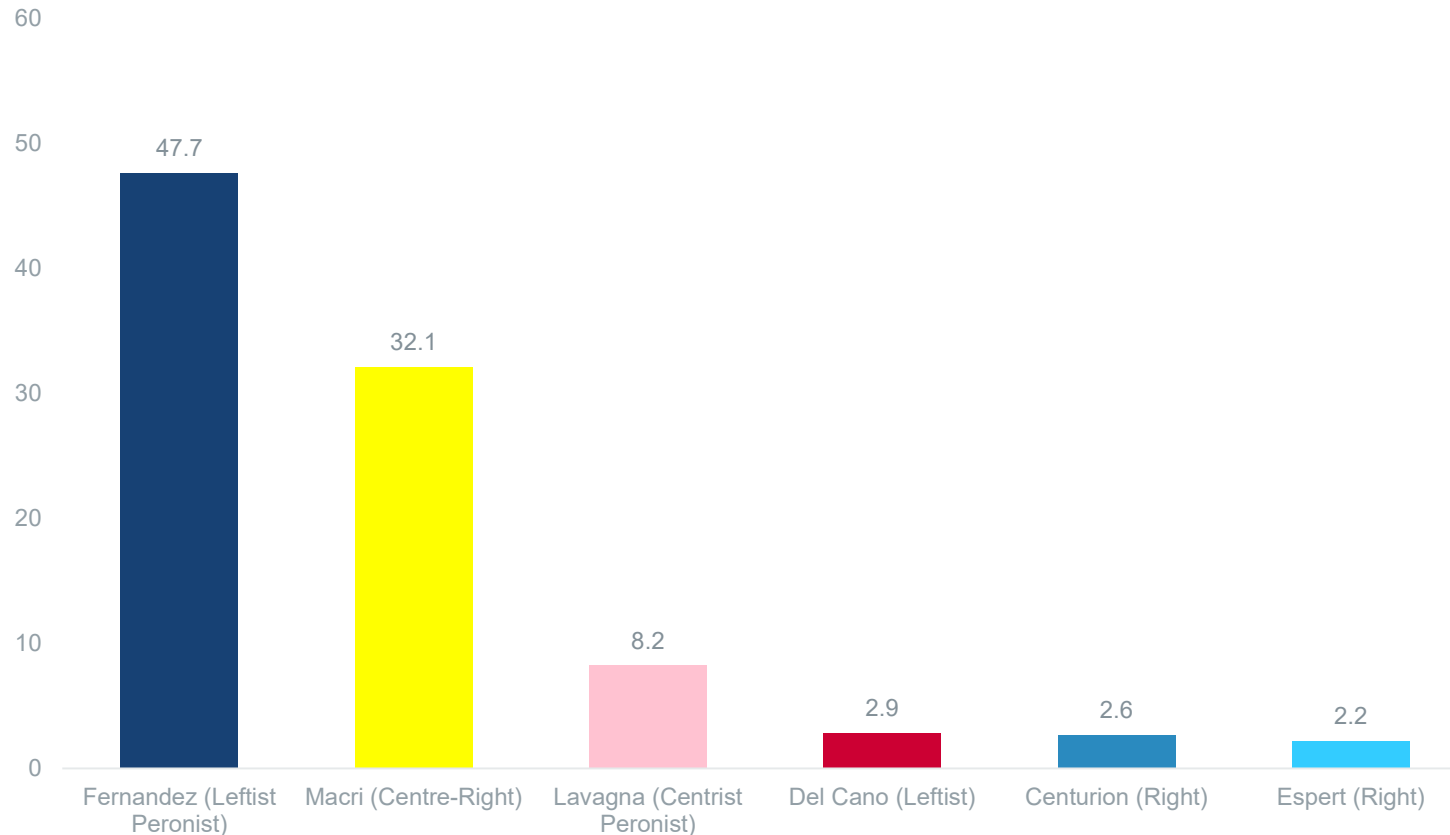
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# Primary Election Provides A Shock

## Fernández Would Have Won Outright

Argentina - Open Primary Results, % of Total Votes



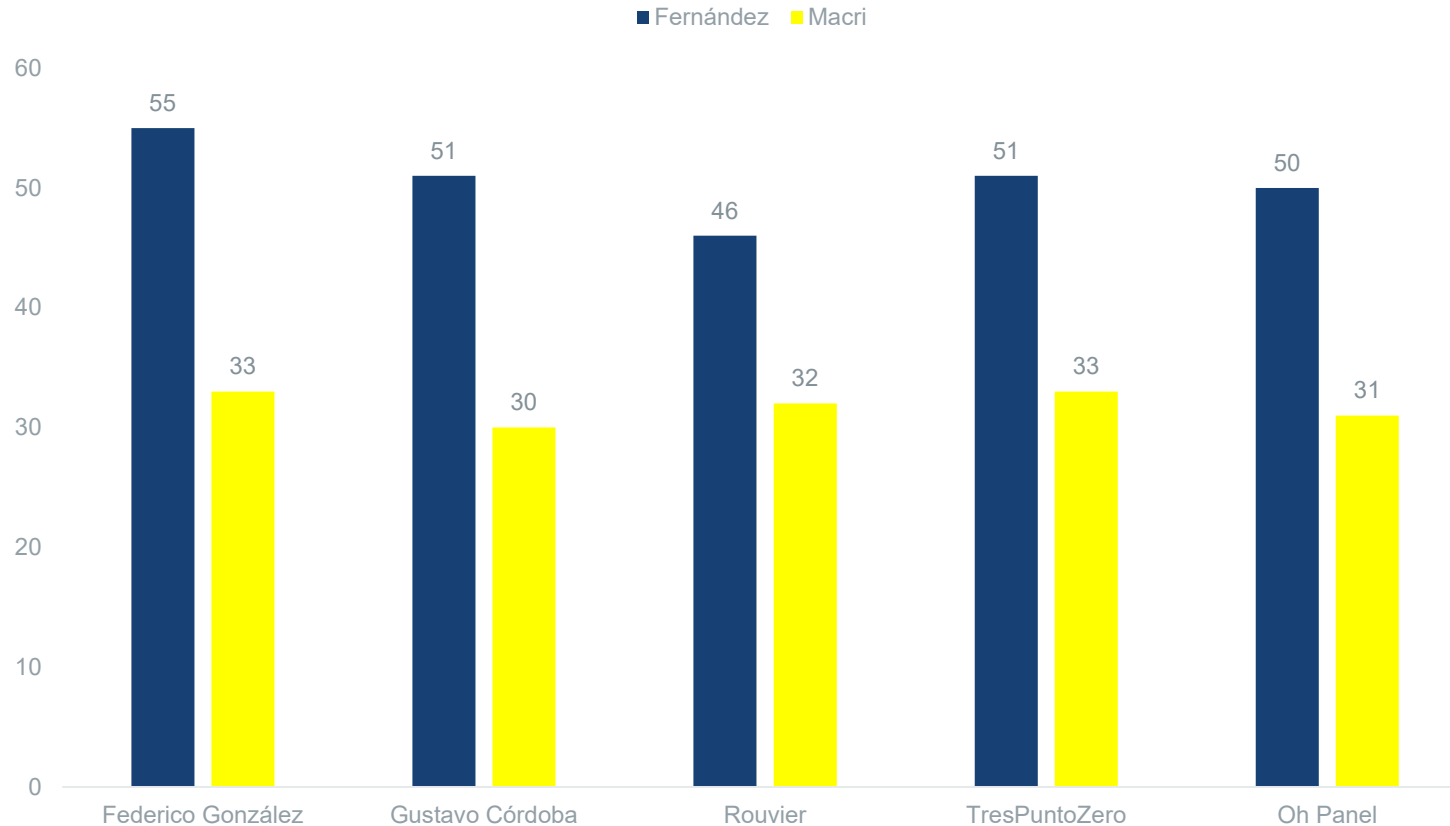
Source: Government of Argentina, Local Media, Fitch Solutions

- Argentine President Mauricio Macri's unexpectedly weak showing in an open primary on August 11 has led to an expectation of a return to less market-friendly policymaking.
- Leftist-populist Alberto Fernández likely has enough support to win the October 27 election outright. Macri's path to victory is extremely narrow.
- We had seen the election as a toss-up, as polling suggested Macri held a slight advantage in an expected second round provided that macroeconomic conditions continued stabilising.

# Macri's Hopes For Revival All But Extinguished

## Fernández Holds Commanding Lead In Post-PASO Polls

Argentina – Post Primary Voter Intention Polls, %



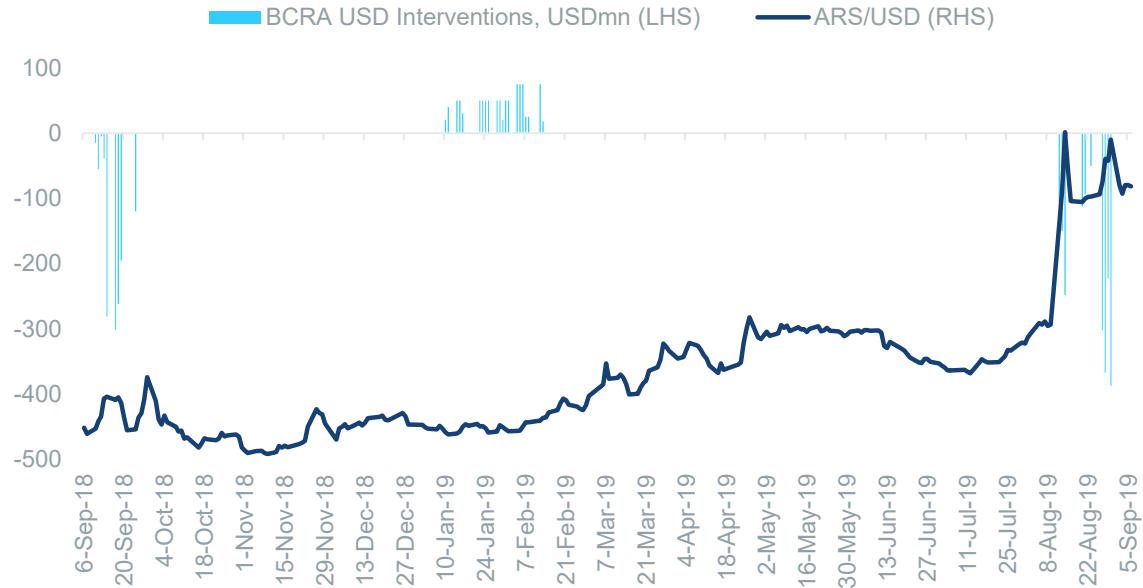
Source: Local Media, Fitch Solutions

- Polls in Argentina have generally been reliable, but in this cycle appear to have under-represented support for Fernández among younger voters, who are harder to survey.
- Polls conducted following the primary suggest Fernández has further consolidated his support as other challengers to Macri appear unviable.
- Additionally, the public is likely to blame Macri for renewed market turmoil and economic deterioration.
- Knowing this, Fernández has done little to calm market anxieties.

# Fear Of Populism Renews Market Crisis

## Interventions Pick Up To Stem Peso's Slide

Argentina – Exchange Rate & Central Bank Interventions

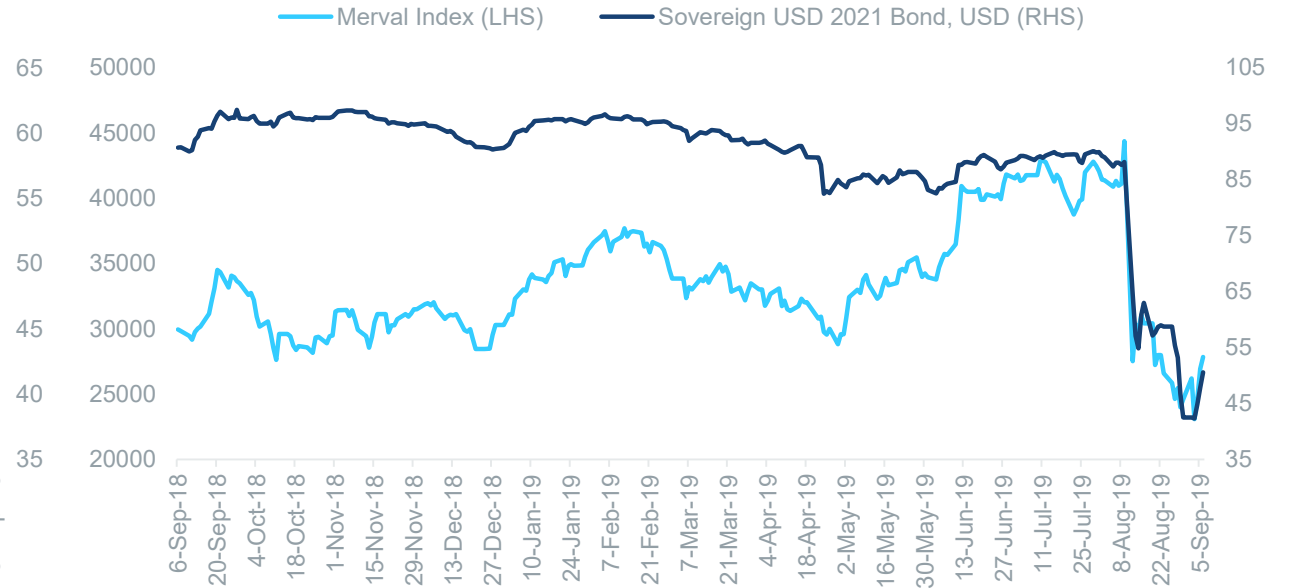


- Fernández represents the leftist-populist wing of the Peronist movement, heading a ticket with former President Cristina Fernández de Kirchner as his running mate.
- Kirchner previously pursued interventionist policies, including currency and capital controls and monetisation of fiscal deficits.

Source: Bloomberg, BCRA, Fitch Solutions

## Investors Shed Argentine Bonds And Equities

Argentina – Sovereign USD Bond And Local Equities Index



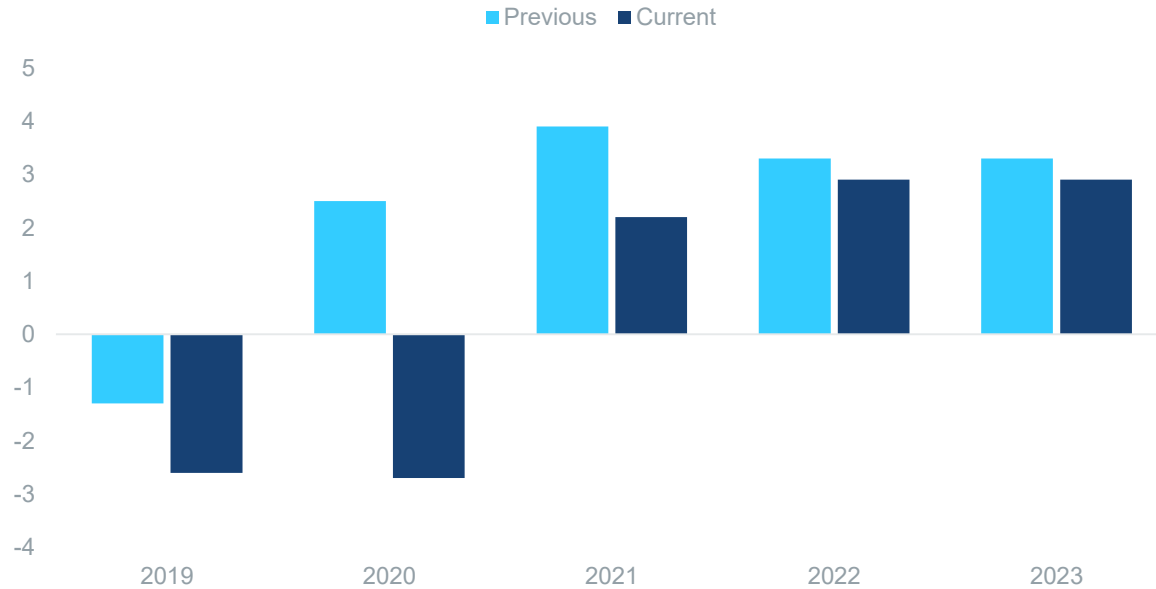
- Argentine assets have dramatically sold-off across the board amid the fear of a return to populism under Fernández.
- With bonds trading in distressed territory, a debt ‘reprofiling’ effort underway and capital controls in place, Argentina is cut off from financial markets.

Source: Bloomberg, Fitch Solutions

# Policy Risks Undermine Growth Outlook

## Growth Revised Down Over Medium Term

Argentina – Real GDP Growth Forecasts, %

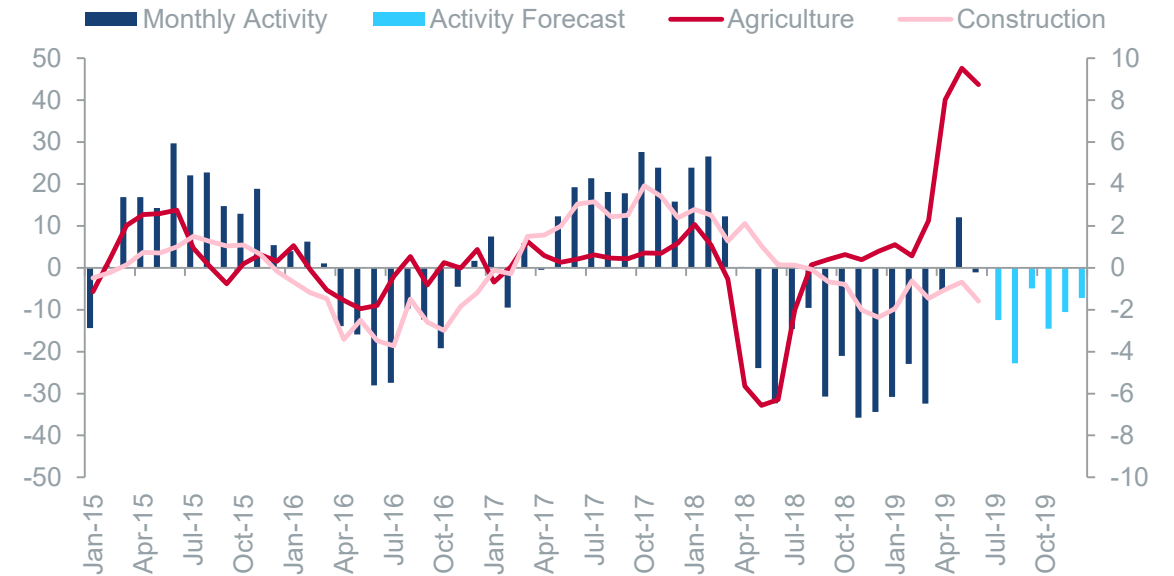


- We now forecast real GDP growth of -2.6% in 2019, from -1.3%, and -2.7% in 2020, from a 2.5% expansion previously.
- As expected, Q219 saw some improvement as agricultural production rebounded from a drought to a bumper harvest, while inflation began to decelerate.

Source: INDEC, Fitch Solutions

## Agriculture Not Enough To Sustain Growth

Argentina - Monthly Economic Activity By Sector, % y-o-y



- However, over the near term, market turbulence will lead to a spike in inflation, eroding confidence and further compressing demand.
- The likelihood of a prolonged restriction of access to financial markets suggests the recession will extend well into 2020.

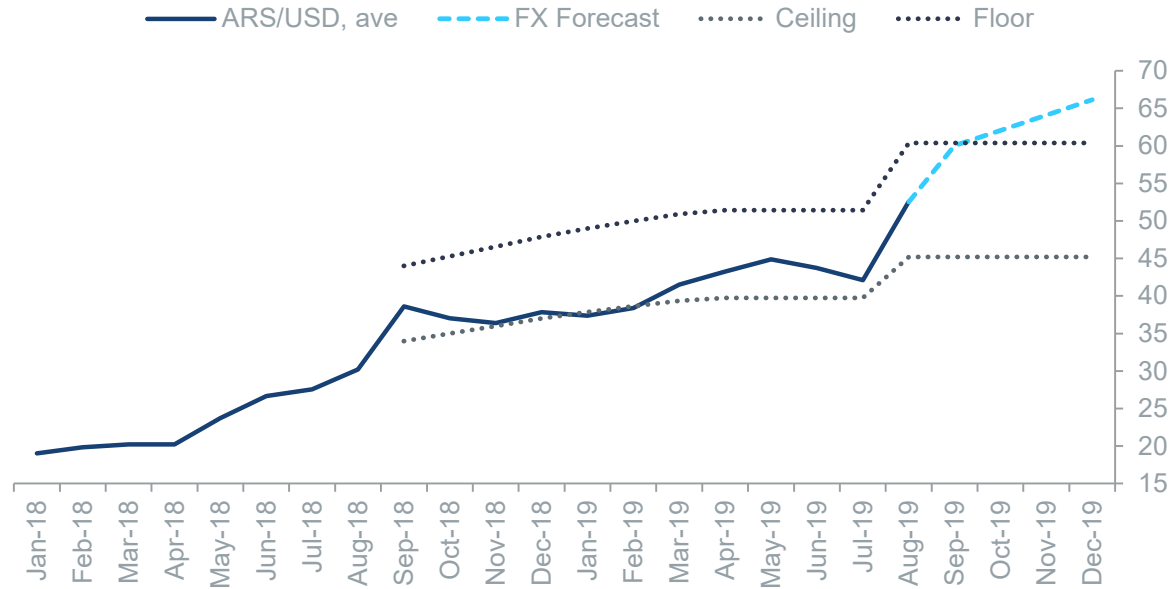
Source: INDEC, Fitch Solutions



# Peso Weakness Will Worsen Inflation

## Peso Unlikely To Be Contained By Interventions

Argentina – Exchange Rate & Non-Intervention Zone, ARS/USD (Monthly)

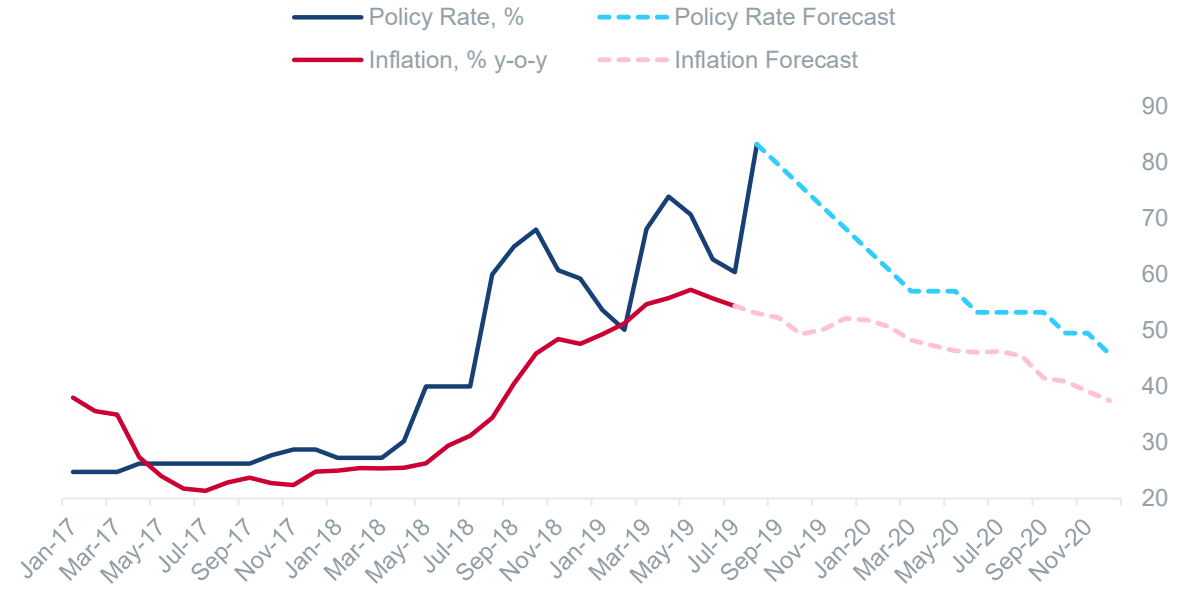


- We believe that Argentina is caught in a negative feedback loop of currency depreciation and elevated inflation.
- Capital outflows will weaken the peso, which will lead to price adjustments, in turn further weakening the peso's purchasing power.

Note: Non-intervention zone between August-December is informal. Source: Bloomberg, BCRA, Fitch Solutions

## Inflation To Remain Among Highest In World

Argentina – Inflation & Monetary Policy Rate



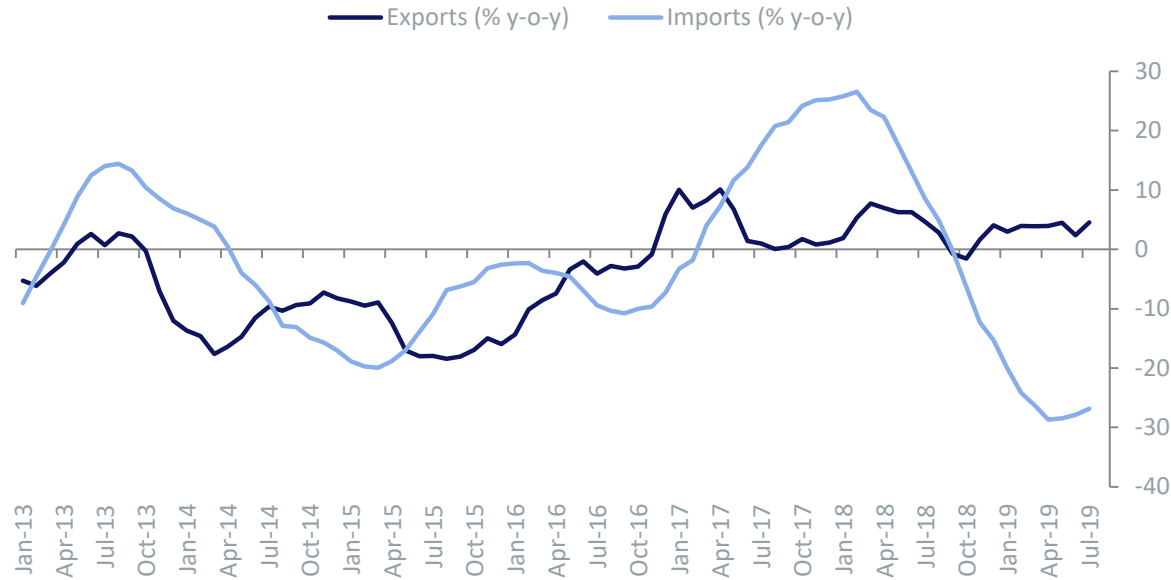
- We now expect the peso will reach ARS66.15/USD at end-2019 and ARS88.53/USD at end-2020.
- We have also revised our inflation forecasts to 52.1% y-o-y at end-2019 and 37.5% at end-2020, from 40.0% and 25.0% previously

Source: INDEC, BCRA, Fitch Solutions

# Fiscal And External Accounts Under Pressure

## Import Compression Likely To Continue

Argentina – Goods Trade, % y-o-y (6mma)

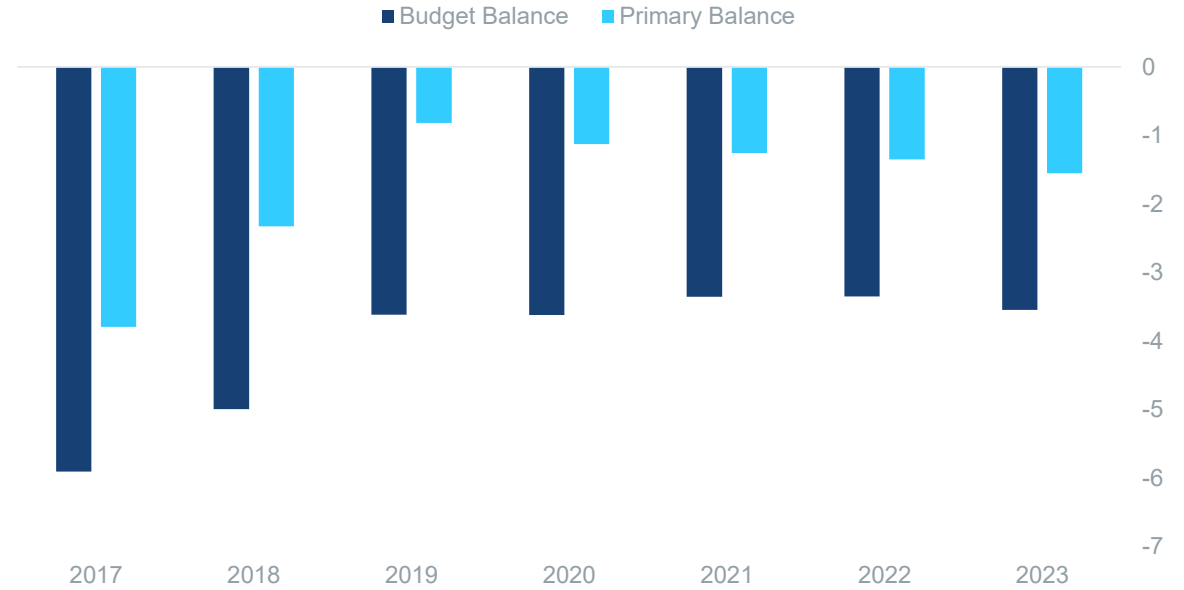


- We now expect the fiscal deficit to widen over the coming quarters, as the government increases spending to mitigate the impact of the market crisis.
- Our base case for 2020 onwards is sustained fiscal deficits, though tempered by limited access to needed financing.

Source: INDEC, Fitch Solutions

## Fernández Unlikely To Continue Fiscal Consolidation

Argentina – Budget Forecasts



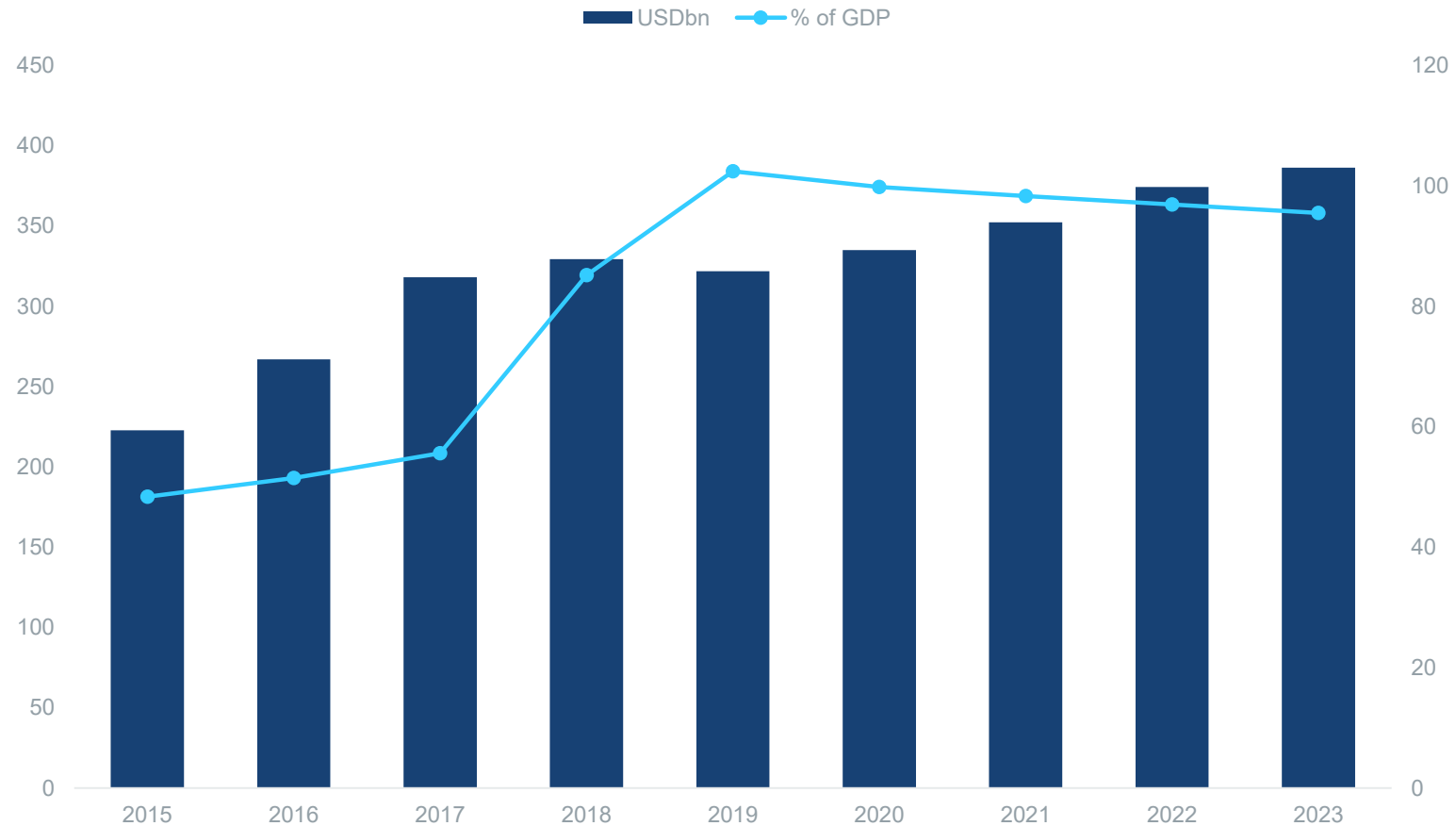
- Capital outflows and extremely limited ability to rollover external debts suggests rising risks of a balance of payments crisis.
- Argentina's status with the IMF is unclear, as new policy measures substantially deviate from the agreed framework.

Source: Ministerio de Hacienda, Fitch Solutions

# Debt Reprofiting Effort Compounds Market Fears

## Debt Burden Has Spiked Following FX Sell-Off

Argentina – Total Government Debt



Source: Ministerio de Hacienda, Fitch Solutions

- A potential reprofiling of Argentina's debts compounds our view that the country will have little access to capital markets over the coming months.
- The IMF and external investors are unlikely to agree to any new terms with the Macri administration, which is seen as a lame duck.
- Fernández has made little effort to establish a policy consensus with Macri and is likely to pursue an aggressive renegotiation with the IMF.
- Without a clear policy agenda from Fernández, market concerns will remain significant.

# Fernández Likely To Temper Campaign Rhetoric

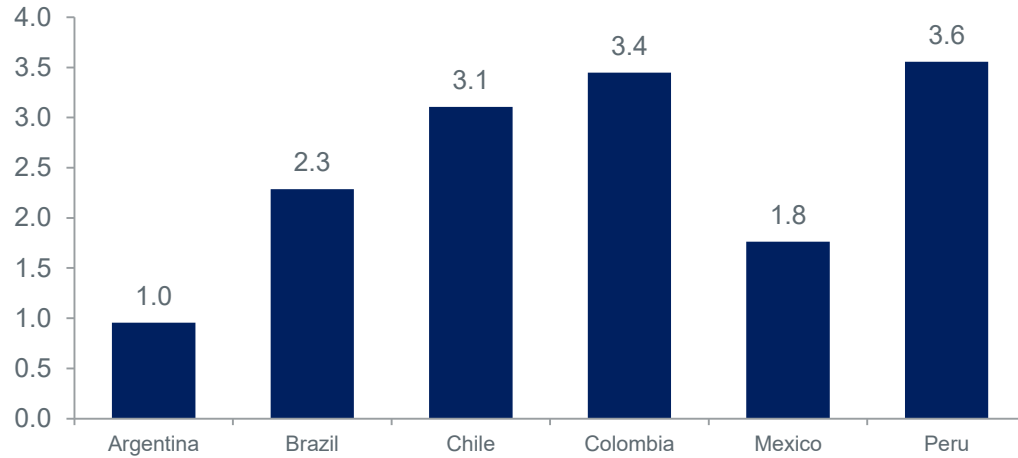
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- Our base case is that a Fernández administration would pursue more pragmatic policies than those enacted under Kirchner.
- Fernández has a track record of supporting more orthodox economic policy, criticising currency and capital controls under Kirchner and insisting that he will respect debt obligations.
- We expect that a lack of available financing will temper the next administration's ability to sustain loose fiscal policy.
- Fernández will also likely be relatively accommodative of exporting sectors, such as agriculture, mining and oil & gas, which will be needed to generate hard currency revenues.
- Argentina's provincial governors are powerful, and a significant number are Peronists who have nonetheless benefitted from an ability to raise capital on international markets. These actors will likely pressure Fernández to reach accords with creditors.
- Fundamentally, we believe there is little support for a return to Kirchner-style populism.

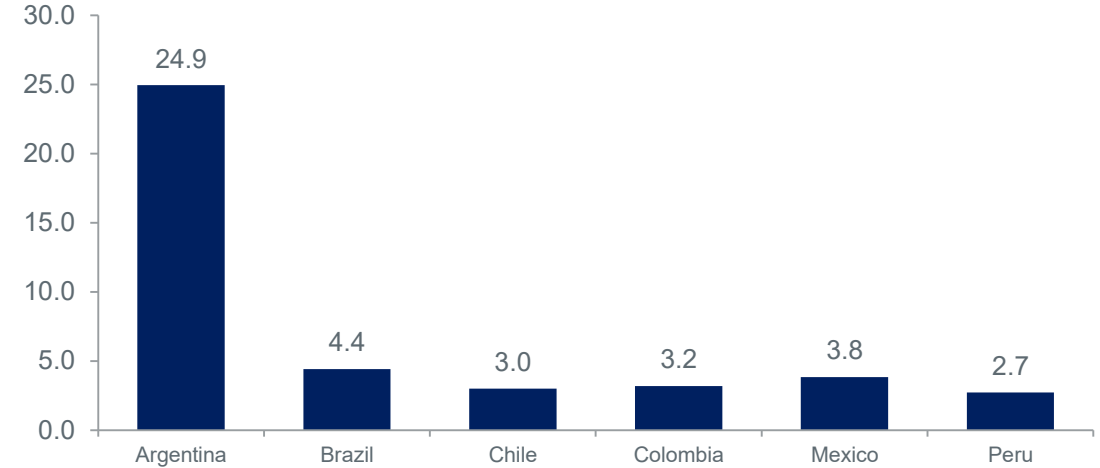
Source: Arial 9

# Data Pack

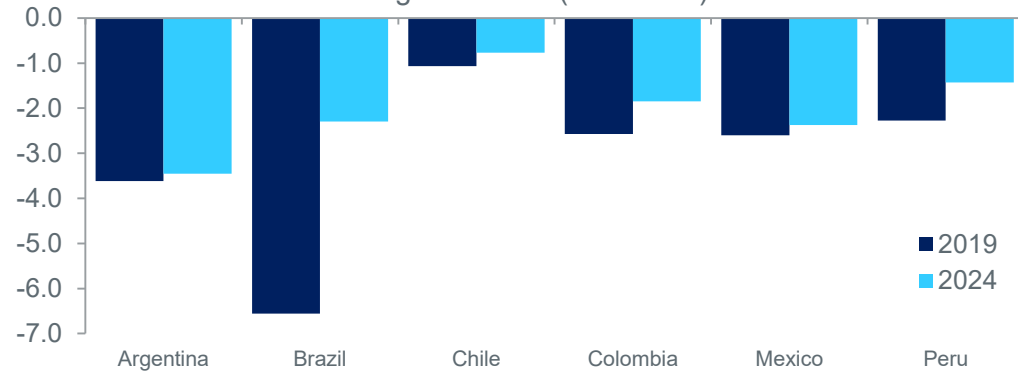
Average Real GDP Growth, 2019-2024 (%)



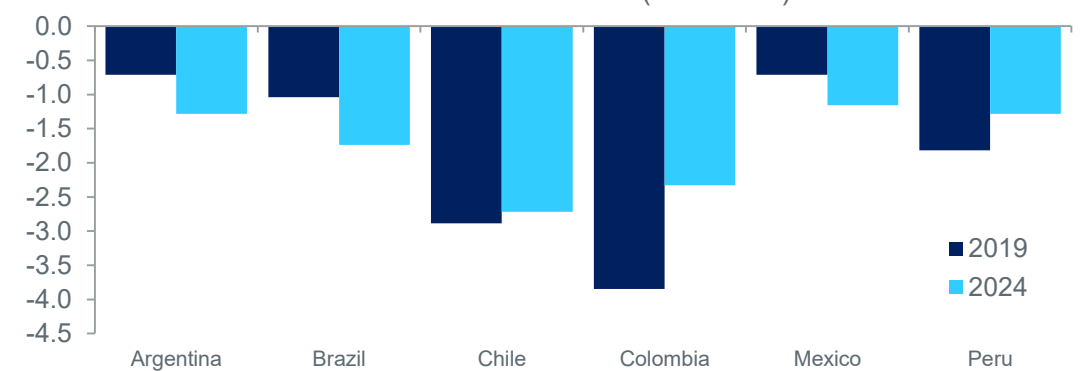
Average Consumer Price Inflation, 2019-2024 (%)



Budget Balance (% of GDP)



Current Account Balance (% of GDP)



2019-2024 = Fitch Solutions forecast. Source: National Sources, Fitch Solutions

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