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Argentina: Will A Historic Political Defeat Bring About The Changes Needed To Regain Stability?

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- Argentines went to the polls on Sunday to vote on mid-term elections.
- Voters dealt a blow, presaged by the September PASOs, to the current administration which suggests a fragile and highly complicated economic and political landscape ahead.
- The Juntos por el Cambio (rebranded from Cambiemos in 2019 and current center right opposition) won the national mid-terms with 41.89% of the national votes. The ruling Frente de Todos (a coalition of center-left and left wing Peronists and Kirchnerists) received 33.03% of the votes.
- These results trigger an important, and historic, change in the composition of Congressional power with the Frente de Todos dropping from 41 to 35 in the Senate, all to Cambiemos which will now have 31. With this loss of 6 seats, the Peronists (and coalition) will lose control of the 72 seat Upper House for the first time since 1983.
- In the Lower House, the government coalition lost 2 seats (now 118), while the opposition won 1 (now 116) also losing majority.
- The government has effectively lost majority control in both houses, as well as enough seats for quorum, through a series of historical defeats to the Peronist party. This is likely to lead to schisms between the different factions of Peronism itself and within the Frente de Todos coalition, further weakening governability.
- The current administration’s term ends in 2023. The economic and health crisis have led to record low levels of confidence and trust in the government. The Central Bank’s fiscal deficit monetization is at full speed, inflation is running above 50% and the gap between the official and parallel exchange rates is now around 100% (the later breaking 200 ARS/USD before the elections). The economic imbalances are unsustainable, either the government changes policy course or they risk losing power.
- It is too early to say how Frente de Todos will behave going forward after their sound defeat. Early indications post election were not encouraging with statements from government candidates like “we won by losing while they lost by winning” and Kafkian victory rounds taken by the President and other candidates. The highest echelons of Kirchnerism have been mostly absent with Cristina Fernandez out of the public eye and ears since Sunday. What is almost certain is that change is coming within the Peronist-Kirchnerist coalition.

- The coming weeks and few months are likely to define the last 2 years of this administration. The fact that democracy continues to work in Argentina is good news. That the population is voting against poverty and autocracy as well. However, survival instincts more than the election results are going to be the drivers. Peronism is an ever-morphing movement, it will likely adapt as needed, as it has always done. In the meantime, remaining in power will require, at the very least, sharply moderating some of the misguided policies that continue to generate economic imbalances and consequently social discontent. This could, eventually, bring some oxygen to financial assets. Thus far, market response since Sunday has not been encouraging and this is likely to be the case until investors see some signaling from Cristina that she could be supportive of Alberto Fernandez' attempt to temporarily mend the economy and support a transition period into the 2023 elections. This is the best case for markets. A less positive scenario would be a "bad breakup" between the President and his V.P. and a radicalization of Kirchnerist harder factions pitting against the government.

- In either case, fully re-establishing investor confidence in Argentine markets will take years of consistent, sound economic policy and political stability. At the moment, the country lacks both, suggesting that participation in these markets remains of a highly speculative nature.

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