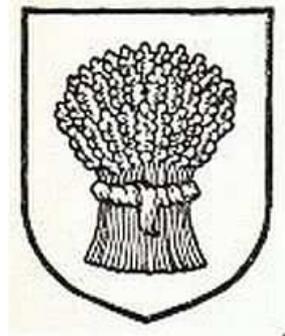


Saturday, April 22, 2023



# HALLGARTEN + COMPANY

Thinkpiece

Editor: Christopher Ecclestone  
[ceccestone@hallgartenco.com](mailto:ceccestone@hallgartenco.com)

## Argentina: Is the Worm Turning Again?

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# Argentina

## Is the Worm Turning Again?

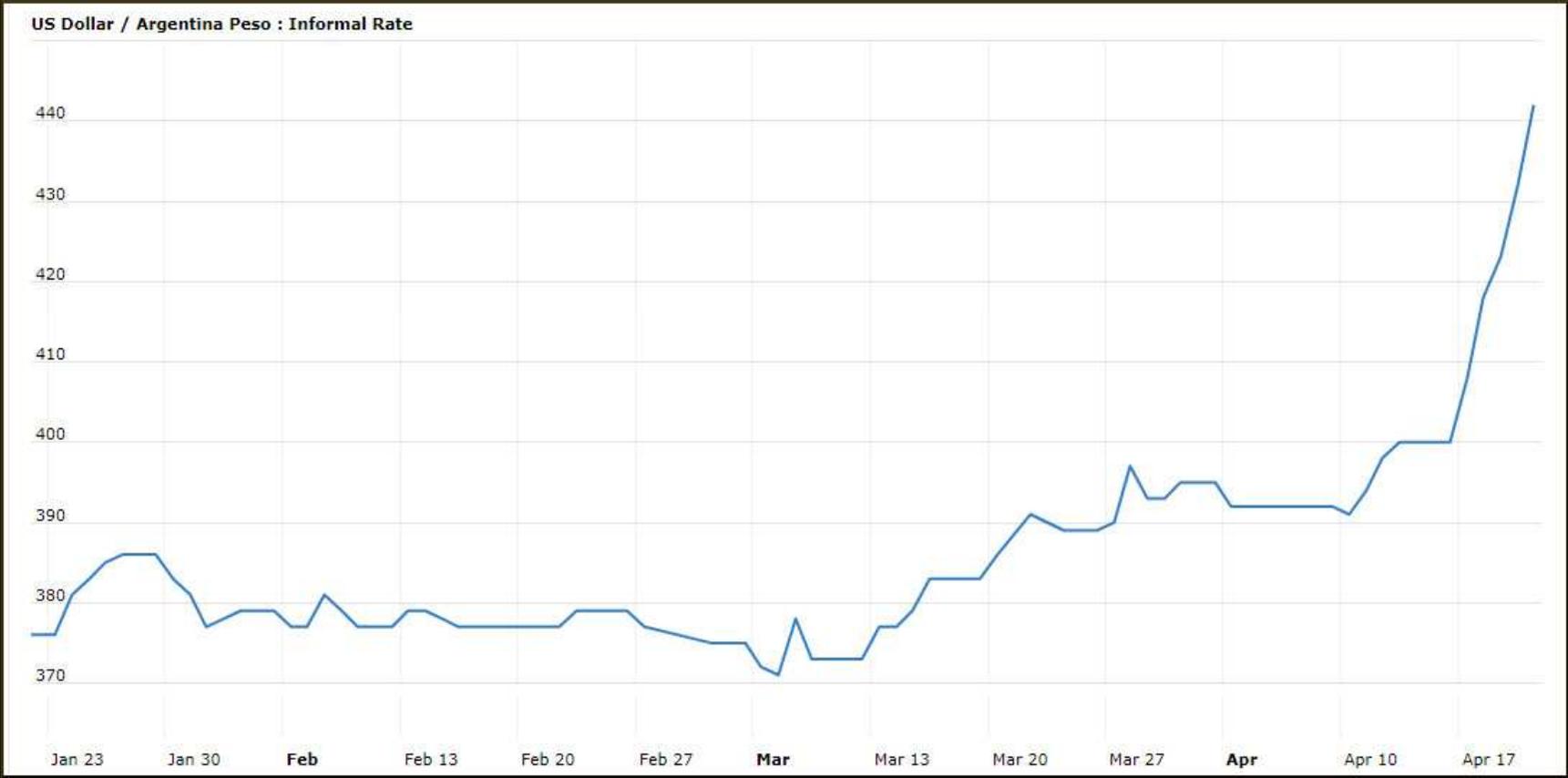
- + Situation is looking propitious for a pivot to the centre-right from the current centre-left situation
- + Despite the difficult economic situation (devaluations, shrinking real incomes & romping inflation), the real economy, as per usual, carries on regardless
- + Strong pricing for most of Argentina's export products, whether agricultural or mineral, positions the economy well for a turnaround
- + Buenos Aires is, in a *laissez-faire* manner, being remade as the "Capital of Latin America"
- + Mining is booming with Argentina, perversely, being seen as a safe-haven and consistent jurisdiction compared to Chile, for example
- ✗ The Argentine peso is in freefall
- ✗ An extended drought has impacted harvest size
- ✗ Lingering concerns that the PJ (Peronist Party) might get its act together keeps the political situation on tenterhooks

### Argentina – The Worm Turns (Again)

The best part of January and February saw us in Buenos Aires, reestablishing our business presence after a long interregnum. In fact it was the longest we had spent there since 2001. As always Argentina is a case of *la plus ca change, la plus qui reste la meme*. One is told there have been dramatic changes but besides the transport being dramatically improved and certain parts of the city having become gentrified and very hipster, some things remain eternal. A bigger change though is the city's internationalization and a certain feeling that it has either become the "Capital of Latin America" or is on the cusp of becoming so.

It is a truism that the Argentines are Italians who speak Spanish and the politics has a strong quotient of Italian about it. The difference being these days that Argentine governments (at least since 2001/2) have tended to last full term.. for better or worse, while Italy is a constant moving feast.

The politics is still screwy and the economic policies moreso. However, despite the "worst of times, best of times" discourse from the locals, the restaurants are packed and the people with money are living *la vida loca*. Ever was it thus...



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### The Currency

At the current time, for instance, the official dollar rate is around 180 to the USD, while the unofficial rate (the Dollar Blue) is around twice that at 440 to the USD. As the chart on the previous page shows the rate has gone into freefall in recent weeks.

The chart below shows the official rate over 10 years, scarcely edifying viewing either.



### The Politics

Despite the fact that the country's president is Alberto Fernandez, he is widely regarded as a creature of his vice president, Cristina Kirchner. The Kirchner grouping has largely ruled the country for twenty years, excepting a small centre-right interregnum mid-last decade. The Kirchnerite political style is not everyone's cup of tea. However, even the detractors of Cristina Kirchner find it impossible to claim that she, or her various governments, have been anti-mining. Coming as she does from the strong mining province of Santa Cruz, in Patagonia, her approach has been very softly, softly.

### Mining Matters

The impressive current mining secretary at the Federal level is Fernanda Avila, who was formerly the secretary of mining in Catamarca province. In her international appearances (a contrast to previous stay-at-home secretaries) have left a trail of goodwill and good vibes at mining events around the world, most recently in Riyadh where Argentina had the largest presence of ANY country.

Argentine mining revenues are on the climb again (as can be seen in the table that follows). We should note that ten years ago, large producers like Alumbrera and Pirquitas, were still around.

More interesting is the post-2020 resurgence where we can see higher gold prices and increased Lithium production rising revenues by nearly 50% over two years.



The main bugbears of the mining industry have been the issues of the *reintegros de IVA* (rebates of VAT) and the on-going idiocy of the parallel exchange rates, and exemptions thereto, that create an enormously distortive effect on the flow of funds into capex and the flow of dividends and profits out of the country. The differentiated exchange rates require CFOs and financial controllers of foreign miners to perfect their skills as contortionists to effect transfers at the most attractive rates.

Generally though, this situation has not been enough to discourage exploration or development. It is worth noting (and the miners are *sotto voce* on this) that the “cheapness” of Argentina at the unofficial rate is a big attraction. Normal petrol/gasoline is at US\$1 per litre and salaries are basically low at the official rate for domestically employed staff. Rents are low and hotels cheap, as are many basic camp supplies (food, cleaning products etc). Methinks, they complaineth too much....

A specific negative for those operators in the high Andes is the so-called Glacier Law. This has been around for a number of years but has not been quantified or really applied. Moreover, the register of glaciers has not been updated and global warming (or whatever) has resulted in some of the listed glaciers having disappeared/dissolved. Others have shrunk to the size of a few dining tables and become historical oddities. Miners must, however, tread gingerly around this somewhat nebulous subject.

However, one might also look to the wetlands subject where the Iguazu Agreement of protecting wetlands prompted some rather predatory legislation that nearly made it to the law books, but was headed off at the pass by canny lobbying by interested parties in the mining industry and mining provinces. This shows that a proactive, yet subtle, approach from players acting in concert can make mining voices heard.

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### **The Elections of 2023 – The Presidential Field Narrows**

There are primaries due in the middle of this year and then presidential elections in October of 2023. It is felt that the opposition stands a strong chance but, as yet, does not have a candidate.

The decision of former darling of the centre-right, Mauricio Macri, to not run was a chronicle of a political death foretold. Such was the disappointment with his former one-term reign as president that we were surprised he even felt he had a chance. That he did so, was probably the result of looking around and seeing what he thought was a similarly weak, or weaker, field of opposition candidates to the ruling K-Ascendancy in the country. Now he is fortunately history.

This has left the field open for Horacio Larreta (the Mayor of Buenos Aires) and Patricia Bullrich (the former Minister of Security under President Mauricio Macri).

Larreta, if he gets momentum, would be the third mayor of Buenos Aires to get to the Casa Rosada in recent times (the others being the disastrous Fernando de la Rúa in late 90s and lame-duck Macri in the middle of last decade).

### **Decline & Fall of K?**

Despite the fact that the country's president is Alberto Fernandez, he is widely regarded as a creature of his vice president, Cristina Kirchner. The Kirchner grouping has largely ruled the country for twenty years, excepting the short centre-right interregnum mid-last decade. To put it tactfully, the Kirchnerite political style is not everyone's cup of tea.

The Fernandez/Kirchner Administration faces deep dissatisfaction from the public at this point due to the eternally-troubled economy, falling living standards and romping inflation. It is also not clear whether Fernandez will be trotted out by the Kirchnerites (or go it alone), but it looks highly unlikely that he will be on the Kirchnerite ticket again. Cristina herself has a whole world of legal problems besetting her.

In any case there is rather a *fin de siècle* feel about the administration at the moment. This alone should be a **BUY** signal for any asset class in the country.

### **Bullrich – the Dark Horse**

Focus of the chattering classes is now turning towards Patricia Bullrich (66), whose current political status is as the chairwoman of Republican Proposal (*Propuesta Republicana*). In a country where politicians are frequently Peronists of many different hues competing against each other (showing what a catch-all Juan Domingo's policy offering was) Bullrich also started off her career involved with the Peronist Youth. After the return of



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democracy in the mid-1980s, she became Organisation Secretary of the Partido Justicialista (the Peronist Party) of Buenos Aires and was elected as a Peronist deputy in 1993. In 1995, she was named the Legislator of the Year, though in Argentina this can be a dubious distinction indeed.

Following the election of Mauricio Macri to the presidency on 22 November 2015, it was announced that Bullrich had been nominated the Minister of Security.

She became disillusioned with the Peronist cause (though the Peronist cause is so amorphous that it boggled even the mind of Peron himself) and left Congress in 1997. She then popped up, in 2001, as a cabinet minister, as Secretary of Labour, Employment & Human Resources (and later that year as Secretary of Social Security) in the ill-fated government of the aforementioned De La Rúa.

After years in the political wilderness (following De la Rúa's implosion), she managed to clamber back into Congress as a deputy, from whence, upon the election of Macri to the presidency in November of 2015, she became the Minister of Security. A role in which Bullrich became one of the few bright spots of the Macri years creating a good impression as a tough and competent operator (both internally and internationally).

Argentina has become accustomed to female presidents and candidates, so Bullrich is not an exception. She may just be what the doctor ordered to fix the malaise. Having been a deputy under Menem (the *Wunderpraesident* of the 1990s), then minister under De La Rúa's Radical-led clown-car and more recently shining in the distinctly dull Macri crowd, she has seen it all and knows the highways and by-ways of dealing with that notorious snake-pit, otherwise known as Argentina's Chamber of Deputies.

If she pulls it off, then fasten your economic seatbelts for an almost vertical rally in all things Argentine.

### **Buenos Aires as the New Miami?**

Over many decades, Miami has come to be seen as a sort of unofficial capital of Latin America at least to the upper middle class and middle classes of South America. It was the Mecca to be worshipped and visited from afar. It's viewed as a place to acquire property, and to stash funds offshore. However the last decade and a half have seen this role weakened as banking rules have tightened up and as the US has increasingly instituted a "educated and middle class need not apply" immigration policy.

Meanwhile, Buenos Aires (which had always attracted Paraguayans, Bolivians and Peruvians for menial occupations) has now become the go-to place for the South American middle classes, not only to visit, but to reside. The number of Venezuelans and Colombians decamping well south of the border is prodigious, while Brazilian and Mexican tourists are massively in evidence. Though still a rather closed box from the financial/banking point of view, the country is definitely open for business with undemanding immigration laws and the ease of setting up small businesses. To this can be added the burgeoning Russian/Ukrainian diaspora, ethnicities scarcely represented before.

All that is needed now is the push from an extended period of financial stability and openness (plus the restoration of many of the air routes that fell victim to the Pandemic) and BA will give Miami even more

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of a run for its money than it does already.

### **Conclusion**

Strange times in Buenos Aires, but aren't they always? After nigh on 20 years of the Peronist grip on power (with the small hiatus of Macri), the political worm appears to be turning. There is a distinct *fin de siècle* feel as desks (amongst other things) are cleared out and seemingly the PJ cannot even come up with a candidate to run under the colours of the party, or the K Faction. The only mooted runner is the one-armed former race car driver, Daniel Scioli. Times are tough.

The incumbents are not yet at the phase of burning papers in oil drums in the courtyards of ministries, but its drawing near.

Never has such a prosperous economic legacy been as used and abused as Argentina's and yet the resilience is still there. Argentines themselves are always the most bearish on their own prospects, so much so that they rarely can see a new wave of prosperity heading their way, and presume it must be by the tsunami of final annihilation.

And yet.... Gatsby-like they party on. If Argentines themselves are wrong-footed it does not matter as they are already LONG Argentina. It is more the foreigners who have taken their distance and may find themselves on the wrong side of the profitable trade by not being positioned for change. *Carpe diem*.

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## **Important disclosures**

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