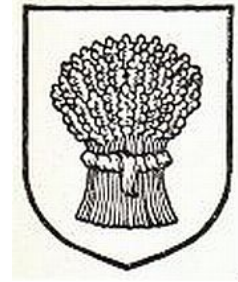


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HALLGARTEN + COMPANY

Country Coverage

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Argentina: Ten Observations on Milei So Far

September 2024

Argentina

Ten Observations on Milei So Far

- + Fiscal accounts are looking good, with even a fiscal surplus having been achieved, largely due to swingeing cuts to government headcount, infrastructure projects and other boondoggles
- + Banco Central accounts and dollar holdings are looking strong as the country heads towards lifting of the odious *cepo* (or exchange controls)
- + Finally, legal approval underpinning the DNU and Omnibus Law (are it was sliced and diced) has been put in place for reforming the State and finances
- + Ridiculous claims of Milei being a “far right extremist” have been buried, leaving egg on the faces of international media organisations, but at the price that reforms are no longer getting publicity outside the country
- + Predictions of foreign policy blow-ups have come to little with China realizing its new place in the scheme of things and Brazil, Chile and Spain being slapped into shape
- + Patricia Bullrich has seemingly been a big hit at pacifying the drug wars in Rosario, and elsewhere, and has inserted herself deeply with Milei’s inner circle
- ✗ Initial cluelessness by Milei and his advisors on legislative procedure and the Constitution resulted in a good six months of forward momentum being lost on initial *faux pas*
- ✗ The former president Alberto Fernandez has had his well-deserved obscurity of retirement ruined by scandals relating to insurance fraud and domestic abuse
- ✗ The Kirchnerite Peronists have kept themselves busy in opposition with fighting amongst themselves, particularly in the key provincial stronghold of Buenos Aires province
- ✗ The Radical Party, as always, have divided into collaborationists with the Milei government and intransigents opposed to everything, including their own party
- ✗ The recovery in consumer demand is not evident and this could ultimately prove to be the fatal flaw

Ten Things About Milei

A week is a long time in politics, so they say, so what is ten months in Argentine politics? Since assuming power in mid-December of 2023, Javier Milei has been a whirlwind. Many things have happened, but curiously not as many as he had hoped would happen. There have been multiple *faux pas* due to a combination of lack of experience, lack of a parliamentary majority and tendency to wield a verbal flamethrower, even if the physical chainsaw has been kept in reserve.

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To accomplish a review of developments so far one needs to narrow down the focus so in this note we have chosen ten features of note/concern and shall expand upon these to give an idea of what life is like in Mileilandia.

These are:

- Burying the Far-Right Myth
- The DNU & Omnibus Law (and its offspring, the Ley de Bases)
- The Travails of Kirchnerism (and its wannabe Successors)
- The Travails of the Rest of the Opposition
- The Lijo Issue
- International Relations
- Fly the Unfriendly Skies of Aerolineas Argentinas
- W(h)ither Dollarisation
- Recovery?
- The Man on the Street

Milei – Do as I Do

It may seem apocryphal, but a recent event sums up the new broom in Argentina.

The Argentine president does not live in the Casa Rosada, as many foreigners imagine, but in the Quinta at Olivos, a walled estate about ten kms from the centre of the city. So recently, there was an *asado* (the famous Argentine-style barbecue) with the guests being the legislators who had helped him block attempts to overturn his veto of pension rises. The invitees had to run the gauntlet of various protesting groups outside the gates. These were protesting austerity and poverty and reduction in the sinecures of some who had long supped at the trough of Kirchnerism.

The *asado* come under attack in some corners of the press for insensitivity until it was revealed that.... Milei had all the invitees whip out their debit cards to pay for the pleasure of chowing down on the Presidential *morcilla* and *chinchulines*. Never has a *choripan* summed up a change of political and economic style so completely.

Can one imagine Uncle Joe toting the card reader around the White House, shaking down the guests? Whether there was a large mark-up on the food was not revealed, but to hark back to Milton Friedman “there is no such thing as a free lunch”, at least not in Argentina, anymore.

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Burying the Far-Right Myth

The relative silence on Argentina in international organs of the press is fairly easy to explain. The New York Times and The Guardian have chosen to eat their humble pie in silence and darkness. The “Far Right” firebrand with his chainsaw is nowhere to be seen. Where are the jack boots? Where are the slogans and symbols? Where are the concentration camps? Where are mass deportations of undesirables? Where is the excoriation of those one doesn’t like? Milei was more interested in paying homage at the grave of Rebbe Schneerson than visiting the White House. Hitler would be rolling in his grave, if he had one.

Milei is an epic failure as a right-wing demagogue, by the NYT’s definition of right-wing. This makes Milei even more dangerous to the Left. They have taken their eye off the ball. An old-style fanatic would be good for selling newspapers, whereas Milei’s model of wielding the chainsaw in “silent mode” might actually start to gain imitators.

That is what the global (il)liberal elites should really be fearful of.... so maybe their silence is understandable.

The DNU & Omnibus Law

As we shall discuss later the balance in the Deputies and Senate is not as clear as it might appear on paper. Milei’s first big error was to think that his 56% of the vote gave him *carte blanche* to decree, and thus do, what he wanted. The lesson that he could not was swift and brutal. A certain amateurism reigned in the first months (up until around March).

He started off with a sweeping DNU (a decree of national urgency) which was badly drafted. It set the tone but, unfortunately, had constitutional holes akin to a Swiss cheese. His advisors should have known better, and he should have known his advisors better.

The problem was that some of the measures in the decree were not within the purview of the decree mechanism and thus null and void constitutionally-speaking, and had to be the subject of Congressional approval, not presidential whim.

So, then the Omnibus law was tossed to the Congress like a piece of meat to a pack of Rottweilers. The problem again was amateurism. The Omnibus Bill was supposed to be a “big statement”, like the DNU, but it contained measures that needed a simple majority and others that needed two-thirds majority. Thus, the measures could not pass by simply getting one’s own side onside, but also by winning over a big chunk of the Peronist deputies. A massive failure of mathematics, let alone politics.

Ergo, the bill should have been two bills. One with a fast trajectory and one with a slower and longer fuse. That did not suit the showman style of the first few months and ultimately the Omnibus Law ended up failing and being sent back to the mincing machine for division into bite-sized bits, with numerous deletions and embarrassing backtracking. Not that embarrassment is in the Milei suite of emotions.

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Eventually, after more than six months of legislative deliberations, a series of more skillfully crafted measures, called the *Ley de Bases*, managed to slip by the Rottweilers, with more bark and less bite from these creatures. The *Ley de Bases* (grandiosely titled the Basis and Starting Points for the Freedom of Argentines) consisted of 238 articles compared to the initial legislation with more than 600 articles. The *Ley de Bases* brought to life the RIGI scheme for big investments, which was the most relevant initiative thus far as far as mining investors should be concerned.

Milei eventually managed to get his revenge when the Congress passed its own version of how much pensions should be raised. Milei vetoed the measure. The Congress then needed a two-thirds majority to overturn the veto, but a few defections from the Radicals thwarted attempts to make null the veto.

Milei is finally started to realise how the system works.

Kirchnerism – Destined for the Dustbin of History?

Losing power so definitively last November was a body blow for Kirchnerism which relied not upon policy but upon access to funds to disperse to sustain its status with the Great Unwashed. The Unwashed suddenly decided they had tired of economic malaise and swung behind Milei's Libertarian offering in most provinces that hitherto had made up the Peronist heartland.

While outgoing president Alberto Fernandez went into a Mexican-style exile in Spain, presumably never to be heard of again, he has proven to be a gift that keeps giving for Milei and the enemies of Kirchnerism within the PJ. Firstly, an inquiry burst into life looking at an insurance scandal related to over-billing for coverage for a swathe of government entities during the last years of his reign. Many indicators pointed to personal involvement. This matter goes on at a slow boil. Even worse though, publicity-wise, was the revelation of domestic abuse of the First Lady during the administration including phone recordings and graphic images of injuries. Apparently, this behaviour was known in the inner circles but had never filtered out. The victim had never lodged any complaints. Suddenly she decided there was mileage to be had by revealing all and, embarrassingly, she applied for restraining orders and guards (at the Argentine government's expense) to be sent to Spain to protect her from her husband.

This is not the first time domestic violence has been rumoured at the Presidential Palace. A certain other President was said to like roughing up his wife, but she was made of stronger stuff and, so popular scuttlebutt would have it, she poisoned him, doing everyone a favour.

Meanwhile, the tribulations of Cristina Fernandez de Kirchner roll on in the courts, with relation to various misdeeds in her administration. In recent days, it has been signalled that the judges are not disposed to overturn the six-year jail term that was meted out to her for the affair of the awarding of public works contracts in the province of Santa Cruz.

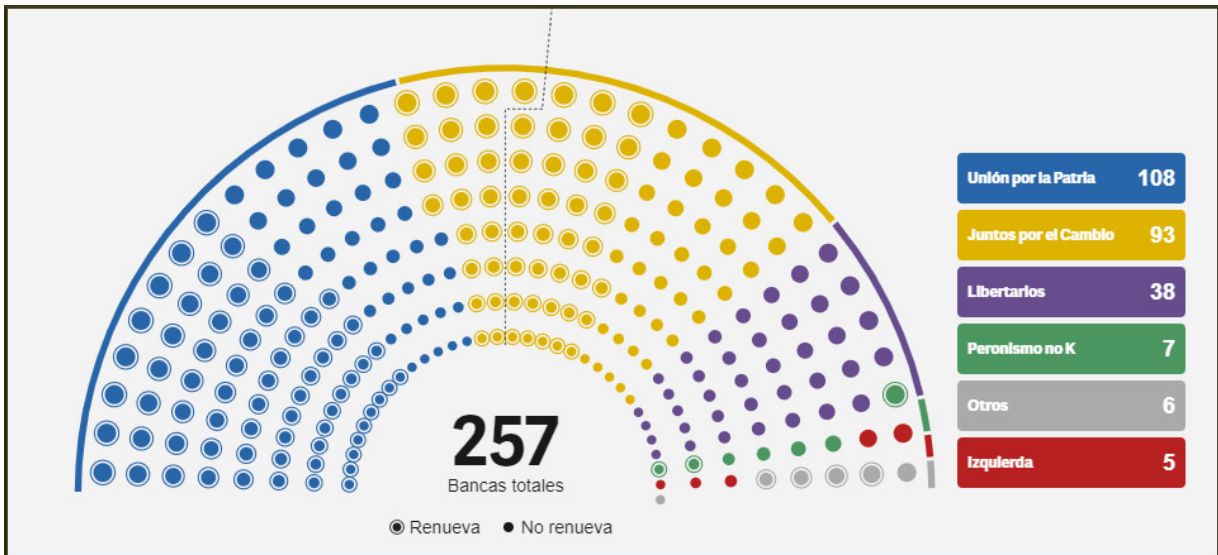
The Travails of the Rest of the Opposition

Exactly who is the opposition and who is the government is the question in the Congress and Senate.

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While the Libertarian faction was relatively small, despite the sweeping Presidential victory, the rest of the numbers for a majority were made up of sympathetic parties and fellow travellers.

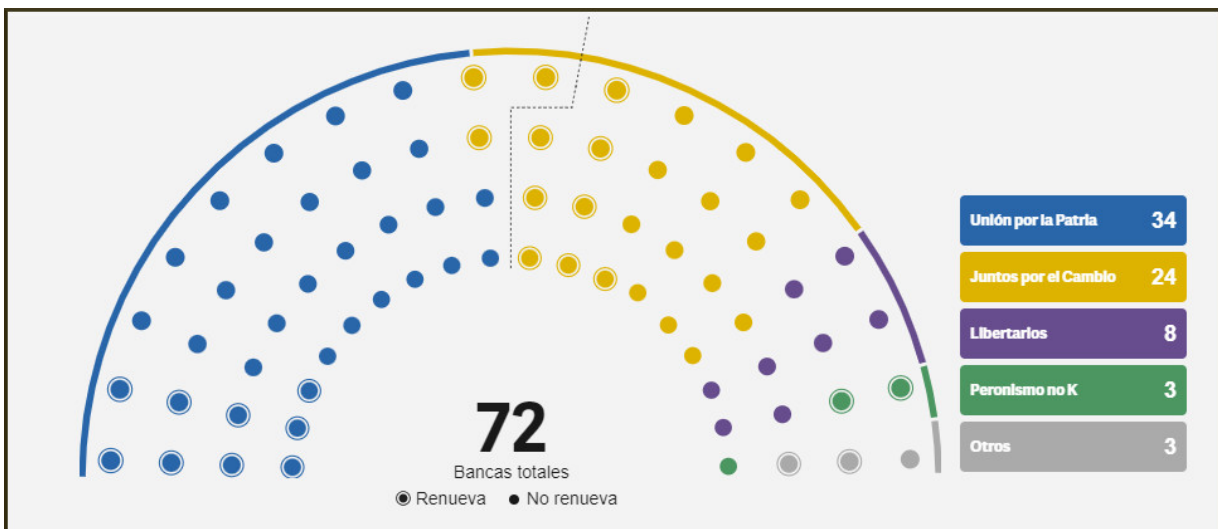
Below can be seen the make-up immediately after the election. The composition of the Deputies looked like this:



Source: Clarin

Juntos and the Libertarios clearly had a majority, should they join forces on an issue.

The Senate looked like this:



Things in the Senate though are not so easy here as Peronists of all colours, working together, have

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more than a majority (just).

One thing is to be made president, another is to be able to do what one wants and institutes one's policies. The Argentine senate and chamber of deputies operate in very similar ways to the US, particularly regarding staggered elections. This should be no surprise as the original Argentine constitution was a copy of that of the US.

One third of the Senate was renewed in late November, as were a large number of seats in the Deputies.

In both cases the outcome, due to a legacy of large representation for the Kirchnerite forces in previous elections was that the Peronist Party (the PJ) lies only slightly below a majority in both houses.

The solidarity of the forces against the Peronists lasted mere weeks. Some Radicals had already been kicking against the traces in the balloting wondering whether they really wanted a libertarian tilt to the Argentine state. Bullrich rapidly accepted the role of Security potentate in the new administration and started drifting to the Milei camp, despite being ostensibly leader of the PRO. That grouping started having its own existential crisis, not wanting to be seen as lapdogs of Libertarianism, with Mauricio Macri, the new/old leader of the PRO trying to project "Right Wing with a Human Face". Good luck with that.

Martin Menem (nephew of former President Carlos Menem and son of Eduardo Menem, his brother, once head of the Senate) was elevated to be Speaker of the Deputies, thus harking back to the 1990s and creating a nexus between the politics of that time and the *Nouvelle Vague* of Milei. Many junior members of the government of Carlos Menem ended up floating to the top in the ministerial carve-up.

Since that point, chaos (of a sort) has reigned, with the various blocs of deputies and senators having increasing fluidity. Some Peronists have supported Milei's bills, some Radicals have spent the entire time since December in rejection mode. The PRO has split and recombined like a virus. The Libertarians have even expelled some members for conduct unbecoming.

The Lijo Issue

This is a slow burn issue that has won NO friends for Milei and his administration. It relates to the proposed appointment of a new Supreme Court judge in the form of Ariel Lijo to a vacancy on the bench. Despite not coming with any libertarian credentials (and with a lot of controversial baggage) Milei and his administration have been prepared to die in a ditch fighting for this appointment that no-one else wants.

We cannot claim to understand the matter, which means there must be something really big or really important behind it that mere mortals are not allowed to know or understand.

Lijo's history as a Federal judge (ironically originally appointed by Nestor Kirchner) has involved a string of investigations into the halls of power, the smoky backrooms and their nefarious denizens, such as:

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- Matters related to the *Proceso* (the military regime in the late 1970s-early 1980s) most particularly the *Batallón de Inteligencia 601*
- High functionaries of the government of ex-president Carlos Menem (particularly Alberto Kohan)
- Ex-president Cristina Fernández de Kirchner
- Ex-vice president Amado Boudou, in the matter of the Ciccone Case (the note-printing works)
- Ex-president Mauricio Macri in the matter of the negotiation between Grupo Macri-Correo Argentino (the Post Office)

It has been one of the major issues behind the fracture in relations between the Libertarian forces in Congress and the more weighty PRO (lead by Macri), that played such a role in bringing Milei to power.

International Relations

Milei arrived in power with a certain amount of baggage here. The Great Satans were Brazil and China and the Shining Lights were Israel and to a lesser extent, Armenia, of all places. Zelinsky also took time off from a major war to turn up at the Inauguration. Victor Orban, of Hungary, recently made a trip to BA in a very lowkey capacity to exchange ideas with Milei. Presumably these were not on the subject of Ukraine.

Milei is getting on very well with the US, but its mainly the Pentagon and State Department conducting the love-in, as the White House (like the NYT and Guardian) can't be seen to be condoning Libertarian thinking, for if anything it shows up the intellectual vacuum in Washington.

As for China its all quiet on the Eastern Front. They quickly realised that cheque-book diplomacy did not work. Milei also did not care if Argentina's soya was sold in Chicago or Peking. This was a major failure on the part of China's blackmailing efforts. Milei's attitude was that Chinese money was as good as anyone else's, but he wasn't tying himself in knots to appease them. Even worse, the Chinese had their "space" base in Patagonia and Argentina has no base in China. Who has the whiphand here? Once again, another Chinese failure.

Washington has long been champing at the bit to see this base gone. Milei called for an inspection of the hitherto "black box" base to see what was going on. Clearly the US advisors had told the Argentine inspectors what to look out for and nothing was ostensibly there. Then again, the Danish Red Cross visited Theresienstadt in June of 1944 and found nothing of note. However, China now walks on eggshells when it comes to Argentina.

On other fronts there have been slanging matches with Spain, Chile and Brazil. All good fun, as far as the Casa Rosada is concerned.

Living with the IMF

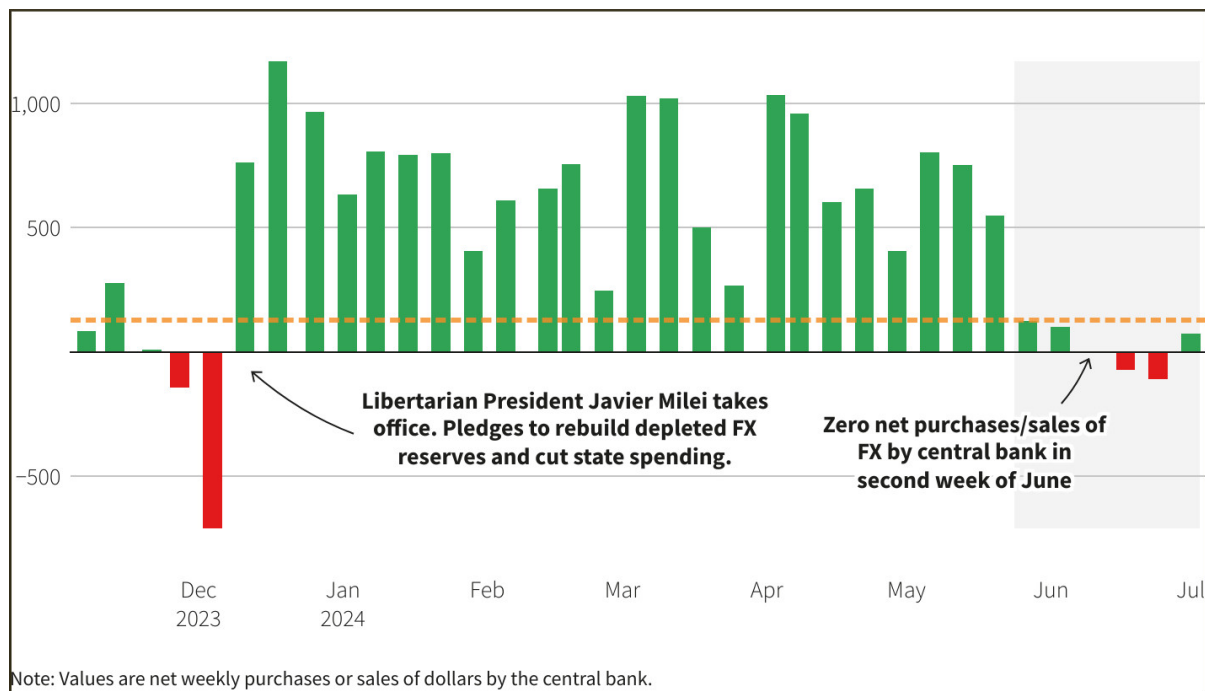
Milei thus far has been “more IMF than the IMF”. They haven’t had to demand/ask for much as he has tended to have gulped down the medicine before it has even been prescribed. If anything, the IMF has been thinking the measures have been “too severe”.

However, the tendency to control-freakery from this crowd has few limits, so they must have their eyes peeled for signs of failures in true orthodoxy. The biggest danger though is their symbiotic relationship with the US Treasury and thus an innate aversion to dollarization (except in microstates). We saw their sabotage of the direction of travel in 1999-2000 and the twenty-five years of misery that followed. Do not be surprised if they do not try and sabotage dollarization (or some form of Convertibility again).

W(h)ither Dollarisation

Clearly the dollarization we thought imminent has not occurred. Some of this might be ascribed to the travails of the DNU and Omnibus Law, which however had no components related to the currency and its various constrictions (i.e the *cepo*). The legislative maneuverings left less space for big picture thinking on the currency.

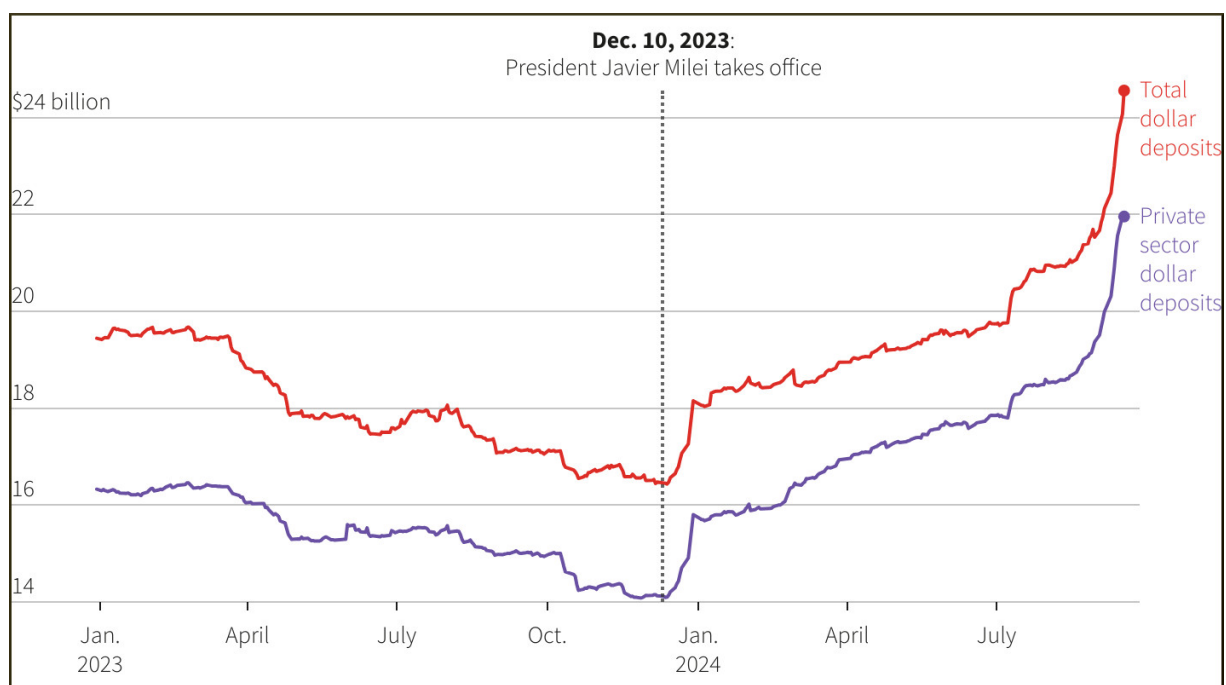
Even worse though was the rewidening of the gap between the official rate and the Dolar Blue (the street rate). These were converging in February which prompted us to see convergence as a trigger for Convertibility, as a halfway house to dollarization. The widening has put this temporarily out of contention. The chart that follows shows the purchases of US dollars thus far by the Central Bank:





The ongoing existence of the *cepo* (lack of exchangeability and free exchange) is a sticking point for business and agricultural interests. One can freely go about one's life as the man in the street exchanging dollars for pesos or vice versa with impunity as compared to last November when the Calle Florida was more crowded with AFIP agents than pedestrians, trying to shut down the parallel exchange market in the dying days of the Massa regime. However, for wholesale transactions one must still exchange at the BCRA at one of the official rates.

In the last couple of weeks, it was reported by Reuters that Argentina's foreign currency deposits had strengthened by around US\$8bn since last December. The news service attributed this to the series of pro-market austerity measures and incentives to lure dollars back into the financial system. It cited BCRA data showing that total foreign currency deposits exceeded US\$24bn, up from around US\$16.5bn in mid-December.



Source: BCRA/Reuters

Part of the rise in private sector deposits was due to the new administration having offered an amnesty, until September 30th, for people to bring funds back into the formal system without penalty after years of savers looking to hoard dollars outside the formal banking system, offshore, or even apocryphally stuffing them in their *colchones* (i.e. mattresses). The latter, historically, being the largest and safest savings bank in the country.

All this would signal that the *cepo* is in its dying days. The healthier foreign exchange balances at the BCRA are making its demise more likely. However, we see dangers in some sort of precipitate action without a halfway house of convertibility, or some such scheme.

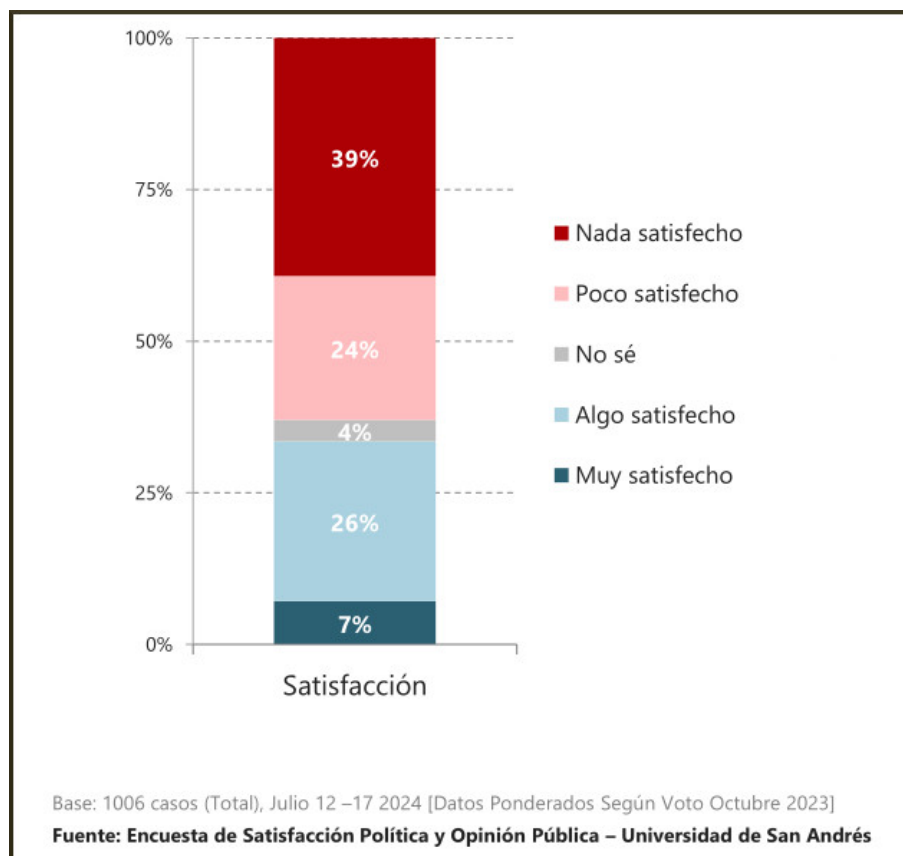
Recovery?

What is not evident is much sign of recovery amongst consumers. From our own recent experience (having spent most of September in Buenos Aires) Argentina has gone from relatively cheap last November to quite expensive at this time. In more than a few respects prices are comparable or higher than in London. Prices are still rising in some categories despite that dollar having peaked and retreated.

There seems to be something of a Mexican stand-off at the current time with unsustainable price rises in December and January (particularly in supermarkets) compensating for lower volumes. Supermarkets are stubbornly maintaining their (increased) margins.

The Man on the Street

The almost always deficient polling industry in Argentina gives us little idea of what things are really being thought by the man in the street. We have below the results of a survey run in July with the Universidad de San Andrés. This attempted to gauge what the populace was thinking.



It does not make attractive reading for Milei. But then again, the real measure of whether he is in the doghouse with the public is the mood on the streets. If anything, this is benign. The issue of normalizing fuel costs, public transport subsidies and utility bills is being handled with kid gloves compared to the

sledgehammer-like tactics of the Macri regime in its 2015-19 reign. We can say from our own experience that the Metrogas invoice we receive for our Buenos Aires apartment has gone from US\$1 per month to \$3 per month. This may look like a 300% rise but its not exactly going to break the bank for anyone. More troubling are the food and grocery price rises though the rise in meat has been one of the most moderate of all the moves.

Public unrest is at a minimum and Patricia Bullrich has kept demonstrators and *piqueteros* on a short leash. We had to laugh when someone (in London) commented to us during the final vote on the *Ley de Bases* that “Buenos Aires was on fire”. The damage was three cars and two bicycles, this is like an average night in a French town of 20,000 people, not the sum total of a “riot” in a city of 12 million.

The race is on now to get the benefits of all the austerity flowing, before the pain starts to manifest itself in that most *porteño* of Buenos Aires political statements, a *cacerolazo* (the banging of pots & pans on one’s balcony).

Flying the Unfriendly Skies – Aerolineas in the Crosshairs

Many countries in South America have seen their national flagcarriers go the way of all things, most notably Varig (from Brazil) and LanChile have disappeared from the scene in the last 20 years.

In Argentina, the national flag carrier Aerolineas Argentina was privatized under Menem and then renationalized in 2008. It has long been seen as a playground of the unions and it has had special sinecures, such as the ramp services that have made other airlines dependent upon it and forced them to pay whatever price was charged for the service, thus damaging the economics of competitors if not eliminating them. Rules introduced under the Kirchnerite governments constrained the two low-cost airlines, Jetsmart and FlyBondi.

Milei signalled from the get-go his determination to lance the boil of AA. Yet with so many issues to be dealt with, why was AA so high on his list? Firstly, we should note that Milei was long the protégé of Eduardo Eurnekian, the owner of Corporacion America, which is the ultimate owner of Aeropuertos 2000, the concession holder at Ezeiza. This has been held since the days of Carlos Menem and resulted in an initial rebuild of the antediluvian facilities at Argentina’s front door to the world. Ridership soared in the 1990s and then the economic travails gradually whittled away the routes into the country. Major losses were routes to Pacific destinations and flights to Asia and Africa when Qantas, Malaysian and South African, respectively, dropped routes to Argentina. KLM suspended the route for ten years. Qatar opened a route then closed it. Norwegian went broke and the connection to Scandinavia went away. The many daily connections to New York area airports in the 1990s have been whittled away to almost nothing. Ezeiza has become a backwater despite the spanking new terminal built by Aeropuertos 2000 in recent years.

To put it bluntly, the Eurnekian interests blame Aerolineas Argentinas for distorting the air travel industry in Argentina and reducing it to essentially an insignificant sandbox in which AA rules and everyone else must pay homage. Ergo, it is no surprise that the new administration has AA in its sights.

Early talk of privatization was maybe a smoke screen. Who would buy it? Instead, one may see that suggestion as goading the unions to do their best to sabotage the plan and then be hoist on their own petard. They fell for the ruse and are now almost without sympathy amongst the public as rounds of strikes have made internal travel almost impossible while boosting the demand for the two discount carriers, making their fares higher.

An open skies decree was signed recently that allowed airlines of neighbouring countries to intrude into the internal market in Argentina. Then the ramps were opened up to competition in recent weeks. It is said that AA has received some AR\$63.6 billion in transfers since the start of the Milei regime of which some 92% has gone towards staff downsizing costs. In July of 2024, the airline lost US\$79mn. It is said that most of this was lost on international routes.

Crunch time is arriving. The newspaper, La Nacion, says four alternatives are under consideration. These are:

- Outsourcing the operation to third parties
- Bankruptcy proceedings
- Breakup of the company
- Liquidation of assets

The most likely outcome is a combination of these. In the very short-term the break up is a likely first step, creating an internal airline and an external one and the ramps service could be “set free”. In the international airline, in particular, most (all?) of the planes could be sold and then leased back.

Conclusion

We could be glib and say that Argentina has not lost its ability to surprise (as it did in the primaries and the presidential first round) but the surprises are not coming so thick and fast now. We were surprised that Milei was so legislatively clueless in his first few months, particularly considering that he had been a member of Congress himself for the preceding two years. But he seems to have found his feet and now has embraced the ways of the *casta politica* (the political caste) that he spent so long vilifying.

We were surprised that ex-President Alberto Fernandez, the bland and ineffectual factotum of Kirchnerism, managed to suck that faction down in his wake with a pair of ongoing scandals that interrupted his plans for happy days in Madrid.

No-one should have been surprised that the remnant Kirchnerites, while still strong in numbers descended into factionalism within the faction with the *Campora* (named for Hector Campora, of unfond memory, and led by Maximo Kirchner) going on the attack against Axel Kicillof, the sometimes K, *caudillo* of all-important Buenos Aires province. Their internal jockeying taking their attention away from blocking Milei’s policies and their legislative progress.

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Should we have been surprised that the *Radicales* divided and conquered (themselves), as it has not been the first time they have headed in this direction? Should we have been surprised that Patricia Bullrich so quickly departed from the PRO to become the Security *czarina* of the Libertarian regime that defeated her in the first-round last year? And was Vice President Villaruel surprising in embracing the military for the first time since they were cast to the outer darkness in 1984?

A lot of this could have been predicted, or avoided...

The recovery is still not in sight. The fiscal accounts and the Banco Central dollar stock are looking surprisingly healthy. A lot of reforms are only recently on the law books, as so long was wasted due to early *faux pas* in the Congress. Thus, too, their effect on the operation of the economy has been delayed.

Economic theory (much beloved of Milei) would have it that if you take all the right measures then inevitably the benefits should follow. Then again, that may just be a theory...

Appendix I:

The Matter of the Gold

Sweating the Assets

In an interesting recent development, it was revealed that Argentina was working its gold reserves more intensely to bolster income. As London is the centre of the gold trade, bullion needs to be sent there for it to be used as collateral for swaps to most effectiveness. To some though exposing the reserves to seizure is a risky step.

As a convinced Austrian School theorist, we doubt that Milei has any intention of endangering the gold stocks of the BCRA.

In June it was reported that Argentina had shipped some gold to a value (then) of US\$150mn to London. It was speculated that, most likely, the gold was sent by the central bank of Argentina (BCRA) to be used as collateral in the London Bullion Market.

The Spanish newspaper, El País, reported on July 28, 2024, that part of the official gold reserves of Argentina were transferred abroad. After rumors spread regarding the whereabouts of the Argentinian gold, Minister of Economy Luis Caputo acknowledged that gold was indeed shipped overseas. "If you have [the gold] outside the country, you can get returns," he shared in an interview with an Argentine TV channel. According to El País, President Milei hinted that the gold can be used as collateral to take out a bridge loan, which is essentially a swap.

The amount involved was believed to be around three tonnes from BCRA's stock. Commentators claimed that, as far back as data from Britain's customs department was available, the country never traded an amount of gold of any substance with Argentina prior to June. As officials have confessed that part of the Argentinian monetary gold was sent abroad in June, and for the first time ever the UK. The shipments of gold occurred between June 7 and 28 on British Airways flights.

However, this story flies in the face of reports in the prominent Argentine newspaper, Clarín, in 2017 that the BCRA moved 11 tonnes of its monetary gold to London, according to their research, to be swapped out for Japanese yen.

At the end of June, the Argentinian central bank reported to the International Monetary Fund (IMF) to hold the same amount of gold as the previous month. Apparently, BCRA has kept the gold swapped out on their books, which is tolerated by the IMF. The weight of gold reserves of a central bank, according to the IMF, may include, "gold deposits, and if appropriate, gold swapped."

The three tonnes would amount to 5% of BCRA's total reserves of 62 tonnes. There is always a risk gold abroad can be frozen, as happened most recently with 30 tonnes of Venezuela at the Bank of England. Let's assume BCRA's lawyers have carefully weighed all pros and cons before approving the gold to be surrendered to a bullion bank in London.

According to local media, the BCRA would be able to use the gold as collateral for fresh US dollars through the Bank for International Settlements (BIS) or yield interests for its deposit. Converting the gold reserves into liquid US dollars entails an interest rate, it was also explained.

Most of Argentina's 1.98 million ounces of gold have been reported to remain in the BCRA's vaults, while the rest is held between Basel (BIS) and London. According to Infobae, the gold abroad can be monetized faster in London than it could be if held in the BCRA. Infobae cited an unnamed expert as saying, "The one in London can be used in a minute, the one in Buenos Aires - which is good delivery gold - can be used in three days".

There was additional speculation that another three tonnes had been moved to London in July. Bloomberg reported that, according to its sources: "before the move, about half of Argentina's gold was in domestic vaults with the other half in London." Bloomberg speculated there was only one shipment of gold to Europe, which would be the one in June.

So, before June, half of BCRA's total gold reserves (62 tonnes) were in London. Adding six tonnes transferred in June and July means there are now 37 tonnes abroad, which equals 60% of Argentina's monetary metal.

These stories do not add up.

Appendix II:

Mining & the RIGI

Mining – The implications

On the mining front, the Milei regime undershot the initial potential by rapidly hiring, and then firing, the well-respected Flavia Royon who had been a functionary (Secretary of Energy), but not necessarily a political appointment, in the outgoing Massa regime. Ironically this great promoter of the industry was axed after a few weeks due to her being perceived to be close to the governor of Salta (for Royon had been an official in the Salteño government). Milei had cast the province of Salta into the penalty box when he didn't get what he wanted on another issue and so Royon was the sacrificial victim of all this.

The role of Secretary of Mining was apportioned to Sergio Arbeleche, a veteran mining lawyer from one of the largest law firms in the country. He has singularly underwhelmed. However, as Secretary of Mining at the Federal level is somewhat of a nothing role, in terms of regulation, the job needs to go to a showman (or show-woman) to bang the drum and attract interest for the sector. Royon was a loss. Though we hear she has now surfaced as head of the Mesa de Litio (combining the Lithium interests of Salta, Jujuy and Catamarca), so in a sense she is higher profile than if she had stayed as the minister!

Devolution Still Key

It is worth reiterating that mining law in Argentina has largely been an affair of the provinces in Argentina since the early 1990s, with virtually no Federal input, when Menem devolved mining jurisdiction back to the provinces. The fly in the ointment has long been foreign exchange issues and the import rules for capital equipment which have caused miners and explorers and developers untold long-running headaches.

On RIGI

As previously mentioned, it was the final passing of the *Ley de Bases* that triggered the RIGI scheme. The original Omnibus Law had included:

- a promotion regime for large investments; and
- an energy transition section, under which the executive branch would be empowered to establish and regulate a greenhouse gas emission market

The energy transition section was deferred to a later legislative deliberation, but the Incentive Regime

for Large Investments (RIGI) was finally approved.

The new RIGI (i.e. incentive regime for large investments) scheme is a cornerstone of the Milei administration's policy offering and its introduction has been viewed very well outside Argentina. The RIGI program includes tax, customs and exchange incentives for a company developing a project of at least US\$200mn in the agribusiness, infrastructure, forestry, mining, oil and gas, energy or technology sectors.

Argentina's average tax burden for miners is above 50%, according to *Cámara Argentina de Empresas Mineras (CAEM)*, Argentina's mining industry group. Argentina miners have long complained of unfavorable exchange rates, capital controls, import and export taxes and difficulty importing goods and equipment.

Local trade groups and unions have argued that the bill would put smaller companies at a disadvantage and does not do enough to ensure companies work with local suppliers. We would tend to agree with them. However the \$200mn bar is set at a good level as few of projects outside of mining or oil & gas can get above that threshold, though one automotive plant project has been mooted as reaching that threshold.

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