Explaining Argentina's Financial Crisis: Macri, Cristina And The Specter Of Populism

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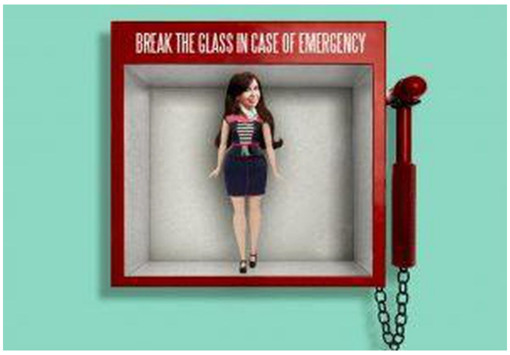

CFK by Joaquin Temes JOAQUIN TEMES

Financial turbulence is a hard thing to explain, as it is generally kicked off by emotional reactions. Much ink has been spent on analyzing irrational behavior in markets, yet these runs, which generate negative feedback loops that are by definition chaotic and therefore destructive, are also the consequence of real situations of stress, as is the case currently in Argentina. President Mauricio Macri remains extremely fragile as he looks forward to October's electoral bout, where he will most probably face off with Cristina Fernández de Kirchner. Is Macri's political career over unless he steps aside and allows Buenos Aires Province Governor María Eugenia Vidal to take his spot, in order to beat Cristina? Is the economy really staring into the abyss, as several foreign news outlets suggested, to the point where Argentina will once again default on its sovereign debt, which has undoubtedly grown at a staggering rate during the Macri administration? Should all peso-denominated assets be sold off immediately, resulting in an acceleration of the dollarization of portfolios and an even deeper crisis?

Taking a step back, Macri knows he is in trouble. Last month, just a week after a leaked report by political consultancy Isonomía indicated CFK had solidified her lead over the President in a hypothetical runoff vote, and after a series of economic announcements that clearly went against Macri's own convictions, the economic and financial indicators went haywire. The revered peso-dollar exchange rate, which in Argentina acts as an indicator of fear, showed a 10 percent slide of the national currency in seven days in April. The 'riesgo país' index, which measures the spread between Argentine sovereign bonds and US Treasury bills considered safe assets, shot past the psychologically important barrier of 1000 percentage points (it has slowly made its way just below again). Argentina's Merval stock index plummeted some 6.4 percent while shares of Argentine companies trading in Wall Street tanked up to 10 percent in a single trading session during the last week of April. Fear had taken over, and no-one wanted to be caught catching a falling knife.

Part of the damage appears to be self-inflicted. Trying to save the ruling Cambiemos (Let's Change) coalition before the election, Macri budged to his more "political" advisors. He kicked off a series of announcements unveiling a price freeze on 60 food products, the consequence of a so-called gentleman's pact with business leaders aimed at putting a lid on inflation. Social security agency ANSES announced a series of micro-loans of up to 200,000 pesos for pensioners, 700,000 of which were handed out in the first ten days of the program. Public service bills including electricity, natural gas, and public transport were pushed off until after the election. This is Macri at his most…masochistic.

Financial markets don't like populism. They also don't like to see the government reverse its policy on subsidies and the subsequent rise in the fiscal deficit. Wall Street doesn't care about the consequences, just about profit. At the same time, the recession is having its toll on tax income, meaning the government's "zero deficit" promises could prove a chimera. And the agro sector, expected to save the day, hasn't come through. In part, this could explain why the US$3.5 billion the Macri administration forked over in debt payments in late April wasn't reinvested in the country.

Also self-inflicted is the winning strategy of polarizing with Cristina. Macri's electoral geniuses, Ecuadorian advisor Jaime Durán Barba and Cabinet Chief Marcos Peña, continue to stand behind the idea that they must put the election in terms of “it’s us or becoming Venezuela”. This became evident when both Peña and Buenos Aires City Mayor Horacio Rodríguez Larreta came out publicly in support of the President as the only option for this year’s election, something expected but uncommon. “Market participants had their doubts, they thought we were going to go back,” Macri said in a radio interview, “they believe Cristina can win.” Plan “V” (for Vidal) is not an option, could be read between the lines. That same week, Peña held a lunch with the full cabinet, where Durán Barba briefed them on the latest survey and focus groups results, as veal milanese was served. The Ecuadorian political strategist, who told the group of ministers Macri would beat CFK in a run-off scenario, then gave an interview to Bloomberg, where he blamed a colleague for spooking markets with poll figures.

He was speaking of Juan Germano, head of Isonomía. Germano picked up the glove, denying his figures had been purposefully leaked, while claiming both investors and the media had incorrectly read the numbers. Speaking of a “lineal interpretation,” he gave specifics: while it is the first time Cristina begins to edge ahead of Macri in a ballotage scenario, 60 percent of those surveyed haven’t decided who they will vote for. A substantial number of those polled claim they were better off in the recent past, yet they would never vote for CFK. “It is unreal to read into the runoff figures,” Germano said in a radio interview, “in 2015, when Macri won the runoff, he built his power in November as a consequence of the results in the October election, where he won a few percentage points more than expected by the polls, and because he won Buenos Aires Province.”

Yet, in a world where algorithms feed high-frequency trading, and Wall Street makes decisions in micro-seconds, it was enough to feed a selling frenzy. In part, the government’s own strategy of stoking the fear of Cristina’s comeback came back to haunt them. Wall Street lost confidence in Macri, with major banks and hedge funds like Morgan Stanley, JP Morgan, Pimco, Blackrock, Templeton and Liberty selling Argentine bonds, market sources told Noticias Magazine’s Alejandro Rebossio. Some US$15 million in selling appears to have been responsible for kicking off the run, while retail investors dollarized their portfolios to the tune of US$70 million during the aptly dubbed “Black Thursday” of April. The Financial Times put out a piece that read “Argentina is on the brink," while Spain's El País contributed its part: "Argentina approaches the abyss."

Confusing the financial markets over what is really going on is a grave mistake, almost as dangerous as thinking that what happens to stocks, bonds, and currencies doesn't spill over to the real economy. The situation remains one of gridlock, with Macri and Cristina as the only ones capable of making it to the runoff. At least that's what today's snapshot of the future tells us. As Trump, Bolsonaro and so many others can attest to, things can change in an instant.

This article was originally published in The Buenos Aires Times, Argentina's only English-language newspaper.

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