September 8. 2025

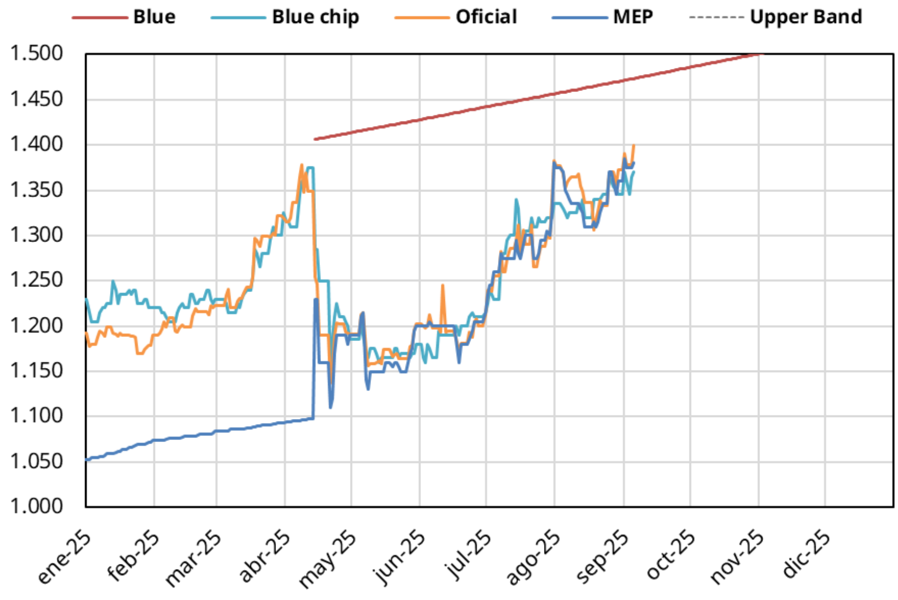
Between the stubbornness of continuity and the pragmatism of change.

Peronism delivered a major upset in the Province of Buenos Aires, winning by more than 13 percentage points over La Libertad Avanza. The ruling coalition's electoral strategy clearly failed: focusing almost exclusively on its core base, deepening the political divide with a "us or the kukas" narrative, prematurely declaring Peronism dead yet again, and dismissing all criticism — even the most constructive and well-intentioned — did not produce results. As we know, the landscape could change significantly by October. Not only because it will be a national election, but also because both the makeup of political alliances and the voting system will be different. We'll see what impact the "bolete unica" system has. The upcoming midterm national election will likely be less favorable to the ruling coalition than the baseline scenario suggested just a few weeks ago. At the same time, there is still a long way to go before the presidential elections, and this result should not be confused with what happened in 2019 with Alberto Fernández's victory. In fact, in the last four electoral cycles, the political force that won the midterm legislative elections in Buenos Aires Province failed to win the presidential race two years later.

There are two key factors that will strongly impact market variables. One of them, without a doubt, is the profile of the winning opposition force: a center-left coalition with a track record of extreme fiscal irresponsibility and little regard for property rights. Naturally, this fuels distrust. Yesterday's winner was Axel Kicillof. While the 2027 presidential election is still a long way off, Kicillof currently seems to have the upper hand within Peronism for a potential presidential candidacy. As we always say, avoiding pendulum-style governments is of critical importance for Argentina — and this election only confirms that the pendulum is still very much in motion. But this is not the only factor weighing on market confidence. In recent months, several flaws in the government's economic program have become evident, including poorly designed FX bands and a clearly dysfunctional monetary framework. As if that weren't enough, we've also seen a concerning dose of electoral populism — both from the opposition, with fiscally reckless bills pushed through Congress, and from the ruling coalition, which has relied on exorbitant interest rates and massive interventions in the futures market to contain the dollar.

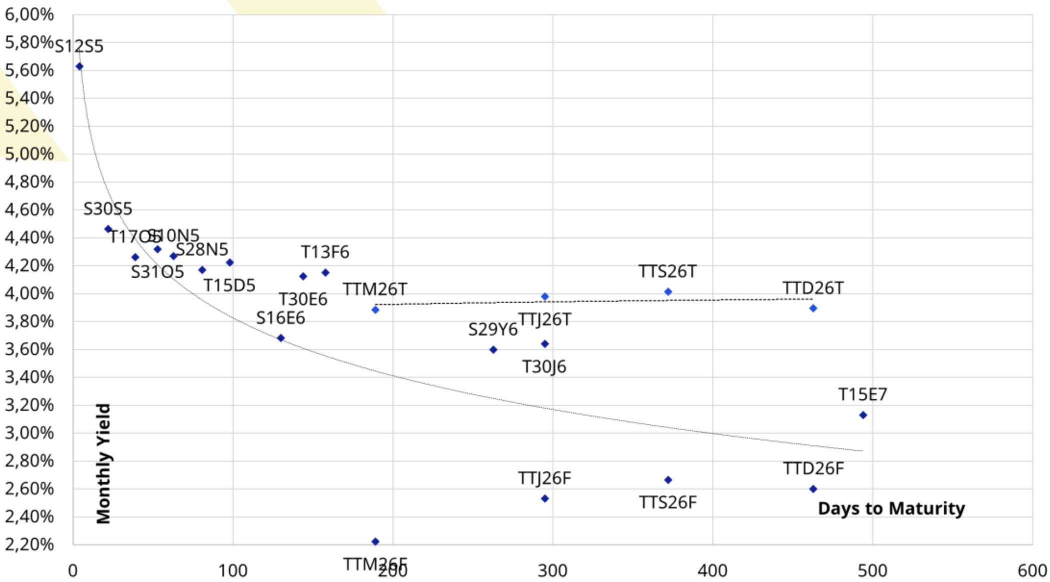
Two distinct phases now begin. The first is short-term, lasting until the national elections at the end of October; the second is much longer, with more than two years of government still ahead. In both this initial stage and the period following the national elections, the government will have to choose between the stubbornness of persisting with the misguided policies implemented in recent weeks, or the pragmatism of making timely corrections — as it has done on several occasions since December 2023.

The key issue is the exchange rate bands and what decision the government will make regarding the currency. The gap between Friday's close and the upper band limit is around 8%. That margin seems rather narrow in light of the electoral upset. The economic team's first option would be to prevent the exchange rate from reaching the upper bound. However, this scenario appears highly unlikely — not only because they lack the tools to do so, but also because it would require a level of stubbornness or political obstinacy from the government that is hard to justify. Within the band, the agreement with the IMF allows for Treasury intervention. According to our estimates, the Treasury has about USD 1 billion of its own reserves remaining, though these are earmarked for upcoming payments to international organizations in the next few weeks. The two other tools at hand are a further hike in peso interest rates and intervention in the dollar futures market (ROFEX) — the same tools that have already been used with limited success. In the futures market, the government's short position currently stands at around USD 6 billion, leaving room to sell up to USD 3 billion more within the current limits. It's very likely that, starting with today's session, we'll see new interventions in the futures market aimed at softening the upward pressure on the exchange rate.



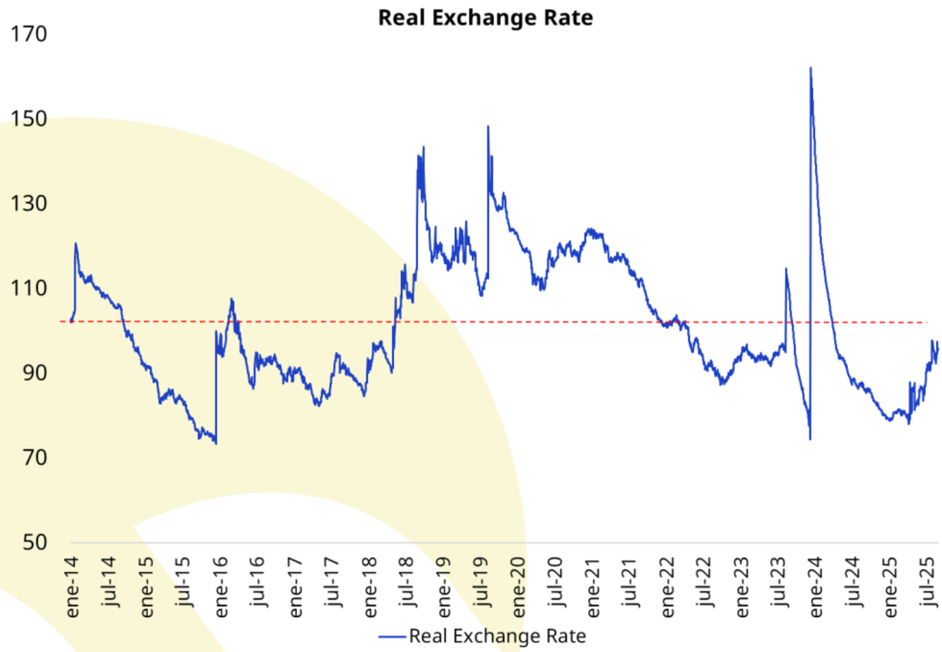
Source: Sekoia Research.

Interest rates deserve a section of their own. The costs of the government's election-driven monetary policy are difficult to understand. The peso debt market — arguably the one that most needed to be protected — has been severely damaged. Short-term bills reached nominal annual rates (TNA) above 70% for several days, while real rates on CER-linked bonds soar to 25% in the mid-section of the curve. No economic activity can withstand such elevated real interest rates. Economic indicators had already been signaling a clear slowdown in recent months, and these rates will deliver yet another blow. In the same mood, many financial institutions are facing serious difficulties: on one hand, the current reserve requirements make normal operations unviable; on the other, the share of non-performing loans has been rising sharply. Lastly, the strategy of setting exorbitantly high interest rates for electoral purposes has proven to be a complete failure. If the government continues trying to contain the dollar solely through interest rates, the situation will only get worse. As one well-known economist puts it, trying to stop a currency correction in Argentina using only monetary policy is like trying to stop a car by grabbing its antenna.



Source: Sekoia Research.

Let's put it plainly: in order to avoid a relatively modest real exchange rate correction (around 15% — see chart below), the government did everything possible to trigger a financial crisis or, to take a more measured view, to push the country toward a recession. Since the lifting of capital controls, thanks to the floating of the peso, the appreciation of the Brazilian real, the slowdown in local activity, and fiscal prudence, the real exchange rate had recovered by nearly 20%, with relatively contained pass-through effects. This was excellent news for the economic team: the program's main vulnerability — the excessive real appreciation — was gradually correcting itself. In that context, the government's decision to try to hold back the dollar using clearly unsustainable interest rates appears nothing short of stubborn.



Source: Sekoia Research.

The sensible decision would be to allow the dollar to quickly adjust toward the upper bound of the FX band. With the electoral result now in hand, the government has the perfect political excuse to do so. After the October elections, the real exchange rate should climb another step — either through a new, higher, and more appropriate band for the Argentine economy, or by moving directly to a managed float regime. A higher real exchange rate would improve profitability in the tradable sector, strengthen the reserve position, and help lower country risk. This would come at the cost of a somewhat slower disinflation path, but one that is far more sustainable over time. We won't dwell on this point — as a well-informed reader, you already know our long-standing view on FX policy. Now, if the government isn't planning a change in the exchange rate and monetary framework after the October elections, then we are indeed facing a serious problem. That said, we don't believe this is the case. Political survival instinct alone makes a post-October policy shift in FX and monetary matters almost a given.

The big question now is what the government will do between now and the election. Defending the FX band carries a high cost: continued reserve losses and another spike in country risk. On the other hand, adjusting the band before October also comes with a cost — this time political: a larger devaluation could translate into a sharper rise in food prices. The government will need to weigh these risks carefully. The Central Bank holds around USD 7 billion in liquid net reserves to defend the band and could potentially borrow up to USD 14 billion more from dollar-denominated reserve requirements — funds that are not its own. We sincerely hope these harmful practices are not recommenced.

USD Million	Dec-21	Dec-22	Dec-23	Dec-24	Aug-25
Gross FX Reserves	**41.500**	**39.007**	**23.073**	**31.500**	**41.500**
Commercial bank reserve requirements	11.400	11.905	9.096	15.100	13.927
Chinese Swap	20.400	18.705	18.182	17.882	18.207
BIS	3.157	3.100	3.100	-	
Sedesa	1.900	1.900	1.900	1.900	1.900
Net FX Reserves	**4.643**	**3.397**	**- 9.205**	**- 3.382**	**7.466**

Source: Sekoia Research.

Assets are already showing clear losses in the pre-market. It's worth remembering that 2027 is still a long way off, and midterm elections are not a reliable predictor of presidential outcomes. The sooner the FX framework is adjusted, the less pressure there will be on asset prices — especially on sovereign bonds and the local currency debt curve. A higher exchange rate means fewer reserve losses — positive for hard-dollar sovereign bonds, with a similar reading for equities — and a lower real interest rate requirement in pesos — which supports the sovereign peso curve. We see no reason to exit corporate bonds: while they will likely come under pressure in the coming days, if yields rise above 9% again (currently closer to 8%), it would represent an excellent buying opportunity.

Thank you, stay calm, and have a good week.

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