AURORA

Aurora Argentina Report: The Bromance Blossoms (IMF edition)
April 17, 2025

The Tearsheet

- As anticipated in our Aurora Argentina Chartbook, the IMF agreement delivered an exchange rate adjustment without the steep devaluation many had feared.
- The IMF agreement surpassed our core forecast by including an earlier-than-expected partial easing of capital controls (*cepo*), secured largely through U.S. diplomatic backing stemming from the deepening Trump–Milei alliance.
- The credibility of Milei's ambitious reform agenda and of the IMF—whose unusually accommodative stance represents a doubling down on its Argentina gamble—will be tested over the coming weeks.
- Bonds and equities have rallied in response, reflecting market confidence that the deal effectively positions Milei to preserve his disinflationary gains and regain reform momentum ahead of October's pivotal midterm elections.
- Even while reaping the benefits of U.S. alignment and publicly toeing the Trumpian line, Argentina pragmatically renewed its currency swap line with China, securing much-needed liquidity to meet a looming $4.9B in external debt obligations due in July.
- Aurora remains bullish on Argentina overall. Multiple factors—including agricultural export incentives, fiscal discipline, and broadly strengthening domestic fundamentals—should prevent significant FX instability over the medium term.
- Nevertheless, investors should closely monitor inflation dynamics, FX reserve adequacy, EMBI spreads, potential MSCI reclassification, and Milei's approval ratings, as effective domestic policy execution will be essential for maintaining market stability in the lead-up to October's elections.

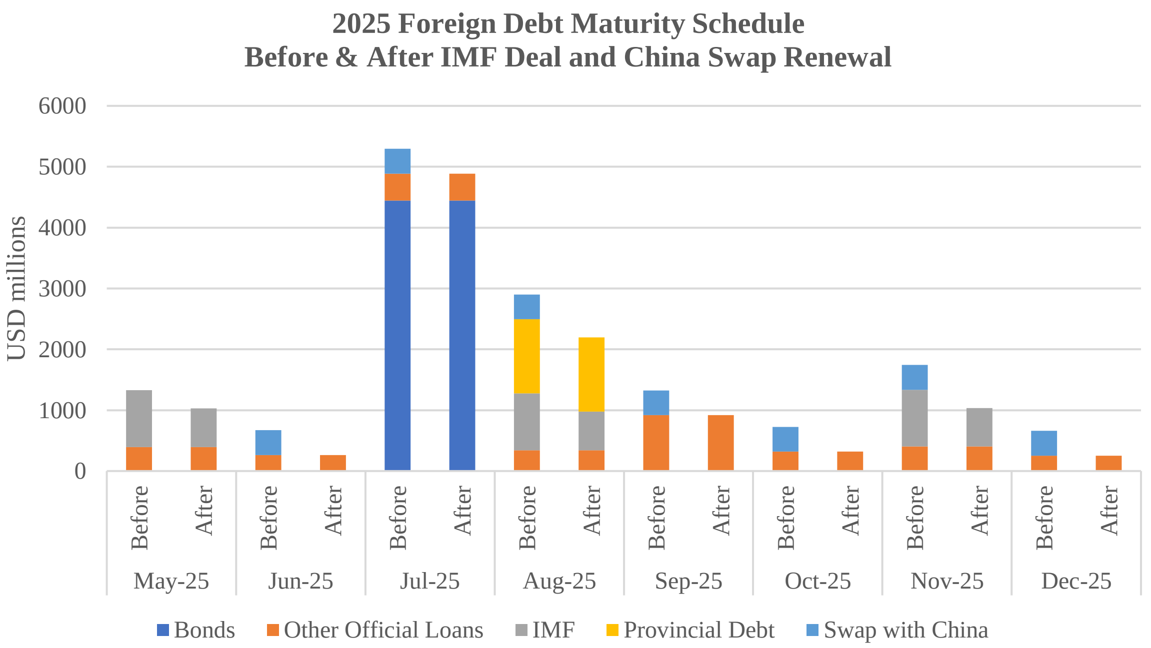
Monthly Timeline

Apr 15	First IMF disbursement (US$ 12B)
Apr 22	Feb Econ Activity Index
May 13	March Wages
May 14	April CPI
May 18	Buenos Aires City Local Midterms
Jun	Conditional Second IMF disbursement (US$ 2B)
Jun 23	1Q25 GDP
July 2025	Critical Bond Maturities (US$4.9B)
Aug 27	Midterm Campaign Kickoff
Oct 26	Mid-term Elections
Oct 2027	Presidential Elections

1. Geopolitics First

- The most important driver behind Argentina's favorable new IMF agreement may lie less in economics than in geopolitics.
- The Milei-Trump bromance appears to have played a catalytic role, unlocking U.S. diplomatic support that proved decisive at the Fund.
- As a result, the agreement avoids the kind of steep devaluation that could have derailed Milei's disinflation push—his flagship achievement, and the cornerstone of both his approval ratings and midterm viability.
- Since taking office in December 2023, Milei has reoriented Argentina's foreign policy, pivoting toward Washington and away from Beijing, guided as much by ideological affinity as by strategic calculation within a shifting global order.

- Trump's recent return to power further cemented this alignment, with Elon Musk playing a behind-the-scenes role in forging ties between Milei and the Trump inner circle.
- Key pro-U.S. policy steps followed:
  - Blocking Chinese access to the Ushuaia port—strategically located near Antarctica and the interoceanic Cape Horn passage.
  - Proposing a joint U.S.–Argentina naval base in Ushuaia to bolster Western presence in the South Atlantic.
  - Choosing F-16 fighter jets from Denmark over Chinese alternatives.
  - Fast-tracking Starlink's Argentine market entry via executive decree as an early olive branch to Musk and Washington.
- Yet Milei's ideology has its limits. As economic constraints have mounted, Milei's foreign policy has grown increasingly pragmatic—a delicate balancing act that he has so far managed to sustain, but which may become more challenging over time.
- The clearest sign: just one day before the IMF agreement was announced, Argentina renewed its $18.5B currency swap line with China—activating $5B through July 2026 to shore up liquidity and cover near-term debt payments at a time when net reserves are deeply in the red and access to global credit markets remains closed.
- The Beijing swap line remains critical for meeting FX demand, including July's $4.9B in foreign debt repayments—which, as anticipated in our February Argentina Aurora Report, were always likely to be honored – and which now appear virtually assured following the IMF deal and swap renewal.



Source: Aurora analysis based on Finance Secretariat data

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- Yet far from signaling a sincere pivot toward Beijing, Milei has used Argentina's reliance on the Chinese swap line as a source of strategic leverage, framing it during

IMF negotiations as a necessary and unwelcome evil that he ultimately intends to eliminate.

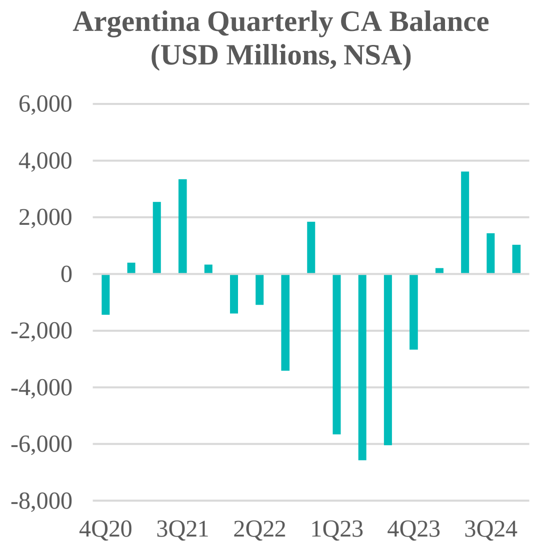
- U.S. Treasury Secretary Scott Bessent reinforced this narrative during his recent visit to Buenos Aires, timed deliberately with the launch of Argentina's new FX regime, publicly emphasizing Argentina's need to move away from Chinese financial dependence.
- Bessent's comments also hinted at deeper U.S.–Argentina trade coordination underway. Argentina is now negotiating a bilateral commercial framework with Washington—likely falling short of a full-fledged free trade agreement, but still significant in signaling closer alignment.
- These efforts coincide with Mercosur's recent decision—under Argentina's rotating presidency—to temporarily expand the National List of Exceptions to the Common External Tariff (CET), adding up to 50 new tariff codes per country. Prompted by Trump's sweeping tariff increases, this step grants Argentina greater flexibility to act unilaterally in external trade negotiations.
- For Milei, who has vocally criticized Mercosur's restrictive policies, this presents a valuable opportunity to deepen U.S. ties while technically remaining within the bloc's constraints.
- The Trump–Milei alliance must also be viewed within a broader Latin American context. Milei is positioning himself as Trump's primary ally in South America—and the G20—directly challenging Brazilian President Luiz Inácio Lula's ambitions to steer the region toward a neutral "third-way" stance between the U.S. and China, and to further develop the BRIC bloc as a counterweight to U.S. influence.
- By publicly aligning with Bolsonaro, Milei actively seeks both to undermine Lula's strategy—while reinforcing his Trumpian bona fides in the process.
- With Trump's backing, Milei has emerged as a key figure within Latin America's small but ascendant right-wing bloc, alongside Bukele in El Salvador and recently re-elected Ecuadorian President Daniel Noboa, as recently detailed in our Aurora Ecuador electoral post-mortem.
- According to Aurora's current projections, the rightwing hemispheric alliance appears on track to expand its political influence further in upcoming electoral contests—including Chile's presidential election in November 2025 and Colombia's in May 2026.

2. Taking capital controls easy

- In Aurora's latest Argentina Chartbook, we highlighted growing market pressure on President Milei's exchange-rate regime, particularly the 1% monthly crawling peg.
- Last Friday's developments clarified Argentina's macroeconomic trajectory, with the announcement of a new IMF agreement directly addressing both exchange-rate policy and capital control restrictions.
- This newly finalized IMF deal introduces two significant policy shifts: a transition from the crawling peg toward a managed-float exchange-rate system with predefined fluctuation bands, and an earlier-than-expected easing of capital controls (*cepo*)—completely eliminating restrictions for individuals and substantially relaxing them for corporates.
- President Milei previously outlined three preconditions for easing capital controls:

1) A substantial IMF FX disbursement to ensure adequate reserve coverage;
2) A correction of monetary imbalances;
3) Inflation converging toward the crawling peg rate (1% monthly) plus U.S. inflation.

- Thus far, only the first condition has been fully satisfied. The second has been partially addressed but still represents a critical structural requirement under the new IMF framework. The third—inflation convergence—remains entirely elusive



Source: INDEC

- Nevertheless, the administration concluded that macro-financial conditions had sufficiently improved to justify immediate action. Further delay risked signaling indecision at a critical moment, potentially eroding market confidence already under pressure from declining Central Bank reserves.
- The specific liberalization measures include:
  - **Individuals:** Complete removal of restrictions on dollar access.
  - **Importers:** Immediate access to foreign currency, eliminating the previous mandatory 30-day waiting period.
  - **Corporations:** Unrestricted dividend repatriation from 2025 onward. To address an estimated $15 billion backlog in accumulated dividends and legacy foreign debt, the Central Bank will launch a new BOPREAL 4 bond series, initially issuing up to $3 billion.
- Removing capital controls for individuals—and selectively easing them for firms—should drive fresh financial and real-economy inflows, providing critical support to Argentina's external accounts precisely when the current account had come under strain.
- Reinforcing this shift, the Central Bank has authorized non-residents to directly access Argentina's Free Exchange Market without prior approval, subject to a six-month minimum holding period. This targeted liberalization strategically positions Argentine assets for inclusion in key international benchmark indices—potentially unlocking significant institutional inflows and boosting market liquidity.
- These moves represent major milestones in Argentina's strategic bid to regain international debt market access—a necessity explicitly flagged by the IMF, which recently categorized Argentine debt sustainability as "medium-term achievable, but uncertain."

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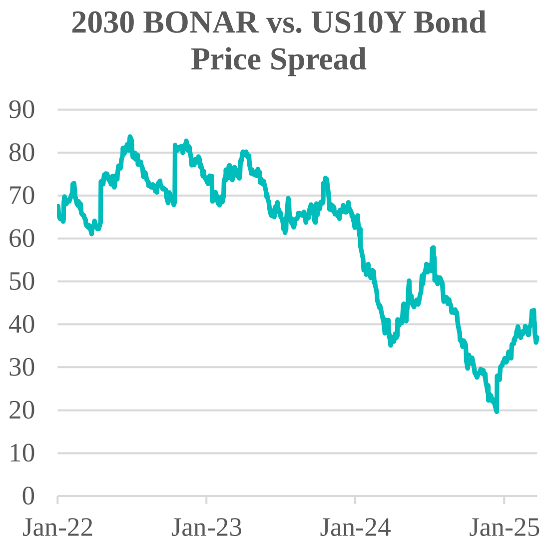
- The IMF deal has already delivered visible improvement in Argentina's EMBI spread—a critical proxy of sovereign risk.
- Looking forward, potential MSCI reclassification (even to an "under review" or Frontier Market status) and a favorable outcome in October's midterms could further compress Argentina's risk premium, creating a runway for international debt-market reentry by Q4 2025 and opening financing avenues for public and private sectors.



Source: TradingView

- Nonetheless, partial—not full—FX liberalization reflects the still-precarious nature of Argentina's domestic peso environment. Complete removal of restrictions would have risked triggering a severe currency crisis.
- Private market estimates suggest that Argentina's total stock of pesos and peso-linked instruments potentially convertible to dollars (net of international reserves) exceeds $100 billion. Of this, approximately half could rapidly shift into dollars if market sentiment deteriorates, substantially outstripping the resources provided by the IMF agreement. This latent dollarization threat explains the administration's deliberate, cautious approach, exemplified by targeted solutions like the new BOPREAL bond series to manage legacy dividend arrears.
- Crucially, the unprecedented scale of the IMF's initial financial package equips Argentina's Central Bank with a robust liquidity buffer, significantly enhancing its capacity to navigate capital outflows and manage FX volatility as reforms unfold.

Disbursement Tranche	Total (USD billions)	IMF	Other IFIs	BCRA Repo (TBC)
Total 2025	23.1	15	6.1	2
Immediate	15.5	12	1.5	2
*Additional by June 2025**	4.1	2	2.1	0
Additional rest of 2025	3.5	1	2.5	0

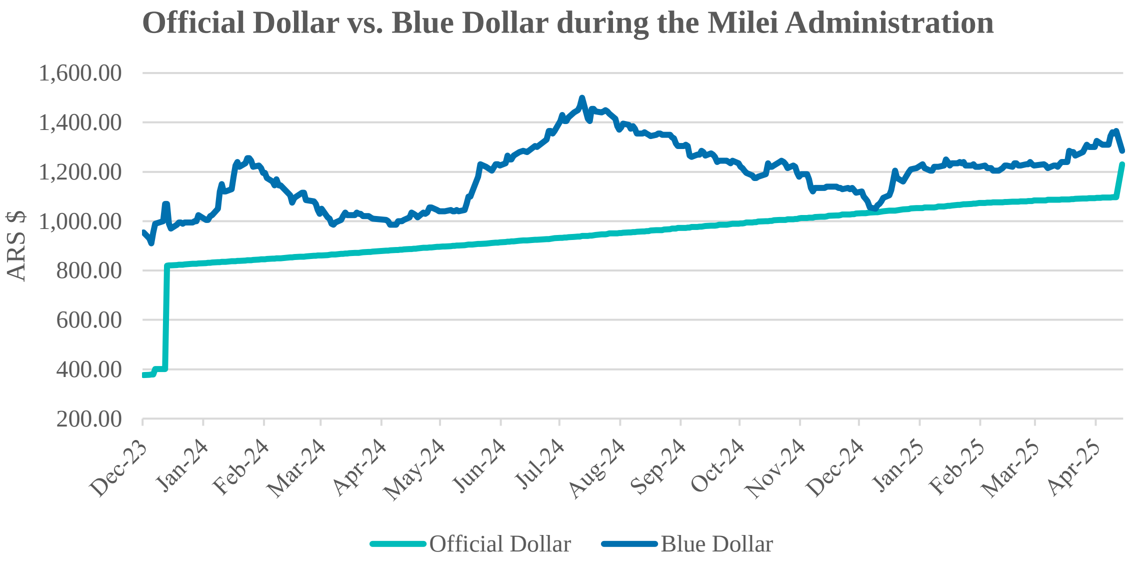
**Contingent on fiscal and reserve accumulation targets: 1.6% primary surplus and net reserves rising from -US$ 7bn to -US$ 0.5bn by June 2025.*

3. Limited devaluation risk ahoy

- The substantial IMF financial package significantly reduces the risk of a major devaluation. As outlined in our latest *Argentina Chartbook*, several favorable dynamics should contain Argentina's exchange-rate pressures over the coming months:

- **A weakening U.S. dollar**—likely entering a secular decline starting April, as detailed in our most recent *Aurora U.S. Chartbook*—is reducing external pressures on emerging market currencies and improving carry-trade incentives.
- **Improving domestic fundamentals**, underpinned by Milei's fiscal discipline and continued reductions in monetary issuance, shrinking the peso liquidity overhang.
- **Argentina's limited short-term external obligations** (approximately $4 billion for 2025, half already provisioned) further reduce immediate dollar-demand pressures.

- Within this context, the shift to a managed-float exchange-rate regime—establishing a band between AR$1000 and AR$1400, adjusting monthly at 1%—is part of a broader normalization strategy toward FX unification.



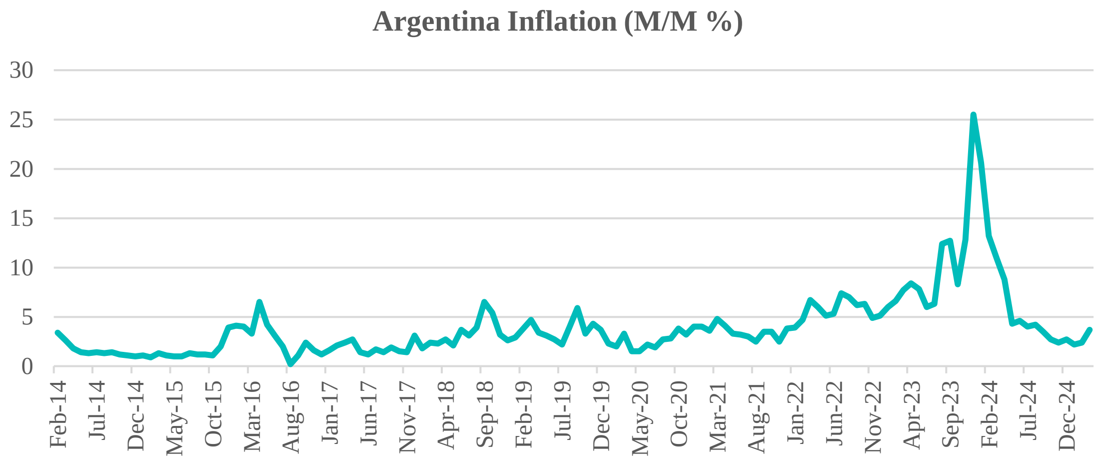
Source:Banco de la Nación Argentina and Ambito.com

- The initial official rate adjustment from AR$1097 to AR$1198 (9.2%) remained well below the previous parallel-market rate (AR$1375), validating our earlier analysis that no "substantial devaluation" would be required.
- The short-term outlook is further supported by expected dollar inflows from the agricultural harvest. Milei's temporary suspension of export taxes (through June) strongly incentivizes producers to liquidate export earnings, channeling dollar inflows directly into Central Bank reserves and enabling potential peso stabilization—or even appreciation—in the near term.

4. Can Milei's benefit of the doubt withstand what comes next?

- A critical political indicator in the months ahead will be Milei's ability to sustain his current ~50% approval rating throughout the next phase of economic adjustment—particularly given his political strength hinges almost entirely on popular support and his mandate to deliver macroeconomic stability.
- The shift toward a managed-float FX regime poses inflationary risks, potentially disrupting the fragile disinflationary momentum that had begun to take hold.

- Given Argentina's highly dollarized economy, fluctuations in the official exchange rate typically translate swiftly into domestic prices, especially for imported goods and services. This pass-through could pose immediate risks to real wages, potentially testing public sentiment if inflationary pressures are perceived as uncontrolled.



Source: INDEC

- Private forecasts suggest that if the official exchange rate settles near ARS 1250 by late April, monthly inflation could briefly spike to around 5% in April and May before moderating below 2% in the second half of the year, resulting in roughly 35% inflation for 2025 overall. Market-implied inflation expectations, as reflected in bond prices, remain elevated closer to 40%, underscoring lingering uncertainty.
- The IMF has also revised upward its inflation forecast—from 18% to a range of 18–23%—but highlighted one key mitigating factor: many importers had already partially adapted their cost structures to the parallel FX market, likely moderating price pass-through effects from the recent official FX adjustment.
- In this context, the key political risk centers around whether the public perceives the inflation spike as a temporary event or as signaling a breakdown in the broader disinflationary narrative.
- Milei's political fate hinges significantly on his tactical management of upcoming policy measures, notably the precise timing of subsidy reductions and utility price increases to contain inflationary pressures, as well as the careful navigation of wage negotiations to avoid fueling a wage-price spiral. Successfully threading this needle will be critical for preserving the popular support he needs heading into October's midterm elections.

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