

Argentina Unshackled

Observers from outside Argentina have gone on a frenzied romp of self-congratulation hailing the change in the Argentine Presidency in last week's elections as something akin to a Revolution. Once again though we find that simplistic formulas are being used and the nuances of what has happened being ignored. The situation still has the potential to be a wild ride for investors.



For a start the victory of Mauricio Macri is being hailed as a “right-wing” victory. To put that in context, firstly he leads a Rainbow Coalition that stretches from the Left across to the Right and the party he beat, the Frente Para la Victoria, is in fact the old Peronist Party, which was a fascist/corporatist construct in its original roots. So to claim that a wealthy businessman (in fact I would venture one of the five wealthiest in the country) that leads a Coalition including the Left is a “Right-wing” victory is stretching it a bit.

Secondly we would note that the victory was surprisingly narrow. While the first votes in showed a 9% lead for Macri, as the night wore on the margin slipped and it ended up being 51.4% for Macri and 48.6% for his Kirchnerite opponent, Daniel Scioli. It should also be noted that the first round of elections last month delivered stinging losses to the Kirchnerites but they just barely hung onto control of the Senate meaning that, if they stay cohesive, they still have potential to block reforms. That said, with their patroness gone, the rats tend to disperse into the woodwork to regroup. We may end up seeing the phenomenon apparent under the De La Rúa government in the late 1990s of Bribes for Votes when a hostile majority in the Senate had to be paid off, literally.

The New Lay of the Land

As we have repeated endlessly mining is controlled in Argentina by the provinces, in much the same way as it is in Canada or Australia. The national government in Argentina has NO approval or denial power over mining projects. So everything you have heard of “Cristina Kirchner blocked our project” is a load of codswallop. In all cases blockages occurred because of ornery provincial governments.

It is interesting therefore to look at the map of the electoral results. The blue areas are provinces that voted for the Kirchnerite candidate. The yellow are those that voted for the winning Macri-led ticket. Oops, for those who know the only province with mining of note (Silver Standard's Pirquitas mine) that voted for Macri was Jujuy. La Rioja has been an on-again, off-again mining favorable area and La Pampa and Mendoza have been graveyards for miners.



The provinces where mining is currently active are Catamarca, Santa Cruz (the Kirchnerite province par excellence now run by the outgoing president's daughter), Salta and San Juan.

If there is anything to be read from this map it is that the marginalized distant provinces with the smallest populations (excepting Buenos Aires which was only won marginally by Scioli and that was because of the sprawling urban slums voting for him) supported the Kirchnerite program which gave them a greater share of the goodies. The provinces that trended for Macri were those with the largest populations (and strong agricultural export economies) that were actively persecuted and discriminated against for the last 12 years.

Implications for Mining

Having said that mine approvals are in provincial hands, some matters are still in the Federal purview. Amongst these that

have relevance are foreign exchange allocations. Miners have been griping for years now that they could not bring in the capex items they wanted in an unrestricted way due to import restrictions and could not remit profits or dividends as and when they wished. These restrictions were part of the increasingly draconian and bizarre forex rules that the Kirchnerite regime was imposing as Argentines tried to head for the exits and buy dollars to protect themselves against the rapidly deflating peso.

Moreover to say the forex regime was complex was an understatement. Here is the table of exchange rates for today for a leading Buenos Aires newspaper, La Nacion:



So on the left we have the official rate, on the far right is the so-called Dolar Blue which is the back-alley rate. In the middle are various official rates administered by the Central Bank for different purposes. Dolar Ahorro is a savings rate, Dolar Tarjeta/Turista is the rate that locals can use credit cards for (when travelling abroad) and that bona fide tourists within the country can use to change money. The Dolar Soja is the very prohibitive rate forced upon farmers selling their crops (effectively a 30% tax on the official rate and a 150% tax on the unofficial rate). Finally the Dolar Bolsa is a conversion rate for transactions in the Stock Exchange.

Byzantine is obviously not too strong a word to describe this bizarre system. Miners will be hoping that this system loosens up, though the new government will be wary of letting this go too soon or there will be a dollar buying spree that will decimate Central Bank reserves. One suspects that Dolar Turista and Dolar Soja will be the first to go. The government will then aim to draw the Dolar Blue and the official rate together somewhere in the middle. Who knows? Maybe the wonderful Convertibility regime of the 1990s might be revived.. Certainly Argentina had never experienced such good

times since the 1920s as under that arrangement.

Despite the mining provinces largely being of the Kirchnerite ilk, they are the provinces that have shown themselves to be most pro-mining. With less subsidies coming from the Federal government more of the provinces will have to look to mining to keep their local economies buoyant.

If one wants to muse with some names in Argentine mining those to consider are:

- Patagonia Gold Plc (AIM: PGD)
- Hochschild Mining (LON: HOC)
- McEwen Mining Inc. (NYSE: MUX | TSX: MUX)
- U308 Corp. (TSX: UWE | OTCQX: UWEFF)
- Pan American Silver Corp. (NASDAQ: PAAS | TSX: PAA)
- Silver Standard Resources Inc. (TSE: SSO)
- Yamana Gold Inc. (TSX: YRI | NYSE: AUJ)
- Argentex Mining Corporation (TSXV: ATX | OTCQB: AGXMF)
- Orocobre Limited (ASX: ORE | TSX: ORL)
- Western Lithium USA Corporation (TSX: WLC | OTCQX: WLCDF)
- Galaxy Resources Limited (ASX: GXY)

One might also see those who have downplayed their Argentine prospects dusting them off or racing back to restake them.

What Next

After exchange rates there are a vast swathes of regulations constraining all aspects of economic life that could be cast into the dustbin of history. Some of these measures being rescinded should help miners. One that might not though is the bizarre fuel subsidies. These were introduced after the collapse of 2000/1 and the spike in inflation. To “protect the poor” massive subsidies were introduced which have bled the Treasury dry. They have been reduced and some have been made to pay world parity prices for oil but many have not. This could be the big budget winner but also a tough policy to bite

on first.

One could see a strong inflow of FDI though and this might actually reverse the exchange rate so delays in freeing remittances might actually work out better for miners when they are eventually freed.

The whole construct of Kirchnerism was so bizarre and distortive that untangling it is akin to unraveling the Gordian Knot. Like Alexander the Great, sometimes it's better to just draw one's sword and chop the knot in one fell swoop than spend years testing one's Boy Scout skills trying to untie it..

Conclusion

After 12 years of Kirchnerite "policies" (more like populist bootstrapping) the Argentine economy is emerging from a long dark tunnel into the glare of daylight. Frankly it's better out of the tunnel rather than being in it and foreign miners for better or worse face a brave new world. We can say with confidence that the rules will NOT be more onerous and the forex regime WILL be more flexible. Growth should kick up and frankly Argentina looks like a better bet than the deeply troubled Brazil these days.

As a New Yorker would say "What's not to like?"