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FEATURED Q&A

Are the Peronists Poised to Return to Power in Argentina?



Peronist presidential candidate Alberto Fernández, who is running with former President Cristina Fernández de Kirchner as his running mate, trounced business-friendly President Mauricio Macri in Sunday's primary election. // File Photo: Fernández Campaign.

Q Peronist presidential candidate Alberto Fernández trounced incumbent Argentine President Mauricio Macri in Sunday's primary vote, known as the PASO. The result led to a rout in the country's currency and its main stock index. The primary vote is widely seen as a sort of national poll ahead of the October presidential election. What was the biggest takeaway from the primary vote? How significant is the PASO, and in what ways might it influence the race over the next three months? Is there a clearer picture as to which presidential candidate has the advantage heading into October, and what can Argentines and markets expect as election day edges closer?

A Carla Selman, senior analyst and deputy head for Latin America country risk at IHS Markit: "Reversal of the 15 percentage-point gap between Fernández and Macri appears highly unlikely, even if voters supporting other pro-business candidates such as Roberto Lavagna (who won 8 percent) and José Luis Espert (2 percent) switch to Macri. The results also show increased likelihood of the elections being decided in the first round. In Argentina, a candidate obtaining 45 percent of the first-round vote or 40 percent with a 10 percentage-point lead over the runner-up automatically becomes president. An Alberto Fernández-led government, which would take office in December 2019, would be inclined to implement state-interventionist economic policies. However, given Argentina's extremely fragile credit position, Fernández is likely to try to maintain the current standby arrangement (SBA) with the IMF, requiring the new government to retain at least part of Macri's economic adjustment. Initially, Fernández is likely to seek

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TODAY'S NEWS

POLITICAL

Honduran Leader Says He Faces No Charges in U.S.

Honduran President Juan Orlando Hernández, whom U.S. prosecutors have accused of having ties to drug traffickers, said he faces no charges in the United States.

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BUSINESS

Citgo Reportedly Chooses Jordá as New CEO

Citgo Petroleum has reportedly tapped Carlos Jordá as its new CEO. Venezuelan President Nicolás Maduro and opposition leader Juan Guaidó have fought for control of Citgo.

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POLITICAL

Guatemala Cannot Honor Migration Deal With U.S.: Giammattei

Guatemala will be unable to honor the migration deal that outgoing President Jimmy Morales' government signed with the United States, said Guatemalan President-elect Alejandro Giammattei.

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Giammattei // File Photo: Giammattei Campaign.

POLITICAL NEWS

Guatemala Cannot Honor U.S. Migration Deal: President-elect

Guatemala will not be able to honor the “safe third country” migration deal that outgoing President Jimmy Morales’ government signed with the United States, the Central American nation’s president-elect said Tuesday, the Associated Press reported. “In order to be a safe country, one has to be certified as such by an international body, and I do not think Guatemala fulfills the requirements to be a

“If we do not have the capacity for our own people, just imagine other people.”

— Alejandro Giammattei

third safe country. That definition doesn’t fit us,” conservative Alejandro Giammattei, who won Sunday’s presidential election, told the wire service. The agreement, signed last month at the White House, would require asylum seekers passing through Guatemala to request asylum there first rather than continuing north and doing so in the United States. The deal is part of U.S. President Donald Trump’s efforts to reduce the number of asylum seekers appearing at the U.S.-Mexico border. However, Giammattei, who is scheduled to take office in January, said Guatemala is unable to adequately tend to its own people, let alone people from elsewhere. “If we do not have the capacity for our own people, just imagine other people,” he said. Guatemalans are among the largest groups of migrants leaving their home countries in Central America amid the country’s crime, unemployment and poverty. Critics of the migration deal between Guatemala and the United States say its difficult to understand how Guatemala could offer safe haven to people from other nations in the region. Parts of the agreement are still under negotiation, said Giammattei, adding that he would ask Morales’

government to allow members of his transition team to participate in those discussions. The congresses of both countries would have to ratify the agreement in order for it to take effect, Giammattei added. The president-elect also said he would create a cabinet-level position based in Washington to oversee migrant affairs. “It is about time we had a government that cared for the people,” Giammattei told the AP. “It is these people [migrants] who are supporting us,” through remittances that are sent to family members Guatemala. “I do not think physical walls, or walls of weapons, can stop migration ... I think what can stop migration are walls of opportunities.” On Sunday night, just before he was declared the winner of the country’s presidential election, Giammattei told Reuters that he wanted to modify the deal with the United States. He also said that he doubts migrants would be willing to seek asylum in Guatemala. “They are looking for asylum in the United States,” he said. “I don’t think there are a lot of people from El Salvador and Honduras who want to seek asylum in Guatemala, especially if they are fleeing poverty.” [Editor’s note: See Q&As on the safe third country agreement in the [Aug. 6](#) issue of the Advisor and on Giammattei’s election in the [Aug. 13](#) issue of the Advisor.]

Honduran President Says He Faces No Charges in U.S.

Honduran President Juan Orlando Hernández said Tuesday that he faces no criminal charges in the United States, adding that recent allegations by U.S. federal prosecutors linking him to drug trafficking were drug organizations’ attempt at revenge against him, the Associated Press reported. Hernández made the comments in Washington just days after prosecutors accused him of essentially running a narco-state and receiving campaign contributions from cocaine traffickers in exchange for protection. “That is an allegation from a drug trafficker in a separate trial,” Hernández told the Associated Press outside the headquarters of the Organization of American States when

NEWS BRIEFS

Judge Orders Detention of Former Mexican Cabinet Member on Graft Charges

A Mexican judge on Tuesday ordered Rosario Robles, a former cabinet member in the previous administration, to be held in jail pending trial on corruption charges, the Associated Press reported. Prosecutors have accused Robles of “wrongful exercise of public service” in connection with the alleged diversion of as much as \$260 million in public funds. Robles held multiple posts in the administration of former President Enrique Peña Nieto, including as secretary of social development. She has denied wrongdoing.

Argentine Financial Markets Steady After Rout

Argentina’s financial markets steadied on Tuesday, a day after the country’s currency fell 15 percent against the U.S. dollar and the Merval stock index plunged 38 percent, The Wall Street Journal reported. On Tuesday, the peso weakened 4.7 percent against the dollar, and the Merval gained more than 10 percent. Monday’s rout followed the country’s primary election, in which Peronist Alberto Fernández trounced incumbent President Mauricio Macri.

Brazil’s Embraer Swings to \$7.2 Million Profit in Second Quarter

Brazilian aircraft manufacturer Embraer today posted a \$7.2 million profit in the second quarter, as higher revenue at its executive jets business partly offset lower commercial jet sales, Reuters reported. Embraer had reported a loss of \$131 million in the same quarter a year ago. However, the company said it did not see itself ending the year with a profit, reaffirming previous guidance. Embraer posted a loss in 2018, and it posted operational losses in its commercial, executive and defense divisions in the first half of this year.

asked whether he faces formal charges in the United States. “We are now seeing the revenge of people who have absolutely zero credibility in the sense that it is now a sustained attack,” he added. Hernández met with OAS Secretary General Luis Almagro, and the two discussed details of an agreement to be signed with the



Hernández and Almagro (L-R) met Tuesday in Washington. // Photo: Honduran Government.

Inter-American Drug Abuse Control Commission, a branch of the OAS, Hernández said. Hernández also said he would have other meetings on Tuesday about migration and investments but declined to identify whom he was meeting, the AP reported. Thousands of protesters took to the streets of Tegucigalpa last week to demand Hernández’s resignation following the release of U.S. prosecutors’ allegations, La Prensa reported. “The narco must go! JOH must go!” protesters shouted, using the president’s initials, Reuters reported.

BUSINESS NEWS

Citgo Reportedly Selects Jordá as New CEO

U.S.-based refiner Citgo Petroleum has selected Carlos Jordá as its new chief executive, Reuters reported Tuesday, citing three people familiar with the matter. Citgo cut ties with Venezuelan state oil company PDVSA earlier this year after the administration of U.S. President Donald Trump banned U.S. companies from doing business with the state-run company and recognized opposition leader Juan Guaidó, the head of Venezuela’s National Assembly, as the nation’s legitimate interim

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renegotiation of the IMF deal to loosen fiscal targets. Fernández’s main difficulty is his association with a political party distrusted by the private sector and foreign creditors. He has himself suggested maintaining export taxes (‘retenciones’), accepting peso devaluation and introducing price controls to contain inflation. If elected, the choice of Fernández’s key economic advisor will indicate his future economic policy direction. Selection of former Finance Minister Guillermo Nielsen would point to liberal policies, reducing default risks; conversely, under someone from the Callao Group of advisors, such as Matías Kulfas, state-interventionist policies are likely.”

A Paula Alonso, associate professor at George Washington University: “A seemingly inconsequential election unleashed a political and economic storm. Sunday was supposed to be merely a preliminary test of a previous surprise: Cristina Fernández’s (CF) electoral engineering and Mauricio Macri’s response. To raise her 30 percent ceiling of potential voters, she offered the presidential candidacy to Alberto Fernández (AF), keeping the VP position, while—to try to plug the leaks of ‘Peronismo racional’ and centrist voters away from Cambiemos—Macri chose Peronist Miguel Ángel Pichetto as his running mate. Macri’s campaign made

president. Citgo officials loyal to Venezuelan President Nicolás Maduro were ousted, and the opposition-controlled National Assembly named ad-hoc boards for both PDVSA and Citgo in February. Since then, the Maduro government and the opposition have struggled for control of the Houston-based subsidiary, a key asset for crisis-stricken Venezuela. A U.S. court recently ruled that the Guaidó-appointed Citgo board is legitimate, rejecting a lawsuit by Maduro officials seeking to retake control of the company. “We will announce three nominations ... We are in the search of a CEO for Citgo. We have interviewed Carlos Jordá,” Guaidó told

the PASO an ‘all or nothing test’ and lost, badly. AF-CF obtained a totally unforeseen 15 percentage-point advantage, and Axel Kicillof won with almost 50 percent of the vote against current Governor María Eugenia Vidal in Buenos Aires Province, the

“A seemingly inconsequential election unleashed a political and economic storm.”

— Paula Alonso

main victim of the Juntos Por El Cambio electoral strategy. Perhaps less surprising was the strong reaction of the markets. On Friday, the markets had ended on a positive note, with polls indicating a decreasing gap between AF and Macri. On Monday, the exchange rate depreciated sharply, the stock market plummeted, and Argentine risk indicators rose. On Dec. 10, Macri is due to become the first non-Peronist president to finish his term. Can Argentina’s political class navigate the next weeks without further jeopardizing the country’s economy or putting its governability at risk? For now, no side appears ready to build bridges across the gap—They blame each other for the economic meltdown and are getting ready for the next round in October.”

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reporters when asked about the nominations he was going to make, Reuters reported. Adding, “We have interviewed Carlos Jordá ... Jordá will be supporting and helping this [effort to] safeguard [assets].” An announcement could be made as soon as this week, after Citgo’s board votes on the selection process, according to one of the sources. Jordá, 69, served as chairman of Citgo between 1999 and 2002, and he retired from the company in the early 2000s, the Voice of America reported. He is currently a director at Delek US Holdings, an oil refiner in Tennessee. [Editor’s note: See related Q&A in the March 8 issue of the Energy Advisor.]

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A Benjamin Gedan, senior advisor to the Latin America program and director of the Argentina Project at the Woodrow

Wilson Center: “President Mauricio Macri’s calamitous performance in Argentina’s primaries was unexpected and provoked a violent market reaction. But in many ways, it confirmed conventional wisdom regarding voter behavior. Economic issues dominate elections, and that is especially true in periods of economic struggle. One in three

“**Economic issues dominate elections, and that is especially true in periods of economic struggle.”**

— Benjamin Gedan

Argentines lives in poverty, joblessness exceeds 10 percent, and the inflation rate is among the highest in the world. Argentina has been mired in recession for three of Macri’s four years in office. By the end of the year, the economy is expected to be 3.1 percent smaller than when he was sworn in. In any other country, re-election would be a pipe dream. Indeed, surveys prior to the primaries identified inflation and unemployment as the top voter concerns. Argentines, it is commonly said, ‘votan con el bolsillo’ (vote with their pockets). But Argentina is often an outlier, and champions of Macri’s pro-market reforms found plausible reasons for optimism. For three months prior to the primaries, Macri’s approval rating slowly recovered as the peso stabilized, inflation slowed and consumer confidence improved. The rival Peronist party remained divided. Macri’s opponent, Alberto Fernández, is a pragmatist, but his running mate, former President Cristina Fernández de Kirchner, is a divisive figure juggling campaign events and court appearances in multiple corruption trials. Finally, Macri’s allies hoped voters would attribute some of their daily struggles

to his inheritance from Fernández de Kirchner. Nevertheless, judging by Sunday’s vote, it appears basic laws of politics still apply in Argentina.”

A Mariel Fornoni, managing director at Management & Fit: “There are several things we can say in political terms to understand what happened: First, polarization was great. Alberto Fernández and Mauricio Macri had more than 80 percent of the total votes, showing the strength of the division in the political scenario and a society still strongly divided. Second, the third movement did not reach double-digits and is very far from the results Sergio Massa obtained in the 2015 primaries (around 21 points), which could predict even greater polarization in October. Third, the economy clearly rules over other concerns. Salary employment and inflation seem to have been placed ahead of issues linked to values, institutions or transparency. Fourth, in this first instance, Frente de Todos’ strategy to summon a large part of the opposition to come together against the ruling party seems to have obtained a favorable nod from the people. Fifth, we will have to see how voters react to the political and economic fact that they have built in this election. The government needs a deep reflection and an important self-criticism about its management, communication and political and electoral strategic decisions taken in recent months. The possibility of success, although low, will depend on this. Sixth, we will see the impact of the election on internal and external markets. Informal data suggest market reaction will be strongly negative. Foreign-exchange rates have increased to more than 60 pesos per dollar in some banks. Considering that last Friday closed with an unexpected (and unwarranted) bullish sentiment, election results will have a negative impact on the market.”

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