

“Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair.”

-Sam Ewing

Some Thoughts on Chile and Argentina

I have been traveling to South America for many years to go fishing, dove shooting, find some new wines, and eat great steaks. Last week was another trip with most of the time spent in Argentina. Every time, there is a currency story to tell. My first trip was in 2002 after the Peso devalued from 1 to 1 against the US dollar to 4 to 1. With it at 40 to 1 now and moving like a car odometer – it was an interesting trip.

A short story of the movement happened over about 3-weeks. One of my Argentine friends, who works for the outfitter we use wanted me to bring him an iPhone X. He was fine with a used one for \$700 or a new one for \$1,000. I didn't want to hassle with finding a used one. I went to the Apple store which had pulled the older phones for the September 21 launch of the latest X-S model, so I had to wait for that day. When he contacted me, about September 8th or 9th, the X model would have cost him the equivalent of about \$1,500 in Argentina. I bought the X-S model for \$1,000 in the US on the 21st, and it would have been over \$2,000 down there that day. By the time I gave it to him on Saturday, it would have cost \$2,500 in Argentina.

There is massive inflation there, but only if you use Pesos. In 2002 and 2003, everything in Argentina was very cheap from a Dollar perspective because of devaluation. People took Pesos or Dollars, but airfare, hotels, and meals were 20%-25% of the prior price in Dollars. From about 2005-2015, there was steady inflation for both Pesos and Dollars. At that time, many people were playing the currency black market because the real-world exchange rate was much different than the official rate. You could buy about 40% more Pesos than Dollars in many years, but if you charged anything, it was going to happen at the official rate in the range of 4-8 to 1. So suddenly, hotel and airline rates were rising 20%-30% per trip because the official exchange rate reflected the inflation rate for both currencies. This really reached

a crescendo in 2015 when we found that even the currency exchange at the airport wouldn't buy back Pesos.

The Peso has been floating for a few years now which takes out the black market. People want Dollars, primarily as a store of value, but they accept Pesos and Dollars again. There is actually some serious devaluation down there from a Dollar perspective. A 14 oz Veal T-bone at a nice steakhouse in Mendoza is \$10, a bottle of wine that is \$35 in the US at a store is \$8 down there in a restaurant. Many places will discount bills if you pay with Dollars. We went fishing for a day and the price was 20% lower paying in cash with Dollars.

The country is still a financial disaster as the IMF gets involved and there are minimal foreign reserves and heavy debt loads again. It is being discussed daily in the *WSJ*. Another default or debt restructuring seems likely as the move from 18 to 40 Pesos to the Dollar just this year demonstrates. But, there are some other things going on that point to a better future, in my view, and I'm not seeing much discussion on some the positives I saw in the *WSJ*.

Keep in mind that Argentina is essentially two countries – half the population lives in Buenos Aires and the rest live in the other 90% of the country. For many years, the country was run for the benefit of the big city. Farmers and ranchers could not export crops and beef because keeping it in Argentina would allow the price of food in the city to remain low. Oil and gas prices were artificially kept low as well for the same reason. I spend much more time away from Buenos Aires and there were mass protests by farmers and ranchers going on. Several times, we have seen them refuse to ship crops and block roads, making it tough to move traffic. That was not the case at all this time. The government unions instead had a one-day strike for buses and airports to protest inflation in the city but even unions outside Buenos Aires didn't really participate.

The past government officials in Argentina looted the place. If a road project would cost \$2 million, they would authorize \$8 million and the road would never be built, and the money would vanish. It was almost shocking to see how much actual infrastructure and construction has been completed and continues. The farm belt includes towns like Jesus Maria and Cordoba. The primary road between the two was two lanes. There was an abandoned railroad track to the side. We didn't see the train run still, but the road is now a divided 4-lane highway for part of the way and construction continues. Driving on Mendoza roads has been like riding a horse for many years with all the bumps and potholes. That city is repaving areas and making upgrades to its city parks and water infrastructure.

Airports are seeing night and day improvements. We flew via Santiago, Chile because there are two airports in Buenos Aires and it is a hassle to switch between the two. Santiago is building a completely new terminal for International travel and will refurbish the current terminal – which already looks very modern. They have added more restaurants already and there were about 20 construction cranes working on the new building. Cordoba used to be the equivalent of flying into Lubbock, Texas – four gates and a store selling cheap souvenirs. That has expanded and added more restaurant/bar facilities. American Airlines is adding international routes from the US to Cordoba.

We didn't see idle people anywhere. Everyone is working and ignoring Buenos Aires. Homes in many areas in the farming areas have been fixed up and look very nice with yards and fresh paint. The Chinese are buying crops and beef from them, so they seem to be expanding operations again. Service at restaurants was very quick – in other years, places would be understaffed. Many people seem to be enjoying life and no one was complaining about the government 24/7. We used to be greeted with “OMG – you won't believe what we have to do now.” Our best episode of that was about 4-years ago I think when we met the German-born manager of the Hyatt in Santiago watching a World Cup game. He asked what else we were doing and said we were going to the Hyatt in Mendoza on the trip also. He shook his head and laughed about how his friend who runs that one was just pulling his hair out over all the turmoil in the economy, currency, and government.

One of the biggest hassles of traveling down there was it was 1952. That has changed considerably on this last trip. It used to be that to go anywhere, you had to connect through Santiago or Buenos Aires and there might only be one flight per day or even only 4x per week. So, if you wanted to fly from Mendoza to Cordoba – which is about 450 miles away and two decent sized cities, you'd have to fly to Buenos Aires or Santiago, perhaps stay the night or wait foris held

4-hours in the airport, then 500 miles back to Cordoba. Now it's more like Southwest Airlines, there are direct flights every day between several more cities and it takes much less time. Airfares have also come down. There have been times when the Dallas to Santiago or Buenos Aires flight was \$1,000-\$1,200 and then it was \$800 to fly a couple 1-hour segments within the country. The planes looked fuller as well. It is even possible to check-in online and there are electronic kiosks in even the Cordoba airport to print a boarding pass if you want a paper one. I know that sounds really weird to point out, but only 18-months ago, every passenger had to wait in line at the ticket counter to check in for a flight there.

Both countries have eliminated entry fees that often had to be paid in cash – and very crisp clean bills of US currency. That was always a fun experience, having to go through seven \$100 bills hearing “oh that one has a small tear, no – that one has a crease, no- that one is worn...” until you found one acceptable for the customs agent.

My basic conclusion is for 16-years, there has been a collapsing currency in Argentina and a huge amount of malaise there with considerable corruption. Now, there is a collapsing currency and many signs of progress in productivity and increased work going on. If nothing else, after the latest collapse there is more infrastructure to build off of for a more solid recovery. In the meantime, do yourself a favor and enjoy a few days living like a king for 20-cents on the dollar. Everyone is friendly and the answer to any question is YES.

Given the rate of inflation in Pesos, we have already seen some companies moving Argentina to a Hyper-Inflationary status and it could have some negative impacts on results. People smoke *Marlboros* there and Philip Morris has already called out Argentina as a headwind. *Budweiser* beer is now available there. Monsanto (now Bayer) and Deere have a big presence there too. At some point, a company like Latam – the airline in Chile that has operations in Argentina, Brazil, and Peru may be a way to play that area more heavily for a recovery.

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