THE WEEK
AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

April 19th, 2021

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Editorial: From Gloom to Doom

The measures announced this week, aimed at containing the impacts of Covid's second wave, come at a bad time, beyond the controversy with education or institutional issues regarding Buenos Aires autonomy. The last two treasury bond auctions failed. After a string of good auctions, in the last two the bids were scarce, even with the participation of ANSES or other public agencies. While it is premature to venture, this challenges our premise that the market finances ARS 600 billion of the deficit this year and if our assumption fails, there will be more money issuance. We estimate that the government has the legal margin to do so. This in turn would make the government's strategy to prevent the gap from widening (sell bonds in pesos and buy them back using reserves bought in the market) more expensive. We also see that the monetary issue with its lags has a hard impact on inflation since the 25.7% (58% annualized) inflation of the last 6 months is largely linked to the monetary issue of the previous months.

The 4.8% inflation known yesterday opens another front. Beyond the seasonal factors and that we all believe it will decrease, the upside surprise influences the expectations and shows that just before the light quarantine, there is an evident loss of real income for the families. That is to say that the lockdown, beyond their sanitary justification, means from gloom to doom from an economic standpoint. What we also know is that more controls will not lower inflation and even if they do so in the short term, what they do is reduce supply. Stricter controls also reflect desperation in government figures.

Nobody knows the true impact of the light quarantine because we do not know the duration (hard to believe that April 30 will return to "normal"). Above all, we do not know people's reaction. Argentine society is not very inclined to accept the rules, much less for those who need to go to work. The low credibility left by the XL quarantine of 2020 means that today the State cannot ask for an XL effort from the people.

Anyway, a dose of this medicine was already in the forecast, at least ours. If the statistical drag was 8% in January, probably 7% in February and perhaps 8% or more in March, having as a forecast a recovery of 7% for the whole of 2021 assumed closure. So, for the time being we do not change our forecast. There is anecdotal evidence that in view of the probability of closure retailers reduced purchases from wholesalers to which is added the impact on the gastronomic activity. The GDP of the hotel and restaurant sector fell 50% in 2020, so that for many there is no help from the government to raise the dead. One in five formal jobs in that sector is gone. What should make the difference is the vaccination, but there we are in relegation and without many chances of immediate promotion.

The other impact to monitor is the fiscal data. So far, the aid announced is about 16 billion pesos, less than 0.04% of GDP, nothing to move the barometer. But logically there is no guarantee that this will stop here. On the other hand, it will be necessary to understand how the closure impacts on the collection: VAT, financial transaction tax and fuel are some that should suffer and at the provincial level turnover taxes plus a decrease in compliance in others such as vehicle and real estate tax. On the fiscal issue, we believe that what you should not look at is the budget since the changes were gigantic. More is collected through export and wealth taxes and personal income tax collection goes down. More is spent on health, infrastructure is under-executed, economic subsidies are over-executed. Inflation is not 29%. As with growth, we do not change our forecasts and we remain in a primary deficit of 4% without counting the SDRs from the IMF that would be received in August. But the situation is fluid.

LAST WEEK IN REVIEW

✓ The government deepened last week's restrictions and announced a **curfew from 8pm to 6am in the AMBA**, until May.

✓ **The Treasury collected ARS 37.8 MM in Thursday's auction**, covering half of what it must face these days between the maturities of the BOCON and BONCER 2021 and interest from BONTEs.

✓ In January, **the use of public services was down 10.9% YoY** (in April 2020 it fell 19.4%).

✓ The **March CPI** surprised with a **monthly rise of 4.8%.**

NEXT WEEK'S HIGHLIGHTS

✓ Today the results of the **2018 Agricultural Census** will be known.

✓ Today the INDEC will publish the **use of installed capacity** in the industry for February.

✓ On **Tuesday 20** the Ministry of Economy will show the **fiscal data for March.**

✓ On **Tuesday 20**, the **vehicle patenting index** for the first quarter of the year will be published.

✓ On **Wednesday 21** the **wholesale price** index and the **construction cost** index will be published.

✓ On **Wednesday 21** the **second bond auction** of the month will be held. The last two were too weak for the treasure.

✓ On **Wednesday 21** the UTDT will publish its **leading indicator of activity** for March.

✓ On **Thursday 22** we will know the **economic activity index** for February. We expect a monthly drop of 0.9%

✓ On **Thursday 22** the **trade balance** for March will be released.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	92.9	0.4%	1.7%	40.8%	▲
Blue Chip Swap	151.7	1.3%	2.2%	43.1%	▲
CB reserves (USD million)	40,078	+228	+197	-3,774	▲
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.1%	0 p.p.	+0.06 p.p.	+15.81 p.p.	=
Merval (in ARS)	47,664	-2.4%	-4.0%	58.5%	▼
Country Risk (spread in %)	1,605	-0.6%	3.5%	-59.7%	▼
Official exchange rate BRL/USD	5.59	-1.7%	-0.6%	6.8%	▼
Soybean (USD/ton)	526.6	2.2%	0.7%	71.3%	▲
Oil - Brent (USD/barrel)	65.8	6.8%	-3.6%	345.1%	▲

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Feb-21*	-1.6%	3.9%	-0.3%
Automobile production	*Mar-21*	93.3%	11.1%	19.2%
Steel production	*Feb-21*	-2.1%	13.8%	0.1%
Poultry production	*Feb-21*	5.6%	-6.6%	-2.1%
Dairy production	*Feb-21*	1.1%	3.3%	2.0%
Beef production	*Feb-21*	13.8%	-7.9%	1.5%
Real Estate transactions (CABA)	*Feb-21*	-1.7%	1.6%	0.9%
Flour Production	*Feb-21*	3.2%	-7.5%	4.7%
Oil production	*Feb-21*	1.1%	2.8%	2.5%
Gas production	*Feb-21*	-1.1%	-2.9%	-1.8%
Cement production	*Mar-21*	2.6%	-3.7%	0.2%
Construction activity	*Feb-21*	-3.9%	11.6%	0.0%
Retail sales	*Mar-21*	-30.6%	-2.1%	-28.1%
Gas sales	*Feb-21*	4.1%	7.2%	20.8%
Motorcycle licenses	*Mar-21*	15.9%	-3.0%	21.6%
Use of electricity	*Mar-21*	4.7%	4.9%	4.4%
Subway rides (CABA)	*Feb-21*	11.7%	81.0%	28.0%
Imports CIF	*Feb-21*	1.5%	10.2%	1.4%
Exports FOB	*Feb-21*	-0.2%	11.5%	21.7%
Loans in ARS to private sector	*Mar-21*	-2.1%	-2.9%	-3.3%
VAT-DGI Revenues	*Mar-21*	4.7%	0.4%	3.3%
Formal private jobs (SIPA)	*Jan-21*	0.3%	0.2%	0.3%
Formal private jobs (EIL)	*Feb-21*	0.0%	0.0%	0.0%
Consumer confidence	*Mar-21*	1.1%	-4.1%	-0.6%
Government confidence	*Mar-21*	-2.2%	-6.5%	-3.8%

Note: stoplight color depends on monthly variation

The Highest Inflation of the Year

This is how Minister Guzmán defined the March data before INDEC published it. In effect, **with an increase in the CPI of 4.81% monthly, it was not only the highest record so far this year, but since September 2019**, after the jump in the dollar after the primary elections. Thus, in the first quarter inflation reached 13.0%, while in the year-on-year comparison it was 42.6%. More alarming is the annualized data: taking the last quarter as a base, annual inflation reaches 62.8%, and 75.7% taking only March.

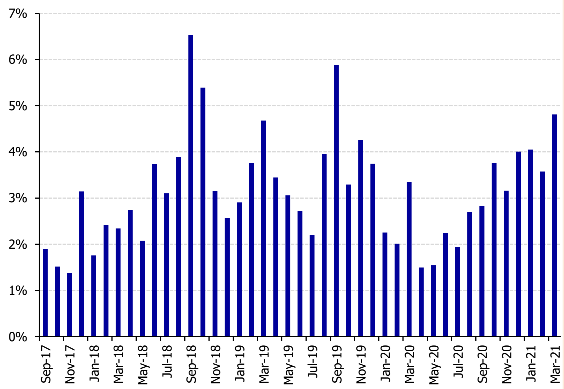
Core inflation is not slowing down. The March record was 4.5% compared to the 4.1% in February, and it is worrying because it is what sets the trend. The average of the last three months shows a value of 63.3% when annualized. The efforts of the Central Bank to appreciate the real exchange rate will eventually generate a slowdown in inflation, but the inertia of prices leaves a high floor for April. **The government expected 29% annual inflation. To get there, from April to December the average inflation should be 1.5%**, clearly a very unlikely number, even more so when April will be around 3.5%. If this number is confirmed, the government will need 1.2% at least to meet its forecast. It takes a miracle.

Food, clothing and education, in the lead. Food rose just below inflation, 4.6%, but due to its high weight in the index, it contributed 1.3 p.p. On the other hand, clothing and footwear jumped 10.8%, partly affected by the seasonal change, but mainly due to import restrictions, and contributed 0.95 p.p. to the general index. After the update of private colleges and universities fees, the Education division shot up 28.5%, but due to its limited weight in the index it explained only half a point of inflation. The effect of Education, Health (4.0%) and Transportation (4.2%), partly offset by the stability in communication and public service tariffs, was felt more in the regulated category. **The prices of regulated goods and services increased 4.5%, the second highest record since December 2019, despite the fact that energy rates have been frozen for two years.**

Seasonal prices had their worst March. The rise of prices of clothing and seasonal food was strongly felt, and the "seasonal" category -the one with the lowest weight in the CPI- showed a variation of 7.2%, the highest record of the new index that begins in 2017. In this way, the "seasonal" category explained 0.8 pp of the 4.8 of general inflation (vs 0.3 p.p. a month ago). The rest were "core" contributing 3.1 p.p. and "regulated" with 0.9.

More suppressed inflation. In view of the bad data in March, the government decided to deepen controls on supermarkets and announced a series of measures such as restricting meat exports and fixing the prices of industrial inputs, among others, until the end of the year. These measures can only contain inflation temporarily and prices, eventually, must be corrected or bring about even more distortions. While the accumulated inflation since December 2019 reaches 53.8%, regulated prices grew 28.8%, and housing, water, electricity and other fuels, only 22.9%. **The counterpart is the increase in economic subsidies.**

National headline inflation
Monthly



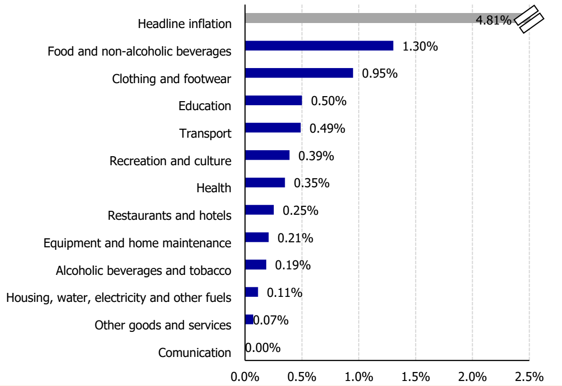
Source: Econviews based on INDEC

Inflation by main categories
Mar-21

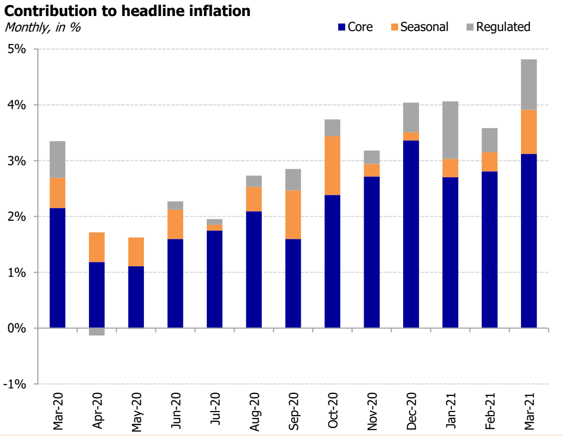
	m/m	y/y	YTD
Headline inflation	**4.8%**	**42.6%**	**13.0%**
Food and non-alcoholic beverages	4.6%	44.8%	13.8%
Alcoholic beverages and tobacco	6.4%	41.0%	15.2%
Clothing and footwear	10.8%	71.5%	15.5%
Basic services	1.3%	19.8%	4.6%
Home maintenance	3.2%	47.5%	11.1%
Health	4.0%	41.7%	11.3%
Transportation	4.2%	46.3%	14.2%
Communication	0.1%	13.8%	17.3%
Recreation and culture	5.3%	52.0%	12.9%
Education	28.5%	29.7%	29.4%
Restaurants and hotels	3.1%	42.4%	14.6%
Other goods and services	2.2%	26.6%	7.7%

Source: Econviews based on INDEC

Incidence of main sectors on headline inflation
Mach 2021



Contribution to headline inflation
Monthly, in %



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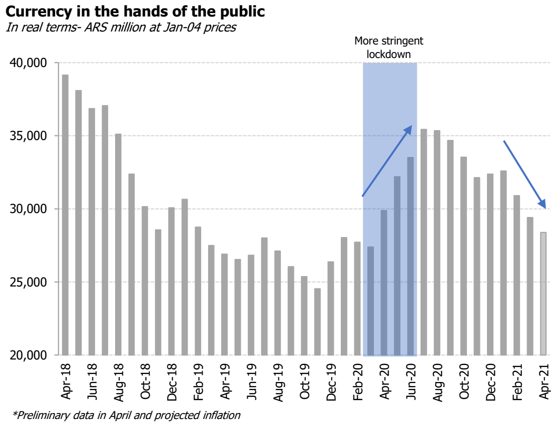
There is no free lunch. Last year's impressive monetary expansion to finance almost entirely a record fiscal deficit (8.5% oyf GDP) is not without costs. Despite the fact that the Central government eliminated the money overhang via leliqs and repos, the effect of monetary policy is not immediate and, as in other periods, it is observed that after an acceleration in issuance, inflation accelerates.

More issuance in sight. The new measures to deal with the pandemic will imply higher spending and a drop in revenues due to the lower level of activity. If the government does not validate a rate increase, we will continue to see poor results in the next auctions, which will inevitably translate into greater assistance from the Central Bank to the Treasury. In March the assistance totaled about ARS 135,000 million, which were sterilized via sales of dollars to the Treasury and reverse repos.

With less demand for money, the monetary pressure increases. During the months of stricter quarantine, money in the hands of the public was increased as a precautionary measure, helping to counteract the effects of the heavy issuance. But in recent months there has been a downward trend in money held by the public, in other words, a lower demand for money that could put even more pressure on prices if the Central is forced to new rounds of issuance. But, unlike last year, the surplus of pesos will not be used for the purchase of official dollars because between the PAIS tax of 30% and the 35% advance on Income tax it is much cheaper to acquire dollars in the parallel market. **But this could lead to the FX spread awakening.**

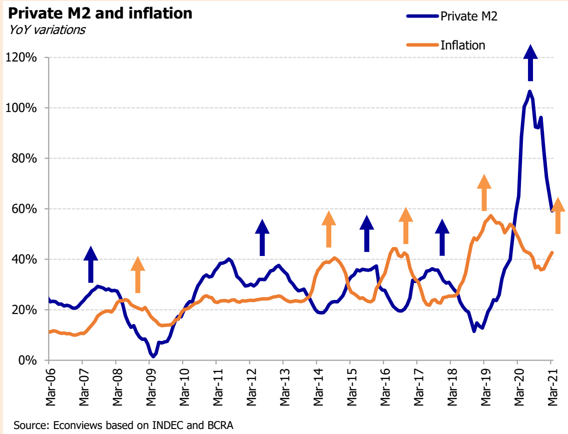


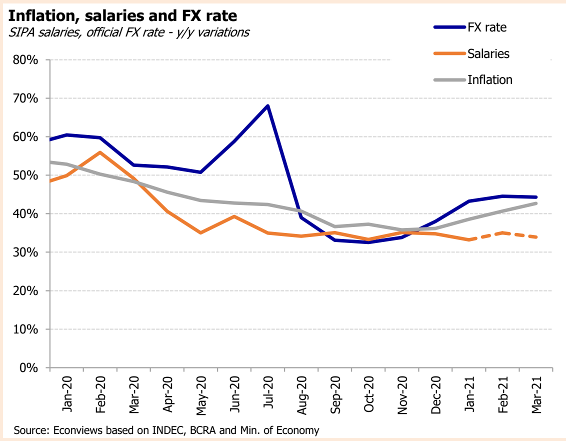
Even so, with the deepening of the Central's strategy of stepping on the rate of exchange rate depreciation, for the next few months we expect a slowdown in the monthly inflation records, but from next month the interannual variation of the CPI will be above 45%. In the last 12 months, the official dollar grew 44.3% and salaries around 34%. This implies something else played a part. And that is the FX spread and expectations. For now, **we maintain our annual projection of 46% inflation because the BCRA found the way to keep the FX spread calm with its bond sales and because the exchange rate appreciation at some point will be more influential in inflation. We'll see how the wholesale prices did next week.**

Accumulated inflation since Dec-19

Up to Mar-21

Headline	**53.8%**
Core	**57.6%**
Regulated	**28.8%**
Food and non-alcoholic beverages	61.7%
Alcoholic beverages and tobacco	53.3%
Clothing and footwear	84.8%
Housing, water, electricity and other fuels	22.9%
Equipment and home maintenance	52.9%
Health	43.1%
Transport	53.3%
Communication	26.2%
Recreation and culture	67.2%
Education	55.4%
Restaurants and hotels	56.2%
Various goods and services	36.4%





When the Shaking Stops (if It Does)

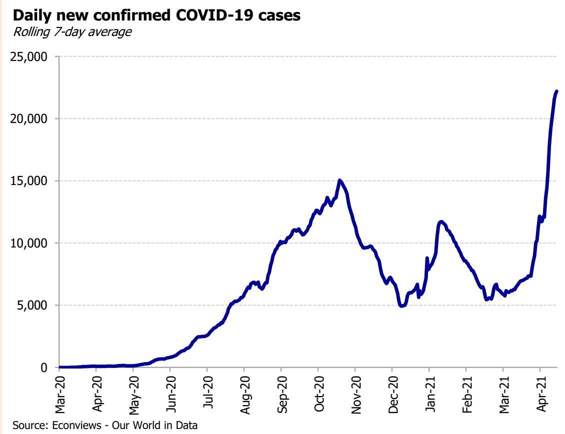
At 00:00 of Friday, the new measures in the AMBA began to take effect, which seek to slow down the contagion curve and which, in principle, would last until April 30. **Recent experience has shown that in the face of an acceleration of cases lockdowns end up extending for a longer time than the period initially established.** Furthermore, considering that the capacity of the intensive care system is relatively compromised.

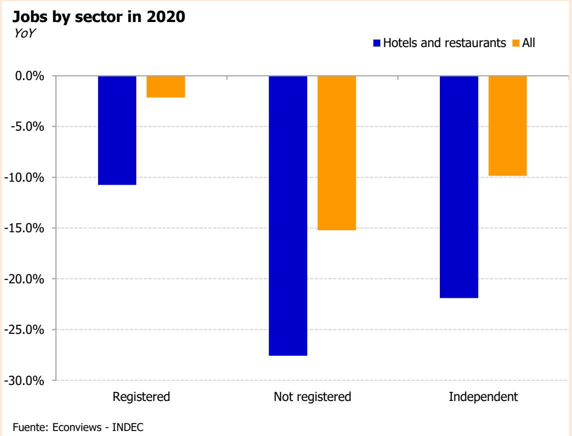
This new round of restrictions comes at a time when hiring expectations had rebounded and we had just finished closing a quarter in which the rebound in activity already placed us at pre-pandemic levels. The virtual curfew will hit especially **the sector that has been affected since the beginning of the covid crisis: the restaurants. In 2020, 1 in 5 jobs in this sector disappeared, which extends to 1 in 4 if we take only the unregistered and independent.** Certainly, the result could have been much worse, considering that under the Emergency Assistance to Work and Production (ATP) program, 30% of workers in the sector were temporarily paid by the government.

The second (rather third) wave finds a very stress labor market, although, if we look at it in proportion to the drop of the GDP, the negative shock is milder than other recessive episodes in recent history. For example, **the convertibility crisis caused a greater loss of registered private employment than that caused by the current crisis,** while the average Employment / GDP elasticity of recessions in the 2000s was double that of 2020. It should be noted that, although the Employment / GDP elasticity is low, it is explained by the combination of the measures that were implemented (ie ATP, REPRO, prohibition of layoffs, etc.) to alleviate the effects of the crisis. **The big question is what will be the "new normal" for the job market, both in the short and medium term, after the pandemic.**

The answer to this question can be divided into two**: the short-medium term and the long term.** In the first case, **the uncertainty that still hangs over the degree of control that the authorities will have over the epidemiological crisis forces the firms to seek to produce more with less.** In this sense, it has been argued against and in favor regarding whether the "post-covid" labor era implies or not the possibility of achieving greater productivity. In principle, the fall in hours worked was much greater than the fall in GDP, which could anticipate that any rebound in activity will absorb less labor than expected.

On the other hand, there are the longer-term factors, which focus on investment. **Without investment, it is not possible to carry out a growth process that generates a sustained demand for jobs.** In this sense, the recent measures that emerged in response to the rise in inflation have a greater impact on the investment conditions that on the level of inflation. Only with better conditions for investment, which allows expanding productive capacity, will there be greater employment opportunities.



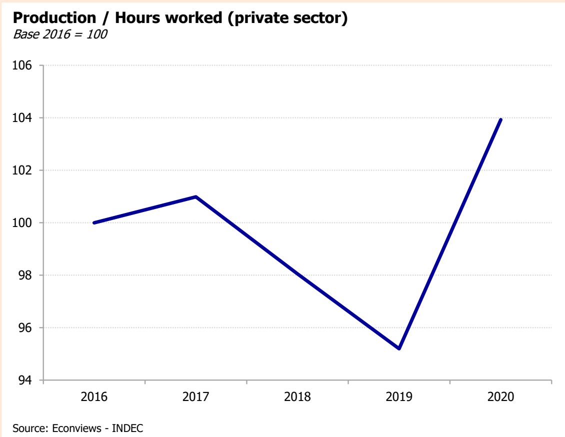


Activity and Jobs in recent recession episodes

Total drop (s.a.) in percentage points

Recession episode	GDP	Jobs (private sector)	Jobs / GDP
2001/98	-19.9	-15.3	0.77
2009	-10.2	-2.6	0.25
2012	-4.5	-0.2	0.05
2014	-3.8	-0.3	0.08
2016	-3.7	-1.4	0.38
2020/18	-24.8	-8.0	0.32

Source: Econviews - INDEC and Ministry of Labour



REM versus Econviews: Similarities and Differences

At Econviews we are in the habit of debating projections. We look at consistency, we use models and analysts' experience to reach an internal consensus. We also of course like to compare with what the rest of the profession thinks. Here is a summary of our projections and the differences and similarities we have with the market based on the monthly survey carried out at the Central Bank.

For now, we agree 100% on an annual inflation of 46%. In terms of prices, we are in line with the market median, which fell 2 points from 48.1% last month, while we adjusted our previous estimate of 50%. We both see a path of moderation for monthly inflation on the way to the elections, with containment of the official FX and postponing utility hikes. Monthly inflation would drop from more than 4% on average in the first quarter to 2.6% in the third. In any case, 9 out of 10 respondents see no chance of monthly inflation falling below a 2% floor in the coming months, and 3 out of 4 raise that floor to 2.5%.

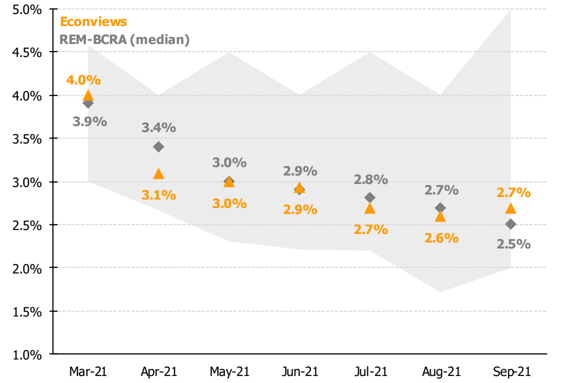
We see room for an almost 4-point hike in rates by end of the year, against a much more dovish REM. We do not have differences with the consensus for the trajectory of the Badlar rate in the second quarter, stable around 34.2%. However, our baseline scenario foresees that the rate will climb to 36% in August and close December at 37.8%, while the rest of the profession places it at 35.3% for that date. A change from the last survey: in February some participants forecast a Badlar rate between 25 and 30% at the end of 2021, but in March everyone sees it above 30%.

The dollar keeps falling in the surveys, and not precisely because of negative image: the market median for the official exchange rate at the end of the year went from 125 in January to 118.6 in February, and 115 last month. Without validating Guzman's 102 ARS/USD goal, projections are closer to those specified in the 2021 budget. Today less than 10% of the surveyed believe that it may actually meet that goal, but fears of a strong devaluation are dissipating and nobody sees the official dollar above 130 this year (in February, that "ceiling" was 140). We also corrected our forecast, from 120.8 to 116.5, almost in line with the REM.

With the second wave well on, growth estimates stopped growing. In our previous weekly we detailed that despite February leaving a 7% statistical carryover for the rest of the year, the impact of new restrictions and the decline in agricultural activity will limit the recovery. Thus, we hold firm our forecast of 7% growth in 2021. We remain more optimistic than the REM, whose median estimate of a rebound of 6.2% did not vary between February and March.

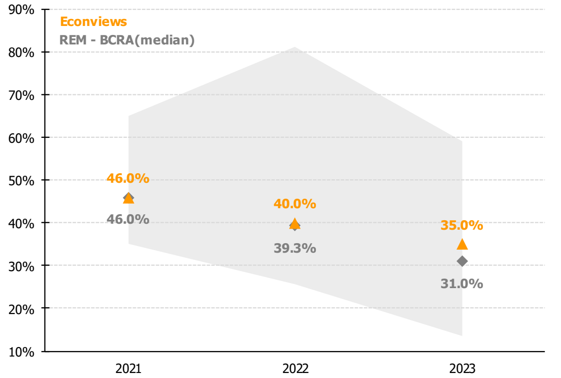
We maintain our trade balance projection stable, while the REM improves its own. At current international prices, we believe that exports of goods could reach USD 62.35 billion this year. In March, the median estimate by economists rose to 62.43 billion, 0.9 above last month and almost matching

Monthly inflation forecasts
In %, BCRA market survey



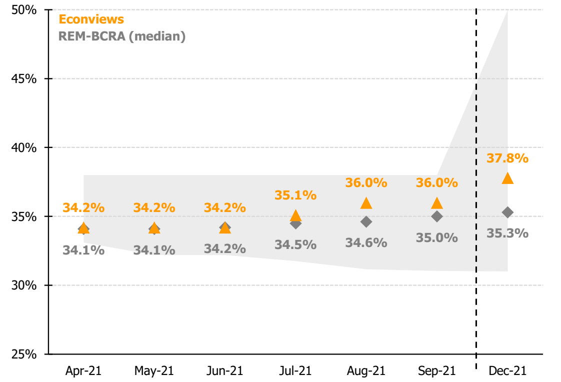
Source: Econviews based on REM-BCRA and own estimations

Annual inflation forecasts
In %, BCRA market survey



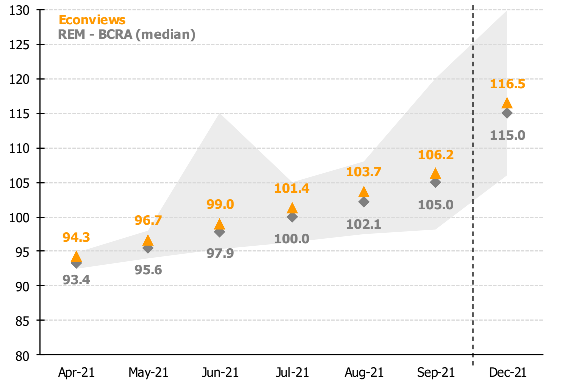
Source: Econviews based on REM-BCRA and own estimations

Badlar interest rate forecasts
Nominal annual rate



Source: Econviews based on REM-BCRA and own estimations

Official exchange rate forecasts
ARS/USD, BCRA market survey

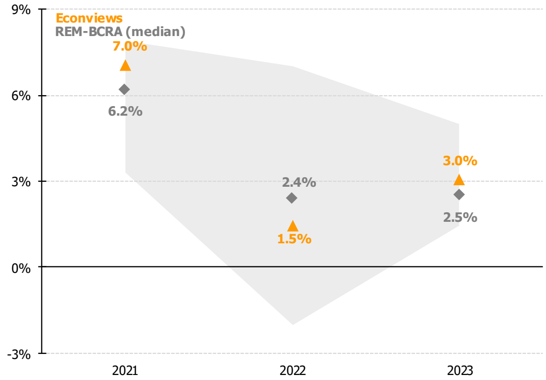


Source: Econviews based on REM-BCRA and own estimations our forecast. We assume that imports will total USD 48.5 billion in 2021, while the rest of the profession sees them a little higher, a median of 49.2 billion. Thus, we arrive at our number of a 13.8 billion trade surplus in the year, against the REM's 13.2 billion (the number itself is not a forecast, as it arises from the difference between the median forecast of exports and imports).

When it comes to tax numbers, the devil is in the details. We estimate an annual primary deficit of 1.67 trillion pesos, or 4% of GDP. Once news broke of the IMF's special allocation of SDRs, it was speculated that the Government could use that extraordinary income to face debt maturities, but the Fund's intention is that the disbursement be applied to health and education expenses. If so, the primary deficit would go to 1.26 trillion. Regardless of the accounting details, the Government will obtain some much needed oxygen for around 1 point of the product. The median REM places the primary deficit at 1.63 trillion: assuming the SDRs count "below the line", the difference from our projection is marginal.

Finally, in Econviews we are more pessimistic than the consensus regarding unemployment, which reaches 13% in our base scenario and remains in double digits until at least 2024. The median of the BCRA survey was again located at 11%. We believe that despite the reopening, greater pressure on the labor market will result in higher unemployment. Here the key data is participation. We assume that by the fourth quarter the number of people in the market would return to the 47% range and that is why we see more unemployment.

Real GDP forecasts
Annual growth, in %



Source: Econviews based on REM-BCRA and own estimations

REM vs. Econviews
Forecasts for 2021

	REM (median)	Econviews
Inflation (Dec/Dec)	46.0%	46.0%
GDP growth	6.2%	7.0%
Official exchange rate ARS/USD (Dec)	115.0	116.5
Badlar rate (private banks, Dec)	35.3%	37.8%
Unemployment rate (annual average)	11.0%	13.0%
Trade balance (USD billion)	13.2	13.8

Source: Econviews based on REM-BCRA