THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

April 5th, 2021

(+54 11) 5252-1035
Carlos Pellegrini 1149
Buenos Aires
www.econviews.com
www.facebook.com/econviews
Twitter: @econviews

Miguel A. Kiguel
Director
mkiguel@econviews.com

Andrés Borenstein
Chief Economist
aborenstein@econviews.com

Lorena Giorgio
Principal Economist
lgiorgio@econviews.com

Isaías Marini
Economist
imarini@econviews.com

Alejandro Giacoia
Economist
agiacoia@econviews.com

Rafael Aguilar
Analyst
raguilar@econviews.com

Editorial: Poverty, the Most Important Deficit

In line with expectations, The Statistics Agency announced that 42% of Argentines are below the poverty line. The data correspond to the second semester of last year and marked a rise of 1.5 points compared to the data of the first semester, which was when the quarantine had hit the most in informal employment, which in any case continues to be hardly hit. **This implies that there are more than 19 million people whose household income does not cover a minimum basket.** Additionally, 10.5% of the population is indigent, that is, almost 5 million people, extrapolating the sample of the 31 cities surveyed to the rest of the country. If you look at households, the numbers look better because there are 31.6% poor households and 7.8% indigent.

The statistic that worries the most is the one that shows that 57.7% of children under 15 are poor, and 15.7% of all children are indigent, that is, they have serious feeding problems. This is a major mortgage for the society. If we add to this the disappearance of face-to-face school throughout 2020, the social tragedy becomes more complex. Among people over 65, poverty does not reach 12%, which is due in part to good pension coverage.

Nowhere does poverty strike as much as in the outskirts of Buenos Aires (Conurbano). There, poverty rose to 51%. In other words, the next person on the street is more likely to be poor than not poor. In the interior, the situation is more controlled with the exceptions of Concordia in the Province of Entre Ríos, which almost reaches 50% and Resistencia (Chaco) where poverty reached 53%. In the City of Buenos Aires, poverty is barely 16%

The only positive thing to note is that indigence is a shrinking portion of the poor. In the post-crisis of 2001, poverty reached 54%, but indigence 27%, that is, one out of every two poor people was very poor. Currently, only 25% of the poor (25.6% in the first half of 2020) are indigent. This is not by chance, Argentina has made great progress in social assistance, which in general is more efficient in lifting families out of indigence than out of poverty. To go one step further, a second generation of social policies are needed that promote the learning of modern trades, the completion of secondary school, in some cases the rehabilitation of diseases. It is not easy and much less in a pandemic.

Indigent families would need, on average, to increase their income by 40% to improve their condition and thus become only "poor". To eliminate indigence, approximately 10 billion pesos a month are needed in addition to those already granted. That is 0.3% of GDP, annualizing the account. It does not sound like much, but money is only part of it. The State has difficulty reaching this group and efficiently managing this aid without leaks. But it is in this context that the reduction of the income tax that was approved in deputies with the permission of all the parties is not understood. The same account to eliminate poverty is around 2.5 points of GDP, a number that today seems impossible.

The high rates of poverty and indigence constitute the largest deficit that Argentina has. The danger is that this becomes a vicious cycle. In other words, it is difficult to achieve institutional stability with this level of social problems and without institutional and macroeconomic stability it will be difficult to grow to reduce poverty. The dichotomy between growth and distribution is false because there can only be consistent redistributive policies if there is growth and something to redistribute. The short-term problem is that the market can hardly offer much to this large and vulnerable group and the State does not have the financing to improve and increase benefits. That is why the answer will be in focused policies and trying to change the business climate so that new investments improve employment dynamics. The first is difficult due to the pandemic, the second does not seem to be in the government's DNA.

LAST WEEK IN REVIEW

✓ In the fourth quarter of 2020, the **Current Account printed a deficit of USD 1,372 million.** For the full year, it ended with a surplus of USD 2,985 million (0.78% of GDP), driven mainly by Goods item.

✓ **Poverty rose to 42%** of the population in the second semester of 2020. Among children from 0 to 14 years old it reached 57.7%. **The indigence rate was 10.5%.**

✓ The **Wage Index increased 3.3%** in January. The variation in the formal sector was 3.5%, while in the unformal sector it was one percentage point lower.

NEXT WEEK'S HIGHLIGHTS

✓ **Today** the Ministry of Economy will announce **tax revenues data** for March. We expect another number above inflation thanks to the good performance of export taxes.

✓ On **Wednesday 7**, the **income distribution data** for the fourth quarter of 2020 will be published.

✓ On **Thursday 8** we will know the **performance of the industrial and construction sectors** during February. The data would not be as auspicious as it was in January.

✓ On **Friday 9** the results of the **monthly survey of economic expectations** of the Central Bank (REM) will be known.

✓ The Labor Ministry will release the **formal market data** for January and the **EIL survey** for February.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	92.2	0.3%	2.1%	41.9%	▲
Blue Chip Swap	148.0	1.9%	0.2%	62.7%	▲
CB reserves (USD million)	39,597	-82	+79	-3,964	▼
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.1%	-0.06 p.p.	+0.50 p.p.	+6.56 p.p.	▼
Merval (in ARS)	48,598	2.9%	2.9%	80.5%	▲
Country Risk (spread in %)	1,593	0.2%	0.2%	-55.6%	▲
Official exchange rate BRL/USD	5.67	-1.9%	-0.3%	7.3%	▼
Soybean (USD/ton)	519.1	1.4%	-1.5%	65.1%	▲
Oil - Brent (USD/barrel)	61.8	-0.1%	-7.4%	447.4%	▼

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Jan-21*	1.7%	6.8%	3.9%
Automobile production	*Feb-21*	-48.2%	25.2%	-41.5%
Steel production	*Feb-21*	-2.1%	13.8%	0.1%
Poultry production	*Dec-20*	1.9%	0.8%	0.2%
Dairy production	*Feb-21*	1.1%	3.3%	2.0%
Beef production	*Jan-21*	-14.8%	-4.7%	-15.7%
Real Estate transactions (CABA)	*Jan-21*	7.8%	15.6%	4.9%
Flour Production	*Jan-21*	2.8%	-10.7%	-3.6%
Oil production	*Feb-21*	1.1%	2.8%	2.5%
Gas production	*Feb-21*	-1.1%	-2.9%	-1.8%
Cement production	*Feb-21*	0.1%	-0.3%	-5.1%
Construction activity	*Jan-21*	4.4%	12.6%	9.7%
Retail sales	*Feb-21*	3.6%	10.2%	7.3%
Gas sales	*Jan-21*	-3.3%	20.8%	7.7%
Motorcycle licenses	*Feb-21*	11.4%	-12.5%	-1.0%
Use of electricity	*Feb-21*	-2.3%	5.1%	0.0%
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	*Feb-21*	-1.2%	-1.8%	-1.8%
VAT-DGI Revenues	*Feb-21*	-2.1%	0.3%	-2.0%
Formal private jobs (SIPA)	*Dec-20*	-0.1%	0.0%	-0.1%
Formal private jobs (EIL)	*Jan-21*	0.0%	-0.1%	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

Although We Don’t See It, The Base Is There

The year began with a certain calm, both on the exchange and monetary fronts. The FX spread is under control, mainly thanks to the BCRA selling bonds in dollars against pesos and then repurchasing them with reserves, which also contributes to absorbing the monetary base. The latter expanded just above ARS 20 billion so far this year, while the BCRA bought foreign currency in the market for the equivalent of about ARS 120 billion. But of course, as a counterpart, the stock of reverse repos and Leliqs grew more than ARS 320 billion**. A greater necessity of monetary issuance will come in the second half of the year, also increasing the need for sterilization in a context in which the Central Bank's liabilities are already at worrying levels.**

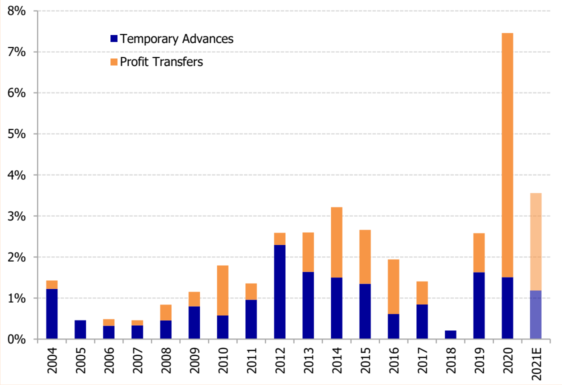
As we have pointed out in our last reports, **the Ministry of Finance’s goal for this year is to balance the “mix” between the Central Bank and the market which is used to cover financial needs**. From 2020’s 60% - 40%, we should move to something closer to 55% - 45%. This is a relief for monetary issuance. But unlike last year, the net purchase of reserves will be an expansive factor, interests on the Central Bank’s liabilities will climb to more than 3 and a half percent of GDP and their high stock, which already exceeds 3 trillion pesos, begins to raise red flags.

This year the government will have to cover financing needs for the equivalent of around USD 38.8 billion. The renewal of maturities with multilaterals and the extraordinary income from SDRs will contribute more than USD 10 billion. The rest will have to be financed by issuance: of pesos or debt. In our base scenario we foresee that the Central Bank will assist the Treasury with ARS 1.5 trillion, that is, 3.6 points of GDP, below the 7.5 points of 2020. These numbers are based on the premise that net financing in the local market continues to average ARS 40 billion per month for the remainder of the year. So far this year, the BCRA assisted the Treasury with ARS 70 billion, and this number could increase after last Wednesday’s maturities, which add up to ARS 159.5 million between the SM311 discount letter and the S31M1 variable rate plus margin letter. The data as of Friday the 23rd showed that the Treasury had ARS 46.9 billion deposited in the Central Bank, which added to the ARS 86.9 billion left from last Monday’s auction would not be enough to cover these maturities. It remains to be seen to what extent the last week of the month’s tax revenues contributed to bridging the gap.

In 2020, assistance to the Treasury was higher than that projected for this year, but the monetary base grew only 30% (ARS 574.8 billion). **Why not expect something similar for 2021?** Fundamentally, due to **two factors**: **the purchase of reserves and the BCRA’s stock of liabilities**. Last year, due to the sale of reserves in the market, the monetary base contracted by ARS 473.2 billion. In exchange, this year we expect this factor to be expansive by about ARS 400 billion.

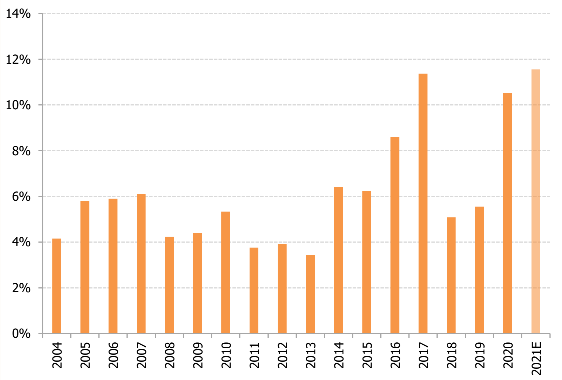
Central Bank Assistance to the Treasury

As % of GDP - 2021 according to our base scenario



CB's remunerated liabilities

As % of GDP



How many dollars will the Central Bank buy?

The first months of the year were auspicious for the Central Bank. Taking data as of March 25th, it accumulates net purchases to the private sector for USD 2.1 billion, which led to a monetary expansion through this way of ARS 190.7 billion. It is known that the increase in reserves shows a different figure, since the Central Bank repurchases part of the bonds it sells in the local market and also sells dollars to the Treasury sucking up part of those pesos.

The final number will obviously depend on many factors, including the depreciation rate that Miguel Pesce and his team are willing to validate. For Econviews, the end-to-end depreciation will be 38%, closing the year at 116 pesos per dollar. With these premises we assume that the Central Bank will be a net buyer of about 4 billion dollars. We arrived at that number after estimating the foreign exchange market items one by one.

The liquidated trade surplus of goods, that is, exports actually collected minus imports actually paid, is estimated at USD 15.2 billion as a result of exports worth USD 62.2 billion and imports of USD 47 billion. This surplus compares against 2020's USD 8.5 billion. The price of raw materials is one of the main reasons for the increase in exports. The liquidation of cereals and oilseeds could go from 22to 31.7 billion dollars. Meanwhile, the economic recovery will affect imports, which grow from 41.8 to 47 billion dollars.

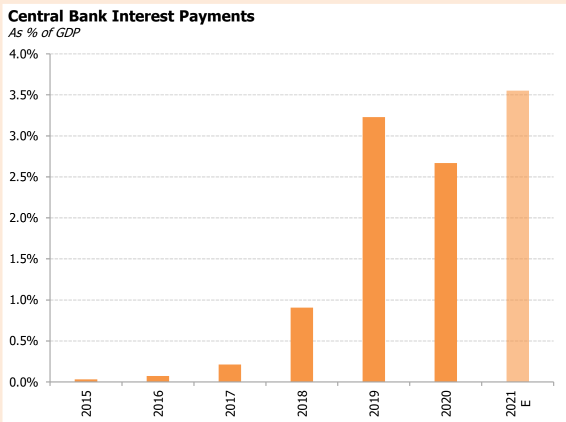
The balance of services worsens from a deficit of 1.6 to 2.1 billion dollars with the premise that in the second quarter outbound tourism recovers marginally. Interest payments decline from 6.5 billion to 4.6 billion as the debt restructuring lowered the burden on the public sector. Therefore, the current account balance will be USD 8.4 billion, or almost 2 points of GDP.

However, the financial account will consume 4.5 billion dollars, hence the difference of USD 4 billion for the BCRA. This value is reached assuming that there are loan payments for 4.1 billion dollars (in 2020 more than 7.25 billion were paid) and hoarding of USD 1.4 billion. These outflows are reduced by 700 million in foreign investment, a symbolic number for a country like Argentina. One of our assumptions is that international organizations such as the World Bank, IDB and CAF refinance all maturities and no capital is paid to the Paris Club, while the IMF will be paid with SDRs so that the operation won't go through the exchange market.

In short, the monetary plan contains a net issuance of 400,000 million pesos that will be used to intervene in the exchange market.

It is true that "other factors" will add a bit of relief, these including the contraction of the base due to the sale of bonds against pesos in the mark of the arbitrage operation to manage the FX spread that we have seen in recent weeks, and the Central Bank's earnings in the futures market. Despite the fact that so far this year this factor was contractionary by ARS 76.9 billion, we foresee that it will lose dynamism in the coming months, to the degree that the income of dollars from the harvest decreases and in line with less official intervention in the futures market.

On the side of sterilization via Leliqs and repos, the margin is more limited. The year 2019 had ended with a stock of remunerated liabilities of 5.6% of GDP, which in 2020 climbed to 10.5%. ARS 1.6 trillion were sterilized in this way throughout the year and interest was paid for ARS 721.6 billion, about 2.7 points of GDP. But 2021 starts with a very different picture, because the Central Bank will have to pay interests for AR $ 1.2 trillion at current rates, only from the stock of liabilities inherited from last year. To this we must add the interests from any new issuance. **Throughout the year, we estimate that the BCRA will pay more than 3.5 points of GDP only in interest. Given the emission needs that we project for 2021, a monetary base growing at 50% is consistent with a stock of remunerated liabilities that climbs from 10.5% to 11.6% of GDP**. Here we must stop to add a disclaimer. Although the stock of repos and Leliqs to GDP reaches 2017's levels, this time it is exclusively in the hands of banks and not the private sector, which gives the Central some room for maneuver through the regulation of reserve requirements and other mechanisms.



There is no doubt that the pressure on for monetary issuance will increase over the months. What is not clear is how the demand will react and how much the Central Bank will have to (and will be able to) sterilize. Today, the surplus of pesos in the market is practically non-existent if we compare it against the average of the last 16 years, but it is still 15% above the last years of relative stability, such as 2010 and 2011. The first three episodes of the 2021 monetary flick were calmer than expected, but the trailers portend more action on the road to October. **A spoiler: Central Bank does not have an easy task.**

Financial program with private sector and multilaterals

In billion USD

		2021 F
Financial Needs	**Primary deficit** (excl. SDRs)	**16.9**
	Interests	**6.3**
	In ARS	3.8
	In USD	2.5
	Principal amortizations	**15.5**
	In ARS	7.1
	In USD (incl. IMF)	8.4
	Total financial needs	**38.7**
	In ARS	*27.8*
	In USD	*10.9*
Sources of financing	**Local debt market**	**13.3**
	Roll-over	*7.1*
	New financing	*6.2*
	Multilaterals	**5.3**
	SDRs Position	**5.1**
	Central Bank	**15.0**
	Total financing	**38.7**
	In ARS	*28.3*
	In USD	*10.4*

Central Bank monetary program

In billion ARS

	2021 F
Interest payments	1,492.8
Assistance to the Treasury	1,495.4
Purchase of reserves	398.8
Others	-140.0
Total monetary needs	**3,247.0**
Interest bearing liabilities (annual change)	2,011.9
Monetary base (annual growth)	**1,235.1**

Memo items*

Monetary base	**3,705.4**
Annual change (%)	*50.0%*
Seigniorage (as % of GDP)	*2.9%*
Interest bearing liabilities	**4,855.2**
Annual change (%)	*70.8%*
As % of GDP	*11.6%*

*Stocks in billion ARS, eop

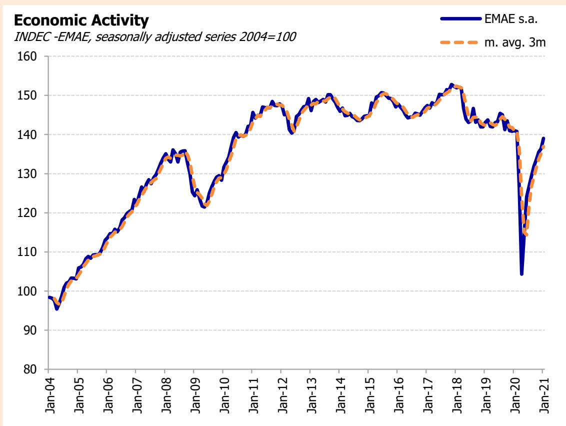
FX Balance

In million USD

	2020	2021E
Current Account	**320**	**8,413**
Balance of Goods	8,490	15,163
Exports of Goods	50,357	62,172
Imports of Goods	41,867	47,009
Balance of services	-1,595	-2,100
Exports of services	6,900	6,500
Imports of services	8,495	8,600
Interests	-6,528	-4,600
Profits	-130	-100
Transfers	83	50
Financial Account	**-8,139**	**-4,500**
Foreign Investment	1,058	750
Portfolio	34	0
Net Loans	-7,258	-4,100
Multilaterals	761	0
Hoarding	-3,053	-1,400
Others	319	250
Reserves Purchases	**-7,436**	**3,913**

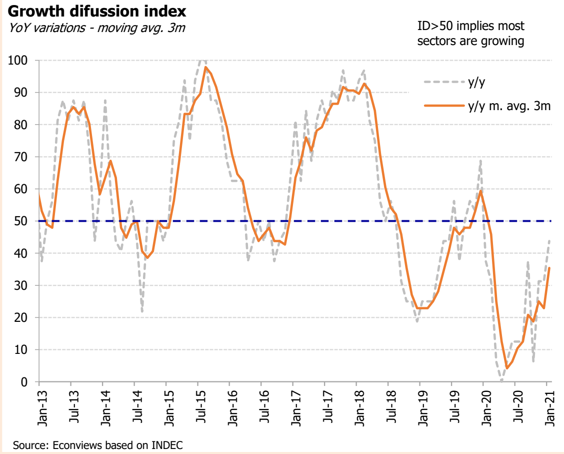
The Economic Recovery of 2021 Has Already Happened

Economic activity surprised with an advance higher than expected by the market, growing 1.9% in January compared to December in seasonally adjusted terms. Even so, **activity has not yet reached pre-pandemic levels: in January, the EMAE was 1.3% below the level of February 2020**. In year-on-year terms, the record remained at -2.0%, the same as in December. Our model captured this rise, but this year's seasonal adjustment is particular because the pandemic makes the models less robust. In February our data, still preliminary, show a high probability that the recovery will be interrupted. If the activity were completely stuck out from January onwards, the annual growth would still be 8%. At the moment we continue to think that it will be

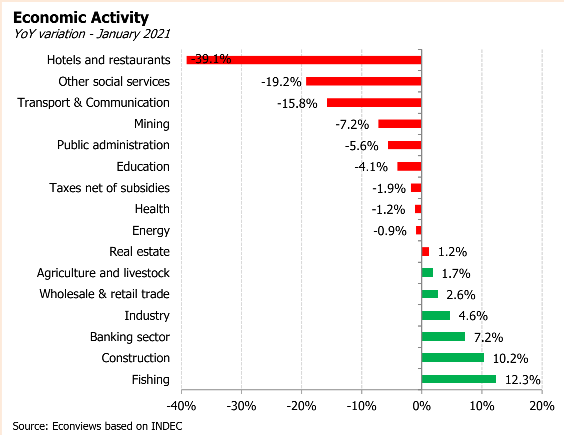


7%, although there is a higher probability of an increase than a decrease. The intensity of the pandemic will be one of the key variables.

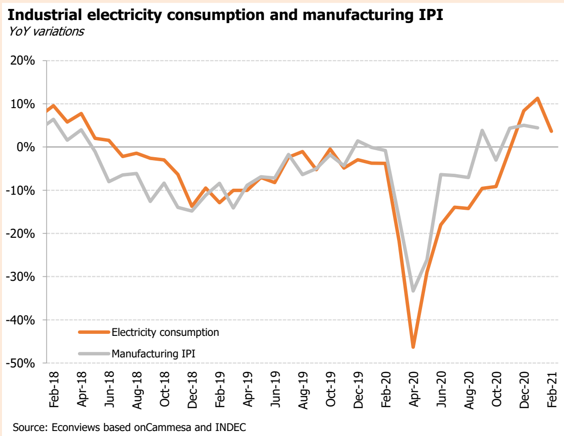
The recovery has had 9 months without interruption, but it is not the same for all sectors. Among the 15 sectors of economic activity plus taxes net of subsidies, 7 managed to grow in year-on-year terms, with Construction leading the way. The 3-month moving average of our diffusion index -which can be seen in the graph on the right- indicates that the recovery remains firm, but standing at 35.42 points, it implies that it still needs to be spread to most sectors. As of March, almost all sectors will show strong growth due to the very low base of comparison left by the pandemic, so the relevant thing will be to see the monthly evolution.



Construction continues to lead growth, but may be limited in the coming months. In January, activity in the sector was 10.2% above its level a year ago, and at least until September it will continue with year-on-year growth in two figures, although mainly because it compares against the quarantine months. **There are two limitations for the sector:** the first is the **general scarcity of inputs**, which with limited imports will deepen even more. This in turn has an impact on the profitability of construction, as the scarcity of inputs leads to an increase in their prices. In fact, in February, cement production stagnated (0.1% m/m s.a.) and steel production fell 2.1% per month s.a. The second limitation is the great existing real estate offer that puts a roof on new constructions. **Public works will be the most dynamic, due to their double role in 2021:** on the one hand, as a strategic player for recovery due to its effect on the rest of the economy, and on the other hand, due to its highly visible nature, in the eve of the Parliamentary election. However, it will be mostly small works since there have been no large auctions in recent months. Rather, they will be works on a municipal scale.



Industry was the sector that had the greatest positive impact. In January it was 4.6% above its record a year ago, but due to its weight, the contribution (0.68 p.p.) was greater than construction (0.31) and fishing, which was the one that grew the most, but whose impact is marginal. Although the outlook remains positive for the domestic industry in the context of high protectionism, import restrictions will eventually take their toll on the sector, which is highly dependent on imported inputs. After the January peak, the electricity consumption of industries in February fell considerably -although it remains above the February 2020 record and this suggests that activity will follow the same path. In fact, the advanced index of industrial production prepared by the Ministry of Productive Development (and which is based on electricity consumption data) showed a monthly drop of 2.7% without seasonality, affecting approximately half a point of GDP in February.



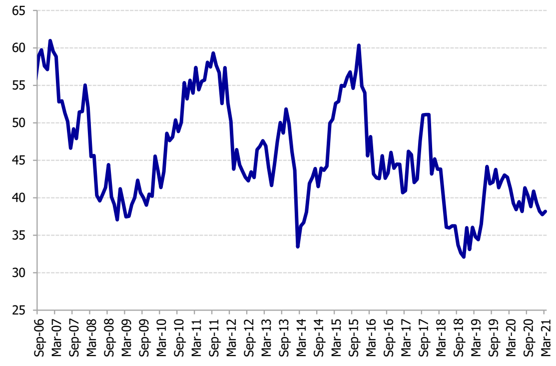
Commercial activity continues in positive territory and the latest results are encouraging. The sector accumulates 3 months of year-on-year growth and we expect February to add a fourth one. In this sense, supermarkets and self-service wholesales played in favor in January, growing 3.8% and 8% real year-on-year, although in the monthly comparison s.e. supermarkets grew (2.6%) and supermarkets fell (-2.3%). **Retail trade continues its slow recovery** and in February it grew 3.6% monthly s.a. **Consumer confidence** ended its negative streak and managed to grow 1.1% in March after three months of decline, although the ICC prepared by the UTDT remained 7.4% below the March 2020 record.

February aims to erode January's advance. The preliminary result of our incomplete model points to a decrease of 0.5% per month s.a. that does not fully erase the advance of January. Different preliminary indicators point in this direction: VAT-DGI revenues fell 2.1% monthly, non-residential electricity consumption (excluding ALUAR) fell 2.3% and industry would also have contracted. But these declines can also be offset by positive variations in other indicators, such as retail sales, so that the monthly variation of the EMAE for February is probably between -0.5 and 0.5. The second semester will also be contaminated by a weaker harvest in the main crops.

The year started well in terms of activity, but the pandemic could slow down the recovery. The contagion curve turned around and started to grow again in recent weeks. In that sense, the national government authorized the provinces to establish new restrictions to stop the increase, but the majority chose to postpone them until after Easter. Restaurants, bars, hotels and transport would be the first to be affected, which in January also remained well below the record of a year ago. Even so, **2020 left a very important carry-over effect**. If the economy remained at the December level, it would still grow by 6%, and if we take January as a reference, the carryover would be 8%. **We expect annual growth to be around 7%.**

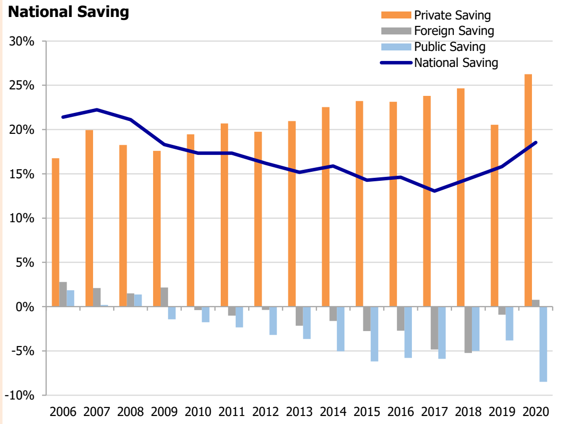
If our forecast is correct, we have already seen the entire recovery in activity and that is bad news for the government, which expected a rebound closer to the elections. We started from 8% and will reach 7% at the end of the year. There are several explanations for this. In the first place, the pandemic is a tangible threat and although we rule out a closure level such as in April and May 2020, we do see high probabilities of localized closures with a lot of impact on the service sectors: health, entertainment, fuel consumption, etc. Since March 5, increases in cases have been registered in the weekly average and in recent days not only have they increased but also accelerated. It doesn't seem exponential yet, but the risk is there. To this we should add the risk of pre- and post-election volatility and a business climate that is far from conducive to investing capital in Argentina. However, there is an ace up the sleeve: private savings in 2020 were record at least since 2006. Could it be that Argentines will dust off part of that savings to consume?

Consumer Confidence
Index



Source: Econviews based on UTDT

National Saving

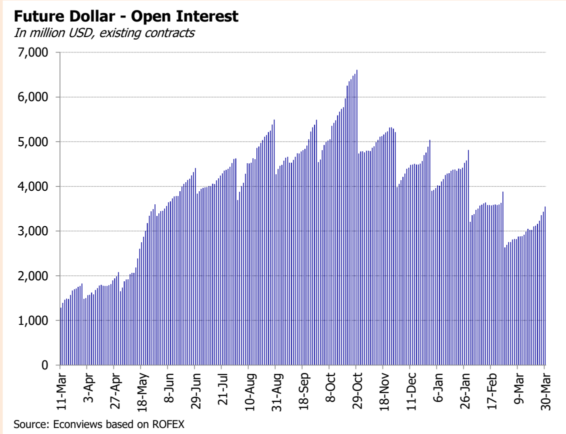


An “Express Midweek”

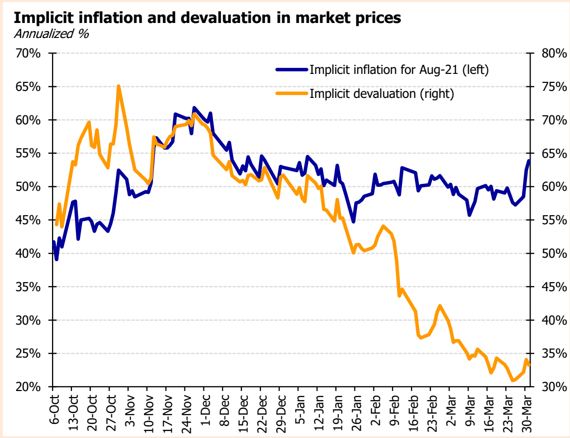
<u>**The exchange front remains calm**</u>

The Central Bank once again applied the brakes and further decreased the rate of daily depreciation of the exchange rate. From the daily advance of 0.08% to which we got used the previous week, it went to one of just 0.04% last Tuesday and 0.03% on Wednesday 31st. Thus, the official dollar closed March at ARS 91.985, and on average ended 2.7% above February, in a month where monthly inflation estimates are well above 3.5%.

Meanwhile, the BCRA’s intervention in the parallel FX markets continues to be effective. The Blue Chip Swap closed Wednesday at an ARS 147.55 ask price, gaining ARS 2.22 in March, while the MEP closed at ARS 142.17 and added just 25 cents in the month. The gaps with the official rate stand at 60.1% and 54.4%, respectively, after having closed 2020 at 66.8% and 66.5%. Meanwhile, the informal dollar was below the financial ones and closed March at ARS 141, dropping 5 pesos throughout the month.



For now, **the market believes the government's discourse on foreign exchange matters and is betting on a real appreciation in the short term**. The BCRA's selling position in the futures market has been falling sharply and the open interest in ROFEX stands at USD 3.6 billion, well below the peak of 6.6 billion last October, the peak of financial turbulence, and also under January’s 4.5 billion figure. The nominal annual rates (TNA) implicit in the dollar futures contracts are around 30% for the next few months and rise to 37% in December. In terms of effective rates, the curve has very little slope, oscillating 35% in the short term, with a post-elections jump to 37% in November and 39% in December. **The December contract operated Wednesday at ARS 117.65, while the implicit devaluation in the bond market prices is around 33%.** On the other hand, the market is more reluctant to buy a sustained drop in inflation. The implicit inflation in the bond prices is around 50%, slightly above the forecasts of private consultants.



<u>**This time, the result of the auction was not the expected one**</u>

In Monday's bidding, the Treasury managed to place debt for ARS 86.9 billion, below the maturities of almost ARS 160 billion it had to face last Wednesday. 47% of the nominal value awarded went to a new discount letter maturing on September 30th, which paid a fixed rate of 39.25% (effective rate of 43.09%). Unlike the last auctions, in which fixed rate letters offered half a point more TNA than variable rate bills, this time the spread was 0.75.

The positive news came from the exchange of the Boncer 2021 (T2X1), which managed to kick ARS 209.1 billion from the maturities in May to 2022 and 2023.

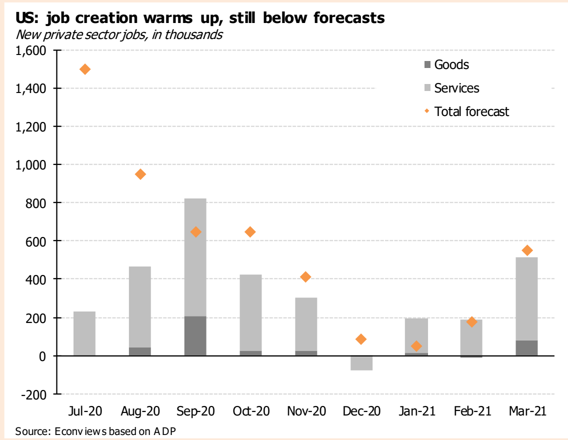
Results March 29 Auction

In million ARS

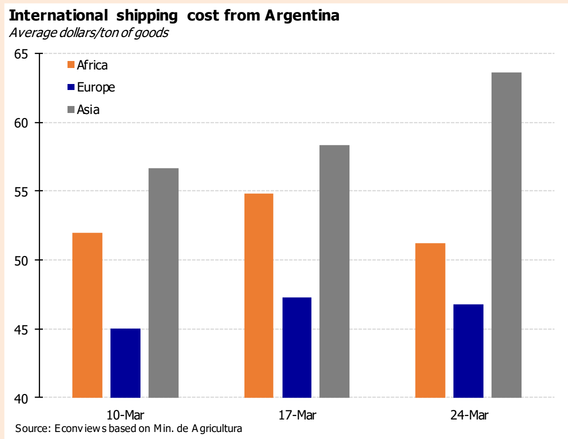
		NOV Offered	NOV Awarded	Effective Awarded	NAR	EAE	Maturity
NEW	Fixed Rate	49,061	49,061	40,994	39.25%	43.09%	30/9/2021
NEW	Variable Rate + Margin	36,826	36,826	36,826	38.50%	42.19%	30/9/2021
NEW	CER	9,240	9,240	9,162	-		31/3/2022
Total		**95,127**	**95,127**	**86,982**			

Global markets: Biden goes for more, soybeans rise 5% and the Suez Canal back open

With the relief bill approved, Biden is feeling sweet and will go for an 8-year USD 2.25 billion infrastructure plan. Focusing on green transportation and housing, and based in a "new era" rhetoric, the project would be financed through a 7-point increase in corporate income tax (today at 21% after the cuts in 2017). The new US president is taking full advantage of his "honeymoon" with a more expansive fiscal policy than expected by the market and growth forecasts are being adjusted upward. However, the dynamics of the labor market is slowing down: although 516,796 new positions in the private sector (85% in the services category) were added in March according to the ADP report, the number was again below forecasts (550 thousand). The S&P 500 continues at record levels and scored a 2.2% weekly rise.



The USDA warned about lower-than-expected seeding and prices of corn and soybeans rose. The latest Department of Agriculture report estimates a sown area of 91.1 million acres in the case of the first crop and 87.6 million for the second, 2.3 and 2.4% below the market's forecasts, respectively. In response, the price of a bushel of corn rose to USD 5.64, an increase of 4.8%. Similarly, soybeans, which had closed Tuesday at USD 502 a ton, shot up to USD 527.9, a daily rise of 5.1%.



The Suez traffic jam exposes the fragile situation of international trade. On Monday 29th the dislodge of the Ever Given made world news, after a week blocking the canal. Already in 2020, quarantines in different countries disrupted global supply chains, while the expansion of e-commerce puts more pressure on alternative transportation routes such as flights. **In the medium term, climate change poses another threat to the "just in time" production model**, where manufacturers keep their inventories to a minimum, relying on the efficiency of supply lines.

***Aguas de março*: the heads of the Army, Marine and Air Force stepped aside denouncing Bolsonaro's "political interference" in the forces**. With this loss of military support, rumors of impeachment are on the rise again. The resignations added to those of the ministers of Defense, Health and Foreign Relations over the last weeks, while Brazil consolidates itself as the global epicenter of the pandemic. A solitary Paulo Guedes is unable to prevent the narrative of the intertwined political and health crisis imposing itself on the economy: in recent days the exchange rate once again touched 5.80 reais per dollar, although then lowering to 5.63. **Growth forecasts for 2021 collected by the Central Bank's survey continue to worsen**: in the second half of 2020 there was hope of a 3.5% rebound, but today the median stands at 3.18%.