THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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Editorial: 900 Reasons for the Run on the Peso

The government is not generating any credibility. It insists on patches that have diminishing returns: a special exchange rate for oil exporters, small and medium businesses and now perhaps for the auto industry. Some corners of the ruling coalition say that next year they will have a primary surplus while lowering taxes at the same time. This has no logic; its only purpose is positioning themselves better before the elections. The market in a broad sense, that is, not only the financial system's big players but all those who have or may have pesos, are shouting out their lack of trust.

The result is an informal dollar that is over 900 pesos, a Blue Chip Swap that rose above that value and a country risk that is at its highest level so far in the year. Fixed term deposits fall even nominally despite having returns over 9% monthly and money market funds are flooded with pesos. Extreme liquidity or dollars. In economics, if expectations are negative, nothing good can happen. And we're not just talking about financial ones. The rise in the MEP and informal exchange rates is going to affect inflation and that will affect people's purchasing capacity and therefore the level of activity. The jump in the exchange rate spread disorganizes the economy and further discourages export liquidations, exacerbating the lack of dollars. And there isn't much political engineering to solve this. 35 years after the beginning of the end of the Spring Stabilization Plan, the situation leaves a similar flavour, a clear case of the Groundhog Day that Argentina has turned into.

The political scandal that came to light last Saturday could have been a catalyst for calm if the market became convinced that the government's chances worsened. But this also paralyzed many important political operators. Perhaps the government lost points with the Marbella affair, but perhaps Javier Milei's chances increased, who despite being "market friendly", fails to convince the market. In fact, for his plan to replace the peso with the dollar to work, he needs the dollar to go as high as possible therefore liquefying the pesos in circulation and the Leliqs. Juntos por el Cambio, the preferred option among businessmen and market participants is focused on reaching the runoff and until the market is convinced of that, the opinions of Patricia Bullrich and her team will not generate much calm in the market.

With all this, the feeling is that difficult months are coming, no matter who wins. In the most optimistic scenario of the many that we have done at Econviews, there is a happy ending for the Argentine economy but a difficult transition. We do not believe that it is possible to dollarize (in the Milei case) and that the transition with a happy ending would occur if both Milei and Patricia Bullrich made a stabilization plan that includes formal exchange rate decoupling, with fiscal adjustment and income policy. While there are many possible designs, we believe they are all variants of the same thing.

The problem is less an issue of program design and more of political capital to implement it. Will Milei have the team and support to implement it? Do the versions about his agreement with Massa give him more governability or lower his chances of making a fiscal adjustment that makes the stabilization plan viable? If Patricia wins, will the Forces of Heaven help in the transition or will she have to beg for a quorum in both chambers to be able to pass laws, diminishing her ability to enact real changes? All these questions (among others) are unknowns for a market that today sees no way out. Positive phrases like Milei promising to honor the debt today do not generate any relief or if they do, the relief is ephemeral.

At Econviews we have no doubt that the economic and institutional legacy is worse than that of 2015 considering the exchange, fiscal, monetary, institutional, poverty and activity level package. We also have no doubt that to get out of this labyrinth, a political scenario divided into thirds aggravates the speed of response. There aren't too many alternatives. We will not come out with a goal from Messi. It is necessary to work on a political matrix that provides governability while improving, at least gradually, the institutions so that Argentina can escape this infinite loop.

LAST WEEK IN REVIEW

Inflation for the fourth week of September was 1.3%, according to the Secretariat of Economic Policy.

In the City of Buenos Aires, **monthly inflation reached 12% in September**, with increases of 14.1% in food and 15.4% in clothing. Monthly core inflation was 12.8%. In year-on-year terms, the IPCBA rose 140.9%.

The **CNV increased the parking for sovereign bonds under foreign law from 3 to 5 days**, in a new limitation of operations in this market.

The informal dollar increased another 75 pesos this week and closed at AR$ 870 on Friday, while the BCS rose from AR$ 820 to 866 and left the FX spread with the official exchange rate at almost 150%.

The US added 336,000 jobs in September, double what was expected. The pace of wage growth slowed from 2.9 to 2.5% annualized. These data reinforce the Fed hawks, who want a further increase in the rate to 5.75%.

NEXT WEEK'S HIGHLIGHTS

Today, INDEC published the **mining production index** for August.

Today, the BCRA published its **monetary policy report**.

On **Tuesday 10**, INDEC will publish **the synthetic public services indicator** for July.

On **Wednesday 11**, the **use of installed capacity** and **international tourism statistics** for August will be known.

On **Thursday 12**, INDEC will release the **CPI** for September. We expect monthly inflation of 12% in line with the CABA data.

On **Thursday 12**, the **BCRA Market Expectations Survey** for the month of August will also be released.

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Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	350.0	0.0%	0.0%	134.6%	↑
Blue Chip Swap "SENEBI"	879.4	6.5%	20.2%	188.4%	↑
Parallel	935.0	17.6%	32.6%	238.8%	↑
CB reserves (USD million)	26,259	-666	-1,371	-10,288	↓
Policy rate (Leliq)	118.0%	0 p.p.	0 p.p.	+43.00 p.p	=
Badlar rate (private banks)	114.0%	+0.13 p.p	+0.13 p.p	+45.38 p.p	↑
Merval (in ARS)	648,631	16.5%	21.8%	373.5%	↑
Country Risk (spread in %)	2,675	5.2%	22.8%	-3.5%	↑
Official exchange rate BRL/USD	5.13	1.4%	2.9%	-1.3%	↑
Soybean (USD/tn)	464.5	-1.0%	-6.3%	-7.5%	↓
Corn (USD/tn)	192.2	-0.1%	4.2%	-28.5%	↓
Wheat (USD/tn)	210.4	1.4%	1.0%	-34.9%	↑
Oil - Brent (USD/barrel)	93.7	1.8%	0.9%	-9.1%	↑
Oil - WTI (USD/barrel)	82.8	-6.7%	-5.3%	-11.0%	↓
Natural Gas (USD/MMBTU)	3.4	18.9%	29.6%	-50.0%	↑
LNG (USD/MMBTU)	13.5	-10.0%	4.7%	-60.3%	↓
Copper (USD/lbs)	3.6	0.3%	39.8%	-46.0%	↑
Aluminum (USD/tn)	2,224.8	-3.7%	3.2%	-3.1%	↓
Gold (USD/oz.)	1,861.9	1.9%	-2.9%	9.9%	↑

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Aug-23*	0.5%	-2.3%	-0.4%
Automobile production	*Sep-23*	-12.4%	-5.0%	-10.7%
Steel production	*Aug-23*	20.8%	-14.2%	-0.2%
Poultry production	*Aug-23*	5.2%	0.5%	3.2%
Dairy production	*Aug-23*	0.8%	-0.2%	1.5%
Beef production	*Aug-23*	-7.2%	1.3%	-6.8%
Real Estate transactions (CABA)	*Aug-23*	12.6%	7.9%	7.9%
Flour Production	*Aug-23*	3.7%	1.3%	1.6%
Oil production	*Aug-23*	0.3%	-0.1%	-0.2%
Gas production	*Aug-23*	2.5%	0.0%	1.8%
Cement production	*Sep-23*	-7.4%	-7.5%	-6.7%
Construction activity	*Aug-23*	-1.2%	-1.6%	-0.9%
Gas sales	*Aug-23*	-1.0%	0.3%	-3.5%
Motorcycle licenses	*Sep-23*	-16.1%	-4.0%	-13.4%
Use of electricity	*Aug-23*	0.1%	-4.1%	-2.7%
Subway rides (CABA)	*Aug-23*	-5.1%	15.2%	-4.6%
Imports CIF	*Aug-23*	-3.6%	-3.1%	-6.5%
Exports FOB	*Aug-23*	-0.2%	-3.5%	2.1%
Loans in ARS to private sector	*Aug-23*	-2.8%	-1.7%	-3.8%
VAT-DGI Revenues	*Sep-23*	1.2%	2.1%	-1.0%
Formal private jobs (SIPA)	*Jul-23*	0.4%	1.1%	0.8%
Formal private jobs (EIL)	*Aug-23*	0.0%	0.7%	0.3%
Consumer confidence	*Sep-23*	-1.6%	11.8%	0.6%
Government confidence	*Sep-23*	-18.9%	5.4%	-13.9%

Note: stoplight color depends on last month vs previous quarter variation

Bitter Expectations for the Real Sector of the Economy

- *Industrial production rose slightly in August (+0.5%) although compared to last year it is still down (-3%). The hiring expectation had the worst result since 2021.*

- *Construction fell 1.2% in August, and the outlook for public works in the coming months is pessimistic.*

- *Formal employment expanded by 0.1% in August; however, the construction sector experienced a contraction of 0.6%. Expectations for hiring in the upcoming months are slightly positive.*

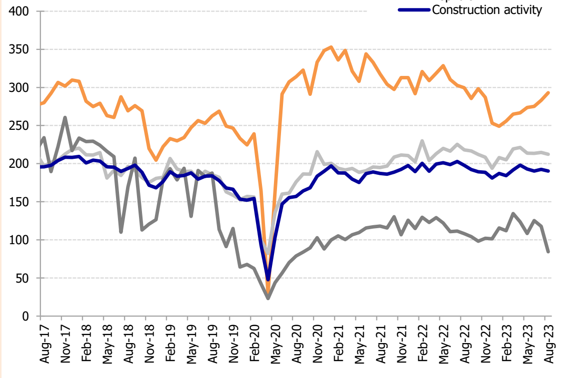
Spring arrived and the economy did not flourish. The August data shows a weak performance of the economy, as we had anticipated, with industry recovering, construction falling and employment growing weakly. **The first data for September allow us to suspect that activity is beginning to dry out.** The Association of Automotive Factories (ADEFA) reported a monthly drop of 12.4% without seasonality in national automobile production, while sales rebounded (+20.4% s.e.) after two months of decline. Although when it comes to motorcycles, there were a lower number of patents (-16.1% s.e.). In the field of construction, less cement was shipped (-7.4% s.e.) and the construya index, which measures the sale of inputs for the sector, also contracted (-5.9% s.e.) for the third consecutive month. These are all **warning signs in key sectors of the economy** not only due to their incidence but also due to the number of personnel hired. Today the manufacturing industry employs 18.7% and construction 7.3% of formal employment.

Construction activity is not surprising with its 1.2% drop in August. The annual variation was -3.0% and, so far this year, it fell 2.7%. **There are no signs of improvement for the remainder of the year:** Asphalt consumption fell 18.7% yoy, a very bad sign for public works. It has been 4 months in a row that the **area authorized to build falls** with an **interannual variation of more than double digits**, being -18.6% in July. And if we look at the **number of permits granted, the string of double-digit drops marks its sixth month** with -19.6% for July.

The expectation of public works sinks into pessimistic territory. 50.5% of surveyed builders expect construction to decrease. If we take out the difference between optimists and pessimists, we obtain a 42.7 in favor of pessimism (vs. 27 last month). **The expectation in private works did not have a significant change:** 6.7% believe that private works are going to increase, and 29.8% think that they are going to decrease.

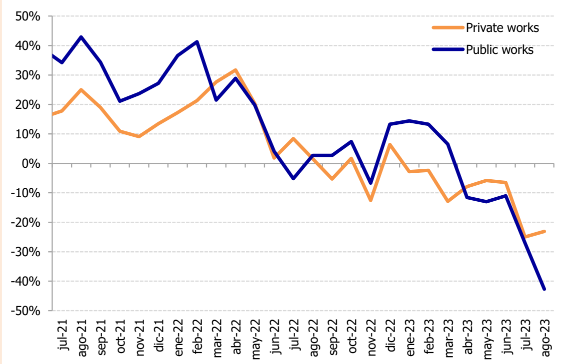
Hiring expectations in construction worsened. While for private works the difference remained almost the same (12.4 percentage points), **for public**

Construction activity and main inputs
Seasonally adjusted, 2004=100



Source: Econviews based on INDEC

Construction expectations
Difference between exp. positive and negative for September-November 2023

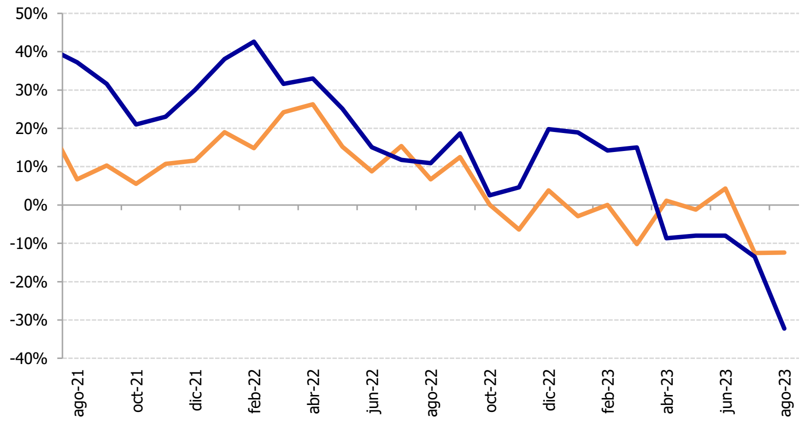


Source: Econviews based on ISAC - INDEC

works the response that contracting is going to decrease has a balance in favor of the pessimists of 32.2.

Construction Hiring Expectations

Difference between positive and negative expectations for Sep-Nov 2023



Source: Econviews based on ISAC - INDEC

Drought and little wine

Activity in the industry rebounded in August (+0.5%) after three months of decline. Even so, the interannual variation was -3.0% and **so far this year the growth compared to the same period in 2022 is zero.**

The area that stands out the most for its growth in 2023 is **Oil refining, coke and nuclear fuel (+7.2% y/y cumulative variation)**, and within this area the production of gasoline (+10%) and diesel oil (+8%) stands out. This is followed by the production of motor vehicles, bodies, trailers and auto parts (+6.5%), an area that is **driven exclusively by the production of cars (+18%)**. Computer, television and communications equipment is down 4% compared to 2022. Within food and beverages (-2.2%), **oilseed milling has the worst performance (-23%), followed by wine production (-19%).** Between droughts and frosts, **the wine sector had the worst grape harvest in its history**, with 14 million quintals of grapes when the average for the last 12 years was 23 million.

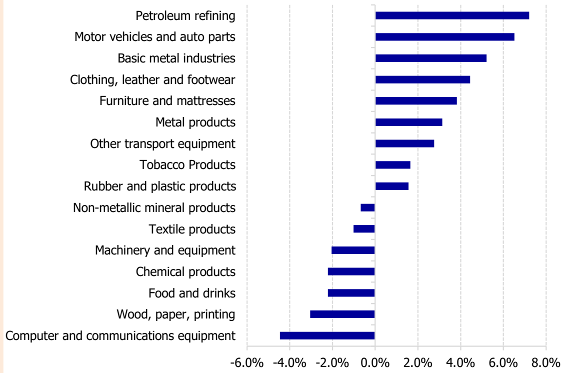
In the coming months, industrialists expect sales to fall in the domestic market, and the outlook for the external sector showed an improvement, although it remains in pessimistic territory. The net result for domestic consumption expectations gives a difference of 18.5 percentage points in favor of the pessimists. For exports, the difference is 11.7 points.

Employment expectations in the industry worsened significantly. The net result is **7.8 percentage points in favor of pessimism, much higher than last month's 2.7**. It is the worst result since the survey was carried out.

In terms of employment, data from the SIPA system for the month of July has been released. **The universe of formal employees expanded at a rate of 0.37% seasonally adjusted, with the addition of 49,407 new workers compared to June.** While the year-on-year rate is positive (+4.17%), a decline in the growth momentum has been observed since January, indicating an economy showing signs of weakening. In the last month, notable growth was seen in salaried employees in the private sector (+0.33%) and in self-employed

Production increase in 2023

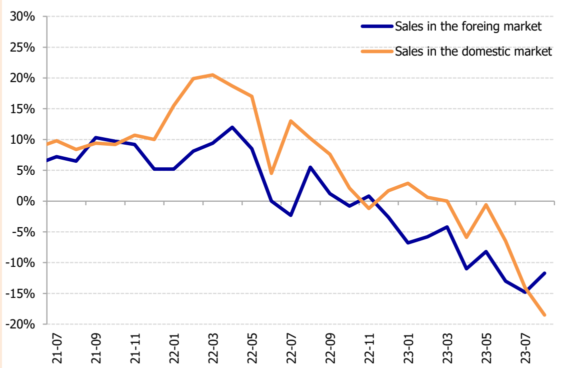
Accumulated variation to August 2023



Source: Econviews based on INDEC-Manufacturing IPI

Expected sales of Argentine industrial production

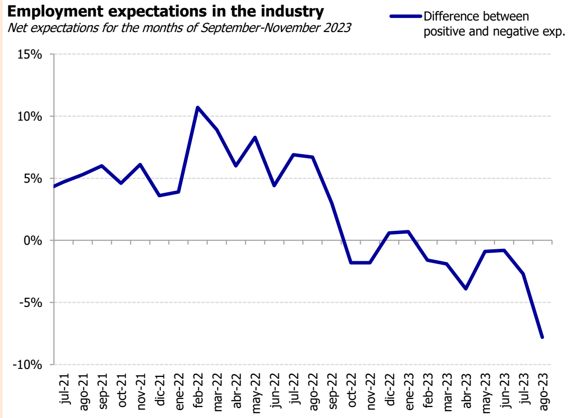
Difference between positive and negative expectations for Sep-Nov 2023



Source: Econviews based on Manufacturing IPI - INDEC

Employment expectations in the industry

Net expectations for the months of September-November 2023



Source: Econviews based on Manufacturing IPI - INDEC

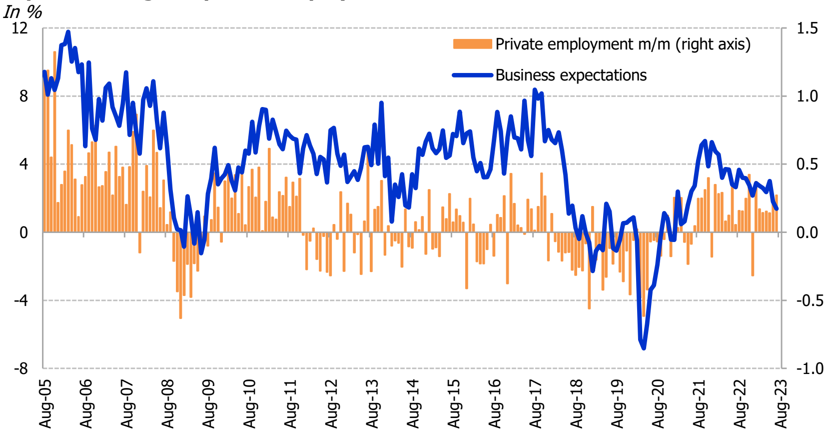
individuals under the social regime (+3.29%), a category closely tied to social assistance programs. Conversely, self-employed individuals decreased (-0.05%), and salaried employees in the public sector and single-tax payers showed a decrease in intensity by 0.08% and 0.25%, respectively.

The SIPA salaries for July rebounded in real terms (+4.72% YoY) after six months of decline. Considering the 12.4% inflation in August and projections for the upcoming months, it is unlikely that this improvement will be sustained. The RIPTE salaries provide a hint of this occurrence. Although RIPTE salaries do not necessarily measure the evolution of salaries in private registered employment, the **August data shows a monthly loss of 5.8% in purchasing power.**

The Ministry of Labor also published the Labor Indicators Survey (EIL). **Formal employment in companies with more than 10 employees increased by 0.1% in August across all regions**. It's important to note that employment had been growing at a rate of 0.3% in the past two months; therefore, this slowdown could be explained by the context described earlier.

Not all sectors showed the same performance. **Employment in the manufacturing industry increased by 0.1% in August**, compared to 0.2% in July and 0.3% in June. This sector had demonstrated some resilience so far. However, based on the previously mentioned hiring expectations, it is possible that starting from September, at best, there may be no further growth. **In the construction sector, the number of personnel decreased by 0.6%** after two months of expansion. **This marks the most significant decline so far this year**. Considering the hiring expectations across all sectors, employers are becoming increasingly less optimistic every month. **Only 1 out of 100 employers expects to hire more personnel in the coming months.**

Expected hiring and private employment
In %



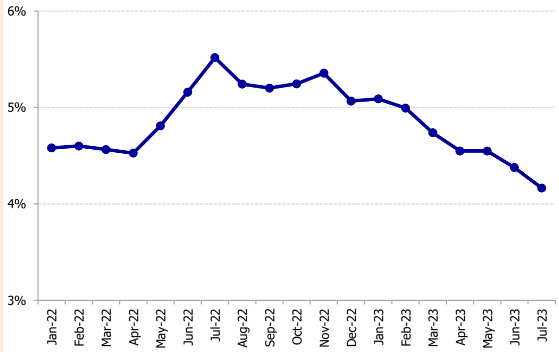
Soruce: Econviews based on EIL, MTEySS

Formal employment
July-23, s.a.

	m/m	y/y	YTD
Private salaried jobs	0.33%	3.31%	1.66%
Government salaried jobs	0.08%	2.21%	1.46%
Domestic workers	0.25%	-0.54%	0.37%
Self-employed	-0.05%	2.31%	1.12%
Single-tax payers	0.25%	7.76%	4.70%
Social single-tax payers	3.29%	20.22%	0.56%
TOTAL	0.37%	4.17%	1.94%

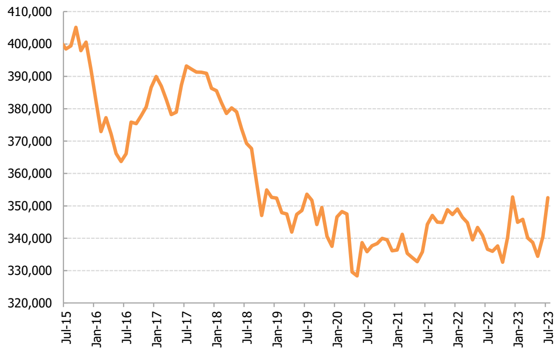
Source: Econviews based on Min. of Labour

Formal employment's evolution
Anual variation, s.a.



Source: Econviews based on Min. of Labour

Real wages of private salaried workers
SIPA- AR$ at July-23 prices, s.a.



Sorce: Econviews based on Min. of rlabor and INDEC

The Map of the Lost 18 Billion Dollars

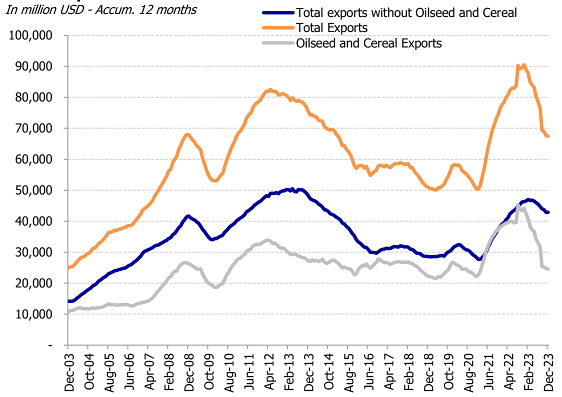
- *Reserves fell again in September. In the last 12 months, international reserves fell by over USD 10 billion. So far this year the drop is almost USD 18 billion.*
- *Exports contracted because of the drought and imports were also very low due to the exchange market restrictions.*
- *The Central Bank spent almost USD 3 billion to contain the MEP exchange rate, in a context where it does not have own dollars in its balance sheet.*

Reserves fell again in September. The stock of gross reserves fell by USD 894 million and stood at USD 26,925 million. Net reserves followed the same path and ended the month at USD -5,296 million. **We estimate that the coming months are going to be even tougher and only in December, assuming an exchange rate devaluation, they could increase.**

Regarding the inflow of dollars, we estimate that exports will totalize USD 67.5 billion throughout the year, well below what they were in 2022. The contraction is explained almost exclusively by the drought. Of the USD 23 billion that will fall, USD 19.6 billion corresponds to the Oilseed and Cereal Sector (-44.4% y/y), which represents on average 40% of total exports. In this sense, if we compare the total exported excluding this item, between last year and this year, only USD 3.4 billion will be lost (-7.4%). In all these calculations we are assuming that an eventual FX devaluation in December will incentivize the settlement of exports that would be retained in October and November. This leads us to think that next year the export balance should improve, although in recent days there have begun to be doubts about the success of the next harvest.

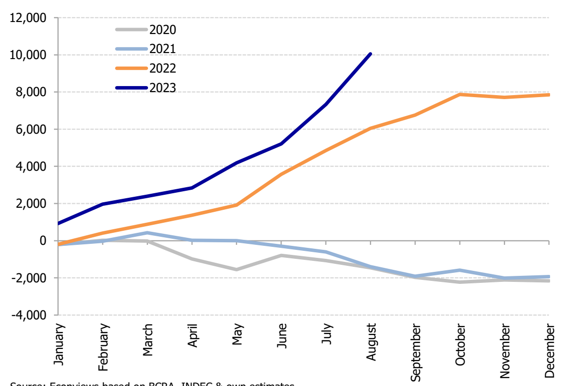
The drop in imports will offset part of the drop in exports. We estimate that in 2023 total imports will be USD 57.3 billion, about USD 11.3 billion less than in 2022. The contraction of economic activity logically means that less is needed to be imported, but there is one more important reason to explain import shrinkage. The government does not authorize payments for imports to avoid an exchange rate devaluation, as the central bank has no reserves. In August (latest official data), imports for only USD 4,095 million were paid, when the normal functioning of the economy would require this number to be closer to USD 5,000 / 5,500 million. If we compare the cash-basis data (adjusted for insurance and freight) with the accrual, we can deduce that in August the debt for imports rose by USD 2.7 billion. In the last 12 months, it increased USD 11.8 billion, and the total stock is already at USD 41.9 billion.

Goods Exports
In million USD - Accum. 12 months



Source: Econviews based on BCRA

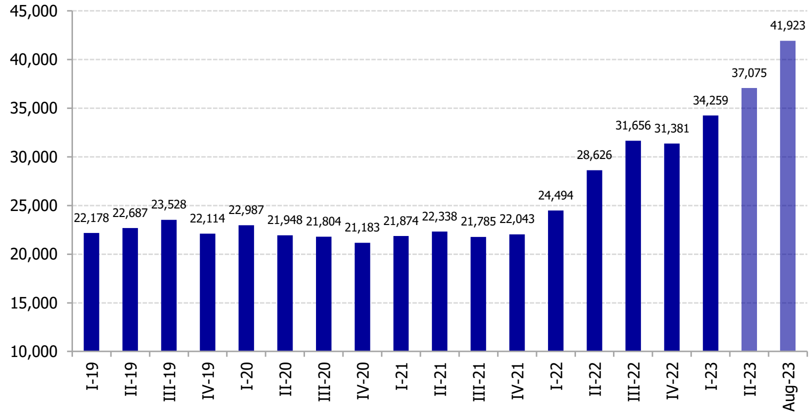
Difference between imports accrued and paid
Estimated from MULC (CIF adjusted) & ICA data - In million USD



Source: Econviews based on BCRA, INDEC & own estimates

Goods importers debt

In million USD



Source: Econviews based on BCRA & own estimates

There is also a price factor in both the decline in exports and imports. So far in 2023, export and import prices have fallen 8.5% and 4% respectively. In year-on-year terms, the decrease is 12% and 18%.

Balance of Payments

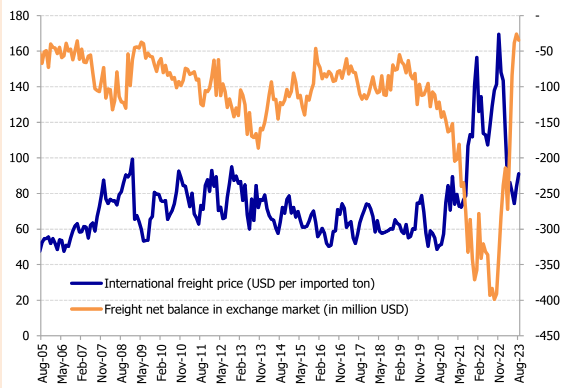
In million USD - Cash basis

	2022	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2023E
Current Account	**4,779**	**-1,651**	**-1,237**	**-2,020**	**71**	**776**	**-1,712**	**-645**	**-372**	**518**	**-293**	**-1,138**	**2,686**	**-5,016**
Balance of goods	21,817	414	572	-747	903	2,363	-921	985	1,292	1,343	317	234	3,380	10,135
Exports of goods	90,533	4,577	4,335	5,340	6,299	8,246	5,209	5,564	5,388	5,905	4,440	4,616	7,550	67,469
Imports of goods	68,715	4,163	3,763	6,087	5,397	5,882	6,130	4,579	4,095	4,562	4,122	4,382	4,170	57,333
Balance of services	-10,106	-725	-653	-866	-506	-430	-363	-330	-412	-387	-286	-326	-338	-5,621
Interests	-6,749	-1,313	-1,116	-409	-297	-1,126	-400	-1,260	-1,239	-418	-302	-1,032	-319	-9,232
Profits	-153	-38	-26	-22	-13	-43	-26	-52	-11	-11	-12	-12	-39	-305
Transfers	-30	12	-14	25	-15	12	-1	12	-1	-9	-12	-3	1	6
Capital Account	**32**	**-5**	**-4**	**14**	**0**	**6**	**-3**	**5**	**2**	**1**	**3**	**2**	**2**	**23**
Financial Account	**2,106**	**-2,219**	**-734**	**1,855**	**-4,091**	**-2,191**	**-2,915**	**-3,676**	**4,409**	**-1,183**	**-2,956**	**-120**	**2,334**	**-11,488**
Foreign Investment	570	53	55	38	59	54	224	45	69	37	36	34	59	762
Portfolio	24	-1	3	-1	0	-1	-4	0	-1	0	99	97	101	294
Net Loans	-5,207	-195	-669	-491	-478	-478	-142	-317	-501	-400	-400	-400	-400	-4,872
IMF	6,867	-2,641	0	2,672	-2,668	0	-2,683	-2,657	6,406	0	-2,641	0	2,424	-1,788
Multilaterals	1,349	25	-73	317	53	-91	289	1,089	-754	300	300	300	300	2,057
Hoarding	-779	-81	-11	-4	-397	-83	0	-196	-91	-150	-100	0	0	-1,113
Others	-718	621	-39	-678	-660	-1,592	-599	-1,640	-720	-971	-250	-150	-150	-6,828
Reserves accumulation	**6,918**	**-3,875**	**-1,975**	**-152**	**-4,020**	**-1,409**	**-4,630**	**-4,316**	**4,039**	**-664**	**-3,247**	**-1,256**	**5,022**	**-16,482**

Source: Econviews based on BCRA

The deficit in services would also help international reserves suffer less, going from USD 9.9 billion in 2022 to USD 5.4 billion this year. Freights has a lot to do with this improvement. Last year this line within the services account had a negative balance of USD 4.15 billion and in 2023 we expect it to be reduced to USD -1.3 billion, so that half of the reduction in the services deficit is explained by freights. Here the explanation comes from the costs side of the equation. After the pandemic, the freight price per imported ton went from between 60 and 80 dollars to a peak of more than 160 dollars at the end of 2022. Last August, this price was 29% below in year-on-year terms.

The drop in freight costs helped reduce service deficit

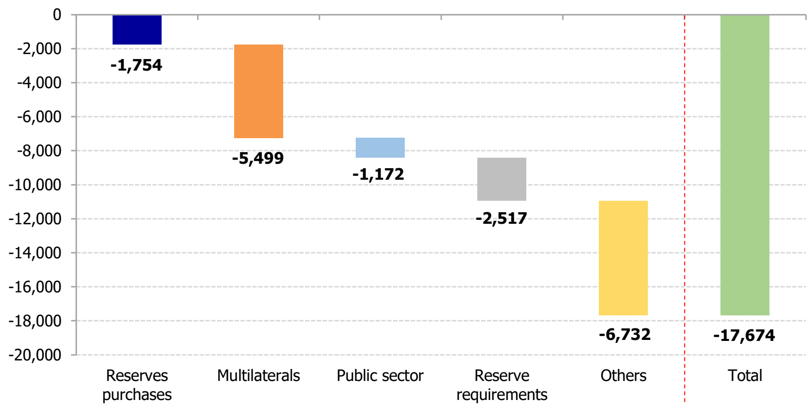


Source: Econviews based on BCRA & INDEC

Another important point to understand where the dollars have been spent is the intervention of the Central Bank in the MEP exchange rate. Official data indicate that in the first eight months of the year, the BCRA spent USD 2.21 billion on this task. Only in August, it used USD 870 million, mainly in the days before the primary elections. In September we estimate that it spent another USD 750 million, bringing the total for the year to almost USD 3 billion. The Central Bank does all this in a context where it only has USD 6.5 billion in its assets, which do not belong to it. We say this because, on the liability side, it has USD 9.6 billion in reserve requirements, which are from the private sector. If we add gold (USD 3.7 billion), the margin is USD 600 million.

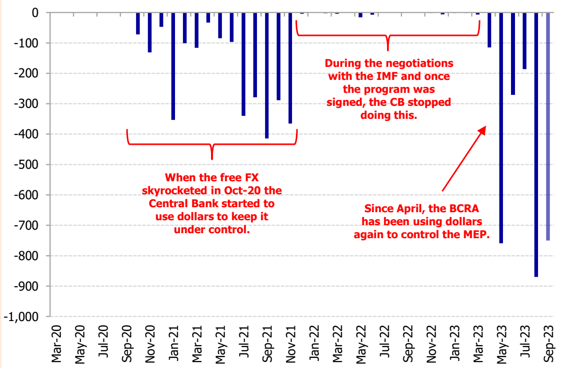
In more general terms, for the entire year, we expect the current account to end with a deficit of USD 5 billion and the financial account with a deficit of USD 11.5 billion. With these results, we see the stock of gross reserves at the end of December at USD 27.5 billion and net reserves at USD -5 billion. Before we get to that we will have to go through October and November, where the situation will be more complicated.

International Reserves - Factors of variation
In million USD - Accumulated of 2023 up to September



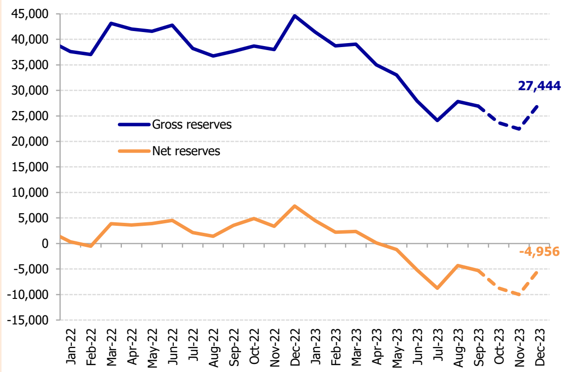
Source: Econviews based on BCRA

Purchase and sale of securities in the MULC
In million USD



Source: Econviews based on BCRA

International reserves
In millon USD



Source: Econviews based on BCRA and own estimates