THE WEEK AT A GLANCE

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Editorial: Lower Rates and Gradual Lifting of the Restrictions

The Central Bank lowered the monetary policy interest rate by 10 points, from 80 to 70% annually. Now the banks began to pay time deposits of around 60% annually. There are arguments to lower the rate. The first is that market rates were already very low. The government knows that the rate has to be higher than the projected devaluation and lower than inflation to maintain appetite for the peso, although the equation is less simple than it seems.

The second argument is the same as always: reduction of central bank liabilities in real terms. The Central Bank reduces the amount of issuance for interest payments (almost 2 trillion pesos in March). This helps lower the primary money issuance. It also relieves the interest burden on the Treasury. Let us remember that in March the LECAP was set at 5.5% monthly and in April it was at 4.5 and 4.75%.

Perhaps the most important bet is for the banking multiplier to start working. Today several banks entered into a competition to lower rates, especially in the corporate market. In times of tough fiscal policy and an unhelpful exchange rate, credit stimulus can be a small oasis.

The rate announcements also came with regulatory measures. The reserve requirement is increased to 10% for fund deposits (implies lower returns for institutional investors) and import payments for SMEs are made more flexible.

This increases the demand for dollars on the margin and leaves clues about how the economic team plans to remove exchange restrictions. There will probably not be a D-day, like December 17, 2015, but it will be in stages. The disadvantage is that a communication and expectation effect is lost, something like the day of liberation. The advantage is that the economic team is playing it safe. The government tests, and if it works, it moves forward.

We think it is important to dismantle this Frankenstein. It should be noted that not even lowering rates made the dollar rise. This is because the MEP dollar and BCS are not, as they are commonly called, free or market dollars. The restrictions on operating in these markets allowed a drop in rates to raise the price of long bonds in pesos and not the dollar. The market left guarantees and money market funds to look for alternatives in pesos, since many are prohibited from accessing the BCS, including importing firms, banks and others.

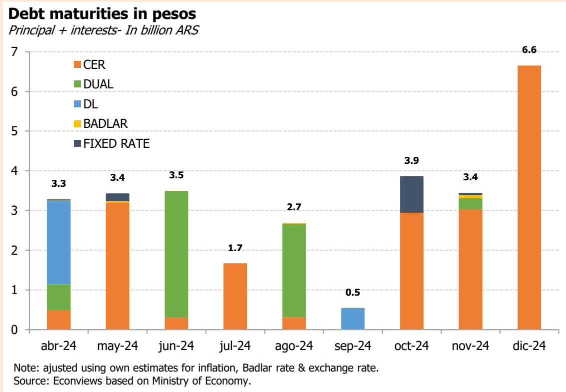
The litmus test for the market could come the day the cross restriction is removed to buy MEP or BCS without losing access to the official exchange market. It must be remembered that today the price of the BCS has a tiny premium compared to what it would be like to buy official dollars plus PAIS tax on dollar purchases. We also have to see what they do with the "blend" or the export dollar at 80-20. Today the BCS has an artificial supply that already yields only around 4% (20% exported to the BCS, with a 20% premium). A distortion is generated that already yields very little.

Although our base scenario says that exchange restrictions will be removed in July, we believe that by July there will undoubtedly be progress with deregulation little by little. We are not sure if we will have a truly free market. What we do believe is that when that time comes, interest rates will have to be positive in real terms. At Econviews we have been proposing the alternative of using exchange bands or a simplification with commercial and financial dollars, as ways of not generating so much negative shock when lifting restrictions. They are ideas for the post-restrictions world that will somehow arrive in a few months.

LAST WEEK IN REVIEW

In the first auction of the month, the Treasury issued ARS 3 billion. A little more than half of this amount corresponds to the Boncer as of December of next year. The remaining percentage was divided into the Lecap as of October 2024 and February 2025. Its monthly interest rate was 4.5% and 4.75% respectively.

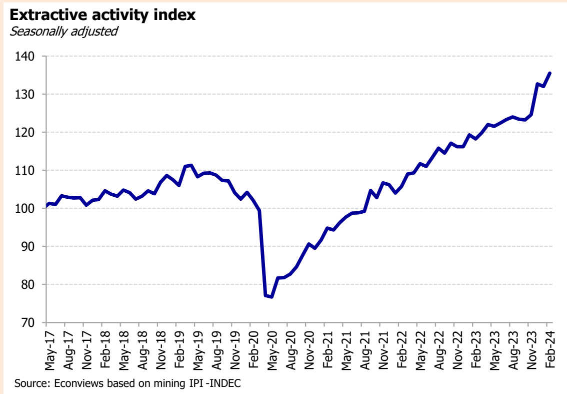
With maturities of just under ARS 0.5 trillion, **the Treasury had excess liquidity that it will use to buy dollars from the Central Bank.**



Mining and extraction activity increased 2.7% monthly in February. The interannual variation was 13.4%. It grew 11.3% compared to the first two months of last year.

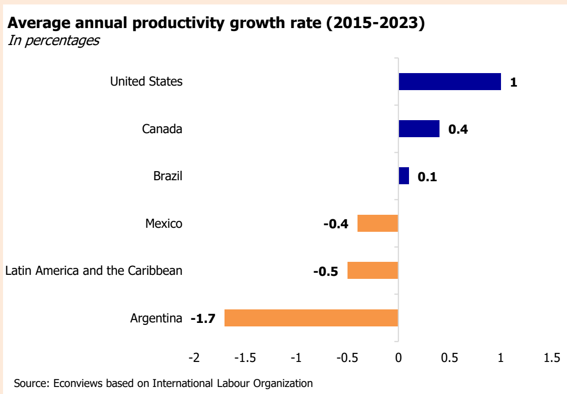
The growth of the sector is mainly driven by the extraction of crude oil (+9.7% accumulated YoY) **and by support services for extraction** (+29.5% accum. YoY).

Natural gas (+1.1% accum. YoY) **and non-metalliferous minerals** (+12.7%) **are also improving** compared to 2023**. The opposite is true for metalliferous minerals** (-16.6%) which includes lithium, granite and others.



Low labor productivity. During the period from 2015 to 2023, countries in Latin America and the Caribbean experienced a decrease of 0.5% in their annual labor productivity, **while in Argentina this decrease was 1.7%**, according to data from the International Labor Organization (ILO).

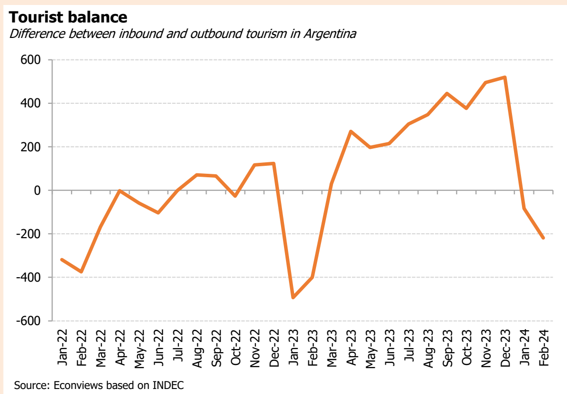
The ILO argues that this low productivity growth in the region is due to several factors, including regulatory regimes, insufficient investment in infrastructure, and inefficient fiscal systems. Additionally, they point out that the significant presence of informal employment and the high proportion of micro and small enterprises contribute to hindering overall productivity growth.



The number of foreign tourists received in the month of February was 713 thousand, 16.7% more than February 2023. Adding to the day trippers (visitors who do not spend the night), who reached 474 thousand (-2.3% YoY), receptive tourism was 1.2 million people (+8.3% YoY).

Tourism by Argentines abroad reached one million people, 9.1% less than February 2023. Adding excursionists (+4.2% YoY), outbound tourism was 1.4 million people (-6% YoY).

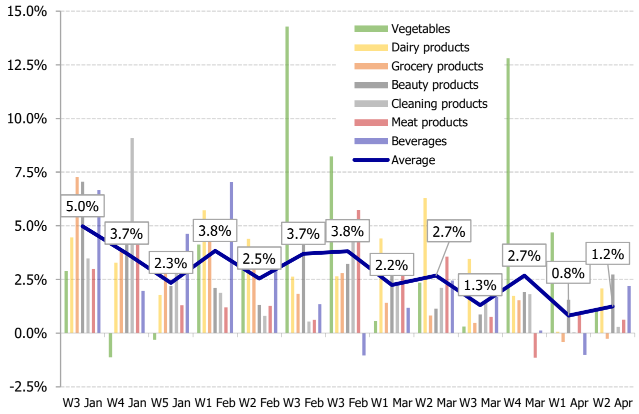
The difference between outbound and inbound tourism increased, with 218 thousand more Argentine visitors abroad.



WEEKLY INFLATION

Inflation rate - high frequency data

Weekly price variation in major supermarkets in Great Buenos Aires



Note: The variations are based on the average price per week, from Friday to Thursday.
Source: Econviews based on own estimates

NEXT WEEK'S HIGHLIGHTS

- **Today**, INDEC will publish the **patenting index** for the first quarter.
- On **Tuesday 16**, the **Construction Price Index System of the Buenos Aires City** will be announced.
- On **Wednesday 17**, the **wholesale price index and construction cost index** for the month of March will be published.
- On **Wednesday 17**, the BCRA will publish its **report on banks** for February.
- On **Thursday 18**, the **Argentine trade exchange data** for March will be known.
- On **Thursday 19**, INDEC will publish the **use of installed capacity in the industry** for February.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	866.8	0.5%	2.1%	304.6%	↑
MEP	1002.7	0.3%	-2.5%	159.2%	↑
Blue Chip Swap	1050.6	0.1%	-1.9%	164.7%	↑
Parallel	985.0	2.1%	-1.5%	150.0%	↑
Official exchange rate BRL/USD	5.1	1.1%	3.0%	4.1%	↑
CB reserves (USD million)	29,316	+551	+1,044	-7,908	↑
Policy rate (Leliq)	70.0%	-10.00 p.p.	-10.00 p.p.	-8.00 p.p.	↓
Badlar rate (private banks)	63.0%	-8.38 p.p.	-11.38 p.p.	-9.94 p.p.	↓
Private Deposits (trillion ARS)	46.6	2.6%	10.4%	144.9%	↑
Private Loans (trillion ARS)	19.6	-0.4%	7.9%	142.0%	↓
Merval (in ARS)	1,246	2.6%	21.3%	366.9%	↑
Merval (in USD)	1,186	2.5%	23.7%	76.4%	↑
Country Risk (spread in %)	1,326	2.3%	-18.9%	-44.3%	↑
Soybean (USD/tn)	431.4	-0.9%	-0.7%	-22.0%	↓
Corn (USD/tn)	171.5	0.3%	1.5%	-33.6%	↑
Wheat (USD/tn)	204.3	-2.0%	3.8%	-18.2%	↓
Oil - Brent (USD/barrel)	94.2	1.1%	11.2%	5.6%	↑
Oil - WTI (USD/barrel)	86.5	-1.4%	10.1%	3.8%	↓
LNG (USD/MMBTU)	9.8	3.2%	14.0%	-18.3%	↑
Gold (USD/oz.)	2,343.6	0.6%	8.6%	16.3%	↑

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Feb-24*	-0.7%	-9.8%	-4.4%
Automobile production	*Mar-24*	10.6%	11.0%	51.2%
Steel production	*Feb-24*	-5.0%	-5.5%	6.5%
Poultry production	*Feb-24*	3.1%	0.4%	4.8%
Dairy production	*Feb-24*	-4.1%	-7.4%	-7.1%
Beef production	*Mar-24*	-11.6%	-2.2%	-8.7%
Real Estate transactions (CABA)	*Feb-24*	14.4%	-6.9%	10.1%
Flour Production	*Feb-24*	1.4%	-4.9%	-1.3%
Oil production	*Feb-24*	3.1%	3.6%	2.9%
Gas production	*Feb-24*	12.3%	-1.7%	14.5%
Cement production	*Mar-24*	-20.1%	-16.7%	-23.6%
Construction activity	*Feb-24*	-2.6%	-17.7%	-12.6%
Gas sales	*Feb-24*	0.5%	-6.5%	-2.1%
Motorcycle licenses	*Mar-24*	-28.7%	-24.3%	-31.4%
Use of electricity	*Feb-24*	0.8%	-3.0%	0.6%
Train rides (AMBA)	*Feb-24*	-3.1%	-5.9%	-0.7%
Imports CIF	*Feb-24*	-3.6%	-13.4%	-7.4%
Exports FOB	*Feb-24*	2.5%	10.7%	10.2%
Loans in ARS to private sector	*Feb-24*	-1.1%	-26.1%	-16.5%
VAT-DGI Revenues	*Feb-24*	7.2%	-10.8%	-0.7%
Formal private jobs (SIPA)	*Dec-23*	0.0%	-0.2%	-0.3%
Formal private jobs (EIL)	*Jan-24*	-0.1%	-0.4%	-0.5%
Consumer confidence	*Mar-24*	1.8%	-18.2%	-1.3%
Government confidence	*Mar-24*	-0.4%	41.0%	-4.5%

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

Inflation in Goods at Single Digit, Utilities Are Pushing on the Services' Side

- *March's CPI print was 11%; core inflation came in at 9.4%, but regulated prices rose 18.1%, pushing up the general index.*
- *Our survey shows food and beverage prices are running at 8.8% month-on-month in the first two weeks of April, consolidating the downward trend.*
- *Increases in gas bills and services in general could keep April's inflation in double digits, despite the clear disinflation in goods: we expect 10% this month.*

The Consumer Price Index rose 11.01% in March. As in January and February, the number was slightly below the 12.5% that the market expected and the 12% that we had at Econviews. The core index rose somewhat less, 9.4%, and broke into the single digits for the first time since October. On the other hand, regulated prices rose 18.1% due to the adjustment in electricity bills, among other factors. This may happen again in April: our high-frequency indicator shows that inflation in supermarkets continues to cool down, but gas adjustment in gas bills may leave the total variation above 10% or thereabouts. In year-on-year terms, the CPI rose 287.9%. We expect it to close 2024 around 210%.

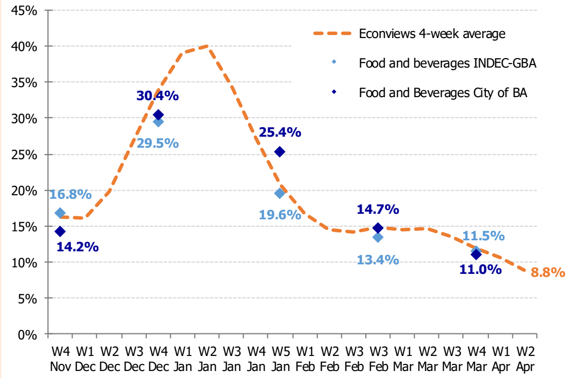
Among the items that rose the most last month, education (+52.7%) due to seasonal factors, communication (+15.9%) and housing (+13.3%) stand out. Food and beverages (+10.5%) increased less than the general index.

Food and beverages runs in single digits in April. Our online survey of Buenos Aires supermarkets shows increases of 1% average per week in the first half of April. Taking the average of the last four weeks, food inflation is running at 8.8% month-on-month. Projecting this 1% weekly rate, food and beverages would close the month around 6-7%, the lowest increase since July 2023. The change of season may weigh on fruit and vegetable prices. The wholesale price of steers rose 5.5% between April 5 and 12, its biggest increase in seven weeks, which could boost retail beef prices (which weigh 9% in the CPI).

In addition, supermarkets are cutting some prices. In the second week of March, nominal prices had dropped in 7 of the 49 product categories we follow. In the second of April, this was 16 out of 49, with price drops in dairy, perfumery, beef and other categories. It is early to talk about a trend, but it shows how supermarkets are responding to the collapse in demand and the stable exchange rate, which is one of the main drivers for tradable products.

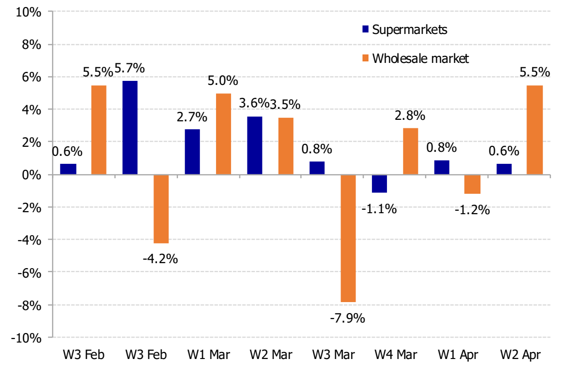
What's next in utilities and regulated prices? Private healthcare, public transportation and gasoline have already corrected most of last 4 years' disequilibrium: with increases of 8-20% they would return to December 2019

Graph 1. Monthly inflation in food and beverages
Average 4-week variation (Econviews online survey) and official data



Source: Econviews based on INDEC, IPCBA and own estimates

Graph 2. Beef prices rose again
Weekly price variations

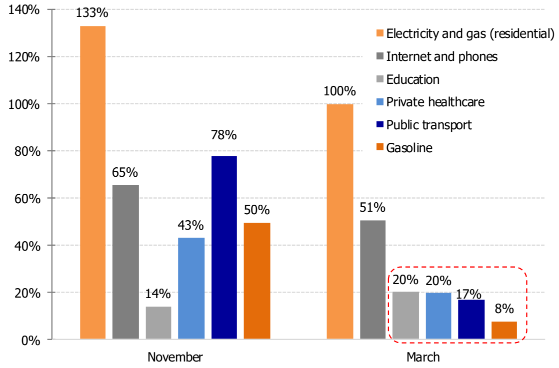


Note: The variations are based on the average price per week, from Friday to Thursday.
Source: Econviews based on own estimates and Liniers Market

levels in real terms. Of course, as inflation continues to run at 10%, this ground can be lost very quickly. Coming next are telecommunications (this week the government deregulated prices) and the adjustment in gas bills, which will be reflected in the April CPI.

The government sees this as a victory and to some extent it is. Although inflation is high, in recent months the data was somewhat lower than what the market expected. Qualitatively, the government managed to get tradable prices to grow less than services and that is also good. In any case, the decline in inflation is occurring with an exchange rate anchor that will either have costs in terms of activity or will require a correction in the future. Our view was always that an accelerated crawling peg (say at 6%) would have very little impact on prices. But this is not the government's vision and we see it highly probable that the official exchange rate’s 2% monthly crawl will go on. Inflation will continue to fall, but at the cost of Miami being cheaper than Mendoza. It is an eternal battle between sustainability and generating short-term credibility.

Graph 3. The ongoing correction in relative prices
Buenos Aires: necessary increase to return to Dec-19 levels, relative to general CPI



Source: Econviews based on INDEC

Activity Is Bottoming Out

- *We estimate that March was a neutral month for the activity level.*
- *Industry and construction figures were again negative in February and have been falling for several months in a row.*
- *We see a second half of the year that could be better. The assumptions are several: lifting of FX restrictions, improvement in credit, and real wages' recovery.*

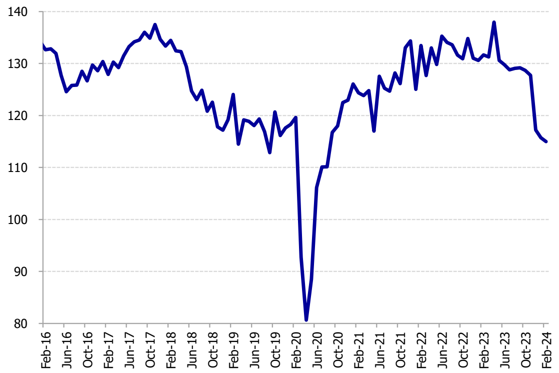
When does the economic contraction end? Has the worst already happened? If we look at the first indicators for March, there are signals that the activity level may be at its lowest. Or at least pretty close. Among the positive numbers, car production grew 10.6% monthly, retail sales 3.2% (CAME), and consumer confidence 1.8% (UTDT). On the other hand, cement shipments fell 20.1%, motorcycle licensing 28.7%, credit to the private sector -1.2%, and tax revenues linked to the activity 4.9%. All this leads us to think about a month that would be neutral or slightly negative.

What we have little doubt about is that the economy continued to decline in February. Industrial activity contracted 0.7% monthly and has accumulated 5 months in a row of negative figures. It is 9.9% below compared to a year ago and 16.6% compared to the last maximum (April 2023). Of the 16 sectors that make up the index, all had negative annual variations in February except tobacco production. Among the subsectors, there are also exceptions, such as oilseed crushing (+48%) or agrochemicals (+30.9%), both explained by the post-drought recovery of agriculture.

The industrial outlook is not very encouraging. More than half of those surveyed expect demand to decrease in the next three months, while only 12.4% think it will increase. Another negative sign is that 21.3% estimate that their staffing will decrease, the highest percentage since June 2020. In this sense, we must consider that several industrialists are wondering if it is not time to change the mix of local products versus imports in favor of the latter. An overvalued exchange rate and a delayed labor reform are pushing in that direction.

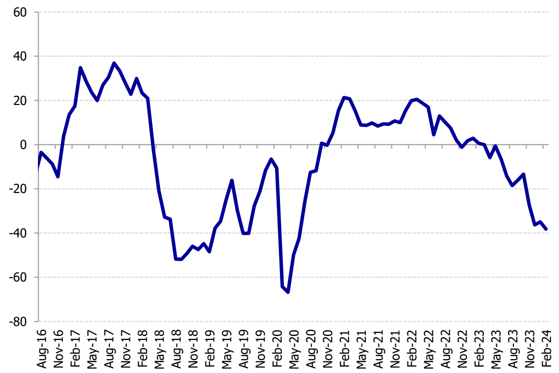
Construction is another sector that has been suffering. The latest available data indicate that in February it fell 2.6% compared to January and 24.6% year-on-year. Here the negative streak is even longer: there have been 7 consecutive months of decline. Among the components, asphalt is the one that contracted the most in the last month. The slowdown in public capital expenditures is what explains this performance and it does not seem that it will be reversed. Taking out the worst month of the pandemic, this subindex is at the lowest level.

Graph 1. Manufacturing production index
Seasonally adjusted - Base 2004 = 100



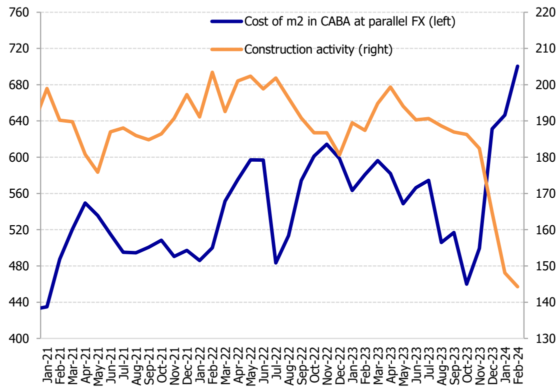
Source: Econviews based on INDEC

Graph 2. Manufacturing expectations for next 3 months
About the domestic demand- Net of positives and negatives



Source: Econviews based on INDEC

Graph 3. Construction & cost of m2



Source: Econviews based on INDEC & CABA statistics

The rest of the inputs do not reflect a good situation either, quite the opposite. **Our view is that this has a lot to do with the fall of the FX spread. Construction cost is measured in dollars and today it has become very expensive.** According to CABA statistics, the square meter in February cost USD 700 measured at the parallel exchange rate, 52% more than the USD 460 in October.

<u>**How do we see the coming months?**</u>

At the beginning, we said that activity may be close to stopping falling. That is logically good, but it is not going to be felt by most of the population. Going forward we see several factors that can determine how quickly the economy recovers.

Agriculture is going to be one of the sectors that helps. Although it does not have a large participation in the GDP, a good campaign can boost other related activities such as transportation, sales of inputs, or retail commerce in the countryside towns. Furthermore, this year compares to a drought year, so we will have significant increases in accounting terms anyway.

The latest forecast is that total production will reach 127.7 million tons, which places this campaign as one of the best, but far from being a record. In addition, there are risks that it will end up being smaller. There have been several weeks in which the Buenos Aires Grain Exchange has cut its production estimates. In particular, the appearance of the virus transmitted by the "chicharrita", which affected some corn plantations, had a lot to do with the last forecast reduction. For this crop, the current projection (49.5 MTn) is already 7 million tons below the initial one. For soybeans, there was also a decrease in estimates (51 MTn) due to the impact of the lack of rain combined with high temperatures in the summer.

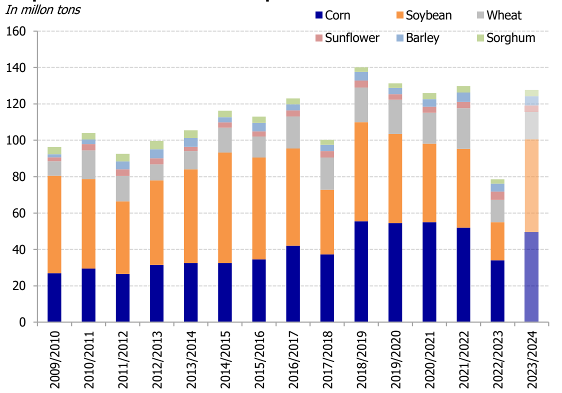
All this is also seen in the conditions of the crops. While at the beginning of the year, most of it was between good and normal, now some areas are already registered in regular or bad condition. **In any case, as we said before, the campaign is not going to be bad, and the year-on-year variations will be high anyway.**

The lifting of FX market restrictions should also be a factor that stimulates the activity. The problem is that it does not seem to be an absolute truth that it will happen. This would allow investment projects that will not be launched until the exchange market normalizes. Furthermore, if the market unification is at a high real exchange rate there may also be some boost for the construction side.

Another driver of the recovery may be private credit. With the interest rate falling there may be room for it to begin to recover and thus boost both investment (credits to companies) and consumption (individuals). Perhaps being very optimistic we can also think about the comeback of mortgages.

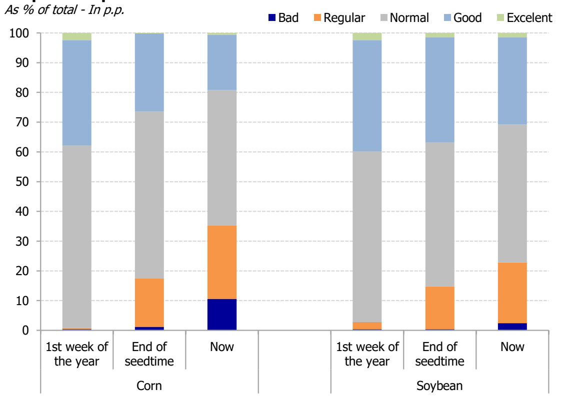
A final point in favor is the recovery of salaries, with the consequent improvement in consumption. We estimate that on the annual average, the

Graph 4. Production of 6 main crops
In millon tons



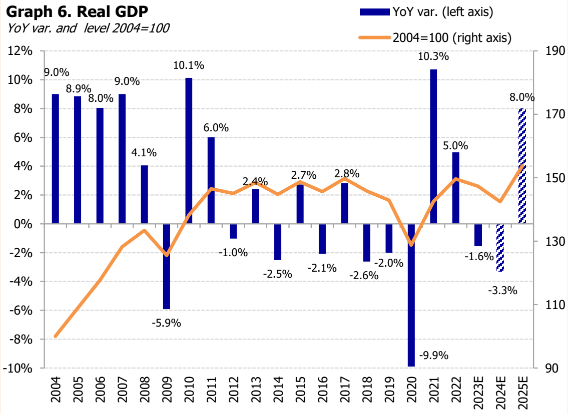
Source: Econviews based on BCBA

Graph 5. Crops Condition
As % of total - In p.p.



Source: Econviews based on BCBA

Graph 6. Real GDP
YoY var. and level 2004=100



Source: Econviews based on INDEC

real salary will fall compared to last year, but if inflation remains calm, we may begin to have real improvements from now on.

In summary, we think that by mid-year we will have a stabilization in the level of activity and then we will grow again. All this is subject to the completion of the macroeconomic corrections, the lifting of FX restrictions, and the exchange rate does not continue to overvalue. **For the time being, we maintain our projection of -3.3% for this year, although downside risks are latent.**