

# THE WEEK AT A GLANCE

**ECONVIEWS**  
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The Importance of  
**Having a Law**

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## **Editorial: The Importance of Having a Law**

**The structural reforms law and fiscal packet saga seems to be ending** largely because the opposition is running out of excuses not to give something to the government, which maintains a positive image of 55%. Meanwhile, the government is willing to concede almost anything to get its approval because it needs to demonstrate some degree of governability.

**Along the way, many of the reforms the government initially proposed have been left behind.** These include the privatization of Banco Nación, Aerolíneas Argentinas, the reduction in the number of workers for independent workers from 5 to 3, and income tax reductions for Patagonian workers. The government needs something to be approved no matter what.

**The market showed its claws.** The law's approval was already implicit in the prices, and the country's risk dropped to 1,200 points. Then, fears appeared, and the risk rose to 1,400 points. With the Senate committee's decision, it fell to 1,300, and Argentine stocks also soared.

**Now it's time for the game of patience, as many steps are still missing.** The first hurdle is the Senate's approval. Once cleared, the modified project returns to the deputies, and it remains to be seen if this chamber insists. We anticipate a process that will be far from linear and will have moments of turmoil. The cabinet changes confirmed this week aim to improve the whole process, but it is uncertain if they will make things easy for Milei. What we do know is that traditional politics is committed to playing by its own rules, regardless of how favorable public opinion is for Milei.

**Milei needs to signal that he can work with "The Caste" to pass laws.** The alternative is to play the victim, hoping people will take his side. This can work with public opinion, as it did with the general strike or the shady deals of some social organizations. However, it is unlikely to work with the real economy or financial investors. These investors cannot make decisions without a stable framework and based solely on favorable public opinion because, as everyone knows, in Argentina and any country in the world, public opinion is here today and gone tomorrow.

**Beyond political implications, there is a relevant fiscal issue.** Even though some aspects have been diluted, the law's approval is essential for several reasons. The increase in income tax collection can assist some of the weaker provinces. The five-year personal property advance and the amnesty program can help collect some more money this year. Some dollars can also be gathered once most of the harvest is completed.

**Everything indicates a happy ending for the vote, although the content will leave a somewhat bitter taste due to the number of measures left behind.** The big question is whether this will be a starting point followed by new laws and more reforms or simply a victory that will fade over time, raising new questions about the government's ability to work with Congress.

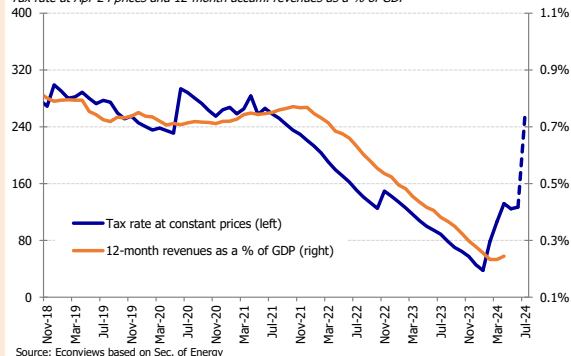
## LAST WEEK IN REVIEW

✓ The **fuel tax increased from 132 to 143 pesos, approximately 17% of a liter of gasoline.** The postponed May increase, which sought to recompose the inflation adjustment for the third quarter of 2023, should have been closer to 50 pesos, but the government opted for a lower amount.

✓ However, decree 466/2024 establishes that as of July 1, the amount will be adjusted for inflation in the fourth quarter of 2023 and the first quarter of 2024. That is, it would rise from 142 to 306 pesos per liter the following month. **In real terms, it would correct the entire delay in 2021 and 2022,** although it remains to be seen if the increase becomes effective, given that the government has been prioritizing containing the CPI.

**Forecast increase in fuel tax rates**

Tax rate at Apr-24 prices and 12-month accum. revenues as a % of GDP



✓ The **FX spread adjusted to 37%.** After the strong rise of the previous week, the BCS dollar fell slightly to 1,230 pesos, although throughout May it increased 14%.

✓ **Country risk also fell.** JPMorgan's EMBI index closed the week at 1,312 basis points, down from 1,443 on Friday, May 24. However, it had approached 1,200 a few weeks ago.

**FX spread with BCS**

Vs the official exchange rate, in % - Average B/A

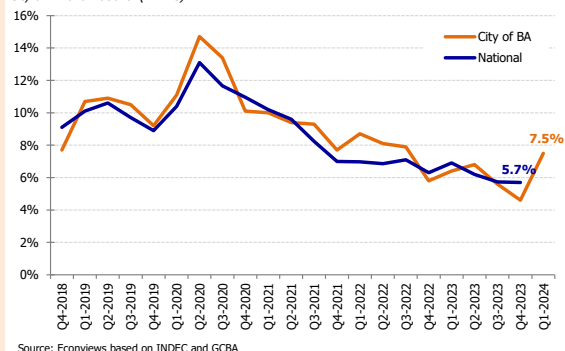


✓ In the first quarter of 2024, **unemployment in CABA rose to 7.5%.** It was from 6.4% in the first quarter of 2023 to 4.6% in the fourth, although there is some negative seasonality in the summer months. It is a good preview of national unemployment, which closed 2023 at 5.7% and could go to around 8%.

✓ **Informal employment in the City of Buenos Aires fell to 25.5%, a minimum of the last three years.** However, this may be due to a destruction of informal jobs.

**Unemployment rate**

City of BA and National (INDEC)

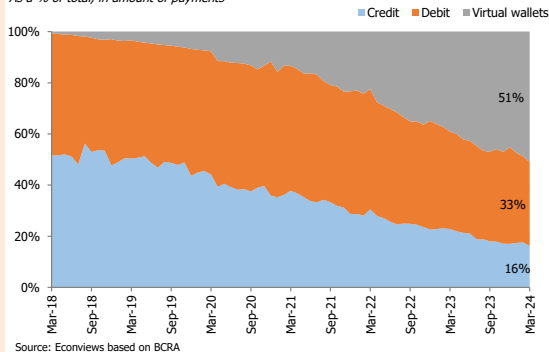


✓ According to the BCRA's retail payments report, **transfer payments (which include QR, etc.) are already 51% of the total.** Five years ago they were only 4%, but they have been growing by leaps and bounds, displacing the use of credit and debit cards.

✓ In the last year alone, **the number of transfer payments made per month grew 106%,** while for debit cards it rose 36% and for credit cards, 13%. In addition to digitalization, inflation and the low denomination of banknotes continue to reduce the use of cash.

**Payments with credit, debit and virtual wallets**

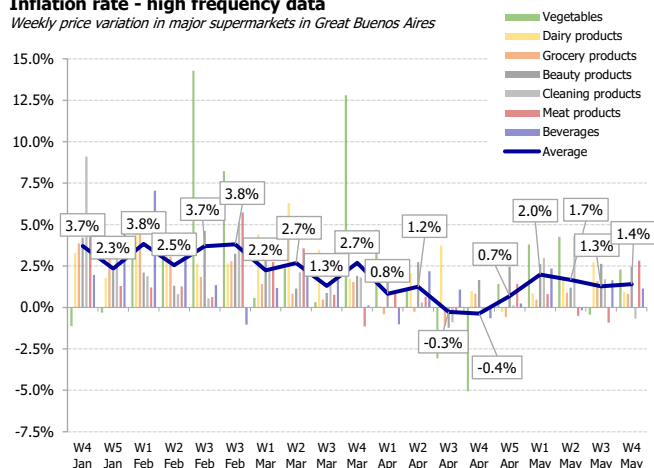
As a % of total, in amount of payments



## 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

- ✓ The **tax collection for May 2024** will be released **today**.
- ✓ On **Wednesday 5**, the INDEC will publish the **industrial manufacturing production index** for April.
- ✓ On **Wednesday 5**, INDEC will also report the **synthetic indicator of construction activity** for April.
- ✓ On **Wednesday 5**, ADEFA will report the **production and sale of vehicles** in May.
- ✓ On **Wednesday 5**, the AFCP **Portland cement shipment data** for May will be released.
- ✓ On **Thursday 6**, INDEC will announce its **fishing production index** for April.
- ✓ On **Thursday 6**, the INDEC **mining industrial production index** for April will also be published.
- ✓ On **Friday 7**, the **inflation of the Buenos Aires City** for May will be published.
- ✓ **This week**, CAME will release its May **retail sales index**.

## Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	895.3	0.5%	2.1%	274.1%	↑
MEP	1211.7	0.7%	16.5%	159.5%	↑
Blue Chip Swap	1243.6	0.5%	14.3%	156.9%	↑
Parallel	1205.0	0.4%	18.1%	148.5%	↑
Official exchange rate BRL/USD	5.3	1.6%	1.1%	3.8%	↑
CB reserves (USD million)	28,663	-453	+1,085	-4,338	↓
Policy rate (Leliq)	40.0%	0 p.p.	-20.00 p.p.	-57.00 p.p.	=
Badlar rate (private banks)	32.4%	+0.19 p.p	-18.44 p.p.	-59.56 p.p.	↑
Private Deposits (trillion ARS)	49.1	0.3%	6.8%	140.3%	↑
Private Loans (trillion ARS)	23.2	4.5%	11.8%	151.2%	↑
Merval (in ARS)	1,654	8.8%	25.0%	383.6%	↑
Merval (in USD)	1,330	8.2%	9.4%	88.3%	↑
Country Risk (spread in %)	1,312	-9.1%	7.1%	-49.4%	↓
Soybean (USD/tn)	442.8	-3.4%	4.3%	-7.3%	↓
Corn (USD/tn)	175.7	-4.0%	0.7%	-24.9%	↓
Wheat (USD/tn)	249.3	-2.7%	16.7%	14.2%	↓
Oil - Brent (USD/barrel)	80.6	0.6%	-4.9%	10.8%	↑
Oil - WTI (USD/barrel)	78.0	-0.6%	-3.4%	14.5%	↓
LNG (USD/MMBTU)	12.0	-2.4%	17.6%	26.3%	↓
Gold (USD/oz.)	2,328.2	-0.2%	0.4%	18.6%	↓

Note: arrow depends on weekly variation

## Spotlight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q	
Industrial production	Mar-24	-6.3%	-9.9%	-7.2%	●
Automobile production	Apr-24	13.8%	-8.0%	6.3%	●
Steel production	Apr-24	44.3%	-13.0%	-0.5%	●
Poultry production	Mar-24	-7.2%	0.0%	-4.1%	●
Dairy production	Apr-24	9.8%	-3.5%	-0.1%	●
Beef production	Mar-24	0.5%	-7.1%	-1.3%	●
Real Estate transactions (CABA)	Apr-24	7.9%	15.1%	13.5%	●
Flour Production	Apr-24	4.9%	-1.6%	2.3%	●
Oil production	Apr-24	0.6%	1.9%	0.4%	●
Gas production	Apr-24	2.4%	14.0%	4.9%	●
Cement production	Apr-24	9.2%	-18.6%	-8.6%	●
Construction activity	Mar-24	-14.2%	-22.7%	-19.4%	●
Gas sales	Apr-24	0.1%	-4.0%	-1.7%	●
Motorcycle licenses	May-24	0.6%	-11.0%	13.2%	●
Use of electricity	Apr-24	0.9%	-4.2%	-2.7%	●
Train rides (AMBA)	Mar-24	3.2%	0.7%	2.7%	●
Imports CIF	Apr-24	-0.4%	-7.9%	-2.2%	●
Exports FOB	Apr-24	1.0%	11.4%	2.3%	●
Loans in ARS to private sector	Apr-24	-1.2%	-16.6%	-2.2%	●
VAT-DGI Revenues	Apr-24	1.7%	-2.9%	1.2%	●
Formal private jobs (SIPA)	Jan-24	-0.1%	-0.2%	-0.1%	●
Formal private jobs (EIL)	Mar-24	-0.5%	-0.9%	-0.8%	●
Consumer confidence	May-24	3.1%	0.6%	4.6%	●
Government confidence	May-24	2.4%	-6.5%	-0.7%	●

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

# The Central Bank's Reserves Purchase Boom Seems to Be Part of the Past

- ✓ *The lower reserve purchases have more to do with lower export settlements than with import payments.*
- ✓ *The delay in the soybean harvest may be a factor.*
- ✓ *The volume of the official exchange market fell considerably.*

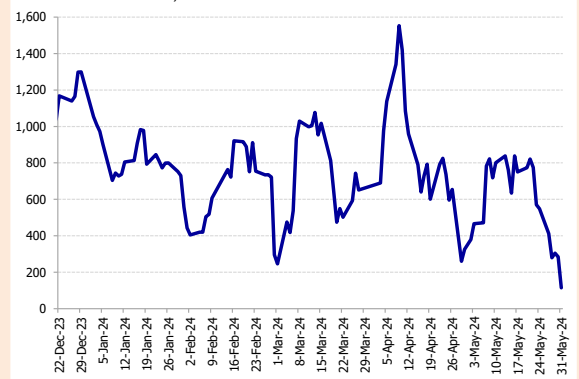
**The Central Bank is buying fewer reserves.** In April it had bought more than USD 3.3 billion and it dropped to USD 2.5 billion in May. In daily terms, the average purchases fell from USD 167 million to USD 115 million in these two months respectively. If we shorten the period of analysis, the slowdown is even more noticeable, going from USD 548 million accumulated in the fourth week of May to USD 115 million last week (see graph 1). It makes even more noise that of the last five rounds in two it ended with reserves sales. Since Milei took office, the Central Bank has only been a net seller in 6 rounds, including the two from last week. What is behind this slowdown? Do exporters settle less? Did the demand for foreign currency from imports grow?

**On the demand side, there may be a little more pressure given that import payments are already being made at 100%** (adding 25% quotas started in previous months). However, two points make us doubt about this. The first one is that we are going through the bottom of the recession which implies that the demand for imported products or raw materials becomes lower. The other issue is that based on the exchange market volume data we estimate that private demand for foreign currency did not have such strong growth. Therefore, it doesn't seem like the problem is here.

**Where we do see that there may be an issue is in the volume that is being traded in the exchange market.** At the beginning of April, the weekly average was around USD 500 million per day, and last week it was half that (USD 257 million – see graph 2). This allows us to deduce that the supply of exporters was decreasing. It is true that last week there was a “special” day for the Memorial Day holiday in the United States. But in these cases, the volume of that day is usually transferred to other days of the week, something that does not seem to have happened.

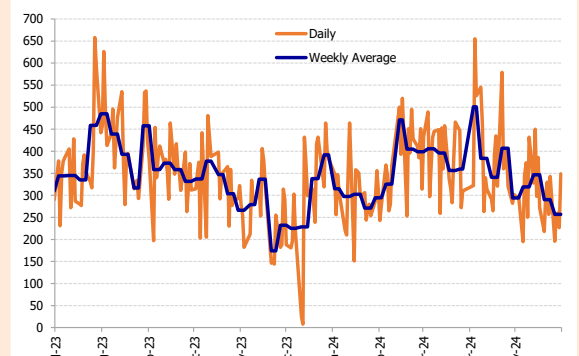
**Oilseed and grain complex export settlements in May totaled USD 2.6 billion, which marks a (purely seasonal) improvement compared to April.** Adjusted for prices, this amount is 5.8% below the average of all the months of May between 2011 and 2021 (see graph 3). It may have something to do with this that the soybean harvest is coming a little slower than normal. Until now, 85% of the total has been harvested, while in the average of the last five campaigns at this point 94% had already been harvested (see graph 4). In the case of corn, 30% has already been harvested, in line with recent campaigns. The production forecasts remained unchanged (Soybeans 50 MTn and Corn 46.5

**Graph 1. Central Bank reserves purchases**  
In million USD - Accum. 5 days



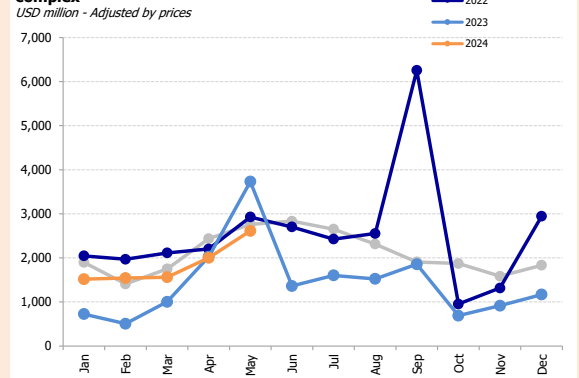
Source: Econviews based on BCRA

**Graph 2. FX market volume**  
In million USD



Source: Econviews based on MAE

**Graph 3. Export proceeds of the oilseed and grain complex**  
USD million - Adjusted by prices



Source: Econviews based on CIARA-CEC & BCRA



MTn). That implies that this campaign will be good in historical terms, but not a record.

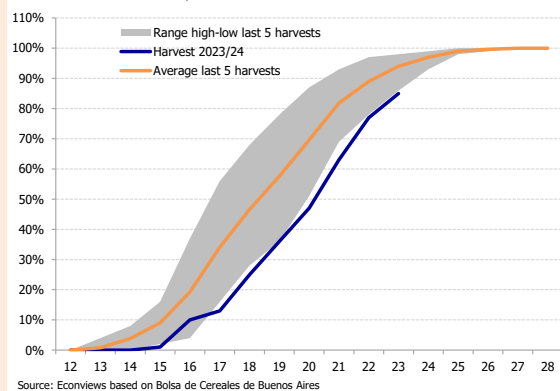
Continuing with the data on trading, until the 22nd of this month, purchases by the export sector and industry totaled 18.2 million tons, **which represents 36% of the estimated production. At this time last year, this number reached 47.7%** (10 MTn accumulated, but on a much smaller harvest).

**All this gives us the clue that the agricultural sector is possibly buying what is necessary to cover its costs and not much more.** But this is not something for this specific week but applies to the entire campaign. Indeed, agricultural settlements this week were almost the same as those of the previous week. Therefore, only this issue is not what explains why the Central is buying little reserves.

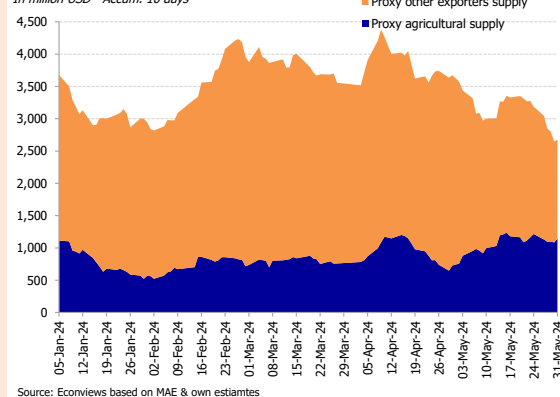
**What we see is that the settlements of the rest of the exporters are decreasing and that may be the center of the issue (see graph 5).** The main reason that we can attribute to this fact is that the real exchange rate is getting overvalued. The “blend” exchange rate (for exporters) has a premium of only 7.8% over the official one and since the December devaluation, it has appreciated 42% in real terms. The current value (ARS 965) is already below all the differential exchange rates that had been offered previously, so the incentive is not huge (see graph 6).

**This decrease in the pace of BCRA purchases is happening in a context where international reserves are at USD -2,101 million.** On the horizon are the first Bopreal amortizations and payments to bondholders in July. April, May, June, and July are the months when the BCRA should accumulate more reserves. The last months of the year will be more challenging.

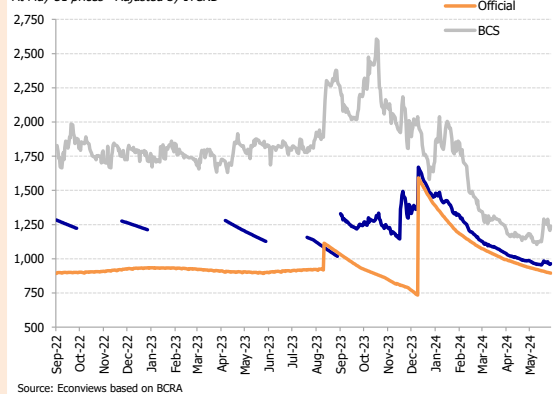
**Graph 4. Progress in the soybean harvest**  
X-axis: number of weeks of the year



**Graph 5. Estimated exchange market supply**  
In million USD - Accum. 10 days



**Graph 6. Exchange rate at constant prices**  
At May-31 prices - Adjusted by ITCRB



## Prices at Cruising Speed: 6% Monthly

- ✓ After a few weeks of nominal price declines, inflation settles at around 1.5% weekly.
- ✓ Our vision is that it will be difficult to go below 6% without beginning to delay price increases for utilities, precisely the strategy that can bring inflation to around 5% in May.
- ✓ Wage agreements and price adjustments for utilities will be the most important source of inertia in the coming months.

**Disinflation found a limit.** According to our price survey, the best moment will have been in the last weeks of April when we observed deflation in our food, perfumery, and cleaning basket. But the weekly numbers rebounded again and stagnated around 1.5%. This is consistent with what we warned: without a stabilization plan that shocks expectations, the government's strategy (the monetary, fiscal, and exchange anchors) is not enough to lower it quickly.

**The key word is inertia.** There is a difficult limit to pierce given the reduced margins of the companies, the salary agreements, the eventual reactivation of the economy, and the necessary price adjustments of public utilities. The tool that the government intends to use to achieve a faster decline is the delay in utility prices but it is a double-edged sword because it generates expectations of future increases. For this reason, we project inflation at a cruising speed of 6% in the coming months.

**The weekly increase accelerated.** In the last week of May, the prices of our food, perfumery, and cleaning basket increased by 1.4% on average. With this latest data, the monthly increase in the basket closes at 4.8%, driven mainly by the Perfume category (+8.7%), which includes hygiene items such as shampoo and soap. The categories that also stand out for their increase are Cleaning products and Dairy (see Chart 1).

### Chart 1. Price variations in May

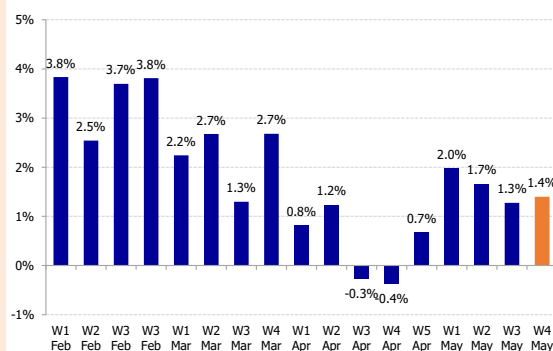
Average price variation by category in GBA supermarkets

	W1	W2	W3	W4	m/m
Vegetables	3.8%	4.3%	-0.4%	2.3%	4.2%
Meat products	0.8%	-0.5%	-0.9%	2.8%	1.6%
Dairy products	0.9%	1.7%	2.7%	0.9%	6.1%
Grocery products	0.5%	0.9%	1.6%	0.8%	1.7%
Beverages	2.3%	-0.2%	1.6%	1.1%	4.0%
Beauty products	2.6%	1.2%	2.6%	2.5%	8.7%
Cleaning products	3.0%	4.3%	1.7%	-0.7%	6.7%
Total	2.0%	1.7%	1.3%	1.4%	4.8%
Food only	1.7%	1.2%	0.9%	1.6%	3.6%

Source: Econviews based on own estimates

**Graph 1. High-frequency inflation rate**

Weekly price variation in Buenos Aires supermarkets

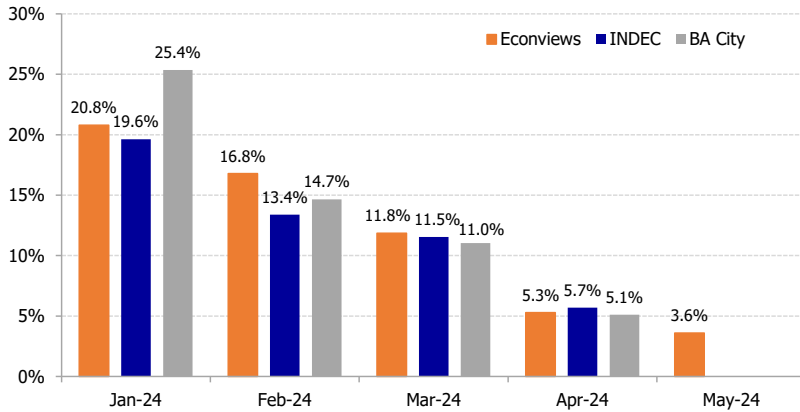


Note: The variations are based on the average price per week, from Friday to Thursday.  
Source: Econviews based on own estimates

Looking at food categories alone, we have a good clue as to what core inflation will be like. Our food basket closed the month at 3.6%. If the INDEC confirms a similar number, it would be the **best data since November 2022**.

### Graph 3. Monthly inflation in food and beverages

Price variation in GBA according to INDEC, IPCBA and Econviews high frequency indicator



Source: Econviews based on INDEC, DGEYC and own estimates

The monthly figure for food reached its minimum point in the second week of May: in the 4-week comparison, it touched 1.5% (see graph 2), the last week in which April deflation is included (S4 in graph 4).

### The Meat category had a quiet month, although it accelerated this last week.

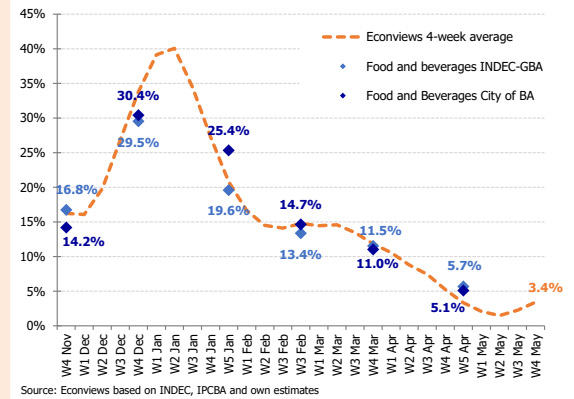
Meat products have been recording the lowest variations within the basket since April and even had several weeks of deflation. But this last week it rebounded by 2.8%, after almost three months of calm. It is possible that it is related to the April rise in the wholesale market that has a delayed impact on retailers. If so, it is expected that prices will fall again given the latest variations in the Liniers Market (graph 5). This will favor the general number, considering that meat weighs around 8% in the CPI.

**Grocery products is the other category that remains stable.** In this category, which includes products such as rice, noodles, dairy bread, cookies and flour, it is observed that prices have flattened since March, with some differences between products (see graph 6). Within this category there are several products that have already begun to receive competition from abroad, the most recent being milk bread with the new Brazilian brand. With the entry of new competitors, we may continue to see relatively low variations in these types of products.

**There may be some more slowdown in food, but not much more.** Just as meat and groceries can favor the reduction of general inflation, vegetables will have a negative effect due to the seasonal effect. Food imports within the basic basket will also have an impact. But even if food manages to continue falling, we are seeing prices begin to run at cruising speed.

### Graph 2. Monthly inflation in food and beverages

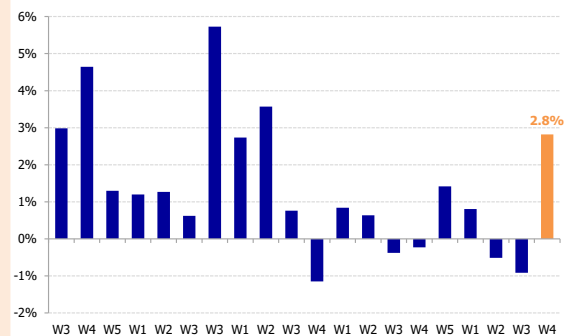
Average 4-week variation (Econviews online survey) and official data



Source: Econviews based on INDEC, IPCBA and own estimates

### Graph 4. Meats - GBA Supermarkets

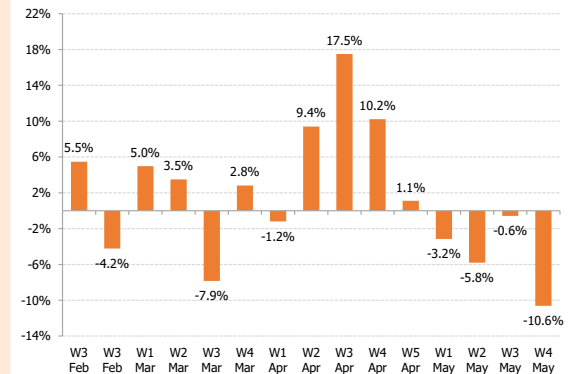
Weekly price variation for the Meat products category



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

### Graph 5. The price of wholesale meat falls

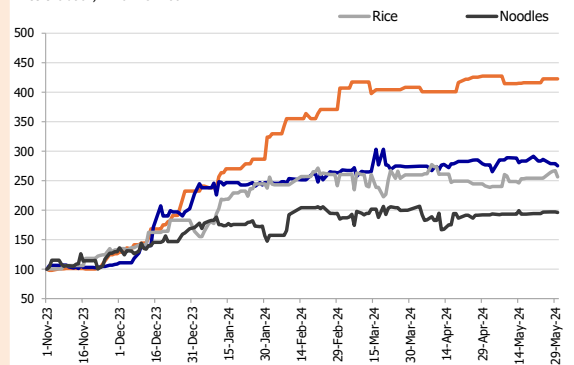
Weekly price variation



Source: Econviews based on Mercado de Liniers

### Chart 6. Grocery products

Price evolution, 1-Nov-23=100



Source: Econviews based on own estimates