Subject: ARGENTINA UPDATE -> (BN) Worst Drought in 30 Years Adds to Argentina's Economic Woes
From: Martin Zeman <[redacted]>
Date: Wed, 28 Feb 2018 09:37:31 -0500
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Good morning, Paul,

Please see an update from my analyst on Argentina as well as the Bloomberg article on the drought they are having now:

09:08:29 good morning - yes -- soy production is going to drop to 47mn and this will have an impact on trade - but prices are also going up bc of that - so mitigating this drop.

09:08:54 main issue, however, is that the currency is strong in fundamental value already and trade deficit is widening.

09:10:06 worse, the CB got cold feet (with pressure from treasury) and they decided to cut rates too early. this changed the perception on policy mix (tight money, strong currency) ahead of wage negotiations and inflation expectations surged to near 19% vs. 15% target.

09:10:51 the bottom line is that the cb had to turn cautious again - suggesting the treasury is accepting what they should have accepted before - tight money for longer to break inflation inertia.

09:11:17 For ARS, this means that finally we can have some stability

09:11:55 we have been bearish since they cut and yesterday's more hawkish communication suggests the USD/ARS will be more stable in the near term.

09:13:30 Investors are skeptical and they would like to see more commitment from CB and tighter fiscal. So, in sum, I'd expect USD/ARS to stay rangebound for now but markets to be hesitant to build positions - unless we get additional commitment from CB they will not cut and Treasury tightens fiscal (less likely).

MARTIN ZEMAN

09:14:37 Okay, that makes sense. Do you think as we approach June, the possible inclusion in the EM MSCI will help? How likely in % terms do you think they get in this year?

DRAUSIO GIACOMELLI

09:15:22 certainly - that no-inclusion meant a couple of pp I recall.

09:16:25 But I can;t give you a prob. maybe our equity guys have a better sense, but judging from the last communication they highlighted policies and we have had a setback in policies - I'd guess less than 50%

09:16:50 But if monetary and fiscal come to the rescue you could have the carry trade on again - w/o MSCI

Martin

Worst Drought in 30 Years Adds to Argentina's Economic Woes
2018-02-28 10:00:00.2 GMT

By Jonathan Gilbert
(Bloomberg) -- Argentine President Mauricio Macri was banking on a near-record soybean crop to drive economic growth of 3.5 percent this year and extend the nation's recovery. Instead, this year's drought, the worst in 30 years, has farmers bracing for the poorest harvest since 2009. It's an unwanted surprise for a government with a list of tasks that already includes taming inflation, closing the fiscal gap and boosting exports.
The government may need to trim its forecast for gross domestic product in 2018 if dryness persists this week, Guido Sandleris, the chief adviser at the Treasury Ministry, said on Monday. No significant rain is predicted.
"This will probably have a very serious impact on the economy, exports and tax collection," said Emilce Terre, chief economist at the Rosario Board of Trade. "Crops are Argentina's biggest export and it needs the dollars to pay for imports and service debt."
Signs are piling up that the drought may be worse than what farmers saw on their parched fields in 2009. Soybean and corn

shipments account for 36 percent of total exports and the government taxes them.
By this time in 2009 more rain had fallen in much of the Pampas, according to government maps published Monday. That year, analysts predicted a soy crop of 46.2 million metric tons. By the end of the harvest, farmers had collected just 39.9 million, a record low. The slump dragged the economy into a recession.
The Buenos Aires Grain Exchange has cut its soy estimate to 47 million tons for 2018 and the bourse will likely have to reduce it even further, said Esteban Copati, the chief estimates analyst. Economists are starting to follow suit with gross domestic product forecasts.
* Eco Go SA slashed the forecast to 1.8 percent from the previous estimate of 2.1 percent, said Martin Vauthier, an economist at the consulting company
* In a worst-case scenario, the drought would chop 0.5 percentage points off growth, Lucia Pezzarini, an economist at the LCG SA consultancy, said in a report on Monday
** She is predicting a fall in crop exports of $2 billion based on cuts to harvest estimates since December
** However, an easing of monetary policy and an expected up-tick in major trade partner Brazil means LCG is keeping its growth forecast at 2 percent for now

If crop estimates continue dropping, “this is going to be bad,” said Ivan Ordonez, an independent economist who’s a consultant to farm supply companies. “We could be looking at a repeat of 2009.”

--With assistance from Jorgelina do Rosario.

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