

Fixed Income & Economics Daily

Wednesday March 7, 2018

FX & RATES STRATEGY RESEARCH

Juan Miguel Arranz*

+5411-4341-1065

jarranz@santanderrio.com.ar

LATAM & CEE ECONOMICS

ARGENTINA: Central Bank's intervention in the FX market sets ceiling at around ARS20.40/USD until July

LATAM ECONOMICS

ARGENTINA

ECONOMICS

On Monday, the Central Bank sold approximately US\$30 million in the spot market to halt peso weakening.

Once the USD quote fell to a record ARS20.40/USD on Monday morning, the BCRA offered about US\$30- 50 million through SIOPEL screens.

The monetary authority may have sold as much as US\$30 million in the first session of the week, while central bank authorities remained mute on this decision.

Bear in mind that the monetary authority has not intervened in active operations since before the mid-term election primaries in August.

Conversely, the Central Bank's passive USD purchases to the Treasury have reached US\$8bn since December 28, the controversial day in which Ministers Nicolás Dujovne, Luis Caputo, Marcos Peña and Central Bank governor Federico Sturzenegger announced the change in 2018-2020 inflation targets, aimed at reducing interest rates and diluting some of the upward pressure on the real FX quotation.

Since the announcement, the Nominal Multilateral Exchange Rate has depreciated 7.25% while the Real Multilateral Exchange Rate has improved a meager 3.75%, according to the FX estimate published by the Central Bank.

Meanwhile, December 2018 annual expected inflation moved up to 19.9% in February, above the 17.4% captured two months ago.

The 17.2% hike in the USD quote since December 11 would have had a higher-than-expected pass-through impact on prices.

With the release of February CPI on March 15, most of the impact of the USD increase recorded between December and February will be known.

However, the more than 4% monthly increase in the January Wholesale Price Index precludes a higher-than-expected pass-through in the first two months of the year, while February CPI is forecast at 2.3% monthly.

Net/net: Supported by sporadic FX intervention from the BCRA, we forecast a ceiling to the USD quote at approximately ARS20.40/USD in the months to come.

The effect of the soybean USD exports that significantly increase seasonal USD sales in second quarters precludes, in our view, a lateral movement of the greenback until July.

Thus for investors evaluating a carry trade with local currency instruments, the current USD price might be a good entry point into the local market, in our view.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

U.S. INVESTORS' INQUIRIES SHOULD BE DIRECTED TO SANTANDER INVESTMENT SECURITIES INC. AT (212) 583-4629 / (212) 350-3918.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2711 and Incorporated NYSE Rule 472 restrictions.



CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@bzwbk.pl	48-22-534-1888
Sergio Galván*	Economist – Argentina	sgalvan@santanderrio.com.ar	54-11-4341-1728
Maurício Molan*	Economist – Brazil	mmolan@santander.com.br	5511-3012-5724
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Diana Ayala	Economist - Colombia	diana.ayala@santander.us	212-350-0979
Tatiana Pinheiro*	Economist – Peru	tatiana.pinheiro@santander.com.br	5511-3012-5179
Piotr Bielski*	Economist – Poland	piotr.bielski@bzwbk.pl	48-22-534-1888
Marcela Bensión*	Economist – Uruguay	mbension@santander.com.uy	5982-1747-5537

Fixed Income Research

Diana Ayala	Macro, Rates & FX Strategy – Latin America	diana.ayala@santander.us	212-407-0979
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
Aaron Holsberg	Head of Credit Research	aholsberg@santander.us	212-407-0978

Equity Research

Christian Audi	Head LatAm Equity Research	caudi@santander.us	212-350-3991
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Valder Nogueira*	Head, Brazil	jvalder@santander.com.br	5511-3012-5747
Pedro Balcao Reis*	Head, Mexico	pbalcao@santander.com.mx	5255-5269-2264

Electronic Media

Bloomberg	SIEQ <GO>
Reuters	Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Juan Miguel Arranz*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2018 by Santander Investment Securities Inc. All Rights Reserved.

