Fixed Income & Economics Daily

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FX & RATES STRATEGY RESEARCH

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LATAM & CEE

ARGENTINA: Pass-through forces Central Bank intervention in FX market

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LATAM STRATEGY

ARGENTINA

Pass-Through from Recent ARS Depreciation Forces Central Bank to Intervene in FX Market

BCRA's Monetary Policy Communiqué issued on February 27 warns of the impact of ARS depreciation on inflation, as seen in the more than 4% jump in January's wholesale price indexes.

On March 5, the Central Bank sold around US$30 million in order to stop ARS from weakening further. The trigger was a USD quote reaching an ARS20.40/USD record high.

Finally on March 6, two days after Central Bank decision to sell USD, in an article in *La Nación*, Treasury Minister Nicolás Dujovne fully expressed his support of sporadic Central Bank USD interventions; his statement was later bolstered by the Central Bank's meager USD sales at the end of Wednesday's session.

Last but not least, the Treasury Minister also reiterated the Macri administration's goal to reach 15% CPI inflation by year end. In the same article in *La Nación*, Dujovne totally supported the Central Bank governor's inflationary targeting regime, the floating FX system advocated by Sturzenegger and the need to maintain a deflationary path from 15% annual inflation this year to a 5% annual CPI change in 2020.

ARS depreciation and increased volatility in the FX market over the last 90 days have spurred intense debate among local economists, journalists, traders and pundits with respect to when and how the government should intervene in the USD market by selling greenbacks each time FX volatility poses a threat to the disinflationary path set by the administration.

We reiterate our recommendation published on Tuesday Fixed Income and Economic Daily to sell USDs and take positions in local currency instruments, under the assumption that the greenback quote will lateralize in the months to come.

We reiterate our views of a USD quote at around ARS20.40/USD, as a ceiling until July.

CEE ECONOMICS

POLAND

New inflation projection: food for doves

The Monetary Policy Council kept the main interest rates unchanged, which was no surprise for the market. The statement shows little change vs. the previous one. The main message is still that the current level of rates is optimal and will serve the economy well. In the Council's view, inflation is still moderate, despite further acceleration of GDP, and core CPI is low despite faster wage growth.

As we anticipated, the new CPI projection was lower than the previous one of November. The inflation forecast was lower even despite the fact that GDP projection was revised up significantly. In 2020, covered for the first time by the projection, inflation is to center around 3%, but the statement still calls it a path close to the 2.5% target, so there is no need to adjust interest rates, according to the central bank.

At the post-meeting press conference the governor Adam Glapiński admitted that the new projections support no rate hikes until the end of 2020, even if he is unwilling to state something so far into the future. Another of his dovish remarks was that analysts are right to push forward their rate hike expectations. Other members present at the press conference, Grażyna Ancyparowicz and Jerzy Żyżyński agreed with the governor's view. The former expects an even better growth path than the projection, but still would not want to destabilize the positive situation with rate changes.

The MPC press conference has reinforced further the dovish message sent by the Monetary Policy Council. Last month we have moved forward the expected timing of interest rate hike from 4Q18 to 1Q19 and now we feel that this moment may move even further away. However, we still believe that the MPC will start hiking interest rates earlier than suggested by the NBP governor Adam Glapiński. **Possibly the first rate hike may take place in mid-2019 and will be triggered by mounting inflationary and wage pressure and the start of interest rate hikes by the ECB.**

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