

# Monthly Economic Newsletter



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## KEY DATA

**Exchange rate.** The black-market exchange rate (“blue dollar” in domestic jargon) hit AR\$185 per US dollar today, the highest in the year, closing at AR\$ 182 with a 89% spread over the official exchange rate for the wholesale currency market. Such increase was triggered by new regulatory constraints on “blue chip swap” trades.

## HIGHLIGHTS

**Argentina: “between a rock and a hard place”.** The official management of the Covid 19 pandemic remains under harsh criticism, even with an increasing vaccination speed. However, death toll surpassed 100,000, and the Gov’t will hold a mid-term election with several conflicts. Domestic financial markets have discounted an expansionary fiscal and monetary stance for the 2<sup>nd</sup> half of the year. Nevertheless, the recent tightening of forex market controls renewed the peso depreciation expectations, pushing up several AR\$/USD market exchange rates.

**Global economic optimism.** Global GDP is expected to grow in the 2<sup>nd</sup> half of the year, despite the threat of new coronavirus strain and widespread inflationary pressures. The Fed and the ECB remain basically dovish and the People’s Bank of China lowered the reserve requirement ratio to increase the available funds for lending and support economic growth.

**Brazil.** GDP growth in 2021 Q1 was higher than expected. However, the desired take-off faces several sources risks: a) the economy, as long as the public expenditure looks like the main “growth engine” this year, b) the Covid-19 pandemic, and c) the political risk, as long as the opposition leader Lula remains at the top of most opinion polls.

**Ecuador.** The new president Guillermo Lasso took office at the top of opinion polls. Bond markets welcomed his electoral victory and Ecuadorean bonds sovereign risk fell from circa 1,360 b.p. in May to 776 b.p. at the end of June.

## LOOKING AHEAD

**Argentina’s currency market under pressure.** A stronger demand for dollars is expected in line with the strengthening prospects on faster money issuance, and lower supply of US dollars. The Gov’t is expected to tighten up currency controls, and to issue new government bonds. However, this strategy might push up local interest rates, undermining the incipient economy recovery for the next months.

**Crypto-assets:** Bitcoin and other crypto-asset prices will remain on the downside for some weeks ahead. The BIS and some governments understand that issuers of crypto-assets and trading platforms are an unambiguous source of systemic instability, and should be subject to tougher prudential regulations than traditional banks. The U.S. Treasury secretary Janet Yellen underscored the need to act quickly to ensure there is an appropriate U.S. regulatory framework in place.