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KEY DATA

Exchange rate. The nominal exchange rate (AR\$/USD) fell for the first time in the last months, converging to the “floor” of the official exchange rate band (\$36-\$37)

HIGHLIGHTS

Interest rates fall, but remain at high levels. Nominal interest rates are on the downside. However, interbank and loan rates are extremely high, given the current expected inflation. The negative impact on economic activity might be reversed at mid-2019. In the meantime, current stagflation will remain unchanged.

Recession indicators. September industrial activity dropped 11.5% yoy, the largest fall in the past 16 years. Current decline in real investment and domestic private consumption will persist, at least, until the first months of next year.

External constraint. Even when the Gov't is committed to a zero (primary) deficit target for 2019, public debt services are expected to amount 3.6% of 2019 GDP. Without new debt sales, debt payments should be funded with an equivalent current account surplus. Nevertheless, official estimates indicate a current account deficit at 1.6% of GDP in 2019.

Global growth, on the downside. The US mid-term election left a divided Congress. This is a setback for President Trump and his discretionary policies. Furthermore, the Fed left the Fed Funds Rate unchanged, but new hikes are expected in the short - term. Higher US interest rates, coupled with lower GDP growth rates in China and in the Eurozone, will lead to a global economic deceleration in 2019.

Will Brazil change under Bolsonaro? The elected president Bolsonaro is expected to launch a wide commercial opening, with focus on a series of bilateral agreements, rather than on Mercosur bloc. He is also expected to prioritize a tight fiscal policy, and to instrument a deep reform to the social security system.

LOOKING AHEAD

G20 in Buenos Aires. Presidents and prime ministers from 19 countries and the EU will meet in Buenos Aires at the end of November. The agenda for this meeting will prioritize discussions about labor markets, development infrastructure, food policies, and the elimination of gender discrimination and violence.

Wages. Wage hikes will be discussed under increasing tensions. Most unions will claim for wage hikes circa 40%, raising new doubts on the future path of the inflation rate.

LEBAC. Remaining BCRA's LEBAC will be amortized next month. It might be the initial step of a true correction of the persisting BCRA's quasi fiscal deficit.

Volatile DJI: Financial markets expectations are on the downside. Lower GDP growth is expected in USA due to several factors: the trade war with China, higher Fed Funds rates, and the declining positive effects of recent tax rebates.

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