December 23 through January 3

GRAMERCY: EM WEEKLY

WE ARE EMERGING MARKETS

FEATURING:

ARGENTINA | LEBANON | CHINA | CHILE

OUR NEXT "EM WEEKLY" WILL COVER THE WEEK OF JAN 6.
HAPPY HOLIDAYS!

Argentina to potentially unveil additional details on its economic and debt plan

Market Relevance: The government's strategy and approach to policy is in focus amid the country's economic and financial crisis. Minister of Economy, Martín Guzmán, announced several measures over the past week entailing a near-term fiscal stimulus (offset by tax increases), tariff freezes, and sustained capital controls. Additionally, the bill stipulates use of a portion of the Central Bank's reserves in order to pay debt service.

Gramercy View: The sooner the government begins to provide specific details on its assessment of debt sustainability and likely stance with creditors and the IMF, the better. The initial measures reflect a degree of fiscal responsibility with respect to spending accompanied by tax increases, albeit the nature of the tax hikes (targeting wealth, financial income, exporters, and dollar consumption) will be distortive with negative economic consequences over the medium term. The approach thus far is supportive for near-term dynamics as it should help to stem dollar outflows and preserve cash flow for debt service, driving-up bond prices particularly in the short end. However, if the new government wants to adopt a consumption led growth model (versus investment), the optimal policy mix would require a deeper fiscal reform to finance it and generate growth in a sustainable and inclusive fashion.

Lebanon continues to attempt to form a new government

Market Relevance: The country has been trying to appoint a new Prime Minister and form a new government following Saad al-Hariri's resignation in late October. The political gridlock further exacerbates ongoing economic and social pressures.

Gramercy View: We view the prospects for government formation under the currently nominated Prime Minister, Hassan Diab, as limited given his inadequate political capital and uncertain support from Hariri and his political bloc. It will be challenging to garner credibility locally and externally if he is unable to bring technocrats into the government. While he has a relatively apolitical background as a Professor at the American University of Beirut, he did previously serve as Education Minister under Prime Minister, Najib Mikati, which may dissatisfy protestors. The process is likely to be prolonged with continued unrest in the backdrop. While a recent request for technical assistance from the IMF is a marginal positive, this will not improve near term dollar liquidity while debt sustainability and structural economic challenges remain unresolved.

China December PMI data to be released on December 30th

Market Relevance: The NBS manufacturing index moved into expansionary territory in November, following six months of contraction. It is expected that improved sentiment around the pending U.S.-China Phase One trade agreement should keep levels just above 50.0 in the near-term.

Gramercy View: We anticipate stabilization to prevail with the possibility for some mild acceleration into the first quarter. However, growth beyond this juncture should remain constrained as a result of structural domestic challenges, uncertain durability of the still unsigned Phase One trade deal, and likely persistence of tensions with the US on non-trade related issues.

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Chile November economic activity and December CPI prints

Market Relevance: Social unrest plagued the country for much of the fourth quarter and weighed on growth. The October monthly economic activity index contracted 3.4% YoY. Meanwhile, the peso depreciated by roughly 15%, although it has retraced much of that loss. The Central Bank of Chile faces a challenging task of managing potential inflation pressure in the backdrop of currency vulnerability while economic growth is under pressure.

Gramercy View: We expect another negative activity print for November, inflation to modestly increase in December, and peso stability to prevail as a result of successful intervention. This should allow the Central Bank to eventually resume rate cuts in the first quarter following an unanticipated pause at its meeting in December. However, if inflation surprises to the upside or the peso comes under renewed pressure, the Central Bank is likely to take a more cautious approach and remain on hold.

Please contact our Co-Heads of Sovereign Research with any questions:

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