URUGUAY MONTHLY COMMENT

Agustín Caticha, CFA (Head Trader) & **Patrizio Drago, CFA** (Institutional Sales and Strategist)

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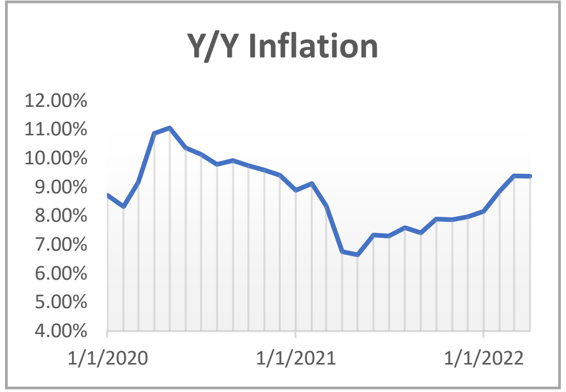
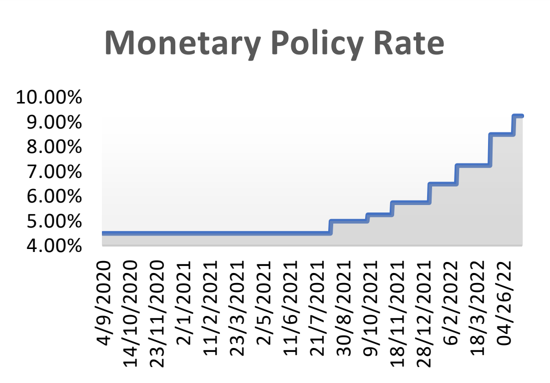
“You shall not pass” (Gandalf – The Lord of The Rings)

Annual inflation dropped for the first time in a year -from 9.38% to 9.37%- while inflation expectations for the next 12 and 24 months went down to 7.65% and 6.83% respectively. Meanwhile, the Central Bank again showed a strong commitment towards reducing inflation: it lifted key interest rate by 75 bps for the fourth time in 2022 and anticipated two additional hikes in the coming meetings.



Exporters and a couple of renown economists criticized the monetary authority for causing a “substantial appreciation of the Uruguayan Peso” in the last months; it’s true that de UYU is among the best performing currencies of Latin America (YTD), nonetheless, in our view, this is not only a consequence of monetary policy tightening but also a reflection of the fiscal discipline, the increase in GDP growth prospects for the country and, last but not least, social and political stability. Ultimately, if it’s caused by an overly contractive monetary policy, it signals both Uruguayans and foreigners have confidence in the Central Bank; and that’s good, not bad news.



About growth prospects: according to the IMF, the Uruguayan economy will expand at a higher rate than Latin América both in 2022 (3.9% vs 2.5%) and 2023 (3.0% vs 2.1%). Again, good, not bad news.

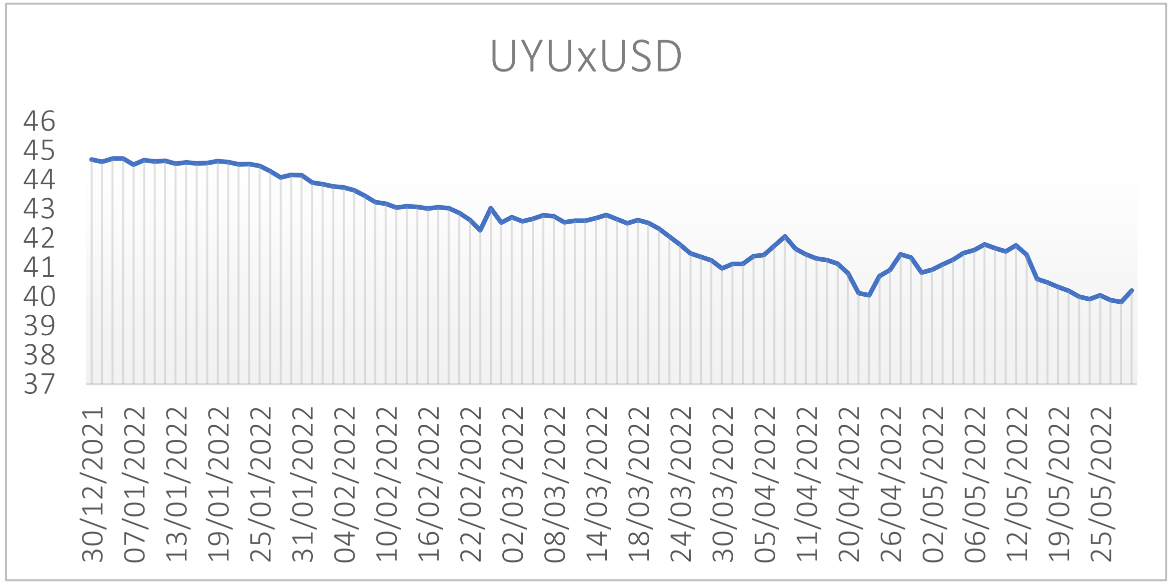
The Art of Governing

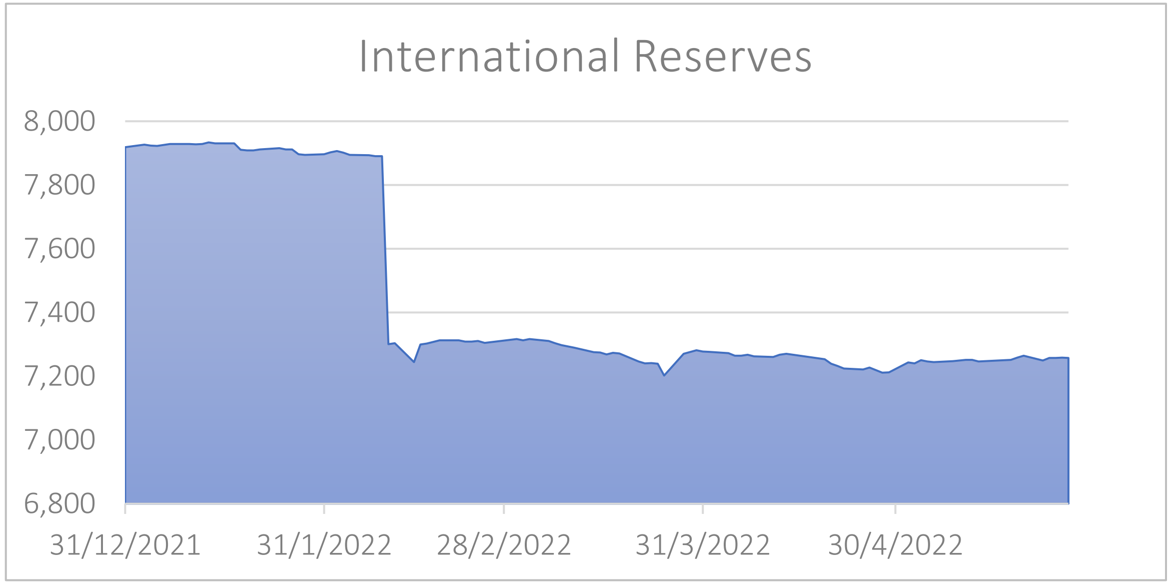
Disagreements between the Government and Trade Unions will certainly deepen in June, during the budgetary discussion. In fact, several trade unions have already announced that they will hold strikes in the coming months to protest against price increases, spending cuts and labor market deregulation, among others. As we said in the previous report, we believe the Government will show flexibility and willingness to negotiate with the opposition, trade unions and the other members of the coalition to avoid a conflict that puts in danger political and social stability and governability, even if it implies slightly increasing the budget deficit. We've already seen in many Latin-American countries the catastrophic consequences of ignoring the claims of all the parties involved in the negotiation and entering an endless fight with the opposition party.

Nonetheless, the government must be very careful and try not to repeat the mistakes of our neighbors; as many analysts have warned, a significant increase in government spending could undermine the efforts of the Central Bank to tame inflation and, eventually, threaten our local and foreign currency debt rating. Until now, rating agencies have positively valued the efforts of this administration to stabilize debt levels near 65% of GDP and the higher transparency of the Central Bank.

Macro Flash

	Δ CPI Y/Y	Δ PPI Y/Y	Unemployment Rate	CB Key Rate	Fiscal Deficit
Last	9.37%	21.77%	7.70%	9.25%	3.50%
Previous	9.38%	22.74%	7.30%	8.50%	3.80%





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