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Analysts Skeptical Argentina Plan Will Halt Drop in Reserves (1)

- Measures temporarily cut export taxes to encourage key exports
- Central bank announced faster devaluation of official FX rate

By Scott Squires

(Bloomberg) -- Argentina's latest attempts to encourage exports and speed up the devaluation of its currency may be insufficient to halt the slump in foreign currency reserves, analysts say.

The central bank said that it will allow a faster devaluation of the peso, while raising interest rates and creating savings instruments with rates that exceed inflation to encourage Argentines to save in pesos. The currency opened 0.9% lower at 76.94 to the dollar. It wasn't immediately clear what the daily permitted devaluation would be next week.

The South American nation also reduced taxes on soy exports and other key commodities in an effort to boost dollar inflows at a time when the central bank's reserves have plunged to the lowest in almost four years.

"Our first impression when assessing the package as a whole is that the measures fall short of market expectations," Bank of America analysts including Sebastian Rondeau wrote in a note.

Here's what analysts are saying about the new measures:

Rondeau, Bank of America

- Central bank statement was "vague in essence"
- Along with "managed floating strategy, the daily depreciation rate will be adjusted in a gradual manner according to market context"
- Measures aim to unlock a portion of the around US\$10b in farmers' hoarded stock
- "We believe the announced reduction in export taxes is marginal considering the prevailing wide official parallel FX gap"

Siobhan Morden, Amherst Pierpont Securities

- "These latest round of measures appear less draconian with a more cooperative approach to encourage USD inflows as opposed to discourage USD outflows"
- "A worsening crisis of confidence typically requires bolder counter orthodox measures as opposed to ad hoc measures"
- "Although the latest measures are somewhat more coherent," it will be difficult to encourage exporters to relinquish their supply under the increasing possibility of a larger devaluation

Ramiro Blazquez, BancTrust & Co.

- "The credibility gap remains as our main concern as the announcements contained no guidance as to any sustainable macroeconomic framework"

- “Things have gone too far and a more radical policy approach is needed to convince markets and peso holders”
- “Goal of higher repo rates is to boost demand for ARS-denominated financial assets with higher returns to savers,” and to provide an exchange rate insurance to lure grain exporters into selling stocks

Mariano Machado, Verisk Maplecroft

- “The agriculture sector is far from being convinced by this, they perceive this as yet another band-aid”

Dirk Willer, Citigroup

- “The measures are likely to be seen as insufficient and hence run the risk of being counterproductive”
- “Even if increasing the repo rate is a move in the right direction, the size of the increase is probably too small given the size of the imbalance currently observed in the official FX market”
- “Increasing the rate of crawl and/or the volatility of the official FX rate will not encourage a higher supply of dollars, but normally would have the opposite effect”

(Adds additional analyst comments in last paragraph. An earlier version of this story corrected the spelling of Verisk Maplecroft.)

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