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LATAM 7 + Argentina

Macro Brief

July, 2017

- ✓ **Argentina:** On the road to the primaries
- ✓ **Brazil:** Labor reform was approved amid political noise
- ✓ **Chile:** Economic activity in the spotlight
- ✓ **Colombia:** Worse fundamentals
- ✓ **Mexico:** Lifted debt outlook and monetary tightening over
- ✓ **Peru:** Waiting for the fiscal stimulus
- ✓ **Uruguay:** Fiscal austerity is key to avoid a credit downgrade
- ✓ **Paraguay:** Despite the rain, GDP growth will be strong

ARGENTINA

Good news	To be alert	Bad news
Activity continues giving good news. Consumption and industrial activity indicators, probably the most lagged variables, have been growing consistently.	The results of the primary elections (PASO) to be held the next 13th of August. It is an important electoral test for the Government.	Consumer confidence fell in June, while core inflation remains above the levels consistent with the Central Bank's inflation targets.

Politics

Despite no major change in Congress is expected as a result of the coming elections, the results will condition the next 2 years of Macri's administration. Cristina Kirchner will run for a Senate seat in the Province of BA, and a good electoral performance is the only way to guarantee her political survival. Polls suggest she is likely to become a Senator, although the electoral map appears to be favorable for Cambiemos, as the opposition is fragmented with the three main candidates dividing the Peronist vote.

Economic Activity

The INDEC published the GDP figures of Q1-2017, which showed a recovery stronger than expected. Indeed, GDP in Q1 grew 1.1% on a quarterly basis (s.a.), accumulating three quarters of consecutive growth, while the economy recorded its first upturn on yearly basis. Investments and exports are leading the recovery, while the first positive signs are starting to appear in consumption and the industrial sector, which are two laggard. As a result, the recovery is generalizing to more variables and sectors. We remain optimistic by expecting GDP to grow 3.2% this year.

Inflation

A new National CPI was released by the INDEC: inflation was 1.2% m/m in June and core inflation was 1.3%. In the first half of the year, inflation accumulated 11.8%, while it amounted 12.0% in the Greater Buenos Aires, pointing that these indicators are not that different. Inflation will go up in July, due to hikes in health insurance, cigarettes and gasoline. While monthly inflation needs to average 0.76% in the rest of the year to achieve the target of 17%, we expect inflation will locate around 22% at year end.

Monetary Sector

During June and July, the Peso depreciated from around 16 to 17 pesos per dollar, initially following the decision of MSCI to not qualify Argentina as emerging market yet and the beginning of the political campaign with Cristina as a candidate, while more recently following in tandem the depreciation of many emerging market currencies. The persistence of core inflation in levels higher than desired, forced the CB to tighten recently its monetary policy, by increasing the interest rates on Lebac. Short term Lebac rate is now at 26.5%, while it was at 25.5% some weeks ago.

Fiscal Front

The primary deficit reached AR\$ 144.3 billion in the first half of the year, equivalent to 1.5% of GDP. Thus, the government managed to meet the corresponding fiscal target of 2.0% of GDP. During the period, revenues grew 32% on yearly basis, while primary expenditure grew 31%. We expect the government will meet this year the fiscal target of a primary deficit equivalent to 4.2% of GDP. However, we consider the next year's target of 3.2% of GDP will be much more challenging to meet, as expenditure on social security will grow again, so cuts on subsidies and other items will be needed.

What's coming next?

We expect the Central Bank will maintain a tightening bias in its monetary policy, at least until September. Upcoming economic data is likely to confirm a new important expansion of economic activity in the second quarter. We maintain our expectation of AR\$ 18.0 per dollar by the end of the year, although in a context of more volatility in the following months before October elections. The primaries will be held on August 13th, an important test for the Government and will show the state of public opinion.

ARGENTINA: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (ARS/USD, eop.)	16.60	16.14	15.43	14.92	15.85
Interest rate (%)	26.25%	26.25%	26.25%	30.80%	24.75%
National inflation (y/y)	1.2%	1.6%	2.2%	2.6%	36.6%
Economic activity (y/y)	-	-	0.6%	-4.9%	-2.2%
Industrial activity (y/y)	-	2.7%	-2.6%	-6.4%	-4.6%
Automotive production (y/y)	9.2%	13.8%	-15.1%	-19.8%	-10.2%

Source: EconViews based on several sources

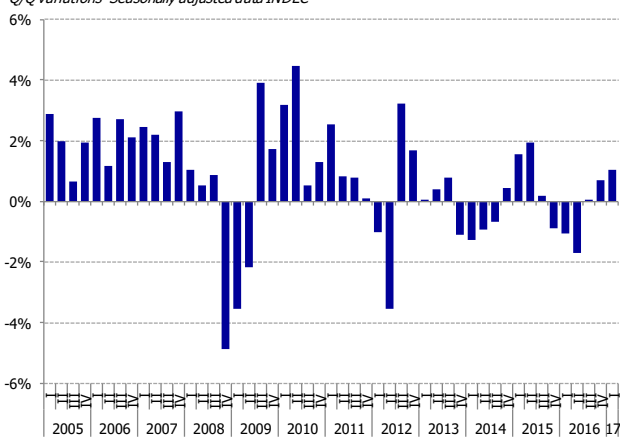
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	-2.5%	2.6%	-2.2%	3.2%	4.0%
National inflation (Dec-Dec)	36.7%	28.4%	36.6%	22.0%	17.0%
Fiscal Balance (% GDP)	-4.5%	-5.6%	-5.9%	-5.8%	-5.7%
Current Account (% GDP)	-1.4%	-2.5%	-2.8%	-3.1%	-3.1%
International reserves (USD Bn)	31.4	25.6	39.3	53.0	63.0
Exchange rate (ARS/USD)	8.55	13.01	15.85	18.00	20.53

Source: EconViews based on official figures and own estimates

Real GDP

Q/Q variations- Seasonally adjusted data INDEC



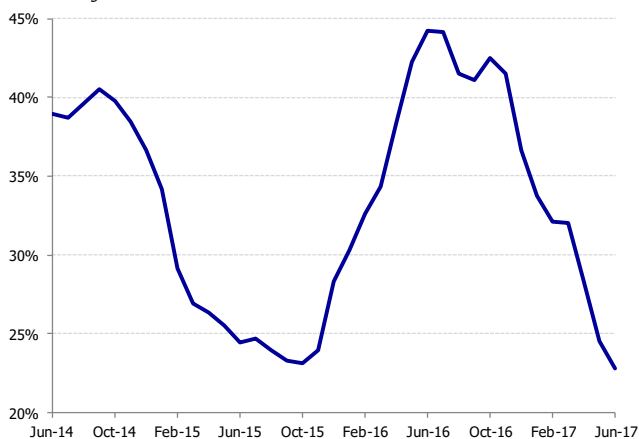
GDP growth - rolling forecasts for 2017

In %

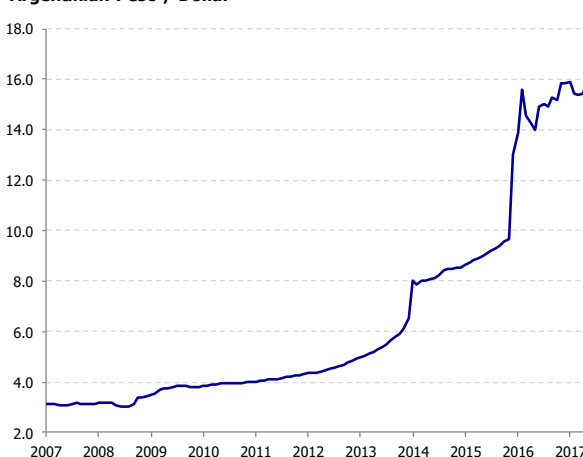


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Inflation continues decelerating and is still inside the target band.	Fiscal deficit remains high and the approval of the pension reform is essential to reverse the deterioration.	Brazil's ex-president Lula sentenced to nearly 10 years in prison for corruption.

Politics

Brazil's former President "Lula" Da Silva has been convicted of corruption and money laundering, and sentenced to 9 and a half years in jail, but remains free pending an appeal. Until his petition is heard, Lula cannot run for any public office, including the Presidency. Moreover, the Senate approved the Labor Reform Bill, which seeks to make the labor market more flexible. It gives more leeway to collective bargaining and reduces the scope for legal action in labor disputes.

Economic Activity

After falling in March, economic activity grew again in April (0.3%) compared to the previous month, according to the Central Bank indicator. However, activity fell 1.7% y/y and recorded its second fall of the year. Moreover, retail sales dropped slightly in May (0.1% m/m), but they recorded the second consecutive y/y increase after 24 months of falls. We expect GDP to grow around 0.4% this year, affected by the growing political uncertainty, but to perform better and grow 2.1% in 2018.

Inflation

According to the Broad National Consumer Price Index, inflation decelerated to 3.0% y/y in June, well below the target, and displayed its lowest variation since April 2007. In particular, core inflation was 4.4% y/y, the lowest record since January 2010. The official target, which is currently at 4.5%, was set at 4.25% for 2019 and 4.00% for 2020. It retains the tolerance band of 1.5 p.p. above and below the target. Thus, we expect inflation to reach 3.4% this year and 4.2% in 2018.

Monetary Sector

The Brazilian Real has been floating around 3.30 BRL/USD during June and has appreciated to around 3.20 BRL/USD in July. Now, it stands around 3.13 BRL/USD and has appreciated 4% so far this year. We expect the Real to depreciate in the following months and close 2017 at around 3.35 BRL/USD. On the other hand, the National Monetary Council also decided to keep the Long Term Interest Rate at 7% a year, in line with expectations. The decision goes into effect in the 3Q-17.

Fiscal Front

Fiscal deficit remained high in May. The consolidated primary deficit accumulated over 12 months increased to 2.5% of GDP from 2.3% in April. Moreover, the fiscal deficit remained high, at 9.2% of GDP over 12 months, while general government gross debt reached 72.5% of GDP. We believe that the approval and implementation of fiscal reforms, especially the pension reform, are essential to consistently reverse the structural trend of fiscal deterioration.

What's coming next?

A Congressional panel in Brazil rejected a recommendation that President Temer should be charged with the crime of passive corruption. The charges, however, will still be brought in front of the entire Chamber of Deputies to be voted on by the entire Lower House in early August, in order to authorize the start of procedures against the president. Meanwhile, the approval of the pension reform is still pending and its debate in the Senate is expected to begin not before September.

BRAZIL: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (BRL/USD, eop.)	3.31	3.23	3.18	3.21	3.26
SELIC (%)	10.25%	11.25%	11.25%	14.25%	13.75%
Inflation (y/y)	3.0%	3.6%	4.1%	8.8%	6.3%
Economic activity (y/y)	-	-	-1.7%	-2.9%	-3.6%
Industrial activity (y/y)	-	3.9%	-4.2%	-5.3%	-6.6%
Automotive production (y/y)	-	27.8%	1.2%	-3.8%	-6.2%

Source: EconViews based on several sources

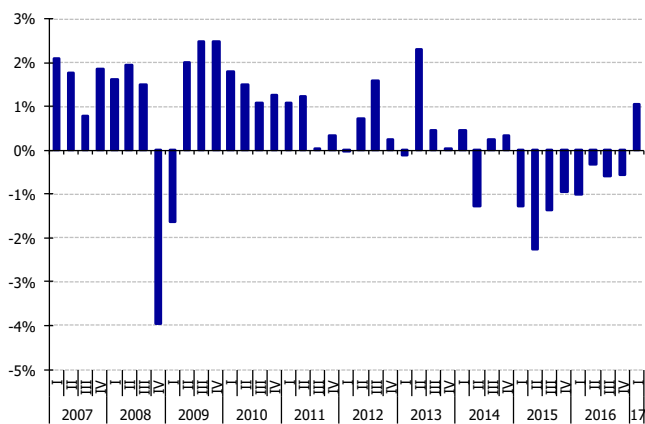
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	0.5%	-3.8%	-3.6%	0.4%	2.1%
Inflation (Dec-Dec)	6.4%	10.7%	6.3%	3.4%	4.2%
Fiscal Balance (% GDP)	-6.1%	-10.2%	-9.0%	-8.3%	-7.2%
Current Account (% GDP)	-4.2%	-3.3%	-1.3%	-1.3%	-1.7%
International reserves (USD Bn)	354.8	348.9	356.8	372.8	377.5
Exchange rate (BRL/USD)	2.66	3.96	3.26	3.35	3.45

Source: EconViews based on Consensus Forecast & IMF

Real GDP

quarterly variations, in %



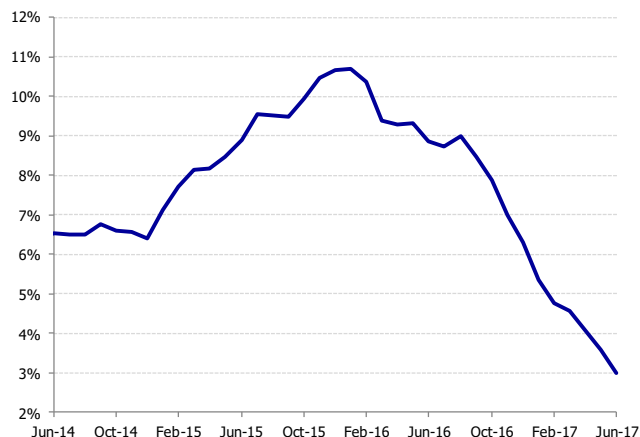
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
After the strike at La Escondida, in May mining activity recovered and grew m/m for the 2nd consecutive time.	In 1Q-17, national savings went down to 19.7% of GDP, 0.4% less than in 4Q-16.	For the first time since the 1990s, S&P downgraded sovereign debt rating from A+ to AA- due to more external risks.

Politics	<p>Primary elections took place in July and Sebastián Piñera (Chile Vamos, center-right) and Beatriz Sánchez (Frente Amplio, center-right) were the selected candidates. Nueva Mayoría (officialism, Alejandro Guillier) did not participate in the elections and this could have affected its political image. However, Piñera (31%) and Guillier (15%) lead voting intentions for the presidential elections that will take place on Nov-17.</p>
Economic Activity	<p>The economy is slowly recovering from a weak 1Q-17 affected by the strike at La Escondida mine. In May, activity grew 0.5% m/m and recorded its second upturn in a row. Year over year, it accelerated its pace of growth to 1.3%, after being stagnant in the previous two months. Consumer confidence (Adimark) registered a 28-month high in June but remained pessimistic. This way, GDP growth for 2017 was revised down for the second consecutive month from 1.5% to 1.4%.</p>
Inflation	<p>Inflation continued to decelerate in June: it was 1.7% y/y. On a monthly basis, prices decreased 0.4% m/m. This way, inflation was well below the target of 3.0% for the 9th consecutive month. Again, this performance was explained by tradable goods (0.6% y/y), as non-tradable goods prices still show inflationary pressure and grew 3.1% y/y. According to the Central Bank, inflation expectations for this year are around the target. For 2017, inflation is expected to be 2.4% and 2.9% in 2018.</p>
Monetary Sector	<p>The Chilean Peso has been appreciating as copper price increased. China, the main consumer, grew more than expected in the 2Q-17 (6.9% versus 6.5% expected). Nowadays, the CLP stands close to 653 per Dollar. The CB maintained the policy rate in 2.5% for the second consecutive month. The entity had begun an easing cycle in Jan-17 keeping an eye on economic activity, that is slowly recovering.</p>
Fiscal Front	<p>Expenditure accumulated a growth of 5.2% in real terms up to May and slowed down from the 7.8% registered for the 1Q-17, when it was dynamic. Current expenditure went up 6.8%, mainly driven by the payment of interests and subsidies. On the contrary, capital expenditure decreased 3.6%. Total revenues grew 2.7%, explained by more tax revenues. In this scenario, fiscal deficit is expected to reach 3.0% of GDP this year.</p>
What's coming next?	<p>The main concern is the evolution of economic activity: there were some positive signals in May. However, debt is increasing fast as weak economic activity affected tax revenues. This has an impact on Chile's vulnerability to external shocks, so S&P decided to downgrade sovereign debt rating. Better outlooks for China and copper prices are good news. Also, presidential elections are a key variable to monitor as each candidate comes with a tax reform for 2018 to boost investment.</p>

CHILE: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (CLP/USD, eop.)	654.85	665.36	673.49	662.50	670.30
Interest rate (%)	2.5%	2.5%	2.8%	3.5%	3.5%
Inflation (y/y)	1.7%	2.6%	2.7%	4.2%	2.7%
Economic activity (y/y)	-	1.3%	0.1%	1.3%	1.6%
Industrial activity (y/y)	-	1.9%	-7.1%	-4.2%	-0.8%
Mining production (y/y)	-	-2.6%	-1.3%	-6.6%	-3.4%

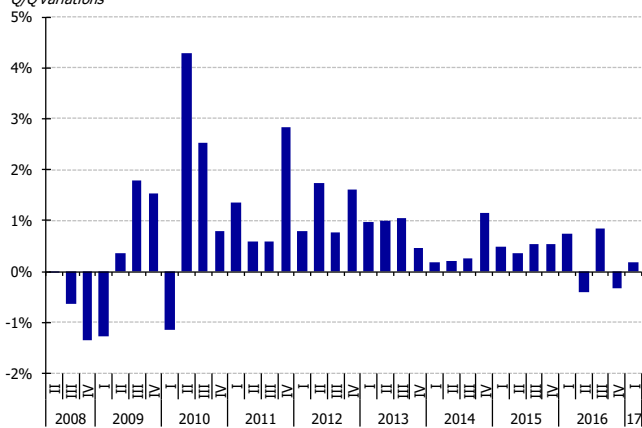
Source: EconViews based on several sources

Macroeconomic Outlook

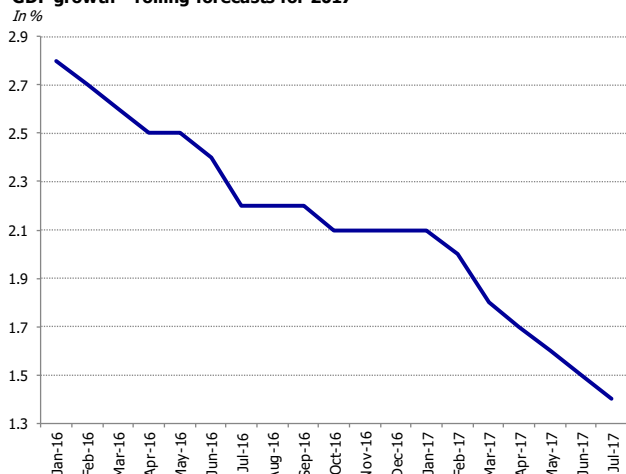
	2014	2015	2016	2017F	2018F
GDP growth (%)	1.9%	2.3%	1.6%	1.4%	2.7%
Inflation (Dec-Dec)	4.6%	4.4%	2.7%	2.4%	2.9%
Fiscal Balance (% GDP)	-1.5%	-2.1%	-2.7%	-3.0%	-2.7%
Current Account (% GDP)	-1.7%	-1.9%	-1.4%	-1.4%	-1.7%
International reserves (USD Bn)	38.9	37.2	39.5	38.8	38.9
Exchange rate (CLP/USD)	607.4	709.4	670.3	675.0	690.0

Source: EconViews based on Consensus Forecast & IMF

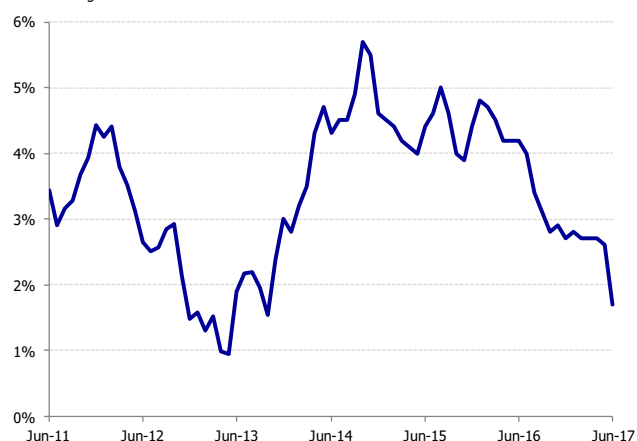
Real GDP
Q/Q variations



GDP growth - rolling forecasts for 2017



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Inflation is falling rapidly and allowing the Central Bank to ease its monetary policy. As a result, the consensus expects a modest recovery of economic activity the second half of the year.	Colombia's credit rating outlook may be cut to negative, as macro fundamentals and economic growth perspectives are deteriorating, while market credibility weakened in tandem.	Economic activity remains disappointing, while consumer and investor confidence have been deteriorating. On the other hand, the fiscal and external outlook slightly worsened.

Politics

Former Presidents Pastrana (1998-02) and Uribe (2002-10) announced an agreement to support and create a coalition, mostly between the sectors that supported the "No" in the peace agreement, to choose and support a unique candidate for the 2018 Presidential elections. Currently, former President Humberto de la Calle, labor Minister Clara López and former Antioquia Governor Sergio Fajardo are leading the polls, while the candidacy of former Vice-president Vargas Lleras remains open.

Economic Activity

Activity indicators, as industrial production and retail sales, remained weak during the second quarter of the year, while low confidence levels are also constraining expectations for a recovery in activity ahead, since they remain stuck in pessimistic ground. The weak activity brings further downside risks to the GDP forecast for this year. Currently the average of the consensus expects a 2.0% growth this year, while at the beginning of the year it was expecting 2.5%.

Inflation

Despite headline inflation is falling, still core inflation remains sticky. Headline inflation fell to 4.0% in June from 4.4% in May, reaching its lowest annual level since January 2015, mainly thanks to lower food inflation. However, non-tradable inflation remains uncomfortable at 5.2%, while core inflation is still well above the 2%-4% target range. As the output gap is expected to widen, inflation would continue moderating ahead. The consensus expects year end inflation at 4.2% and next year at 3.4%.

Monetary Sector

The Peso continued weakening due to lower oil prices and worse fundamentals (slower speed of adjustment for external and fiscal imbalances). We expect 3,130 pesos per dollar at the end of this year (from 3,080 previously). In June the Central Bank cut its policy rate by 50 bps to 5.75%, extending the easing cycle began in December to 200 bps. As there are still some downside risks for activity, further policy weakening is expected. At year end the consensus expects the policy rate at 5.25%.

Fiscal Front

The Government announced that expects a higher fiscal deficit for this year of 3.6% of GDP (relative to the previous target of 3.3%) and raised its deficit target for 2018 to 3.1% (from 2.7% before). These higher fiscal deficits are projected despite the tax reform approved the last year and are due to a lower expected growth and higher expenditures. Despite these recalculations, the Government still targets a structural fiscal deficit of 1.0% by 2022.

What's coming next?

Checklist of issues to monitor in the domestic front:

- The behavior of economic activity, which remains disappointing
- The stance of the monetary policy and the evolution of fiscal accounts
- The recent deterioration on the current account deficit and FDI inflows
- The discussions of the reform aimed to reshape the political system

COLOMBIA: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (COP/USD, eop.)	3,018	3,053	2,917	2,921	3,003
Interest rate (%)	6.25%	6.26%	6.97%	7.50%	7.50%
Inflation (y/y)	4.0%	4.4%	4.7%	8.6%	5.7%
Economic activity (y/y)	-	-	-0.6%	2.3%	2.0%
Industrial activity (y/y)	-	-0.6%	-6.8%	6.7%	3.8%

Source: EconViews based on several sources

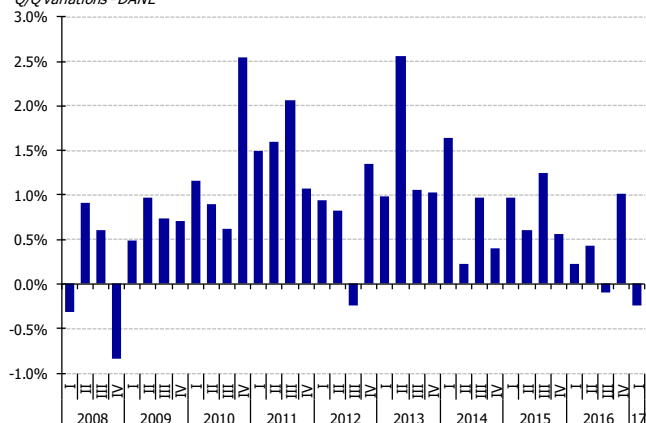
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.4%	3.1%	2.0%	2.0%	2.8%
Inflation (Dec-Dec)	3.7%	6.8%	5.7%	4.2%	3.4%
Fiscal Balance (% GDP)	-2.4%	-3.0%	-4.0%	-3.5%	-3.0%
Current Account (% GDP)	-5.1%	-6.4%	-4.4%	-3.6%	-3.3%
International reserves (USD Bn)	44.9	44.8	45.0	46.4	46.8
Exchange rate (COP/USD)	2,389	3,180	3,002	3,130	3,200

Source: EconViews based on Consensus Forecast & IMF

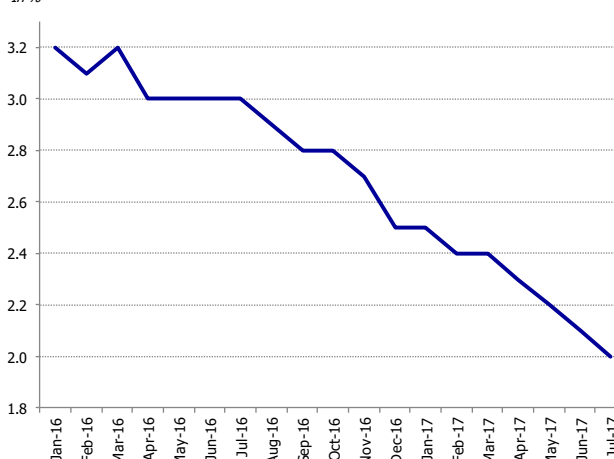
Real GDP

Q/Q variations - DANE



GDP growth - rolling forecasts for 2017

In %

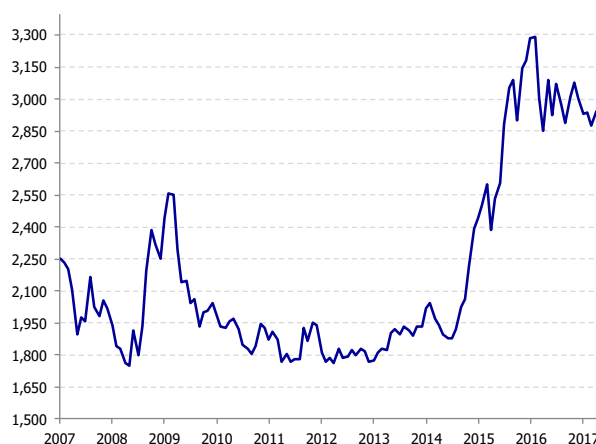


Inflation - General CPI

Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
Standard & Poor's affirmed Mexico's BBB+ foreign currency rating and lifted the outlook from negative to stable.	After surprising to the upside in 1Q17, economic activity began 2Q17 with a 0.7% y/y fall in April.	The uncertainty around trade policies in the United States is holding back investment, that fell 2.8% q/q in 1Q17.

Politics

The candidate from President Enrique Peña Nieto's governing party narrowly won key elections in the central State of Mexico, with only a 3 pp. margin of victory. Despite the outcome of the regional elections, López Obrador (AMLO) is still at the top of presidential polls. The formation of alliances is key at this stage of the electoral race, in particular the decision taken by the center-left party, which currently commands around 8% of vote intentions.

Economic Activity

After performing better than expected in 1Q17, Mexican GDP growth began the second quarter of the year recording a 0.7% y/y fall in April, according to the IGAE index. Growth was led by the service sector, while the performance of most industrial sectors was poor. On the demand side, gross fixed investment and consumption are both weakening. After growing 2.3% in 2016, we expect GDP to moderate its growth to 2.0% this year and to accelerate again in 2018, to 2.2%.

Inflation

Inflation remained on the rise during June and increased to 6.31% y/y, from 6.16% in May. Core inflation increased from 4.78% in May to 4.83% in June, while non-core inflation increased from 10.6% to 11.1% y/y, driven by the increase in agricultural prices, which was partly offset by lower energy inflation. However, the current exchange rate appreciation, weaker activity and lower oil prices are likely to lead to disinflation ahead. Thus, inflation is likely to stand around 5.9% in December.

Monetary Sector

The Banxico's foreign exchange intervention program and the narrowing of the twin deficits put some pressure on the MXN. Thus, it has appreciated around 16% so far this year. After rising the interest rate 400 bps since December 2015, the central bank announced that unless inflation or economic conditions deteriorate strongly, the tightening cycle is over, even if the Fed continues hiking rates. Thus, we expect the monetary policy rate to stand around 7% in 2017 and 6.5% in 2018.

Fiscal Front

We expect the fiscal deficit to narrow to 2.1% of GDP in 2017 and thus, the Government will be able to reduce the public debt to GDP ratio for the first time in 10 years. S&P's rating agency affirmed Mexico's BBB+ rating and lifted the outlook from negative to stable, as fundamentals have improved, with the uncertainty over NAFTA's fate gradually fading, both the current account deficit and the fiscal deficit narrowing, while public indebtedness falls helped by a stronger currency.

What's coming next?

- We expect the peso to depreciate slightly from its current level, as the interest rate differential with the U.S. is likely to narrow and the risks related to NAFTA and domestic politics have not disappear yet.
- On the political side, all eyes are on the announcements of party alliances, which have to be registered before the November 2017.

MEXICO: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (<i>MXN/USD, eop.</i>)	17.48	18.13	18.62	18.29	20.74
Interest rate (%)	7.00%	6.75%	6.50%	4.25%	5.75%
Inflation (<i>y/y</i>)	6.3%	6.2%	5.8%	2.5%	3.4%
Economic activity (<i>y/y</i>)	-	-	-0.7%	2.3%	2.3%
Industrial activity (<i>y/y</i>)	-	1.0%	-4.2%	0.6%	0.0%
Automotive production (<i>y/y</i>)	-	16.2%	1.9%	2.7%	0.8%

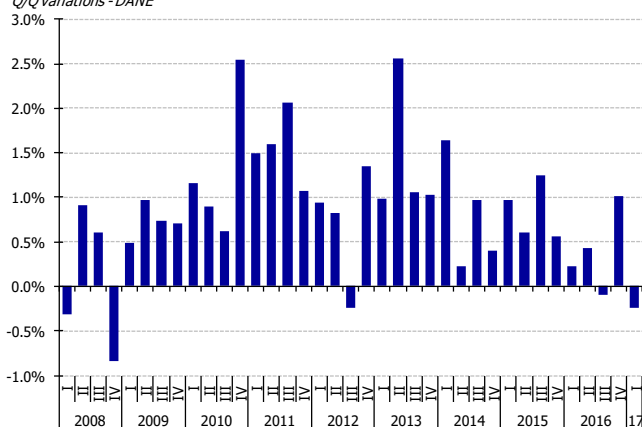
Source: EconViews based on several sources

Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	2.3%	2.6%	2.3%	2.0%	2.2%
Inflation (<i>Dec-Dec</i>)	4.1%	2.1%	3.4%	5.9%	3.9%
Fiscal Balance (% GDP)	-3.1%	-3.5%	-2.6%	-2.1%	-2.4%
Current Account (% GDP)	-2.0%	-2.9%	-2.7%	-2.5%	-2.7%
International reserves (<i>USD Bn</i>)	185.2	168.4	168.7	174.8	177.2
Exchange rate (<i>MXN/USD</i>)	14.75	17.19	20.74	18.60	18.50

Source: EconViews based on Consensus Forecast & IMF

Real GDP
Q/Q variations - DANE



GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
The country is managing to achieve long term GDP growth with low inflation. Fiscal performance is robust.	The US approach to fiscal policy may affect the US monetary policy and interest rates which in turn affect FX and commodities.	Weather conditions in Q2 have impaired an outstanding GDP performance. Although the shock is temporary, Agriculture and Construction are suffering the hit

Politics	<p>President Cartes is working on the definition of pre-candidates from the Partido Colorado to replace him after the Presidential elections scheduled for December 17. Although Economy minister Santiago Peña is his favorite choice, some noise has emerged around an alleged incompatibility: a candidate must show at least a 1 year adherence to a political party in order to participate as candidate. Some people argue Mr. Peña does not comply with this condition.</p>
Economic Activity	<p>After an outstanding Q1 performance (+6.6% yoy), GDP is suffering a hit due to heavy rains and adverse weather conditions throughout Q2, especially in April. Agriculture, Cattle, and Construction are among the sectors most hardly affected. Leading indicators used by the BCP are pointing to a recovery in activity in May. With this information the BCP has remained unchanged its 2017 GDP growth estimate at 4.2% compared with the 3.9% from our own projections.</p>
Inflation	<p>As of June, headline consumer prices slowed to a 2.9% y/y variance following a decline of 0.2% that month. The appreciation of the FX rate is helping food and durable goods prices to move south, driving the annual CPI variance slightly below the BCP target (4% +-2%). Core inflation remained stable in June (0%) and is running at 3.2% y/y. In light of this short term evolution, we are keeping our 2017 inflation forecast at 4.0%.</p>
Monetary Sector	<p>By mid July the Guaraní traded at 5.530 to the dollar, strengthening nearly 4% during 2017 in nominal terms versus the USD. In its June meeting, the Central Bank decided to leave the policy rate unchanged at 5.5% for the eleventh month in a row. The global scenario is slightly improving and economic growth and inflation path are both evolving according to the BCP planned view. Political tensions in Brazil are easing. We forecast the policy rate to remain at 5.50% for the foreseeable future.</p>
Fiscal Front	<p>As of June, the cumulative 12 month deficit at the national treasury reached 1.5% of GDP, printing an improvement over the last month's performance. The country can proudly show the lowest reading among neighboring countries and is consistent with the fulfillment of the Fiscal Responsibility Law. Total revenues (including royalties from Itaipu) are increasing at 7.5% y/y rates while primary expenditures are growing 5.6% on an YTD basis as an increase in capital expenditures is mitigated by salaries containment. Fiscal deficit is expected to reach -1.2% of GDP in 2017.</p>
What's coming next?	<p>Some top issues to watch for in Paraguay:</p> <ul style="list-style-type: none"> • The evolution of political affairs in neighboring Brazil • Short term impact of the GDP slowdown in Q2 due to weather conditions • The road to the next Presidential elections • US interest rates and its impact into commodities prices

PARAGUAY: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (PYG/USD, eop.)	5,550	5,604	5,654	5,650	5,866
Interest rate (%)	5.5%	5.5%	5.5%	5.8%	5.5%
Inflation (y/y)	2.9%	3.4%	3.6%	4.7%	3.9%
Economic activity (y/y)	-	4.6%	-2.3%	6.9%	4.0%

Source: EconViews based on several sources

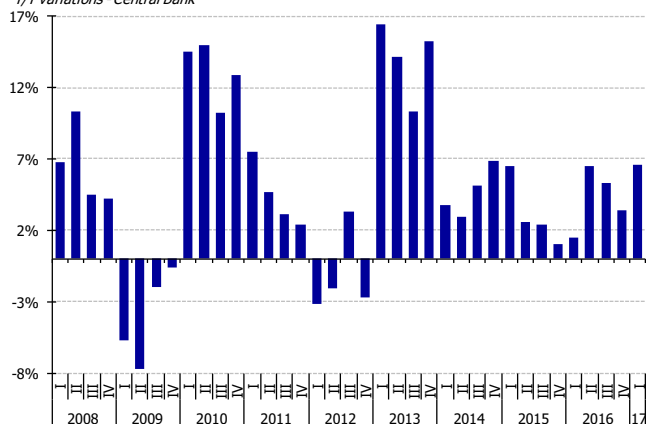
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.7%	3.0%	4.0%	3.9%	3.7%
Inflation (Dec-Dec)	4.2%	3.1%	3.9%	4.0%	4.0%
Fiscal Balance (% GDP)	-0.7%	-1.3%	-1.0%	-1.2%	-1.1%
Current Account (% GDP)	-0.4%	-1.1%	0.6%	-1.4%	-0.5%
International reserves (USD Bn)	6.9	6.2	7.1	n.a.	n.a.
Exchange rate (PYG/USD)	4,642.2	5,813.9	5,866.0	5,700.0	5,900.0

Source: EconViews based on Consensus Forecast & IMF

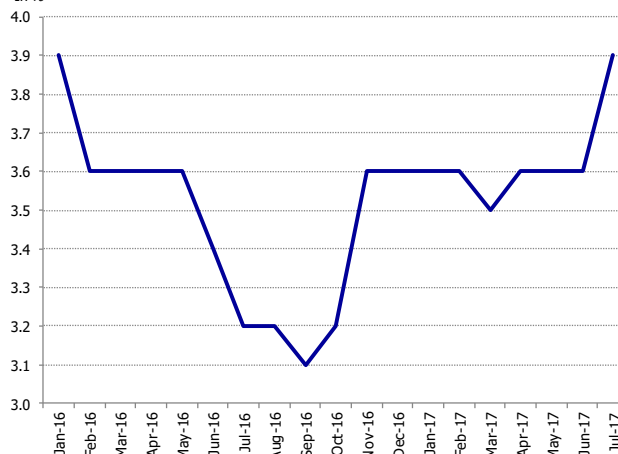
Real GDP

Y/Y variations - Central Bank



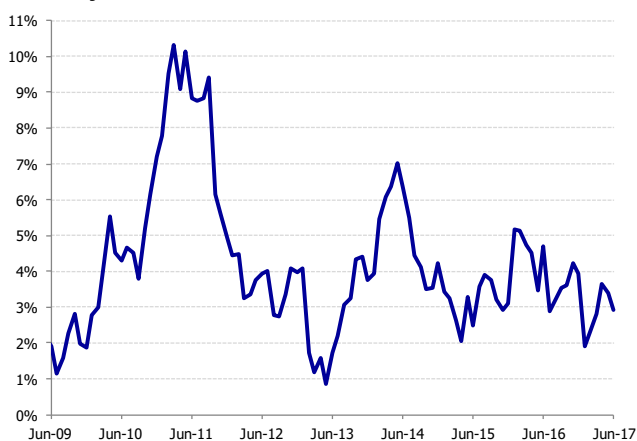
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
After peaking 8.9% in Jan-17, unemployment rate (Lima Metropolitana) fell to 6.2% in Apr-17.	The forecast for growth was revised down from 3.0% to 2.6% in July as "El Niño" had a strong impact.	Construction accumulated a deterioration of 5.6% up to May-17

Politics

The Minister of Economy was forced to resign by the Congress, controlled by the Fujimorista party, accused of influencing the approval of the construction of a new airport in Cuzco. This way, the government of Kuczynski lost its fourth minister since it took office.

In July, approval of president Kuczynski fell for the second consecutive month to 34% from 43% in May-17, according to a survey made by Ipsos.

Economic Activity

Economic activity recovered and grew 3.4% y/y in May-17, after being stagnant since Feb-17. Fishing, manufacturing industry and communication grew strongly in interannual terms while construction, agriculture and mining deteriorated. The drivers of this performance were both external and domestic demand. The economy grew 1.96% so far this year.

Peru's GDP forecast for 2017 was revised down to 2.6% from the previous 3.0%.

Inflation

After the impact of "El Niño", headline inflation decelerated fast and reached 2.7% y/y in June (-0.16% m/m), below the Central Bank's upper band of 3.0% for the first time since Aug-16. The main driver was the reduction in "Food and beverages" prices, which fell for the third consecutive month.

For 2017, inflation was revised down to 2.5%, under the upper band.

Monetary Sector

The Peruvian Nuevo Sol is still strong and accumulated an appreciation of 3.3% so far this year. Currently stands near PEN 3.25 per Dollar.

In July, the CB lowered its policy rate 25 bps to 3.75% as supply shocks have subsided, the economy is growing below its potential, inflation expectations are in the target range and global economy is recovering.

Fiscal Front

Fiscal deficit was 2.7% of GDP in May, worsening compared to the 2.6% of April. Revenues fell as a consequence of previous weak economic activity and tax cuts while the fiscal stimulus set after "El Niño" is not making effect yet as public investment is still weak.

For 2017, fiscal deficit is expected to stand around 3.1% of GDP.

What's coming next?

Depending on how the economy evolves, the Central Bank will evaluate two future rate cuts. Also, the fiscal stimulus should have a positive impact in the upcoming months. This way, the government will focus on rebuild the country that was severely hit by "El Niño".

Infrastructure works are still virtually paralyzed after the Odebrecht scandal and its execution is vital for the economy to sustain growth.

PERU: APPENDIX

Dashboard

	Jul-17	Jun-17	May-17	Jul-16	2016
Exchange rate (PEN/USD, eop.)	3.25	3.24	3.26	3.37	3.36
Interest rate (%)	3.75	4.00	4.00	4.25	4.00
Inflation (y/y)	-	2.7%	3.0%	3.0%	3.2%
Economic activity (y/y)	-	-	3.4%	3.7%	3.9%
Manufacturing activity (y/y)	-	-	11.3%	0.9%	-1.5%
Mining production (y/y)	-	-	-0.6%	14.1%	16.3%

Source: EconViews based on several sources

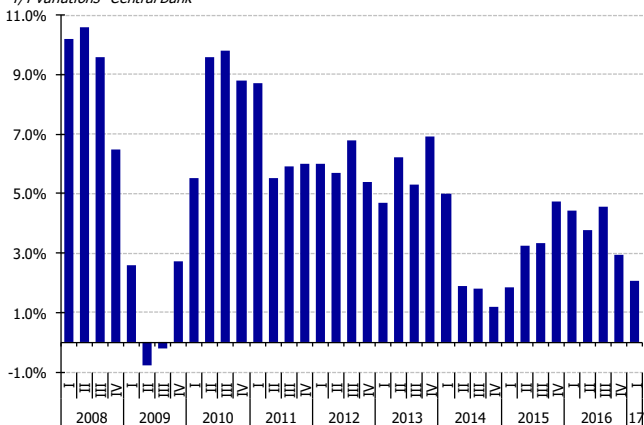
Macroeconomic Outlook

	2014	2015	2016	2017F	2018E
GDP growth (%)	2.4%	3.3%	3.9%	2.6%	3.7%
Inflation (Dec-Dec)	3.2%	4.4%	3.2%	2.5%	2.6%
Fiscal Balance (% GDP)	-0.3%	-2.1%	-2.6%	-3.1%	-3.4%
Current Account (% GDP)	-4.4%	-4.9%	-2.8%	-1.9%	-2.0%
International reserves (USD Bn)	60.1	59.4	59.8	64.3	67.0
Exchange rate (PEN/USD)	3.00	3.42	3.36	3.35	3.40

Source: EconViews based on Consensus Forecast & IMF

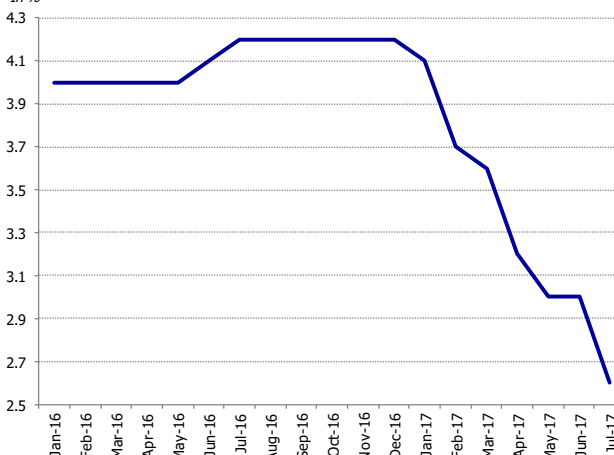
Real GDP

YY variations - Central Bank



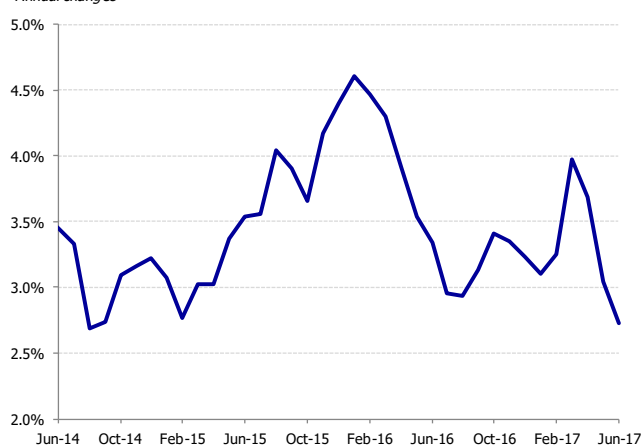
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
Tamed inflation is boosting real wages and private consumption, which in turn are factored into a sound GDP performance.	The dependency of Latam countries on global markets (interest rates, foreign currencies and commodities prices) are paramount and should be closely monitored	Although some improvement over the last months, the fiscal consolidation target for 2017 calls for a 1% reduction of the deficit, which we see difficult to achieve.

Politics	<p>On July 20 several unions implement a national strike reaching transport, banks, the national administration, schools, universities and health services (emergency rooms were the exemption). Although unions are claiming higher budget for education (6% of GDP) many political analysts believe the strike is a reaction against the government after the presentation of the annual Budget account review document to Congress without union leaders participating in the process or negotiation.</p>
Economic Activity	<p>GDP growth is beating forecasts again, with a Q1 yoy variance of 4.3% Private consumption is taking the lead as an appreciation of the UYU and an increase in real wages have driven a 4.3% yoy increase under this component. As broken down by industry, Transport, storage and communications (+9.4), retail and restaurants (+8.7) and the primary sector (+4.3) are the stars in terms of yoy growth. In light of this performance, we raised our 2017 GDP estimate to 2.6%, as compared to 3.5% from the BCU and 3.3% from the BCU survey of private economists</p>
Inflation	<p>Inflation slowed in June to print a monthly variance of 0.15%, implying an annual record of 5.3%. According to the latest BCU survey, inflation expectations for 2017 are on their way down from 7.2% in the prior release to the current 6.7%. Both actual and expected inflation now plot within the 3%-7% Central Bank target range. Our full 2017 inflation forecast lies in the 7.1% area. The disinflation process will remain in place due to a strong Peso and a sluggish labor market (unemployment at 8.5%).</p>
Monetary Sector	<p>In a context of stronger Latam currencies, the UYU has gained nearly 3% against the US dollar this year despite the cumulative intervention efforts from the BCU that amounted to USD 1.7 billion year to date. The UYU remained stable during June and July in the 28.50 UYU/USD area. The BCU monetary policy remains tight with an 11-13% M1 growth target for the period July-September (the 2016 base figures were abnormally low). The next COPOM meeting will take place in early October. We forecast the UYU to trade nearly at 29.25 by year end.</p>
Fiscal Front	<p>The fiscal deficit remains stable but at high levels as May figures point to a 3.5% total fiscal deficit to GDP ratio. Primary deficit figures improved as revenues came in with a 17.8% yoy growth compared to a 13.7% yoy increase in expenditures (mainly pensions and transfers). The fiscal consolidation plan for this year calls for a 1% reduction in the fiscal deficit to target 3% of GDP. We foresee a fiscal deficit of -3.4% by yearend. This is a key issue as the credit rating might be affected.</p>
What's coming next?	<p>The items at the top of the agenda:</p> <ul style="list-style-type: none"> • Positive news may arise from the construction of a third pulp plant planned by Finnish company UPM • GDP improvement with continued disinflation should go on to help alleviate the fiscal deficit which is a critical issue to follow. • Both Moody's and S&P have put Uruguay on negative watch • US monetary policy should also be closely monitored

URUGUAY: APPENDIX

Dashboard

	Jun-17	May-17	Apr-17	Jun-16	2016
Exchange rate (UYU/USD, eop.)	28.68	28.45	28.28	30.51	29.35
Interest rate (%)	8.05%	9.29%	11.00%	11.19%	11.50%
Inflation (y/y)	5.3%	5.6%	6.5%	10.9%	8.1%
Economic activity (y/y)	-	-	0.3%	0.4%	1.5%
Manufacturing activity (y/y)	-	-16.0%	-16.1%	-3.1%	0.3%

Source: EconViews based on several sources

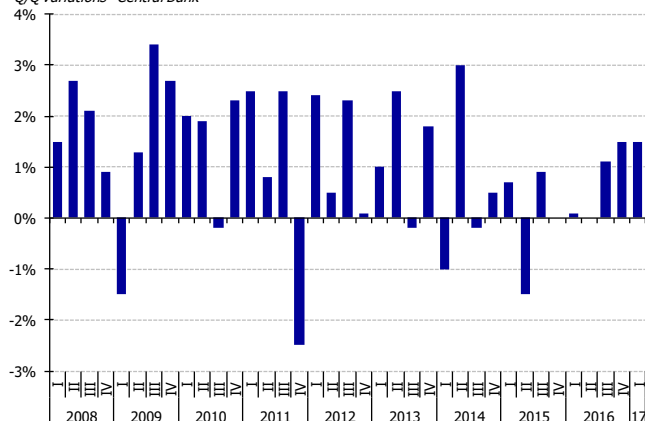
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	3.2%	0.4%	1.5%	2.6%	2.8%
Inflation (Dec-Dec)	8.3%	9.4%	8.1%	7.1%	7.3%
Fiscal Balance (% GDP)	-3.5%	-3.6%	-3.9%	-3.4%	-2.8%
Current Account (% GDP)	-4.5%	-2.1%	-1.0%	-1.5%	-1.6%
International reserves (USD Bn)	17.8	15.6	13.4	n.a.	n.a.
Exchange rate (UYU/USD)	24.42	29.94	29.35	29.00	31.00

Source: EconViews based on Consensus Forecast & IMF

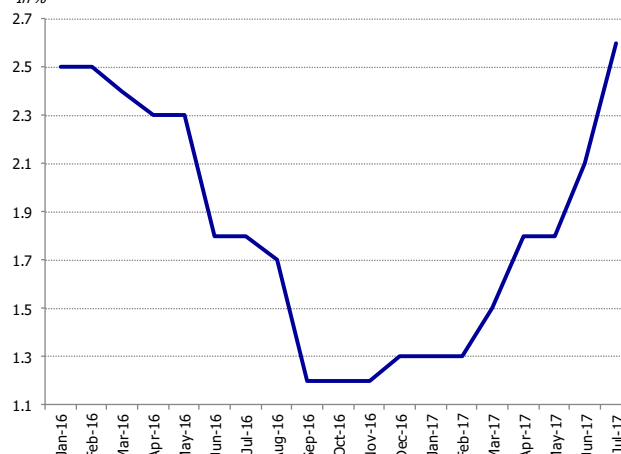
Real GDP

Q/Q variations - Central Bank



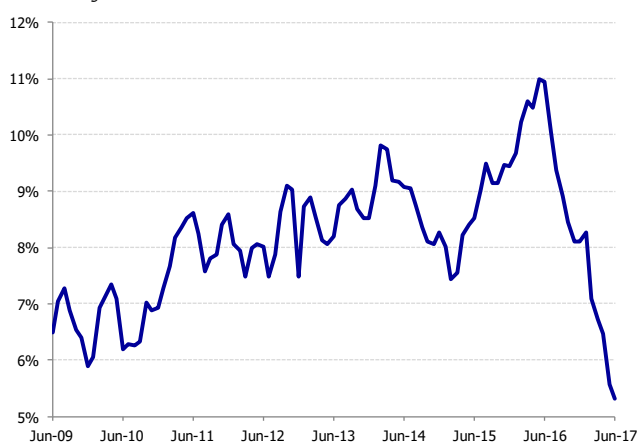
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar

