LATAM 7 + Argentina

Macro Brief

June, 2019

- **Argentina:** Presidential tickets finally defined
- **Brazil:** Economic recovery is taking longer than expected
- **Chile:** The Central Bank, more dovish than ever
- **Colombia:** Growth outlook worsens
- **Mexico:** The ratification of USMCA is becoming more uncertain
- **Paraguay:** Bad weather, good face, but materially softer GDP
- **Peru:** Fiscal accounts keep improving
- **Uruguay:** The presidential race kicks off

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ARGENTINA

Good news	To be alert	Bad news
The FX stabilized after the CB announced was able to intervene. Inflation decelerated since then, while last economic figures show a modest rebound on economic activity.	The country risk premium remains high at 850 bps, although lower than 1000 bps of April. Fernandez-Fernandez ticket show a timid advantage on the pools over Macri-Pichetto.	Economic activity fell 5.8% in Q1 relative to year ago, with private consumption falling 10.2%. More recent economic indicators show consumption still remains weak.

Politics

Macri shocked the political space by choosing Miguel Pichetto as his vice president candidate. He's a veteran Peronist, a pro market defender and one of the leaders of Alternativa Federal. The decision was celebrated by the market, with a nominal FX appreciation of the Peso to 42.50, and a slump in country risk to 845 bps. Some weeks before, Cristina Kirchner surprised the market when she announced she was running as vice president, with Alberto Fernandez as presidential candidate.

Economic Activity

The stability in the FX market contributed toward the recovery of the industrial activity in April, after March's setback. The industry grew 2.3% in April compared to previous month. For May and June we expect economic activity as a whole to show a clear improvement, thanks to FX stability, higher real wages and agricultural recovery. We expect GDP to fall 1.8% in 2019, explained by a negative carry-over of 3 p.p. from the previous year, as we expect GDP to be growing at around 2% per annum in Q4-2019.

Inflation

Inflation decelerated in recent months. After reaching a maximum of 4.7% in March, it lowered to 3.4% in April and 3.1% in May, while from now on it is expected to remain below 3% in the next months. However, yearly inflation still remains very high at 57.3% in May. The FX stability would help to continue moderating inflation going forward and the Government announced that there will be no more hike in utilities rates before elections. We expect annual inflation to lower down to 43.5% at year end.

Monetary Sector

May and June were good months. The Peso reacted very positively after the CB on April 29th announced that it can intervene in the FX market, appreciating from 45 to 42.50 ARS per USD, favored also by the appointment of Pichetto as VP and positive momentum for emerging market currencies. So far, the CB did not sell reserves. On the monetary front, the CB is facing more challenges to meet the monetary base target, while interest rates lowered from 74% at end of April to almost 63% in late June.

Fiscal Front

In May the primary fiscal balance recorded a new record high of AR 25.9 billion in the new historical series, improving considerably compared to the ARS 7.8 billion deficit of year ago. Revenues (53%) grew again over primary expenditures (35%), widening the spread further. The primary surplus accumulated so far reached ARS 36.8 billion, well over the target for the second quarter (ARS 20 billion without adjusters), representing 0.2% of GDP. We expect primary surplus to reach the 0% target for the whole year.

What´s coming next?

- The presidential campaign already started.
- Primaries will be held August 11th.
- The results of the primaries will be key for the FX and bonds prices.
- There are 11 weeks between the primaries and October's presidential election.
- A ballotage is the most likely scenario and will be held November 24th.

ARGENTINA: APPENDIX

Dashboard

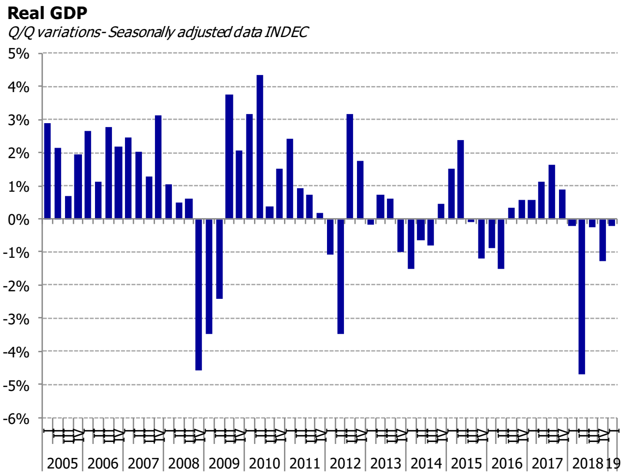
	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(ARS/USD, eop.)*	42.37	44.87	44.01	28.86	37.81
Interest rate *(%)*	63.05%	70.73%	73.93%	40.00%	59.25%
National inflation *(y/y)*	-	57.31%	55.75%	29.47%	47.65%
Economic activity *(y/y)*	-	-2.9%	-3.6%	-6.5%	-6.6%
Industrial activity *(y/y)*	-	-	-8.8%	-8.0%	-14.8%
Automotive production *(y/y)*	-	-35.3%	-32.5%	-13.4%	-38.5%

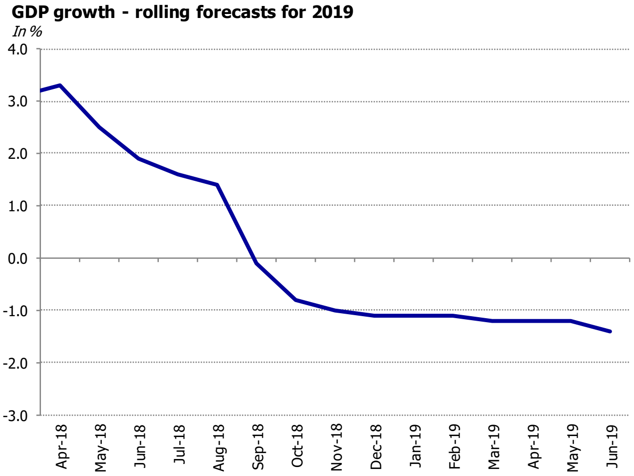
Source: EconViews based on several sources

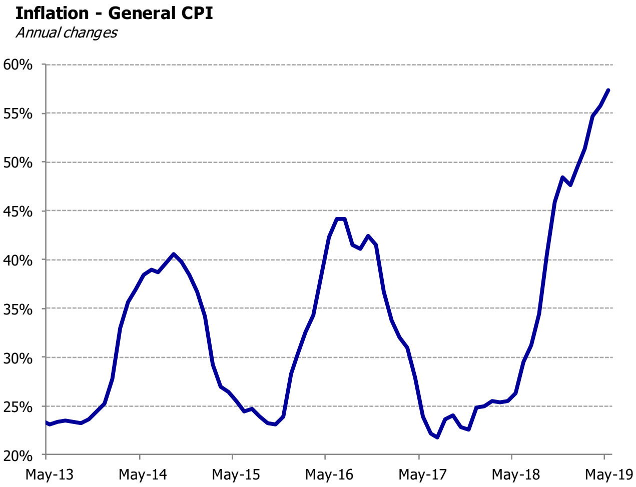
Macroeconomic Outlook

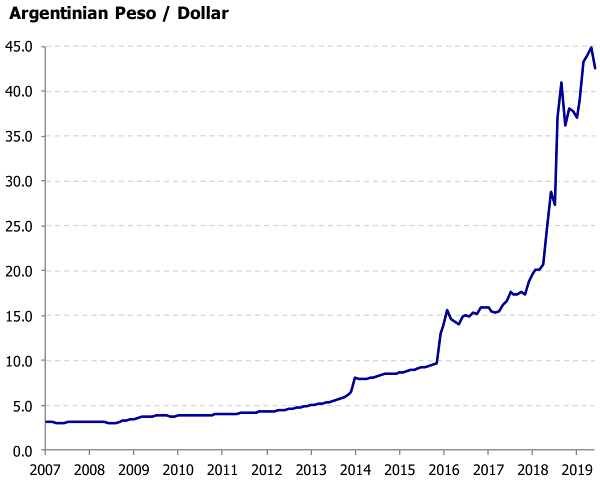
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	-2.1%	2.7%	-2.5%	-1.8%	2.5%
National inflation *(Dec-Dec)*	36.6%	24.8%	47.6%	43.5%	35.0%
Fiscal Balance *(% GDP)*	-5.8%	-5.9%	-5.0%	-3.1%	-2.1%
Current Account *(% GDP)*	-2.7%	-4.9%	-5.4%	-1.5%	-2.1%
International reserves *(USD Bn)*	39.3	55.1	65.8	60.2	61.2
Exchange rate *(ARS/USD)*	15.9	18.8	37.8	52.0	66.0

Source: EconViews based on official figures and own estimates









BRAZIL

Good news	To be alert	Bad news
The pension reform bill continues to move forward in the Lower House. This is essential for public-debt stabilization.	The weakness of economic activity is affecting fiscal indicators; primary deficit perspectives for 2019 and 2020 were recently worsened .	GDP contracted 0.2% q/q in Q1-19 and projections for the whole year fell for the 4th consecutive month.

Politics

Jair Bolsonaro visited Argentina for the first time as president and announced an imminent agreement on the long awaited and much trailed free trade agreement between the European Union and the Mercosur trading bloc. On another hand, the Special Committee's rapporteur presented his report on the pension reform bill with some significant changes. The proposal now moves on to a vote by the committee, with the following step being a two-round voting by the full Lower House.

Economic Activity

Economic activity continued to show signs of weakness and fell 0.2% in Q1-19 compared to the previous quarter. On the demand side, investment fell 1.7% and stood 27% below its pre-recession peak, while household spending showed moderate growth. On the supply side, services recorded a good performance, contrary to what happened with the industry and agriculture. We expect positive results in the next few quarters, leading GDP to grow 1.0% this year.

Inflation

According to the IPCA, m/m inflation was 0.6% in April and the y/y reading reached its 2019 peak (4.9%). However, it has already begun to moderate, reaching 4.7% in May. This moderation is likely to deepen in June, as the result of a very low monthly inflation, together with the high base of comparison in June 2018 that was strongly affected by the truckers' stoppages. We expect y/y inflation to close 2019 at around 3.8%, while it is expected to decelerate to 3.7% in 2020.

Monetary Sector

After breaking the ceiling of 4.00 BRL per USD in May, the exchange rate appreciated in recent weeks and is currently trading at around 3.82. So far this year, the BRL has appreciated 1.7% and we expect it to close the year at around its actual level. Moreover, the Brazilian Central Bank's Monetary Policy Committee maintained the Selic interest rate unchanged at 6.5% in its June meeting. If the pension reform is approved, we expect a decline in the Selic to 5% in 2019 and 2020.

Fiscal Front

Fiscal accounts will continue to be affected by the weakness of economic activity. Thus, we now expect a primary deficit of 0.9% of GDP for 2019 (revised from 0.8%), while if we exclude extraordinary revenues the primary deficit would reach 1.6% of GDP, still lower than the target of 1.8% of GDP. For 2020, we expect a primary deficit of 1.2% of GDP, although this reading largely depends on the progress of reforms that is an essential condition for public-debt stabilization in the medium term.

What´s coming next?

- The pension reform bill continues to move forward in the Lower House; we expect it to be approved by the Lower House in July and by the Senate in 3Q19.
- If the reform is approved, the expected rebound in economic growth and cuts in interest rates will significantly slow down the increase in public debt, which would likely then remain stable at around 80% of GDP in the coming years.
- The Monetary Council will set the inflation target for 2022: we expect it to stand at 3.5%, in line with the 25 bps cuts in 2019 (4.25%), 2020 (4%) and 2021 (3.75%).

BRAZIL: APPEN DIX

Dashboard

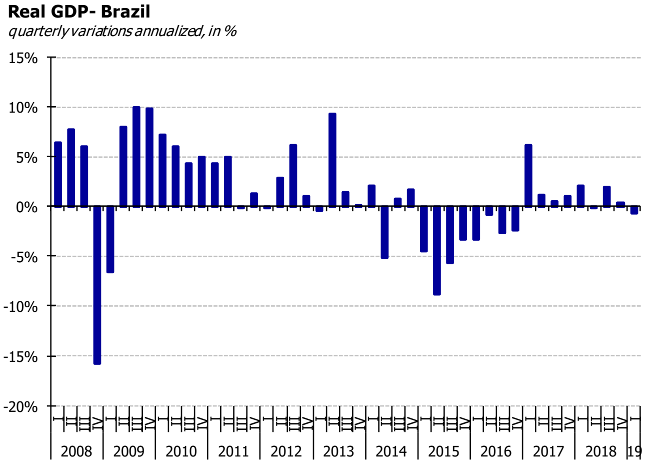
	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(BRL/USD, eop.)*	3.82	3.92	3.92	3.88	3.88
SELIC *(%)*	6.50%	6.50%	6.50%	6.50%	6.50%
Inflation *(y/y)*	-	4.7%	4.9%	3.3%	3.7%
Economic activity *(y/y)*	-	-	-0.6%	1.7%	0.6%
Industrial activity *(y/y)*	-	-	-3.9%	3.2%	1.2%
Automotive production *(y/y)*	-	29.9%	0.5%	21.1%	6.7%

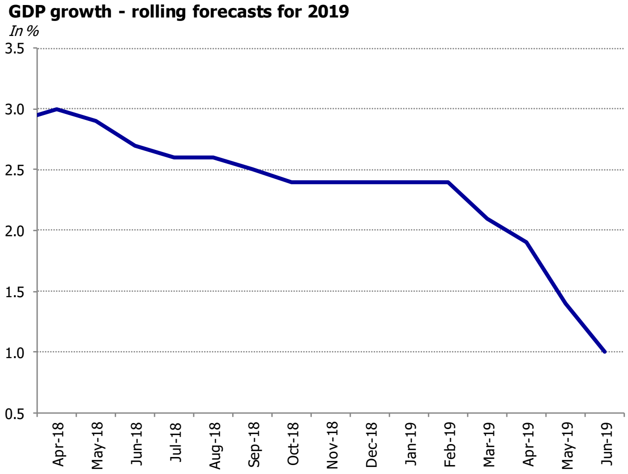
Source: EconViews based on several sources

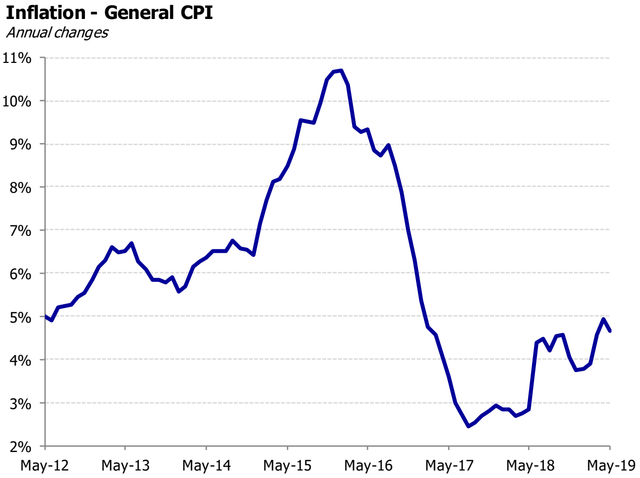
Macroeconomic Outlook

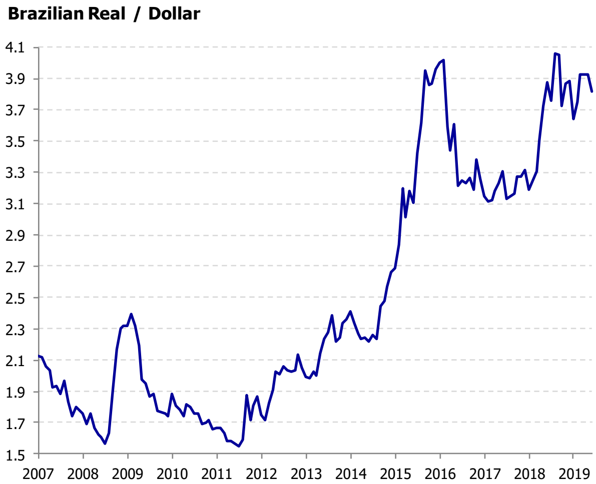
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	-3.3%	1.1%	1.1%	1.0%	2.3%
Inflation *(Dec-Dec)*	6.3%	2.9%	3.7%	3.8%	3.7%
Fiscal Balance *(% GDP)*	-9.0%	-7.8%	-7.1%	-6.5%	-6.1%
Current Account *(% GDP)*	-1.3%	-0.4%	-0.8%	-1.2%	-1.6%
International reserves *(USD Bn)*	356.8	365.4	365.5	379.1	381.9
Exchange rate *(BRL/USD)*	3.26	3.31	3.88	3.82	3.86

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF









CHILE

Good news	To be alert	Bad news
In April 2019 mining production increased 3.8% m/m (s.a. series) and went up 2.6% y/y, which signals a better start for activity in the Q2-2019.	The slowdown of activity in the Q1-2019 was due to both domestic and external factors. In addition, the Government is under fiscal consolidation.	Current account deficit has widened and reached 3.4% in the Q1-2019 (rolling 4 quarters), the highest since 2014, after reaching 3.1% in 2018.

Politics

President Piñera has recently changed six ministers: foreign affairs, economy, energy, public works, health and social development. The modifications are intended to regain some confidence from the population. Also, the cabinet reshuffle came amid a strong fall in Piñera's popularity as the economy is slowing down. After a mild recovery at the beginning of June, approval of Piñera continued to fall and this month reached a new low of barely 31.0%, according to Cadem.

Economic Activity

In the Q1-2019 economic activity lost momentum in line with the performance of other Latam countries. According to official data, the economy remained stagnant in comparison to the previous quarter and reduced its interannual growth to 1.6%. However, the available data for April 2019 suggests a mild recovery as the economy grew 0.3% m/m and accelerated its y/y growth to 2.1% from 1.8%. GDP forecast for 2019 was revised down to 2.9% and maintained for now at 3.2% for next year.

Inflation

In May 2019 inflation accelerated in comparison to one year ago and was 2.3%, below the target of 3%. In monthly terms, inflation went up 0.6% driven by housing and services (0.27 p.p.) and leisure (0.17 p.p.). Electricity recorded a monthly increase of 11.3% and had a significant impact on the overall index. Other items such as clothing contributed negatively by 0.01 p.p. For 2019 inflation is expected to be 2.7% y/y, still below the BCC target, and to accelerate to 2.9% in 2020.

Monetary Sector

The CLP depreciated during May due to lower copper prices and a stronger US Dollar, reaching a maximum of 710 CLP/USD. So far in June, it receded to the 680 area. In the last policy meeting, the BCC reduced the rate by 50 bps (the biggest reduction since 2009) to 2.5%. In the statement it was highlighted that international interest rates were lower and the risk for activity and the external front were downward. A future reduction in the policy rate is probable but not in the near term.

Fiscal Front

In April 2019 the Central Government recorded a surplus of 1.4% of GDP while for the first 4 months of 2019 it was 1.2%. Revenues increased 3.9% y/y in real terms helped by non-mining related taxes. On the other side, total expenditure grew 1.2% in real terms, driven by both current (1.1%) and capital expenditure (2.1%). Regarding current expenditure, payment of interests and public wages stood out (7.6% and 3.1% y/y respectively). For 2019 fiscal deficit is expected to be 1.8% of GDP.

What´s coming next?

- The tax and pension system reforms are still being discussed. The incumbent party does not hold a majority in the Congress but some advance with these reforms could boost Piñera's approval, which has been decreasing in the last months.
- Trade war between the USA and China, which is the main importer of copper, remains as the main external risk for an open economy such as Chile.

CHILE: APPENDIX

Dashboard

	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(CLP/USD, eop.)*	683.07	710.11	678.12	654.17	695.15
Interest rate *(%)*	2.50%	3.00%	3.00%	2.50%	2.75%
Inflation *(y/y)*	-	2.8%	2.4%	2.5%	2.6%
Economic activity *(y/y)*	-	-	2.1%	4.5%	4.2%
Industrial activity *(y/y)*	-	-	-1.4%	7.1%	2.3%
Mining production *(y/y)*	-	-	2.6%	3.2%	3.6%

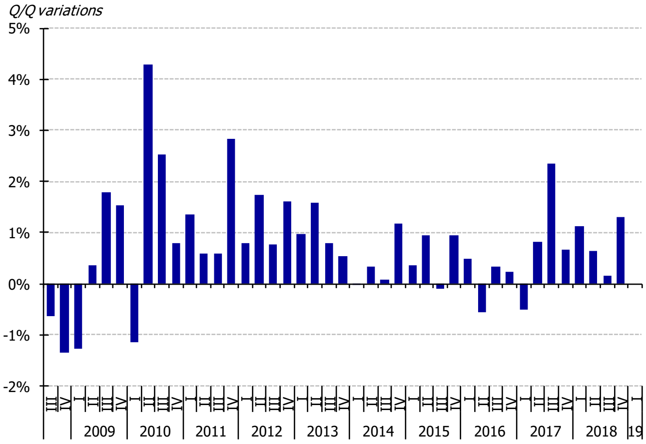
Source: EconViews based on several sources

Macroeconomic Outlook

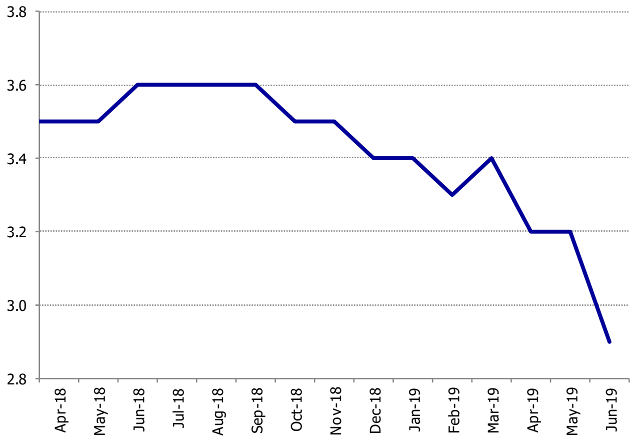
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	1.7%	1.3%	4.0%	2.9%	3.2%
Inflation *(Dec-Dec)*	2.7%	2.3%	2.6%	2.7%	2.9%
Fiscal Balance *(% GDP)*	-2.7%	-2.6%	-1.7%	-1.8%	-1.4%
Current Account *(% GDP)*	-1.6%	-2.1%	-3.1%	-2.9%	-2.7%
International reserves *(USD Bn)*	39.5	38.0	38.9	39.4	39.8
Exchange rate *(CLP/USD)*	670.30	616.15	695.15	670.00	661.00

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

Real GDP
Q/Q variations

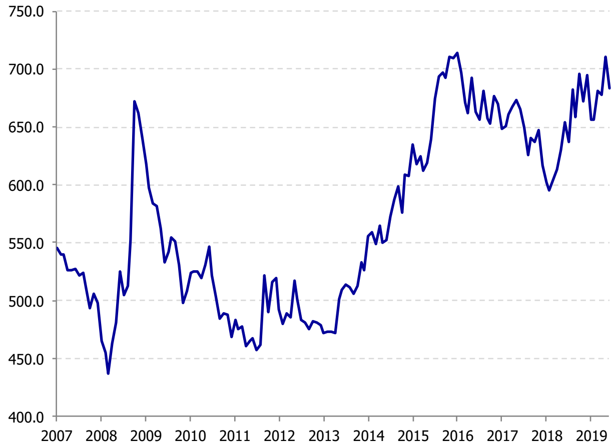


GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes

Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
There is room for monetary stimulus, as the output gap widens, inflation remains under control and the monetary policy in the US is expected to become looser.	Debt stabilization will be difficult without reforms. Given the political challenges, expenditure cuts or a tax reform would not be easily advanced.	The growth outlook worsened. On the other hand, the external deficit widens to around 4.5% this year, as the global scenario becomes more challenging and the terms of trade deteriorates.

Politics

With regional elections next October, it remains uncertain if President Duque will be able to pass the reforms needed to meet the ambitious fiscal targets, including cuts on gas and energy subsidies, which may end up affecting the poorest. Challenges linked to the pace of fiscal reform -key to Colombia's sovereign debt investment grade credit rating and for debt stabilization- bring uncertainties to the outlook, given the tense relationship between Duque and a deeply-divided Congress.

Economic Activity

Activity lost momentum in 1Q19, as GDP grew 2.3% relative to year ago, below the 2.7% of 4Q18 (s.a.). The main drag came from construction. While some recovery can be expected in 2Q19, the growth outlook deteriorated, as the global scenario became more challenging and oil prices lowered. The external deficit may widen to 4.5% of GDP this year. In response, the CBC suspended its reserve accumulation program. We expect GDP to grow 2.6% this year (3.0% before) and 2.8% in 2020.

Inflation

Headline inflation picked up in May to 3.31%, from 3.25% in April, driven by volatile food prices. However, core inflation measures remained close to the target, at 2.92%, relative to 2.95% in April. On the other hand, tradable goods inflation (excluding food items) remained at low levels, while non-tradable inflation moderated once again in relation to the previous month. We currently expect annual inflation at around 3.4% at year end.

Monetary Sector

The CBC kept its benchmark interest rate steady at 4.25% in the last meeting, in line with what the market was expecting. This marks more than a year at that level, the lowest since June 2014. The decision had the unanimous vote of the seven members of the board. Still, we believe there is room for monetary stimulus, as rising negative output gap along with controlled inflation expectations would likely keep inflationary pressures contained. We expect one policy rate cut before year end.

Fiscal Front

Moody's and Fitch revised their outlook for sovereign rating in opposing directions, showing contrasting interpretations of the fiscal outlook. Still, both are two notches above speculative, while S&P's rating is one notch below them. Following the rating revisions, the government updated its Medium-Term Fiscal Plan (MTFP), retaining the fiscal deficit targets for this year (2.4% of GDP) and 2020 (2.2%). Targeting the 2.4% of GDP deficit this year, implies recording a primary surplus for the first time since 2012.

What´s coming next?

- Regional elections in October, which will be the first electoral test for Duque.
- Duque inherited a fragile peace deal with the FARC's and has to decide to follow or not Santos' agreement. So far the direction remains unclear.
- Uncertainties remain over the pace of fiscal reform. Progress on the fiscal front is very important, given that the wide current account deficit is partly due to a still hard-to-correct fiscal deficit.

COLOMBIA: APPENDIX

Dashboard

	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(COP/USD, eop.)*	3,199	3,385	3,235	2,933	3,250
Interest rate *(%)*	4.11%	4.11%	4.25%	4.25%	4.24%
Inflation *(y/y)*	-	3.3%	3.3%	3.2%	3.2%
Economic activity *(y/y)*	-	-	2.1%	2.6%	2.7%
Industrial activity *(y/y)*	-	-	0.2%	1.5%	2.9%

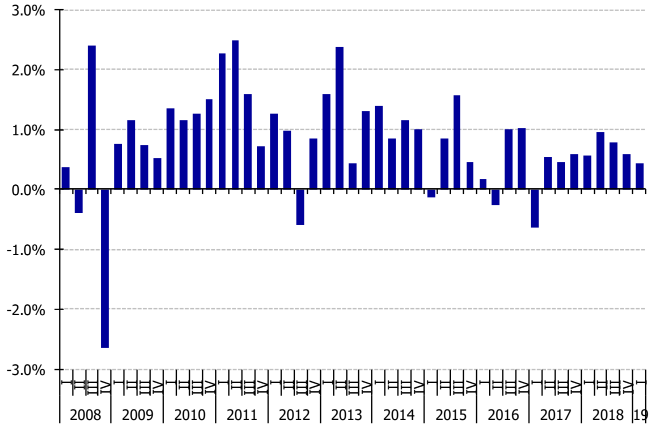
Source: EconViews based on several sources

Macroeconomic Outlook

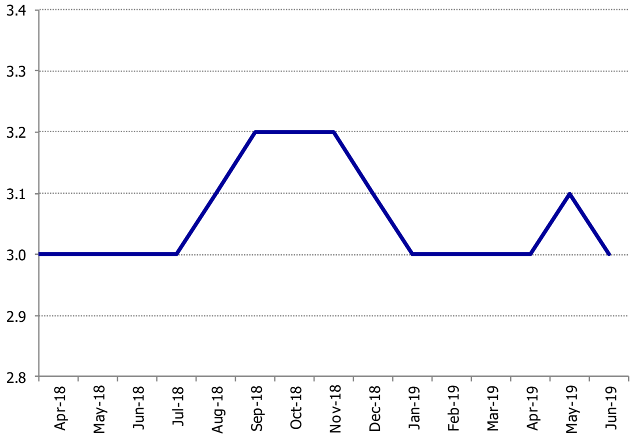
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	2.1%	1.4%	2.6%	2.6%	2.8%
Inflation *(Dec-Dec)*	5.7%	4.1%	3.2%	3.4%	3.2%
Fiscal Balance *(% GDP)*	-4.0%	-3.6%	-3.1%	-2.7%	-2.5%
Current Account *(% GDP)*	-4.3%	-3.3%	-3.9%	-4.0%	-3.8%
International reserves *(USD Bn)*	46.7	47.6	48.4	49.6	50.3
Exchange rate *(COP/USD)*	3,003	2,987	3,248	3,178	3,166

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

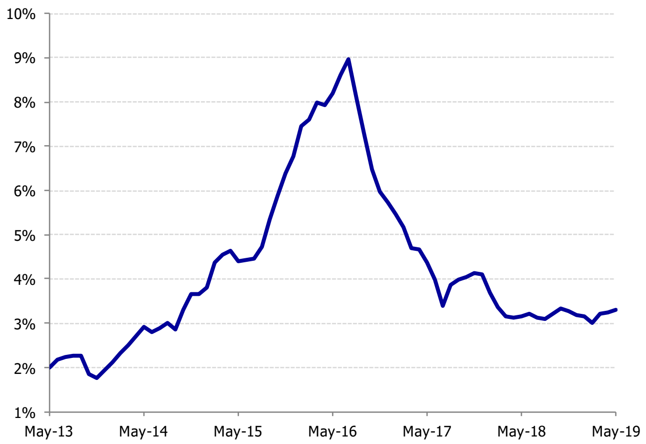
Real GDP
Q/Q variations - DANE



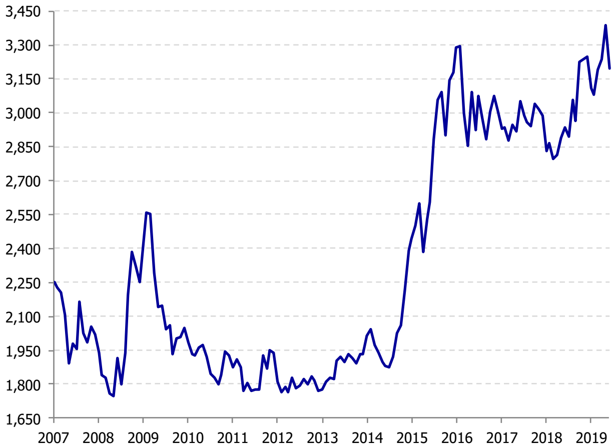
GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
Q1-19 fiscal figures were consistent with AMLO's commitment to fiscal responsibility and stood below the target for 2019.	Headline y/y inflation fell in May, but still remains above the upper bound of the range around the central bank's target.	Moody's changed Mexico's government outlook to negative from stable, while Fitch downgraded Mexico's sovereign rating to BBB from BBB+ (outlook stable).

Politics

President Trump threatened Mexico with tariffs on its exports to the U.S. as a way to pressure the country to control irregular migration. Although a deal was reached, avoiding the imposition of tariffs, uncertainty over trade relations with the U.S. has not ended. Trump also added that Mexico would soon buy a large quantity of agricultural products from the U.S. as part of the border deal. This tariff threat seems to be associated with the 2020 U.S. presidential elections, as illegal migration and security were popular topics during Trump's 2016 campaign.

Economic Activity

GDP fell 0.7% (s.a. annualized) in 1Q19, influenced by transitory factors, such as gasoline shortages and strikes in the manufacturing sector. Economic activity remained weak in April and contracted 1.4% y/y according to the IGAE, affected by a negative calendar effect. Thus, according to INEGI's adjusted figures, monthly GDP grew slightly 0.2% y/y, taking the quarterly growth rate to 0.2% in April (from 0.5% in March). We expect GDP to grow 1.2% this year and 1.7% in 2020.

Inflation

Headline inflation fell from 4.41% y/y in April to 4.28% in May, but still remains above the upper bound of the range around the central bank's target. Core inflation also decelerated on an annual basis, from 3.87% in April to 3.77% in May. We expect inflation to close the year at around 3.7% y/y and to stand at similar levels in December 2020. However, the persistent uncertainties over Mexico's economy and a weaker currency constitute the most relevant upside risks for inflation.

Monetary Sector

The Mexican Peso has appreciated 2.4% so far this year and is currently trading at around 19.20 MXN per USD. We expect the currency to continue to show some volatility and end the year at around 20.00. On another hand, the policy rate remained unchanged at 8.25% in May and the central bank is closing the doors on monetary easing for the short term. We expect the normalization cycle to begin only by the last quarter of the year and the interest rate to reach 7.75% in December.

Fiscal Front

According to 12-month rolling figures, the fiscal deficit improved to 1.8% of GDP in March (from 1.9% in February) and stood below target for 2019 of 2.0% of GDP, helped by the fall in primary expenditure (-3.6% y/y). Although the results for the Q1-19 were consistent with AMLO's commitment to fiscal responsibility, the chances of missing the fiscal target are high this year, given the high number of expenditure promises. Thus, we expect the fiscal deficit to reach 2.3% of GDP this year.

What´s coming next?

- The ratification of USMCA is becoming more uncertain, despite Mexico's Congress has approved the labor reform, which was a key demand in order to bring the USMCA agreement to a vote.
- The uncertainty over the direction of domestic policy and the approval of the USMCA by the U.S. Congress will continue to weigh on confidence and investment.

MEXICO: APPENDIX

Dashboard

	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(MXN/USD, eop.)*	19.19	19.62	18.96	19.93	19.66
Interest rate *(%)*	8.25%	8.25%	8.25%	7.75%	8.25%
Inflation *(y/y)*	-	4.3%	4.4%	4.7%	4.8%
Economic activity *(y/y)*	-	-	-1.4%	1.3%	0.0%
Industrial activity *(y/y)*	-	-	-2.9%	0.7%	-2.5%
Automotive production *(y/y)*	-	-	-3.5%	1.4%	-4.4%

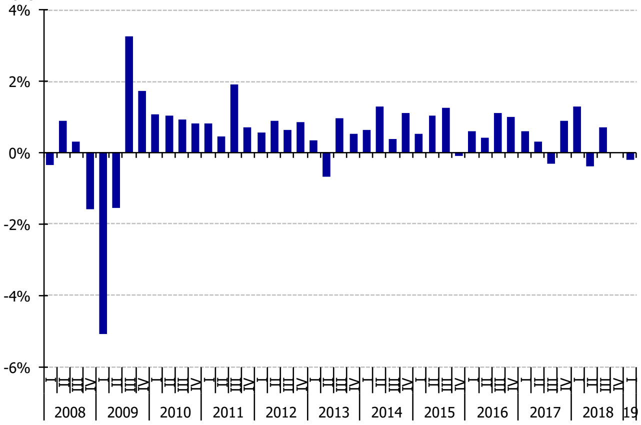
Source: EconViews based on several sources

Macroeconomic Outlook

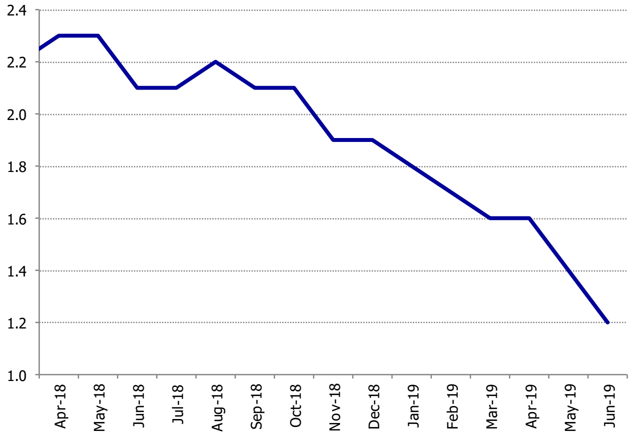
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	2.9%	2.1%	2.0%	1.2%	1.7%
Inflation *(Dec-Dec)*	3.4%	6.8%	4.8%	3.7%	3.7%
Fiscal Balance *(% GDP)*	-2.5%	-1.1%	-2.1%	-2.3%	-2.5%
Current Account *(% GDP)*	-2.3%	-1.7%	-1.8%	-1.8%	-1.9%
International reserves *(USD Bn)*	176.5	172.8	176.0	174.7	176.1
Exchange rate *(MXN/USD)*	20.7	19.7	19.7	20.0	20.3

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

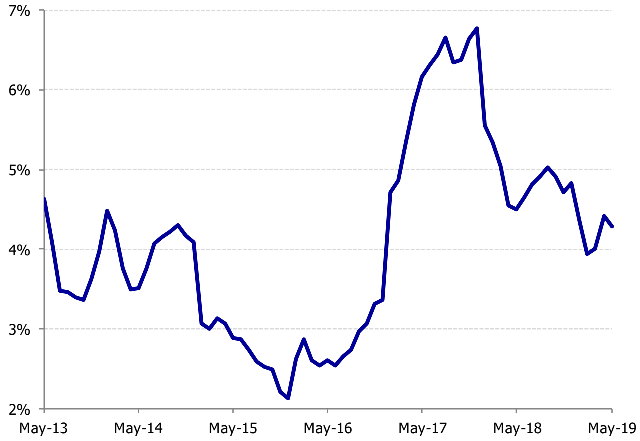
Real GDP
Q/Q variations - INEGI



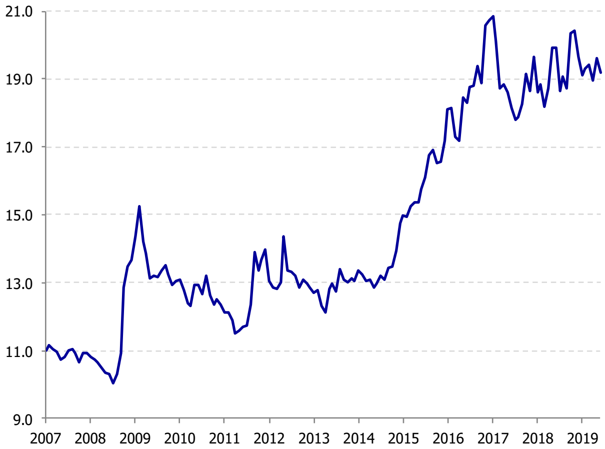
GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
The fiscal position continues sound. The primary balance remains in surplus. Public expenditure is increasing focus on social programs and infrastructure.	Bad weather conditions have affected GDP and inflation is on the rise. The impact should be temporary but is worth monitoring.	Transparency International published the Perceived Corruption Index for 2018. Paraguay ranks second to Venezuela and has a lot to improve in this space

Politics

During June, new Presidents at both the Lower and Upper house of Congress were designated. Mr Llano will head the Senate and Mr Alliana will lead the lower house of Congress. The term for both posts will spam until July 2020. In other news, Transparency International published the Corruption Perception Index for 2018. Paraguay ranks second to Venezuela in Latam among the most corrupted countries in the region. This is a big pending issue for Paraguay.

Economic Activity

GDP figures for 2018 finally came in at a 3.7%, slightly below expectations, with the primary sector gaining 2.2%, the secondary sector 2.6% and service production up 5.1%. In early 2019 a severe drought affected both soybean and energy productions, with the harvest expected to drop more than 20% y/y. The government is pushing infrastructure spending and easing financial conditions to mitigate the hit in activity but we forecast GDP growth in 2019 to slowdown to 3.5%.

Inflation

As of May headline consumer prices came in at 0.8% m/m, driving the y/y inflation to 3.8%, up 0.7 p.p. as compared to April figures. Core inflation printed a 0.5% m/m variance, to total 3.2% on a y/y basis. Food and transportation are the items with the highest monthly increases, with weather conditions and global energy prices explaining that performance. CPI is still below the center of the BCP target range (4% +- 2%). We forecast 2019 FY inflation to print 4.1%.

Monetary Sector

The PYG trades at 6,200 to the USD, depreciating 3.2% YTD. In its June meeting the BCP kept unchanged the policy rate at 4.75%, citing tensions in the trade front that softened global GDP projections. On the domestic side, a materially weaker GDP in the first half of the year and inflation levels that are consistent with expectations in line with the monetary program drive this neutral stance. We forecast the policy rate to remain at 4.75% in the coming months.

Fiscal Front

As of April, the cumulative 12-month primary balance represents a surplus of 0.8 p.p of GDP. Total revenues are going up by 9.3 % y/y led by an increase in energy royalties at bi-national companies while expenses are running at 7.9% during the same period. Nearly 58% of government expenditures are focused on health, education and other social programs. Public employee salaries went down from 89% of expenditures by 2013 to the current 72% in a move of increased efficiency.

What´s coming next?

- The country keeps on outperforming peers with very sound macroeconomic fundamentals, but weather conditions will hurt 2019 GDP figures.
- The trade war between China and the US should be monitored, due to direct and indirect implications.
- The political situation as well as the level of economic activity in both Argentina and Brazil is critical for the country.

PARAGUAY: APPENDIX

Dashboard

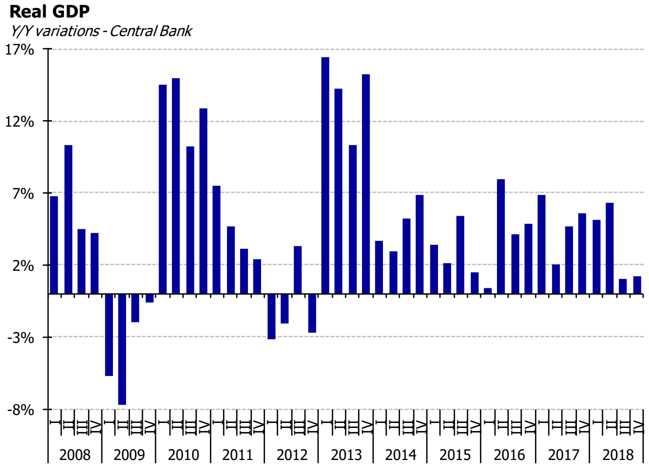
	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(PYG/USD, eop.)*	6,221	6,280	6,301	5,715	5,974
Interest rate *(%)*	4.75%	4.75%	4.75%	5.25%	5.25%
Inflation *(y/y)*	-	3.8%	3.1%	4.4%	3.2%
Economic activity *(y/y)*	-	-	-5.3%	0.5%	-0.4%

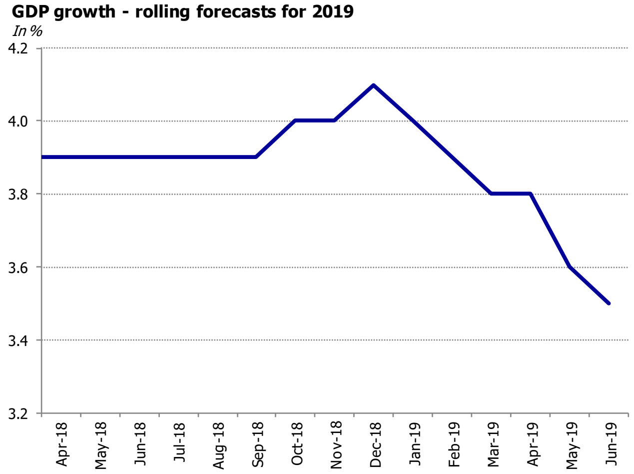
Source: EconViews based on several sources

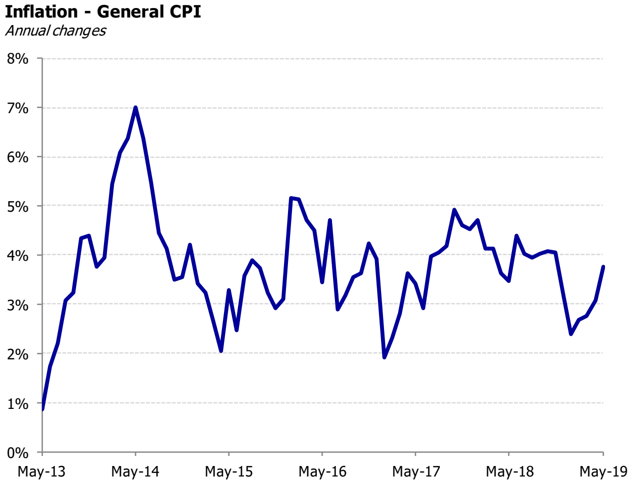
Macroeconomic Outlook

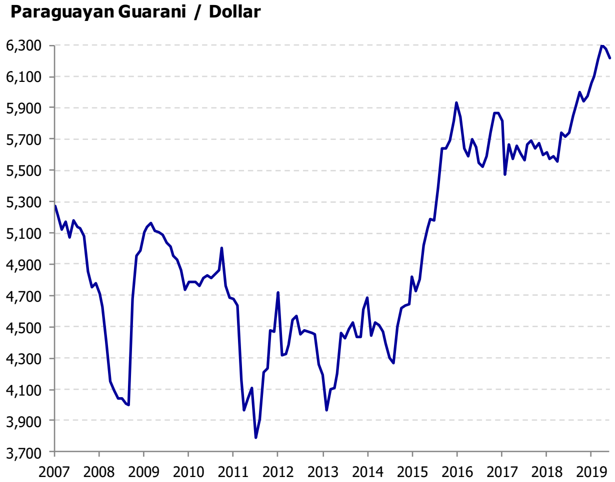
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	4.0%	4.3%	3.9%	3.5%	3.6%
Inflation *(Dec-Dec)*	3.9%	4.5%	3.2%	4.1%	3.5%
Fiscal Balance *(NFPS - % GDP)*	-0.3%	-1.1%	-1.3%	-1.5%	-1.5%
Current Account *(% GDP)*	3.6%	3.1%	0.4%	0.0%	0.6%
International reserves *(USD Bn)*	7.1	8.3	8.0	8.3	8.8
Exchange rate *(PYG/USD)*	5,866	5,602	5,974	6,223	6,367

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF









PERU

Good news	To be alert	Bad news
With an external front that has become more uncertain, Peru's external and fiscal accounts remain solid and this is an advantage.	Government investment and consumption affected domestic demand in the Q1-2019, as private consumption remained relatively stable.	Job creation in the private sector reduced significantly its interannual pace of growth to 2.9% in April 2019 according to official data.

Politics

On June 5th the Congress gave a vote of confidence to President Vizcarra's. The results were good: 77 votes in favor, 44 against and 3 abstentions. This means that the political reform to fight corruption that was voted by the public on the referendum of December 2018 can be implemented. However, congressmen will probably want to make some changes. The vote of confidence had an impact on the positive image of Vizcarra, which improved and reached 50% in Jun-19 (Ipsos).

Economic Activity

As other Latam countries, growth in the Q1-2019 lost steam. Activity grew 2.3% y/y after hitting 4.7% in the previous quarter. The public sector contributed to this performance as government consumption reduced 2.5% and gross public fixed investment contracted 10.9%. Private consumption went up 3.4% and decelerated 0.4 p.p. from the previous record. Regarding exports, they increased 1.6% y/y while imports receded 0.5%. For this year GDP growth was revised down to 3.5%.

Inflation

In May 2019 inflation was 0.2% m/m, practically in line with the previous record. The main incidence in the CPI index was "Leisure & other services" which increased 0.3% m/m while "Transport & Communication" went up 0.2%. In y/y terms, inflation surpassed the CB's target of 2.0% for the 3rd consecutive month and reached 2.7%. Regarding core inflation (excludes food and energy), it increased 0.14% m/m and was 2.6% y/y. For 2019 inflation is expected to be 2.4%, above the target.

Monetary Sector

After hitting a record of 3.38 at the end of May influenced by external turmoil, the PEN moved to 3.29 nowadays. In June 2019, the BCP maintained the policy rate at 2.75% for the 16th time in a row, with inflation slightly above the target of 2.0% but below the upper limit of 3.0%. The main reasons were that growth remains below potential, 12-month inflation expectations are anchored and risks coming from the external sector still persist. For 2019 there is room for a reduction in the interest rate.

Fiscal Front

In May 2019,12-month accumulated fiscal deficit improved and was 1.5% of GDP. Although it is seasonally affected, it has been improving for several months. The result was driven by less government expenditure, which decreased 2.0% y/y, and in particular by capital expenditure (-11% y/y). On the other hand, revenues went up 10.7% helped by Income Tax, which increased 23.1% y/y while VAT went up 2.7%. For 2019 fiscal deficit is likely to be near 2.1% and to narrow to 1.9% for 2020.

What´s coming next?

- The Central Bank will probably cut the policy rate in line with a dovish Federal Reserve and, in consequence, a lower neutral international interest rate.
- The external front and in particular the trade war between the USA and China remains as the main risk for an open economy such as Peru, which relies significantly on exports.

PERU: APPENDIX

Dashboard

	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(PEN/USD, eop.)*	3.30	3.38	3.31	3.29	3.37
Interest rate *(%)*	2.75%	2.75%	2.75%	2.75%	2.75%
Inflation *(y/y)*	-	2.7%	2.6%	1.4%	1.3%
Economic activity *(y/y)*	-	-	-	2.0%	4.0%
Manufacturing activity *(y/y)*	-	-	-	1.6%	6.2%
Mining production *(y/y)*	-	-	-	-4.6%	-1.3%

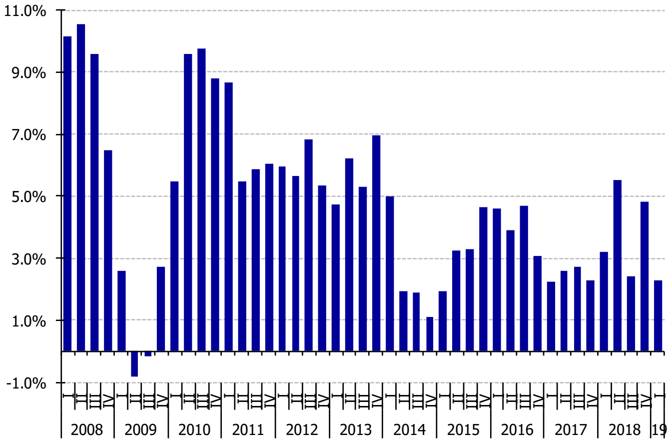
Source: EconViews based on several sources

Macroeconomic Outlook

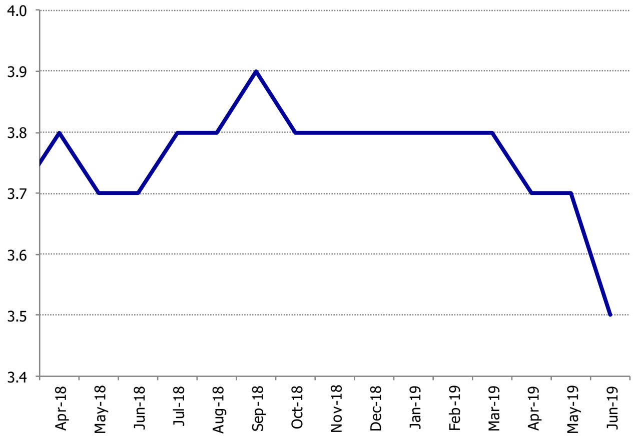
	2016	2017	2018F	2019F	2020F
GDP growth *(%)*	4.0%	2.5%	4.0%	3.5%	3.7%
Inflation *(Dec-Dec)*	3.2%	1.4%	2.2%	2.4%	2.3%
Fiscal Balance *(% GDP)*	-2.5%	-3.1%	-2.5%	-2.1%	-1.9%
Current Account *(% GDP)*	-2.7%	-1.2%	-1.6%	-1.7%	-1.8%
International reserves *(USD Bn)*	59.8	61.4	59.1	62.3	63.9
Exchange rate *(PEN/USD)*	3.36	3.24	3.37	3.34	3.36

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

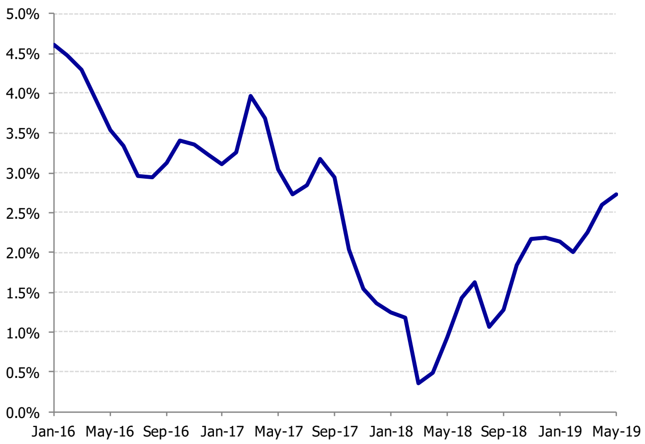
Real GDP
Y/Y variations - Central Bank



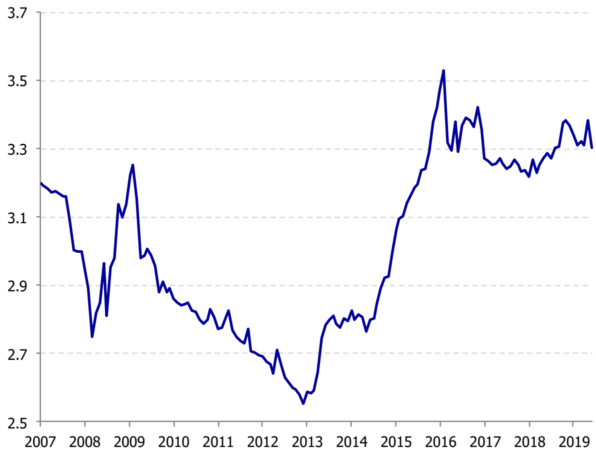
GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
Despites a weak GDP and persistent inflation, Moodys has reinforced its Baa2 Sovereign rating to Uruguay with a stable outlook.	The external front and the global conditions should be closely followed. The macro performance of Argentina and Brazil is key.	The fiscal situation continues with a weak tone and a softer GDP will inflict more hits. The road to the next elections is worth monitoring

Politics

Primary elections will take place on June 30 and the winner of each party will run as Presidential candidates. The first round national elections will be held on October 27, while the second round will take place on November 24. Recent polls conducted in mid May and early June point to a tight race between incumbent Frente Amplio and challenging Partido National with each party collecting nearly a third of the votes. The race to the election is just kicking off.

Economic Activity

Economic activity measured by the GDP in Q1-2019 dropped 0.2% on y/y, with electricity, gas and water (+21.1%) as well as transportation (+5.3%) the bright spots. The other sectors performed poorly as trade (-6.9%), construction (-3%), and manufacturing (-2.5%) led the declines. Private consumption (-0.4%) and private investment (-4.8%) also show weakness. In light of domestic and international softness, we are reducing the GDP growth estimate in 2019 to 1.4%.

Inflation

Inflation in May came in at a 0.4% monthly increase to result in an annual reading of 7.7%, still out of bounds of the BCU 3-7% target range. Transportation (+0.9% m/m), restaurants and hotels (+0.8% m/m), clothing (+0.79% m/m) non alcoholic food and beverages (+0.65% m/m) and housing (+0.42% m/m) were the drivers of the spike in consumer prices. The persistence of inflation is leading us to forecast inflation to reach 7.5% for 2019.

Monetary Sector

The UYU is trading in the area of 35.20 to the USD with a cumulative YTD depreciation of nearly 8.5%. In its April meeting, the BCU COPOM decided to marginally ease the monetary policy and calibrated the annual M1 growth target for Q2-2019 to 8-10%. The approach is consistent with inflation expectations on the downside and actual inflation converging to the 3-7% inflation target given domestic and external conditions. We forecast the UYU to trade at 34.10 by year end.

Fiscal Front

As of April, the fiscal balance recorded a 2.3% deficit to GDP on a y/y basis, within the 3.5% target established in the fiscal responsibility law. The primary surplus of 0.4% was offset by an interest expense bill of 2.7 p.p. to GDP. On a monthly basis, revenues and expenditures were down 0.1% each respectively. We estimate FY 2019 fiscal deficit at 3.2 % and it is worth mentioning that early this year Moody's reinforced the Uruguayan Sovereign rating at Baa2 with a stable outlook.

What´s coming next?

- The evolution of the fiscal deficit is worth monitoring but no short run impact on the sovereign credit risk rating is expected after Moody's support.
- The road to the next elections in October.
- The global environment, especially interest rates in the US.
- The evolution of the macroeconomic and political situation in Argentina.

URUGUAY: APPENDIX

Dashboard

	Jun-19	May-19	Apr-19	Jun-18	2018
Exchange rate *(UYU/USD, eop.)*	35.23	35.27	34.68	31.34	32.45
Interest rate *(%)*	-	-	5.3%	5.1%	5.3%
Inflation *(y/y)*	-	7.7%	8.2%	8.1%	8.0%
Economic activity *(y/y)*	-	-1.7%	-1.9%	3.3%	-1.1%
Manufacturing activity *(y/y)*	-	-	0.4%	17.1%	-8.8%

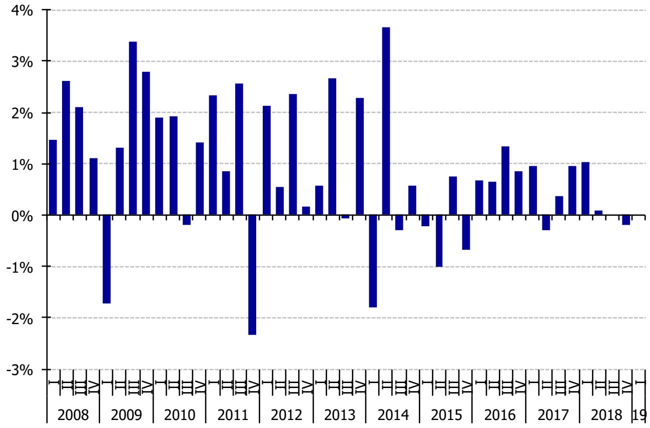
Source: EconViews based on several sources

Macroeconomic Outlook

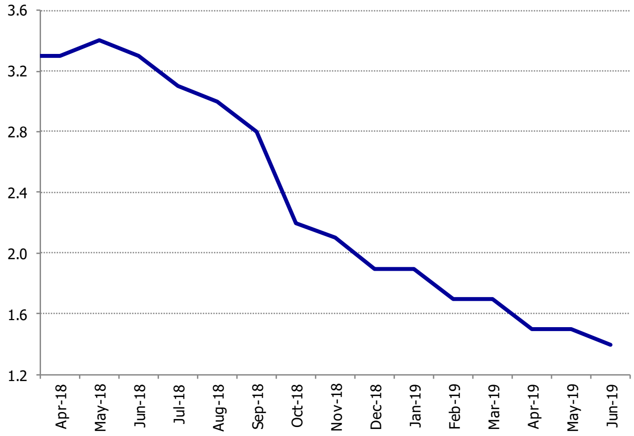
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	1.7%	2.6%	1.6%	1.4%	2.1%
Inflation *(Dec-Dec)*	8.1%	6.6%	8.0%	7.5%	7.1%
Fiscal Balance *(% GDP)*	-3.8%	-3.5%	-2.9%	-3.2%	-3.1%
Current Account *(% GDP)*	0.6%	0.8%	-0.6%	-0.8%	-1.1%
International reserves *(USD Bn)*	13.4	16.0	15.6	16.6	17.1
Exchange rate *(UYU/USD)*	29.35	28.85	32.40	34.10	36.50

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

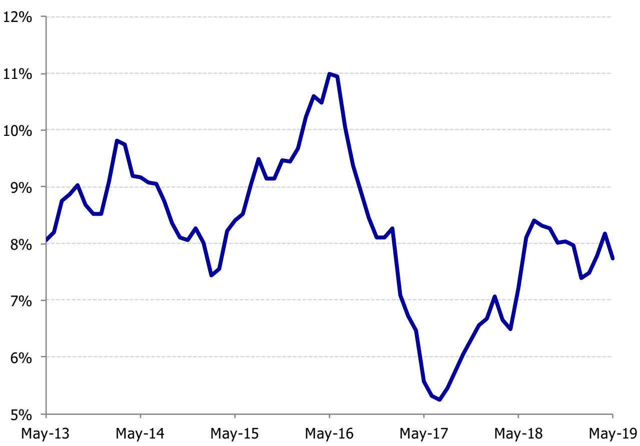
Real GDP
Q/Q variations - Central Bank



GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes



Uruguayan Peso / Dollar