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LATAM 7 + Argentina

Macro Brief

May, 2017

- ✓ **Argentina:** An unexpected political boost for Macri
- ✓ **Brazil:** Great uncertainty as Temer is accused of bribery
- ✓ **Chile:** The monetary easing continued in May
- ✓ **Colombia:** Dissapointing economic performance so far
- ✓ **Mexico:** The acceleration of inflation conditions the monetary policy plans
- ✓ **Peru:** GDP growth was revised down due to "El Niño"
- ✓ **Uruguay:** Inflation down, real wages up
- ✓ **Paraguay:** Unchanged Constitution, a clearer political horizon

ARGENTINA

Good news	To be alert	Bad news
Activity continues giving good news. Formal employment monthly creation was the highest for March since 2011. The industry, the most lagged sector, grew two consecutive months.	The evolution of the economic recovery in Brazil and the possibility that the recent political events may delay the recovery of Argentina's main trade partner.	Accumulated inflation stands at 9.1% so far this year, according to INDEC-GBA. The 17% target looks unreachable and puts the Central Bank in an uncomfortable position.

Politics

Macri's administration got an unexpected political boost in April, as the approval rating recovered 6%. This positive news for Macri came after a 10% slippage in February. His positive image now reaches 53% and returned to similar levels than before the "unforced" errors of February that cost 10 points by the social conflicts and the confrontation with the unions. Now the focus is on the mid-term elections, where the Government is likely to have a good performance at the national level.

Economic Activity

GDP grew 0.8% q/q in 1Q-17 according to private estimates. The industry, one of the most lagged sectors, began to recover and recorded its lowest fall of the last twelve months, while it grew on monthly basis for two consecutive months. The construction took a big leap and increased 10.8% relative to year ago. However, sales in small stores, supermarkets and shopping centers are not showing positive signals yet. While private consumption remains weak, the recovery is led by investment and exports. We remain optimistic by expecting GDP to grow 3.2% this year.

Inflation

According to the INDEC's CPI for the City and Greater Buenos Aires, core inflation was 2.3% in April, well above the figure of March (1.8%) and displaying the highest record since June 2016. Moreover, headline inflation stood at 2.6%, in line with the records of February and March (2.3% and 2.4%, respectively). This way, accumulated inflation reached 9.1% in the first four months of the year. Monthly inflation needs to stand at around 0.9% during the rest of the year to achieve the target of 17% for the year.

Monetary Sector

The Argentine Peso depreciated nominally 0.3% and ended April at ARS 15.43, after appreciating in the two previous months. After the Brazilian real plummeted, the Peso was traded at around ARS 16.0. Last month the Central Bank announced its intention to buy reserves until they reach 15% of GDP. As a result, it has been purchasing USD 100 million daily since May began and accumulated around USD 2 billion. Also, it softened considerably the banking regulation for the net global and general position in foreign currency. By this way, the Central Bank allowed banks to buy more FX.

Fiscal Front

The primary deficit accumulated AR\$ 41.3 billion during the first quarter, equivalent to 0.4% of GDP. Thus, the government managed to meet its quarterly fiscal target of 0.6%. Without the revenues from the tax amnesty, the deficit would be raised to 0.7%, failing to meet the target. During the period, revenues grew 41.2% on yearly basis, while primary expenditure 35%. We expect the government will meet this year the fiscal target of a primary deficit equivalent to 4.2% of GDP.

What's coming next?

The Government announced the release of a new National inflation index since July (with June's data). In the short term, the Central Bank will maintain a tightening bias in the monetary policy, as inflation is not receding yet and expectations are above the 17% target. Upcoming economic data is likely to confirm an important expansion of economic activity in March and the second quarter of the year. The situation of Brazil in the short term will put pressure on the peso and the long part of the bond curve.

ARGENTINA: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (ARS/USD, eop.)	15.91	15.43	15.38	14.01	15.85
Interest rate (%)	26.25%	26.25%	24.75%	34.25%	24.75%
National inflation (y/y)	-	-	31.5%	32.6%	36.6%
Economic activity (y/y)	-	-	-	-3.1%	-2.3%
Industrial activity (y/y)	-	-	-0.4%	-4.5%	-4.6%
Automotive production (y/y)	-	-15.1%	-13.2%	-9.6%	-10.2%

Source: EconViews based on several sources

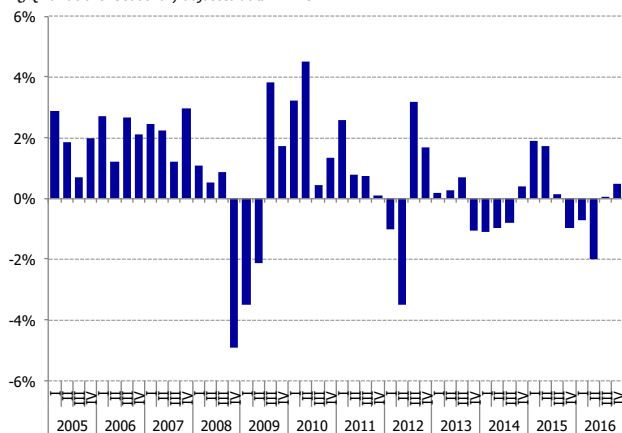
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	-2.5%	2.6%	-2.3%	3.2%	4.0%
National inflation (Dec-Dec)	36.7%	28.4%	36.6%	22.0%	17.0%
Fiscal Balance (% GDP)	-4.1%	-5.3%	-5.9%	-5.7%	-5.3%
Current Account (% GDP)	-1.4%	-2.5%	-2.8%	-2.7%	-2.8%
International reserves (USD Bn)	31.4	25.6	38.8	53.0	58.2
Exchange rate (ARS/USD)	8.55	13.01	15.85	18.00	20.65

Source: EconViews based on official figures and own estimates

Real GDP

Q/Q variations - Seasonally adjusted data INDEC



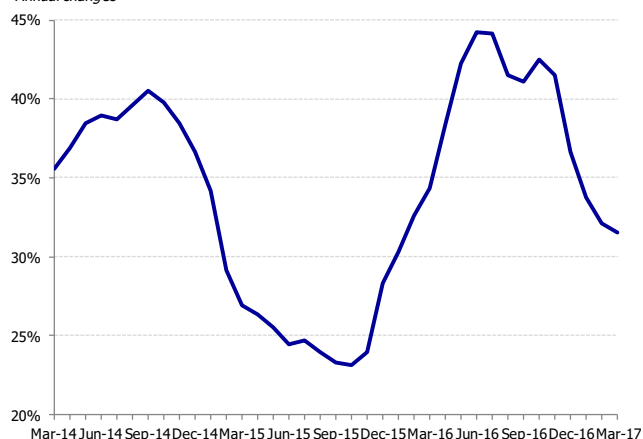
GDP growth - rolling forecasts for 2017

In %

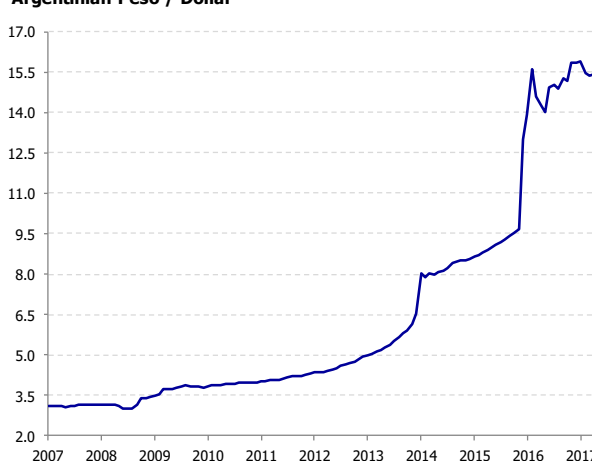


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
The Brazilian economy grew 1.1% q/q in the first quarter and managed to exit recession after 8 quarters of falls.	The reform agenda has at best been postponed materially after Temer was accused of corruption.	Political crisis: President Michel Temer was secretly recorded discussing hush money pay-offs to a jailed associate.

Politics

Brazilian President Michel Temer was accused of bribery, as the local newspaper "O Globo" reported on Wednesday that a meat producer had recorded the President when he was secretly taped discussing hush-money payments to former House speaker Eduardo Cunha, who was jailed for his role in the massive Petrobras corruption scandal, prompting calls for him to step down or be impeached. Temer said he will fight to prove his innocence and he will not resign.

Economic Activity

After growing in January and February, economic activity lost dynamism in March and fell 0.4% m/m. However, after eight quarters of contractions, the Brazilian economy is getting out of recession. The economic activity index for the first quarter of the year published by the Central Bank displayed a rise of 1.12% compared to the previous quarter. GDP is expected to grow around 0.6% this year and 2.5% in 2018, but there are downside risks that arise from political uncertainty.

Inflation

Inflation continued to moderate and reached 4.08% in April, below the 4.57% of March. Retail food prices have been favorably affected by the larger harvest in Brazil and other major producing countries so far this year, and this tendency is likely to continue in the following months. The National Monetary Council will meet in June to reconsider the inflation target of 4.5% for 2018. A lower inflation target would reinforce the outlook for lower inflation and anchored expectations.

Monetary Sector

The exchange rate has been floating around 3.15 BRL/USD over the past month. However, political uncertainties about the case of corruption that incriminates Temer, have triggered volatility, and the Real depreciated 9% in just two days. The Selic was cut by 100bps in April, to 11.25%. However, the bad economic figures of March and the more moderate inflation are likely to lead to further cuts in the following policy meetings. Thus, we expect the SELIC to close 2017 at around 8.25%.

Fiscal Front

Current uncertainty may continue affecting risk premiums and the exchange rate, and alternative fiscal measures could be needed in order to accommodate the fiscal accounts, such as tax hikes. The Social Security reform is advancing in the Lower House and the next step will be to vote on the bill. Before the presidential sanction, it needs to be analyzed and approved by the Senate. However, it is clear that the reform agenda has at best been postponed materially.

What's coming next?

While the outcome for the administration is not clear, even if it survives, the postponement of the fiscal reform votes adds uncertainty for its approval. The good news is that Brazil's fundamentals are strong with a very healthy balance of payments and a benign inflation outlook. Thus, the currency should not overshoot, while the Central Bank will have room to accommodate some currency depreciation and still cut rates over the next months.

BRAZIL: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (<i>BRL/USD, eop.</i>)	3.38	3.18	3.12	3.61	3.26
SELIC (%)	11.25%	11.25%	12.25%	14.25%	13.75%
Inflation (<i>y/y</i>)	-	4.1%	4.6%	9.3%	6.3%
Economic activity (<i>y/y</i>)	-	-	1.0%	-4.8%	-3.6%
Industrial activity (<i>y/y</i>)	-	-	1.1%	-7.4%	-6.6%
Automotive production (<i>y/y</i>)	-	-	10.9%	-16.8%	-6.2%

Source: EconViews based on several sources

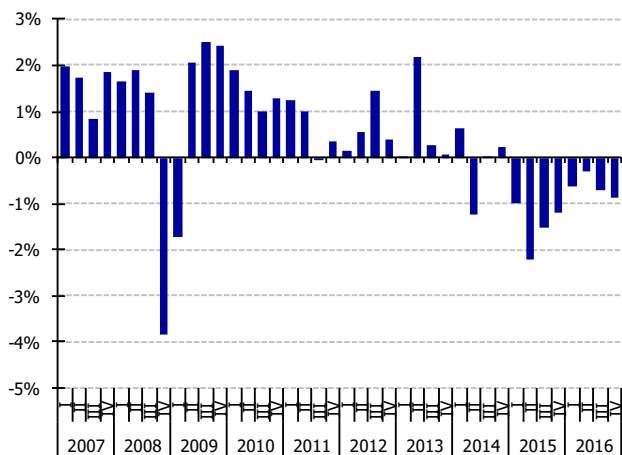
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	0.5%	-3.8%	-3.6%	0.6%	2.5%
Inflation (<i>Dec-Dec</i>)	6.4%	10.7%	6.3%	4.0%	4.4%
Fiscal Balance (% GDP)	-6.1%	-10.2%	-9.0%	-8.1%	-7.0%
Current Account (% GDP)	-4.2%	-3.3%	-1.3%	-1.3%	-1.7%
International reserves (<i>USD Bn</i>)	354.8	348.9	356.8	369.5	373.5
Exchange rate (<i>BRL/USD</i>)	2.66	3.96	3.26	3.25	3.40

Source: EconViews based on Consensus Forecast & IMF

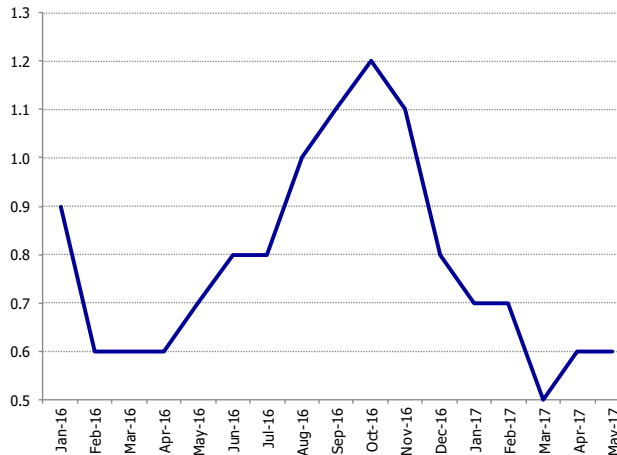
PBI Real - Brasil

variación trimestral, desestacionalizada



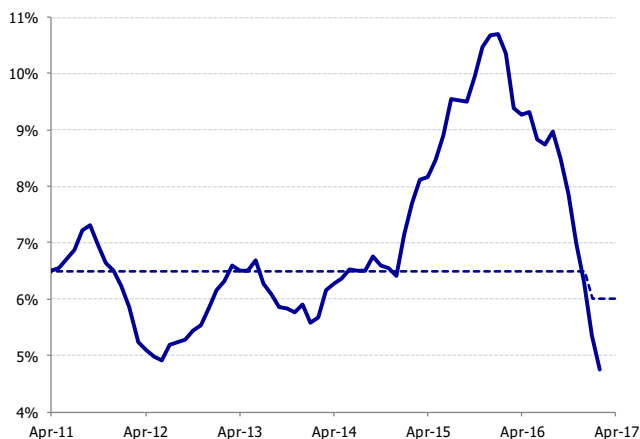
GDP growth - rolling forecasts for 2017

In %



Inflation (IPCA)

Annual changes



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
Inflation remains stable and is below the target of 3.0% y/y since Oct-17.	Government expenditure grew 7.8% in 1Q-17 and helped the economy to avoid a technical recession. This path is not sustainable as the target was set in 2.7%.	Higher external volatility coming from the USA and Brazil are bad news and put pressure on the CLP.

Politics

Mr. Sebastián Piñera (24%) and Mr. Alejandro Guillier (19%) lead voting intentions according to a survey made by Adimark in Apr-17. Another poll made by Criteria Research in May suggests that Mr. Piñera would obtain 33% and the big news is that Mrs. Beatriz Sanchez, a center-right journalist candidate for the Frente Amplio, would obtain 21% of votes, representing a menace for Guillier. Mrs. Bachelet's approval reached 28% in April, the best record in 12 months.

Economic Activity

In March, economic activity contracted 0.3% m/m and recorded the second fall in a row, affected by the strike at La Escondida mine and the forest fires. This way, in the 1Q-17 (+0.2% q/q) the economy avoided entering into a technical recession helped by non-mining activity, as GDP had fallen 0.3% q/q in the 4Q-16. Consumer confidence (Adimark) registered a 4-month high in April. In this context, GDP growth for 2017 was revised down from 1.7% to 1.6%.

Inflation

Inflation is still below the target of 3.0% for the 7th consecutive month: in April it was 2.7% y/y (0.2% m/m). Again, this performance is explained by tradable goods (2.0% y/y), as non-tradable goods prices still show inflationary pressure and grew 3.5% y/y. According to the Central Bank, inflation expectations for this year are around the target. For 2017, inflation is expected to be 2.9%, while it is expected to stand at 3.0% in 2018.

Monetary Sector

The Chilean Peso has been depreciating as copper price fell down due to more uncertainty about Trump's infrastructure plan and China's economic growth. Nowadays, it stands close to CLP 672. However, experts of Cochilco rose the forecast for copper price to US\$ 2.6 for this year. Yesterday, the CB reduced the policy rate 25 bps to 2.5% despite higher external volatility as economic activity remains weak and inflation near the target.

Fiscal Front

Expenditure accelerated during the first quarter of the year and grew 7.8% y/y in real terms. Current expenditure went up 9.1%, mainly driven by the payment of interests and subsidies. On the contrary, capital expenditure decreased 1.8%. On the other hand, total revenues fell 1.1%; this performance is explained by less tax revenues coming from the mining sector. In this scenario, we expect fiscal deficit to reach 2.9% of GDP this year and to slightly moderate to 2.6% in 2018.

What's coming next?

Higher volatility coming from the external front could depreciate more the CLP and affect inflation, which remains tamed thanks to tradable goods. This way, the easing cycle that the Central Bank began could be interrupted if the external front complicates. At the Senate is being debated a project which changes the actual political regime from a presidential system to a semi-presidential one, with a more active Parliament.

CHILE: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (CLP/USD, eop.)	672.51	667.67	660.54	692.98	670.30
Interest rate (%)	2.5%	2.8%	3.0%	3.5%	3.5%
Inflation (y/y)	-	2.7%	2.7%	4.2%	2.7%
Economic activity (y/y)	-	-	0.3%	2.5%	1.6%
Industrial activity (y/y)	-	-	1.9%	-0.9%	-0.8%
Mining production (y/y)	-	-	-21.4%	-6.6%	-3.4%

Source: EconViews based on several sources

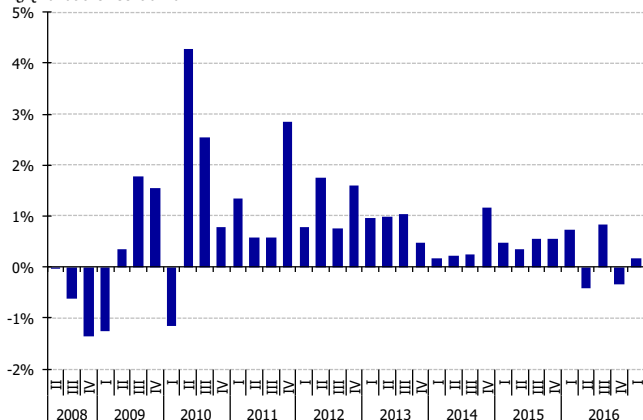
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	1.9%	2.3%	1.6%	1.6%	2.7%
Inflation (Dec-Dec)	4.6%	4.4%	2.7%	2.9%	3.0%
Fiscal Balance (% GDP)	-1.5%	-2.1%	-2.9%	-2.9%	-2.6%
Current Account (% GDP)	-1.7%	-1.9%	-1.4%	-1.4%	-1.7%
International reserves (USD Bn)	38.9	37.2	39.5	39.4	39.7
Exchange rate (CLP/USD)	607.4	709.4	670.3	675.0	690.0

Source: EconViews based on Consensus Forecast & IMF

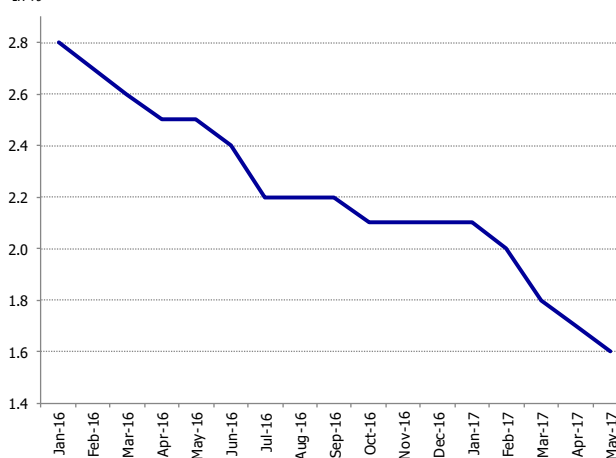
Real GDP

Q/Q variations - Central Bank



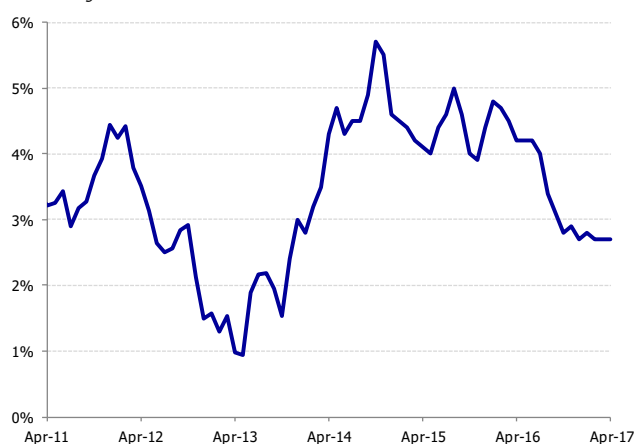
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
The external imbalance is diminishing. The current account deficit is likely to fall, due to weaker demand and higher terms of trade, from 4.4% of GDP last year to 3.6% this year.	Colombia's credit rating outlook may be cut to negative, as financial market credibility on the government has been weakening, while economic growth perspective deteriorated.	Economic activity disappointed so far this year, while consumer and investor confidence have been deteriorating. On the other hand, President Santos approval rating fell to only 24%.

Politics

The election season is starting. In the short term, some members of the cabinet are expected to leave the government in order to be eligible for May 2018 election. Former vicepresident Vargas Lleras has already exited his position and is leading the polls for voting intention, followed by the left-leaning labor minister Clara López and former Antioquia governor, Sergio Fajardo. However, the race is just starting and the majority of voters remain undecided.

Economic Activity

Activity indicators during the first quarter of the year have been weak and located well below market expectations. Industrial production fell 0.2% relative to year ago, the first decline since 2015. The manufacturing weakness is widespread, despite a more competitive exchange rate. Oil output is also underperforming and remains below the target. Private consumption also remains weak and business confidence continued deteriorating. We now expect GDP to grow 2.2% this year.

Inflation

Consumer inflation reached 0.47% in April, above the market expectation of 0.38%. While food inflation slowed down, the regulated prices surprised to the upside, after adjustments in electricity, water and transportation. In relation to year ago, inflation reached 4.66%, modestly below March's figure of 4.69%. While food inflation dropped to 2.49%, regulated prices increased to 6.75%. Our inflation expectation for year's end hovers at around 4.0%, the upper target of the Central Bank.

Monetary Sector

The Colombian Peso is now trading at 2,885 COP/USD, strengthening nearly 3% so far this year, and despite the recent turmoil in Brazil. After its April meeting, the Central Bank of Colombia cut the policy rate by 50 bps, down to 6.50%. Further monetary policy weakening is expected, but the pace of rate cuts will depend on the evolution of economic activity indicators. At year end we expect the policy rate at 5.50%, 100 bps below the current level.

Fiscal Front

The tax reform is expected to boost revenues, mainly thanks to the increase in VAT rates from 16% to 19%. According to official estimates, added revenues will contribute by 1.0% of GDP, with 0.8% coming from VAT. While this increase falls slightly short for the increase needed to meet the fiscal targets for years 2018-20 (2.7%, 2.2% and 1.6%, respectively), the deficit is still expected to continue lowering during the next years. This year the fiscal deficit is likely to reach 3.6% of GDP, below the 4.0% of last year.

What's coming next?

Checklist of issues to monitor in the domestic front:

- The behavior of economic activity, which has been disappointing so far
- The resulting stance of the monetary policy
- The US interest rates cycle and reverberations of trade and financial flows
- The discussions of the reform aimed to reshape the political system

COLOMBIA: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (COP/USD, eop.)	2,929	2,945	2,874	3,090	3,002
Interest rate (%)	6.51%	6.97%	7.00%	7.25%	7.50%
Inflation (y/y)	-	4.66%	4.69%	8.20%	5.75%
Economic activity (y/y)	-	-	-	1.5%	2.0%
Industrial activity (y/y)	-	-	-	5.1%	3.8%

Source: EconViews based on several sources

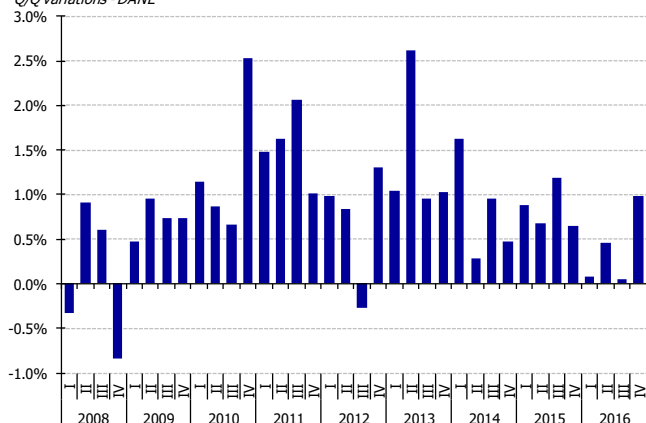
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.4%	3.1%	2.0%	2.2%	2.9%
Inflation (Dec-Dec)	3.7%	6.8%	5.7%	4.2%	3.5%
Fiscal Balance (% GDP)	-2.4%	-3.0%	-4.0%	-3.6%	-3.1%
Current Account (% GDP)	-5.1%	-6.4%	-4.4%	-3.6%	-3.3%
International reserves (USD Bn)	44.9	44.8	45.0	46.5	47.0
Exchange rate (COP/USD)	2,389	3,180	3,002	2,965	2,940

Source: EconViews based on Consensus Forecast & IMF

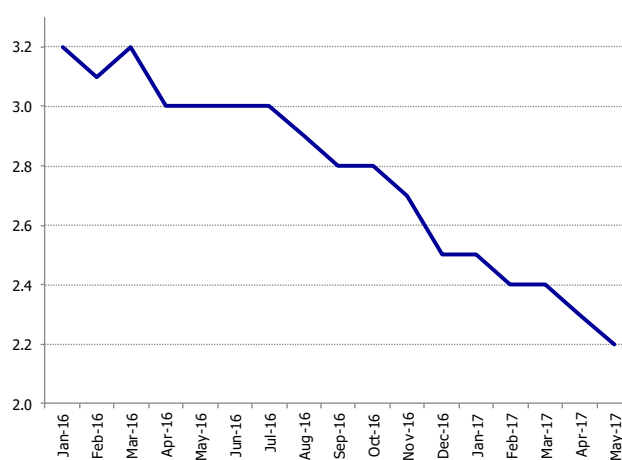
Real GDP

Q/Q variations - DANE



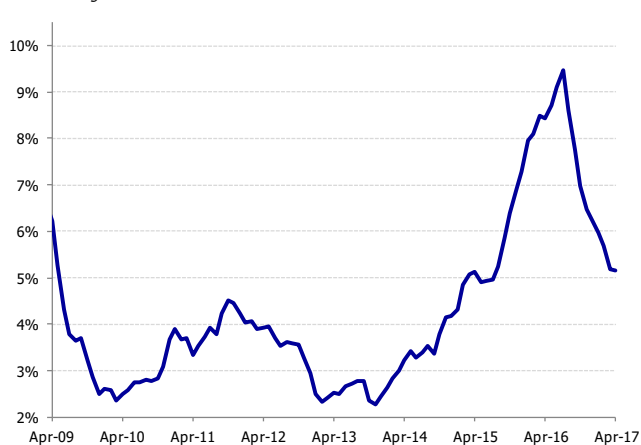
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
Stronger-than-expected activity figures: GDP grew 0.6% q/q and 2.7% y/y in 1Q-17.	The regional elections in the State of Mexico will take place on June 4th and are a thermometer for 2018 presidential election.	Inflation is accelerating and the Central Bank is likely to deepen the policy rate increase.

Politics

The left-wing Morena party (with López Obrador as the likely presidential candidate) is ranking at the top of presidential polls, and stands in the second place in the State of Mexico, close to the ruling party's candidate, who is the front runner. The regional elections in the State of Mexico will take place on June 4th and are a thermometer for next year's presidential election. So, Morena's performance in the polls has boosted Lopez Obrador's chances for 2018.

Economic Activity

Activity figures for the first quarter of the year were stronger than expected: GDP grew 2.7% compared with a year ago and stood 0.6% above the records from the previous quarter. On the supply side, industrial activity remains weak while services activity is leading growth. On the demand side, consumption remains strong and is also driving growth. After growing 2.3% in 2016, we expect GDP to moderate its growth to 1.8% this year and to accelerate again in 2018, to 2.2%.

Inflation

In April, inflation increased to 5.8% y/y (from 5.4% in March), boosted by the increase in tradable goods and agricultural prices, together with the seasonality effect of the Easter holidays. Regarding core inflation, it also increased in April, from 4.5% to 4.7%. In particular, inflation in core goods accelerated from 5.8% to 6.0%, mainly due to the sharp exchange rate depreciation after Trump's victory. We expect inflation to stand around 5.6% this year and to decelerate to 3.8% in 2018.

Monetary Sector

After depreciating 10.4% between October and January due to Trump's victory, the lower risks of protectionism, the intervention of the Central Bank in the FX market and higher interest rates have anchored the currency. Thus, the Mexican Peso appreciated 9.1% so far this year. As inflation is accelerating, we expect the CB to increase its policy rate by 25 bps this month, before the Fed's next hike. We expect the MXN to close 2017 at 19.50, while the monetary-policy rate will stand at 7.25%.

Fiscal Front

Fiscal accounts improved during the 1Q-17, even if the central bank's dividend is excluded. The 12-month rolling primary result excluding CB dividends is currently around 0%. In this scenario, we expect the fiscal deficit to slightly narrow to 2.5% of GDP in 2017 (from 2.6% in 2016) and to stand at around 2.3% in 2018. In this scenario, the Government will be able to reduce the public debt to GDP ratio in 2017 for the first time in ten years.

What's coming next?

-Although with the current appreciation of the MXN the Central Bank found room to reduce the pace of interest rate hikes, the latest inflation numbers, together with the expectation of new hikes by the Fed, mean that additional rate increases are likely.
 -Moody's is likely to make a decision on whether to stabilize or downgrade Mexico's credit rating towards the end of the year or early in 2018. The stronger fiscal numbers, together with the lower protectionism risks, have reduced the probability of a sovereign rating downgrade.

MEXICO: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (MXN/USD, eop.)	18.84	18.83	18.73	18.47	20.74
Interest rate (%)	6.75%	6.50%	6.50%	3.75%	5.75%
Inflation (y/y)	-	5.8%	5.4%	2.6%	3.4%
Economic activity (y/y)	-	-	-	2.2%	2.3%
Industrial activity (y/y)	-	-	3.4%	0.4%	0.0%
Automotive production (y/y)	-	-	33.3%	-4.0%	0.8%

Source: EconViews based on several sources

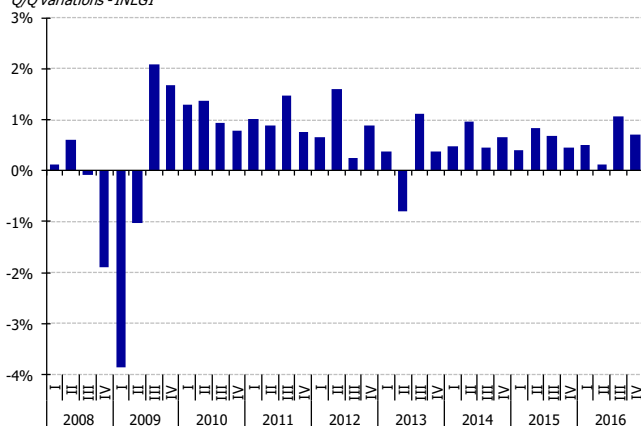
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	2.3%	2.6%	2.3%	1.8%	2.2%
Inflation (Dec-Dec)	4.1%	2.1%	3.4%	5.6%	3.9%
Fiscal Balance (% GDP)	-3.1%	-3.5%	-2.6%	-2.5%	-2.3%
Current Account (% GDP)	-2.0%	-2.9%	-2.7%	-2.5%	-2.7%
International reserves (USD Bn)	185.2	168.4	168.7	173.7	176.1
Exchange rate (MXN/USD)	14.75	17.19	20.74	19.50	19.30

Source: EconViews based on Consensus Forecast & IMF

Real GDP

Q/Q variations - INEGI



GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
Healthy GDP growth and solid fiscal performance are now re-inforced by a clearer political scenario with the blocking of a Constitutional amendment	The US approach to fiscal policy may affect the US monetary policy and interest rates which in turn affect FX and commodities.	Political instability in Brazil in relation to alleged bribe probes to President Temer could have medium term implications for the country prospects

Politics

The Lower House of Congress blocked President Cartes from the possibility to run for re-election. The Senate had previously approved the amendment to the Constitution but the House of Representatives finally rejected that bill. President Cartes is working on the definition of pre-candidates from the Partido Colorado to replace him and Economy minister Santiago Peña is his favorite choice. Lower institutional instability is beneficial to keep on reducing the country risk.

Economic Activity

According to IMAEP (Indicador Mensual de Actividad Económica del Paraguay) released by the BCP (Banco Central del Paraguay), activity in March is growing at 9.6% y/y rates, resulting in a Q1 cumulative growth is 7.1 y/y. Services (retail, transport, financial services), construction (both private and public) and manufacturing (food, tobacco, leather, beef) are leading the GDP performance. With this information the BCP has revised upwards its 2017 GDP growth estimate to 4.2% compared with the 3.6% from our own projections.

Inflation

As of April, headline consumer prices grew 3.6% y/y but remained below the center of the central bank target range of 4% (+- 2%). This reading implies an acceleration as compared to March y/y inflation of 2.8%. Meat prices and a hike in electricity are the main forces behind the monthly jump in prices. Core inflation is running at 3.5% y/y. Thus, we are keeping our 2017 inflation forecast unchanged at 4.2%.

Monetary Sector

By mid May the Guaraní traded at 5.600 to the dollar, strengthening nearly 4% during 2017 in nominal terms versus the USD. In its April meeting, the Central Bank unanimously decided to leave the policy rate unchanged at 5.5%. The global scenario is slightly improving and economic growth and inflation path are both evolving according to the BCP planned view. We forecast the policy rate to remain at 5.50% for the foreseeable future.

Fiscal Front

As of April, the cumulative 12 month deficit at the national treasury reached 1.7% of GDP, slightly on the upside driven by capital expenditures. This is still 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 6.0% y/y rates while primary expenditures are growing 11.1% on a YTD basis pushed by capital expenditures. Fiscal deficit is expected to reach 1.2% of GDP in 2017.

What's coming next?

Some top issues to watch for in Paraguay:

- The political scandal affecting President Temer in Brazil is a top concern
- The road to the next Presidential elections
- US interest rates and its impact into commodities prices
- The speed and strength of economic recovery in both Argentina and Brazil

PARAGUAY: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (PYG/USD, eop.)	5,631	5,577	5,666	5,699	5,866
Interest rate (%)	5.5%	5.5%	5.5%	5.8%	5.5%
Inflation (y/y)	-	3.6%	2.8%	3.5%	3.9%
Economic activity (y/y)	-	-	9.6%	6.2%	4.1%

Source: EconViews based on several sources

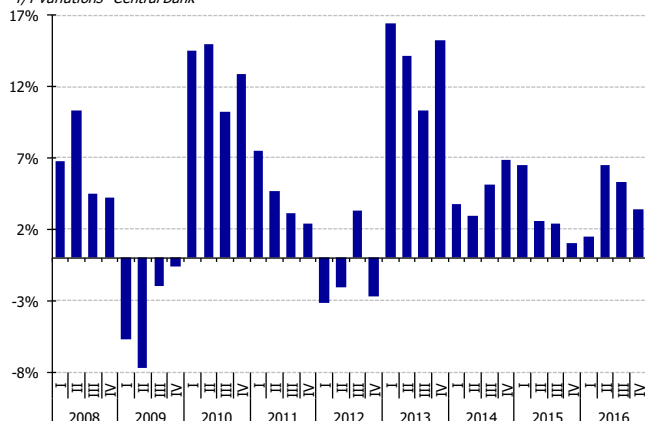
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.7%	3.0%	4.1%	3.6%	3.6%
Inflation (Dec-Dec)	4.2%	3.1%	3.9%	4.2%	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	6,200.0

Source: EconViews based on Consensus Forecast & IMF

Real GDP

Y/Y variations - Central Bank



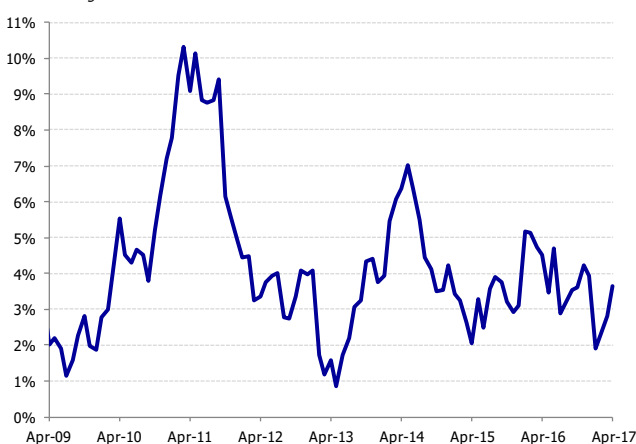
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
In 2016, production of cocoa reached 108,000 ton., a historical maximum. This way, it was one of the most dynamic sectors.	Fitch revised downward the rating for the Credit Bank of Peru (BCP) and BBVA Banco Continental, in line with the sovereign.	1Q-17 registered the lowest private consumption in 7 years according to a survey made by Kantar Worldpanel.

Politics

"El Niño" and the Odebrecht corruption scandal paralyzed infrastructure works. The Government is trying to rebuild the country that was severely hit by the natural disaster. The main tool is try to change the fiscal target for 2017, that must be voted in the Congress.

In May, approval of president Kuczynski remained stable at 43% and rebounded from 32% in Mar-17, according to a survey made by Ipsos.

Economic Activity

The economy decelerated from 4.9% y/y in Jan-17 as was hit by "El Niño": it barely grew 0.7% y/y in the two following months. Some sectors as manufacturing industry and fishing still managed to grow while mining, construction & agriculture were affected and fell in i.a. terms. The economy is expected to recover helped by an increase in public expenditure.

Peru's GDP forecast for 2017 was revised down to 3.0% from the previous 3.2%.

Inflation

As expected, headline inflation accelerated in Mar-17 and was 3.97% y/y, above the Central Bank's upper band of 3.0%, affected by floods that damaged crops and increased food prices. In Apr-17, inflation receded and was 3.7%. Supply effects affected inflation temporarily but they will cease.

For 2017, inflation will be 2.9%, under the upper band.

Monetary Sector

The PEN appreciated 2.2% so far this year and currently stands near PEN 3.28 to the USD.

The CB lowered its policy rate 25 pbs to 4.0% as the economy is growing below its potential and the acceleration in inflation was temporary. However, it will monitor inflation expectations for the next 12 months as they are close to the upper limit.

Fiscal Front

The fiscal target for this year will probably be revised as the Government will expend more due to the natural disaster. The actual rule set is that fiscal deficit must achieve 2.5% of GDP in 2017, and will be changed to 3.0%. The Minister of Economy will ask the Congress the approval of this change.

For 2017, fiscal deficit is expected to stand around 2.9% of GDP.

What's coming next?

The country will focus its efforts in recovering from "El Niño". This implies a loose fiscal policy, helped by the monetary easing that the Central Bank began on April.

However, the impact on economy was relevant: activity will moderate its pace of growth this year. As other Latam economies, higher volatility coming from the external front can affect this recovery.

PERU: APPENDIX
Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (<i>PEN/USD, eop.</i>)	3.28	3.26	3.25	3.38	3.36
Interest rate (%)	4.00	4.25	4.25	4.25	4.25
Inflation (<i>y/y</i>)	-	3.7%	4.0%	3.5%	3.2%
Economic activity (<i>y/y</i>)	-	-	0.7%	4.9%	3.9%
Manufacturing activity (<i>y/y</i>)	-	-	1.8%	-9.1%	-1.5%
Mining production (<i>y/y</i>)	-	-	-2.7%	33.0%	16.3%

Source: EconViews based on several sources

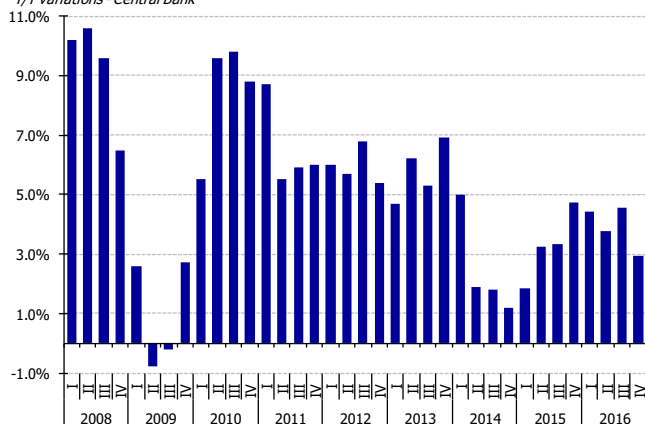
Macroeconomic Outlook

	2014	2015	2016	2017F	2018E
GDP growth (%)	2.4%	3.3%	3.9%	3.0%	3.8%
Inflation (<i>Dec-Dec</i>)	3.2%	4.4%	3.2%	2.9%	2.6%
Fiscal Balance (% GDP)	-0.3%	-2.1%	-2.6%	-2.9%	-2.9%
Current Account (% GDP)	-4.4%	-4.9%	-2.8%	-1.9%	-2.0%
International reserves (<i>USD Bn</i>)	60.1	59.4	59.8	63.8	66.4
Exchange rate (<i>PEN/USD</i>)	3.00	3.42	3.36	3.35	3.40

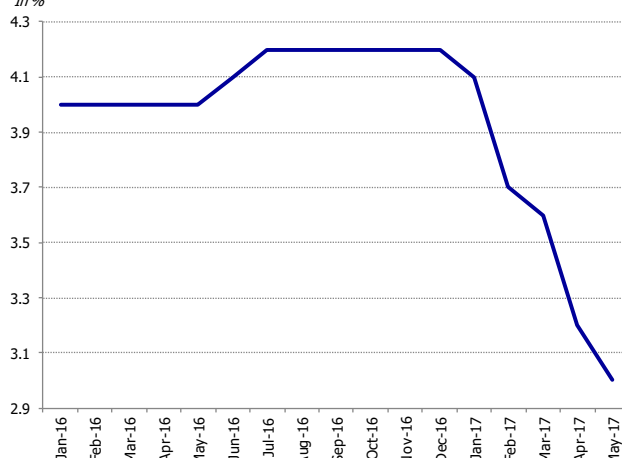
Source: EconViews based on Consensus Forecast & IMF

Real GDP

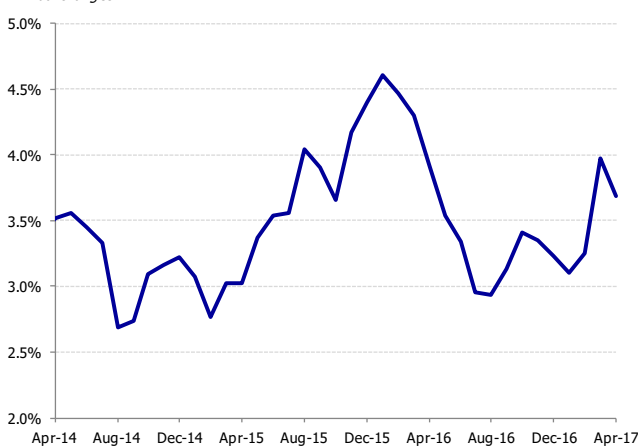
YY variations - Central Bank


GDP growth - rolling forecasts for 2017

In %


Inflation - General CPI

Annual changes


Peruvian Sol / Dollar


URUGUAY

Good news	To be alert	Bad news
A sharp reduction in inflation to 6.5% y/y will boost real wages and private consumption by 1.5%. A USD 5 billion investment in a third pulp mill completes the good news	The dependency of Latam countries on foreign affairs is now more evident with the political scandal in Brazil around the bribery probes to Mr Temer	The fiscal consolidation target for 2017 calls for a 1% improvement, which we see difficult to achieve. Thus, we see higher probabilities of a credit downgrade in the medium run

Politics

According to some polls conducted last April, the Frente Amplio (FA) party garners a 35% support from the population sample, compared to 31% for the Partido Nacional and 9% for the Partido Colorado. Undecided voters reached 15%, those willing to nullify the vote 5% and other parties the remaining 5%. President Vázquez Frente Amplio (FA) party needs to keep a high support in order to successfully manage the fiscal consolidation.

Economic Activity

We foresee a 1.8% GDP growth this year. The ongoing economic recovery will be based on three pillars. Firstly, private consumption will grow nearly 1.5% y/y as lower inflation will mean higher real wages. Secondly, the USD 5 billion investment related to the installation of a third pulp mill in the country by Finland UPM (which will be the largest private investment on record). Thirdly, the push coming from the economic recovery in neighboring Argentina and Brazil (in the latter case subject to much more uncertainty due to the political scandal around bribery probes to Mr Temer).

Inflation

Inflation slowed in April again to print a monthly variance of 0.2%. Clothing, restaurant and lodging prices were on the rise but were offset by a seasonal decline in some food items. The cumulative y/y CPI variance stands at 6.5%, which is within the 3%-7% Central Bank target range for the second month in a row. Our full 2017 inflation forecast lies in the 7.8% area. The disinflation process will be factored into stronger private consumption due to the improvement in real wages.

Monetary Sector

In a context of stronger Latam currencies, the UYU has gained nearly 4% against the US dollar this year despite the intervention efforts from the BCU in order to prop up the foreign currency. The BCU monetary policy remains tight with a 9-11% M1 growth target for the period April-June. The next Monetary Policy Committee (COPOM) meeting will take place in early July. We forecast the UYU to trade nearly at 29.25 by year end.

Fiscal Front

The fiscal deficit remains stable but at high levels as March figures point to a 3.8% total fiscal deficit to GDP ratio. The fiscal consolidation plan for this year calls for a 1% reduction in the fiscal deficit to be achieved by combining higher income taxes with higher VAT deductions and cut in expenditures. We believe the improvement will come short of the targets, and the fiscal deficit by yearend will approach 3.4% of GDP. This issue is worth monitoring as the credit rating might be affected.

What's coming next?

- The items at the top of the agenda:
- The political scandal affecting President Temer in Brazil is a top concern
 - Lower inflation is good news.
 - GDP growth will quicken even with a tepid pick up in Brazil and Argentina
 - The evolution of fiscal deficit is a warning alarm
 - Both Moody's and S&P have put Uruguay on negative watch

URUGUAY: APPENDIX

Dashboard

	May-17	Apr-17	Mar-17	May-16	2016
Exchange rate (UYU/USD, eop.)	28.13	28.14	28.68	31.06	29.35
Interest rate (%)	9.29%	11.00%	12.30%	11.38%	11.50%
Inflation (y/y)	-	6.5%	6.7%	11.0%	8.1%
Economic activity (y/y)	-	-	-	-0.9%	1.5%
Manufacturing activity (y/y)	-	-	-11.6%	0.5%	0.3%

Source: EconViews based on several sources

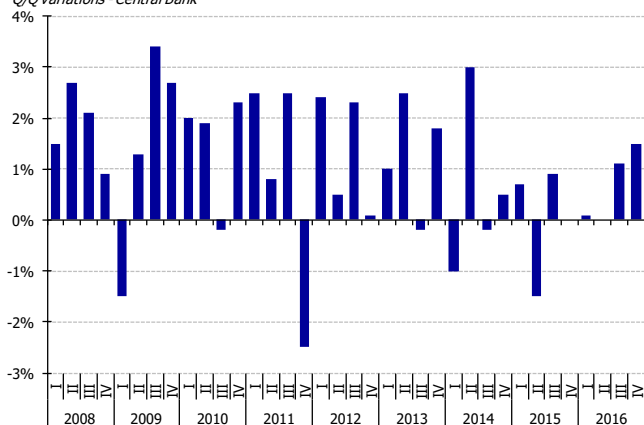
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	3.2%	1.0%	1.5%	1.8%	2.5%
Inflation (Dec-Dec)	8.3%	9.4%	8.1%	7.8%	7.5%
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	29.25	31.00

Source: EconViews based on Consensus Forecast & IMF

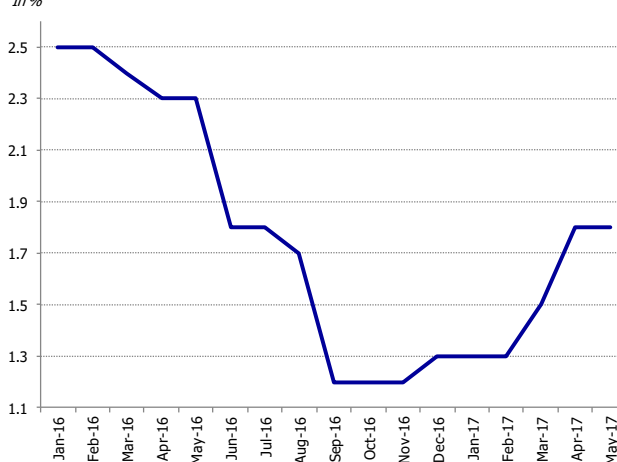
Real GDP

Q/Q variations - Central Bank



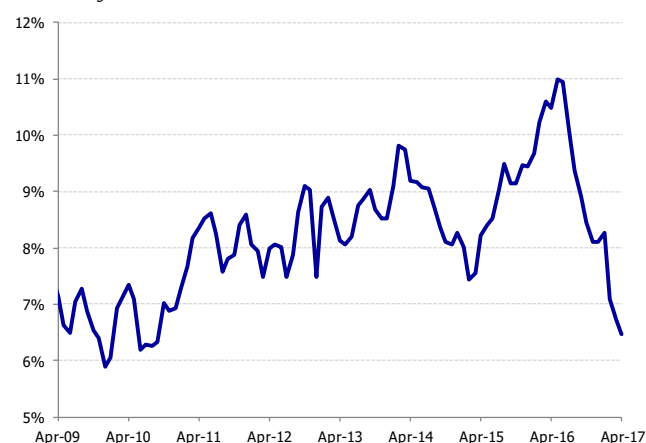
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar

