LATAM 7 + Argentina

Macro Brief

November, 2018

- **Argentina:** The stabilization finally arrived
- **Brazil:** A new administration with old challenges
- **Chile:** The monetary tightening has just begun
- **Colombia:** The Colombian peso weakened
- **Mexico:** Towards a less pragmatic policymaking style
- **Paraguay:** Impressive macroeconomic fundamentals, again
- **Peru:** The economy is still strong but lost momentum
- **Uruguay:** Looming credit downgrade?

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ARGENTINA

Good news	To be alert	Bad news
Financial conditions continued to improve and the FX to stabilize. Economic activity in Q3 was better than expected thanks to the rebound of agricultural sector that left the drought behind.	The country risk premium remains high at the 700 basis points area. The political situation around Cristina Kirchner and the social unrest due to the recession are worth monitoring.	Inflation accelerated recently and would reach 47% at year end. GDP is likely to fall in Q4 to drop 2.0% in 2018. The carry over left for 2019 will be negative by at least 3.0 percentage points.

Politics

The IMF closed a new deal with Argentina, adding USD 6.0 billion to the existing stand-by credit, now totaling USD 56.3 billion. While the government took several months to find a response to the crisis, it now seems to finally managed, with the support of the IMF, to put together a policy package that can succeed in stabilizing the Peso and pave the way for an improvement in the external and fiscal deficits. The image of the Government is 38% lower than year ago, at the lowest level since Macri took office.

Economic Activity

Activity fell in September. In monthly terms, the indicator ended up 5.9% below August, mainly due to sharp falls in Industry, which deteriorated 10.8% in YoY terms, and wholesale trade, down 12.8%. The main sectors with a positive monthly performance were Agriculture with a 2.2% increase, Fishing 2.8% up and Banking 2.7%. We expect GDP to fall 2% this year, leaving a negative carry over effect by at least 3% for 2019. This explains why GDP would fall 1 % next year, despite we expect a recovery throughout the year.

Inflation

Inflation became a headache in the last months. September recorded 6.5% m/m, the highest record since April 2002, and October 5.4% m/m. Core inflation accelerated as a result of the strong depreciation of the Peso. Annual inflation reached 45.9% in October, while YTD inflation has risen to 39.5%. The government will moderate the hikes in regulated prices next year as they are expected to grow in line with inflation. We increased our forecast for 2018 inflation to 47.5%, and to 30% for 2019.

Monetary Sector

The IMF published the Staff Report. There would be less intervention in the FX market, so the exchange rate might move with more volatility, while interest rates are likely to remain high for a longer period and the recovery is likely to be stalled until Q2-2019. Exchange rate bands were successful so far and the Peso remained close to the floor currently trading at around 37 per USD. This way, the CB could lower interest rate from 73% to 62%. The monetary base target was overachieved last month. S&P recently downgraded sovereign rating of Argentina from B+ to B with a stable outlook.

Fiscal Front

The government met the fiscal target for the 7th consecutive quarter. In September, total revenues grew 37%, 10 points over the growth of primary expenditures of 26%. So far this year, primary deficit has risen to ARS 181.2 billion (1.3% of GDP), over-achieving the target for the 3Q18 of 1.9% of GDP. We expect the target for year 2018 of 2.7% of GDP to be over-achieved. Lastly, within the framework of the new negotiations with the IMF and the 2019 Budget Bill, new fiscal targets for the next few years were set. They imply primary balance for 2019 and a primary surplus of 1.0% of GDP for 2020.

What´s coming next?

Argentina will be hosting the G20 summit in November with attendance from the top world leaders in politics and business. The Central Bank governor announced an increase of the swap with China in USD 8.7 billion which will add up to international reserves. If the FX moves below the lower band, the CB will be allowed to intervene and purchase dollars up to 150 million per day. In December the Central Bank will announce a new rate of monthly adjustment for the FX bands. A one-shot compensation of ARS 5,000 will be given to private workers in December.

ARGENTINA: APPENDIX

Dashboard

	Nov-18	Oct-18	Sep-18	Nov-17	2017
Exchange rate *(ARS/USD, eop.)*	37.00	36.20	40.90	17.38	18.77
Interest rate *(%)*	62.00%	68.04%	65.00%	28.75%	28.75%
National inflation *(y/y)*	-	45.9%	40.5%	-	24.8%
Economic activity *(y/y)*	-	-	-5.9%	3.7%	2.9%
Industrial activity *(y/y)*	-	-	-11.5%	3.5%	1.8%
Automotive production *(y/y)*	-	-	-20.8%	-3.7%	0.1%

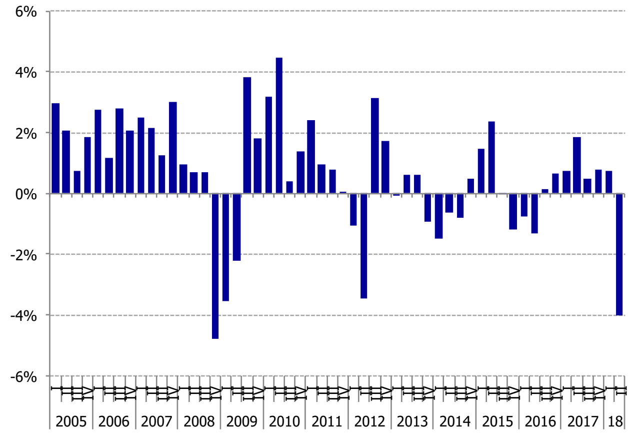
Source: EconViews based on several sources

Macroeconomic Outlook

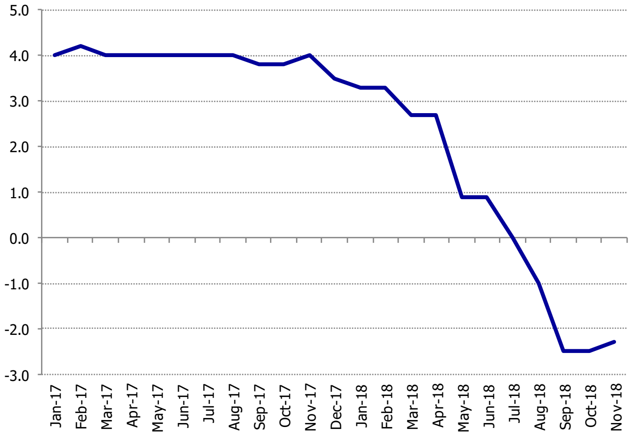
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	2.7%	-1.8%	2.9%	-2.0%	-1.0%
National inflation *(Dec-Dec)*	28.4%	36.6%	24.8%	47.5%	30.0%
Fiscal Balance *(% GDP)*	-5.5%	-5.8%	-6.0%	-5.6%	-3.2%
Current Account *(% GDP)*	-2.6%	-2.6%	-4.9%	-4.7%	-1.6%
International reserves *(USD Bn)*	25.6	39.3	55.1	59.0	65.1
Exchange rate *(ARS/USD)*	13.0	15.9	18.8	39.0	48.0

Source: EconViews based on official figures and own estimates

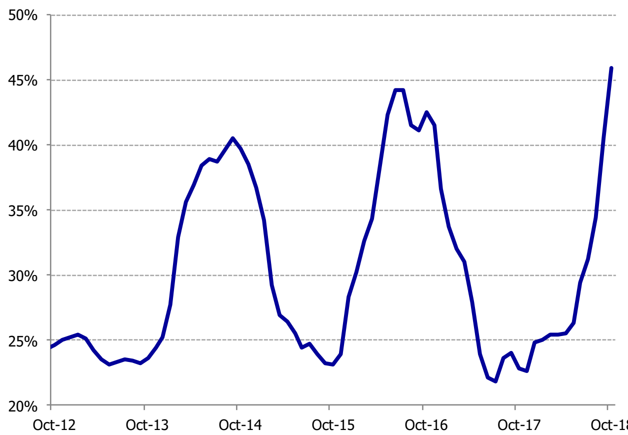
Real GDP
Q/Q variations- Seasonally adjusted data INDEC



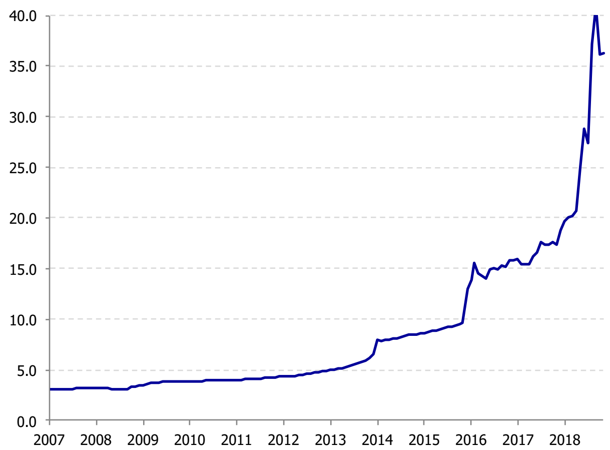
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Unemployment is retreating and is expected to stand around 12.2% at year-end and at 11.7% in 2019.	The Brazilian economy can only sustain a faster growth pace if fiscal reforms are approved.	Economic activity fell in September after three months of rises

Politics

Jair Bolsonaro will be Brazil's next president since January 1st. On October 28th he beat Fernando Haddad, of the left-wing Workers' Party (PT), with 55% of total votes. Bolsonaro has already backed away from some of the most controversial ideas he shared during campaign. For example, he dropped plans to withdraw from the Paris climate agreement, which suggests that he may be more responsive to pressure from centrist lobbies than is US President Trump, with whom he shares some traits.

Economic Activity

Economic activity fell in September (-0.9% m/m s.a.) after three months of rises, but remained 0.7% above the record from a year ago. Particularly, industrial production dropped 1.8% m/m s.a. in September, reflecting tighter financial conditions, but should improve in coming months due to better financial conditions and employment growth. Moreover, core retail sales fell 1.3% m/m s.a. in September, reverting August's rise. In this scenario, we expect GDP to grow 1.4% in the whole year and accelerate to 2.4% in 2019, as a result of improving financial conditions.

Inflation

The consumer price index (IPCA) climbed 0.45% in October, boosted by "transportation" and "food and beverages", and y/y inflation stood at 4.56%. So far this year, accumulated inflation rose to 3.81%. As inflation is expected to decelerate during the last two months of the year due to the slide in gasoline prices, it is likely to close the year at 4.1%. However, the main risks to this outlook come from difficulties in the approval of the reforms and the economic adjustments needed in 2019, which may put pressure on risk premiums and the exchange rate.

Monetary Sector

The Brazilian Real weakened near 15% so far this year, and is now trading at around 3.80 BRL per USD after reaching a peak of 4.21 in early October. In this context, we expect the exchange rate to stand at around BRL 3.75 per USD in December. On the other hand, after its meeting on October 30-31, the Copom announced its decision to leave the SELIC interest rate unchanged at 6.5%. Given the excess capacity in the economy and less asymmetrical risks to inflation, the SELIC is likely to remain at its current level for a couple of months.

Fiscal Front

The consolidated primary deficit accumulated over the last 12 months increased to 1.3% of GDP in September, after standing at 1.2% in August. Thus, the primary balance is very likely to display a better result (-1.8%) than the one contemplated in the target set for this year (-2.3%). For 2019, we expect the primary budget deficit to be 1.3% of GDP, and is likely to be even lower depending on the event of progress on the agenda related to extraordinary revenues.

What´s coming next?

- Any setbacks in the approval of the reforms may put additional pressure on risk premiums and the exchange rate, affecting both inflation expectations and its actual path.
- The fiscal outlook for 2020 is largely linked to the approval of reforms, especially the pension one, which is essential for rebalancing the public accounts and achieving a gradual convergence to primary surpluses that are compatible with public debt stabilization.

BRAZIL: APPENDIX

Dashboard

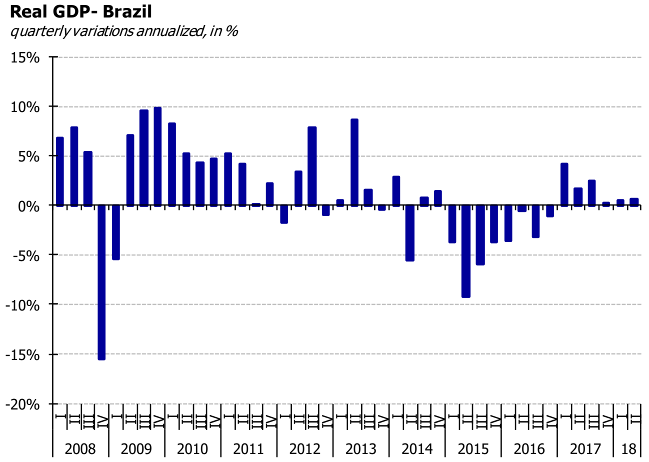
	Oct-18	Sep-18	Aug-18	Oct-17	2017
Exchange rate *(BRL/USD, eop.)*	3.72	4.05	4.06	3.27	3.31
SELIC *(%)*	6.50%	6.50%	6.50%	7.50%	7.00%
Inflation *(y/y)*	4.6%	4.5%	4.2%	2.7%	2.9%
Economic activity *(y/y)*	-	0.7%	2.3%	1.5%	1.0%
Industrial activity *(y/y)*	-	-2.0%	1.7%	5.4%	2.5%
Automotive production *(y/y)*	-	3.7%	14.8%	28.0%	17.4%

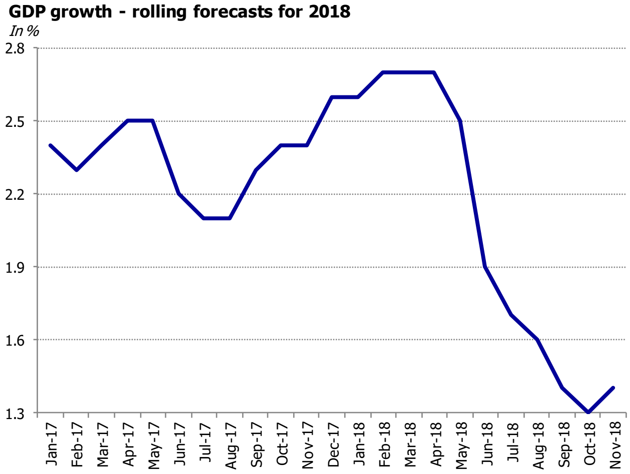
Source: EconViews based on several sources

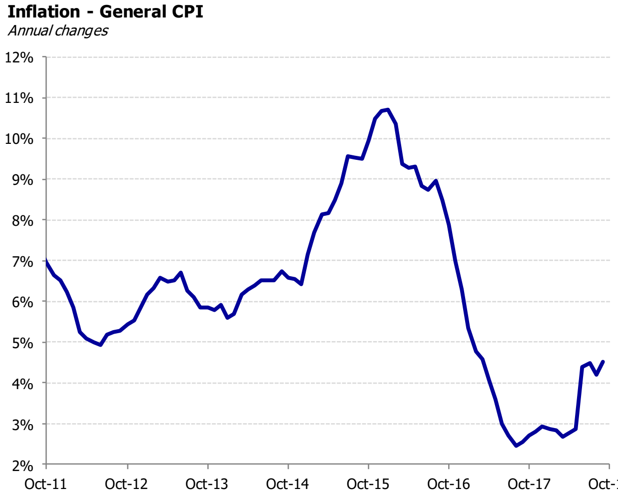
Macroeconomic Outlook

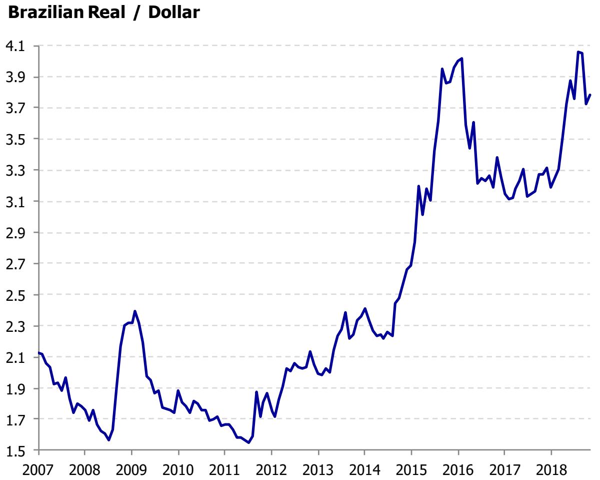
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	-3.5%	-3.5%	1.0%	1.4%	2.4%
Inflation *(Dec-Dec)*	10.7%	6.3%	2.9%	4.1%	4.2%
Fiscal Balance *(% GDP)*	-10.2%	-9.0%	-7.8%	7.2%	-6.6%
Current Account *(% GDP)*	-3.3%	-1.3%	-0.5%	-1.3%	-1.6%
International reserves *(USD Bn)*	348.9	356.8	365.4	375.7	378.3
Exchange rate *(BRL/USD)*	3.96	3.26	3.31	3.75	3.80

Source: EconViews based on Consensus Forecast & IMF









CHILE

Good news	To be alert	Bad news
Wages gained momentum and increased 4.5% YoY in Sep-18, well above inflation. This is a good signal for private consumption.	Industry contracted 5.4% in Sep-18, the fastest contraction since Apr-17.	Public gross debt continued to increase in the 3Q18 and reached 24.6% of GDP.

Politics

Chile and Brazil have signed a Free Trade Agreement that involves some areas such as telecommunications, e-commerce and environment. The deal also includes agreements in investment, financial services and public purchases. Chilean suppliers could participate in public auctions in Brazil in equal conditions.
Approval of President Piñera remained practically stable in Oct-18 at 48% from the previous 45% (source GfK).

Economic Activity

The GDP proxy for Sep-18 showed that activity decelerated its i.a. growth from 3.1% to 2.1%. This performance was explained by the YoY fall in mining activity (1.6%, the 3rd consecutive contraction) while non mining activity grew 2.2%. MoM, activity grew 0.3% after a fall of 0.1% in August. Consumer confidence (source GfK) continued to contract in Sep-18 and remained pessimistic for the 2nd consecutive month.
For next year GDP growth is expected to be 3.5%, slightly below the 4.0% of 2018.

Inflation

In Oct-18 inflation was 2.9% and went back below the CB target of 3% after hitting 3.1% in the previous month. Inflation in tradable goods was 2.4% while for non-tradable goods accelerated slightly to 3.6%. On a monthly basis, inflation was 0.4%. The main price increases were in potatoes (26.7% m/m), gasoline (2.5%) and condominium expenses (6.8%). For 2019 inflation will slightly accelerate to 3.2%.

Monetary Sector

The Chilean Peso is volatile but this month appreciated 1.0% to 674.
In Oct-18 the CB hiked interest rate by 25 bps to 2.75% from 2.5%, the first increase since Apr-17. The entity had affirmed previously that the output gap was reducing faster than expected. The monetary stimulus should be reduced gradually and with flexibility in order to converge to a neutral interest rate in 2020, according to the CB' statement.

Fiscal Front

Up to Sep-18, accumulated deficit of Central Government was 0.5% of GDP, below the 1.2% of one year ago. Revenues grew 6.6% YoY in real terms, boosted by higher copper prices in comparison to one year ago. Total expenditure grew 2.4%, driven by current expenditure. Capital expenditure continued to lose dynamism and fell 2.1% YoY. For next year fiscal deficit is expected to narrow from 2.0% to 1.7% of GDP.

What´s coming next?

The tax reform, which implies an improvement in competitiveness, is still being debated. The next step for Piñera is the pension reform, which aims to improve benefits for retirement by gradually increasing contributions to employers. The beneficiaries will also be able to choose the pension fund manager. In addition, there will be a compensation for lower pensions and a premium for those individuals that postpone retirement.

CHILE: APPENDIX

Dashboard

	Oct-18	Sep-18	Aug-18	Oct-17	2017
Exchange rate *(CLP/USD, eop.)*	696.35	658.18	682.20	636.95	616.15
Interest rate *(%)*	2.75%	2.50%	2.50%	2.50%	2.50%
Inflation *(y/y)*	2.9%	3.1%	2.6%	1.9%	2.3%
Economic activity *(y/y)*	-	2.1%	3.1%	3.5%	1.5%
Industrial activity *(y/y)*	-	-5.4%	4.2%	-0.9%	-1.0%
Mining production *(y/y)*	-	-1.3%	-7.7%	9.4%	-1.7%

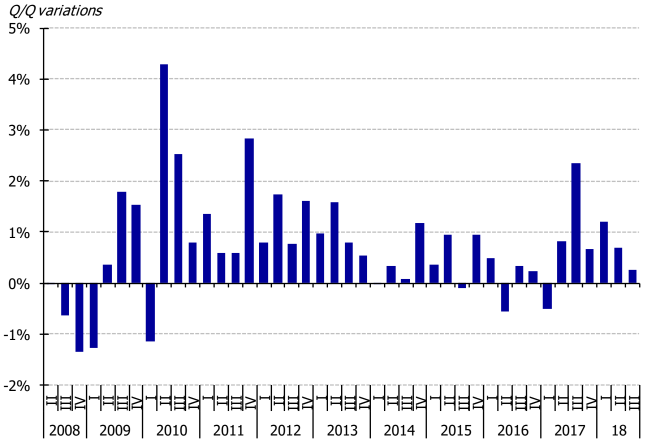
Source: EconViews based on several sources

Macroeconomic Outlook

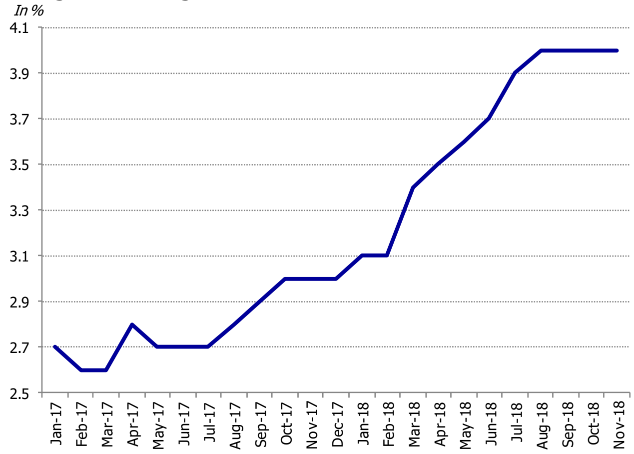
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	2.3%	1.3%	1.5%	4.0%	3.5%
Inflation *(Dec-Dec)*	4.4%	2.7%	2.3%	2.9%	3.2%
Fiscal Balance *(% GDP)*	-2.1%	-2.7%	-2.8%	-2.0%	-1.7%
Current Account *(% GDP)*	-2.3%	-1.4%	-1.5%	-2.5%	-2.7%
International reserves *(USD Bn)*	37.2	39.5	38.0	37.1	37.5
Exchange rate *(CLP/USD)*	709.35	670.30	616.15	660.00	650.00

Source: EconViews based on Consensus Forecast & IMF

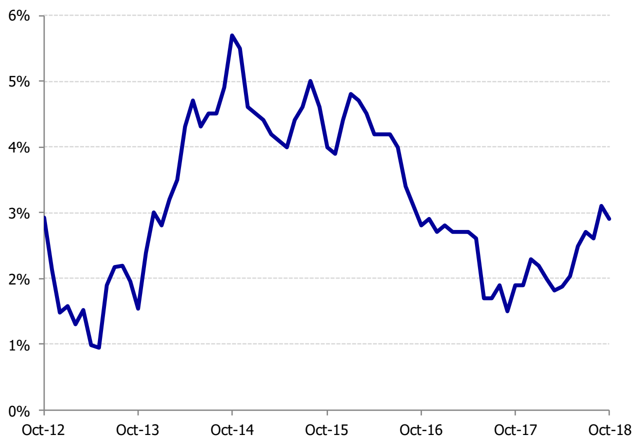
Real GDP
Q/Q variations



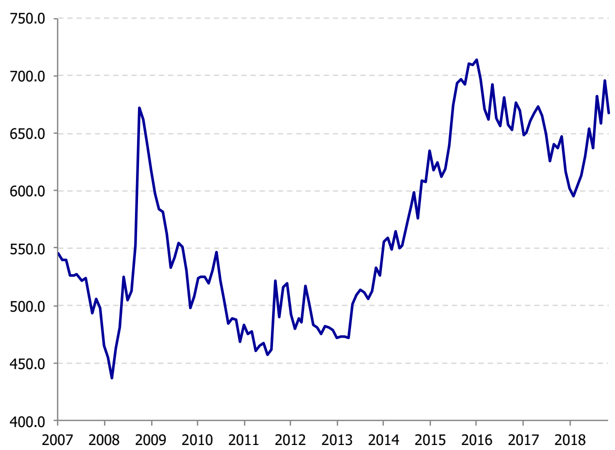
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
The government sent a tax reform to finance the 2019 Budget, which includes cuts in corporate taxes and VAT. GDP likely to pickup to 2.7% this year and 3.5% in 2019.	The decline of oil prices and a new deterioration of the financial conditions for emerging markets led to a weakening of the Colombian peso and a mild increase on the country risk.	The speed of the economic recovery moderated and confidence receded in the last months. Further reforms are still needed to comply the fiscal targets in the medium term.

Politics

Mr. Duque's approval rating slumped to just 27%, from 54% in September. The peace process continues proving difficult to implement. Still hundred of Farc guerrillas refuse to sign it, while the National Liberation Army is still fighting. The government also must cope with the arrival over the past two years of more than 1 million Venezuelans. The fiscal consolidation is another challenge for the Government that has already sent the bill of the tax reform and the financial plan for Budget 2019 to the Congress.

Economic Activity

Activity moderated in the last months while confidence receded, pointing that the recovery is not exempt from downside risks, as a further deterioration of oil prices or in financial conditions. The labor market remained weak in this context, while sales growth decelerated. Expectations deteriorated due to lower Peso and a broader tax base due to the reform. GDP would grow 2.7% this year, faster than 1.8% growth of 2017. The recovery would consolidate in 2019, with GDP growing 3.5% in 2019.

Inflation

Inflation rose slightly to 3.3% in October, from 3.2% in September, due to a weaker Peso and higher commodity prices. Colombia's Central Bank held the benchmark interest rate at 4.25%, where it has been since the end of the easing cycle at the end of April, maintaining a neutral tone. The riskier external environment may lead to a tighter stance, as the consensus expects the policy rate to end 2019 at 4.8%. On the other hand, the consensus expects inflation around 3.3% by the end of this year.

Monetary Sector

The Colombian Peso weakened amid a wider selloff in emerging markets and the recent fall on oil prices. At the end of November, it was trading at 3,232 per USD, the lowest record of the last 8 months. Concerns about US inflation and uncertainties around the US-China trade war, have deterred investors from emerging-market currencies. The consensus still see the Colombian Peso gaining strength and ending 2018 at 3,050 per USD and 2019 at 3,090 per USD.

Fiscal Front

There is no room for an expansionary fiscal policy. Congress is dealing with the tax reform and the financial program for next year, to cover a gap of 1.2% of GDP in the 2019 budget. The bill proposes to gradually lower the corporate tax rate from 33% to 30% and to cut VAT to 18% by 2019 and 17% by 2020, from 19% today, but eliminating almost all exemptions. The bill aims to raise tax revenues by 1.8% of GDP in 2019 and 1.2% of GDP in 2020. Nominal deficit would be 3.1% of GDP this year and 2.7% in 2019.

What´s coming next?

The elimination of VAT exceptions was rejected by the Congress, so the fiscal program and the negotiations about the tax reform are still open and need further discussions. Still, the proposal sent by Mr. Duque was a good sign to answer whether he has or not the appetite for tougher fiscal reforms to put the fiscal policy on a more sustainable track. On the other hand, he 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.

COLOMBIA: APPENDIX

Dashboard

	Oct-18	Sep-18	Aug-18	Oct-18	2017
Exchange rate *(COP/USD, eop.)*	3,224	2,966	3,057	3,042	2,987
Interest rate *(%)*	4.26%	4.25%	4.25%	5.02%	4.69%
Inflation *(y/y)*	3.2%	3.1%	3.1%	4.1%	4.1%
Economic activity *(y/y)*	-	8.7%	1.9%	-0.7%	1.8%
Industrial activity *(y/y)*	-	4.5%	3.7%	-0.3%	-0.4%

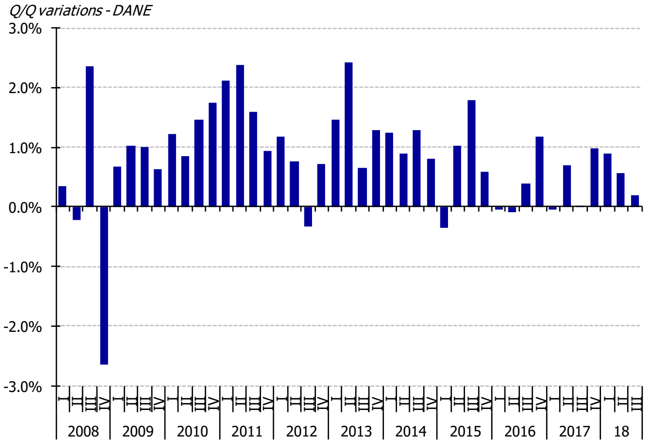
Source: EconViews based on several sources

Macroeconomic Outlook

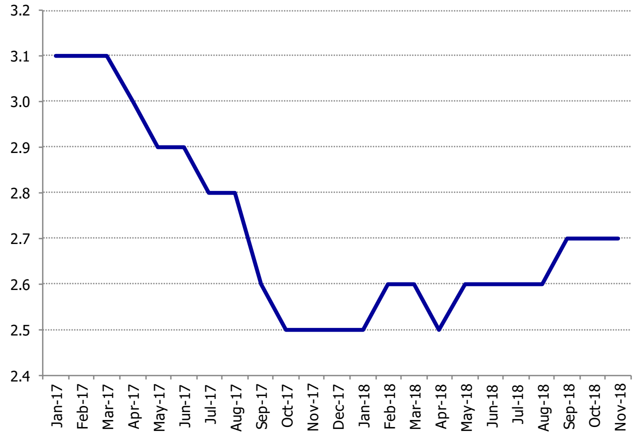
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.0%	2.0%	1.8%	2.7%	3.2%
Inflation *(Dec-Dec)*	6.8%	5.7%	4.1%	3.3%	3.5%
Fiscal Balance *(% GDP)*	-3.0%	-4.0%	-3.6%	-3.1%	-2.6%
Current Account *(% GDP)*	-6.4%	-4.3%	-3.4%	-2.4%	-2.4%
International reserves *(USD Bn)*	44.8	45.0	45.4	47.6	48.8
Exchange rate *(COP/USD)*	3,180	3,003	2,987	3,050	3,090

Source: EconViews based on Consensus Forecast & IMF

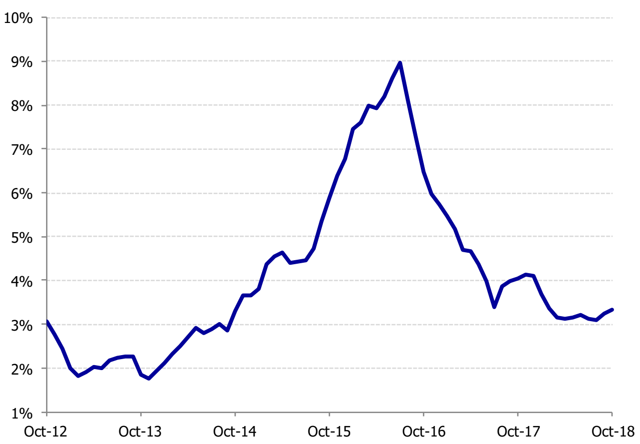
Real GDP
Q/Q variations - DANE



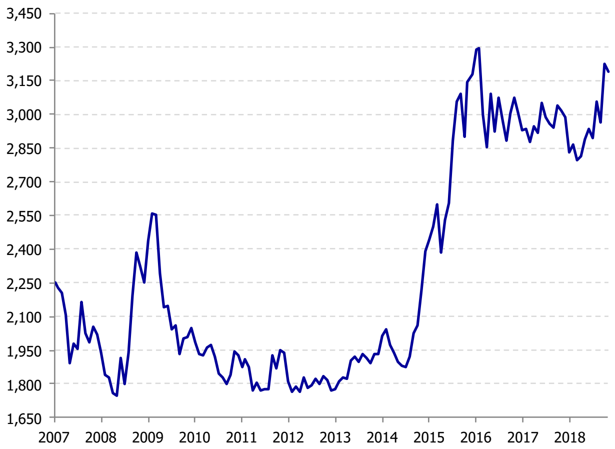
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
GDP grew 2.6% y/y in the 3Q-18, boosted by the industrial and service sectors.	AMLO's energy policy is likely to deteriorate the sector outlook: for example, he announced a halt to new oil contracts until current ones start to generate output.	After the Airport referendum, the MXN depreciated more than 3% and Fitch and HR Ratings changed Mexico's sovereign outlook from stable to negative.

Politics

After a referendum, President López Obrador (AMLO) announced the cancellation of the current project for the Mexico City new international airport and argued that it was a waste of resources. This result raises concerns of how AMLO's less pragmatic economic policy decisions will be taken and their effects on business confidence, investment and potential growth. AMLO also said that he will modify the Constitution in order to allow citizens to request a referendum if the topic is of public interest.

Economic Activity

According to the flash estimate of GDP growth for 3Q18, the economic activity grew 2.6% y/y, boosted mainly by the industrial (1.1%) and service sectors (3.4%). On the demand side, private consumption continues to grow at a solid pace, driven by the increase in real wages, while investment continues to weaken due to the poor performance of the construction sector. Thus, we expect economic activity to grow 2.1% in 2018 and to decelerate to 1.9% next year, as uncertainty from domestic policy direction is increasing.

Inflation

Consumer prices raised 0.52% m/m in October, slightly above the 0.42% rise recorded in September. However, headline inflation decreased from 5.0% to 4.9% y/y, due to the deceleration in energy prices. We still expect inflation to continue to fall gradually in coming months and reach 4.6% (revised from 4.5% due to the recent depreciation of the MXN) in December. For 2019, we expect a further deceleration, and thus inflation is likely to stand around 3.8% at the end of the year.

Monetary Sector

The Mexican Peso depreciated more than 3% on October 29th, after the announcement of the Airport referendum results, and now trades at around 20.40 MXN per USD. So far this year, the exchange rate has depreciated 3.8% and we expect it to close this year at 20.00. On the other hand, in October the CB left the policy rate unchanged, but be expect it to increase by 25 bps in November, to 8.0%, as the Mexican Peso weakens. Moreover, we expect a less accommodative interest rate path in 2019, closing the year at 7.5%.

Fiscal Front

AMLO's Administration announced 2019 budget savings details, including an estimate of 1.9% of GDP in savings, of which 1.4% of GDP will come from a reduction in expenditures and 1.5% of GDP from revenues. As the savings assumption sounds optimistic, the probabilities of missing the target are high. This year, the primary surplus is expected to reach 0.7% of GDP, while the fiscal deficit is likely to reach 2% of GDP. For 2019, we expect a fiscal deficit equivalent to 2.3% of GDP.

What´s coming next?

- Steel import tariffs have not yet been eliminated, but are expected to be removed before signing the USMCA agreement at the end of November.
- The NAFTA agreement has dissipated some uncertainties and Mexico's congress is expected to approve the new trade deal without significant opposition in the Senate.

MEXICO: APPENDIX

Dashboard

	Oct-18	Sep-18	Aug-18	Oct-18	2017
Exchange rate *(MXN/USD, eop.)*	20.35	18.73	19.09	17.89	19.66
Interest rate *(%)*	7.75%	7.75%	7.75%	7.00%	7.25%
Inflation *(y/y)*	4.9%	5.0%	4.9%	6.4%	6.8%
Economic activity *(y/y)*	-	-	1.7%	1.6%	2.0%
Industrial activity *(y/y)*	-	4.0%	-1.6%	-0.9%	-0.6%
Automotive production *(y/y)*	-	4.3%	0.9%	11.8%	10.1%

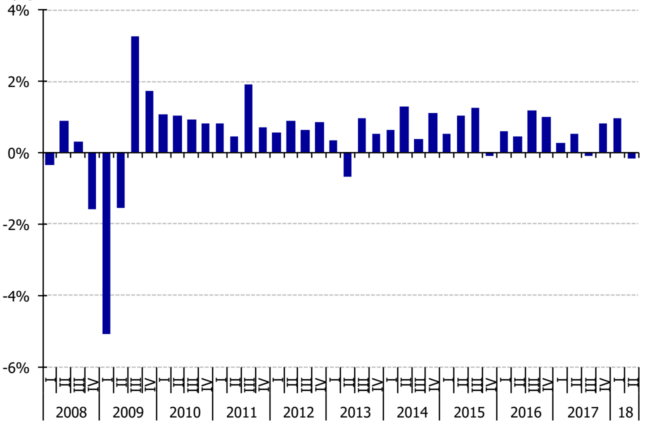
Source: EconViews based on several sources

Macroeconomic Outlook

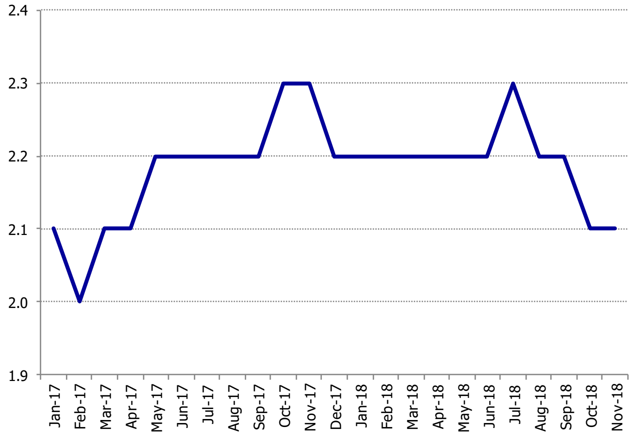
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.3%	2.9%	2.0%	2.1%	1.9%
Inflation *(Dec-Dec)*	2.1%	3.4%	6.8%	4.6%	3.8%
Fiscal Balance *(% GDP)*	-3.4%	-2.5%	-1.1%	-2.0%	-2.3%
Current Account *(% GDP)*	-2.5%	-2.1%	-1.6%	-1.3%	-1.3%
International reserves *(USD Bn)*	168.4	168.7	164.9	172.1	174.6
Exchange rate *(MXN/USD)*	17.19	20.74	19.66	20.00	21.00

Source: EconViews based on Consensus Forecast & IMF

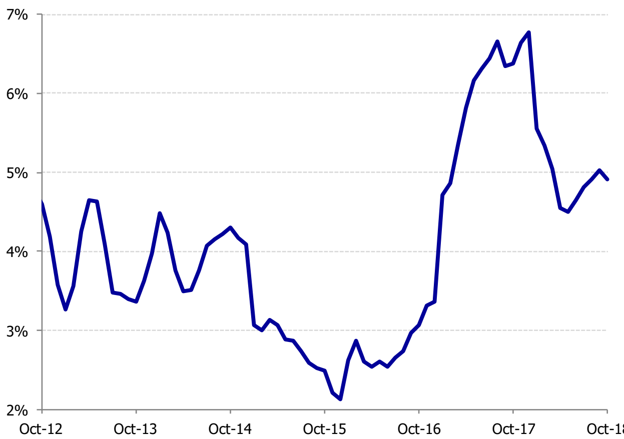
Real GDP
Q/Q variations - INEGI



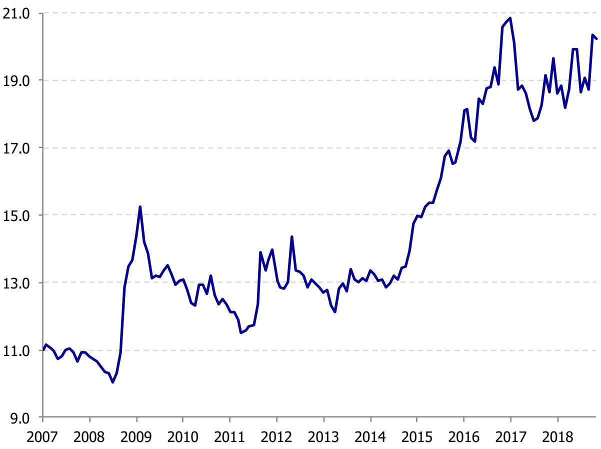
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
The Executive Power is proposing the amendment of several Laws that will improve the fight against organized crime.	Despites Paraguay is withstanding the global volatility in good shape, the external front should be close monitored.	Hard to find one. Macroeconomic fundamentals are sound. The official initiative to tighten personal security should not be derailed

Politics

The Executive Power is proposing 16 amendments to existing laws with the aim of improving the fight against money laundering, financing of terrorism and the organized crime.
The initiative is backed up by the Judicial and the Legislative branches and is a key theme to improve personal security issues in the country. With 100 days at the post, President Mario Abdo Benitez is trying to tackle this critical issue.

Economic Activity

Broad economic activity acceleration in Q2 across all sectors as GDP increased 6.2% yoy. Investment was the main driver, growing 16.7% fueled by construction (+16.1% yoy). Private consumption recorded a solid performance as well, gaining 4.2% yoy. Services expanded 5.9%, exports 10.6% imports 14% and agriculture 0.7%.
Momentum is expected to continue into Q3 and the end of the year, despites volatility stemming from Brazil but especially from Argentina. We are revising our 2018 GDP growth forecast up to 4.2%, below the BCP estimate of 4.3%.

Inflation

As of October headline consumer prices came in at 0.6% mom, slightly speeding up the yoy inflation to 4.1% from 4.0% in September. All in all, CPI is barely at the center of the BCP target range (4% +- 2%) and core CPI is running at 3.1% yoy rates.
Breaking down by segments, good prices are advancing +4.5% yoy while services are increasing at +3.6% yoy rates.
With the recent drop in energy prices we expect 2018 FY inflation to approach 4.1%

Monetary Sector

The selloff in emerging markets currencies has led the BCP to intervene in the FX market by selling more than 1 billion USD since the beginning of the year to smooth the nominal hike of the USD against PYG, which is 5.5% YTD (trading at 5,895 to the USD). In its October meeting the BCP kept the policy rate unchanged at 5.25%, highlighting that given current conditions the most prudent approach is to keep the monetary stance unchanged. We forecast the policy rate to remain at 5.25%.

Fiscal Front

As of October, the cumulative 12-month deficit at the national treasury stands at 1.0% of GDP in compliance with the Fiscal Responsibility Law target. The primary balance is a 0.3% deficit as measured over GDP, the lowest on record since 2013.
Total revenues gained 7.4% yoy driven by tax collections and expenses are up 10.4% pushed by interest expense and social security. Paraguay continues to outperform other countries in the region for its fiscal soundness and stability.
We forecast total deficit to GDP to over achieve the 1.5% official target in 2018.

What´s coming next?

The country outperforms peers with sound economic fundamentals and seems to withstand the global turmoil in good shape but some issues to watch out for are:

- The trade war between China and the US.
- The emerging markets selloff.
- The evolution of global markets as a response to the US monetary policy
- The situation in Argentina

PARAGUAY: APPENDIX

Dashboard

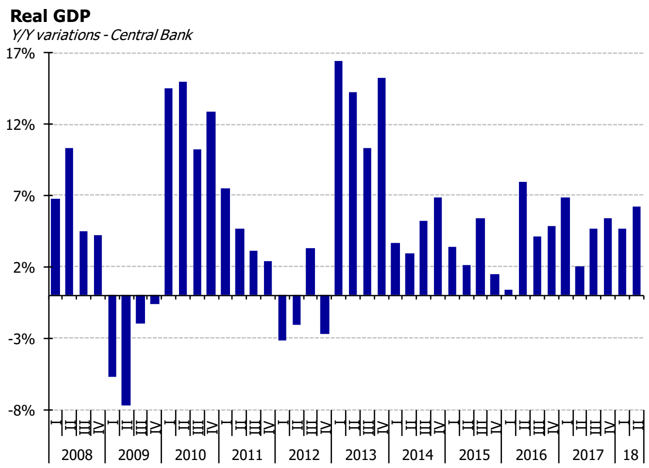
	Oct-18	Sep-18	Aug-18	Oct-18	2017
Exchange rate *(PYG/USD, eop.)*	6,003	5,908	5,849	5,643	5,602
Interest rate *(%)*	5.25%	5.25%	5.25%	5.25%	5.25%
Inflation *(y/y)*	4.1%	4.0%	3.9%	4.9%	4.5%
Economic activity *(y/y)*	-	-2.2%	0.6%	6.4%	4.5%

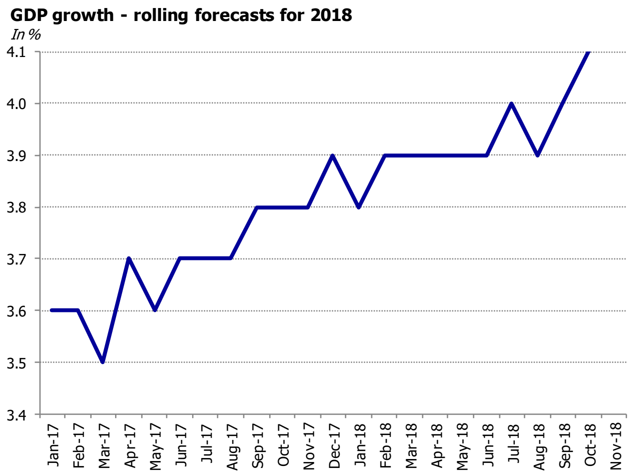
Source: EconViews based on several sources

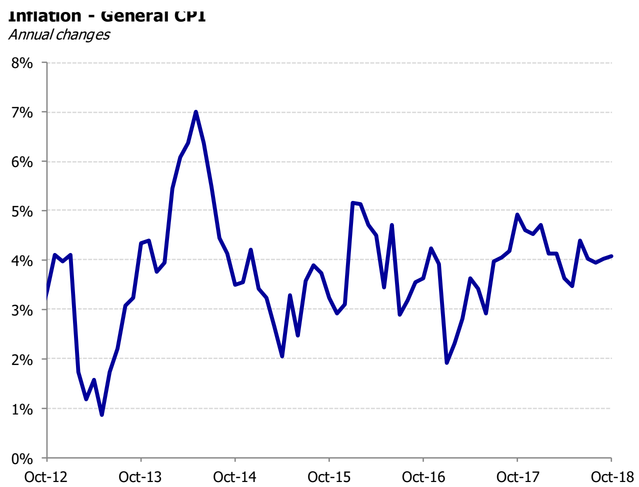
Macroeconomic Outlook

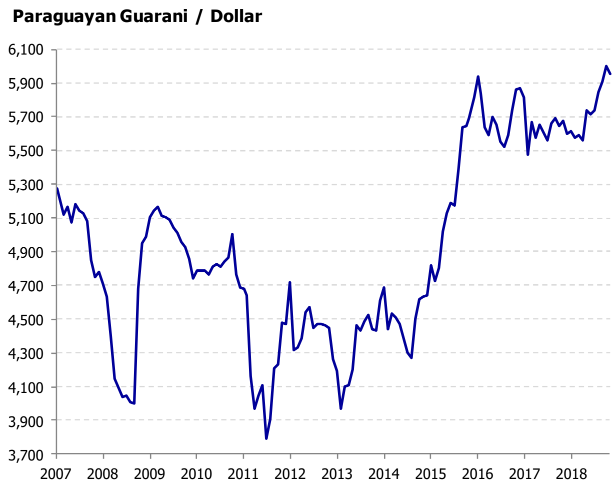
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.0%	4.0%	4.3%	4.2%	4.0%
Inflation *(Dec-Dec)*	3.1%	3.9%	4.5%	4.1%	3.8%
Fiscal Balance *(NFPS - % GDP)*	-1.8%	-1.4%	-1.5%	-1.2%	-1.3%
Current Account *(% GDP)*	-1.1%	1.5%	-1.8%	-1.3%	-0.9%
International reserves *(USD Bn)*	6.2	7.1	8.3	n.a.	n.a.
Exchange rate *(PYG/USD)*	5,814	5,866	5,602	5,900	6,100

Source: EconViews based on Consensus Forecast & IMF









PERU

Good news	To be alert	Bad news
Up to Sep-18, investment in the mining sector grew 28.0% in comparison to the same period of 2017.	Economic activity lost some momentum in September according to the GDP proxy.	Low productivity is a drag for the economy: GDP could be 7% higher if distortions were eliminated (CAF).

Politics

President Vizcarra's positive image was 65% in Nov-18 and keeps on the rise. His negative image fell to 27% while two months ago it was at 44% (source Ipsos). His fight against corruption explains this performance. Peru will carry out a referendum to reform the Constitution on Dec, 9th. The aim is to return to a system of two-chamber government in the Congress, to prohibit the re-election of congressmen, to improve accountability for electoral campaigns and a judicial reform.

Economic Activity

According to the GDP proxy, in Sep-18 economic activity went up 2.1% YoY. The indicator has been growing at a similar pace since Jun-18 and it lost some momentum in comparison to the previous records. Fishing expanded 19.7% while Government services showed a 4.96% increase, mainly related to security and public works (roads). For 2019 the rate of growth is expected to be 3.8%, slightly below the 3.9% for 2018.

Inflation

In Oct-18 inflation accelerated and was 1.87% i.a. (1.28% in Sep-18). On a monthly basis, it was 0.08%, well below from the previous records. The main incidence in the CPI index was "Transport and Communications" as there were increases in vehicle fuels, followed by “Health”. This way, inflation continued to be below CB's target of 2.0% for the 12th consecutive month.

For 2018 inflation is expected to be 2.3% and to accelerate to 2.6% for next year.

Monetary Sector

The Peruvian Sol moved to 3.37 PEN/USD and has been depreciating during the last 2 months, when it was 3.28.

In Nov-18, the CB maintained its policy rate at 2.75% for the 9th time in a row as the economy grew below its potential, inflation expectations remained near the target and the external conditions were riskier. The monetary stimulus will continue for some more time, specially taking into account the last activity figures.

Fiscal Front

In Oct-18, accumulated fiscal deficit in the last 12 months deteriorated slightly and was 2.2% of GDP. This result was driven by more non-financial expenditures, which moved up 0.1 p.p. to 20.3% of GDP. Both current (9.8%) and capital expenditure (39.2%) accelerated in YoY terms. Government revenues went up 8.7% helped by General Tax on Sales (IGV).

Fiscal deficit is expected to narrow in 2019 from 2.8% to 2.5%.

What´s coming next?

On December, 9th it will take place the referendum to reform the Constitution.

The external sector remains as the main risk for the Peruvian economy and needs to be monitored closely.

According to the estimates of the Ministry of Mining, the sector will grow 3% next year as investment will be focused in this branch. Quellaveco, Mina Justa and Ampliation of Toromocho will add an extra stimulus.

PERU: APPENDIX

Dashboard

	Oct-18	Sep-18	Aug-18	Oct-17	2017
Exchange rate *(PEN/USD, eop.)*	3.37	3.31	3.30	3.25	3.24
Interest rate *(%)*	2.75%	2.75%	2.75%	3.75%	3.25%
Inflation *(y/y)*	1.8%	1.3%	1.1%	2.0%	1.4%
Economic activity *(y/y)*	-	2.1%	2.2%	3.6%	2.5%
Manufacturing activity *(y/y)*	-	1.2%	1.7%	3.0%	-0.3%
Mining production *(y/y)*	-	0.9%	-3.9%	-1.1%	3.2%

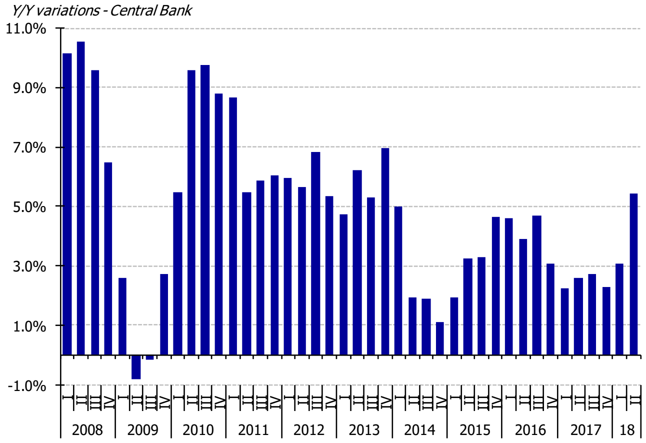
Source: EconViews based on several sources

Macroeconomic Outlook

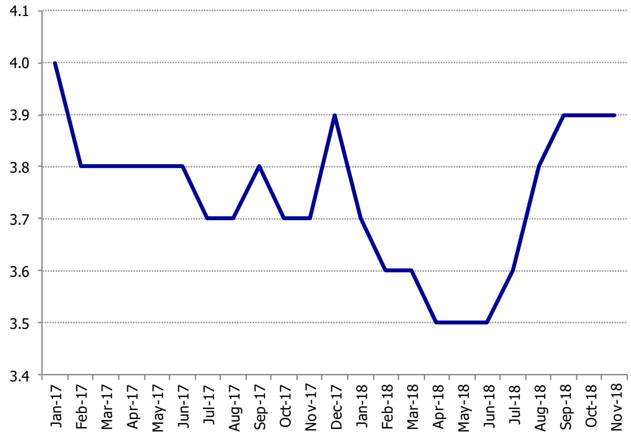
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.3%	4.0%	2.5%	3.9%	3.8%
Inflation *(Dec-Dec)*	4.4%	3.2%	1.4%	2.3%	2.6%
Fiscal Balance *(% GDP)*	-2.1%	-2.6%	-3.2%	-2.8%	-2.5%
Current Account *(% GDP)*	-4.8%	-2.7%	-1.3%	-1.7%	-2.2%
International reserves *(USD Bn)*	59.4	59.8	61.4	60.9	62.8
Exchange rate *(PEN/USD)*	3.42	3.36	3.24	3.30	3.35

Source: EconViews based on Consensus Forecast & IMF

Real GDP
Y/Y variations - Central Bank

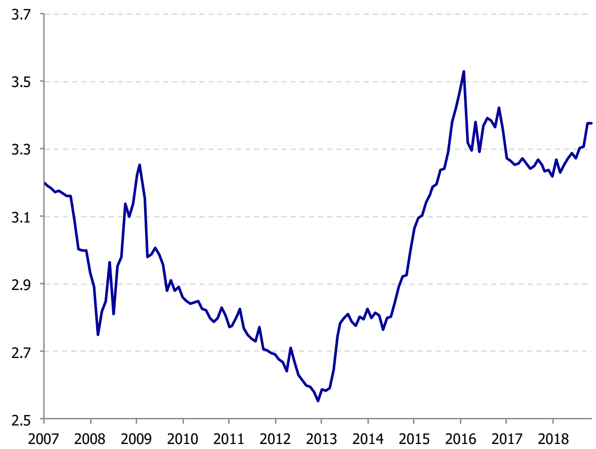


GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes

Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
So far, the GDP slowdown has been smooth and the country is still escaping from recession.	The external front may pose an extra source of volatility as Argentina suffers recession and a run on the currency.	Uruguay will probably miss the fiscal balance target this year. Sovereign credit implications may surface.

Politics

A recent poll conducted in November is showing that if the elections were held now, the Frente Amplio leads the vote intention with nearly 35% support of citizenship, followed by the Partido Nacional (31%), the Partido Colorado (8%) and others (8%). Undecided voters comprise a significant share of the answers (18%). These results should be taken carefully as the time until the election is very long.

Economic Activity

Economic activity in Q2 2018 confirmed it is slowing down with GDP up 2.5% on a yoy basis. Investment showed a weak result (+0.8% yoy), while private consumption grew in line with the broad performance (+2.5% yoy). Exports went up 6.7% and the primary sector contracted 2.1% yoy. Consumer confidence is on the downside and the recession and currency depreciation in Argentina is expected to hit tourism, industry and exports. Unemployment is on the rise and stands at 8.7% (up from 7.6% a year ago). We revise downward the GDP estimate for 2018 to 2.1 %.

Inflation

Inflation in October came in at a 0.2% monthly increase to result in an annual reading of 8.0%, still out of bounds of the BCU 3-7% target range. Clothing, other goods and services, housing, and restaurants and hotels are the main contributors to monthly inflation, while a drop in food and beverages prices partly compensates and trims the figure down. The persistence of inflation is leading us to forecast inflation to reach 7.5% for 2018.

Monetary Sector

The UYU is hovering around 32.50 to the dollar with a cumulative YTD depreciation of nearly 14% despites the BCU interventions in the FX market.
In its October meeting, the BCU COPOM reinforced its tight monetary policy and set the annual M1 growth target for Q4 2018 at 9-11%, stating this stance is consistent with inflation converging to the 3-7% inflation target given the current local and external situations. We forecast the UYU to trade at 33.00 by year end.

Fiscal Front

The fiscal balance recorded a 3.9% deficit in September. The resilience of this gap to converge to the 2.5% target is explained by an interest bill that weighs 3.5% of GDP combined with rigid primary expenditures. We estimate 2018 fiscal deficit to reach 3.6 %, and thus we consider the country will probably miss the target. Lower GDP growth ahead and slower fiscal consolidation resulted in Fitch affirming the BBB- country credit rating but revising the outlook to negative.

What´s coming next?

Top issues to watch:

- The magnitude of the GDP slowdown and its toll on fiscal revenues
- The evolution of the fiscal deficit and its impact on the sovereign credit risk rating
- The global environment
- The FX crisis in Argentina

URUGUAY: APPENDIX

Dashboard

	Oct-18	Sep-18	Aug-18	Oct-17	2017
Exchange rate *(UYU/USD, eop.)*	32.85	33.30	32.24	29.27	28.85
Interest rate *(%)*	8.25%	8.05%	7.50%	7.75%	8.56%
Inflation *(y/y)*	8.01%	8.26%	8.31%	6.04%	6.6%
Economic activity *(y/y)*	-	-	2.8%	4.00%	2.7%
Manufacturing activity *(y/y)*	-	16.1%	15.5%	-13.8%	-11.1%

Source: EconViews based on several sources

Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth *(%)*	0.4%	1.7%	2.7%	2.1%	2.1%
Inflation *(Dec-Dec)*	9.4%	8.1%	6.6%	7.5%	7.2%
Fiscal Balance *(% GDP)*	-3.6%	-3.9%	-3.5%	-3.6%	-3.2%
Current Account *(% GDP)*	-0.7%	1.6%	1.6%	0.9%	-0.2%
International reserves *(USD Bn)*	15.6	13.4	16.0	n.a.	n.a.
Exchange rate *(UYU/USD)*	29.94	29.35	28.85	33.00	35.40

Source: EconViews based on Consensus Forecast & IMF