LATAM 7 + Argentina

Macro Brief

September, 2017

- **Argentina:** The Primaries brought good news for Macri
- **Brazil:** Improving economic outlook
- **Chile:** Waiting for the presidential elections in Nov-17
- **Colombia:** Inflation continues falling faster than expected
- **Mexico:** Already with an eye on 2018 presidential elections
- **Peru:** Approval of President Kuczynski falls to new low
- **Uruguay:** Refinery shutdown reduces Q2 GDP growth
- **Paraguay:** Sound macroeconomic performance persists

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ARGENTINA

Good news	To be alert	Bad news
Activity continues improving. Investment is leading the recovery and consumption began to grow. Fiscal accounts are giving positive surprises and continue slowly improving.	The results of the General elections to be held the 22th of October. The 2018 Budget bill and the new law to reform to the capital market to be passed soon in the Congress.	Core inflation does not recedes and forced a further monetary tightening. Inflation target of 17% for Dec-17 won't be met. 2018 expectations, currently at 16%, above the target of 12%.

Politics

The first half of August was marked by the primary elections, which resulted in a clear victory of the official party "Cambiemos" at national level. In the Province of Buenos Aires, the final scrutiny threw Cristina Kirchner as the winner by a very small margin (34.27% vs. 34.06%), but polls indicate that Esteban Bullrich, the official candidate, is likely to win in the general elections of October. The business climate and the mood of investors has improved rapidly in response to the results of the primaries.

Economic Activity

The INDEC published the GDP figures of Q2-17 and confirmed the economy continues recovering. Indeed, GDP in Q2 grew 2.7% on a yearly basis and accumulates four quarters of consecutive growth according to official indicators (five counting Q3). The recovery is generalized and across sectors. Investments is leading the expansion, while good signs continue coming from consumption, consumer confidence and industrial production. We remain quite optimistic by expecting GDP to grow 3.2% this year and 3.8% in 2018. The consensus expects 2.8% this year and 3.0% in 2018.

Inflation

Monthly inflation stood at 1.4% in August according to the new National CPI, a good figure as it reached 1.7% in July, while core inflation also decelerated from 1.8% in July to 1.4% in August. So far this year, accumulated national inflation stands at 15.38%. Although average monthly inflation is already below 2015 levels, nobody expects the Central Bank is able to reach the official target of 17% by next December. We expect yearly inflation to locate around 22% at year end and around 17% in December 2018.

Monetary Sector

The market reacted favorably to primaries and the exchange rate appreciated from 17.80 to 16.98 ARS/USD, while the country risk reduced slowly from 460 to 384 bps. The Central Bank decided to hold the policy rate in 26.25%, as inflation is still above the disinflation path and core inflation is persistent, while it intervened in the secondary market to raise Lebacs yield and now the slope is slightly positive. By normalizing the curve, the Central Bank was able to extend maturities significantly in the last Lebacs auction. Interest rates are strongly positive relative to 12M expected inflation (17%).

Fiscal Front

Primary deficit in August fell again and significantly relative to year ago, as revenues grew in real terms due to economic recovery and expenditures fell significantly in real terms. We expect the primary deficit to reach 4.0% of GDP this year, below the target of 4.2%. The Government ratified its primary deficit target of 3.2% of GDP in the 2018 Budget bill sent to the Congress. The fiscal consolidation relative to 2017 comes mostly from a reduction of 1.0 p.p. in expenditures, mainly due to a drop in the subsidy bill of 0.6 p.p. and additional cuts in other expenses.

What´s coming next?

The Central Bank would maintain a tightening bias in its monetary policy, at least until October. Upcoming economic data is likely to continue giving positive surprises. We maintain our expectation of ARS 18.0 per dollar by December. General elections will be held on October 22th. Cambiemos has a strong chance of striking an important victory at national level and the Province of Buenos Aires, by winning the Province by three to five percentage points and getting around 40% of the votes at national level.

ARGENTINA: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(ARS/USD, eop.)*	17.28	17.37	17.67	15.26	15.85
Interest rate *(%)*	26.25%	26.25%	26.25%	26.75%	24.75%
National inflation *(y/y)*	-	1.4%	1.7%	1.6%	36.6%
Economic activity *(y/y)*	-	-	-	-3.4%	-2.2%
Industrial activity *(y/y)*	-	-	5.9%	-7.3%	-4.6%
Automotive production *(y/y)*	-	3.9%	1.2%	-19.6%	-10.2%

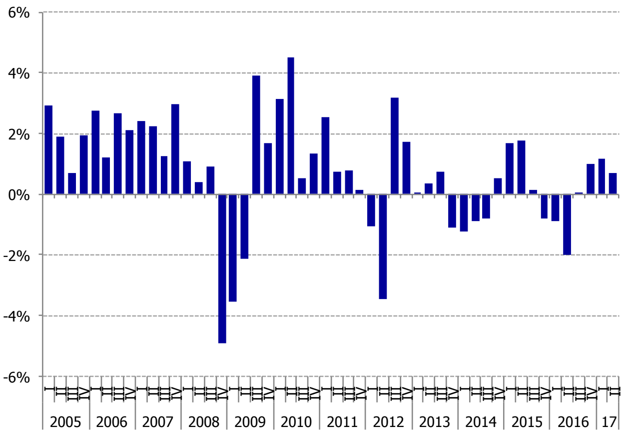
Source: EconViews based on several sources

Macroeconomic Outlook

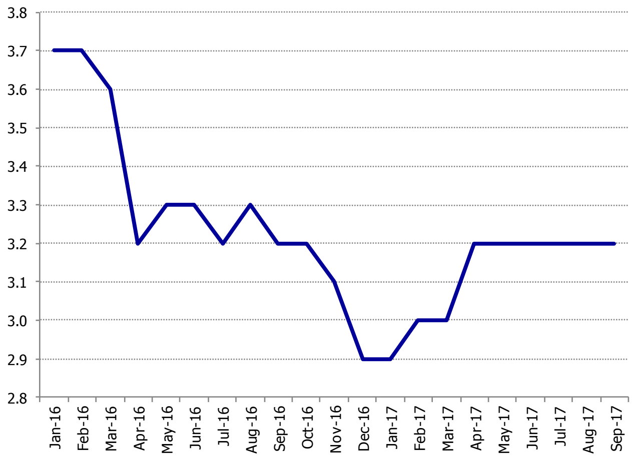
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	-2.5%	2.6%	-2.2%	3.2%	3.8%
National inflation *(Dec-Dec)*	36.7%	28.4%	36.6%	22.0%	17.0%
Fiscal Balance *(% GDP)*	-4.5%	-5.6%	-5.9%	-5.6%	-5.5%
Current Account *(% GDP)*	-1.4%	-2.5%	-2.8%	-3.6%	-3.7%
International reserves *(USD Bn)*	31.4	25.6	39.3	52.2	57.9
Exchange rate *(ARS/USD)*	8.55	13.01	15.85	18.00	20.53

Source: EconViews based on official figures and own estimates

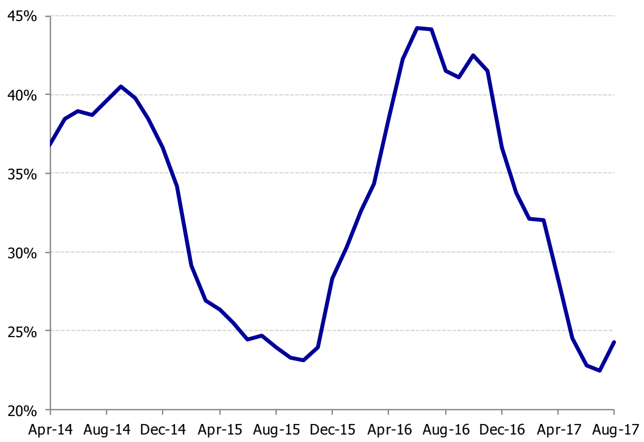
Real GDP
Q/Q variations- Seasonally adjusted data INDEC



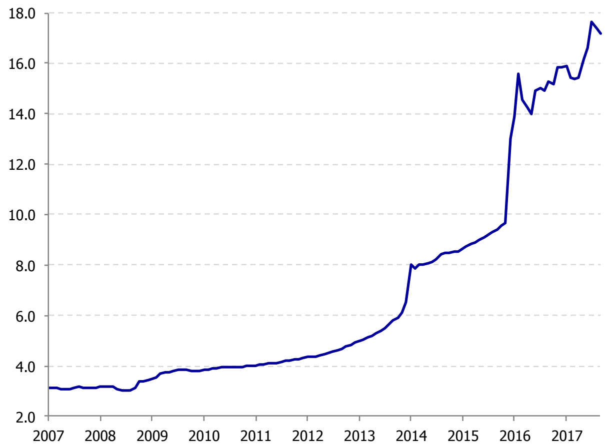
GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
The forecast for 2017 GDP growth was revised upwards, from 0.4% to 0.7%	The fiscal targets for 2017 and 2018 were worsened, delaying the reversal of the unsustainable path of public debt.	More than half of the deputies voted not to approve president Temer's corruption charges .

Politics

As Temer was charged with corruption, two-thirds of the lower house had to approve the charges before the Supreme Court could suspend the president for up to 180 days. However, more than half of the deputies voted not to approve the corruption charges. Moreover, two initiatives were approved by the lower house special commission on electoral rules regarding how candidates finance their campaigns and the rules determining who gets a seat in Brazil's proportional system.

Economic Activity

GDP expanded 0.2% q/q in 2Q, boosted by the 0.6% rise in services. On the contrary, the agricultural sector remained stagnant and the industry fell 0.5%. The slight recovery of economic activity is driving formal labor market improvement: more than 17 thousand new jobs were created in July. Moreover, the unemployment rate fell from 13.2% in March to 12.7% in July mainly due to strong gains in informal jobs. We expect GDP to grow around 0.7% this year and 2.3% in 2018.

Inflation

Inflation was 0.19% m/m in August and amounted to 1.62% so far this year. Moreover, y/y inflation decelerated from 2.71% in July to 2.46%, below the target (the lower tolerance band is at 3.0%). In particular, core inflation was 3.8% y/y, below the 4.1% rise of July. We expect inflation to stand at 3.2% in December and accelerated to 4.1% next year. The main risk factors for the inflation scenario are related to the domestic political uncertainty that has hindered progress in reforms.

Monetary Sector

The Brazilian Real stood around 3.12 BRL/USD during September and has appreciated 4% so far this year. We expect the Real to depreciate slightly in the next months and close 2017 at around 3.19 BRL/USD. The Selic was cut by 100bps in September, from 9.25% to 8.25%, its lowest level since July 2013. As long as economic conditions stay favorable and inflation remains at low levels, we expect the Selic to be cut by 75bps in October and by 50bps in December, to end the year at 7.0%.

Fiscal Front

The government decided to worsen the fiscal target for this year and the next one. For the central government, the new targets mean a primary deficit of 2.4% of GDP in 2017 and 2.2% in 2018, compared to a previous target of -2.2% and -1.8% of GDP, respectively. This deterioration adds some urgency to the approval of the pension reform, in order to meet the spending cap after 2019 and to help public debt to remain on a sustainable path. We expect a fiscal deficit of 8.3% of GDP this year.

What´s coming next?

- If the Congress approves the political reform bills by October 7 of this year, the new system could we implemented in 2018 elections. The bill needs to be approved by at least 308 of 513 deputies. After that, two-thirds of the Senate needs to approve the measures in two votes to change the Constitution.
-Rising political uncertainty has delayed progress in reforms and may cause additional impact on risk premiums and the exchange rate.

BRAZIL: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(BRL/USD, eop.)*	3.10	3.15	3.13	3.26	3.26
SELIC *(%)*	8.25%	9.25%	9.25%	14.25%	13.75%
Inflation *(y/y)*	-	2.5%	2.7%	8.5%	6.3%
Economic activity *(y/y)*	-	-	1.4%	-3.8%	-3.6%
Industrial activity *(y/y)*	-	-	2.5%	-3.9%	-6.4%
Automotive production *(y/y)*	-	-	11.8%	1.7%	-12.1%

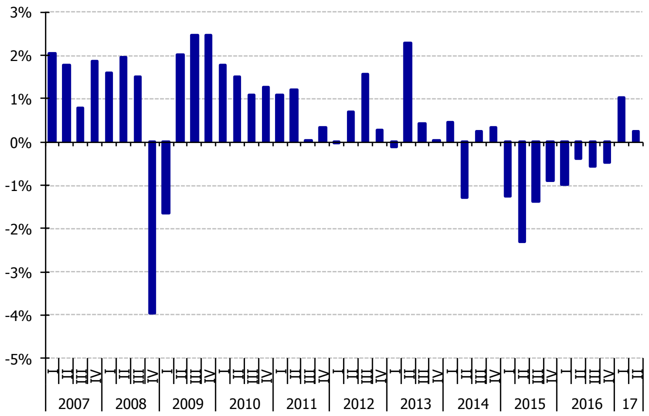
Source: EconViews based on several sources

Macroeconomic Outlook

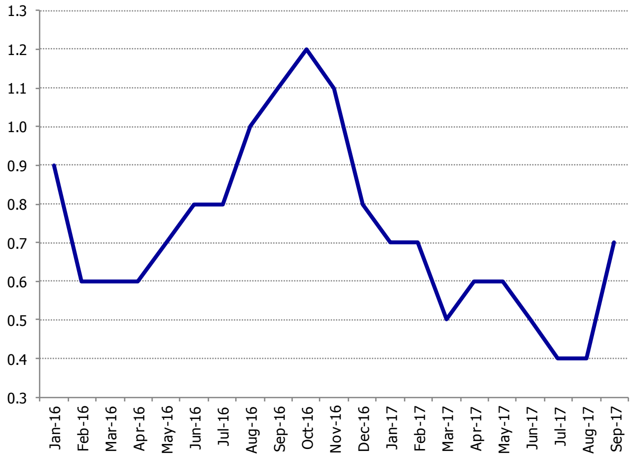
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	0.5%	-3.8%	-3.6%	0.7%	2.3%
Inflation *(Dec-Dec)*	6.4%	10.7%	6.3%	3.2%	4.1%
Fiscal Balance *(% GDP)*	-6.1%	-10.2%	-9.0%	-8.3%	-7.3%
Current Account *(% GDP)*	-4.2%	-3.3%	-1.3%	-1.3%	-1.7%
International reserves *(USD Bn)*	354.8	348.9	356.8	375.0	378.7
Exchange rate *(BRL/USD)*	2.66	3.96	3.26	3.19	3.35

Source: EconViews based on Consensus Forecast & IMF

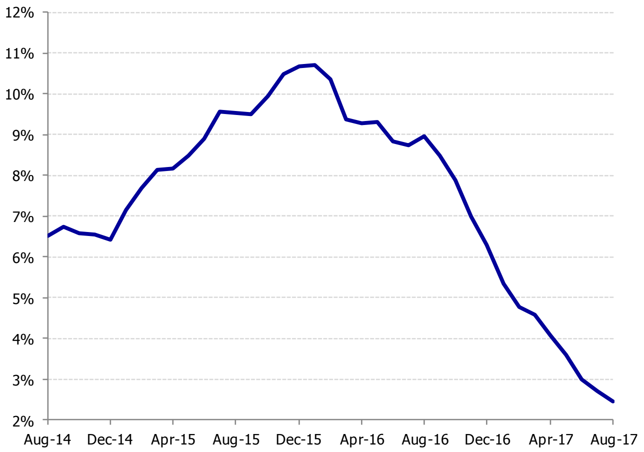
Real GDP
quarterly variations, in %



GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Brazilian Real / Dollar

CHILE

Good news	To be alert	Bad news
A signal of economic recovery: in Aug-17 car sales went up 44.0% y/y and reached 35,354 units, an all-time record for this month.	Unemployment is declining (6.9% in May-Jul/17) but self-workers show more dynamism than formal employees.	In Jul-17 construction fell 4.3% y/y and recorded the 11th consecutive reduction according to the Chilean Construction Chamber.

Politics

There are two months left until presidential elections. In Aug-17, Sebastián Piñera led voting intentions (center-right, 34%) while Alejandro Guillier (officialism, 16%) was followed closely by Beatriz Sanchez (center-right, 15%). Mr. Guillier said that in an eventual second-round would consolidate the opposition against Mr. Piñera.
The news is that the expected participation rate in the elections fell from 52% to 49%. Bachelet's approval rating (35%) reached the highest level since 2015.

Economic Activity

The recovery is taking longer than expected but in Jul-17, economic activity grew 0.9% m/m while it accelerated to 2.8% y/y. In Aug-17, consumer confidence (Adimark) reached its highest level in the last 2 years and a half, but is still pessimistic. The good news is that private consumption (durable goods) is gaining strength while public consumption is losing momentum due to fiscal consolidation. For 2017, GDP growth is expected to be 1.4%.

Inflation

After 2 months of being stable at 1.7%, inflation went up in Aug-17: it was 1.9% y/y. On a monthly basis, prices increased 0.2% m/m. This way, inflation was well below the target of 3.0% for the 11th consecutive month. Tradable goods prices remained stable (1.1% y/y) while non-tradable goods still show inflationary pressure and grew 3.1% y/y. Expectations for the short term decreased but are around the target for the next 2 years. For 2017 inflation is expected to be 2.2% and 2.8% in 2018.

Monetary Sector

The Chilean Peso is appreciating and reached its strongest level since 2015. The main driver is higher copper prices (+17% YTD). S&P recently downgraded China's sovereign debt, the main consumer of copper, as rising debt could stoke economic risks. Nowadays, the CLP stands close to 625 per Dollar.
The CB maintains the policy rate in 2.5% since Apr-17 but it is expected more easing ahead as economic activity needs stimulus.

Fiscal Front

Government revenues accumulated a growth of 4.2% in real terms up to July-17 as mining activity is more dynamic and copper prices are high. Public expenditure went up 5.1%, mainly driven by the payment of interests and subsidies while capital expenditure decreased 3.0% (investment fell 7.7%). In this scenario, fiscal deficit is expected to reach 2.9% of GDP this year and to narrow to 2.5% for 2018.

What´s coming next?

Public expenditure needs to converge to the 4.0% set for this year, so it is expected a reduction in the following months. However, it will be difficult as presidential elections are coming.
There are two clear external risks: milder growth in China could affect copper exports and the normalization of the monetary policy in the USA could have some impact on the Chilean Peso and on commodities.

CHILE: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(CLP/USD, eop.)*	623.30	625.70	649.99	657.70	670.30
Interest rate *(%)*	2.5%	2.5%	2.5%	3.5%	3.5%
Inflation *(y/y)*	-	1.9%	1.7%	3.1%	2.7%
Economic activity *(y/y)*	-	-	2.8%	1.4%	1.6%
Industrial activity *(y/y)*	-	-	2.6%	0.8%	-0.7%
Mining production *(y/y)*	-	-	4.7%	-2.3%	-3.5%

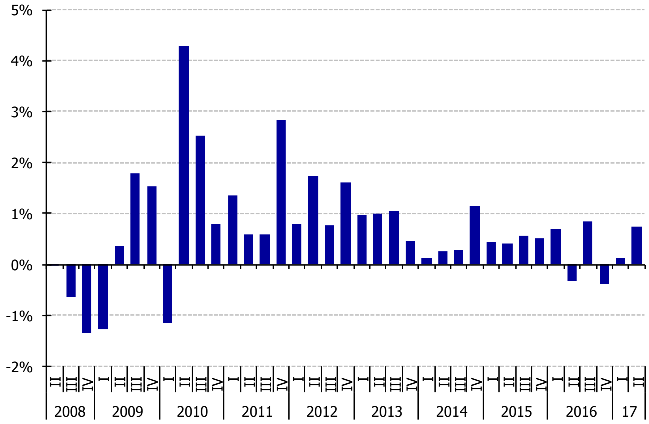
Source: EconViews based on several sources

Macroeconomic Outlook

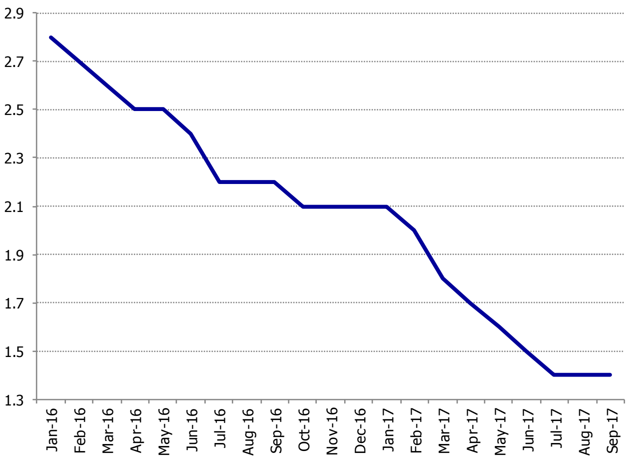
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	1.9%	2.3%	1.6%	1.4%	2.9%
Inflation *(Dec-Dec)*	4.6%	4.4%	2.7%	2.2%	2.8%
Fiscal Balance *(% GDP)*	-1.5%	-2.1%	-2.7%	-2.9%	-2.5%
Current Account *(% GDP)*	-1.7%	-1.9%	-1.4%	-1.4%	-1.7%
International reserves *(USD Bn)*	38.9	37.2	39.5	38.7	38.7
Exchange rate *(CLP/USD)*	607.4	709.4	670.3	675.0	690.0

Source: EconViews based on Consensus Forecast & IMF

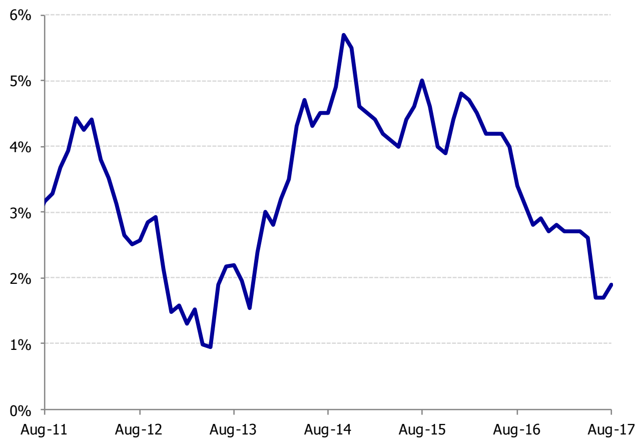
Real GDP
Q/Q variations



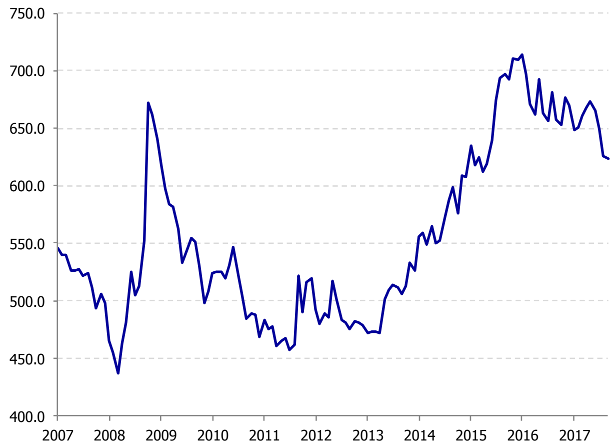
GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
GDP growth in Q2 was higher than expected and investment is no longer falling. Inflation continued lowering faster than expected and allows the Central Bank to ease monetary policy.	Colombia's credit rating outlook may be cut to negative, as macro fundamentals and growth perspectives deteriorated. The FARC began a complex transition to politics.	Economic activity still remains disappointing, with consumer and investor confidence in low levels. Private consumption contribution to GDP remains at historical low levels.

Politics

The Revolutionary Armed Forces of Colombia have a new name in its transition to became a political party. The group maintains the FARC acronym, but will be called the Alternative Communal Revolutionary Forces and adopt a rose as symbol. The Foreign Minister of Colombia said that a military intervention or economic sanctions cannot be the solution to the crisis in Venezuela. Political reform continue generating noise and a clash of powers between the Interior Minister and President of Congress.

Economic Activity

Activity had a modest recovery in 2Q17, and although it was higher than expected, it remains weak, as Colombia continues adjusting to lower oil prices. Consumption growth remains low but stable, due to a tight monetary policy. On a positive note, investment is no longer falling and increased for the first time since 2015. However, net exports remain as the main drag. Activity is likely to show some recovery in the second part of the year. We expect growth of 1.8% this year, rising to 2.6% next year.

Inflation

In July annual inflation eased to 3.4%, the lowest level in more than two years. This encouraged Central Bank member's to bet inflation may locate below the upper target of 4.0% at year end. The Central Bank, that has been dealing for more than two years with a weak economy by the global drop in oil prices and an inflation that in July 2016 reached almost 9%, may now have scope for further cuts in policy rates. The consensus still expects year end inflation at 4.1% and next year at 3.5%.

Monetary Sector

The peso remains weak due to low oil prices and worse fundamentals, as a slower speed of adjustment for external and fiscal imbalances. The consensus expects 3,130 pesos per dollar at the end of this year (from 3,080 previously). The Central Bank cut the policy rate in August by 25 bps, to 5.25%. As there are still some downside risks for economic activity, further monetary policy weakening is possible, which may weaken the Peso slightly further. Still the consensus expects at year end a policy rate of 5.25%.

Fiscal Front

The Government recently announced that expects a higher fiscal deficit for this year of 3.6% of GDP (relative to the previous target of 3.3%) and raised its deficit target for 2018 to 3.1% (from 2.7% before), despite the tax reform approved in the last year, due to a lower expected economic growth and higher expenditures. The Government still targets a structural fiscal deficit of 1.0% by 2022. The consensus expects a deficit of 3.6% of GDP this year and 3.3% the next year, slightly above the target of 3.1%.

What´s coming next?

Checklist of issues to monitor in the domestic front:

-The tensions with Venezuela and the transition of FARC to politics
-The behavior of economic activity, which still remains disappointing
-The recent deterioration on the current account deficit and FDI inflows
-The stance of the monetary policy and the evolution of fiscal accounts

COLOMBIA: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(COP/USD, eop.)*	2,923	2,956	2,986	2,884	3,003
Interest rate *(%)*	5.26%	5.52%	5.49%	7.75%	7.50%
Inflation *(y/y)*	-	3.9%	3.4%	7.3%	5.7%
Economic activity *(y/y)*	-	-	-	1.8%	2.0%
Industrial activity *(y/y)*	-	-	6.2%	4.4%	4.0%

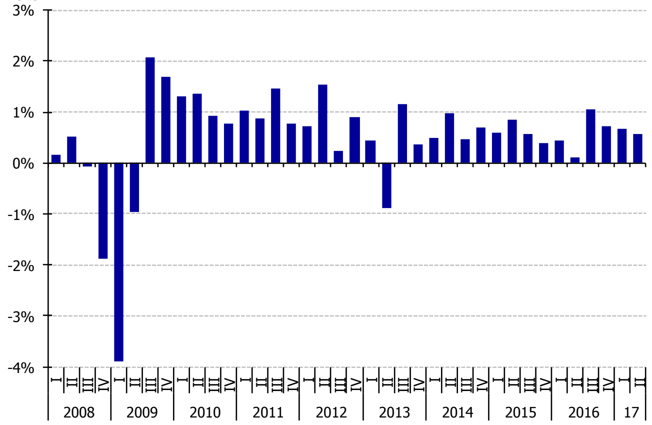
Source: EconViews based on several sources

Macroeconomic Outlook

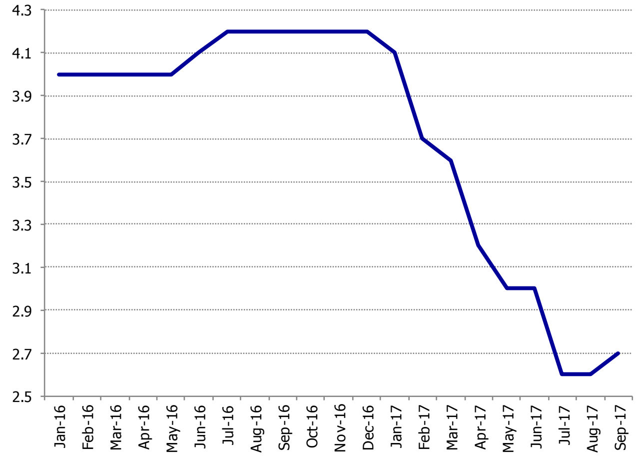
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	4.4%	3.1%	2.0%	1.8%	2.6%
Inflation *(Dec-Dec)*	3.7%	6.8%	5.7%	4.1%	3.5%
Fiscal Balance *(% GDP)*	-2.4%	-3.0%	-4.0%	-3.6%	-3.3%
Current Account *(% GDP)*	-5.1%	-6.4%	-4.4%	-3.6%	-3.3%
International reserves *(USD Bn)*	44.9	44.8	45.0	46.4	46.7
Exchange rate *(COP/USD)*	2,389	3,180	3,002	3,130	3,200

Source: EconViews based on Consensus Forecast & IMF

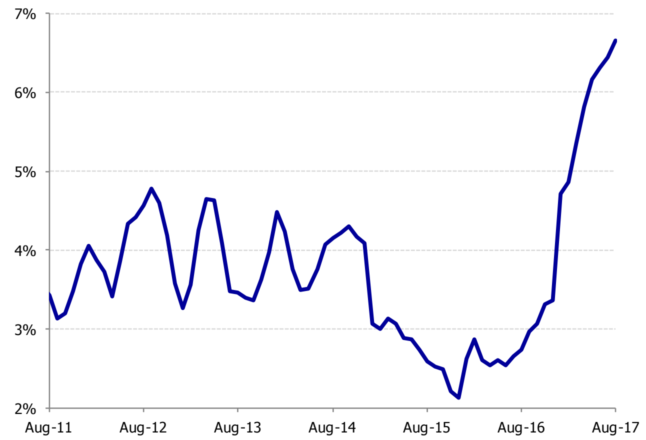
Real GDP
Q/Q variations - INEGI



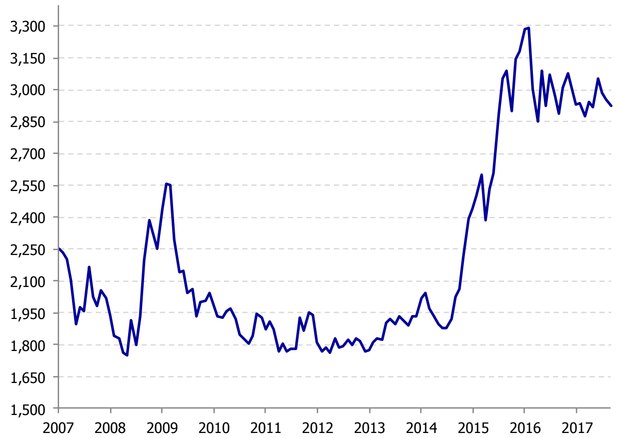
GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
Net debt of the public sector decreased to 44% of GDP and is expected to fall for the first time in 10 years.	Despite international headwinds, economic activity displayed a good performance during the first half of the year and GDP would grow at the same pace as in 2016.	Mexico's ruling party is in free fall; Peña Nieto's possitive image is only around 28%, less than half the share that supported him in 2011 (61%).

Politics

Andres Manuel Lopez Obrador, who leads the MORENA party, is the front-runner ahead of next year's presidential election, with the 23.3% of votes, ahead of the conservative National Action Party, which had 20% support. Peña Nieto's ruling Institutional Revolutionary Party (PRI) was in 3rd place, with 16.5% of votes. In this scenario, the National Action Party and the Democratic Revolution Party have recently struck an alliance to run a joint candidate in the 2018 presidential race.

Economic Activity

Economic activity grew 0.6% q/q and 2.9% y/y in 2Q17 (seasonally adjusted series), accelerating regarding the 2.6% y/y growth of 1Q17. The service sector remained robust and expanded 3.3% q/q (from 3.9% in 1Q17), while the monthly proxy for private consumption posted nil q/q annualized growth in May. Moreover, industrial activity grew scarcely 0.1% q/q in 2Q17, below the 0.6% rise of 1Q17. We expect GDP to moderate its growth to 2.2% this year, in line with forecasts for 2018.

Inflation

Headline inflation was 0.49% m/m in August, largely due to the rise in agricultural prices, which climbed 2.06%. Annual inflation accelerated for the twelfth consecutive month, from 6.44% in July to 6.66% in August. However, we expect y/y to decelerate during the next months, and close the year at around 6.3%. Next year, headline inflation is likely to moderate strongly and stand at around 3.8% in December.

Monetary Sector

The Mexican Peso continues strengthening and now stands at around 17.7 MXN per USD. Thus, it has already appreciated 15% so far this year. We expect it to depreciate slightly in the 4Q17 and to stand at around 18.10 MXN per USD at the end of 2017. The Central Bank of Mexico left the monetary policy rate unchanged in August after eighteen consecutive months of rises (400 bps in total). We expect the reference rate to be maintained at 7.0% during the next months.

Fiscal Front

The fiscal accounts improved further in July, even if the Central Bank dividends are excluded. Without considering those dividends (1.5% of GDP), the 12-month rolling primary balance reached 0.2% of GDP, while the nominal fiscal deficit narrowed to 2.1% of GDP. Revenues are growing, mainly due to the good performance of oil revenues, while expenditures are contracting. The public debt to GDP ratio continued decreasing and is expected to decrease for the first time in ten years.

What´s coming next?

-Protectionism in the United States is still a threat, although it has reduced compared to the beginning of the year.
-The spike of inflation and the tighter fiscal and monetary policies so far this year, could have an additional impact on economic growth.
- The big question regarding 2018 presidential elections is if the PAN-PRD alliance would gain enough support in order to take the first place in coming polls.

MEXICO: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(MXN/USD, eop.)*	17.67	17.89	17.81	19.40	20.74
Interest rate *(%)*	7.00%	7.00%	7.00%	4.75%	5.75%
Inflation *(y/y)*	-	6.7%	6.4%	3.0%	3.4%
Economic activity *(y/y)*	-	-	-	1.9%	2.3%
Industrial activity *(y/y)*	-	-	-1.6%	-1.4%	0.0%
Automotive production *(y/y)*	-	-	1.1%	1.9%	0.8%

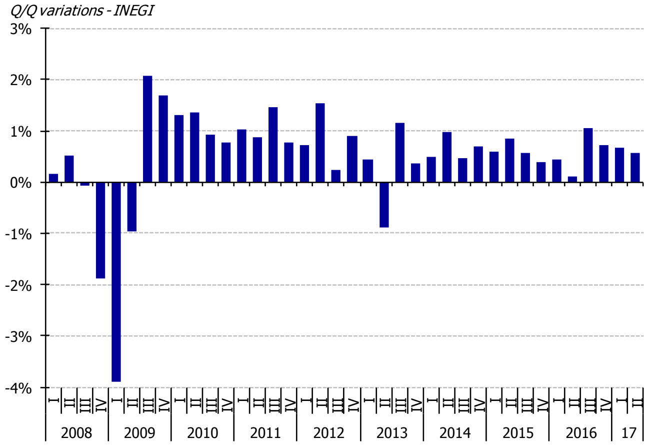
Source: EconViews based on several sources

Macroeconomic Outlook

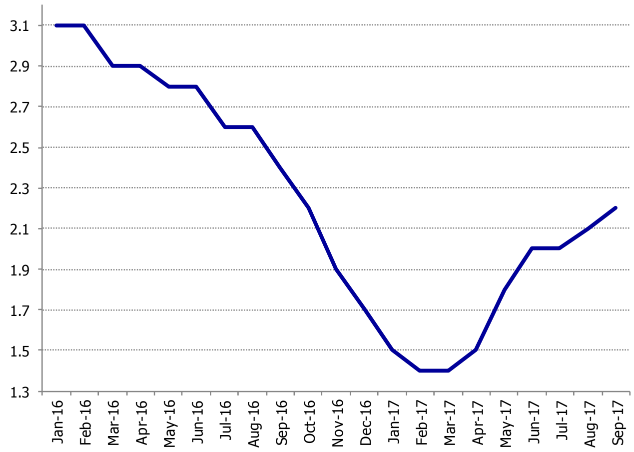
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	2.3%	2.6%	2.3%	2.2%	2.2%
Inflation *(Dec-Dec)*	4.1%	2.1%	3.4%	6.3%	3.8%
Fiscal Balance *(% GDP)*	-3.1%	-3.5%	-2.6%	-1.9%	-2.3%
Current Account *(% GDP)*	-2.0%	-2.9%	-2.7%	-2.5%	-2.7%
International reserves *(USD Bn)*	185.2	168.4	168.7	175.1	176.4
Exchange rate *(MXN/USD)*	14.75	17.19	20.74	18.10	18.30

Source: EconViews based on Consensus Forecast & IMF

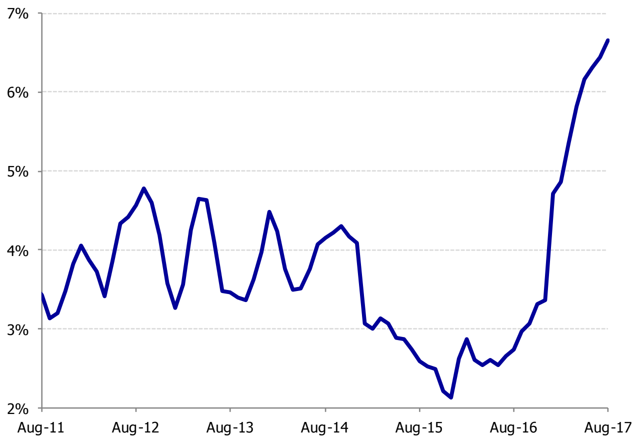
Real GDP
Q/Q variations - INEGI



GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Mexican Peso / Dollar

PARAGUAY

Good news	To be alert	Bad news
The virtuous cycle of long term GDP growth, low inflation and robust fiscal performance keeps on gaining momentum	The US approach to fiscal policy may affect the US monetary policy, global interest rates and commodities prices. The domestic political cycle is worth monitoring	Weather conditions in Q2 have sliced GDP growth from 6.7% yoy the previous quarter to 0.9%. Side effects in cattle production and construction should be expected.

Politics

On August 22, the TSJE (Tribunal Superior de Justicia Electoral, the highest electoral authority in-country) has formally announced that the general elections will be held on April 22, 2018 while the internal simultaneous elections in which each party or alliance will definite its candidates will take place on December 17, 2017. The incumbent Partido Colorado is yet divided on how to define the successor to President Cartés while the opposition is trying to establish an accord.

Economic Activity

Activity slowed in Q2 as GDP expanded 0.9% yoy following a 6.7% yoy increase in Q1. Heavy rains affected construction and cattle related activities while agriculture, services and manufacturing were the top contributors to growth in Q2. On the demand side, consumption is advancing 4.1% yoy, investment is up 5% yoy and net exports retreated 2.8%. Albeit the slowdown, the BCP is sticking to its 2017 GDP growth estimate of 4.2% compared with the 3.8% from our own projections.

Inflation

As of August, headline consumer prices rose by 0.3% on a monthly basis and remained at 4.0% y/y variance. Food prices have pressured the reading marginally above expectations. Core inflation was at 0.2% and 3.1% mom and yoy respectively. CPI expectations according to the Central Bank are strongly anchored at 4.0% for 2017 and 2018, in line with BCP target (4% +-2%). We are keeping our 2017 inflation forecast at 4.0%.

Monetary Sector

By late September the PYG traded at 5.680 to the dollar, strengthening nearly 1% during 2017 in nominal terms versus the USD. In its August meeting, the Central Bank decided to cut the policy rate by 25 bps to 5.25%. In the press release, the monetary authority stated that both actual and expected inflation are evolving according to the plan but that there were some indications of a slower short term GDP growth. We forecast the policy rate to remain at 5.25% by yearend.

Fiscal Front

As of August, the cumulative 12 month deficit at the national treasury reached 1.4% of GDP. The country can proudly show the lowest reading among neighboring countries and is consistent with the fulfillment of the Fiscal Responsibility Law. Total revenues (including royalties from Itaipu) are increasing at 8.3% y/y rates while primary expenditures are growing 6.3% on an YTD basis as an increase in capital expenditures is mitigated by salaries containment (now 66% of expenditures as compared to 82% by 2013). 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 speed and magnitude of the Brazilian GDP rebound might be a kicker
-Short term impact of the activity slowdown in Q2 due to weather conditions
-The road to the 2018 Presidential elections, including the internal elections
-US interest rates and its impact into commodities prices

PARAGUAY: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(PYG/USD, eop.)*	5,649	5,662	5,564	5,589	5,866
Interest rate *(%)*	5.25%	5.25%	5.50%	5.50%	5.25%
Inflation *(y/y)*	-	4.0%	4.0%	3.5%	3.9%
Economic activity *(y/y)*	-	-	3.4%	6.5%	4.0%

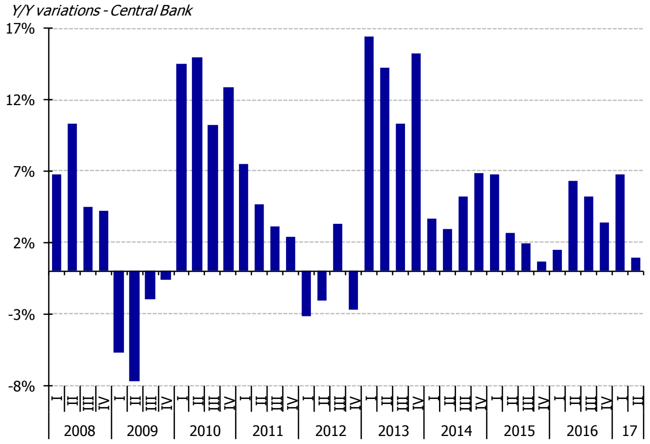
Source: EconViews based on several sources

Macroeconomic Outlook

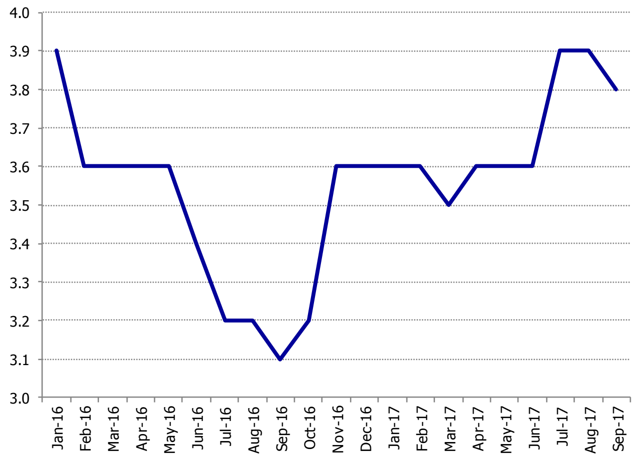
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	4.7%	3.0%	4.0%	3.8%	3.8%
Inflation *(Dec-Dec)*	4.2%	3.1%	3.9%	4.0%	3.9%
Fiscal Balance *(% GDP)*	-0.7%	-1.3%	-1.0%	-1.2%	-1.1%
Current Account *(% GDP)*	-0.4%	-1.1%	0.6%	-1.4%	-0.5%
International reserves *(USD Bn)*	6.9	6.2	7.1	n.a.	n.a.
Exchange rate *(PYG/USD)*	4,642.2	5,813.9	5,866.0	5,720.0	5,940.0

Source: EconViews based on Consensus Forecast & IMF

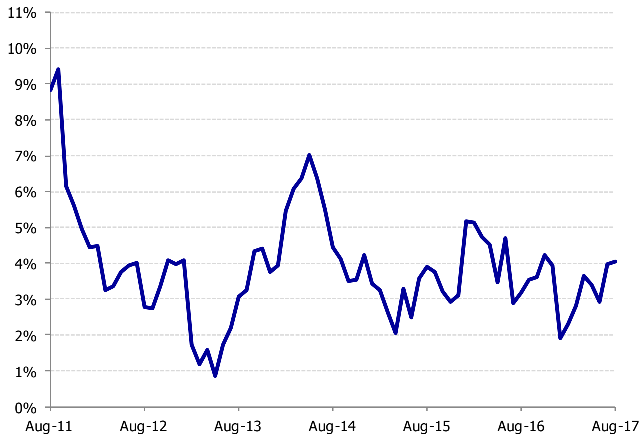
Real GDP
Y/Y variations - Central Bank



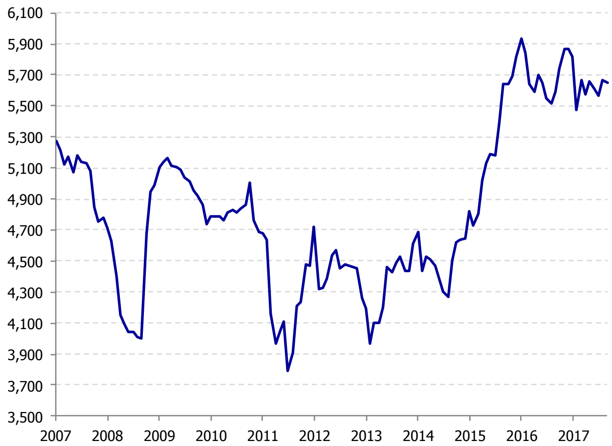
GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
As metal prices are improving, investment in the mining sector is growing: it was 1.5% up to Jul-17, the first positive result in 3 years.	After a rapid recovery, economic activity lost momentum in Jul-17 and decelerated to 1.6% y/y.	Political crisis: PPK's Cabinet was forced to resign after losing vote of confidence in the Parliament.

Politics

The Parliament led by the fujimorista party Fuerza Popular forced the resignation of Fernando Zavala (Chief of Cabinet) and all of the team. Zavala wanted to obtain a confidence vote from the Parliament but the results were against him (77% of disapproval). A prolonged strike by the teachers union was the main driver.
In Sep-17 disapproval of president Kuczynski reached a maximum of 72% according to a survey made by Ipsos.

Economic Activity

In the 2Q-17, GDP grew 2.4% y/y (2.1% in the 1Q-17), driven by exports (11.7% y/y). Private consumption went up 2.0%, decelerating from the previous quarters. The fiscal stimulus finally showed up: Public consumption went up 2.1% y/y, after two quarters of contractions. Advanced data for Jul-17 showed that economic activity slowdown and grew 1.6% y/y.
Peru's GDP forecast was revised up for 2017 and 2018: 2.7% and 3.8% respectively.

Inflation

Inflation went up to 3.2% y/y in Aug-17, above the Central Bank's upper limit of 3.0%. The driver was a change in water utility rate and a temporary increase in food prices (in particular, lemon). 12-month expectations continue to reduce and were 2.7%.
For 2017, inflation was revised up to 2.7%, under the upper band.

Monetary Sector

The Peruvian Nuevo Sol is strong and stable. So far this year, it accumulated an appreciation of 3.3% so far this year. Currently, PEN stands near 3.25 per Dollar.
In Sep-17, the CB lowered its policy rate 25 bps to 3.50% as the economy is growing below its potential, inflation expectations are near the target range and global economy is recovering (but with more uncertainty related to monetary policy tightening in advanced economies).

Fiscal Front

Fiscal deficit was 2.9% of GDP up to Aug-17, the highest record since Nov-17. Among public expenditure, investment is accelerating its pace of growth, as it was expected after "El Niño". Revenues are underperforming as a result of previous weak economic activity.
For 2017, fiscal deficit is expected to stand around 3.0% of GDP and to deteriorate to 3.2% for 2018.

What´s coming next?

The fiscal stimulus is here to stay, so it is expected a widening in the deficit. However, it will not exceed the limit of 3.5% set for 2018. The main driver of this performance will be investment, that needs to be boosted.
As other Latam economies, Peru could be affected by external uncertainty coming from the US monetary tightening, as exports are the most dynamic component of GDP.

PERU: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(PEN/USD, eop.)*	3.23	3.25	3.24	3.38	3.36
Interest rate *(%)*	3.50	3.75	3.75	4.25	4.25
Inflation *(y/y)*	-	3.2%	2.9%	3.1%	3.2%
Economic activity *(y/y)*	-	-	1.6%	4.3%	3.9%
Manufacturing activity *(y/y)*	-	-	-6.3%	2.7%	-1.4%
Mining production *(y/y)*	-	-	1.8%	14.5%	16.3%

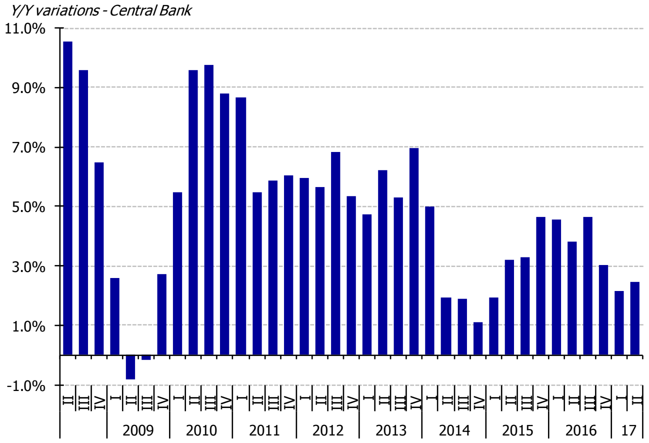
Source: EconViews based on several sources

Macroeconomic Outlook

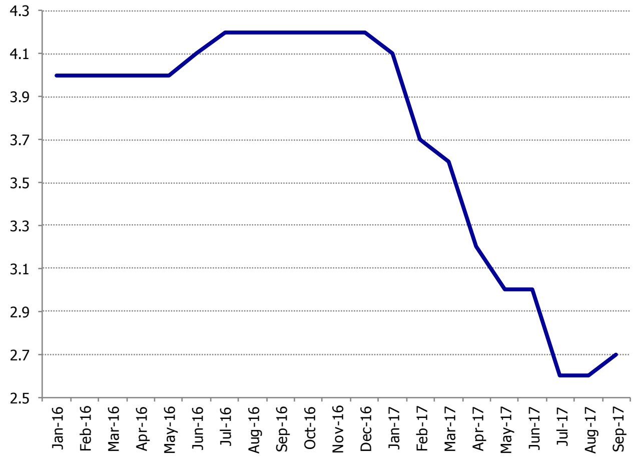
	2014	2015	2016	2017F	2018E
GDP growth *(%)*	2.4%	3.3%	3.9%	2.7%	3.8%
Inflation *(Dec-Dec)*	3.2%	4.4%	3.2%	2.7%	2.7%
Fiscal Balance *(% GDP)*	-0.3%	-2.1%	-2.6%	-3.0%	-3.2%
Current Account *(% GDP)*	-4.4%	-4.9%	-2.8%	-1.9%	-2.0%
International reserves *(USD Bn)*	60.1	59.4	59.8	63.6	65.7
Exchange rate *(PEN/USD)*	3.00	3.42	3.36	3.30	3.40

Source: EconViews based on Consensus Forecast & IMF

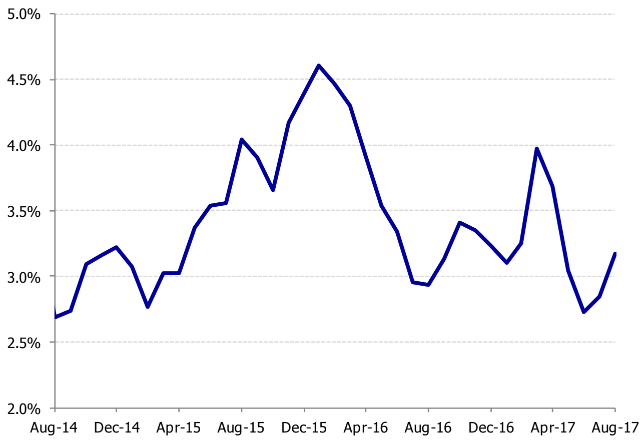
Real GDP
Y/Y variations - Central Bank



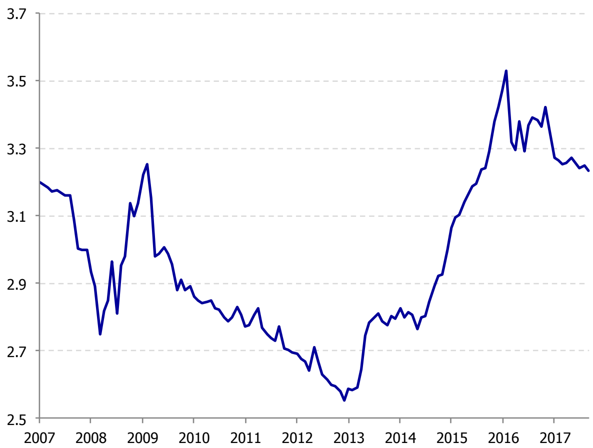
GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
GDP growth momentum remains in place albeit a technical stoppage at La Reja refinery. Real wages keep on recovering as inflation bottoms out.	The external front is improving, especially in Europe and Brazil, but the dependency of Latam countries on the US policy cycle cannot be underestimated	The fiscal consolidation target for 2017 calls for a 1% reduction of the deficit, which we see difficult to achieve. The political scandal behind the Vice President resignation should be monitored

Politics

On September 9 Vice President Raúl Sendic resigned to his post after a political scandal followed the revelation by the press of corporate credit expenses he made for personal use in breach of government policies. On September 21, the JUTEP (Transparency and Public Ethic Committee) reported that Sendic violated the current norms that specify the utilization of public funds. The scandal may affect the Frente Amplio, which is the incumbent alliance.

Economic Activity

GDP growth in Q2 printed a yoy variance of 2.8%. Although most activities showed positive performance, manufacturing (-6.4%, affected by the stoppage of La Reja refinery) and construction (-5.5%, dragged down by a downsize in infrastructure expense) were the underperformers. On the demand side, private consumption grew 3.7% yoy fueled by a 4% recovery in real wages. Lower inflation combined with sustained hikes in nominal salaries is compensating a decline in investment (-15.9% yoy), but unemployment remains at 7.8%. Our GDP estimate is 3.0% for 2017

Inflation

Inflation speeded up in August to print a monthly variance of 0.8% and implying an annual increase of 5.5%. Food, medical services and education were the drivers of the CPI rebound but inflation still remains slightly above center of the BCU 3-7% target range. Our full 2017 inflation forecast lies in the 6.4% area. We expect a subtle acceleration in inflation for 2018 in tandem with a weaker Peso and a stronger economic activity pulled from neighboring countries.

Monetary Sector

In a context of stronger Latam currencies, the UYU has gained nearly 1.5% against the US dollar this year despites the cumulative intervention efforts from the BCU that amounted to USD 2.5 billion year to date. The UYU weakened slightly in August and September to the 28.75 UYU/USD area. The BCU monetary policy remains tight with an 11-13% M1 growth target for the period July-September (the 2016 base figures were abnormally low). The next COPOM meeting will take place in early October. We forecast the UYU to trade nearly at 29.30 by year end.

Fiscal Front

The fiscal deficit remains stable but at high levels as July figures resulted in a 3.6% total fiscal deficit to GDP ratio. Primary deficit figures remained barely unchanged as revenues came in with a 7.2% yoy growth compared to a 8.6% yoy increase in expenditures. The fiscal consolidation plan for this year calls for a 1% reduction in the fiscal deficit to target 3% of GDP. We foresee a fiscal deficit of 3.4% by yearend. This is a key issue as the credit rating perspective might be affected.

What´s coming next?

The items at the top of the agenda:

- Positive news from the construction of a pulp plant by UPM can be reinforced by a PPP financed project to build railroad to support logistics
- GDP improvement with continued disinflation should continue to ease pressure on the fiscal deficit.
- US monetary policy should also be closely monitored

URUGUAY: APPENDIX

Dashboard

	Sep-17	Aug-17	Jul-17	Sep-16	2016
Exchange rate *(UYU/USD, eop.)*	28.80	28.84	28.34	28.52	29.35
Interest rate *(%)*	8.04%	7.99%	8.15%	12.00%	11.50%
Inflation *(y/y)*	-	5.5%	5.2%	8.9%	8.1%
Economic activity *(y/y)*	-	-	-	2.0%	1.5%
Manufacturing activity *(y/y)*	-	-	-18.3%	6.0%	0.3%

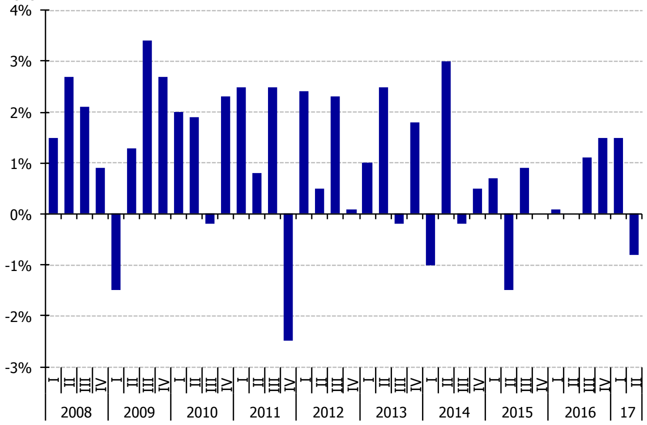
Source: EconViews based on several sources

Macroeconomic Outlook

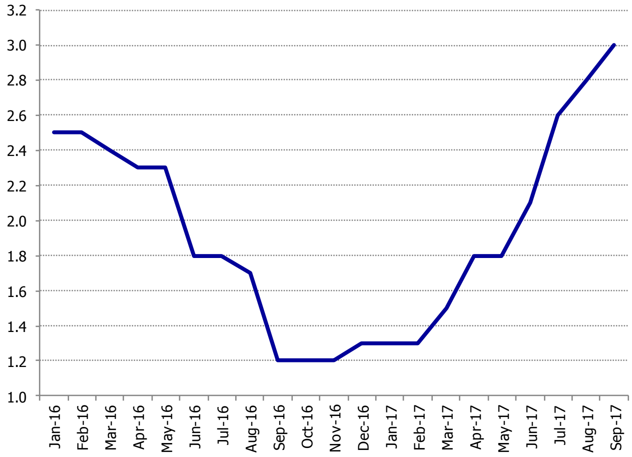
	2014	2015	2016	2017F	2018F
GDP growth *(%)*	3.2%	0.4%	1.5%	3.0%	2.8%
Inflation *(Dec-Dec)*	8.3%	9.4%	8.1%	6.4%	6.9%
Fiscal Balance *(% GDP)*	-3.5%	-3.6%	-3.9%	-3.4%	-2.8%
Current Account *(% GDP)*	-4.5%	-2.1%	-1.0%	-1.5%	-1.6%
International reserves *(USD Bn)*	17.8	15.6	13.4	n.a.	n.a.
Exchange rate *(UYU/USD)*	24.42	29.94	29.35	29.30	31.60

Source: EconViews based on Consensus Forecast & IMF

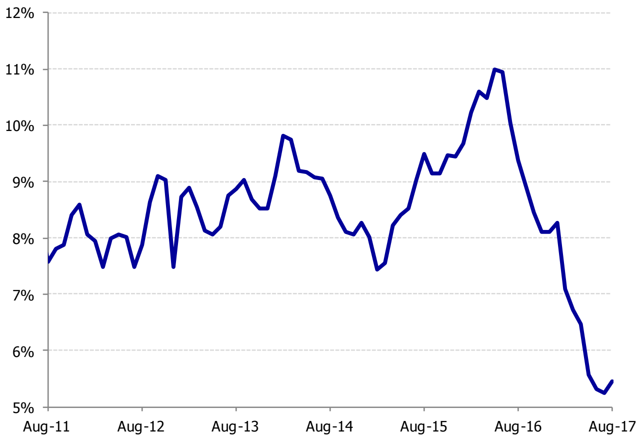
Real GDP
Q/Q variations - Central Bank



GDP growth - rolling forecasts for 2017
In %



Inflation - General CPI
Annual changes



Uruguayan Peso / Dollar