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LATAM 7 + Argentina

Macro Brief

September, 2018

- ✓ **Argentina:** The currency crisis continued in August
- ✓ **Brazil:** Waiting for the elections with a climate of uncertainty
- ✓ **Chile:** A path to debt reduction is needed
- ✓ **Colombia:** The economy continues recovering
- ✓ **Mexico:** The NAFTA deal is closer
- ✓ **Paraguay:** A new government was sworn in
- ✓ **Peru:** Economic growth is helping fiscal consolidation
- ✓ **Uruguay:** Tourism and exports will suffer from the Argie side

ARGENTINA

Good news	To be alert	Bad news
In September financial conditions began to improve and FX to stabilize. The country risk lowered to around 600 bps from almost 800 in early September, while the peso appreciated.	The negotiations on the Congress to approve the 2019 Budget. The political situation around Cristina and the social unrest due to higher inflation. The new program with the IMF.	GDP contracted 4% QoQ in Q2 and is likely to continue falling in Q3 and Q4. In 2018 GDP would fall 2.5%, while inflation accelerate to 43% at year end. Next year GDP would remain stagnant.

Politics

Macri announced negotiations to improve the IMF program, but there were no details and the IMF remained silent. This created confusion in the market followed by rumors of possible changes in cabinet. This weakened Macri's image, already in lows by the currency crisis, and raised questions about his chances for re-election in 2019. Central Bank President Luis Caputo resigned, and was replaced by Guido Sandleris. Cristina Kirchner was accused of corruption and her future depends on Peronists senators.

Economic Activity

The adverse effects that the drought had on the agricultural sector and GDP are still going on. Monthly GDP recorded a 1.4% monthly increase due to a statistical rebound of the agricultural sector in July, standing 2.7% below year ago. The 2Q-18 ended with a 4.0% q/q fall. In the first semester activity fell 0.5% relative to year ago. We expect quarterly falls in the third and fourth quarters due to the effects of the currency crisis, and an economic rebound beginning early next year. GDP would fall 2.5% this year and 0.5% next year, as the carry over effect will be negative by 3.5 percentage points.

Inflation

In August inflation reached 3.9% and exhibited the highest monthly increase of the year. Core inflation accelerated to 4.1%. So far this year headline inflation amounted to 24.3%. Still, in September inflation is expected to round 6%, due to the significant devaluation of August. Government is likely to moderate the hikes in regulated prices this year, while in 2019 they are expected to grow in line with inflation. We increased our expectation for annual inflation at year end to 43%, and to 28% for late 2019.

Monetary Sector

Another run on the currency took the dollar from 28 to 38 pesos in August, followed by new increases in the country risk. As a response, the CB deepened its contractive monetary policy through a strong rise in the policy rate, which reached 60% by the end of August. It also carried out three rises of bank reserve requirements. Additionally, the CB started to reduce the stock of Lebac's, while Leliqs grew as they are now the main sterilization instrument. In September finally the good news arrived, as the peso appreciated, while the country risk lowered and stock prices continued recovering.

Fiscal Front

The new run on the currency that took the dollar from 28 to 38 pesos in August laid the ground for a faster fiscal consolidation. The Government announced for 2019 a primary deficit target of zero and the re-introduction of export taxes. The new fiscal target implies a fiscal effort of 2.6 p. points of GDP in the following 15 months. This reduction will be achieved through an increase in fiscal resources of 1.3 points of GDP, mostly on new export taxes, and an equal reduction in expenditures, supported by a cut in real terms of 50% in public works and 20% in economic subsidies.

What's coming next?

The Government negotiated a new program with the IMF, which includes a bigger amount of upfront funding which reduces to zero the rollover risk in 2018-19. Still, the economy will be affected by the recent run on the currency. Inflation will accelerate and recession will deepen. GDP would fall 2.5% this year and 0.5% in 2019. As consumption and investment will lag behind, the external sector will be the key to recovery. In the following months, probably there will be more social unrest and more discussions and reopening of negotiations with many unions.

ARGENTINA: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (ARS/USD, eop.)	37.00	27.45	28.99	17.37	18.77
Interest rate (%)	60.00%	40.00%	40.00%	26.25%	28.75%
National inflation (y/y)	34.4%	31.2%	29.5%	-	24.8%
Economic activity (y/y)	-	-2.7%	-6.8%	3.7%	2.9%
Industrial activity (y/y)	-	-5.7%	-8.1%	5.1%	1.8%
Automotive production (y/y)	9.0%	8.6%	-13.4%	3.9%	0.1%

Source: EconViews based on several sources

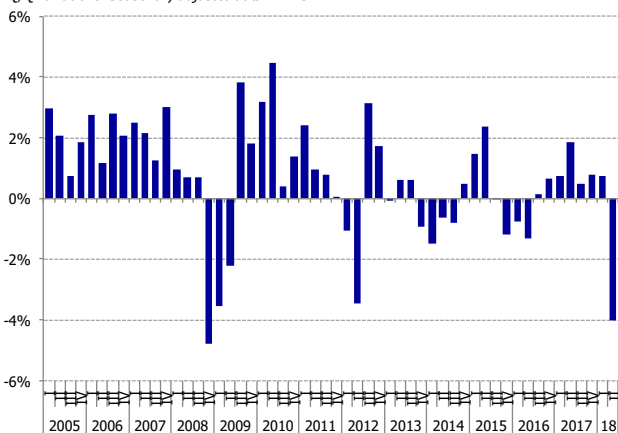
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	2.7%	-1.8%	2.9%	-2.5%	-0.5%
National inflation (Dec-Dec)	28.4%	36.6%	24.8%	43.0%	28.0%
Fiscal Balance (% GDP)	-5.5%	-5.8%	-6.0%	-5.9%	-3.5%
Current Account (% GDP)	-2.6%	-2.6%	-4.9%	-4.6%	-1.6%
International reserves (USD Bn)	25.6	39.3	55.1	54.5	63.1
Exchange rate (ARS/USD)	13.0	15.9	18.8	42.0	50.4

Source: EconViews based on official figures and own estimates

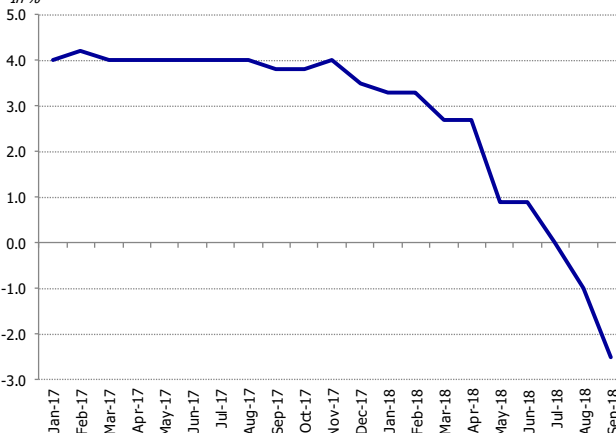
Real GDP

Q/Q variations- Seasonally adjusted data INDEC



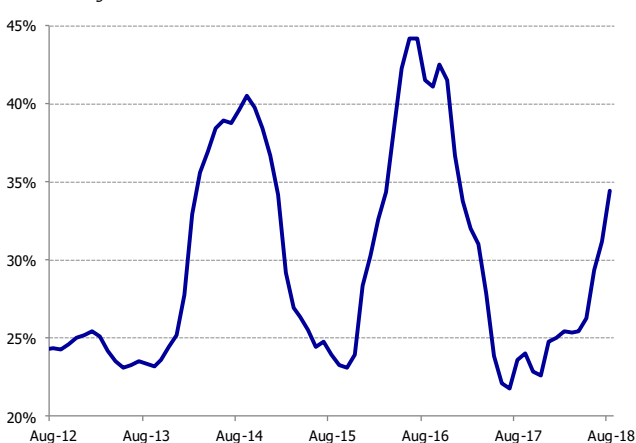
GDP growth - rolling forecasts for 2018

In %

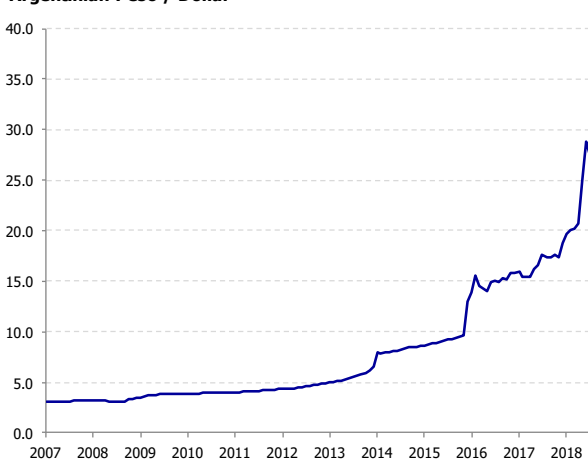


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Despite the poor performance of economic activity, the government will likely meet its primary deficit target of 2.2% of GDP in 2018.	GDP continued decelerating in the 2Q18 but still remains 1.0% above the record from a year ago.	Core retail sales fell 1.0% in July and displayed their first y/y contraction in 16 months.

Politics

Jair Bolsonaro, the far-right frontrunner in next month's Brazilian presidential election, was stabbed while campaigning. Although he was in a serious condition after injuries to his abdomen, he is now out of danger. The outcome of the election remained wide open. Even after the stabbing, Bolsonaro's support increased only 2 pp, to 24%. Marina Silva was the only main candidate who lost support: she is now at 11%. Haddad's support jumped to 9% and Ciro Gomes' is up to 13%. Despite his lead, Bolsonaro does not win in any of the second-round simulations.

Economic Activity

GDP grew only 0.2% q/q in the 2Q18, confirming the deceleration in activity since the end of 2017. In y/y terms, GDP growth decelerated from 2.1% in 4Q17, to 1.2% in 1Q18 and 1.0% in 2Q18, reflecting the impact of tighter financial conditions and the truckers' stoppages. According to the first published figures for the 3Q18, industrial production dropped 0.2% m/m in July, but grew 4.0% y/y. Additionally, core retail sales fell 0.5% m/m and 1.0% y/y, displaying their first y/y contraction in 16 months. In this scenario, we expect GDP to grow 1.4% this year and 2.5% in 2019.

Inflation

The IPCA showed a negative monthly variation in August (-0.09%), while it decelerated from 4.48% in July to 4.19% in y/y terms. So far this year, inflation went up 2.85%. Regarding core inflation, it raised 0.31% m/m and stood 3.6% above the record from a year ago. We anticipate inflation to record a 4.2% y/y rise in December, while for 2019 we expect it to remain at 4.2%. Thus, inflation is likely to remain below the target (4.5%), as it will continue to be positively affected by the lower inertia from past inflation and anchored inflation expectations.

Monetary Sector

Due to local uncertainty regarding reforms and coming elections, and extra pressure from emerging markets, the Brazilian Real exceeded BRL 4.00 per USD in August. It accumulates a 22.4% rise so far this year and currently stands between BRL 4.05 and BRL 4.15 per USD. On the other hand, the SELIC reference rate remains at 6.5%, as the recent pressures on the exchange rate had no significant secondary effects on inflation. We expect the exchange rate to stand at around BRL 3.85 per USD in December. Moreover, the SELIC is likely to close the year at its current level.

Fiscal Front

Despite the negative impact of the poor performance of economic activity and the measures taken to end the truckers' stoppage, the government will likely meet its primary deficit target of 2.2% of GDP in 2018. Thus, we expect it to reach a primary deficit of 2.1% of GDP, while the total fiscal deficit (including interest payments) is likely to stand around 7.3% of GDP. Next year, we expect the new administration to meet the cap for public spending growth and the primary deficit target of 1.8% of GDP, while fiscal deficit is expected to moderate to 6.6% of GDP.

What's coming next?

- Tightening financial conditions, particularly rising interest rates and falling stocks, and uncertainties regarding reforms, add downside risk to growth estimates for 2018.
- Reforms, specially the pension one, are indispensable to avoid fiscal results to return to a deteriorating trend. If the spending cap is not met, gradual convergence to primary surpluses that are compatible with public debt stabilization are likely to be halted.

BRAZIL: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (BRL/USD, eop.)	4.06	3.76	3.88	3.15	3.31
SELIC (%)	6.50%	6.50%	6.50%	9.25%	7.00%
Inflation (y/y)	4.2%	4.5%	4.4%	2.5%	2.9%
Economic activity (y/y)	-	2.6%	1.9%	1.4%	1.0%
Industrial activity (y/y)	-	4.0%	3.3%	4.0%	2.5%
Automotive production (y/y)	-	21.0%	26.8%	28.9%	17.4%

Source: EconViews based on several sources

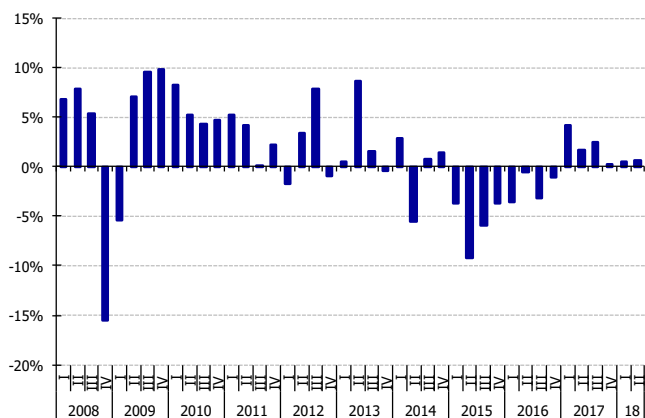
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	-3.5%	-3.5%	1.0%	1.4%	2.5%
Inflation (Dec-Dec)	10.7%	6.3%	2.9%	4.2%	4.2%
Fiscal Balance (% GDP)	-10.2%	-9.0%	-7.8%	-7.3%	-6.6%
Current Account (% GDP)	-3.3%	-1.3%	-0.5%	-1.6%	-1.8%
International reserves (USD Bn)	348.9	356.8	365.4	375.3	379.0
Exchange rate (BRL/USD)	3.96	3.26	3.31	3.85	3.80

Source: EconViews based on Consensus Forecast & IMF

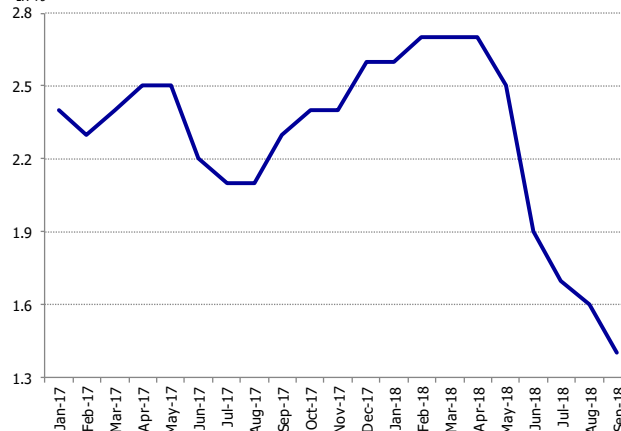
Real GDP- Brazil

quarterly variations annualized, in %



GDP growth - rolling forecasts for 2018

In %



Inflation - General CPI

Annual changes



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
In spite of external volatility economic growth remained solid in the 2Q-18 and was 5.3% YoY, the fastest pace since 3Q-12.	Chile's gross debt reached 23.6%, the highest level in 25 years.	At the end of Jul-18 Moody's downgraded Chile's senior unsecured debt rating to A1 from Aa3.

Politics

Earlier this month, the officialism and the opposition have reached an agreement to increase the minimum wage, which will rise this month to CLP 288 thousand (USD 418) and to CLP 301 thousand (US\$ 437) since Mar-19. The next adjustment is going to be discussed on 2020.
Approval of President Piñera was 48% in Aug-18, decreasing 4 p.p. in comparison to the previous month.

Economic Activity

Growth accelerated to 5.3% YoY in the 2Q-18, the fastest pace since 3Q-12, boosted by investment and consumption. QoQ it decelerated to 0.7%. According to the GDP proxy (IMACEC), in Jul-18 the economy barely grew 0.2% MoM while it went up 3.3% YoY, decelerating in comparison to the previous records. Mining activity fell 2.1% YoY, the first drop in 12 months, while non-mining activity decelerated slightly to 3.8% YoY. The Chilean economy remains strong and is likely to grow 4.0% this year.

Inflation

In Aug-18 inflation remained stable at around 2.6% YoY and remained below the CB target of 3% for the 23rd consecutive month. Non-tradable goods inflation was 3.2% while tradable goods prices increased 2.2%. On a monthly basis, inflation was 0.2% driven by the increase in food and non-alcoholic beverages and housing expenditure and services. For 2018 inflation will slightly accelerate to 3.1% as a consequence of a weaker currency and a loose monetary policy.

Monetary Sector

The Chilean Peso is close to 669 CLP/USD, slightly below the maximum level of 696 that hit earlier this month. YTD, it weakened 8.6%. We expect the Chilean Peso to be at 670 CLP/USD by year-end, affected by a lower copper price. In Sep-18 the CB maintained the monetary stimulus and left the policy rate unchanged at 2.5% for the 17th consecutive time. The entity affirmed that a future monetary normalization is likely as the output gap reduced faster than expected.

Fiscal Front

Up to Jul-18, accumulated deficit of Central Government was 0.3% of GDP, below the 0.5% of one year ago. Revenues grew 6.7% YoY in real terms, boosted by mining. Total expenditure grew 4.5%, driven by subsidies in health and education. Capital expenditure lost dynamism and was 0.9% YoY. Piñera presented a tax reform that will be discussed at the Congress. It aims to modernize the tax system and boost investment, especially in the construction sector.

What's coming next?

The tax reform is going to be delayed for some more time as the officialism does not hold a majority in the Congress.
Trade war between China and the USA is still a source of concern as it will affect Chile's terms of trade, especially copper. The price has reduced 14.5% YTD and put pressure on fiscal accounts.
The monetary normalization will probably take place before year-end.

CHILE: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (CLP/USD, eop.)	682.20	637.37	654.17	625.70	616.15
Interest rate (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Inflation (y/y)	2.6%	2.7%	2.5%	1.9%	2.3%
Economic activity (y/y)	-	3.3%	4.9%	2.5%	1.5%
Industrial activity (y/y)	-	-1.4%	6.9%	0.4%	-1.0%
Mining production (y/y)	-	-2.1%	3.4%	9.8%	-1.7%

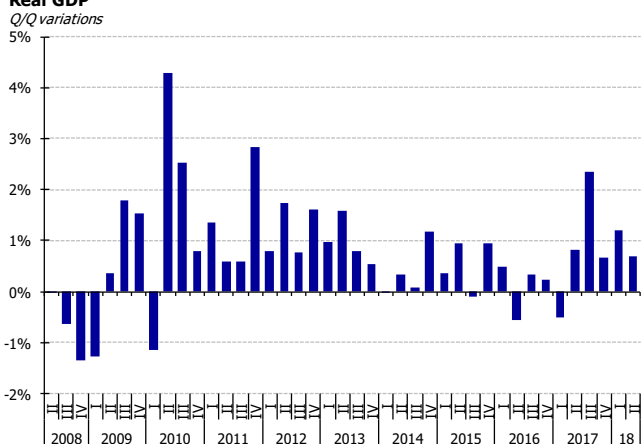
Source: EconViews based on several sources

Macroeconomic Outlook

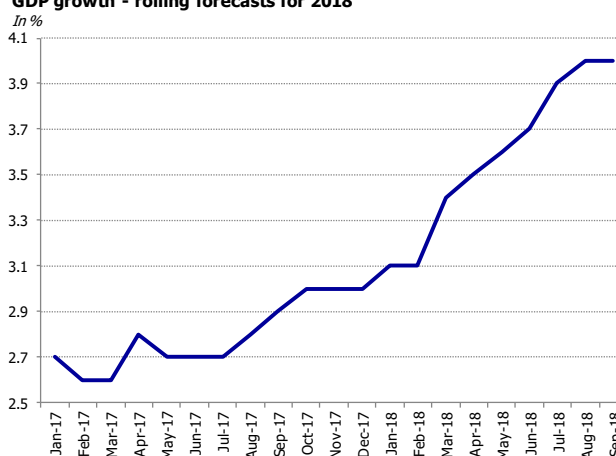
	2015	2016	2017	2018F	2019F
GDP growth (%)	2.3%	1.3%	1.5%	4.0%	3.6%
Inflation (Dec-Dec)	4.4%	2.7%	2.3%	3.1%	3.2%
Fiscal Balance (% GDP)	-2.1%	-2.7%	-2.8%	-2.1%	-1.8%
Current Account (% GDP)	-2.3%	-1.4%	-1.5%	-1.8%	1.9%
International reserves (USD Bn)	37.2	39.5	38.0	38.5	39.2
Exchange rate (CLP/USD)	709.35	670.30	616.15	670.00	680.00

Source: EconViews based on Consensus Forecast & IMF

Real GDP



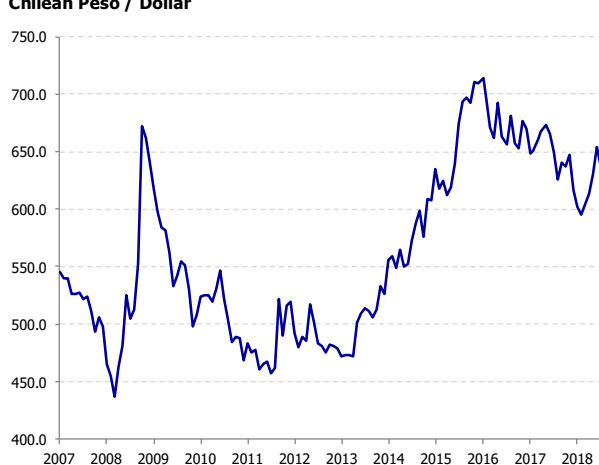
GDP growth - rolling forecasts for 2018



Inflation - General CPI



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Colombia resisted well the turmoil faced by emerging markets. Higher oil prices benefited the currency and the fiscal accounts. GDP likely to pickup to 2.7% this year and 3.3% in 2019.	The new administration will face fiscal and peace-agreement-related challenges. Recovering economic activity reduce the appeal for further monetary easing.	Colombia may lose the investment grade status, after S&P reduced credit rating from BBB to BBB-. Further reforms are needed to comply the fiscal targets in the medium term.

Politics

Ivan Duque finally took office on August 7th. Challenges are the fiscal consolidation, the implementation of peace agreement with former FARC's, returning Colombia to higher growth and reversing coca production, that last year reached levels unseen in more than two decades. The economic agenda is moving on. Finance Minister Carrasquilla plans reforms to boost productivity, hampered by the tax system, which weighs heavily on corporates, inefficient regulations, high labor informality, etc..

Economic Activity

Activity continued recovering in 2Q18, by increasing 2.8% yoy, up from 2.2% in 1Q18. Coal production and construction are hindering a faster recovery, which is pushed up by commerce and industry. Investment is not falling anymore, as it increased 1.7% yoy, while consumption rose 2.7%. Lower inflation and interest rates and higher oil prices and real wages would support a GDP growth of 2.7% this year, from 1.8% in 2017. The recovery would consolidate further in 2019, with GDP growing 3.3%.

Inflation

Inflation in July reached 3.12% and remained near the 3% target, the lowest since September 2014. While inflation expectations remain anchored contributing to the disinflation process, there are uncertainties ahead due to upside risks over food prices and exchange rate given the sell off across emerging markets. The Central Bank announced the end of the easing cycle, but emphasized that more easing is at the table if disinflation continues and goes beyond expected. The market consensus expects yearly inflation close to 3.3% by the end of the year.

Monetary Sector

As expected, the Central Bank kept the monetary policy rate unchanged at 4.25%. Room for additional cuts is limited by the improvements on activity and consumer confidence, while inflation is hovering near the target. While many emerging market currencies have been depreciating significantly relative to the USD so far this year, the Colombian peso in contrast has gained some cents, benefited by the higher oil prices. The consensus expects FX rate at 2,890 pesos per USD at the end of 2018.

Fiscal Front

There is no room for an expansionary fiscal policy. The Government maintained the fiscal deficit target for this year, but loosened the targets for the following years, mainly due to a larger than expected output gap. While the fiscal deficit target for 2018 now looks achievable thanks to higher oil prices, the medium term challenges remain and will require additional measures. This year the nominal deficit would be 3.1% of GDP, while the next year it may narrow to 2.7% of GDP, above the target.

What's coming next?

Whether Duque has or not the appetite for tough fiscal reforms, putting fiscal policy on a more sustainable track on the medium term should be top at the agenda. The new administration will face a tradeoff between keeping the roadmap set by present fiscal authorities and following the main campaign promises of reducing taxes. Also, Duque will inherit a fragile peace deal with FARC's and decide whether to follow Santos' agreement. Many of these issues still need to be passed through congress.

COLOMBIA: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (COP/USD, eop.)	3,057	2,893	2,933	2,956	2,987
Interest rate (%)	4.25%	4.25%	4.25%	5.52%	4.69%
Inflation (y/y)	3.1%	3.1%	3.2%	3.9%	4.1%
Economic activity (y/y)	-	1.9%	2.9%	0.4%	1.8%
Industrial activity (y/y)	-	3.5%	1.3%	-3.0%	-0.4%

Source: EconViews based on several sources

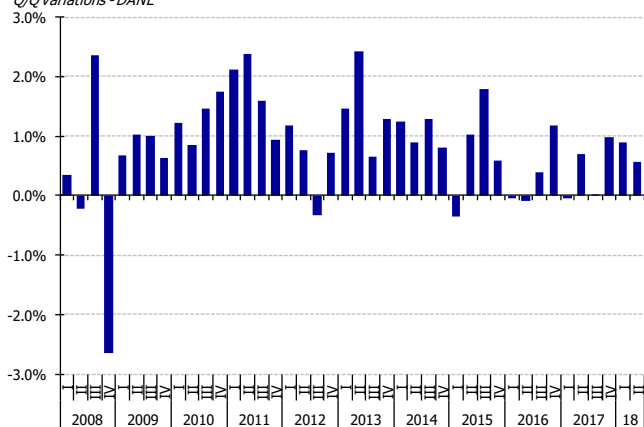
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.0%	2.0%	1.8%	2.7%	3.3%
Inflation (Dec-Dec)	6.8%	5.7%	4.1%	3.3%	3.4%
Fiscal Balance (% GDP)	-3.0%	-4.0%	-3.6%	-3.1%	-2.7%
Current Account (% GDP)	-6.4%	-4.3%	-3.4%	-2.6%	-2.6%
International reserves (USD Bn)	44.8	45.0	45.4	47.0	47.4
Exchange rate (COP/USD)	3,180	3,003	2,987	2,890	2,930

Source: EconViews based on Consensus Forecast & IMF

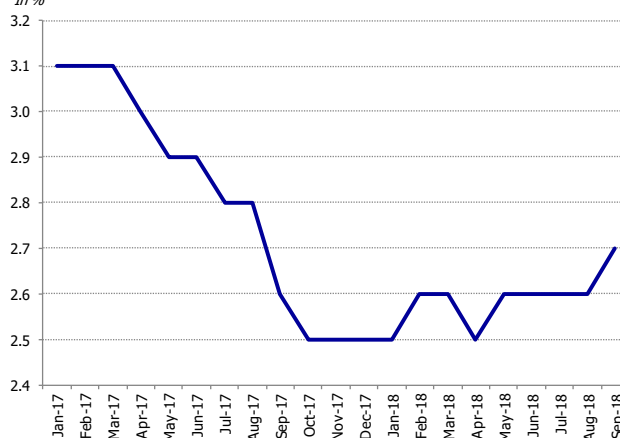
Real GDP

Q/Q variations - DANE



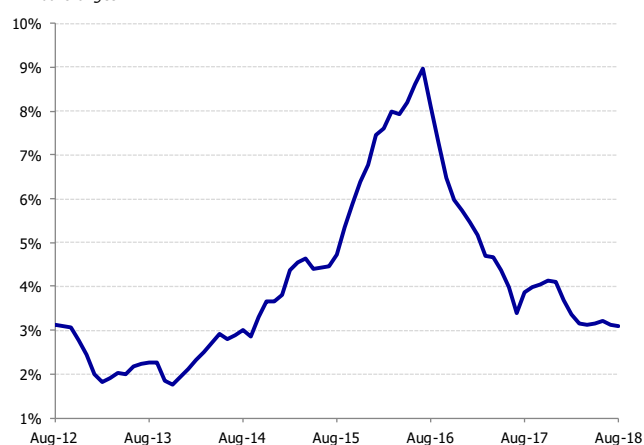
GDP growth - rolling forecasts for 2018

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
President Trump announced a trade deal with Mexico and Canada has joined negotiations in order to reach a trilateral deal.	Due to new expenditures included in the Budget, the risk of missing the fiscal target for next year (deficit of 2.0% of GDP) is clearly high.	Activity in both, goods and services sectors, decelerated in 2Q-18. Economic activity slowed from 2.5% in 1Q18 to 1.5% in 2Q18 according to seasonally adjusted series.

Politics

Andrés Manuel López Obrador has not assumed yet, but he started to define the lines of his mandate. In the first place, he affirmed that the country is in bankruptcy and said that its Government will be fiscally responsible and won't get into debt. To reduce expenditures, AMLO, whose party controls the deputies' chamber, cut the politics wages. In other subjects, he announced a reconstruction program for the people affected for the last year earthquakes and will meet this week the families of the 43 disappeared students of Ayotzinapa.

Economic Activity

Economic activity slowed in 2Q18 and decelerated from 2.5% in 1Q18 to 1.5% in 2Q18 according to seasonally adjusted series. Primary sectors grew only 0.8%, after increasing 5.4% in 1Q18, while the industrial sector remained practically at the same levels as 1Q18. Regarding services, growth also decelerated from 3.1% in 1Q18 to 2.3% in 2Q18. However, economic activity improved in July supported by industrial and services sectors, and grew 3.32% y/y (1.15% in June). We expect GDP to grow 2.2% this year, boosted by the good performance of the U.S. economy.

Inflation

Consumer prices raised 0.58% m/m in August, in line with the 0.54% rise recorded in July. Moreover, headline inflation increased from 4.8% to 4.9% y/y, pressured by energy prices. Despite this slight acceleration, inflation remained below 5% for the fifth consecutive month. We recently revised our forecasts to the upside, but we still expect inflation to continue to fall gradually in coming months and reach 4.5% in next 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 appreciated 3.7% so far this year and currently stands around MXN 18.90 per USD. The last time the currency was traded above MXN 20.00 per USD was during the last week of June, previous to the last presidential elections. We expect the exchange rate to stand at MXN 19.20 per USD in December and to appreciate to 19.00 by the end of 2019, as uncertainties gradually dissipate. On the other hand, in June the CB had increased the policy rate by 25 bps, to 7.75%, and it remained unchanged in August. We expect it to reach 8.0% by the end of this year.

Fiscal Front

For this year, we expect revenues to be greater than those approved in the Budget, due to higher oil revenues. Thus, the primary balance is expected to display a surplus of 0.8% of GDP, while the fiscal deficit is expected to reach 2.2% of GDP. In this context, the fiscal consolidation targets are likely to be met again. For 2019, we expect a fiscal deficit equivalent to 2.3% of GDP. Regarding net public debt, we expect it to moderate from 46.3% of GDP in 2017 to 45.5% of GDP this year.

What's coming next?

- AMLO's priorities for the next budget include the increase in infrastructure investment and the implementation of social programs, among others. Thus, the risk of missing the nominal fiscal deficit target for next year (2.0% of GDP) is clearly high.
- On August 27, President Trump announced a trade deal with Mexico and said that they will end with the NAFTA deal and replace it with the one that has already been agreed with Mexico. Meanwhile, Canada joined negotiations with the U.S., expecting to reach a trilateral deal.

MEXICO: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (MXN/USD, eop.)	19.09	18.65	19.93	17.89	19.66
Interest rate (%)	7.75%	7.75%	7.75%	7.00%	7.25%
Inflation (y/y)	4.9%	4.8%	4.6%	6.7%	6.8%
Economic activity (y/y)	-	3.3%	1.2%	2.5%	2.0%
Industrial activity (y/y)	-	1.3%	0.3%	0.1%	-0.6%
Automotive production (y/y)	-	-3.5%	1.4%	5.4%	10.1%

Source: EconViews based on several sources

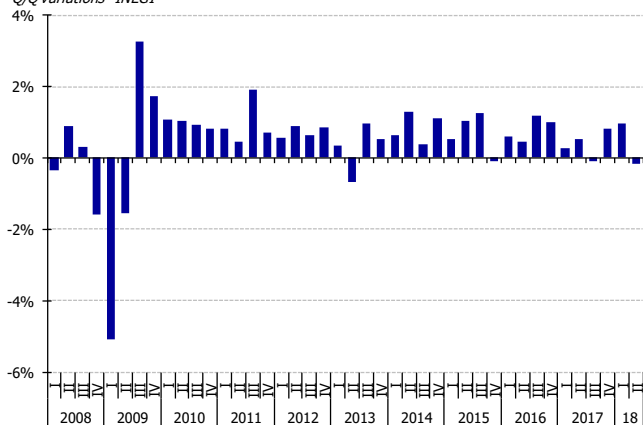
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.3%	2.9%	2.0%	2.2%	2.1%
Inflation (Dec-Dec)	2.1%	3.4%	6.8%	4.5%	3.8%
Fiscal Balance (% GDP)	-3.4%	-2.5%	-1.1%	-2.2%	-2.3%
Current Account (% GDP)	-2.5%	-2.1%	-1.6%	-1.9%	-2.2%
International reserves (USD Bn)	168.4	168.7	164.9	172.3	174.4
Exchange rate (MXN/USD)	17.19	20.74	19.66	19.20	19.00

Source: EconViews based on Consensus Forecast & IMF

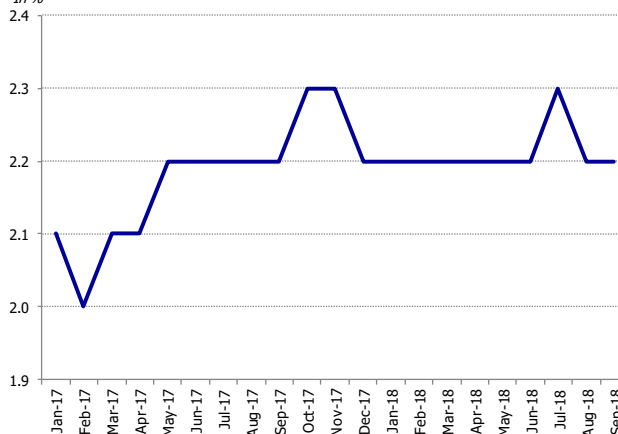
Real GDP

Q/Q variations - INEGI



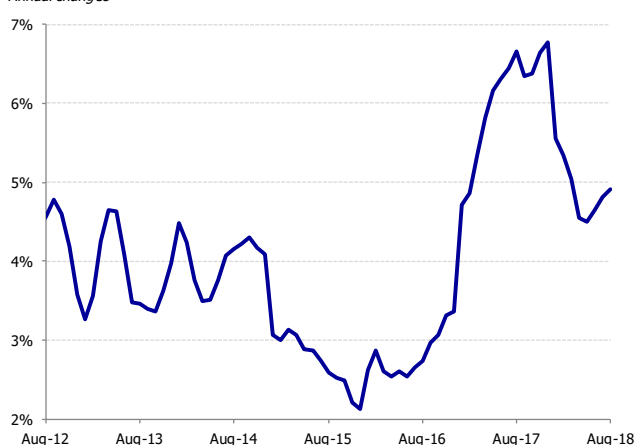
GDP growth - rolling forecasts for 2018

In %



Inflation - General CPI

Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
Fiscal performance continues to outperform the countries within the region.	A slowdown in neighboring Argentina and Brazil would tame economic activity and lower remittances received from those countries.	Addressing corruption scandals and the issue of personal security is still pending in the country.

Politics	<p>Mario Abdo Benitez has sworn in as President of August 15 and claimed to work for a "truly independent justice", to fight corruption and to build stronger institutions to boost economic growth, wealth and education. According to the press the new government is sponsoring an amendment to the Constitution which is now being considered by the opposition. For such initiative to make progress some key stakeholders are requiring a change to the voting system</p>
Economic Activity	<p>GDP estimates for Q2 point to a slowdown due to lower economic activity in neighboring Argentina and Brazil. In addition, the country is sensitive to smaller remittances from both countries to relatives in the domestic market. Although the country is doing a great deal in macroeconomic fundamentals we expect the emerging markets and the Latam situation to drag down GDP performance. We maintain our 2018 GDP growth forecast in 4.0%, below the BCP estimate of 4.7%.</p>
Inflation	<p>As of August headline consumer prices came in at 0.2% mom, slowing down the yoy inflation to 3.9% from 4.0% in July. With this result, inflation is slightly below the center of the BCP target range (4% +/- 2%). Despite food prices were pushed the PYG depreciation, core inflation came in at 0.2% mom and 2.8% yoy. The real appreciation of local currency against the Argentine Peso and the Brazilian Real will tame 2018 FY inflation to approach 4.3%</p>
Monetary Sector	<p>The selloff in emerging markets currencies has led the BCP to intervene in the FX market by selling nearly 900 million USD since the beginning of the year to smooth the nominal hike of the USD against PYG, which is 5.3% YTD. In its August meeting the BCP kept the policy rate unchanged at 5.25%. The statement highlights the BCP satisfaction on inflation and growth performance and stresses that CPI expectations remain well anchored. We forecast the policy rate to remain at 5.25%.</p>
Fiscal Front	<p>As of August, the cumulative 12-month deficit at the national treasury reached 1.4% of GDP in line with the Fiscal Responsibility Law target and stable as compared to previous month. Total revenues gained 6.5% yoy driven down by lower Itaipu royalties but this hit was offset by a reduction of capital expenditures trimming down yoy expenses variance to 5.7%. 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.</p>
What's coming next?	<p>Market friendly policies and sound economic fundamentals are intact. The trade war between China and the US should be closely monitored. The emerging markets selloff has started to affect the Paraguayan economy but no material impact so far. The evolution of global markets should remain on the radar screen.</p>

PARAGUAY: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (<i>PYG/USD, eop.</i>)	5,849	5,740	5,715	5,662	5,602
Interest rate (%)	5.25%	5.25%	5.25%	5.25%	5.25%
Inflation (<i>y/y</i>)	3.9%	4.0%	4.4%	4.0%	4.5%
Economic activity (<i>y/y</i>)	-	2.2%	0.6%	7.0%	4.5%

Source: EconViews based on several sources

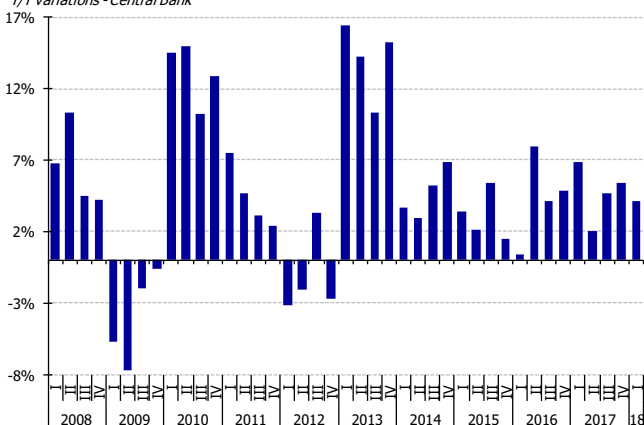
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.0%	4.0%	4.3%	4.0%	3.9%
Inflation (<i>Dec-Dec</i>)	3.1%	3.9%	4.5%	4.3%	4.1%
Fiscal Balance (<i>NFPS - % GDP</i>)	-1.8%	-1.4%	-1.5%	-1.4%	-1.4%
Current Account (<i>% GDP</i>)	-1.1%	1.5%	-1.8%	-2.0%	-1.2%
International reserves (<i>USD Bn</i>)	6.2	7.1	8.3	n.a.	n.a.
Exchange rate (<i>PYG/USD</i>)	5,814	5,866	5,602	5,827	5,940

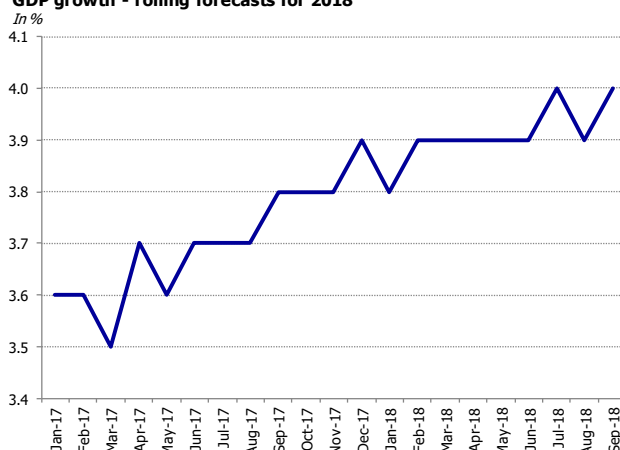
Source: EconViews based on Consensus Forecast & IMF

Real GDP

Y/Y variations - Central Bank

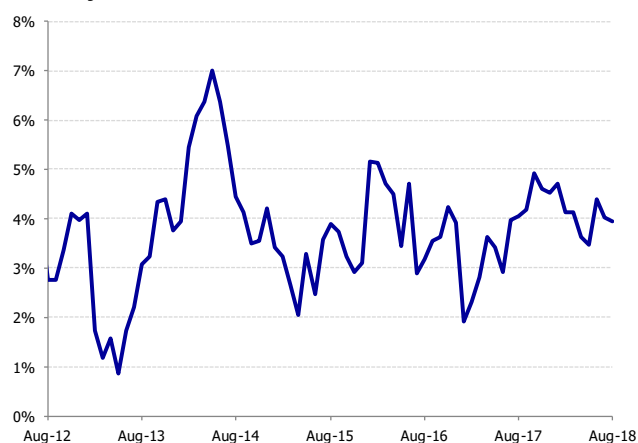


GDP growth - rolling forecasts for 2018

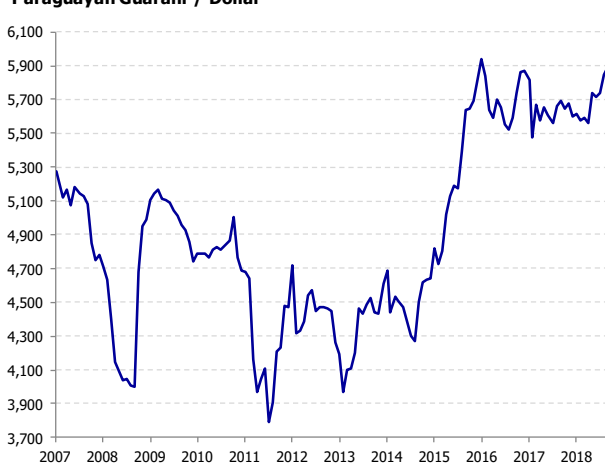


Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
Exports in quantity grew 15.7% i.a. in Jul-17 and remained positive for the 5th time in a row.	Copper price continues to be under pressure and went down 14.5% YTD.	Peru's Central Bank expects a current account deficit of 1.6% of GDP for this year, versus the previous 1.2%.

Politics

President Vizcarra's positive image recovered from the 35% minimum in Jul-18 to 45% in Sep. However, disapproval of him is still high: 44%. The confidence of the citizens is fragile after several months of corruption scandals and the resignation of the ex-president PPK. Vizcarra proposed to carry out a referendum to reform the Judicial branch on Dec, 9th. Also, it will include some modifications in politics in order to discourage corruption, such as funding of parties and accountability.

Economic Activity

The economy is facing a broad-based boost. It grew 5.4% YoY in the 2Q-18 helped by the non-primary sector such as investment (8.6% YoY, driven by private and public investment) and private consumption (4.5% YoY). The primary sector also performed well, boosted by fishing but with some deceleration of mining activity. According to the advanced GDP proxy, in July the economy grew 2.3% i.a. For 2018-19, the economy will face a solid growth of 3.9%.

Inflation

In Aug-18 inflation decelerated and was 1.07% i.a. On a monthly basis, it was 0.13% and decelerated in comparison to the 2 previous months. The main incidence in the CPI index was "Food and Beverages", followed by "Furniture and Housing maintenance". This way, inflation continued to be below CB's target of 2.0% for the 10th consecutive month. For 2018 inflation is expected to be 2.3% and to accelerate to 2.5% for next year.

Monetary Sector

The Peruvian Sol moved to 3.31 PEN/USD and slightly depreciated 2.1% YTD. We expect it to remain at the current level by year-end. In Sep-18, the CB maintained its policy rate at 2.75% for the 7th time in a row as the economy grew but below its potential, inflation expectations remained near the target and the external conditions looked riskier. The monetary stimulus will continue for some more time as the output gap is not closed.

Fiscal Front

As the economy is getting stronger, fiscal accounts showed an improvement. In Aug-18, accumulated fiscal deficit in 12 months remained stable at 2.1% of GDP, after reducing for 5 consecutive months. Government revenues maintained at 19.2% of GDP, driven by the performance of income tax and VAT; while fiscal expenditure reduced from 20.2% to 20.1%. For this year, fiscal deficit will widen to 2.9% of GDP.

What's coming next?

The Ministry of Economy presented the estimations of nominal fiscal deficit for 2019-22. It will narrow gradually to 1% of GDP for 2021. For 2019 it will reach 2.7% and 1.9% for 2020. This path seems reasonable, as fiscal accounts are improving fast due to economic growth. Only a deterioration in terms of trade could affect it. The trade war between the US and China, which are Peru's main trading partners, remains as a risk.

PERU: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (PEN/USD, eop.)	3.30	3.27	3.29	3.25	3.24
Interest rate (%)	2.75%	2.75%	2.75%	3.75%	3.25%
Inflation (y/y)	1.1%	1.6%	1.4%	3.2%	1.4%
Economic activity (y/y)	-	2.3%	2.0%	2.8%	2.5%
Manufacturing activity (y/y)	-	0.9%	1.5%	0.6%	-0.3%
Mining production (y/y)	-	-5.2%	-4.6%	3.9%	3.2%

Source: EconViews based on several sources

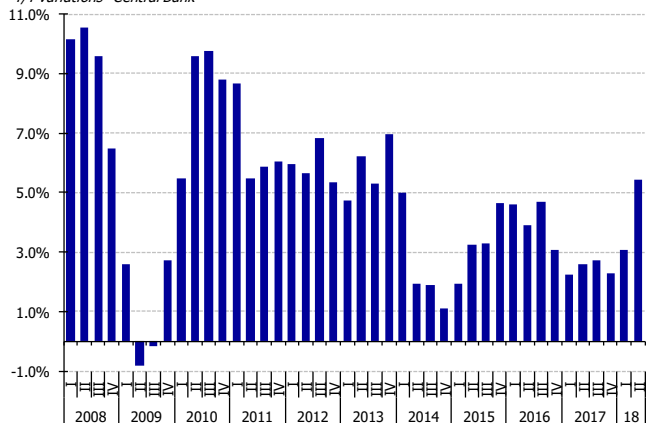
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.3%	4.0%	2.5%	3.9%	3.9%
Inflation (Dec-Dec)	4.4%	3.2%	1.4%	2.3%	2.5%
Fiscal Balance (% GDP)	-2.1%	-2.6%	-3.2%	-2.9%	-2.7%
Current Account (% GDP)	-4.8%	-2.7%	-1.3%	-0.7%	-1.1%
International reserves (USD Bn)	59.4	59.8	61.4	64.0	66.2
Exchange rate (PEN/USD)	3.42	3.36	3.24	3.31	3.31

Source: EconViews based on Consensus Forecast & IMF

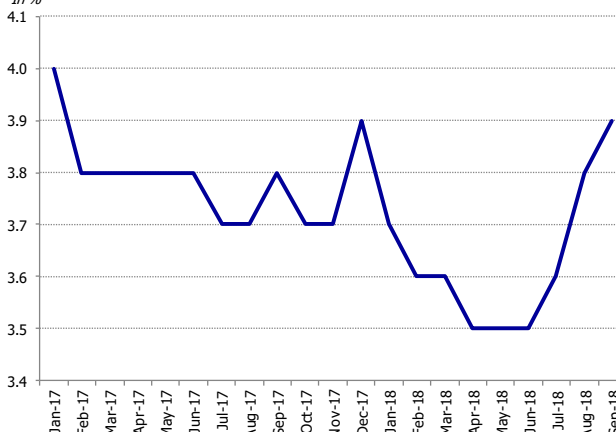
Real GDP

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
Although slowing down, activity has been resilient to the downturn in Latam partners.	Vulnerability to external shocks will increase as Argentina suffers recession and a run on the currency.	The country will probably miss the fiscal balance target this year. Sovereign credit implications may surface.

Politics	<p>Recent polls continue showing that if the elections were held now, the Frente Amplio leads vote intention for a 2019 election with nearly 34% support of citizenship. Second in line is the Partido Nacional with 30% vote intention. Interestingly, the Partido Colorado is advancing from 7% to 12% as former President Julio María Sanguinetti is coming back to the political arena. These results should be taken carefully as the time until the election is very long.</p>
Economic Activity	<p>Economic activity in Q2 2018 and coming quarters will be affected by the recession and currency depreciation in Argentina. The sectors to be hit the most are tourism and export industries. In the meantime, unemployment stands at 7.8% (up from 7.6% a year ago) and the economic slowdown will surely press this figure up in the coming months. We revise downward the GDP estimate for 2018 to 2.7% in light of the Argentine recession and the ARS depreciation.</p>
Inflation	<p>Inflation in August came in higher than expected at a 0.7% monthly increase and trimming up the annual reading to 8.3% which is beyond the bounds of the BCU 3-7% target range. Food, education and household services are pushing CPI up. Salaries negotiations are currently underway with hikes guidelines ranging from 6.5% to 8.5% according to the industry branch. We forecast inflation to reach 7.5% for 2018.</p>
Monetary Sector	<p>The UYU weakened to 32.85 to the dollar after the emerging markets rout, sending the cumulative YTD depreciation to nearly 15%. The BCU keeps on intervening in the FX market by selling international reserves to stabilize the local currency. In its August meeting, the BCU COPOM reinforced its tight monetary policy and set the annual M1 growth target for Q3 2018 at 9-11%. We forecast the UYU to trade at 33.00 by year end.</p>
Fiscal Front	<p>The fiscal balance improved to reach a 3.9% deficit in July driven by a 7.5% yoy growth of revenues and a 4.9% yoy increase in expenditures as capital expenditures retreated. We consider the country will probably miss its 2.5% fiscal deficit target this year as the interest bill is nearly 3.5% of GDP and rigid expenditures will imply low probabilities of a primary fiscal surplus. We foresee the 2018 total fiscal deficit to reach 2.9%</p>
What's coming next?	<p>Activity will probably slow down in tandem with a downward risk in Argentina and Brazil. The fiscal deficit target will be challenging and the credit rating should remain in the radar screen. The vulnerability to external shocks has been reduced but the US monetary policy and the recent selloff in emerging markets should be closely tracked.</p>

URUGUAY: APPENDIX

Dashboard

	Aug-18	Jul-18	Jun-18	Aug-17	2017
Exchange rate (UYU/USD, eop.)	32.24	30.56	31.34	28.84	28.85
Interest rate (%)	7.50%	8.30%	8.10%	8.00%	8.56%
Inflation (y/y)	8.3%	8.4%	8.1%	5.4%	6.6%
Economic activity (y/y)	-	-	2.0%	4.0%	2.7%
Manufacturing activity (y/y)	-	20.5%	17.1%	-13.0%	-11.1%

Source: EconViews based on several sources

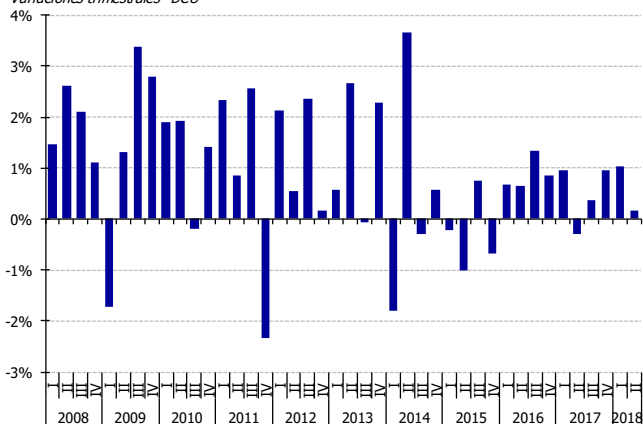
Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	0.4%	1.7%	2.7%	2.7%	2.8%
Inflation (Dec-Dec)	9.4%	8.1%	6.6%	7.5%	7.2%
Fiscal Balance (% GDP)	-3.6%	-3.9%	-3.5%	-2.9%	-2.5%
Current Account (% GDP)	-0.7%	1.6%	1.6%	0.6%	-0.1%
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	34.70

Source: EconViews based on Consensus Forecast & IMF

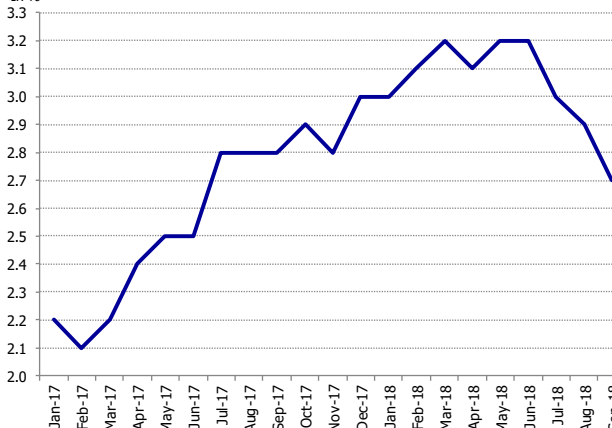
PBI real

Variaciones trimestrales - BCU



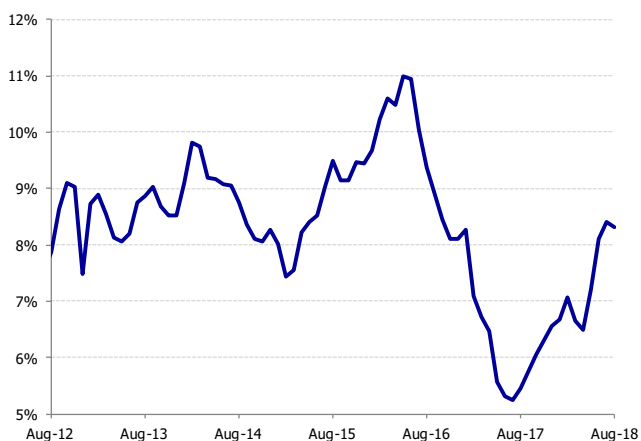
GDP growth - rolling forecasts for 2018

In %



Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar

