

LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS
ECONOMÍA Y FINANZAS

September, 2019



Argentina

Financial turmoil
after the primaries

Page 2



Brazil

The Pension reform
moves forward in
the Senate

Page 4



Chile

More monetary
easing ahead

Page 6



Colombia

Economic activity
surprises positively

Page 8



Mexico

Industry weakness
threatens
economic activity

Page 10



Paraguay

Weaker activity,
lower inflation

Page 12



Peru

Political uncertainty
is back on the
agenda

Page 14



Uruguay

The Presidential
elections loom

Page 16



ARGENTINA

Good news

After the currency run that followed the primaries, the imposition of FX controls was able to initially stabilize the FX and stop the losses of CB reserves and dollar deposits.

To be alert

The Government reprofiled the short-term debt and put Argentina in selective default for some days. Dollar deposits fell 30% or around USD 10 billion after the primaries.

Bad news

After the primaries, the peso slumped 30% and the country risk skyrocketed to 2,500 basis points. Bond prices are trading between a significant nominal haircut and a default.

POLITICS

Macri lost the primaries against Alberto Fernández by an unexpected difference of 15 points. The market reaction was very negative, with a significant depreciation of the peso and significant losses across all asset classes. Hernán Lacunza became the new Minister of Finance. General elections will take place on October 27th. If main trends are repeated as expected, the Fernández-Fernández partnership will win in the first round and there will be no need for runoff voting.

ECONOMIC ACTIVITY

GDP will contract in the second half of the year, affected by the financial turmoil and the inflation acceleration that followed the elections. In addition, activity is being also affected by the response of the government to the financial turmoil, which implied a compulsive debt reprofiling on short term peso debt, the announcement of a general voluntary reprofiling among all government bonds and the imposition of FX controls. Now we expect GDP to contract around 3.0% of GDP this year, which would leave a negative carry-over of 1 point for 2020, when GDP would fall an additional 2.0%.

INFLATION

The deceleration process of inflation that took place from April until July finally ended in August, affected by the sudden leap of the exchange rate that was transferred to prices. Thus, the national consumer price index surveyed by INDEC recorded a 4.0% monthly rise, and annual inflation accelerated up to 54.5% in August. September's monthly inflation would round 6.5%, the higher of the year. This way, annual inflation is expected to end 2019 close to 52.5%, assuming a relatively stable exchange rate.

MONETARY SECTOR

The day after the elections, the peso initially depreciated 37% to 62 pesos per dollar, but finally ended at 52.15, with Central Bank intervention. In the following days, the pressure over the exchange rate and the Central Bank's reserves intensified, which led to a further depreciation to the current zone of 56.5 pesos per dollar, further losses of reserves and, in the end, the imposition of FX controls to stop the run. Since then, the exchange rate stabilized and the loss of reserves moderated significantly. The Central Bank announced a new looser monetary target for the next months.

FISCAL ACCOUNTS

The fiscal accounts again recorded a primary surplus in July, the fifth so far this year. This way, accumulated primary surplus in the first seven months amounted to ARS 34.5 billion, equal to 0.2% of GDP, which implies a 1.2 percentage point improvement in relation to the same period of 2018. In his first press conference, the new Minister of Economy Lacunza guaranteed that the target agreed with the IMF for the entire year will be achieved. The target contemplates a primary deficit equal to 0.5% of GDP making use of social and capital expenditure adjusters.

WHAT'S COMING NEXT?

- Minister Lacunza will visit the IMF at the end of September
- General elections will take place on October 27th
- No material chance that the government can turn around the primaries result
- The new president will take office in December 10th
- Activity will suffer the consequences of the financial turmoil after the PASO
- Monthly inflation in September is likely to be the highest of the year



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (ARS/USD, eop.)	56.61	59.08	43.87	40.90	37.81
Interest rate (%)	82.25%	83.26%	60.40%	65.00%	59.25%
National inflation (y/y)	-	54.48%	54.39%	40.54%	47.65%
Economic activity (y/y)	-	-	-	-6.3%	-2.5%
Industrial activity (y/y)	-	-	-1.9%	-12.6%	-5.0%
Automotive production (y/y)	-	-37.5%	-47.8%	-20.6%	-24.3%

Source: EconViews based on several sources

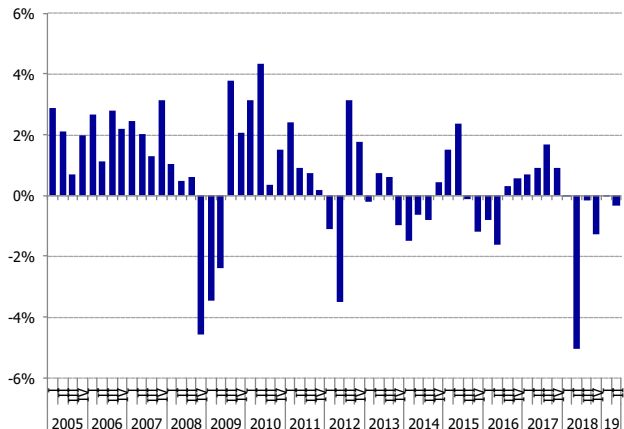
Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	-2.1%	2.7%	-2.5%	-3.0%	-2.0%
National inflation (Dec-Dec)	36.6%	24.8%	47.6%	52.5%	47.0%
Fiscal Balance (% GDP)	-5.8%	-5.9%	-5.0%	-3.7%	-2.7%
Current Account (% GDP)	-2.7%	-4.9%	-5.3%	-1.0%	0.8%
International reserves (USD Bn)	39.3	55.1	65.8	32.0	38.0
Exchange rate (ARS/USD)	15.9	18.8	37.8	65.0	88.0

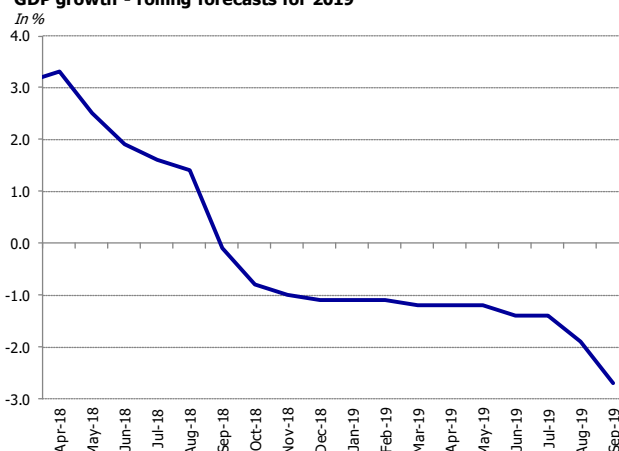
Source: EconViews based on official figures and own estimates

Real GDP

Q/Q variations - Seasonally adjusted data INDEC

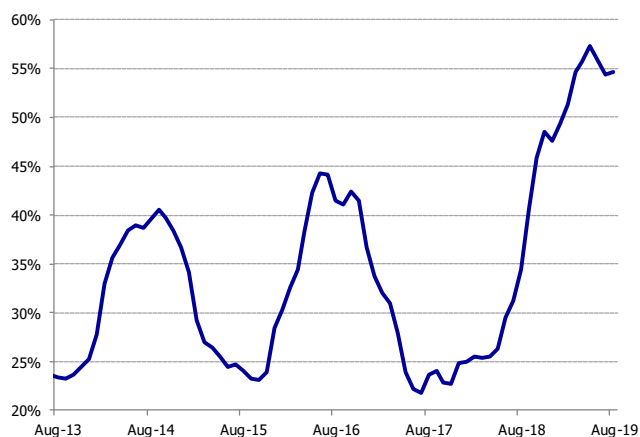


GDP growth - rolling forecasts for 2019



Inflation - General CPI

Annual changes



Argentinian Peso / Dollar





BRAZIL

Good news

The pension reform was approved by the Constitution and Justice Committee and is moving forward in the Senate.

To be alert

Trade tariffs talks between the U.S. and China and monetary policy decisions in the U.S. and Europe will have their impact on the Brazilian economy.

Bad news

Global uncertainties put pressure on the Brazilian Real during the last weeks, as risk aversion has been affecting emerging market stocks and currencies.

POLITICS

A recent poll found that just 29% of Brazilians think that President Bolsonaro is doing a good job while the number of people who oppose his presidency has risen from 33% to 38%. Bolsonaro is doing well fighting corruption, improving security and reducing the size of government, the poll showed, but he is bad on health, education and the environment, an area where he has been criticized at home and abroad for downplaying the severity of fires raging in the Amazon forest. His decision to appoint his son as Brazil's ambassador to the U.S. was considered wrong by 72.7% of the people polled.

ECONOMIC ACTIVITY

GDP grew 0.4% q/q in the 2Q19 according to seasonal adjusted series, boosted by low interest rates and the expansion of private credit. However, economic growth was partly moderated by the slowdown in global growth and the fall in discretionary government spending. Regarding the available figures for July, retail sales grew above expectations (0.7% m/m), while industrial activity fell 0.3 m/m well below market expectations (+0.5%). In this scenario, we expect GDP to grow 0.9% in 2019 and to accelerate to 2.0% in 2020.

INFLATION

According to the IPCA Index, monthly inflation moderated to 0.11% in August (from 0.19% in July), while core inflation was 0.3%. Thus, the official indicator stood 3.43% above the record from a year ago. We expect the exchange rate depreciation to have a limited impact on inflation in September, given that it was offset by falling commodity prices and by the fact that inflation expectations are anchored at the targets set by the central bank. Thus, we expect inflation to close the year at around 3.6% and to accelerate roughly to 3.9% in 2020.

MONETARY SECTOR

The Global uncertainties put pressure on the Brazilian Real during the last weeks, as risk aversion has been affecting emerging market stocks and currencies. Thus, the BRL depreciated 7.7% so far this year and is currently trading at around 4.20 BRL/USD. We expect the BRL to close the year at around 3.88 and to depreciate further to 3.91 BRL/USD in 2020. Moreover, last Wednesday the Copom cut the Selic rate to 5.5%, while another 50 bps adjustment is expected in the October meeting.

FISCAL ACCOUNTS

The pension reform was approved by the Constitution and Justice Committee and is moving forward in the Senate. The approval of this reform is essential, but not sufficient, to stabilize public debt in the medium term. If fiscal consolidation continues deepening, the gross public debt should remain below 80% of GDP and the public sector is likely to record primary surpluses from 2022 onward. We expect a primary deficit of around 1.1% of GDP this year, and around 1.0% of GDP in 2020. Thus, public sector borrowing requirement is likely to stand around 6.4% and 5.8% of GDP, respectively.

WHAT'S COMING NEXT?

- Coming events such as trade tariffs talks between the U.S. and China and monetary policy decisions in the U.S. and Europe will have their impact on emerging markets currencies.
- We expect the Federal Senate to approve the reform bill next month, with no additional changes to the current version.
- The Senate also submitted a proposal for a new constitutional amendment, including changes such as the inclusion of states and municipalities in the reform. However, there is still not enough political support to ensure its approval.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (BRL/USD, eop.)	4.18	4.15	3.81	4.05	3.88
SELIC (%)	5.50%	6.25%	6.25%	6.50%	6.50%
Inflation (y/y)	-	3.43%	3.22%	4.53%	3.74%
Economic activity (y/y)	-	-	-	0.5%	1.2%
Industrial activity (y/y)	-	-	-2.5%	-2.5%	1.0%
Automotive production (y/y)	-	-7.4%	8.7%	-6.1%	6.7%

Source: EconViews based on several sources

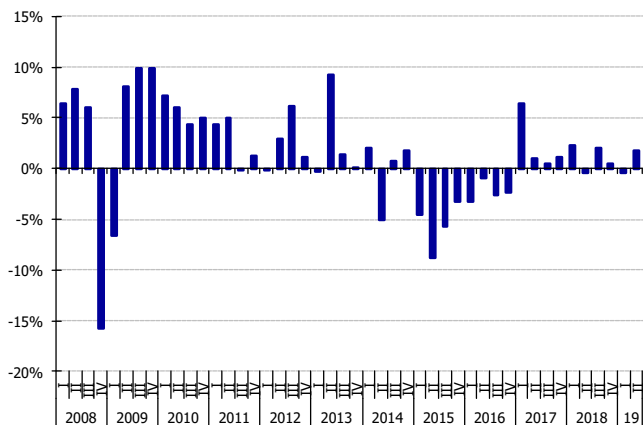
Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	-3.3%	1.1%	1.1%	0.9%	2.0%
Inflation (Dec-Dec)	6.3%	2.9%	3.7%	3.6%	3.9%
Fiscal Balance (% GDP)	-9.0%	-7.8%	-7.1%	-6.4%	-5.8%
Current Account (% GDP)	-1.3%	-0.4%	-0.8%	-1.0%	-1.4%
International reserves (USD Bn)	356.8	365.4	365.5	375.0	378.2
Exchange rate (BRL/USD)	3.3	3.3	3.9	3.9	3.9

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

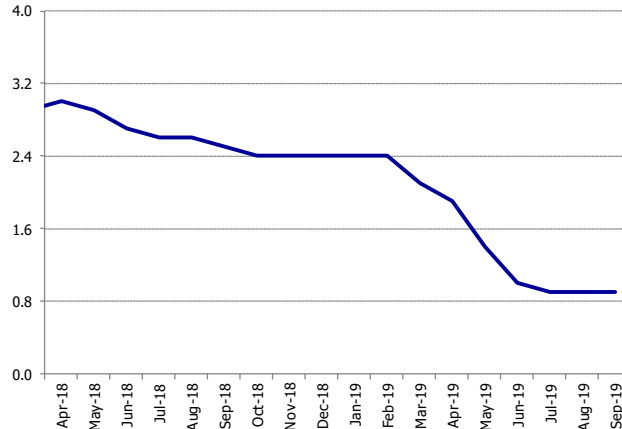
Real GDP - Brazil

quarterly variations annualized, in %



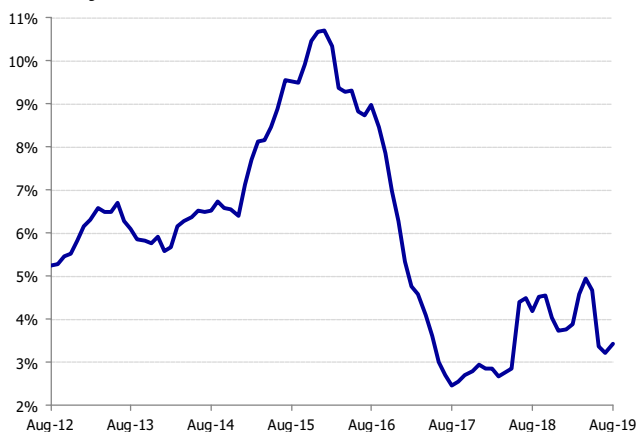
GDP growth - rolling forecasts for 2019

In %



Inflation (IPCA)

Annual changes



Brazilian Real / Dollar



Good news

Business confidence index moved to optimistic zone in August helped by improving sentiment in the construction and manufacturing sectors.

To be alert

Copper prices lowered 5.7% y/y in August and 3.9% year-to-date. Trade tensions and a slowing global economy affected the demand for the metal.

Bad news

Current account deficit widened in the Q2-2019 and reached 3.6% of GDP. Exports of goods fell 9% y/y affected by lower copper prices while imports fell 7.2%.

POLITICS

The tax modernization reform has finally been approved by the lower house and now is headed to the senate. It implies a reduction in the tax burden for shareholders, which could deduct taxes paid by companies, so it puts some pressure on fiscal accounts. In addition, the opposition is debating a labor reform that seeks to reduce the maximum work week from 45 hours to 40. Approval of Piñera is stagnated around 30%, far from the levels of 60% from 2018 (CADEM).

ECONOMIC ACTIVITY

In the Q2-2019 GDP grew 0.8% after being stagnated in the previous quarter. The economy increased 1.9% y/y helped by the recovery in investment while private consumption lost dynamism. For the first half of 2019 GDP went up 1.8%. The available data for July signals an acceleration in the y/y growth to 3.2% while in monthly terms it went up 0.2%. Mining activity grew 1.7% m/m while non-mining activity increased barely 0.1%. For 2019 GDP was revised down to 2.5% from 2.6%.

INFLATION

In August 2019 monthly inflation was 0.2% while in y/y terms it accelerated slightly 0.1 p.p. to 2.3%, below the CB's target of 3%. In monthly terms, inflation was driven by food and non-alcoholic drinks (0.13 p.p.). In particular, meat and fruits showed increases of 1.0% and 3.8% respectively. On the other hand, communications registered a monthly fall of 1.6% in prices and had an incidence of -0.08 p.p. For 2019 inflation is expected to be 2.7% y/y, and 2.8% for 2020, still below the 3% target.

MONETARY SECTOR

The CLP depreciated during August affected by lower copper prices, reaching a maximum of 725 CLP/USD. So far September, it receded to 717. In the last policy meeting, the CB reduced the policy rate by 50 bps to 2.0%. The last cut had been in June and for the same magnitude. In the statement it was highlighted that external conditions worsened and GDP was growing below potential. The entity affirmed that more stimulus was needed so an extra reduction before year-end is probable.

FISCAL ACCOUNTS

In July 2019 the Central Government recorded a deficit of 0.2% of GDP while for the first 4 months of 2019 it was 0.5%. Revenues increased 8.5% y/y in real terms helped by mining related taxes (12-months cumulative). On the other side, total expenditure grew 3.4% in real terms. Regarding current expenditure, payment of interests and subsidies stood out (8.2% and 5.4% y/y respectively). For 2019 the projection for fiscal deficit has widened from 1.8% of GDP in June to the actual 2.1%.

WHAT'S COMING NEXT?

- The tax reform will be debated in the senate and other reforms are on their way, such as the labor reform driven by the opposition.
- Trade war between the USA and China, which is the main importer of copper, remains as the main external risk for an open economy such as Chile.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (CLP/USD, eop.)	718.24	721.71	703.75	658.18	695.15
Interest rate (%)	2.25%	2.25%	2.25%	2.50%	2.75%
Inflation (y/y)	-	2.6%	2.6%	3.1%	2.6%
Economic activity (y/y)	-	-	3.2%	2.1%	4.2%
Industrial activity (y/y)	-	-	5.7%	-5.6%	2.3%
Mining production (y/y)	-	-	0.5%	-1.6%	3.6%

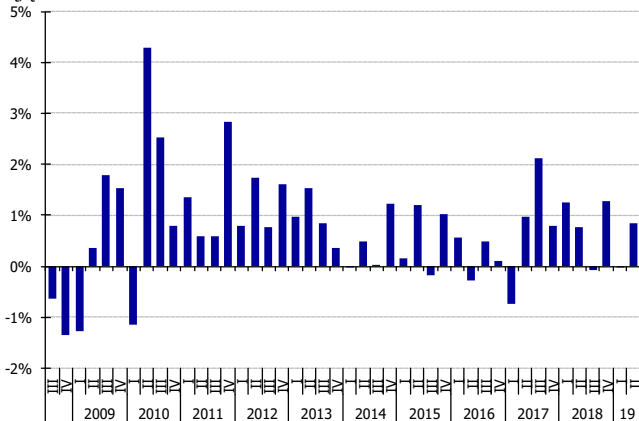
Source: EconViews based on several sources

Macroeconomic Outlook

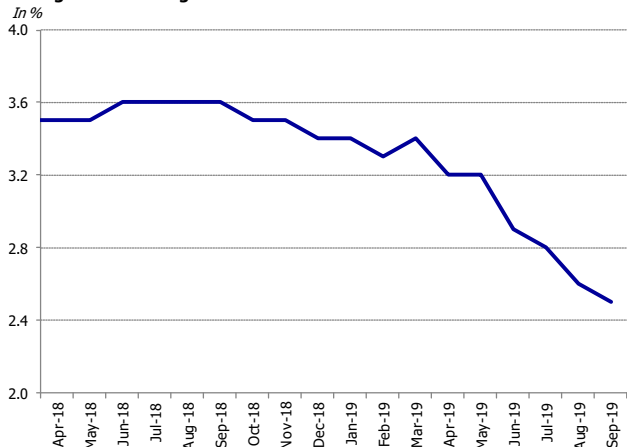
	2016	2017	2018	2019F	2020F
GDP growth (%)	1.7%	1.3%	4.0%	2.5%	3.1%
Inflation (Dec-Dec)	2.7%	2.3%	2.6%	2.7%	2.8%
Fiscal Balance (% GDP)	-2.7%	-2.6%	-1.7%	-2.1%	-1.9%
Current Account (% GDP)	-1.6%	-2.1%	-3.1%	-3.1%	-2.8%
International reserves (USD Bn)	39.5	38.0	38.9	39.3	40.4
Exchange rate (CLP/USD)	670.3	616.2	695.2	690.0	679.0

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

Real GDP
Q/Q variations



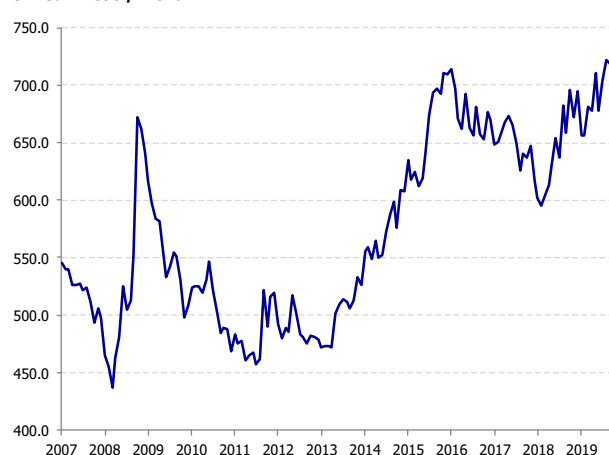
GDP growth - rolling forecasts for 2019



Inflation - General CPI
Annual changes



Chilean Peso / Dollar





COLOMBIA

Good news	To be alert	Bad news
Activity surprised positively in 1Q19, while consumption and investment led growth in 2Q. As a result, GDP growth was revised upward to 3.1% for 2019.	The Court has to determine the legitimacy of the tax reform. If there is a ruling of non-constitutionality, expenditure would need to be cut to meet the fiscal target.	The peace deal with the FARC's is under pressure, as some dissidents of the group announced that they took arms to fight, while the group ELN made some attacks.

POLITICS

Duque's power to move on with reforms is very limited, with regional elections in next October. The peace deal with the FARC's widely announced in 2016 is facing severe challenges, as some dissidents of the group announced that they took arms to fight, with a former negotiator of the deal supporting them and pointing the government for breaking its promises. Most former FARC's members still support the agreement, but recently the active ELN guerrilla group has increased attacks on infrastructure.

ECONOMIC ACTIVITY

Activity surprised positively in 1Q19, while consumption and investment led growth in 2Q, expanding 4.6% y/y and 4.3% y/y respectively. However, net exports continued to drag activity down, as exports remain weak. As a result, GDP growth was revised upward to 3.1% for 2019. Still, economic activity is expected to slow down to 2.8% in 2020, as the job market and consumer sentiment remain weak, inflation is on the rise and global headwinds weaken the economy and the peso.

INFLATION

Inflation remained relatively stable at 3.75% in August after reaching 3.79% in July, still remaining close to the upper bound of the Central Bank's inflation target of 2%-4%. Energy prices slowed down and contributed to the modest deceleration. Still, looking forward disinflation is expected, as inflation expectations remain well anchored and the current negative output gap combines with an expected deceleration on GDP growth. Year end inflation is expected at 3.6% for 2019 and 3.3% for 2020.

MONETARY SECTOR

An additional interest rate cut is unlikely this year. Despite there was no Central Bank policy meeting in August, the reading from the statements reinforced the belief that the committee does not see room for additional monetary policy easing. As a result, the policy rate would remain stable at the current rate of 4.25%. Better than initially expected economic activity readings and the current wide twin deficits explain well part of the current policy stance.

FISCAL ACCOUNTS

The 2018 tax reform would increase revenues this year by around 0.7 points of GDP, almost the half of the initial target. But recently the fiscal outlook has become even more uncertain, as the Court is analyzing a lawsuit that points the illegitimacy of the tax reforms, as it rejects the legal procedures that lead to its approval. In case there is a ruling of non-constitutionality, expenditures should be cut this year to compensate the lost revenues. The government is aiming a fiscal deficit of 2.4% of GDP this year.

WHAT'S COMING NEXT?

- The Court has to determine the legitimacy of the tax reform. In case there is a ruling of non-constitutionality, expenditures would need to be cut to meet the fiscal target of 2.4% of GDP this year.
- The regional elections in October, which will be the first electoral test for Duque.
- The evolution of recent events around the peace deal and the reaction of the former FARC's members that recently announced the decision to come back to fight.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (COP/USD, eop.)	3,407	3,446	3,283	2,966	3,250
Interest rate (%)	4.11%	4.12%	4.12%	4.25%	4.26%
Inflation (y/y)	-	3.8%	3.8%	3.2%	3.2%
Economic activity (y/y)	-	-	0.0%	2.2%	1.5%
Industrial activity (y/y)	-	-	0.0%	2.9%	0.3%

Source: EconViews based on several sources

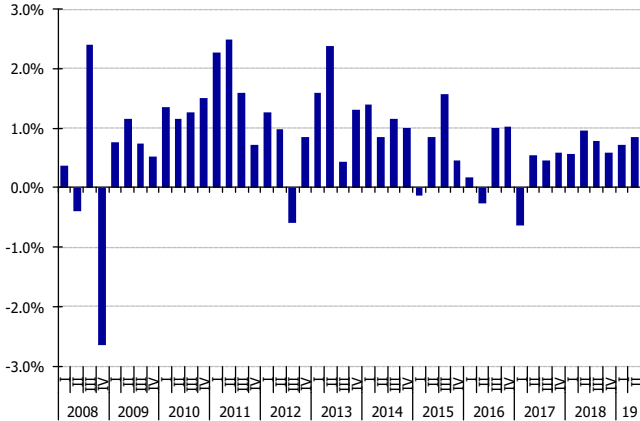
Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	2.1%	1.4%	2.6%	3.1%	2.8%
Inflation (Dec-Dec)	5.7%	4.1%	3.2%	3.6%	3.3%
Fiscal Balance (% GDP)	-4.0%	-3.6%	-3.1%	-2.6%	-2.5%
Current Account (% GDP)	-4.3%	-3.3%	-3.9%	-4.2%	-4.0%
International reserves (USD Bn)	46.7	47.6	48.4	50.3	51.5
Exchange rate (COP/USD)	3,003	2,987	3,248	3,259	3,224

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

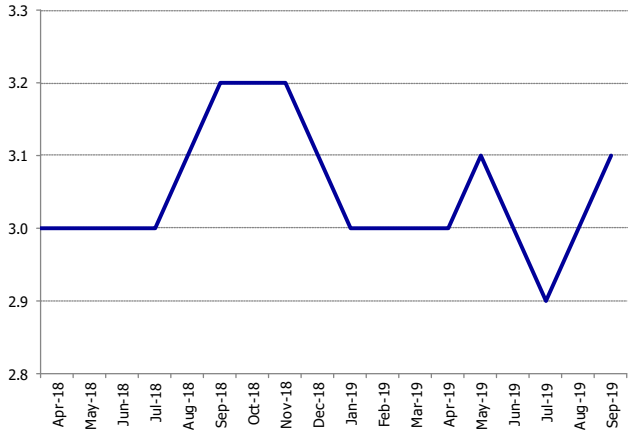
Real GDP

Q/Q variations - DANE



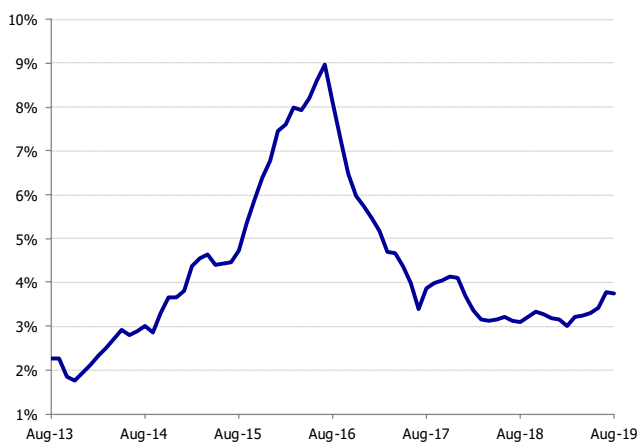
GDP growth - rolling forecasts for 2019

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



Good news	To be alert	Bad news
Inflation continued decelerating and was 3.2% y/y in August, slightly above the Central Bank's inflation target of 3.0%.	Uncertainties over the direction of domestic policy and trade relations with the U.S. will continue to have a negative impact on investment.	GDP fell 0.8% in the 2Q-19 compared to a year ago: the industrial sector was the main drag to economic activity.

POLITICS

President Andres Manuel Lopez Obrador's approval rating has slipped since March with a majority critical of his efforts to fight crime, but 70% of people surveyed still believe he is doing a good job overall. On another hand, and previous to independence festivities, Lopez Obrador acknowledged that Mexico still suffers from insecurity and violence. Homicides since January are on track to exceed last year's record numbers, while kidnappings are up 9% compared with the same period last year, and extortion attempts have soared 37%.

ECONOMIC ACTIVITY

GDP fell 0.8% in the 2Q-19 (revised downward from -0.7%) compared to a year ago, while according to the seasonally adjusted figures economic activity is still weak and grew only 0.3%. Moreover, based on INEGI's figures, economic activity remained at similar levels as those from the 1Q-19. The industrial sector was the main drag to economic activity, and there were also contractions in the mining and construction sectors. We expect GDP growth to reach 0.5% this year and to accelerate to 1.3% in 2020.

INFLATION

Inflation continued decelerating and was 3.2% y/y in August (3.8% in July), slightly above the Central Bank's inflation target of 3.0%. However, core inflation is finding it more difficult to decelerate and stood at 3.78% in August (3.82% in July). On the contrary, non-core inflation decelerated strongly from 3.6% in July to 1.3% in August, with inflation in "food and beverages" dropping from 6.33% to 2.78%. In this context, we expect inflation to stand at around 3.3% in December and to close 2020 at similar levels.

MONETARY SECTOR

At the end of August, the exchange rate exceeded 20 MXN per USD for the first time in the year, after the two largest economies in the world applied tariffs to each other. So far this year, the Mexican Peso appreciated by 1.0% and is currently trading at around 19.50 MXN/USD. We expect the exchange rate to stand at around 19.9 MXN/USD by year-end. Moreover, the Bank of Mexico decided to cut its policy rate by 25 bps in August, to 8.00%. We expect three additional 25 bps cuts through the remainder of 2019, bringing the rate to 7.25% by year-end.

FISCAL ACCOUNTS

The 2020 budget was submitted to Congress in early September, and includes a primary surplus target for at 0.7% of GDP, while the nominal fiscal deficit and the public sector borrowing requirements stand at 2.1% and 2.6% of GDP, respectively. The fiscal targets deteriorated compared to previous estimates due to the 10% drop in the budgeted oil price for 2020. In this context, we expect fiscal accounts of the Central Government to record a total deficit equivalent to 2.1% of GDP this year and 2.4% in 2020.

WHAT'S COMING NEXT?

- There should be no major issues in the approval of the 2020 budget given the government coalition's simple majority in both chambers of congress.
- Mexico's manufacturing sector will still be affected by the weakness of U.S. economic activity, while uncertainties over the direction of domestic policy and trade relations with the U.S. will continue to have a negative impact on investment.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (MXN/USD, eop.)	19.47	20.08	19.14	18.73	19.66
Interest rate (%)	8.00%	8.00%	8.25%	8.25%	8.25%
Inflation (y/y)	-	3.16%	3.78%	5.02%	4.83%
Economic activity (y/y)	-	-	-	2.0%	2.1%
Industrial activity (y/y)	-	-	-1.7%	1.8%	0.2%
Automotive production (y/y)	-	-	-1.1%	4.3%	1.3%

Source: EconViews based on several sources

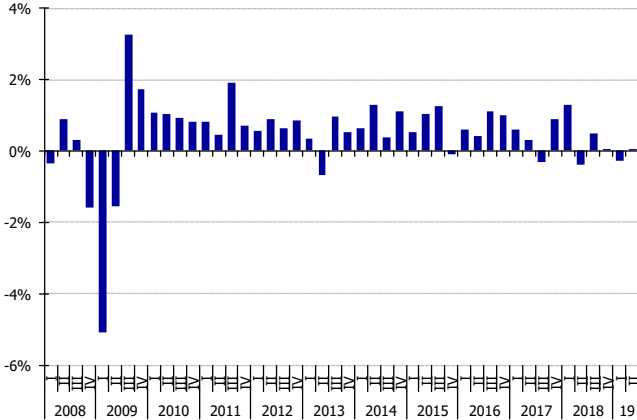
Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	2.9%	2.1%	2.0%	0.5%	1.3%
Inflation (Dec-Dec)	3.4%	6.8%	4.8%	3.3%	3.3%
Fiscal Balance (% GDP)	-2.5%	-1.1%	-2.1%	-2.1%	-2.4%
Current Account (% GDP)	-2.3%	-1.7%	-1.8%	-1.3%	-1.6%
International reserves (USD Bn)	176.5	172.8	176.0	177.2	179.0
Exchange rate (MXN/USD)	20.7	19.7	19.7	19.9	20.3

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

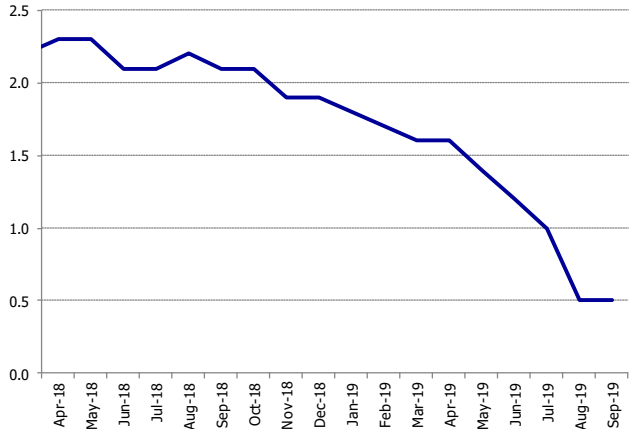
Real GDP

Q/Q variations - INEGI



GDP growth - rolling forecasts for 2019

In %



Inflation - General CPI

Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
The fiscal position is weakening but the government has enough room to manage the situation as total deficit stands at only 1.0% of GDP.	Bad weather conditions have affected GDP and the primary sector will be severely affected. The impact should be temporary but is worth monitoring.	A political crisis in early August put President Abdo Martinez on the verge of a political trial and the Cabinet may suffer a reshuffle.

POLITICS

In late July, a scandal related to secret negotiations with Brazil pertaining to the sale of energy from the Itaipu dam, almost ended with a political trial to President Abdo Benitez. The secret agreement had been signed in May and allegedly was prejudicial to Paraguay. With the cancelation of the accord and the resignation of all staff involved, Abdo Benitez escaped from the tough situation but the whole cabinet was shaken and further changes are expected.

ECONOMIC ACTIVITY

GDP figures for Q1-2019 finally came in with a drop of 2.0%. A severe drought early in the year has impaired agriculture, cattle, and energy and construction activities. According to the IMAEP indicator, the negative trend continued in Q2 but seems to have bottomed out in July. Despite this stabilization, global macro conditions will remain weak and we expect the primary sector to be especially hit. In line with these projections, we forecast GDP growth in 2019 to slowdown to 1.9%.

INFLATION

As of August headline consumer prices came in at -0.1% m/m, driving the y/y inflation to 2.8%, down 0.3 p.p. as compared to July figures. Core inflation printed a 0.1% m/m variance, to total 2.7% on a y/y basis. Food and transportation are the items with the highest monthly decreases, with softer exports demand for beef and weaker global energy prices explaining that performance. CPI is still below the center of the BCP target range (4% +/- 2%). We forecast 2019 FY inflation at 3.6%.

MONETARY SECTOR

The PYG trades at 6,350 to the USD, depreciating 5.8% YTD. In its August meeting the BCP cut the policy rate to 4.25%, citing that tensions in the trade front have softened global GDP projections. On the regional front, weaker activity in Brazil and increased political uncertainty in Argentina also warrant a looser monetary approach. The BCP considers the move is in line with a convergence of CPI to its goal of 4%. We forecast the policy rate to end the year at 4%.

FISCAL ACCOUNTS

As of August, the cumulative 12-month primary balance represents a surplus of 0.4 p.p of GDP. Total revenues are going up by 1.4 % y/y trimmed down by a drop in customs taxes while expenses are running at 9.6% during the same period. Nearly 53% of government expenditures are focused on health, education and other social programs. Total fiscal balance stands at a deficit of 1.0 p.p of GDP, within the Fiscal Responsibility Law ceiling of 1.5 p.p. of GDP. As of August, the cumulative 12-month primary balance represents a surplus of 0.4 p.p of GDP.

WHAT'S COMING NEXT?

- The country keeps on outperforming peers with very sound macroeconomic fundamentals, but conditions will worsen in 2019.
- The trade war between China and the US is slowing down GDP growth, bringing a hit in net exports, domestic activity and fiscal numbers.
- Political and economic events in neighboring Argentina and Brazil are worth monitoring.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (PYG/USD, eop.)	6,405.31	6,257.34	6,008.00	5,908.00	5,974.00
Interest rate (%)	4.25%	4.25%	4.50%	5.25%	5.25%
Inflation (y/y)	-	2.8%	3.1%	4.0%	3.2%
Economic activity (y/y)	-	-	0.7%	-2.1%	-0.4%

Source: EconViews based on several sources

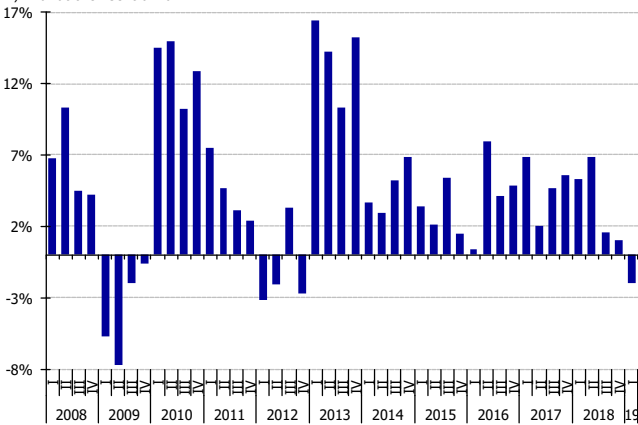
Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	4.0%	4.3%	3.9%	1.9%	3.3%
Inflation (Dec-Dec)	3.9%	4.5%	3.2%	3.6%	3.5%
Fiscal Balance (NFPS - % GDP)	-0.3%	-1.1%	-1.3%	-1.5%	-1.5%
Current Account (% GDP)	3.6%	3.1%	0.4%	-0.1%	0.0%
International reserves (USD Bn)	7.1	8.3	8.0	8.3	8.7
Exchange rate (PYG/USD)	5,866	5,602	5,974	6,211	6,310

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

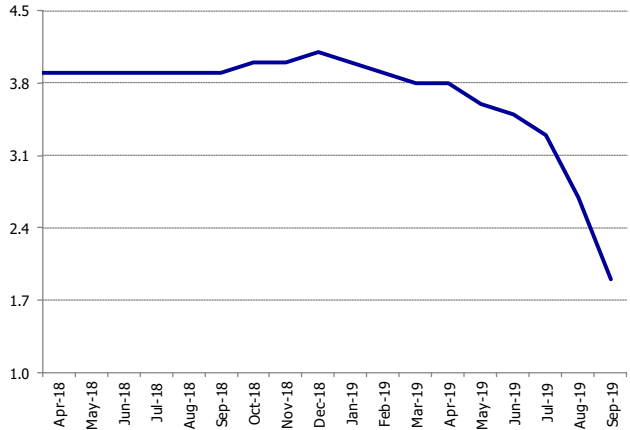
Real GDP

Y/Y variations - Central Bank



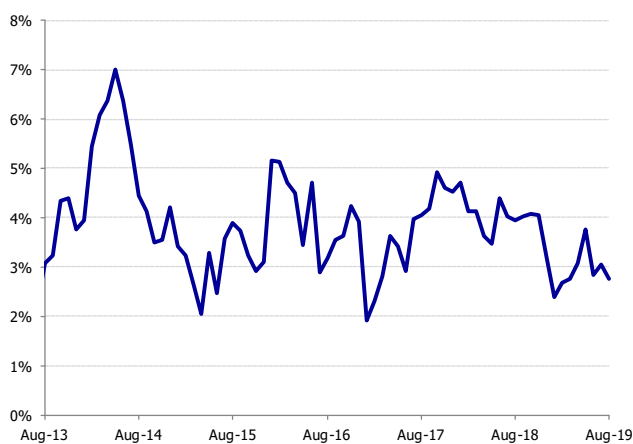
GDP growth - rolling forecasts for 2019

In %



Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
The fiscal front remains solid: deficit was 1.7% of GDP in August while the target for this year was left unchanged at 2.2% in spite of economic deceleration.	GDP decelerated its pace of growth to 1.2% in the Q2-2019, the slowest rate since Q4-2014. However, the available data for July showed a rebound.	Political uncertainty is back on the agenda and will probably have an effect on the economy. In particular, it could harm investment.

POLITICS

President Vizcarra proposed early presidential and legislative elections for April 2020. This way, Vizcarra would end his mandate a year before and the legislative power would be renovated. The Congress is debating the proposal but most of legislators were not in favor. There is increasing tension between the president and the legislators, which is affecting the governability. In this context, approval of Vizcarra has been decreasing in the last 3 months and reached 48% in September (Ipsos).

ECONOMIC ACTIVITY

Growth in the Q2-2019 lost steam and was 1.2% y/y after hitting 2.4% in the previous quarter. Investment (both private and public) stood out: they grew 5.1% and 6.1% respectively. Private consumption decelerated to 2.5% from 3.2%. Government consumption rebounded 1.7% after falling 2.7%. On the external front, exports contracted 2.9% while imports barely increased. The preliminary data for July suggest the economy accelerated its pace of growth to 3.3% (2% so far 2019).

INFLATION

In August inflation was 0.06% m/m, decelerating from the previous 0.2%. The main monthly increases were in "Transport & Communication" which went up 0.2% m/m while "Leisure & Others" grew 0.2%. In y/y terms, inflation decelerated for the 3rd consecutive month and was near the CB's target of 2.0%. In the case of core inflation, which excludes food and energy, it increased 0.14% m/m and was 2.2% y/y. For 2019 inflation was revised down to 2.2% and for 2020 is expected to be 2.3%.

MONETARY SECTOR

At the beginning of September the PEN depreciated as other emerging-market currencies and reached 3.40, a minimum level since 2016. Nowadays it receded to 3.36. In September, the policy rate was left unchanged at 2.5% but in the previous month, there was a 25 bps reduction, the first since March 2018. In the monetary policy statement it was mentioned that maintaining an expansive bias was adequate so more reductions in the interest rate are likely based on incoming data

FISCAL ACCOUNTS

In August 2019, 12-month accumulated fiscal deficit deteriorated and was 1.7% of GDP. The result was driven by less government revenues due to tax devolutions and more payment of interests on public debt. In August tax revenues fell 1.2% y/y but income tax and VAT increased 2.9% and 7.1%. Government current expenditure accelerated to 5.4% y/y while investment deteriorated 0.7%, especially in regional and local governments. Fiscal deficit is expected to be 2.0% of GDP for 2019 & 2020.

WHAT'S COMING NEXT?

- The Central Bank will probably cut the policy rate once more in line with a dovish stance from global banks.
- The external front and in particular the trade war between the USA and China remains as the main risk for an open economy such as Peru, which relies significantly on exports.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (PEN/USD, eop.)	3.36	3.40	3.31	3.31	3.37
Interest rate (%)	2.50%	2.50%	2.75%	2.75%	2.75%
Inflation (y/y)	-	2.04%	2.11%	1.28%	1.32%
Economic activity (y/y)	-	-	-	2.3%	4.0%
Manufacturing activity (y/y)	-	-	-	1.5%	5.9%
Mining production (y/y)	-	-	-	1.0%	-0.5%

Source: EconViews based on several sources

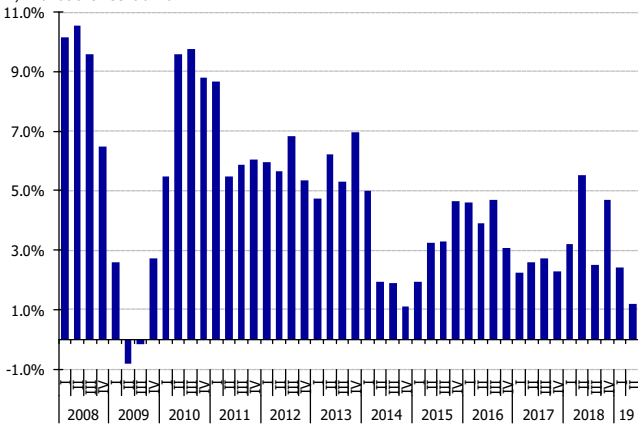
Macroeconomic Outlook

	2016	2017	2018F	2019F	2020F
GDP growth (%)	4.0%	2.5%	4.0%	2.7%	3.4%
Inflation (Dec-Dec)	3.2%	1.4%	2.2%	2.2%	2.3%
Fiscal Balance (% GDP)	-2.5%	-3.1%	-2.5%	-2.0%	-2.0%
Current Account (% GDP)	-2.7%	-1.2%	-1.6%	-1.8%	-1.9%
International reserves (USD Bn)	59.8	61.4	59.1	63.0	64.5
Exchange rate (PEN/USD)	3.36	3.24	3.37	3.35	3.37

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

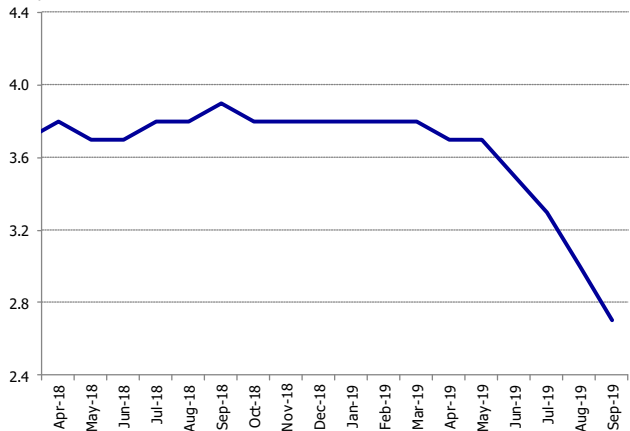
Real GDP

Y/Y variations - Central Bank



GDP growth - rolling forecasts for 2019

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar





URUGUAY

Good news	To be alert	Bad news
Despite a tepid GDP and persistent inflation, Moodys has reinforced its Baa2 Sovereign rating to Uruguay. Fitch and S&P made no comments so far.	The external front and the global conditions should be closely followed. The macro performance of Argentina and Brazil is key.	The fiscal situation continues to weaken. Global tensions and a softer regional and domestic GDP will increase the strains.

POLITICS

The first round of national elections will be held on October 27, while the second round will take place on November 24. Recent polls conducted in mid August point to a very hectic electorate, as the incumbent Frente Amplio candidate (Martinez) is leading in intention with nearly a third of the votes, but challengers Lacalle from the Partido Nacional and Talvi from the Partido Colorado, alternate in the second place according different polls. Two rounds will surely be needed to define next President.

ECONOMIC ACTIVITY

Economic activity measured by the GDP in Q2-2019 went up by 0.1% on y/y, with transportation, storage and communications (+5.5%) leading the way and construction (-4.7%), trade, lodging and restaurants (-2.6%) and manufacturing (-1.9%) the sectors with the biggest slides. Private consumption remained stagnant (-0.1%) and private investment also showed weakness (-5.8%). In light of domestic and international softness, we are reducing the GDP growth estimate in 2019 to 0.6%.

INFLATION

Inflation in August came in at a 0.9% monthly increase to result in an annual reading of 7.8%, which is still out of bounds of the BCU 3-7% target range. Food (+1.8% m/m), housing (+1.7% m/m), education (+1.6% m/m) and restaurants and hotels (+0.8%) were the drivers of the spike in consumer prices. The recent UYU weakness and its impact on CPI over the coming months is leading us to forecast inflation to stand at 7.7% for 2019.

MONETARY SECTOR

The UYU is trading in the area of 36.80 to the USD with a cumulative YTD depreciation of nearly 13%. In its July meeting, the BCU COPOM decided to keep a slightly contractive stance, leaving the annual M1 growth target for Q3-2019 at 8-10%. The approach is consistent with CPI converging down to the 3-7% inflation target given domestic and external conditions. We forecast the UYU to trade at 36.40 by year end.

FISCAL ACCOUNTS

As of July, the fiscal balance recorded a 2.2% deficit to GDP on a y/y basis, within the 3.5% target established in the fiscal responsibility law. It is important to recall that this figure includes the revenues of the Social Security Trust (1.9% of GDP) that cannot be used to match ordinary public expenditures. The primary surplus of 0.5% was offset by an interest expense bill of 2.7 p.p. to GDP. We estimate FY 2019 fiscal deficit at 3.3%.

- WHAT'S COMING NEXT?**
- The evolution of the fiscal deficit is worth monitoring.
 - The global environment will impact the short run performance of the UYU.
 - The road to the next elections in October is a key variable to watch.
 - The persistence of inflation and high unemployment is here to stay.
 - The situation in neiahborina Brazil and Araentina deserves attention.



APPENDIX

Dashboard

	Sep-19	Aug-19	Jul-19	Sep-18	2018
Exchange rate (UYU/USD, eop.)	36.76	36.66	34.36	33.30	32.45
Interest rate (%)	-	-	5.84%	5.21%	5.28%
Inflation (y/y)	-	7.8%	7.5%	8.3%	8.0%
Economic activity (y/y)	-	0.2%	-0.1%	0.9%	2.4%
Manufacturing activity (y/y)	-	-	0.0%	16.1%	11.5%

Source: EconViews based on several sources

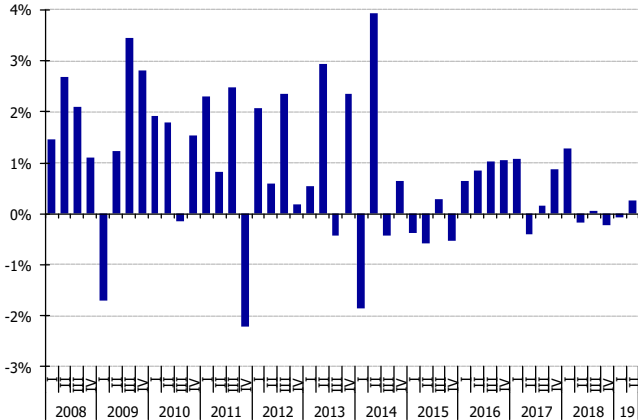
Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	1.7%	2.6%	1.6%	0.6%	1.5%
Inflation (Dec-Dec)	8.1%	6.6%	8.0%	7.7%	6.8%
Fiscal Balance (% GDP)	-3.8%	-3.5%	-2.9%	-3.3%	-3.1%
Current Account (% GDP)	0.6%	0.8%	-0.6%	-0.6%	-0.7%
International reserves (USD Bn)	13.4	16.0	15.6	16.6	17.3
Exchange rate (UYU/USD)	29.35	28.85	32.40	36.40	38.50

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

Real GDP

Q/Q variations - Central Bank



GDP growth - rolling forecasts for 2019

In %











Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2019	2020	2019	2020
	-3.0%	-2.0%	52.5%	47.0%
	0.9%	2.0%	3.6%	3.9%
	2.5%	3.1%	2.7%	2.8%
	3.1%	2.8%	3.6%	3.3%
	0.5%	1.3%	3.3%	3.3%
	1.9%	3.3%	3.6%	3.5%
	2.7%	3.4%	2.2%	2.3%
	0.6%	1.5%	7.7%	6.8%

(+54 11) 5252-1035
 Carlos Pellegrini 1149
 Buenos Aires

www.econviews.com
www.facebook.com/econviews
 Twitter: @econviews

Miguel A. Kiguel
 Director

mkiguel@econviews.com

Lorena Giorgio
 Senior Economist

lgiorgio@econviews.com

Miguel Zielonka, CFA
 Associated Director

mzielonka@econviews.com

Mariela Diaz Romero
 Semi-Senior Economist

mdiazromero@econviews.com

Eric Ritondale
 Chief Economist

eritondale@econviews.com

Rafael Aguilar
 Analyst

raguilar@econviews.com