LATIN AMERICA UPDATE SEPTEMBER 2016

BRAZIL

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Dilma Rousseff was ousted by the Senate and Michel Temer was sworn in, concluding the impeachment process. Now as President, Mr. Temer is trying to implement austerity measures to give a new pace to the economy and bring consumer and market confidence back. The three main amendments promised by President Temer are the spending cap bill, pension reform and making the labor legislation more flexible. The Monetary Policy Committee (COPOM) has decided to keep SELIC (interest rate) steady and still awaits inflationary expectations to lower toward the center of the target, set at 4.5%.

CHILE

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Mrs. Bachelet's approval rate remains low at 21%. However, the negative approval trend has flatten out due to a more pragmatic approach towards the implementation of new reforms. Budget proposal for 2017 has been released showing a moderate increase of 2.7% YoY; which in turn is lower than previous increases. The Private Pension System has been questioned by some informal sectors and small political parties which have opened the door for debating the current setup. Discussions are pointing towards a gradual increase of pensions in a range of additional 5% of wages and salaries. This hike is expected to be covered by employers and to have a solidarity logic helping low income segments. Growth remains in the 1.5-2.0% area for 2016 and 2017. The later will only change in a better mining and global economy context.

COLOMBIA

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Colombia reached a peace treaty with the Revolutionary Armed Forces of Colombia (FARC), but in plebiscite on October 2nd the terms of the treaty were rejected by the population. Now the government will summon political parties to discuss new terms. As the inflation started to ease in Colombia, the Monetary Policy Committee decided to keep the interest rate at 7.75%. The government expects to approve the new tax reform and avoid a new downgrade by the rating agencies, since S&P and Moody's downgraded Colombia's outlook to BBB negative.

PERU

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President Kuczynski's approval rate is on the rise due to a dynamic set of policies aimed at boosting growth and reducing corruption levels. The government's growing agenda is centered towards increasing infrastructure investments, reducing taxes and formalizing small businesses. Higher infrastructure investments will be partially funded through new government debt which will push debt levels to a still healthy 24.9% of GDP in 2016. Upcoming proposals to chance the judiciary, police, political and electoral systems are expected. Biggest challenge is for Kuczynski to get adequate alliances in congress to implement the proposed changes. Growth is starting to recover and it's expected to reach 3.8% in 2016 and 4.0% in 2017. The major contributor to Peru's increasing growth is the mining sector. CIP levels are within central bank's targets and it is estimated for rates to remain at 4.25% levels.

URUGUAY

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President Tabaré Vázquez is facing a lot of pressure from labor unions to increase workers' wages and pension. A protest took place in Montevideo with over 30,000 people. The country is also facing problems towards the Presidency of the Mercosur trade bloc, since Uruguay decided to quit the Presidency and pass it to Venezuela. Brasil, Paraguay and Argentina strongly criticized the move and diplomatic disputes took form. With high inflation and high government spending, Moody's revised Uruguay's rate to Baa2 negative from Baa2 stable.

BRAZIL

POLITICS

The Senate concluded the impeachment process of Dilma Rousseff in the last week of August. After 9 months of uncertainties, Ms. Rousseff could not convince the senators she was innocent. She was convicted for illegally using money from state banks to pay for public spending. The final voting was 61 senators pro and 20 against her impeachment. Michel Temer, the former Vice President and now President of Brazil, faces many challenges ahead. After he took office as interim President in May, the market gave him a vote of confidence as he promised to launch several economic reforms, including the review of the social security system and the public spending cap. Now as President, there is a strong pressure on Michel Temer to deliver and send to Congress the austerity measures.

During his three months as interim President, Michel Temer submitted a constitutional amendment to a special committee in the Congress in order to set a public spending cap, which limits the spending increase to the previous year inflation rate. The committee is discussing the bill, which can still be amended. All constitutional amendments have to be voted in the Lower House and afterwards in the Senate to be approved, which is expected to take a few months.

As to the social security reforms, the main objective of the government is to reduce its deficit, which is now said to be of BRL 120 billion. The main points of the reform is the establishment of a minimum retirement age - 65 for men and 60 for women - and the changes in the special regimen of retirement of public workers. This reform is expected to be approved by the lower house still in 2016.

Even though on the economic side confidence is growing, on the political side, Mr. Temer had three of his ministers stepping down due to corruption allegations related to the Car Wash Operation, which is still ongoing and always revealing new evidence. In the beginning of September, yet another phase of the Car Wash Operation was launched related to possible frauds in the pension funds. The Federal Prosecutors approved the maintenance of the Car Wash task force for at least one more year. Since the beginning of 2014, Federal Judge Sergio Moro has issued 106 convictions – none of them of politicians. The convictions can still be appealed in superior courts. It should be noted that all politicians in Brazil if brought to justice, are to be trialed by the Supreme Court.

On October 2nd, the 5561 municipalities in Brazil elected their mayors, vice-mayor and the members of city council. This is expected to be a good thermometer of the political mood in the country after the impeachment process and Lava Jato proceedings.

ECONOMY

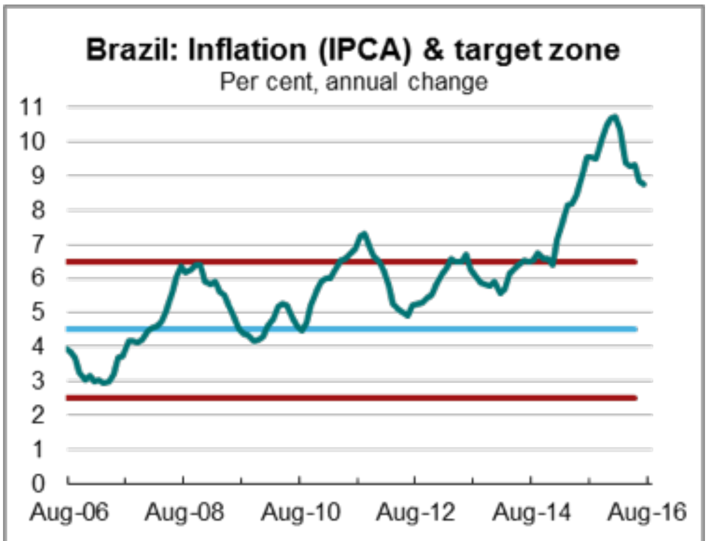
Brazil	2014	2015	2016P	2017P
GDP (USD bn)	2,416	1,769	1,789	1,950
GDP per capita (USD)	11,914	8,650	8,680	9,391
Real GDP Growth (%)	0,2	-3,8	-3,2	2,0
Inflation rate (annual var. %)	6,4	10,7	7,20	4,8
Exchange rate (BRL per USD)	2,66	3,90	3,25	3,50
Interest rate (% p.a.)	11,25	14,25	13,50	10,00
Trade balance (USD bn)	-4,0	19,7	47,00	42,00
Current account balance (% of GDP)	-4,1	-3,3	-1,2	-1,7
Foreign direct investments (% of GDP)	4,0	4,2	4,1	3,9
Gross public debt (% of GDP)	57,2	66,2	71,6	76,4

Source: Bacen, Bloomberg, IMF

GDP contracted for the sixth consecutive quarter by 0.6% during the second quarter of this year. Year over year the GDP fell by 3.8%, the same decrease as in 2015. Year over year the GDP fell by 3.8%, the same decrease as in 2015. Market watchers are expecting the GDP to shrink by 3.20% in 2016. The recovery of the economy depends largely on whether President Michel Temer will be able to obtain the Congress approval of the fiscal reform. In July, the Gross Public Debt reached 69.5% of the GDP. The fiscal reform is expected to help the country stabilize its debt/GDP ratio, reduce inflationary expectations and bring confidence back to the economy.

Source: Thomson Datastream/DNB Markets

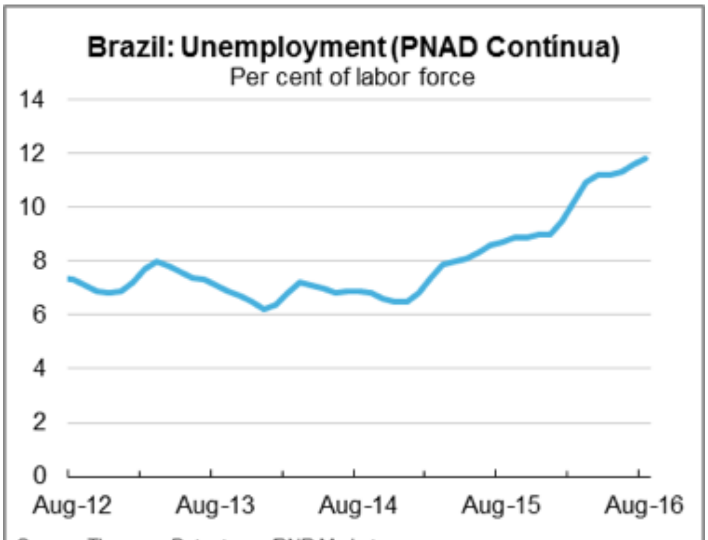
Inflation remains above the center of the target, which is set at 4.5%. The inflation year over year reached 8.97% in August and the Monetary Policy Committee (COPOM) expects an inflation of 7.3% by the end of 2016. The inflation is losing pace, increasing only by 0.44% in August. This figure is lower than in the previous month. Year to date, the inflation is at 5.42% and the sectors which are contributing the most for the high inflation are the food & beverage and consumer goods.



Source: Thomson Datastream/DNB Markets

President of Banco Central, Ilan Goldfajn, has made it clear that the Central Bank will only lower SELIC (benchmark interest rate) after inflationary expectations are at center of the target for 2017. To achieve this goal, the COPOM has held the interest rate at 14.25% for nine consecutive meetings. Also, the appreciation of the BRL this year, suggests that inflation will decrease next year.

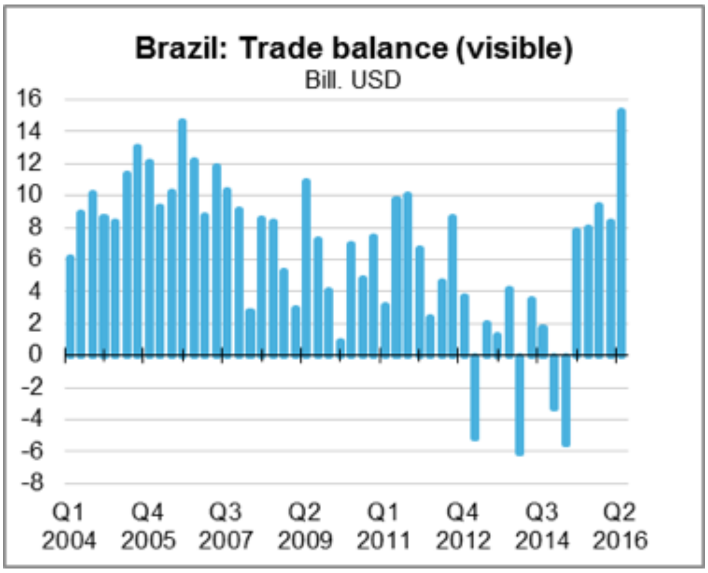
The unemployment rate increased in August to 11.8%, which accounts for 12 million people without jobs. The market expects that the unemployment rate will continue its upward trend and expectations are that it will end the year at 12.5%. With real wages remaining negative, household consumption decreased by 5% compared to the same quarter last year and it is expected to continue its downward trend. Affecting the domestic economy; high inflation, high unemployment with lower real wages, result in lower consumption. Since consumption is responsible for around 60% of the GDP on the demand side, it is undermining the country's economic recovery.



Source: Thomson Datastream/DNB Markets

Business and consumer confidence rose during the last two months, showing signs that the economy is starting to make a recovery. The industrial production also increased in July, posting the fifth consecutive monthly gain of the indicator. The market expects the positive trend to continue over the next months due to a higher business and consumer confidence.

Brazilian trade balance posted a surplus of BRL 32.4 billion year to date. Unlikely the beginning of the year, when the imports suffered a major impact due to a weaker BRL, the trend is beginning to change with higher imports as opposed to previous months. The current account deficit year to date is USD 13.1 billion. FDI (foreign direct investment) reached USD 33.8 billion year to date, after recording only USD 78 million in July against USD 3.9 billion in June.



CHILE

POLITICS

Low growth and higher unemployment are impacting the government's popularity. Michelle Bachelet's popularity is at 21% as per CADEM survey as of Sep 26th.

Low popularity is softening the intensity and speed of reforms, and marking a shift to moderation in public policies based on the recently released budget proposal for 2017. The budget proposal is moderate, with a 2.7% increase, being the lowest expansion in 14 years. This refocuses the agenda on moderate public expenditure, growth discussion, and maintenance of sovereign rating. Additionally, a statement on amending and improving the current private pension system was mentioned.

The Private Pension System has been questioned by some sectors -mostly informal- and some small political parties. Some related demonstrations have occurred. President Bachelet has redirected the focus point and publicly discarded a replacement of the private system, instead it was formulated a roadmap to increase a gradual contribution to pensions in a target of additional 5% of wages and salaries. This gradual and additional contribution is expected to be paid by employers and to have a solidarity logic helping lower income segments. This clarification and focalization of the discussion is giving comfort to investors and the private sector.

2017 Budget includes redistributions of expenses to allow a 10% increase in expenses related to the minimum pension.

Center oriented candidates are emerging. From one side, former President Ricardo Lagos is emerging as a strong candidate for presidency from government's coalition. On the other side, former president Sebastian Piñera is emerging as the strongest opposition's candidate. Center parties such as Christian democrats are putting pressure to reorganize government's coalition from the so called "Nueva Mayoría" to a more similar to the old "Concertación" in order to front 2017 congress and presidential elections in a more center oriented setup.

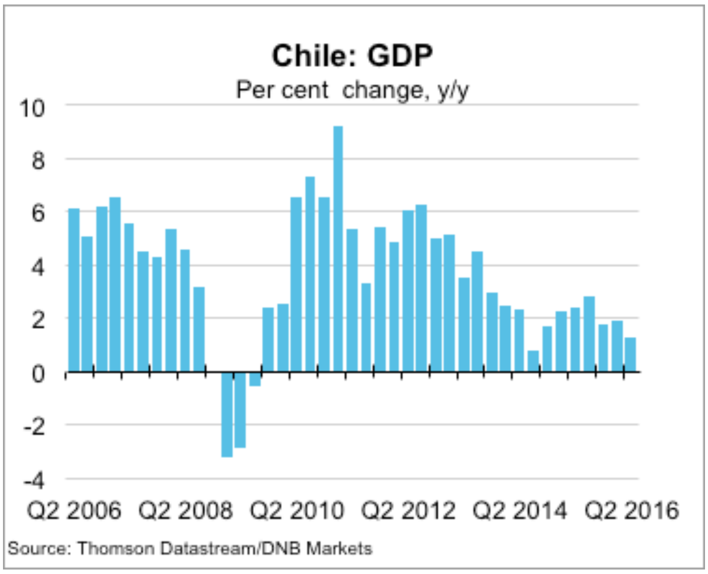
In October 2016 Municipality elections will be held. Participation ratios and tendencies will anticipate tendencies for 2017's presidential elections.

ECONOMY

Chile	2014	2015	2016P	2017P
GDP (USD bn)	258	241	239	253
GDP per capita (USD)	14,491	13,291	13,114	13,782
Real GDP Growth (%)	1,9	2,0	1,5	2,0
Inflation rate (annual var. %)	4,6	4,4	3,5	3,0
Exchange rate (CLP per USD)	606	709	685	695
Interest rate (% p.a.)	3,0	3,5	3,5	3,5
Trade balance (USD bn)	7,8	4,1	3,0	1,3
Current account balance (% of GDP)	-1,2	-1,7	-1,7	-2,2
Foreign direct investments (% of GDP)	8,60	8,50	5,00	4,9
Gross public debt (% of GDP)	13,9	16,3	17,9	4,1

Source: IMF, Bloomberg, BCCh, INE, Harver, Itaú

GDP growth has been in the 2% area during last four quarters. In July 2016, GDP growth was at 1.5% YoY



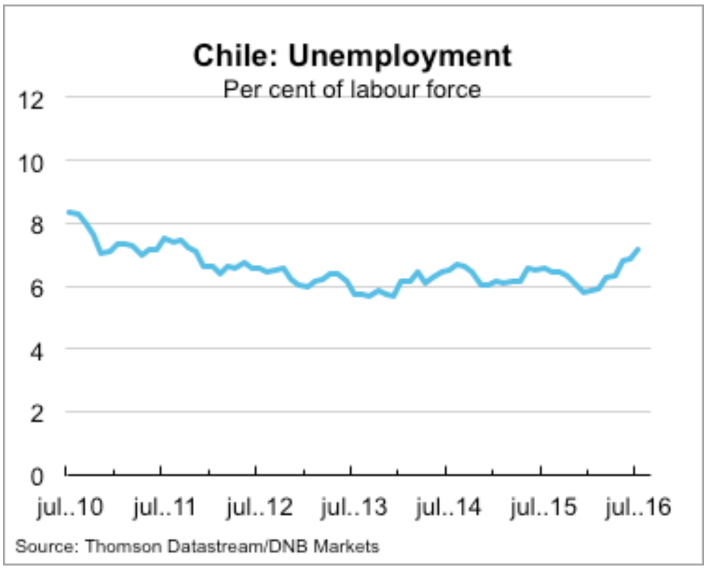
As of July growth was boosted by the utilities, retail, transportation and personal services. This was partially offset by the mining sector. The construction and business services were flat.

In the Economic Expectations Survey (EES) conducted by the Central Bank of Chile and answered by several economists, GDP growth it's expected to be relatively flat by year end at 1.6%. Ministry of Finance expects a higher level of 2.25% in the same period. A slight recovery is expected by economists (reflected in EES) expecting a 2% growth for 2017 and 2.7% for 2018.

Central Bank's GDP growth projection for the coming 5 years is 3.2% per year (average). This is based on investment projections related to a slow and gradual recovery of the mining sector and a better international global scenario.

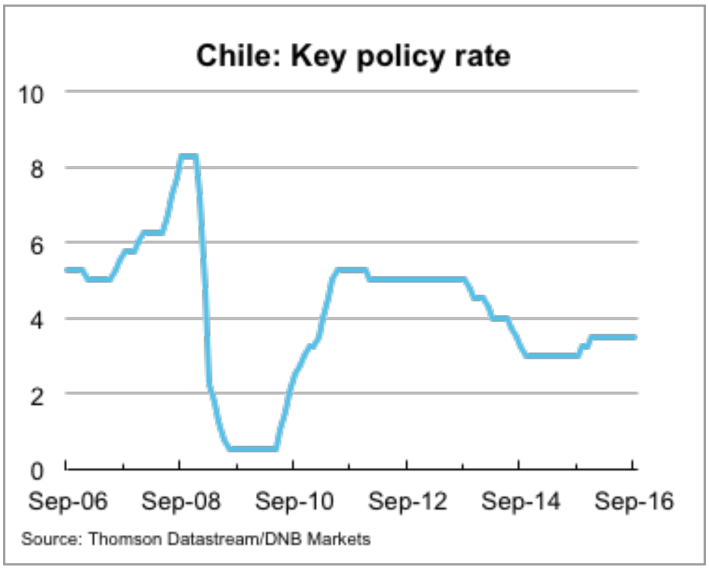
xThe Ministry of Finance is projecting a relatively prudent fiscal deficit of 1.7% for 2016. In its recently issued budget proposal it is expected a fiscal deficit of 1.5% for 2017. Given low interest rates, the Ministry of Finance is projecting to finance the deficit with debt and not using sovereign funds.

Unemployment has increased to 7.1% in July. Employment quality has deteriorated, as dependent workers not growing, with an only 0.2% growth LTM and independent workers associated to more informal and lower paid jobs growing faster at 7.6% LTM measured in July. Total unemployment figure for August was recently released showing a slight improvement, dropping to 6.9% from July.



Inflation is dropping. Null CPI growth in August (comparison w/ prev. month), allowed to reduce inflation LTM to 3.4%, becoming clearly within the central bank's target, reducing any pressure for rate hikes.

Core-inflation indicator, IPC SAE, is also decreasing. Central bank has signaled that they will not increase rates further under this scenario, while the market expects a relatively flat monetary policy at current 3.5% considering international and local scenarios.



Chilean Peso expected to remain relatively flat at 680 CLP/USD for the next two years as per the Economic Expectations Survey (EES).

COLOMBIA

POLITICS

The Colombian government and the Marxist FARC (Revolutionary Armed Forces of Colombia) suffered a major defeat after the plebiscite did not approve the peace treaty sent to Congress. President Juan Manuel Santos said that he accepts the defeat, but he will meet with leaders of the political parties and look for new possibilities to approve the peace treaty. He also stated that this will not affect Colombia's stability and the cease fire will continue. The former FARC leader, Rodrigo Londoño, endorsed President Santos statements and said they still want to maintain the cease fire and approve the peace treaty. Mr. Londoño, also known as Timochenko, said that the Colombians who want the peace treaty to be approved, they can count on the former rebels.

As former President Alvaro Uribe stated before the plebiscite, he considered the treaty to be unfair to law-abiding citizens and criticized the deal to be too lenient on the rebels. The vote ended with a slight margin of advantage to "No", with only 54,000 vote difference. The result showed how divided the population was over the voting and also showed Mr. Uribe still has a lot of influence over the population.

Part of the plan of the government to help the FARC rebels includes giving them subsidy, paying 90 percent of Colombia's minimum wage (which accounts for around USD 200). The negotiators compared the subsidy to the thousands of dollars spent in this war. Government supports, however, that war is much more expensive than the benefits the government would provide the rebels.

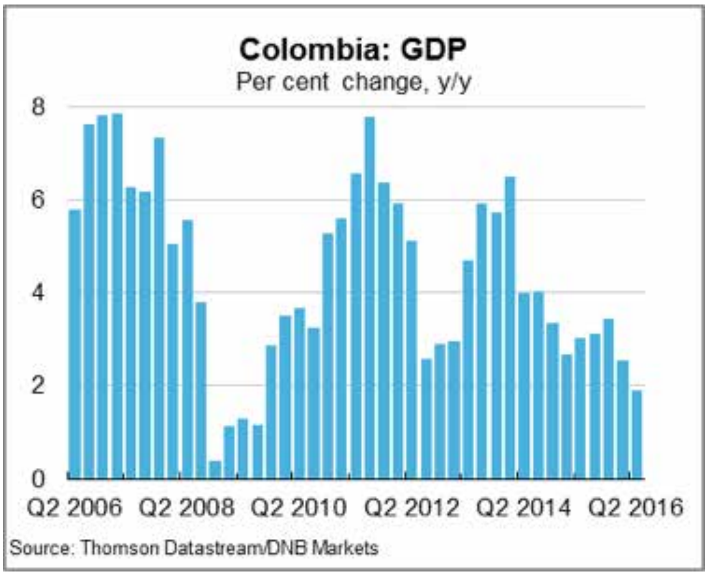
Early in August, Venezuela and Colombia have agreed to reopen pedestrian border crossings between their countries, a year after Venezuela closed the frontier in a dispute over security and smuggling. So far, many Venezuelans have crossed the border to buy basic supplies in Colombia. Mr. Santos said it would be a gradual reopening and reproaching with the government of Venezuela and discussions will go on about re-opening the borders to cargo vehicles.

ECONOMY

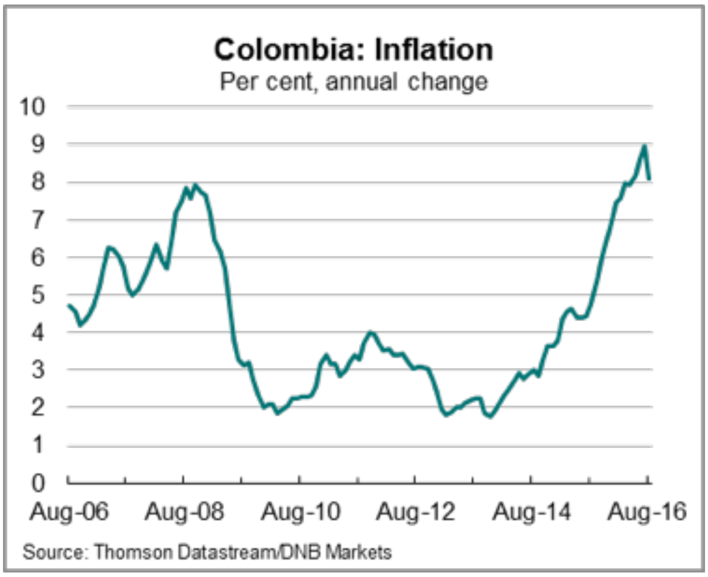
Colombia	2014	2015	2016P	2017P
GDP (USD bn)	378	293	281	296
GDP per capita (USD)	7,940	6,069	5,764	5,994
Real GDP Growth (%)	4,4	3,1	2,0	2,7
Inflation rate (annual var. %)	3,7	6,8	6,9	4,0
Exchange rate (COP per USD)	2,377	3,175	3,050	3,150
Interest rate (% p.a.)	4,50	5,75	7,75	6,50
Trade balance (USD bn)	-6,3	-15,9	-12,0	-8,0
Current account balance (% of GDP)	-5,2	-6,5	-5,5	-3,9
Foreign direct investments (% of GDP)	4,3	4,1	3,7	3,5
Gross public debt (% of GDP)	40,6	45,1	45,4	45,7

Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

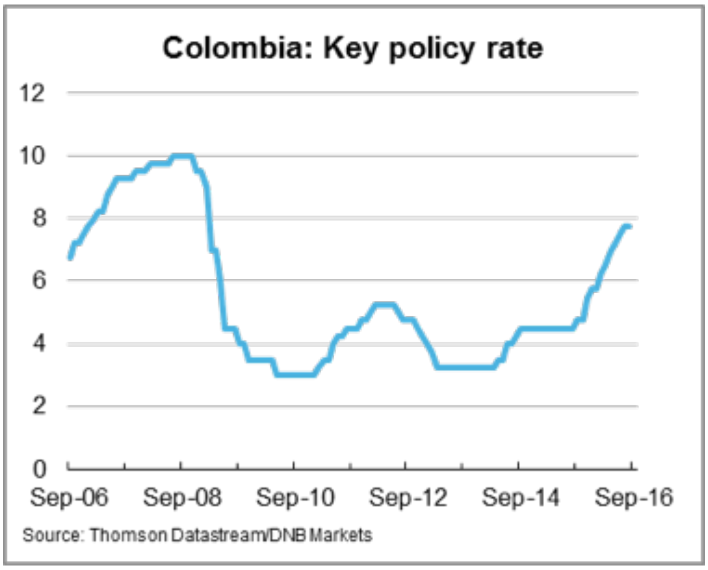
The National Administrative Department of Statistics (DANE) annouced the second quarter GDP growth of 2% year over year, less than the previous quarter and way below the 3.0% growth in the second quarter of 2015. The market was expecting a higher growth and the result was disappointing to the government and market. One of the main reasons for the slow growth is the fall in investments in the oil sector, which is very relevant to the economy. Also, the tightening in the macroeconomic policies and the decrease in real wages contributed to a slow economic growth



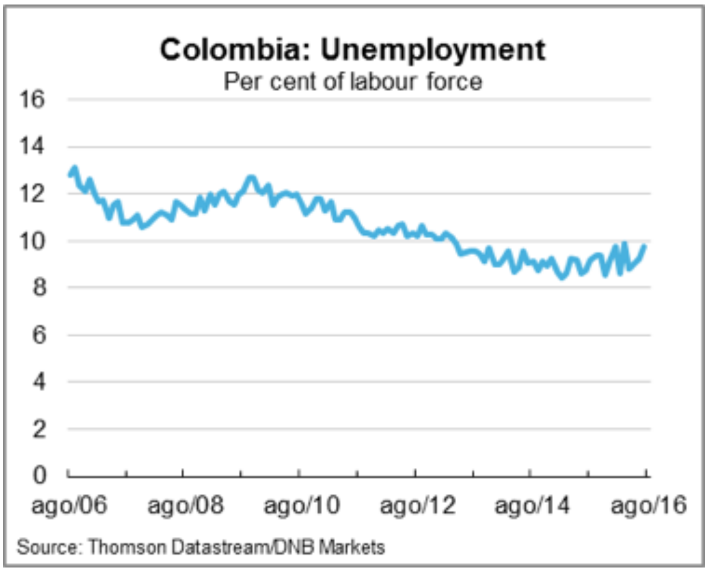
Before the peace treaty with the Revolutionary Armed Forces of Colombia (FARC) failed, President Juan Manuel Santos said the treaty could bring a boost in the economy, but most economists were more skeptical about the potential growth of the economy, forecasting around 0.3% growth added to the GDP. However, as many of the benefits have already been absorbed during more than a decade of security gains, the defeat of the peace treaty may not bring many effects on the economy as expected.



Inflation rate in Colombia rose 0.32% in August, reaching 8.1% year over year. The target is set at 3%, plus or minus 1%. The two main reasons for the high inflation this year were the El Niño weather phenomenon and consequent drought, which shortened food supplies, and the depreciation of the Colombian Peso. Amid the high inflation, the Monetary Policy Committee of Colombia decided to leave the interest rate at 7.75% stating that the rate was starting to slow down. The market expects the Committee to start cutting the interest rate in February of 2017.



The unemployment rate remained steady in August, at 9.0%. The director of DANE said the occupational rate remained stable and the reason more people weren't hired was due to a slow construction sector. He also stated the unemployment rate remained in one digit for the fifth consecutive time, continuing the trend seen in the last few years.



President Juan Manuel Santos confirmed last month that the tax reform will be approved this year and it will come into force in 2017. It is the most expected reform to take place in Colombia after the peace agreement with FARC. The tax reform aims to reduce tax burdens on businesses and to avoid a downgrade by the Rating Agencies, as recently S&P and Moody's have rated Colombia BBB with negative outlook.

PERU

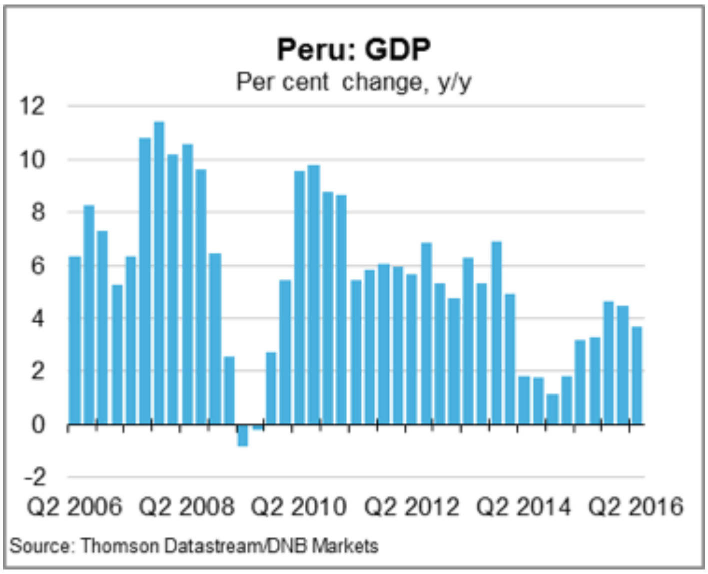
POLITICS

According to Pulso Peru, Mr. Kuczynski's approval rate has increased to 65% in August 2016 from 61% when he was appointed as president. The latter has to do with increasing people's support towards proposed changes to current setup through new policies. The new policies are centered at bolstering investments. Peru's most recent cabinet has also posted record confidence levels in August.

Mr. Kuczynski has several pillars to lift Peru's growing pace. Among the most important are large infrastructure projects and private-public partnerships destined to improve the countries connectivity and current infrastructure setup. Secondly, the President aims at decreasing VAT levels by 1% in 2017. Thirdly, increase consumer spending by formalizing small businesses. Fourthly, further tax reductions for small businesses.

Aside from growth, the President has targeted reducing corruption through fulfilling deep institutional reforms. It is expected for Mr. Kuczynski to propose changes to the judiciary, police, political and electoral systems.

The key challenge to achieve the above would be through congress, where Kuczynski's party has only 18 seats out of 130. Hence, the task would be to seek for the precise political alliances to accomplish its objectives.

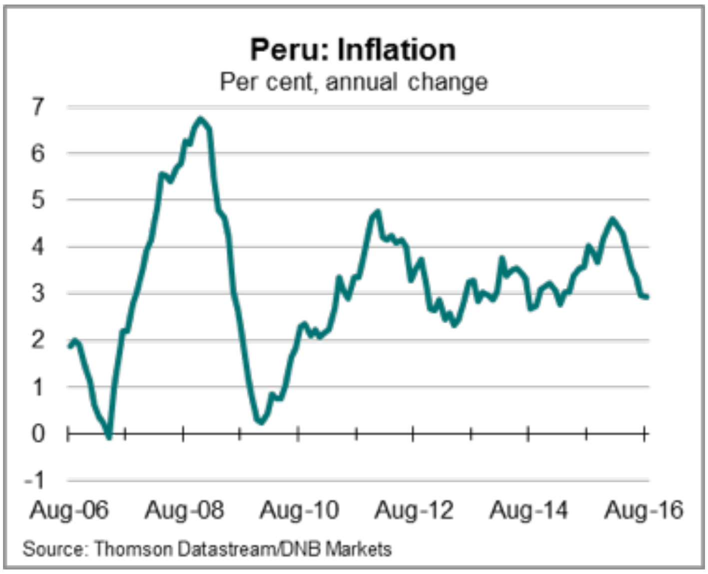


CPI numbers are conveying downwards in line with market consensus. It is expected for inflation levels will reach 2.8% in 2016 and 2.5% in 2017, in line with the central bank targets. Main reasons for the decreasing price trend are: i) "El Niño" event has struck the country in 2015; hence, pushing food pricing downwards and ii) during 2016, further local currency depreciation has been experienced.

ECONOMY

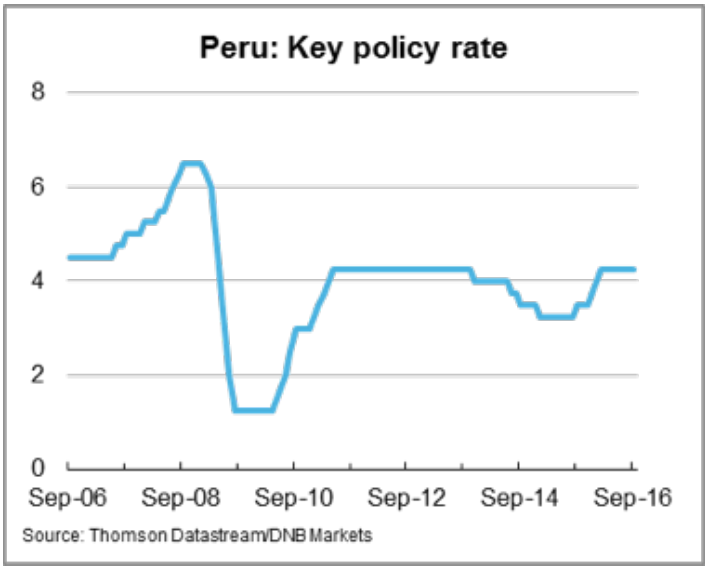
Peru	2014	2015	2016P	2017P
GDP (USD bn)	203	192	194	205
GDP per capita (USD)	6,458	6,021	5,995	6,221
Real GDP Growth (%)	2,4	3,3	3,8	4,0
Inflation rate (annual var. %)	3,2	4,4	2,8	2,5
Exchange rate (PEN per USD)	2,98	3,41	3,35	3,40
Interest rate (% p.a.)	3,50	3,75	4,25	4,25
Trade balance (USD bn)	-1,4	-3,2	-2,7	-3,9
Current account balance (% of GDP)	-4,0	-4,4	-3,8	-3,9
Foreign direct investments (% of GDP)	3,9	3,6	3,9	3,8
Gross public debt (% of GDP)	20,0	23,3	24,9	25,9

Source: IMF, Bloomberg, INEI, BCP, Haver and Itaú

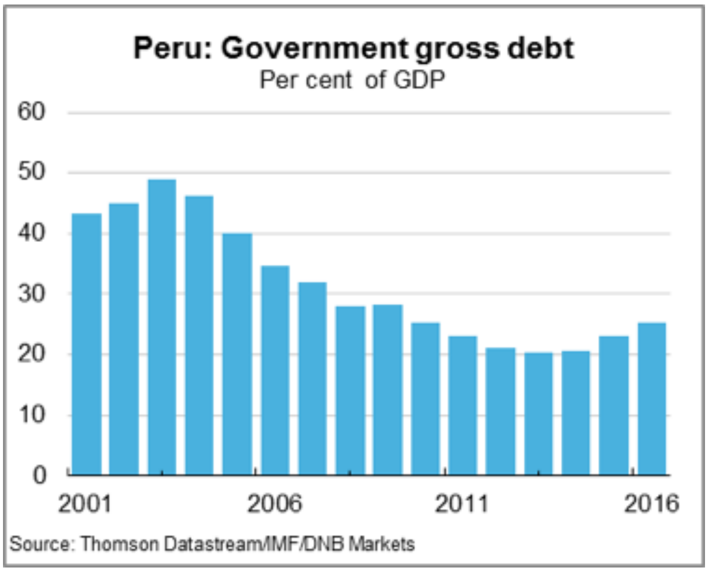


Peru's second half 2016 GDP growth was boosted by higher metal mining exports (+28% YoY). The latter was partially offset by lower private investment (-5.1% YoY) and lower consumption levels (-0.2% YoY). There are expectations for these numbers to follow a positive pace in light of the recently appointed pro-growth agenda government. Already, non-mining investments are presenting certain recovery and business and consumer confidence indicators have risen. In general, GDP growth is expected to reach 3.8% in 2016 and 4% in 2017, compared to 3.3% in 2015 and 2.4% in 2014.

In August, the central bank has decided to leave rates stable at 4.25% due to lower inflationary pressures. Market consensus is that this trend should be maintained throughout 2016 and 2017 as there is less pressure to strengthen the PEN



We expect for gross debt to increase to 24.9% in 2016 and 25.9% of GDP in 2017, from 23.3% in 2015, as the new government will partially fund its aggressive infrastructure investment plan through this mechanism. Despite the increase, we consider Peru's forecast gross debt levels adequate compared to other same rating peers globally.



URUGUAY

POLITICS

Uruguay has been facing tension with unsatisfied labor unions and workers. Around 30,000 workers protested in Montevideo during September demanding higher wages. One of the leaders of the protest, Fernando Pereira, President of the Federation of Labor Unions in Uruguay, said that the country needs to take steps to improve wages. He stated that teachers in the public system make only USD 800 per month and that the government has to increase salaries. The protest also involved the pension system and the public health system, putting pressure on President Tabaré Vázquez to improve these sectors.

The country is also facing scrutiny in the Mercosur trade bloc, after Uruguay decided to quit the presidency of the group and let Venezuela take its place. Brazil, Paraguay and Argentina criticized the move and said Venezuela didn't meet the requirements to fill the Presidency. The Foreign Minister of Uruguay, Rodrigo Nin Novoa, accused Brazil's Foreign Minister, José Serra, of trying to block and then buying their vote to avoid Venezuela from taking the Presidency. Brazil took this as a great offence and called Uruguayan ambassador to explain Mr. Nin Novoa statements, creating great tension between the countries.

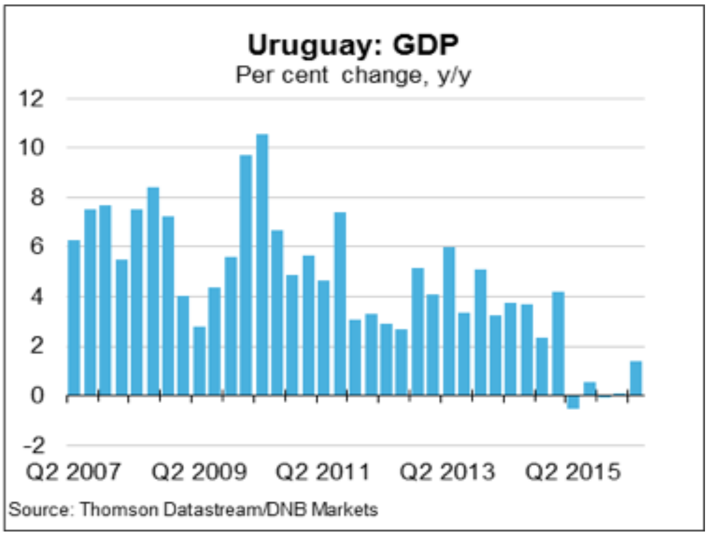
However, after a meeting at UN in New York in September between the Presidents of Brazil and Uruguay, Mr. Vázquez stated that the country needed to preserve and strengthen its relations with Brazil, considering Brazil as one of the main trading partners of Uruguay. He stated it is very important for the country to keep and improve their commercial relations. Michel Temer also said it was important to keep a good relationship with Uruguay and told reporters he entrusts the trade negotiations between the European Union and the Mercosur to Uruguay.

ECONOMY

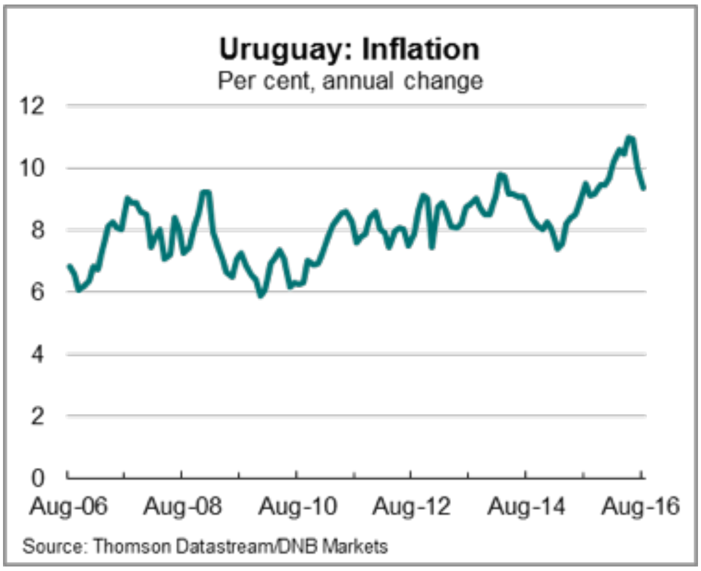
Uruguay	2014	2015	2016P	2017P
GDP (USD bn)	57,5	53,8	53,2	55,1
GDP per capita (USD)	16,882	15,748	15,456	15,976
Real GDP Growth (%)	3,5	1,5	0,0	0,8
Inflation rate (annual var. %)	8,9	8,7	10,0	9,0
Exchange rate (UYU per USD)	24,4	29,9	30,5	33,5
Interest rate (% p.a.)	13,98	12,27	12,00	12,00
Trade balance (USD bn)	-1,6	-1,2	-0,3	-0,7
Current account balance (% in GDP)	-4,4	-3,6	-3,7	-3,4
Foreign direct investments (% in GDP)	4,8	4,4	4,5	-
Gross public debt (% in GDP)	61,3	61,8	63,0	63,6

Source: IMF, Bloomberg, BCU, Itaú

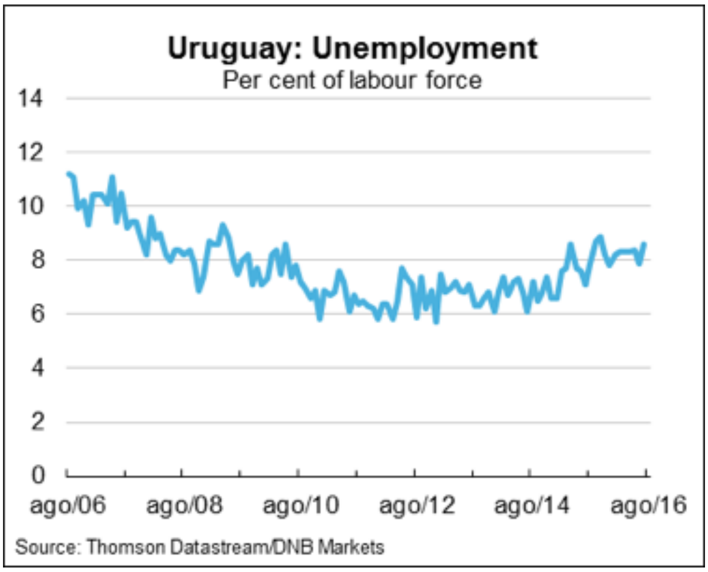
The Uruguayan Central Bank (BCU) reported zero GDP growth, comparing the first quarter to the second quarter of this year. Nevertheless, the GDP grew 1.4% year over year compared to the same quarter in 2015. The GDP increase year over year is mainly explained by a larger generation in renewable energy in the country and an improvement in the transportation sector. The manufacturing and agribusiness sectors are also expected to contribute to the country's growth, which is expected to end the year with zero GDP growth.



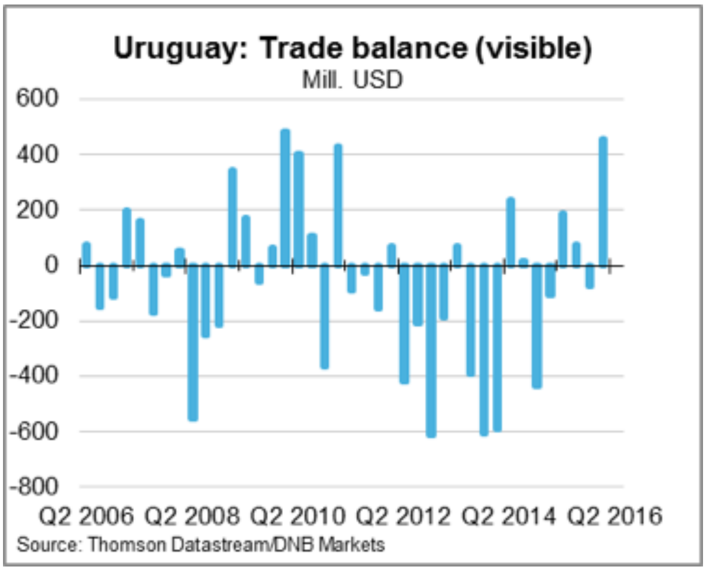
On the inflation side, the rate rose 0.57% in August compared to July. Medical care and education costs had the highest increases according to the survey made by Instituto Nacional de Estadística (INE). However, inflation year over year decreased in August mainly due to the appreciation of the Uruguayan Peso (UYU). The market expectations, however, indicate a high inflation for 2016 at 10%.



According to INE statistics, the unemployment rate in July was 8.6% up from 7.5% in June. The industrial activity fell, with manufacturing and automobile sectors leading the decrease.



The trade balance posted a surplus of USD 207 million in July despite the UYU appreciation in the last couple of months, but the high depreciation in the beginning of the year still affects the exports and imports. Exports rose 15% year over year in the last month and imports decreased 31% year over year, with both movements having a positive effect in the trade balance.



Government tax collection has increased during the last months helping the fiscal deficit to decrease from 3.9% of the GDP in April to 3.4% in July. Further, the government has announced a fiscal effort this year and the expectations are that the fiscal deficit will decrease this year and end at 3% in 2017. However, the debt/GDP ratio still remains relatively high, resulting in uncertainties with investors and consumers.

Uruguay's rating was revised by Moody's from Baa2 stable to Baa2 negative. According to the rating agency, the negative environment in Latin America economies and the country's problems with high expenditures and inflation were the main reasons for the new outlook. The challenge now is to reduce public spending and seek GDP growth.

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