Latin America Economics Analyst

Mexico: Facing 100 Days of Uncertainty and Potential Drama

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Crunch Time on NAFTA Renegotiation and Presidential Race

We have now arrived at a critical and likely defining stage on the two main sources of uncertainty and left-tail risk facing the Mexican economy and markets—the outcome of the presidential election and the renegotiation of the NAFTA trade agreement. A significant part of the current uncertainty should be resolved, one way or the other, over the next 3-4 months, a process that may lead investors to reassess short- and medium-term relative value and macro risk.

Outlook for NAFTA Renegotiation Has Improved in Recent Weeks

Despite the slow progress, the outlook for the renegotiation of NAFTA has improved. In recent weeks there have been a number of constructive statements by the involved parties, raising the expectation that a breakthrough in the negotiations could be achieved within the next two months. Given the upcoming sequence of political events—July 1st presidential election in Mexico, expiration of the *fast-track authority* on July 8, and US Congressional mid-term elections in November—if a preliminary agreement (agreement in principle) is not reached by May-June, the odds of an agreement still being reached in 2018 would drop significantly, and, concomitantly, the risk of a more disruptive trade scenario would rise.

An Election Like no Other!

The outcome and policy implications of the July 1st elections could be far from "business as usual" as they will likely change the overall balance of political power and could also herald a shift from the hitherto investment-friendly and conventional policy mix towards a potentially more inward-looking, heterodox, state-centered interventionist platform. In exactly 100 days, Mexicans will participate in the largest general elections in their history and Andrés Manuel López Obrador (AMLO)—the leftist nationalist candidate running for the Morena led coalition—is enjoying a solid double-digit lead in the early polls. AMLO's significant early lead may not be easy to undo in the 100 days until Election Day, barring a major campaign mistake and/or very poor performance in the three scheduled debates.

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"Without democracy, freedom is a chimera."

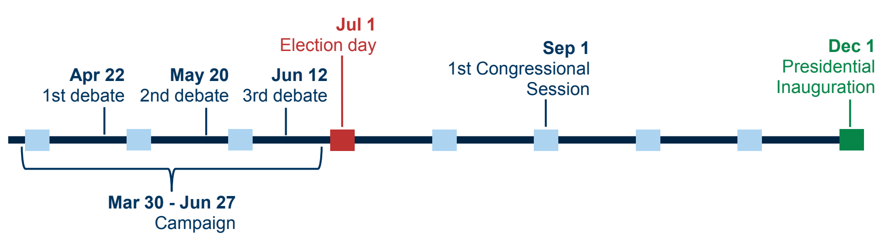
Octavio Paz (1914-1998); Mexican poet and diplomat, awarded the 1990 Nobel Prize in Literature.

Introduction

We have now arrived at a critical and likely defining stage on the two main sources of uncertainty and left-tail risk facing the Mexican economy and markets—the outcome of the presidential election and the renegotiation of the NAFTA trade agreement. A significant part of the current uncertainty should be resolved, one way or the other, over the next 3-4 months - a process that may lead investors to reassess short- and medium-term relative value and macro risk.

We have now started the 100-day countdown to the largest general elections in Mexican history. Presidential, legislative, and a number of local elections will take place on Sunday, July 1. Voters will elect a new president (for a single 5-year and 10-months term) and a full new Congress (500 Lower House representatives and 128 Senators). Furthermore, 9 state gubernatorial (including the Federal District), close to 1,600 mayoral, and several state and municipal legislative elections will take place the same day. The new Congress will be sworn in on September 1, and the new President on December 1 (a long five months after the election).

Exhibit 1: Election Timeline



Source: INE, Goldman Sachs Global Investment Research

Beyond the electoral campaign dynamics, during the 100-day window investors will also be tuned in to the ongoing tripartite renegotiation of the NAFTA treaty. We are approaching "crunch-time" on the complex negotiations that started on August 16, 2017. The NAFTA renegotiation has already gone through seven Rounds, but with limited (official) progress on the thorniest issues tabled by the United States in October during Round 4: e.g., rules of origin for the auto sector; dispute settlement mechanisms (Chapter 11 on Investor-State disputes); "sunset clause"; agricultural products seasonal restrictions; government procurement; and Canadian supply management.

Exhibit 2: Poll of Polls: AMLO Enjoying Solid Lead in Early Polls

Source	Latest Update	Presidential Candidates				
		AMLO	R. Anaya	J. A. Meade	M. Zavala	J. Rodríguez
Oraculus	23-Mar-18	39.5	27.6	23.1	5.5	2.9
Bloomberg	18-Mar-18	41.3	23.7	24.7	6.4	1.1

Source: Bloomberg, Oraculus

Outlook for NAFTA Renegotiation Has Improved in Recent Weeks

Despite the slow progress, the outlook for the renegotiation of NAFTA has improved. In recent weeks there have been a number of relatively constructive public statements by the involved parties, raising the expectation that a breakthrough in the negotiations could be achieved within the next two months.

During the first seven Rounds, negotiators were able to close six of the about 30 chapters that are part of the ongoing attempt to revamp the NAFTA trade agreement (four sectoral annexes were also concluded). The 8th Round is scheduled to start on April 8 in Washington, DC. In the upcoming Round negotiators are expected to conclude another 7-8 chapters and to hopefully make headway on some of the thorniest and divisive issues tabled during Round 4 in mid-October 2017, and on which there has been very limited progress.

On a hopeful note, we highlight that there have been press reports that the US administration is dropping the controversial demand that vehicles exported from Mexico and Canada have at least a 50% US value-added content. If confirmed, this would be a very important development for it would remove a key roadblock for an agreement by May-June, and jives with recent statements by the parties involved (including USTR Robert Lighthizer and Commerce Secretary Wilbur Ross) expressing a willingness to speed up the negotiations in order to reach a preliminary agreement soon.

Time is of the Essence on NAFTA Given The Political Cycle

Given the upcoming sequence of political events—the July 1st presidential election in Mexico, the expiration of the *fast-track authority* on July 8, and US Congressional mid-term elections in November—if a preliminary agreement (agreement in principle) is not reached by May-June, the odds of an agreement still being reached in 2018 would drop significantly, and, concomitantly, the risk of a more disruptive trade scenario would rise.

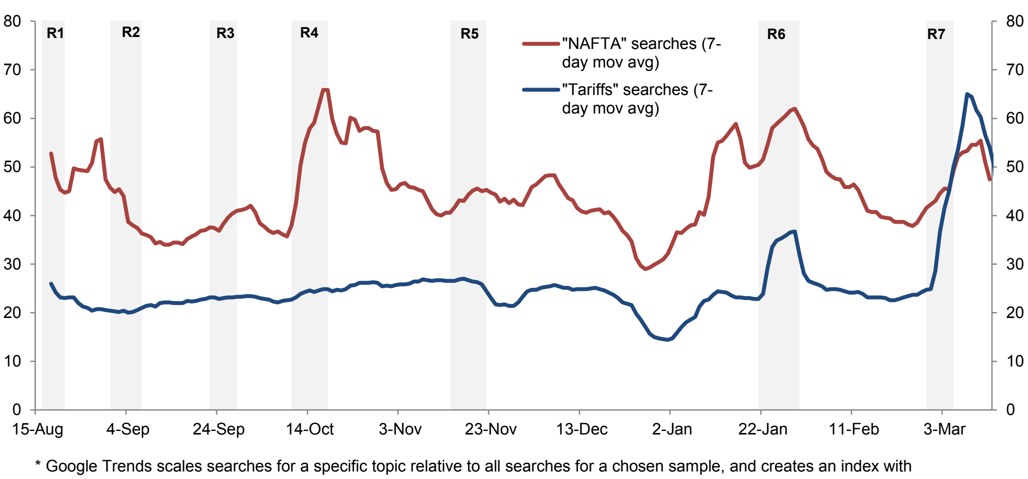
If an agreement is reached by May there is some chance that it could go before the current Mexican Senate and US Congress. Otherwise, the treaty would need to be reviewed by the new Mexican Senate, which will be elected on July 1st and installed on September 1st. Furthermore, the timing and content of a new agreement would depend on the outcome of Mexico's presidential election, as the new president may want to revisit some of the negotiated issues (eventually starting the negotiation anew) and likely leave his imprint on the new agreement. In this regard, we highlight that Mexico's leading presidential candidate, Andrés Manuel López Obrador (AMLO) has already mentioned that if elected, his administration would like to introduce new issues to the negotiating table (such as emigration, as suggested in recent press reports), which would likely further delay the process and increase the risk that the talks end unsuccessfully.

Hence, given the political calendar, there seems to be a sense of urgency among the three negotiating parties involved and a predisposition to accelerate the process. Even if not final, the announcement of an *agreement in principle* would likely be taken very positively by investors and markets, for that would significantly reduce the risk of a break-up of NAFTA. If an agreement, even if in principle, is not reached by May, the sense of urgency would likely disappear, and the negotiations could slow down significantly over the next eight months. The risk here is that the balance of political power could change visibly in Mexico and the US Congress, in a direction that could render the approval of a revamped NAFTA agreement more difficult. In Mexico, recent polls suggest that there is a relatively high likelihood that the ruling PRI will lose the presidency and will also see its bench in both chambers of Congress shrink. The new administration and a more left-leaning Mexican Congress could potentially have concerns with any agreement signed by the current administration. However, on the positive side, we highlight that the ongoing NAFTA renegotiation has been less politicized than what we expected earlier, as the three main presidential contenders have publicly stated that they would like NAFTA to continue. This is a key development, as in the 1990s when NAFTA was negotiated, the Mexican political left opposed the agreement head-on.

NAFTA Uncertainty Is Off Recent Peaks

Overall, uncertainty over NAFTA has now moderated and is off the peaks reached in early 2017 and during the October Round 4 (see Exhibit 3 on ***Google Trends*** for "NAFTA"). This suggests that despite the modest progress so far, markets now seem to attribute a lower risk of a break-up of the negotiation and the end of NAFTA.

Exhibit 3: "Tariffs" recently surpassed "NAFTA" in Google search frequency



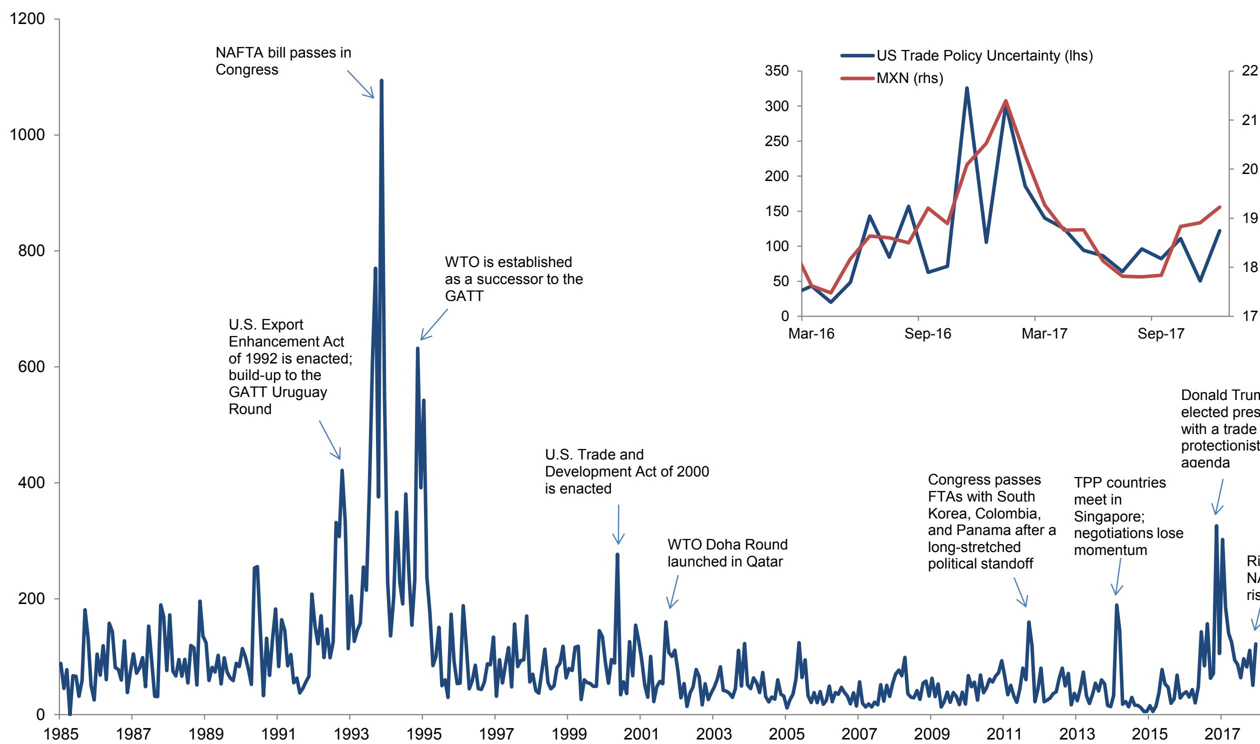
* Google Trends scales searches for a specific topic relative to all searches for a chosen sample, and creates an index with 100 being the maximum proportion of searches on that topic relative to the sample.

Source: Google Trends, Goldman Sachs Global Investment Research

While NAFTA-specific risk and uncertainty are now more contained and off earlier peaks, risk and uncertainty related to broader US trade policy rose again in recent months (see the ***US Trade Policy Uncertainty Index*** in Exhibit 4 and Google Trends for the word "tariff" in Exhibit 3). This follows a number of trade-related actions by the US administration, namely: (1) the imposition in January of steep tariffs on imports of washing machines and solar energy cells and panels, followed in March by (2) a 25% import tariff on steel and 10% on aluminum (Canada and Mexico were excluded, apparently contingent on a successful renegotiation of NAFTA). Furthermore, following an intellectual property-related investigation under Section 301 of the Trade Act of 1974, the US administration announced on March 22, 25% tariffs on US$50bn in goods imported from China, and the Treasury appears likely to propose restrictions on Chinese corporate investment in sensitive US technology sectors in coming weeks. In summary, **overall US trade policy risk and uncertainty increased at the beginning of 2018, but that rise does not appear linked to NAFTA.**

Exhibit 4: US Trade Policy Uncertainty is Rising Again

US Trade Policy Uncertainty



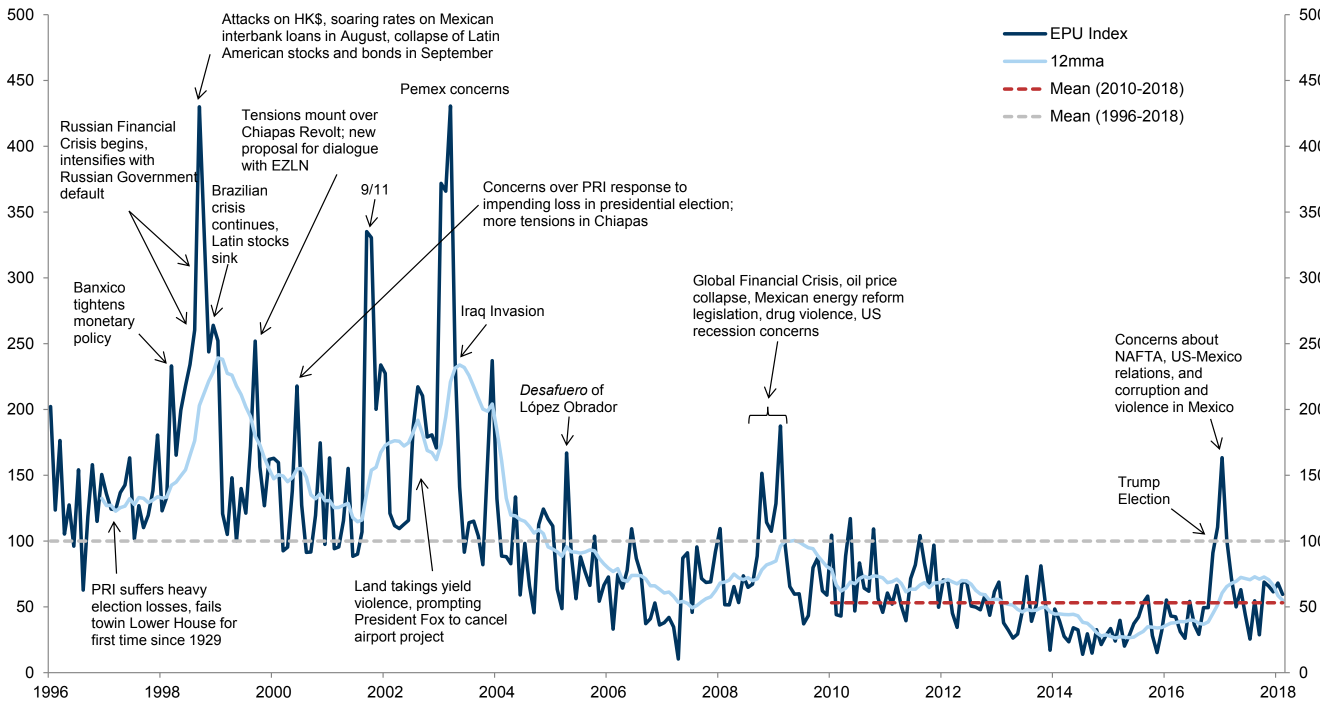
The Trade Policy Uncertainty Index is a categorical index mapping the frequency of trade uncertainty related articles in the media. It follows the methodology of Baker, Bloom & Davis (2016), searching for terms such as "import tariffs", "import barrier", "trade agreement" "trade policy", etc.

Source: PolicyUncertainty.com

Beyond NAFTA, the other major source of uncertainty impacting the outlook for Mexico is related to the July general elections and the risk that they will change the overall balance of political power towards a more inward-looking, interventionist and heterodox policy mix. With 100 days until the July 1st election, left-wing nationalist AMLO continues to enjoy a solid lead in the polls and the outlook for NAFTA is still unclear. While apprehensive, local markets have not overreacted. In fact, Mexico's *Economic Policy Uncertainty Index* is tracking well below the historical

1996-2018 average, and in line with the 2010-2018 average. That is, despite rhetoric that is often investment- and market-unfriendly, markets seem inclined at this stage to give a potential AMLO administration the benefit of the doubt. The fact that overall economic policy uncertainty has not spiked is certainly one of the reasons why the economy has so far remained relatively resilient to the political and trade-related noise (the policy uncertainty index is currently tracking along the post GFC crisis average).

Exhibit 5: Mexico: Economic Policy Uncertainty Below Long Historical Average



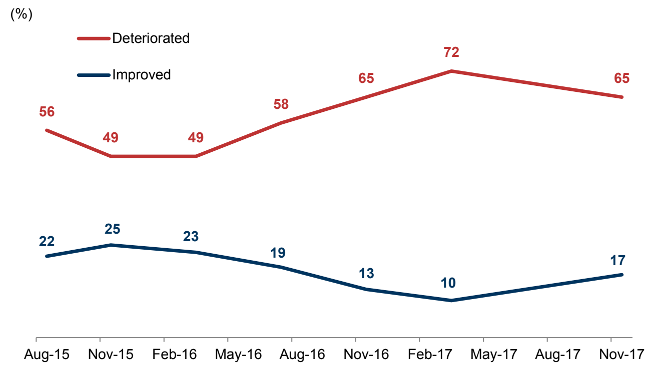
For each month, the EPU index is based on the count of articles in El Norte, Mural, and Reforma containing the terms "incierto" or "incertidumbre", "económica" or "economía", and one or more policy-relevant terms. To obtain the EPU rate, the raw EPU count is scaled by the number of all articles in the newspaper within the month, and normalized to a mean of 100.

Source: PolicyUncertainty.com

Voters Face a Complex Macro Backdrop: High Inflation, High Rates and Downside Risks to Growth

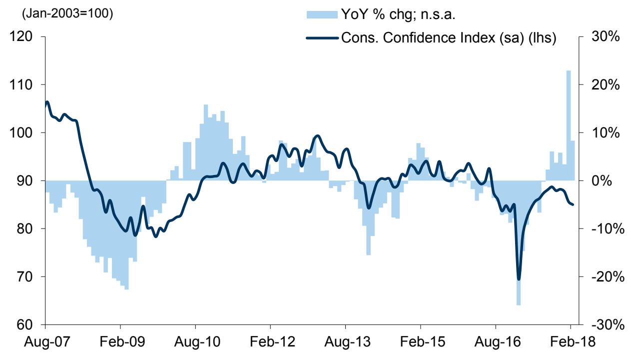
Voters will enter Mexico's electoral campaign facing a macro backdrop that is far from dismal, but also does not provide much reason for joy. The macro picture remains uninspiring and complex—modest growth, declining oil production, high inflation, high interest rates, increasingly exigent consumer credit conditions, binding restrictions on fiscal spending, negative real wage growth, a testy and challenging relationship with the dominant trading partner, and enduring security and corruption issues. There is therefore no wonder that consumer and business sentiment remains downbeat and according to recent polls 65% of those interviewed were of the view that the situation of the country has deteriorated in recent years. However, there are also a few bright spots: the labor market remains strong, with record low levels of unemployment and solid formal sector job growth (+4.5% yoy during Jan-Feb) and the macro-financial risk profile is now less skewed than late in 2016 (lower probability of adverse left-tail events).

Exhibit 6: Poll: Did the Country's Outlook Deteriorate or Improve since Peña Nieto took Office?



Source: El Universal, Buendía y Laredo

Exhibit 7: Weak Consumer Confidence



Source: Haver Analytics, INEGI

An Election Like No Other!

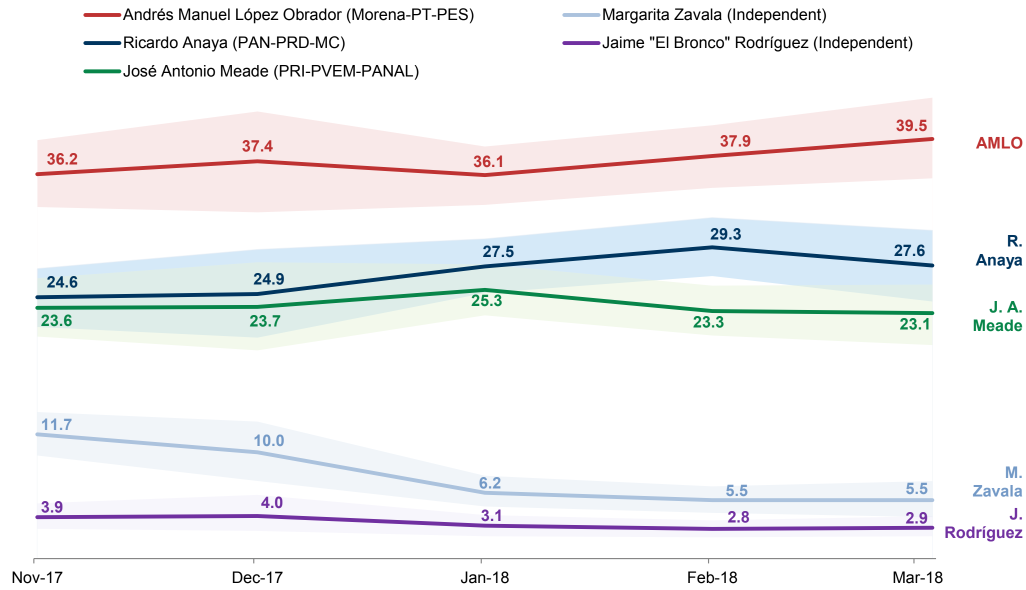
In exactly 100 days, 88 million registered Mexicans will participate in the largest general elections in their history—12.8 million young voters between 18 to 23 years old are eligible to vote for president for the first time. Presidential, legislative, and a number of local elections will take place simultaneously on July 1. Voters will elect a new president and Congress (500 Lower House representatives and 128 Senators). Furthermore, 9 gubernatorial (including the Federal District), close to 1,600 mayoral, and several state and municipal legislative elections will take place on the same day. The official campaign will be short: formal campaigning starts on March 30 and will run through June 27. During that period there will be three presidential debates: April 22, May 20 and June 12. The new Congress will be sworn in on September 1, and the new President a long five months after the election, on December 1. The presidential election is decided by a single round of voting.

With 100 days to go before the July 1st election, **Andrés Manuel López Obrador (AMLO)**—the leftist nationalist candidate running for the **Morena-PT-PES** coalition—is enjoying a solid lead in the early polls.

According to poll aggregator *Oraculus*, **AMLO** leads the race with 39.5% of the effective voting preferences, a +11.9pt lead over **Ricardo Anaya**—the candidate representing the three-party coalition between the center-right PAN, leftist PRD, and the smaller MC (*Citizens Movement*) party. Lagging in third place with 23.1% of the vote is the official **PRI-PVEM-Panal** candidate, former finance minister **José Antonio Meade.**

Exhibit 8: AMLO Enjoying Solid Double Digit Lead Ahead of Official Campaign

Oraculus Poll Aggregator Model Projections

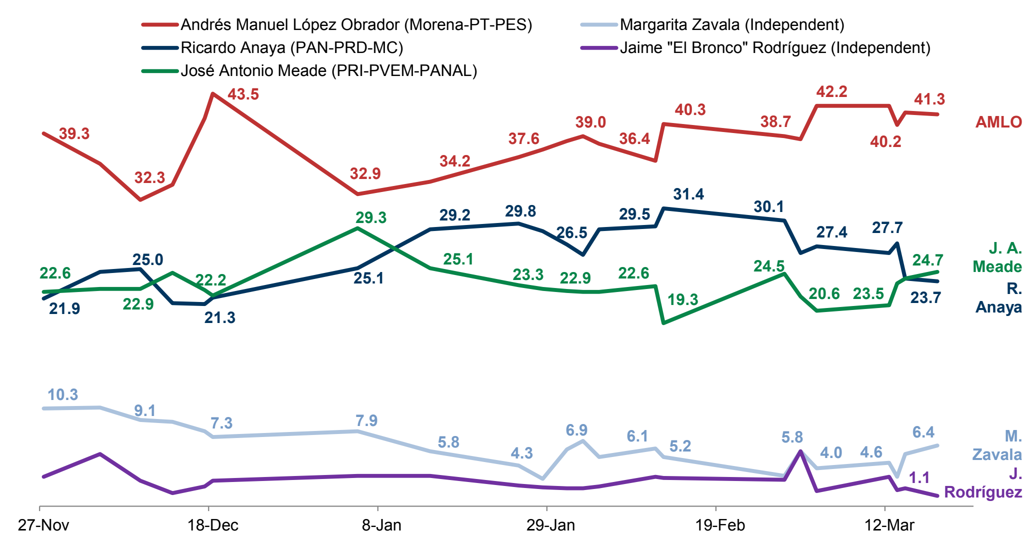


Source: Oraculus

The **Bloomberg weighted poll of polls** tracker gives AMLO an even larger +16.6pt lead: 41.3% for AMLO, versus 24.7% for Meade and 23.7% for Anaya. Independent candidate Margarita Zavala—a former first lady who left the PAN after disagreements with the party's internal candidate selection process—is polling at a very distant fourth place with 5.5% of the vote according to the *Oraculus* aggregation, and 6.4% according to the Bloomberg poll tracker.

Exhibit 9: Anaya and Meade Loosing Contact with AMLO

Bloomberg Efficiency Weighted Poll of Polls



Source: Bloomberg

AMLO's lead seems to be widening and becoming entrenched. The five polls released in March give AMLO an even a larger lead of +14pt, up from the +8pt average of the six polls released in February. Interestingly, all 16 polls released so far in 2018 show AMLO in the lead [max=18pt; min=3pts; avg=9pt].

Exhibit 10: AMLO lead has increased in recent polls

Date	Poll	AMLO	R. Anaya	J.A. Meade	M. Zavala	First	Second	AMLO lead
23-Mar	Consulta Mitofsky	41	29	23	7	AMLO	Anaya	+12
22-Mar	El Financiero	42	23	24	7	AMLO	Meade	+18
21-Mar	GEA ISA	38	32	28	1	AMLO	Anaya	+6
3-Mar	Ipsos	46	29	19	4	AMLO	Anaya	+17
1-Mar	Parametria	40	24	18	11	AMLO	Anaya	+16
27-Feb	Suasor	36	27	30	4	AMLO	Meade	+6
11-Feb	Parametro	36	28	28	5	AMLO	Anaya/Meade	+8
11-Feb	Reforma	42	32	18	5	AMLO	Anaya	+10
11-Feb	Consulta Mitofsky	36	30	24	6	AMLO	Anaya	+6
4-Feb	Mendoza Blanco	39	34	21	4	AMLO	Anaya	+5
4-Feb	Parametria	40	27	21	8	AMLO	Anaya	+13
31-Jan	El Financiero	38	27	22	7	AMLO	Anaya	+11
28-Jan	Suasor	35	28	31	3	AMLO	Meade	+4
25-Jan	Buendia & Laredo	40	32	20	5	AMLO	Anaya	+8
14-Jan	Consulta Mitofsky	33	28	25	7	AMLO	Anaya	+5
5-Jan	Suasor	33	25	30	8	AMLO	Meade	+3

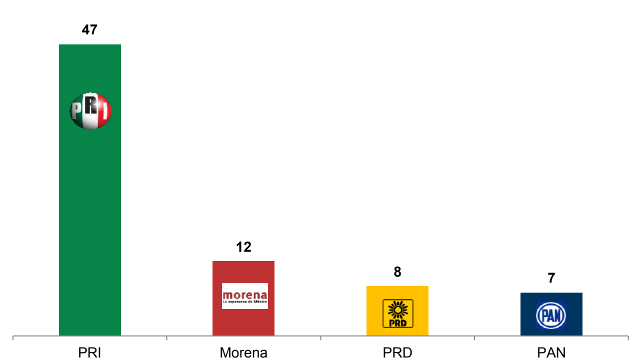
Source: Oraculus; Goldman Sachs Global Investment Research

Voters' preferences are not yet fully settled: unsurprising as the campaign is yet to start. The percentage of those surveyed that did not express a preference for a candidate is at 21% for the average of ten polls released in Feb-Mar [max=30%; min=12%].

Beyond the numerical lead in voters' preference, a number of qualitative indicators also seem to be playing out in favor of AMLO:

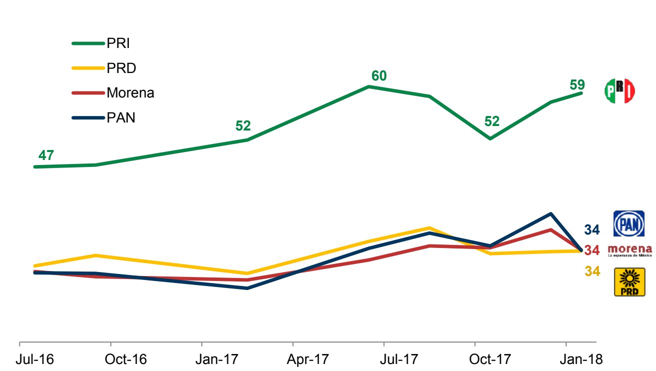
- **The incumbent PRI party has a very high rejection rate:** 47% of those interviewed would never vote for it, compared with just 12% for AMLO's Morena party, and 7%-8% for the PAN/PRD (Exhibit 11).

Exhibit 11: Poll: For what party would you never vote for?



Source: Grupo Reforma

Exhibit 12: PRI has a higher rejection rate than other parties



Source: Consulta Mitofsky

- **AMLO is the candidate with the most favorable image among voters: he has a net positive perception of +17pt** (Good/Very Good net of Bad/Very Bad = 43 -26 =

+17) followed at a significant distance by Ricardo Anaya (32-27 = +5) and Meade, who has a net negative perception among voters (19-38 = -19). Notably, AMLO is the candidate with both the highest positive perception rating among voters (43%) and also the candidate with the lowest negative perception (just 26% vs. 38% for Mr. Meade). This suggests that AMLO's appeal and likability are broadening, while the rejection of the PRI, which epitomizes the political establishment, is quite high and is clouding the presidential bid of Mr. Meade. This also suggests that voters seek change and a new political order, and for that they seem ready to embrace AMLO.

Exhibit 13: Poll: What is your opinion on the following candidates? (%)

	Excellent/Good	Regular	Bad/Very Bad	Doesn't Know Candidate	Net Positive Perception (+/-)
A. M. López Obrador	43	23	26	8	+17
R. Anaya	32	23	27	18	+5
J. A. Meade	19	16	38	27	-19
M. Zavala	19	21	26	34	-7
J. Rodríguez	4	11	20	57	-16

Source: Consulta Mitofsky

- **Voting preferences for AMLO appear firmer (more cemented) than for other candidates**: 75% of those expressing a voting preference for AMLO state that they are sure of their choice (will not change), vs. 66% for Mr. Anaya and 69% for Mr. Meade (Exhibit 14).

Exhibit 14: Vote Certainty (%)

	Certain	Vote May Change	N/A
A. M. López Obrador	74.7	20.5	4.8
R. Anaya	66.4	26.1	7.5
J. A. Meade	69.3	22.2	8.5
Independent Candidate	58.8	39.6	1.6
All Candidates	**59.7**	**27.6**	**12.7**

Source: Consulta Mitofsky

- **AMLO is attracting previously disengaged voters and his support base is extending beyond his original, natural political turf.** According to a *Consulta Mitofsky* early-February poll, among those that in the 2012 election voted for President Peña Nieto, 59% would now vote for the PRI candidate, José Antonio Meade, and a non-negligible 15% would vote for AMLO and 18% for Mr. Anaya

(Exhibit 15). We note that the 18% share of the 2012 Peña Nieto voters that would vote for Mr. Anaya may have declined in recent weeks given the increasing friction between Mr. Anaya and the PRI. Finally, **among those that did not vote in 2012, a significant 28% would now turn out to vote and would choose AMLO** (versus only 8.9% for Mr. Anaya and 5.4% for Mr. Meade). In our assessment, this shows: (1) the broadening electoral appeal of AMLO and, (2) the significant erosion of the PRI party brand in recent years and the difficulty the PRI is facing in leveraging Mr. Meade's bid for the presidency.

Exhibit 15: Electoral Preference According to 2012 Vote (%)

		Who did you vote for in the 2012 election?			
		Josefina Vásquez Mota (PAN)	Enrique Peña Nieto (PRI)	Andrés Manuel López Obrador (Morena)	Didn't Vote
Who will you vote for in 2018?	A. M. López Obrador	8.9	15.0	62.2	27.9
	R. Anaya	57.6	18.0	22.9	8.9
	J. A. Meade	2.3	58.5	1.7	5.4
	Independent Candidate	5.0	1.6	0.4	4.0
	Doesn't Declare	26.2	6.9	12.8	53.8

Source: Consulta Mitofsky

AMLO's Lead Could Have More Sticking Power Than in the 2006 Election

Despite the fact that the official campaign is yet to start, given AMLO's significant early lead and the qualitative factors highlighted in the previous section, it may not be easy to undo AMLO's current lead in the polls in the 100 days until Election Day, barring a major campaign mistake and/or very poor performance in the three scheduled debates.

In the 2006 election, 1Q2006 polls were also showing AMLO well in the lead—by slightly under 8pts—but he eventually lost the election to Felipe Calderón of the PAN by roughly half a percentage point. But this time around it may be different; that is, **it may be harder to undo AMLO's early pre-campaign lead**. For instance:

- The official **campaign will be much shorter:** less than 3 months compared with six months in the 2006 election.
- **Mr. Anaya and the PRI/Mr. Meade have been involved in a high-intensity, at times negative, political fight** to polarize into a two-way race and be viewed as the only competitive option to challenge AMLO's early lead. Mr. Anaya has been very vocal in highlighting examples of alleged PRI corruption at the local and federal levels, and has promised, if elected, to prosecute corrupt PRI officials. Likewise, the PRI has also been increasingly critical of Mr. Anaya, accusing him of a number of illegalities (including money laundering). Against this backdrop, local political analysts have been pointing out that if the PRI candidate, Mr. Meade, lingers in third place and becomes a non-competitive candidate, **senior PRI officials may well prefer an AMLO victory over a PAN president** (i.e., the rising animosity between senior PRI officials and Mr. Anaya risks fostering an informal tactical PRI-AMLO alliance).

Overall, the **fierce political battle between the PRI and Mr. Anaya could well weaken both candidates and end up favoring AMLO.**

- Mr. Anaya's **PAN-PRD-MC alliance has been beset by internal friction**; something that could weaken Mr. Anaya's bid. After all, the alliance between a center-right (PAN) and a leftist (PRD) party, which was home to AMLO for many years, was agreed at a very high political level, and therefore may lack traction and enthusiasm at the local and militant grass-roots levels. That is, **at the regional level the PRD and MC political structures may not show the zeal needed to leverage the PAN-led presidential bid**.
- The preliminary disqualification by the National Electoral Institute (INE) of two independent candidates, Jaime "El Bronco" Rodriguez and leftist Senator Armando Rios Piter, likely benefits AMLO for they would likely have catered to the leftist and anti-establishment voter base that is leaning AMLO. There are, however, some press reports that Jaime "El Bronco" Rodriguez's appeal to the Federal Electoral Court (TEPJF) may be successful, allowing him to be on the ballot.
- Former PAN **Margarita Zavala will remain in the race as an independent candidate. No matter how uncompetitive, Ms. Zavala further divides the anti-AMLO camp** and will probably take away votes from Mr. Anaya, who is trying to establish himself as a competitive alternative to AMLO.
- AMLO's lead may also be protected by the fact that **his public statements, and those of some of his top campaign operatives, have become more mainstream and business-friendly** (less radical and dogmatic than in previous elections), which could be broadening his acceptance and appeal.

Exhibit 16: Debate Calendar

Date	Time	Location	Topics
Apr 22	8 pm (CT) 9pm (EST)	Mexico City	Politics & Government
May 20	8 pm (CT) 9pm (EST)	Tijuana	Mexico in the World Stage
Jun 12	9 pm (CT) 10pm (EST)	Mérida	Economy & Development

Source: Goldman Sachs Global Investment Research

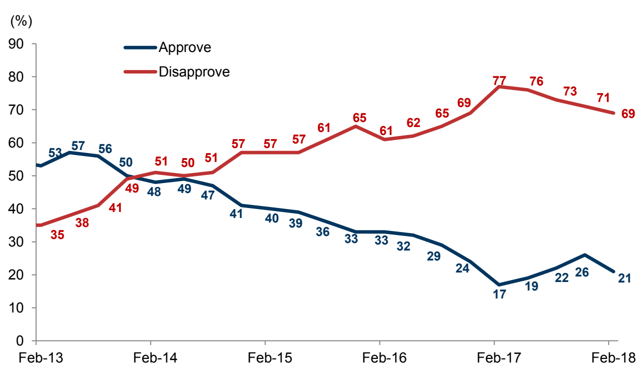
An Election Centered Mostly on Non-Economic Issues

Recent polls suggest that the outcome and policy implications of the July 1st elections could be far from "business as usual" as they will likely change the overall balance of political power and could also herald a shift from the hitherto investment-friendly and conventional policy mix towards a potentially more inward-looking, heterodox/interventionist platform.

The decades-old grip on power at the local and federal levels by the ruling PRI is facing a serious challenge. The PRI's bid to retain the presidency and hold on to local power structures has been hindered by the eroding popularity of President Enrique Peña Nieto, and the growing rejection of the PRI at the national level (Exhibit 17). Rising voter dissatisfaction with the sitting president and the PRI has been driven by the perception of rising corruption, unsettled security and law-and-order issues, modest growth (and now also high inflation), and, for some, the hesitant handling of the frictions and policy issues with the United States. High-profile, widely reported corruption scandals involving former PRI governors and federal officials have also tarnished the reputation of the PRI.

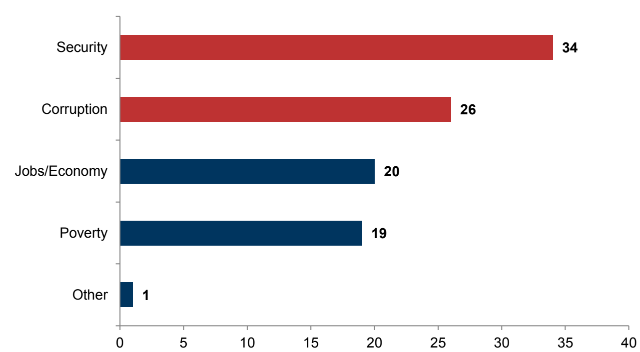
There is among the electorate a deep-rooted dissatisfaction with law and order issues: corruption and impunity, and public insecurity. These have been key campaign themes for AMLO, who portrays himself as determined to end a long cycle of corruption and violence and also to shake up the traditional political and business establishment (in fact, AMLO seems also to be proposing a new economic model). Hence, rather than a referendum on the state of the economy or a deep voter desire for a new economic paradigm, the election debate seems to be skewed towards non-economic issues (Exhibit 18). In fact, qualitative polls show that for some voters, the desire to see tangible progress on law and order issues seems somewhat to trump concerns that an AMLO administration could be riskier in terms of overall macro management given the heterodox and unconventional nature of some of his campaign proposals.

Exhibit 17: President Peña Nieto's Approval Rating



Source: Consulta Mitofsky

Exhibit 18: Poll: What is the most important issue in the 2018 Elections?



Source: El Financiero

López Obrador Is Positioning Himself as the Candidate of Change/Renewal

Overall, voter dissatisfaction with the political, institutional and economic status-quo and a growing demand for political change/renewal seem to be favoring the relatively new leftist Morena party, and Andrés Manuel López Obrador's populist-nationalist platform, rather than the center-right PAN (for the first time in an alliance at the national level with the leftist PRD party) which held the presidency for two consecutive terms before the election of Mr. Peña Nieto. Mr. López Obrador is a former mayor of Mexico City and continues to carry the banner of the political left, positioning himself as a nationalist, socially progressive, anti-corruption leader. He frequently highlights what he perceives to be the failures of a conniving political and economic establishment: crony capitalism, rampant corruption and impunity, violence and inequality. In essence, AMLO is campaigning as an outsider, a candidate who is not corrupted by traditional politics and party structures.

Nevertheless, despite all the negative perceptions of the PRI and voters' broad demands for change, the PRI remains a force to be reckoned with given its efficient, time-tested electoral machinery and other logistical advantages that may help to mitigate growing public dissatisfaction with the ruling PRI.

AMLO Espouses a Nationalist State-Centered Interventionist Policy Approach

AMLO holds a nationalistic/populist worldview and favors a policy mix that is likely to validate a more active and interventionist public sector, both directly and indirectly through (often inefficient) state-owned companies. This approach entails risks to the economy: for it would **likely increase uncertainty and hinder much-needed domestic and foreign investment, and could also lead to a broad misallocation of resources in the economy that could, over time, erode macroeconomic efficiency and overall productivity growth.**

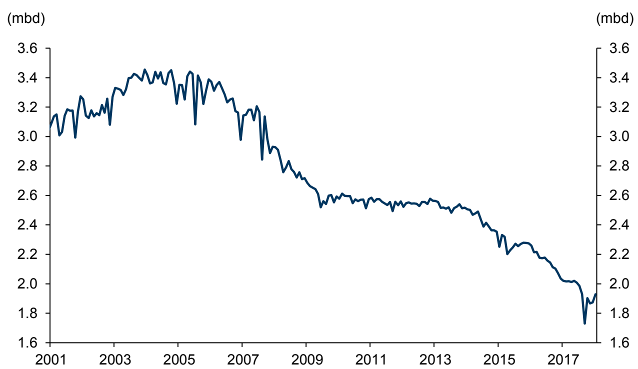
While an AMLO administration may not significantly compromise hard-won price stability gains or the independence of the central bank, or significantly weaken the fiscal stance, it may ultimately be reluctant to approve necessary reforms and/or adopt the measures required to attract investment and keep Mexico on a medium-term fiscally disciplined path, particularly if its policies entail a significant unfunded increase in government spending. Overall, a more interventionist state-centered policy approach could undermine the economy's broad macro efficiency through, for instance, under-investment and growing misallocation of resources. **In essence, rather than immediate short-term macroeconomic damage, the cost of heterodox, interventionist unconventional policies would likely materialize through the steady accumulation of <u>microeconomic inefficiencies and distortions</u> that with the passage of time could lead to visible <u>macroeconomic imbalances</u>.** However, on the positive side, there is also the perception that AMLO could eventually be tougher and more effective than others in fighting large-scale corruption and it has also been reported that the candidate has been building bridges to the local private sector and the broader business community.

Uncertainty Could Undermine Investment in the Under-Invested Energy Sector

AMLO has over the years been very vocal and critical of the 2014 energy sector reform (which opened Mexico's oil and gas sectors to private investment, effectively ending 8 decades of a state-owned monopoly) and in recent months public statements on energy sector policy by the candidate and some of his campaign surrogates have been inconsistent.

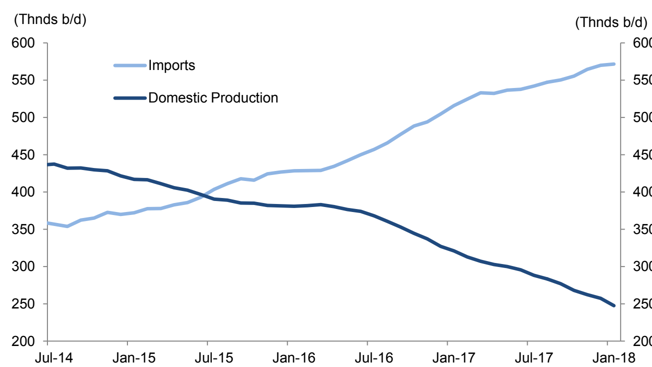
In our assessment, an AMLO presidency would be unlikely to roll back the 2014 oil sector reform/opening. First, because AMLO is unlikely to have the needed two-thirds qualified majority in Congress to change the constitution again. Second, because from a more pragmatic rather than dogmatic policy standpoint, cancelling the more than 90 exploration contracts already awarded would be legally challenging, would not produce clear economic dividends, would generate a major negative shock to business confidence and would stop much-needed investment in the sector and the economy at large. But AMLO could change the oil sector *status quo* by slowing down the implementation of the energy sector reform, making it less predictable and market friendly, and by intervening more in the sector directly, and indirectly by giving more money, power, and influence to the inefficient state-oil concern, Pemex.

Exhibit 19: Oil Production Continues to Decline
Millions of barrels per day



Source: Haver Analytics

Exhibit 20: Gasoline Import Volumes Increase As Domestic Production Declines (12mma)



Source: Pemex, Goldman Sachs Global Investment Research

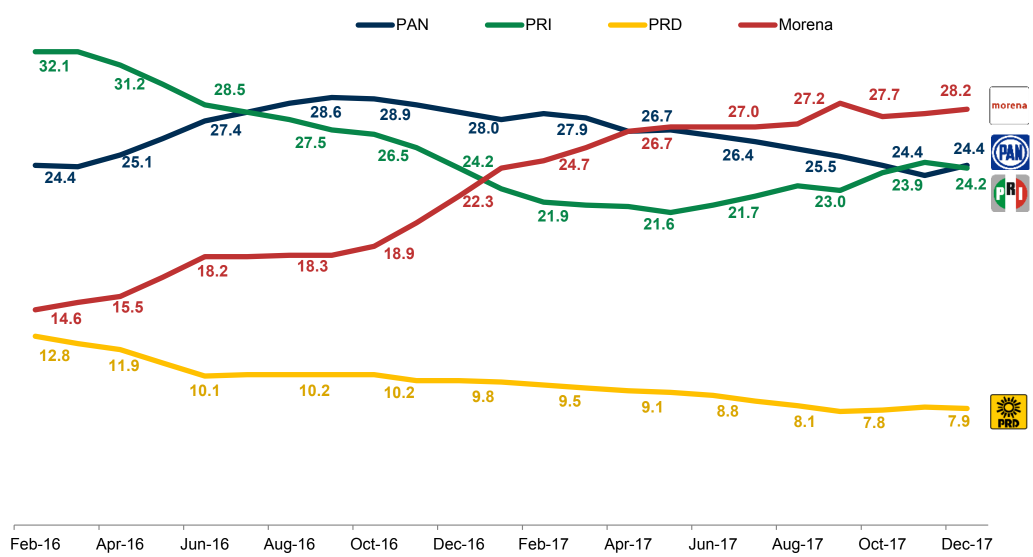
AMLO has vowed to "to stop the privatization of the electricity sector" and to call for a popular consultation on the opening of the oil sector. A popular consultation may in the end not be legally binding, but could certainly stoke nationalist anti-reform sentiment. This could significantly increase uncertainty and reduce investment in the highly inefficient and severely underinvested oil and gas sector. Furthermore, a more nationalist natural resources approach could slow down the process of opening the oil sector, by delaying or stopping additional bidding rounds, thereby denying to the private sector new areas in which to invest and develop. In this regard, on March 18 AMLO stated that if elected, he would ask President Peña Nieto to stop the two new oil bidding rounds (July and September) scheduled between Election Day (July 1st) and the day the new administration is sworn in (December 1st). AMLO would like the departing Peña Nieto administration to stop new auctions so that the AMLO team can review the terms, including the contracts awarded during the previous eight bidding rounds in order to ensure they "complied with the law". AMLO has also stated that it is imperative to review older contracts for signs of corruption, and suggested that he could cancel projects that he views as deleterious to the country's interest.

With regard to specific policies for the oil sector, AMLO's program entails more public investment to expand and upgrade the local refining capacity (upgrade six existing and build two big new refineries; something that could stretch the budget) and has vowed to stop fuel imports within three years. AMLO also stated that Mexico should stop exporting crude in order to focus on higher valued-added petrochemical refined products and to lower domestic fuel prices. Finally, as part of a broad inward looking import-substitution strategy, AMLO would also aim for food self-sufficiency by boosting local production and has controversially advocated minimum selling prices to some agricultural products.

Balance of Political Power in Congress Is Likely to Shift to the Left

Beyond the presidential race, investors should also be paying attention to the federal legislative election and the new composition of Congress, where the PRI is at risk of losing the current simple majority in both houses of Congress.

Exhibit 21: AMLOs Morena Party Leads Voting Preferences for Congress
Voter Preference by Party (%)

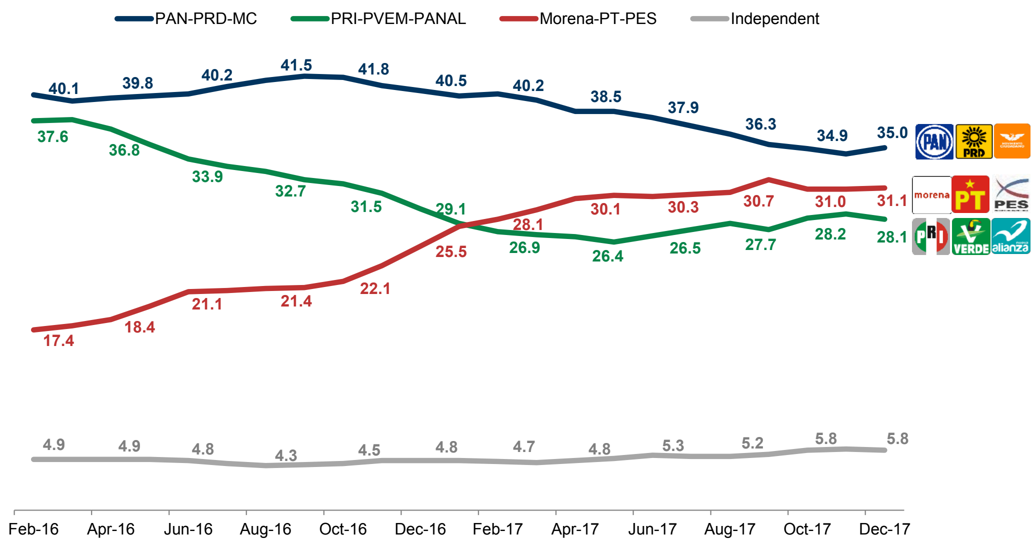


Source: Oraculus

Morena's and AMLO's message of a broad regeneration of political and economic life is gaining appeal. Morena did not win any governorships in the 2016 local elections (in 12 of the 31 Mexican Federation States), but it did run competitively in two of those elections (Veracruz and Zacatecas). In the June 4, 2017 local election Morena did not do that well either: the party ran competitively in the pivotal State of Mexico, but finished second to the PRI candidate. Overall, **Morena is yet to win a major local election in close to three years. But that may be about to change as the Morena-led coalition may well win the presidency and build a strong legislative bench in both Chambers of Congress (mostly at the expense of the PRI).** In fact, it is quite possible that, while short of a simple majority, Morena could elect the largest bench in both the Senate and Lower House; this would be at the expense of the decades-old dominance of the legislative branch by the PRI.

Exhibit 22: PAN-PRD led Alliance Polling Well in Voting Intention for Congress; Significant Erosion in PRI Support

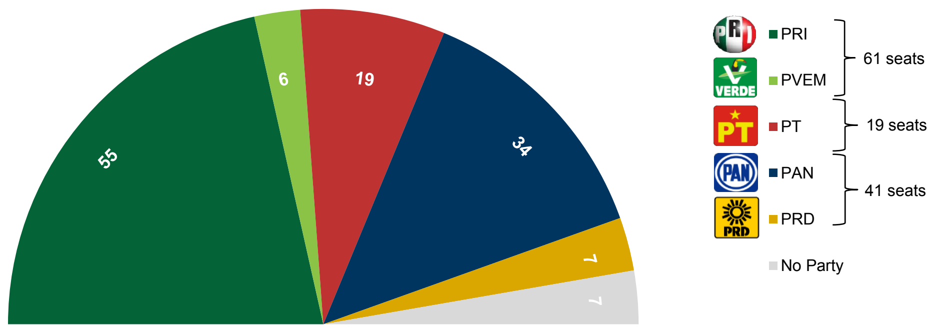
Voter Preference by Coalition (%)



Source: Oraculus

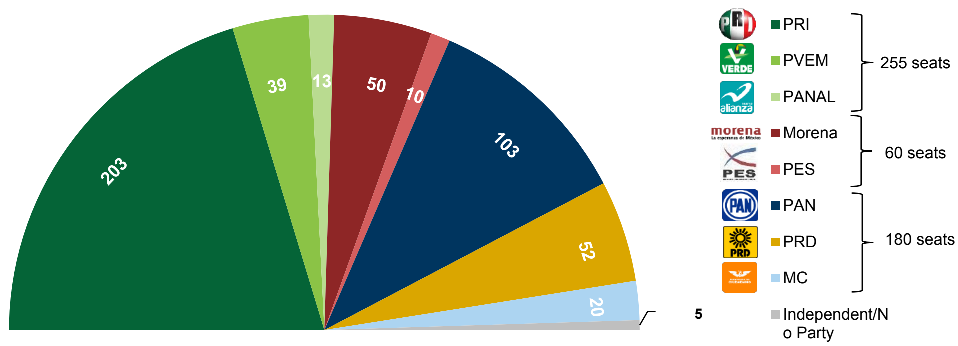
Morena may emerge from this election as the most-voted party (with about 28% of the national vote according to the Oraculus poll aggregator model), followed by the PAN and the PRI with about 24% each. Overall, the national voting preference for Morena has been rising while that for the ruling PRI has been declining, from as high as 32% two years ago. However, as the PRD-MC is polling at around 10%-11% of the national vote, the PVEM-Panal about 4% and PT-PES around 3.0%, in terms of major party coalitions, the **PAN-PRD-MC** alliance may get more votes (and potentially win more seats) than the **Morena-PT-PES** alliance. Nevertheless, given that the PAN (center-right) and the PRD (leftist) parties have traditionally been at opposing sides on the political spectrum, it is unclear how cohesive and effective a potential PAN-PRD-MC parliamentary alliance would be. Finally, the **PRI-PVEM-Panal** alliance may well end up as only the third-most important political force in Congress, down from its dominant position in the current and past legislatures.

Exhibit 23: 2018 Senate Composition



Source: Goldman Sachs Global Investment Research

Exhibit 24: 2018 Lower House Composition

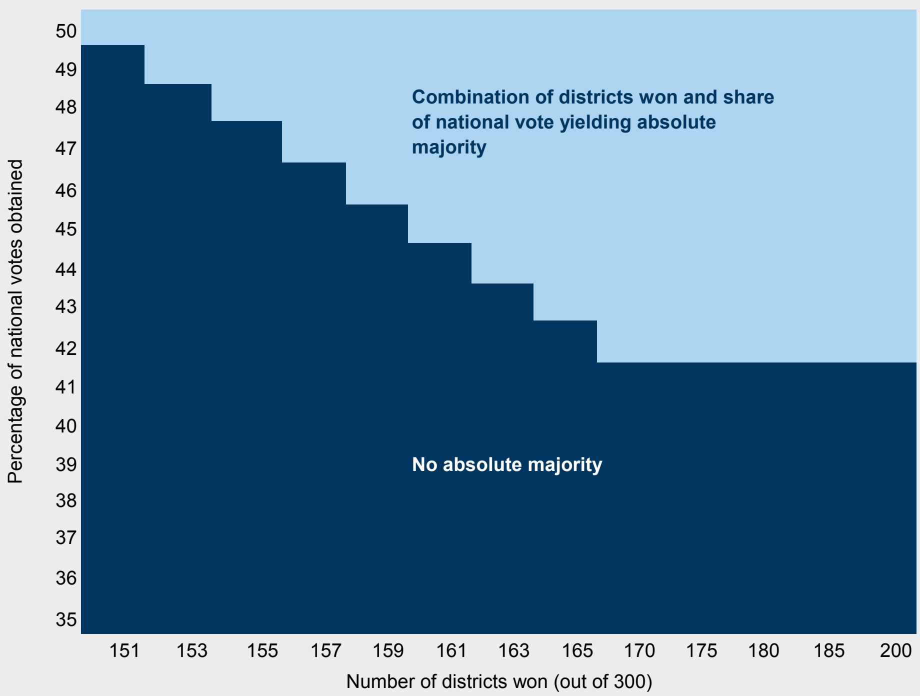


Source: Goldman Sachs Global Investment Research

Box 1: Electoral System for the Lower House and Senate

Senators and Lower House lawmakers are elected through a mixed system of proportional representation and State/District level voting. For the Lower House, bench sizes are based on a party's share of the national vote (200 seats), and district-level majority representation (300 seats): the most-voted party in each of the 300 electoral districts elects one Lower House lawmaker. The 200 proportional representation seats are assigned generally without taking account the 300 majority-seats, but a party cannot get more seats overall than 8% above its result for the proportional representation seats (a party needs to secure 42% of the votes for proportional representation seats to reach an overall majority). Finally, a party can never get more than 300 seats overall, or 60% of the chamber (even if it has more than 52% of the votes for the proportional representation seats).

Exhibit 25: Lower House Electoral Method



Source: INE, Goldman Sachs Global Investment Research

According to electoral rules, an absolute majority in the Lower House (251 out of 500 votes) can result from several combinations between the percentage of national vote (proportional representation) and the number of electoral districts won (out of 300). With slightly more than 42% of the national vote a party could obtain the majority of seats if it wins in at least 167 of the 300 districts. In the 128-seat Senate, a 65-seat simple majority could be obtained, for instance, through a combination of 42% of the national vote (13 senators), a first-place finish in 20 States (40 senators) and a second-place finish in the remaining 12 States (12 senators).

For the Senate, 32 seats are assigned according to the national share of the vote. and the other 96 seats by a simple majority vote in the 32 States: the most-voted party in each of the 32 States elects two Senators, and the runner-up (first minority) elects one Senator.

The End of an Era for the Dominant PRI

According to a polling company that conducts robocalls to fixed and mobile numbers (*Massive Caller*) and which was more accurate than many other pollsters in the State of Mexico election in 2017, in the 32 states in play the **PRI-PVEN-Panal** coalition is leading in just 3 states and is running in second place in another 8. This would give it only 14 Senators and given its roughly 28% share of the national vote it could elect another 8-9 Senators, for a total Senate PRI bench size of just 23 Senators, which would be well short of the current 55-seat PRI bench (61 with the PVEM). And it would not take much for the PRI's outlook in the Senate to look even dimmer. After all, in the three states in which the PRI is ahead, the lead margin is in all cases less than 1%, and in the 8 states in which it is currently the runner-up, in four of them the lead margin over the party running in third place is less than 2.5 percentage points. Finally, in the 21 states in which the PRI is currently running third or fourth, in only 1 state is the PRI less than 3pts away from getting into second place and elect 1 Senator.

Exhibit 26: PRI-PVEM-PANAL only leading in 3 states

	Morena-PT-PES	PAN-PRD-MC	PRI-PVEM-PANAL
1st place	12	15	3
2nd place	16	8	8
3rd place	4	8	19
4th place	0	1	2

Source: Massive Caller, Goldman Sachs Global Investment Research

The picture looks a lot brighter for **Morena**, which currently has no representation in the Senate (the PT coalition partner holds 19 seats). The **Morena-PT-PES** coalition is currently ahead is 12 States (the **PAN-PRD-MC** is ahead in 15) and in second place in 16 (the **PAN-PRD-MC** in 8).

Exhibit 27: Senate Race

State	1st place	2nd place	3rd place	PRI in 1st: margin to 2nd place	PRI in 2nd: margin to 1st place	PRI in 2nd: margin to 3rd place	PRI in 3rd: margin to 2nd place	PRI in 4th: margin to 2nd place
Campeche	PRI	Morena	PAN	0.4				
Sonora	PRI	Morena	PAN	0.5				
Zacatecas	PRI	Morena	PAN	0.8				
Chiapas	Morena	PRI	PAN		-11.1	2.5		
Chihuahua	PAN	PRI	Morena		-8.8	1.5		
Hidalgo	Morena	PRI	PAN		-0.7	6.2		
Oaxaca	Morena	PRI	PAN		-5.9	14.3		
Sinaloa	Morena	PRI	Independent		-5.3	1.1		
Tabasco	Morena	PRI	PAN		-8.3	8.4		
Tlaxcala	Morena	PRI	PAN		-3.9	1.6		
Yucatán	PAN	PRI	Morena		-7.1	3.6		
Aguascalientes	PAN	Morena	PRI				-14.7	
Baja California	PAN	Morena	PRI				-16.7	
Baja California Sur	Morena	PAN	PRI				-17.4	
Coahuila	PAN	Morena	PRI				-11.9	
Colima	PAN	Morena	PRI				-15.0	
CDMX	Morena	PAN	PRI				-8.2	
Durango	PAN	Morena	PRI				-4.5	
Guanajato	PAN	Morena	PRI				-2.7	
Guerrero	Morena	PAN	PRI				-4.3	
Estado de México	Morena	PAN	PRI				-6.0	
Michoacán	PAN	Morena	PRI				-4.8	
Morelos	Morena	PAN	PRI				-10.8	
Nayarit	PAN	Morena	PRI				-18.2	
Puebla	PAN	Morena	PRI				-14.7	
Queretaro	PAN	Morena	PRI				-8.4	
Quintana Roo	Morena	PAN	PRI				-13.0	
San Luis Potosí	PAN	Morena	PRI				-15.8	
Tamaulipas	PAN	Morena	PRI				-11.2	
Veracruz	PAN	Morena	PRI				-12.5	
Jalisco	Independent	PAN	Morena					-7.6
Nuevo León	Other	PAN	Morena					-13.4
Average				**0.6**	**-6.4**	**4.9**	**-11.1**	**-10.5**

Source: Massive Caller, Goldman Sachs Global Investment Research

Overall, Morena seems bound to do quite well in the legislative elections and to eventually secure the largest individual party bench of legislators; but no party or party alliance seems likely secure a simple 50% + 1 vote majority in Congress. This could eventually limit the capacity of a potential AMLO administration to legislate market-unfriendly policies and/or reverse some of the recently approved structural reforms, such as the opening of the oil and gas sectors.

Alberto M. Ramos

Gabriel Fritsch

LatAm and Global Macroeconomic Outlook

Consolidated Latin America Selected Economic Indicators

	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
I. Economic Activity and Prices											
Nominal GDP (US$bn)	5,081	5,073	5,218	5,180	4,364	4,163	4,644	4,976	5,390	5,775	6,132
Real GDP growth (% yoy)	4.5	2.6	2.8	1.3	0.3	-0.3	1.7	2.6	3.2	3.4	3.3
CPI Inflation (% yoy)	7.3	6.6	7.0	8.6	9.0	8.8	6.6	5.5	4.7	3.9	3.6
Domestic Demand (% yoy)	5.9	2.8	3.0	1.0	-0.6	-1.2	1.8	3.1	3.5	3.7	3.6
II. External Sector (US$bn)											
Current Account Balance	-111.6	-122.0	-152.0	-170.1	-139.6	-82.0	-76.6	-108.0	-129.3	-141.3	-155.9
Trade Balance	53.8	46.7	9.8	-3.6	-10.7	34.6	57.0	40.2	30.9	28.1	24.9
Gross International Reserves	673.8	722.6	715.9	737.9	705.2	729.3	753.2	784.3	809.2	835.8	861.4
Change in Reserves	109.5	48.8	-6.8	22.0	-32.7	24.1	23.9	31.1	24.9	26.6	25.6
Net Capital Inflows	221.1	170.9	145.2	192.0	107.0	106.1	100.5	139.0	154.2	167.9	181.5
Foreign Direct Investment	153.4	155.2	167.7	176.0	163.9	150.0	144.6	167.2	179.2	188.5	203.7
III. Public Finance and Indebtness (% GDP)											
Primary Fiscal Balance	1.3	0.9	0.5	-1.0	-1.7	-1.8	-1.0	-1.1	-0.5	0.0	0.5
Overall Fiscal Balance	-2.0	-2.1	-2.5	-4.3	-6.3	-5.6	-4.7	-5.0	-4.6	-4.1	-3.6
Total Public Sector Debt	41.4	42.1	42.2	46.2	51.3	55.1	56.3	58.9	60.3	60.8	61.3
Total External Debt	22.2	24.7	26.2	29.1	34.4	36.8	35.4	35.8	36.4	36.8	37.0

Note: Aggregates weighted by nominal GDP in US$ at PPP exchange rates.

Source: Goldman Sachs Global Investment Research

Global Macroeconomic Framework

						2017F				2018F			
	2016	2017F	2018F	2019F	2020F	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP Growth (%, yoy)													
United States	1.5	2.3	2.6	2.2	1.5	2.0	2.2	2.3	2.5	2.6	2.7	2.6	2.6
Euro Area	1.8	2.5	2.6	2.1	1.6	2.1	2.4	2.8	2.7	2.7	2.6	2.5	2.5
Japan	0.9	1.7	1.6	1.3	0.5	1.4	1.5	1.9	2.0	1.8	1.6	1.5	1.5
World Economy	3.1	3.8	4.1	4.0	3.8	3.5	3.7	4.0	4.1	4.1	4.1	4.0	4.1
CPI Inflation (%, yoy)													
United States	0.9	2.1	2.4	2.0	2.1	2.6	1.9	2.0	2.1	2.3	2.7	2.6	2.2
Euro Area	0.2	1.5	1.3	1.1	1.5	1.8	1.5	1.4	1.4	1.4	1.4	1.4	1.2
Japan	-0.1	0.5	1.0	1.1	1.5	0.3	0.4	0.6	0.6	0.8	1.0	1.1	1.1
Interest rates (%, e.o.p)													
Fed Funds	0.54	1.30	2.38	3.38	3.38	0.79	1.04	1.15	1.30	1.63	1.88	2.13	2.38
UST 10-Years	2.40	2.90	3.25	3.60	3.60	2.50	2.65	2.75	2.90	2.99	3.08	3.16	3.25

Source: Goldman Sachs Global Investment Research

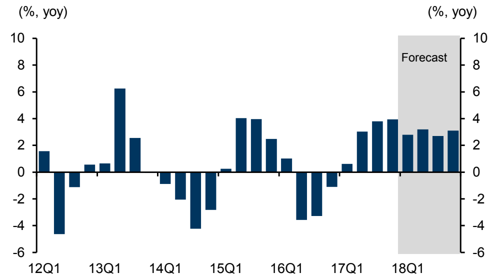
LatAm Country Data Tables

Argentina

	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-1.8	2.9	3.0	3.3
Nominal GDP (US$bn)	554	637	642	689
Consumer Prices, IPC (yoy, e.o.p.)*	N.A	25.0	19.2	13.4
Consumer Prices, IPCBA (yoy, e.o.p.)*	41.0	26.1	19.8	13.6
External Sector				
Current Account (% GDP)	-2.7	-4.8	-5.9	-5.8
Trade Balance (% GDP)	0.8	-0.9	-1.6	-1.6
Exports (% yoy)	2.0	0.9	4.6	3.9
Imports (% yoy)	-7.1	19.6	11.3	5.2
Exchange Rate ($/ARS, e.o.p.)	15.9	18.6	21.5	23.2
Gross International Reserves (US$bn)	39.3	55.1	68.0	72.0
Monetary Sector				
Monetary Base (% yoy)	26.6	24.7	22.0	17.0
Credit to the Private Sector (% GDP)	13.7	16.0	17.1	17.8
Policy Interest Rate	24.75	28.75	22.50	14.00
Fiscal Sector **				
Federal Govt Primary Balance (% GDP)	-4.3	-3.9	-3.1	-2.4
Federal Govt Overall Balance (% GDP)	-5.9	-6.1	-5.6	-5.0
Debt Indicators ***				
Gross Non-fin. Public Sector Debt (% GDP)	49.7	52.3	62.8	64.3
Domestic (% GDP)	27.6	36.1	44.4	45.0
External (% GDP)	13.6	16.2	18.4	19.3
Total External Debt (%GDP)	36.3	33.7	36.5	36.4

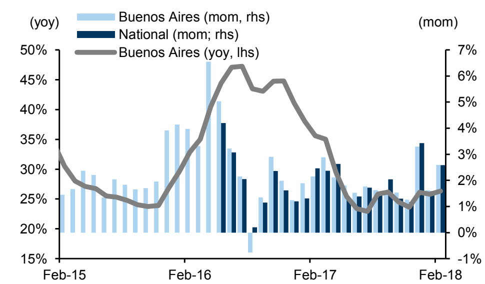
*IPC computed by INDEC, IPCBA by Statistical Institute City of Buenos Aires. **Before Rents from CB and Anses. Accumulated 4Q. *** Including non-performing debt.
Source: Goldman Sachs Global Investment Research.

Economic Recovery Underway



Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research.

Improving Inflation Dynamics



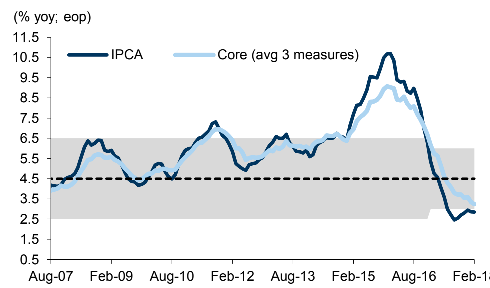
Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research.

Brazil

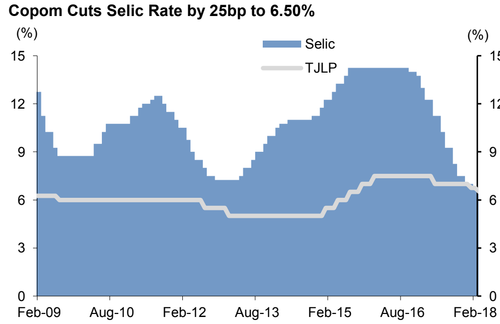
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-3.5	1.0	2.5	3.1
Nominal GDP (US$bn)	1,806	2,055	2,213	2,360
IPCA Inflation (yoy e.o.p)	6.3	2.9	3.9	4.3
External Sector				
Current account (% GDP)	-1.3	-0.5	-1.4	-2.0
Trade balance (% GDP)	2.5	3.1	2.4	2.0
Exports of goods (% yoy)	-3.0	17.8	3.8	5.2
Imports of goods (% yoy)	-19.1	9.9	12.9	10.4
Nominal Exchange Rate ($/BRL e.o.p.)	3.26	3.31	3.15	3.20
Net International Reserves (US$bn)	365	374	385	395
Monetary Sector				
Monetary base (% yoy)	5.9	9.8	7.0	8.0
Credit to the Private Sector (%GDP)	45.9	43.7	44.1	45.9
SELIC rate (e.o.p)	13.75	7.00	6.25	8.00
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-2.5	-1.7	-1.9	-0.8
Public Sector Nominal Balance (% GDP)	-9.0	-7.8	-7.7	-7.3
Debt Indicators				
Gross general govt debt (% GDP)	70.0	74.0	76.0	79.0
Domestic public debt (%GDP)	66.3	0.0	72.5	75.4
External public debt (%GDP)	3.6	0.0	3.5	3.6
Total external debt (% GDP)	30.4	26.8	27.1	27.5

Source: Goldman Sachs Global Investment Research.

Headline/Core Inflation Continue to Moderate



Copom Cuts Selic Rate by 25bp to 6.50%



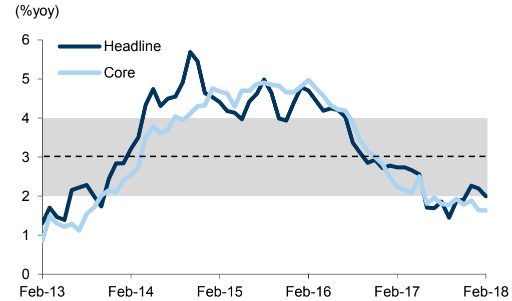
Sources: Bloomberg; Goldman Sachs Global Investment Research; Haver Analytics; IBGE.

Chile

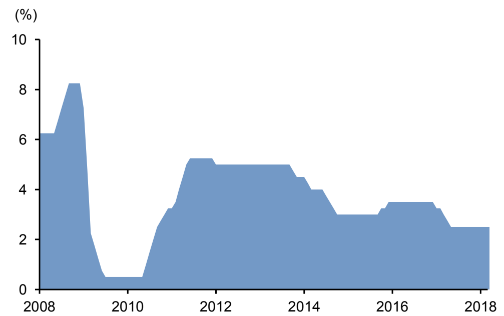
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	1.3	1.5	3.8	3.6
Nominal GDP (US$bn)	250	277	326	360
Consumer Prices (% yoy, e.o.p.)	2.7	2.3	2.7	3.0
External Sector				
Current Account (% GDP)	-1.4	-1.5	-1.6	-1.7
Trade Balance (% GDP)	2.2	2.9	2.5	2.2
Exports (% yoy)	-2.1	14.0	7.6	4.5
Imports (% yoy)	-5.7	10.9	8.0	5.4
Exchange Rate ($/CLP, e.o.p.)	667	615	570	570
Gross International Reserves (US$bn)	40.5	40.5	42.9	43.2
Monetary Sector				
Broad Money (M3, % yoy)	8.2	7.0	9.0	9.0
Credit to the Private Sector (% GDP)	81.3	80.8	81.5	82.5
Policy Rate (e.o.p.)	3.50	2.50	3.00	4.00
Fiscal Sector				
Central Gov't Primary Balance (% GDP)	-2.0	-2.0	-1.2	-0.9
Central Gov't Overall Balance (% GDP)	-2.7	-2.8	-2.1	-1.8
Debt Indicators				
Central Govt Debt (% GDP)	21.3	23.7	24.5	25.1
Domestic (% GDP)	17.3	19.1	19.3	19.6
External (% GDP)	4.0	4.6	5.3	5.5
Total External Debt (% GDP)	65.5	63.1	57.2	54.8

Source: Goldman Sachs Global Investment Research.

Headline/Core Inflation Tracking Below Target



Central Bank on Hold at 2.50% in March



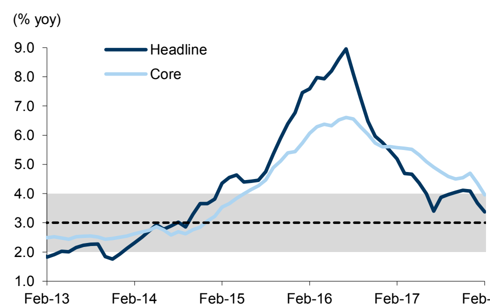
Source: Haver Analytics; INE; Central Bank of Chile.

Colombia

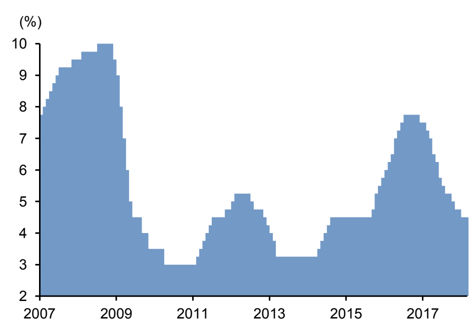
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.0	1.8	2.5	3.3
Nominal GDP (US$bn)	281	309	345	368
Consumer Prices (% yoy, e.o.p.)	5.7	4.1	3.1	3.0
External Sector				
Current Account (% GDP)	-4.3	-3.4	-2.8	-3.1
Trade Balance (% GDP)	-3.3	-1.5	-1.7	-1.6
Exports (% yoy)	-11.7	15.8	1.4	3.5
Imports (% yoy)	-16.9	2.3	3.7	2.8
Exchange Rate ($/COP, e.o.p.)	3001	2984	2800	2800
Gross International Reserves (US$bn)	46.2	47.1	47.4	47.4
Monetary Sector				
Monetary Base (% yoy)	2.5	5.0	7.0	9.0
Credit to the Private Sector (% GDP)	49.6	51.2	53.1	54.4
Policy Rate (% e.o.p.)	7.50	4.75	4.00	4.50
Fiscal Sector				
Central Government Primary Balance (% GDP)	-1.3	-0.9	-0.5	0.3
Central Government Overall Balance (% GDP)	-3.8	-3.6	-3.2	-2.5
Debt Indicators				
Gross Non-fin. Public Sector Debt (% GDP)	54.9	54.2	55.6	56.1
Domestic (% GDP)	31.1	32.2	34.6	35.1
External (% GDP)	23.7	22.0	21.0	21.0
Total External Debt (% GDP)	42.5	43.0	43.0	44.0

Source: Goldman Sachs Global Investment Research.

Inflation Back to Target Range



Central Bank Kept Policy Rate On Hold at 4.50% in March



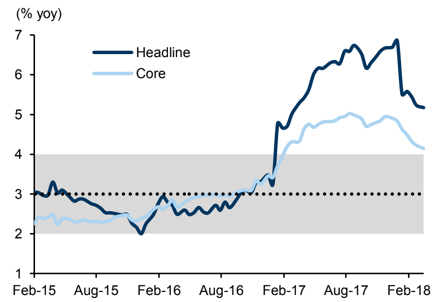
Source: Banco de la República.

Mexico

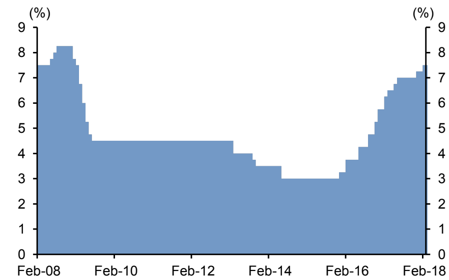
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.9	2.0	2.1	3.0
Nominal GDP (US$ bn)	1077	1150	1216	1356
Consumer Prices (yoy, e.o.p.)	3.4	6.8	4.0	3.0
External Sector				
Current Account (% GDP)	-2.1	-1.6	-1.6	-1.6
Trade Balance (% GDP)	-1.2	-0.9	-0.8	-0.8
Exports (% yoy)	-1.7	9.5	4.8	4.9
Imports (% yoy)	-2.1	8.6	4.2	5.0
Exchange Rate ($/MXN, e.o.p.)	20.73	19.79	18.50	18.04
Net International Reserves (US$ bn)	176.5	172.8	178.0	188.0
Monetary Sector				
Monetary Base (% yoy)	14.4	9.0	12.0	12.0
Credit to the Private Sector (% GDP)	18.0	18.6	19.0	19.2
Tasa de Fondeo Rate (e.o.p.)	5.75	7.25	7.50	6.00
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-0.1	1.4	0.9	0.9
Public Sector Overall Balance (% GDP)	-2.5	-1.1	-2.0	-2.0
Debt Indicators				
Gross Federal Govt Debt (% GDP)	48.7	46.1	45.7	45.1
Domestic (% GDP)	30.9	29.1	29.0	28.6
External (% GDP)	17.8	17.0	16.7	16.5
Total External Debt (% GDP)	38.5	39.6	40.9	42.8

Note: *Public Sector Borrowing Requirements
Source: Goldman Sachs Global Investment Research.

Headline Inflation Has Likely Peaked



Banxico Raised Policy Rate to 7.50% in February



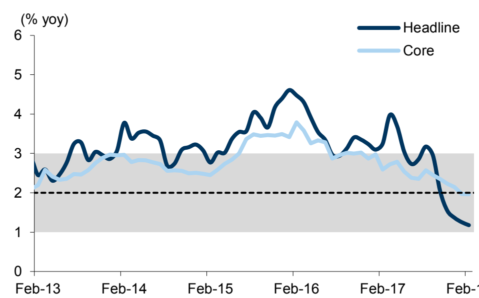
Source: Haver Analytics; INEGI; Goldman Sachs Global Investment Research.

Peru

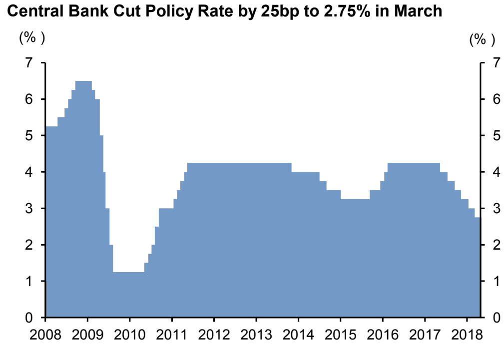
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	4.0	2.5	3.2	4.0
Nominal GDP (US$bn)	195	215	235	256
Consumer Prices (% yoy, eop)	3.2	1.4	2.3	3.0
External Sector				
Current Account (% GDP)	-2.7	-1.3	-1.7	-1.8
Trade Balance (% GDP)	1.0	2.9	2.0	1.6
Exports (% yoy)	7.6	21.3	1.5	8.3
Imports (% yoy)	-5.9	10.0	6.1	10.5
Gross International Reserves (US$bn)	61.7	63.7	63.0	63.6
Exchange Rate ($/PEN, e.o.p.)	3.36	3.24	3.15	3.10
Monetary Sector				
Monetary Base (% yoy)	4.1	7.2	19.3	10.5
Credit to the Private Sector (% GDP)	24.3	23.6	27.0	29.0
Reference Interest Rate (e.o.p.)	4.25	3.25	2.75	4.00
Fiscal Sector				
Non-fin Pub. Sector Primary Balance (% GDP)	-1.5	-2.1	-2.3	-1.6
Non-fin Pub. Sector Overall Balance (% GDP)	-2.6	-3.2	-3.5	-2.8
Debt Indicators				
Total Federal Govt Debt (% GDP)	23.8	25.5	27.6	29.1
Domestic Public Debt (% GDP)	13.5	14.6	16.0	17.1
External Public Debt (% GDP)	10.3	10.9	11.6	12.0
Total External Debt (% GDP)	38.2	38.7	39.7	40.3

Source: Goldman Sachs Global Investment Research.

Headline Inflation Below Target Midpoint



Central Bank Cut Policy Rate by 25bp to 2.75% in March



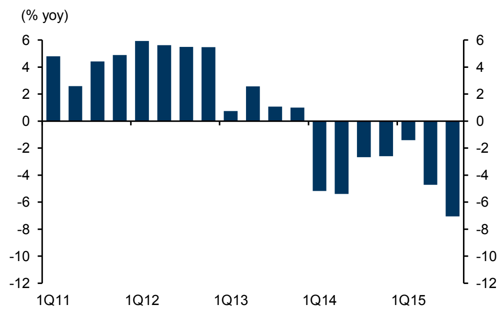
Source: BCRP; INEI; Goldman Sachs Global Investment Research.

Venezuela

	2015F	2016F	2017F	2018F
Activity and Prices				
Real GDP Growth (% yoy)	-6.2	-16.5	-12.1	-6.0
Nominal GDP (US$bn)*	243	236	215	208
Consumer Prices (yoy, e.o.p.)	180.9	294.4	920.4	841.1
External Sector				
Current Account (% GDP)*	-7.5	-3.7	-0.7	0.6
Trade Balance (% GDP)*	0.2	2.8	5.8	7.0
Exports (% yoy)	-50.0	-33.0	22.2	11.3
Imports (% yoy)	-26.9	-46.8	-1.8	7.3
Exchange Rate ($/VEF, e.o.p.)	6.3	10.0	10.0	25.0
Gross International Reserves (US$bn)	16.4	11.0	8.7	7.0
Monetary Sector				
Monetary Base (% yoy)	111	160	180	150
Credit to the Private Sector (% GDP)	17.1	8.8	3.0	0.7
90-day Deposit Rate (e.o.p.)	15.1	15.5	17.0	21.0
Fiscal Sector**				
Public Sector Primary Balance (% GDP)	-15.6	-15.6	-16.4	-16.6
Public Sector Overall Balance (% GDP)	-17.7	-17.8	-18.5	-18.7
Debt Indicators				
Total Public Sector Debt (% GDP)*	87.8	100.2	132.2	112.4
Domestic (% GDP)*	37.5	43.1	66.3	41.2
External (% GDP)*	50.3	57.1	66.0	71.2
Total External Debt (%GDP)*	57.7	64.5	73.8	79.6

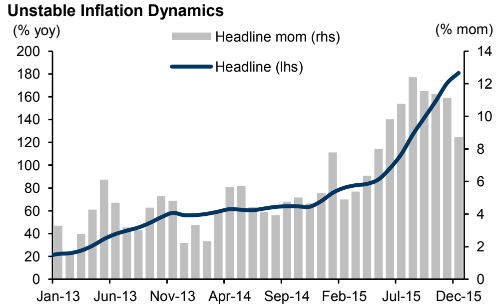
Source: Goldman Sachs Global Investment Research. *Based on IMF Nominal US$ GDP due to FX distortions** Restricted Public Sector

From Recession to Depression (GDP yoy)



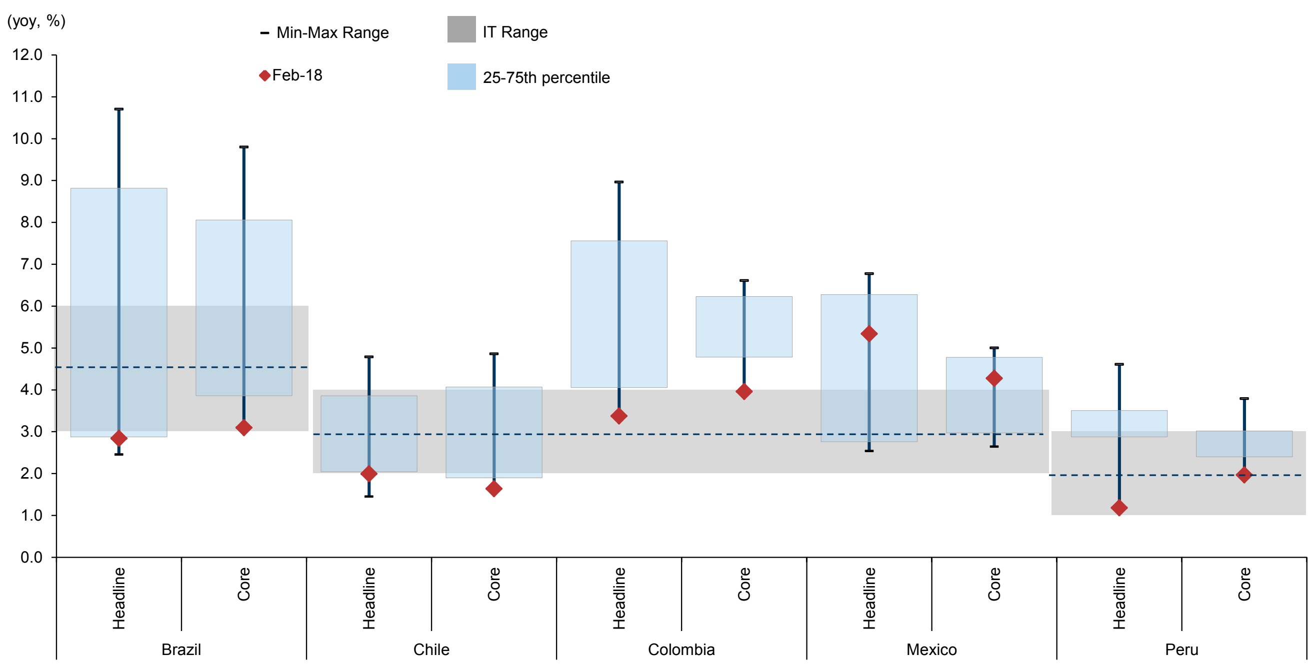
Source: BCV; Goldman Sachs Global Investment Research.

Unstable Inflation Dynamics



Source: BCV; Goldman Sachs Global Investment Research.

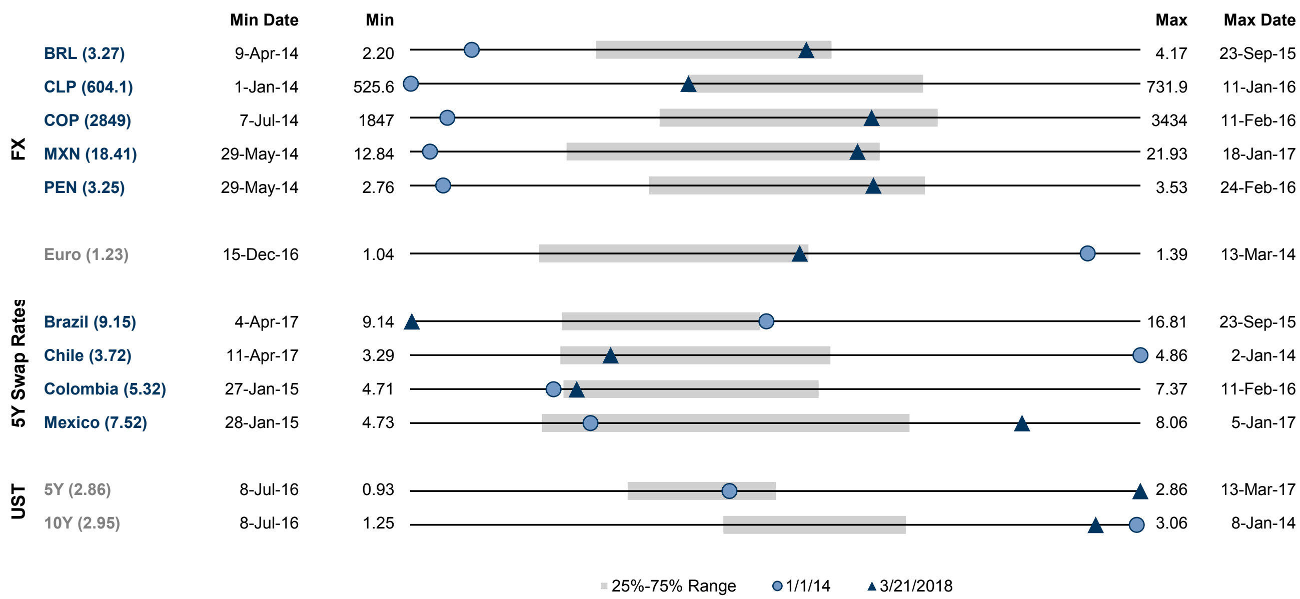
LAIT-5 Annual Headline and Core Inflation Dynamics Since January 2016



Source: Haver Analytics, Goldman Sachs Global Investment Research

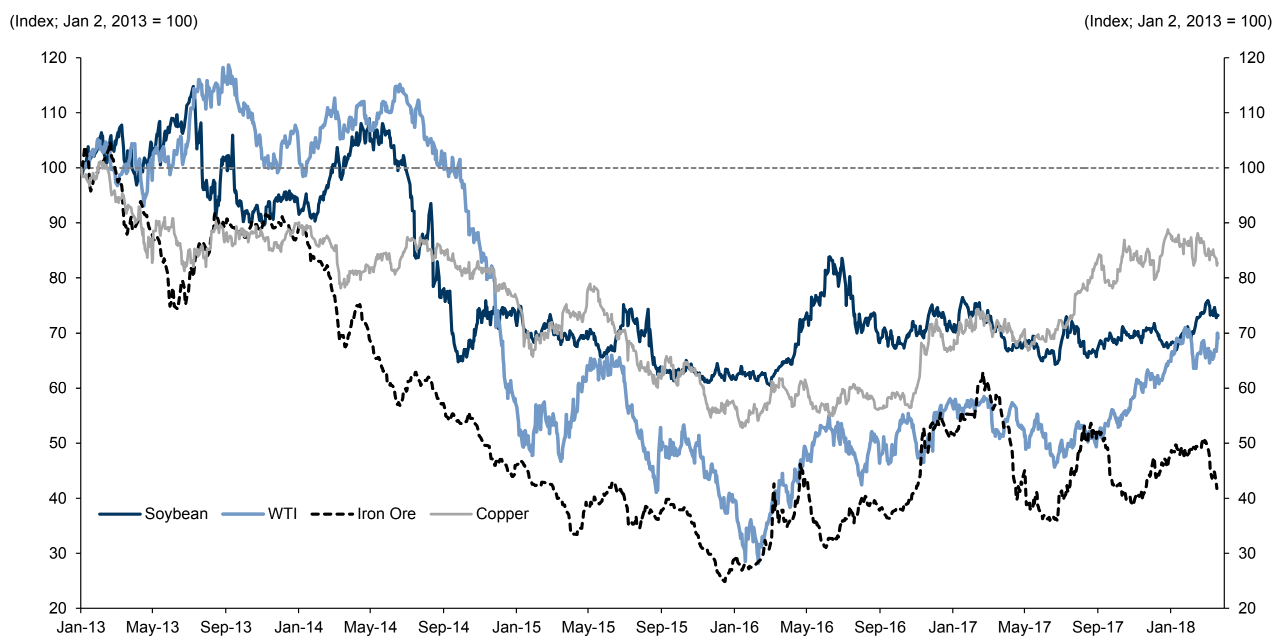
LatAm Financial Markets Outlook

LatAm Financial Markets Indicators (2014-2017)



Source: Goldman Sachs Global Investment Research

Key Commodities Prices



Source: Goldman Sachs Global Investment Research

Latin America Swap Rates

		End-2016	End-2017	Current (03/21/2018)	Change Since (bps) End-2016	Change Since (bps) End-2017
Swap Rates (%)	**Brazil**					
	2y	11.05	8.06	7.62	-342	-44
	10y	11.66	10.78	9.81	-185	-97
	Chile					
	2y	3.06	2.84	3.05	-2	21
	10y	4.17	4.24	4.26	9	2
	Colombia					
	2y	5.61	4.44	4.59	-102	15
	10y	6.57	6.10	6.15	-42	6
	Mexico					
	2y	7.20	8.02	7.68	47	-35
	10y	7.93	7.98	7.81	-13	-18
	United States					
	2y	1.45	2.08	2.63	117	55
	10y	2.34	2.42	2.93	59	51

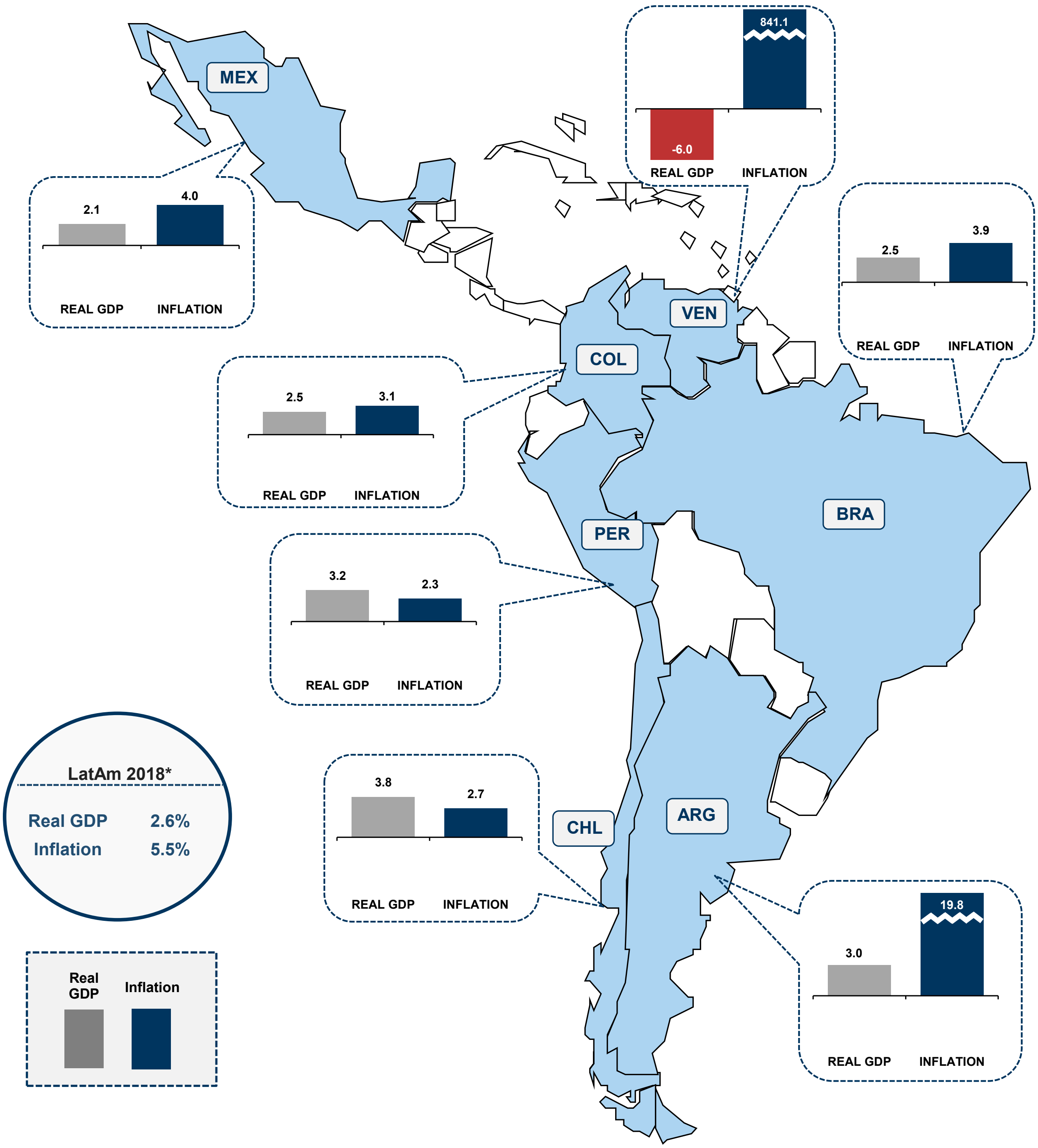
Source: Goldman Sachs Global Investment Research

Latin America Forecasts

		Policy Rates and FX Levels (End of Period)					Implied Change by (Rates in bp; FX in %)			
		Current	1Q2018	2Q2018	3Q2018	4Q2018	1Q2018	2Q2018	3Q2018	4Q2018
Policy Rates (%)	**Brazil**	6.50	6.50	6.25	6.25	6.25	0	-25	-25	-25
	Chile	2.50	2.50	2.50	2.50	3.00	0	0	0	50
	Colombia	4.50	4.50	4.00	4.00	4.00	0	-50	-50	-50
	Mexico	7.50	7.50	7.50	7.50	7.50	0	0	0	0
	Peru	2.75	2.75	2.75	2.75	2.75	0	0	0	0
FX (Local / USD)	**Brazil**	3.31	3.10	3.12	3.13	3.15	-6.5%	-6.0%	-5.6%	-5.1%
	Chile	609.10	601.5	593.3	583.3	570.0	-1.3%	-2.6%	-4.2%	-6.4%
	Colombia	2850.69	2815	2800	2800	2800	-1.3%	-1.8%	-1.8%	-1.8%
	Mexico	18.64	19.50	19.50	19.00	18.50	4.6%	4.6%	2.0%	-0.7%
	Peru	3.26	3.24	3.18	3.17	3.15	-0.6%	-2.3%	-2.9%	-3.4%
	Argentina	20.22	20.00	20.50	21.00	21.50	-1.1%	1.4%	3.9%	6.3%
	Venezuela	43912.50	10.00	10.00	25.00	25.00	-100.0%	-100.0%	-99.9%	-99.9%

Source: Goldman Sachs Global Investment Research

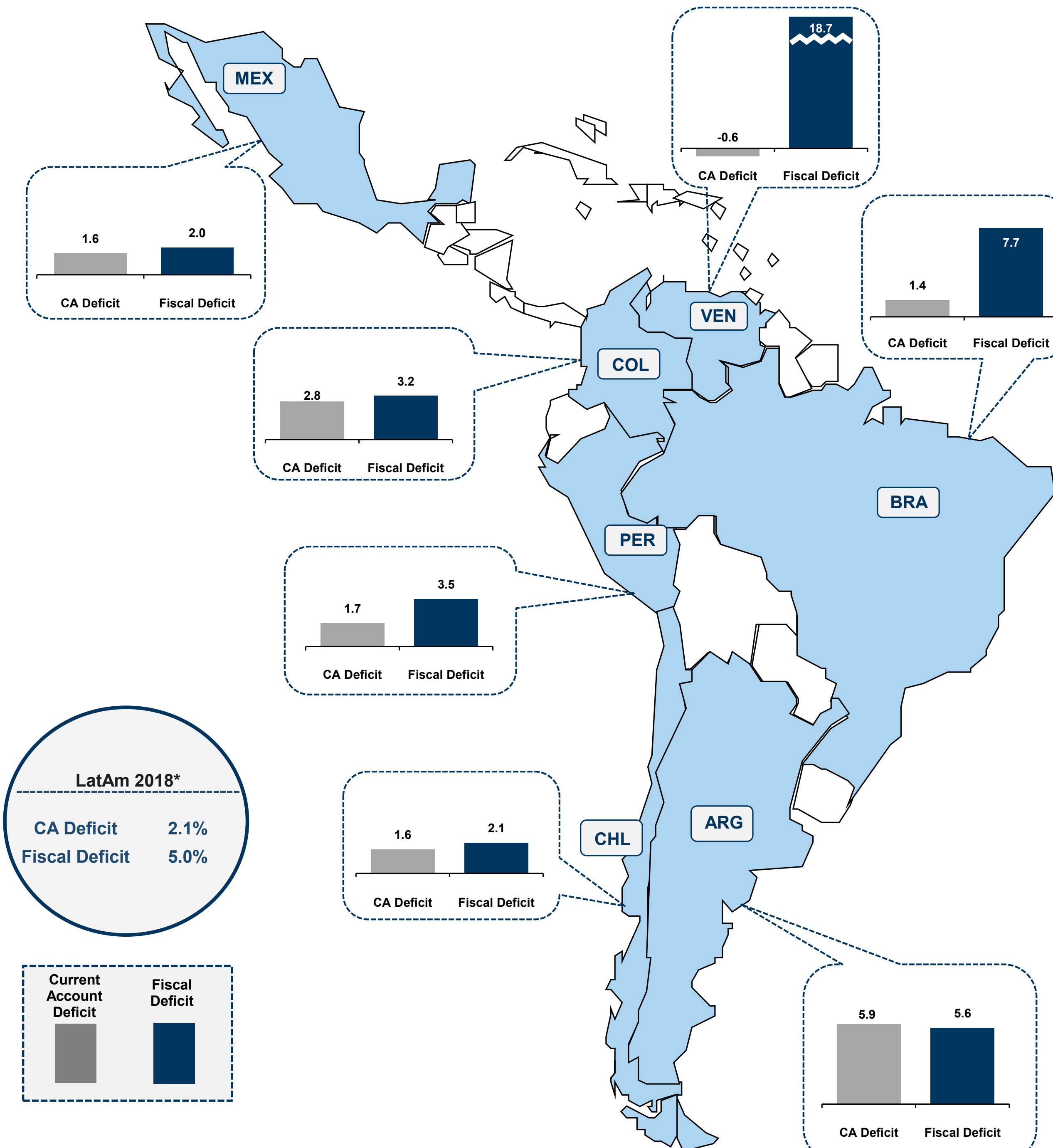
LatAm Outlook for 2017: Real GDP Growth and Inflation (YoY, %)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

LatAm Outlook for 2017: Current Account and Fiscal Deficit (% of GDP)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

Forthcoming Data Releases

Date	Time	Economic Indicator	Period	Forecast mom/qoq	Forecast yoy	Previous mom/qoq	Previous yoy
Argentina							
27-Mar	16:00	Monetary Policy Meeting	Mar		27.25%		27.25%
28-Mar	15:00	Industrial Production	Feb		6.90%		2.60%
28-Mar	15:00	Economic Activity Index (yoy nsa)	Jan		3.10%	0.60%	2.00%
03-Apr	-	Tax Collection	Mar			ARS$235.6	
Brazil							
27-Mar	7:00	Minutes of MPC Meeting	Mar				
28-Mar	7:00	IGP-M Inflation	Mar	0.70%	0.26%	0.07%	-0.42%
28-Mar	9:30	Primary Budget Balance	Feb	-R$20.0bn		+R$$49.6bn	
29-Mar	9:30	Quarterly Inflation Report	1Q18				
29-Mar	8:00	Unemployment Rate	Feb	12.60%		12.20%	
02-Apr	9:30	Trade Balance	Mar	US$6.3bn		US$4.9bn	
03-Apr	8:00	Industrial Production	Feb	0.70%		-2.40%	5.70%
Chile							
29-Mar	8:00	Manufacturing Production	Feb		6.50%		5.70%
29-Mar	8:00	Unemployment Rate	Mar	6.50%		6.50%	
03-Apr	8:00	Retail Sales	Feb		6.00%		3.80%
05-Apr	7:30	IMACEC	Feb		5.50%	0.80%	3.90%
06-Apr	7:00	Consumer Price Index	Mar	0.30%	1.90%	0.00%	2.00%
Colombia							
05-Apr	20:00	Consumer Price Index	Mar	0.37%	3.27%	0.71%	3.37%
06-Apr	14:00	Minutes of MPC Meeting	Mar				
Mexico							
26-Mar	11:00	Retail Sales	Jan		-0.50%	-0.50%	-2.00%
27-Mar	11:00	Trade Balance	Feb			-US$4408mn	
27-Mar	11:00	Unemployment Rate	Feb	3.15%		3.39%	
28-Mar	12:00	Bank Lending	Feb				
02-Apr	11:00	Workers Remittances	Feb	US$2.20bn		US$2.22bn	
05-Apr	10:00	Consumer Confidence	Mar			82.0	
05-Apr	10:00	Gross Fixed Investment	Jan		0.50%	4.00%	-0.40%
Peru							
01-Apr	1:00	Consumer Price Index	Mar	0.70%	0.58%	0.25%	1.18%

Source: Goldman Sachs Global Investment Research

Calendar of Economic and Political Events

Date	Forthcoming Events	Comment
Argentina		
27-Mar	MPC Meeting	Given unanchored inflation expectations and still intense inflationary pressures the central bank is likely hold again; leaving the policy rate (7-day repo rate) unchanged at 27.25%.
Brazil		
16-May	COPOM Meeting	The forward guidance suggest the Copom is very likely to cut the Selic policy rate by another 25bp to a new record low 6.25%.
Chile		
3-May	MPC Meeting	We expect BCCh to hold the policy rate at 2.50% through 3Q2018 and start normalizing monetary policy in 4Q2018.
Colombia		
4-Jan	MPC Meeting	We expect Banrep to cut the policy rate by 25bp to at 4.25%.
27-May	Presidential Elections	After a strong showing from right and center-right parties in the March 11 Congressional elections, market-friendly candidate Iván Duque (Centro Democrático) is now leading the polls, ahead of leftist candidate and former mayor of Bogotá Gustavo Petro (Movimiento Colombia Humana).
Mexico		
12-Apr	MPC Meeting	Barring new negative shocks to inflation (actual and/or expected), if the MXN remains well anchored, and the market digests well the expected +25bp FOMC March hike, the MPC will likely decouple from the FOMC and remain on hold at 7.50%.
1-Jul	Presidential and Congressional Elections	On July 1, voters will elect a new president and Congress (500 Lower House representatives and 128 senators). A number of state and local elections will also take place (gubernatorial, mayoral, and state legislations). Andrés Manuel López Obrador (AMLO) of the Morena-PT-PES coalition is enjoying a solid lead in the polls for the presidential race, followed by Ricardo Anaya (PAN-PRD-MC) and José Antonio Meade (PRI-PVEM-PANAL).
Peru		
12-Apr	MPC meeting	We expect BCRP to keep the policy rate at 2.75%.

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Alberto Ramos, Paulo Mateus and Gabriel Fritsch, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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