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Patchy regional recovery to continue

A series of reports point to modestly improving economic growth across Latin America as a whole in the last quarter of 2018 and extending into 2019. But they also highlight a degree of uncertainty over domestic political risk factors, and potential headwinds in the global economy.

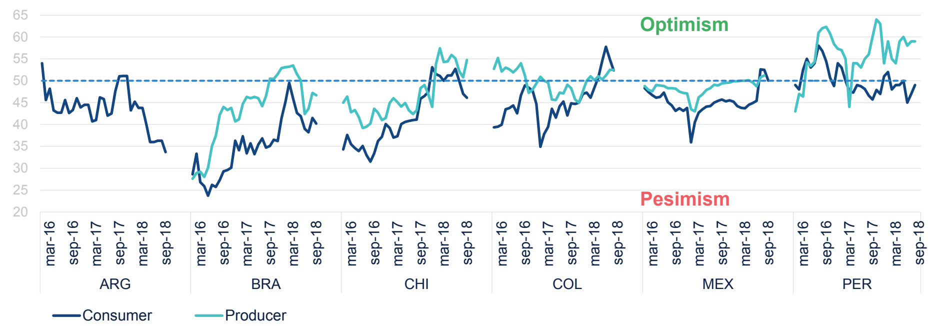
In its Latin American Economic Outlook report for Q418, BBVA Research paints a picture with both light and shade. Its core forecast is that hindered by the recession in Argentina, regional GDP growth will be 0.9% this year, recovering to 1.8% in 2019, and to 2.6% in 2020. These numbers represent a downward revision on earlier BBVA Research projections. Regional performance will be highly diverse with the crisis in Argentina combining with uncertainty in Brazil and resilience in the Pacific Alliance countries (Chile, Colombia, Mexico and Peru). Uncertainty in Mexico is deemed to be trending down due to the new trade agreement with the US and Canada (USMCA).

BBVA says that inflation expectations remain broadly anchored across the region with the exception of Argentina and Uruguay (and of course the extreme case of Venezuela, a country not covered in detail by the report). The Chilean central bank has begun a cycle of interest rate hikes and will be followed by other countries in 2019, in a context of rising growth and the withdrawal of monetary stimulus in the US. There may be scope for slight currency appreciation after recent big falls in the value of key regional currencies, but rising US interest rates will moderate that trend.

The main domestic risks are deemed to be the "political noise and financial tensions" in Argentina, the fiscal policies of the new government in Brazil, and potential delays in public and private investment in a number of countries. Global risks, which are said to be increasing, revolve around the threat of protectionism and tightening international financial conditions. The report notes that emerging markets have been subject to increased financial stress, leading to weaker currencies and higher spreads. But it makes the interesting point that tensions have been concentrated in the most vulnerable economies (among them Argentina, Turkey, and to a lesser extent Brazil) and that "We are not looking at a systemic crisis in emerging markets."

The report presents a useful visualisation of a combined index of household and business confidence in selected Latin American economies. It is notable that in many countries the index remains below 50 points (denoting pessimism) while the Pacific Alliance countries are clearly in optimistic territory (50 points-plus). In the last quarter confidence fell in Argentina because of the financial crisis; in Brazil it has been improving since the truck drivers' strike (in May); and in Mexico it has been growing as political uncertainty over the policies of the incoming government of Andrés Manuel López Obrador falls.

Latin America: Household and business confidence indicators
(values over 50 pts indicate optimism)



Source: BBVA Research and Haver

The BBVA report also looks at two key indicators of economic health – the fiscal and current account balances. In high fiscal deficit countries (led by Argentina and Brazil where the budget deficits represent 5%-8% of GDP) an improvement is expected over the next few years. Argentina now has an ambitious IMF-backed deficit reduction programme; the incoming Brazilian government is expected to seek fiscal adjustment, although it may be less ambitious in scope. Elsewhere, recovering activity levels and observance of fiscal rules will cut the deficits of countries like Chile and Colombia. There may be small increases in the fiscal deficits of countries like Mexico and Paraguay.

As for current account or external deficits the largest are currently in Argentina (4%-5% of GDP) and Colombia (over 3% of GDP). The report expects Argentina's current account deficit to narrow because of the deep devaluation and falling domestic demand. Across Latin America as a whole, however, current account deficits will widen slightly as economic activity rises and sucks in more imports.

The Economic Commission for Latin America and the Caribbean (Eclac) published revised growth forecasts in October. It now expects regional growth of 1.3% in 2018, revised down from 1.5% previously – but still notably more optimistic than BBVA Research's 0.9% for this year. For 2018 Eclac is predicting acceleration to 1.8% GDP growth. Eclac also sees important sub-regional variations. The South American economies, specialised in exports of oil, minerals, and food, will grow at a modest 0.7%, lower than last year (although a recovery is expected next year). Central America and Mexico will do much better with growth of 2.4% in 2018 and 2.5% in 2019.

Eclac highlights risks in the global economy, particularly in the financial environment. It comments that "The high levels of corporate and sovereign debt accumulated over years of lax global financial conditions constitutes a risk for some economies that are more exposed to changes in the financial scenario (greater needs for external financing, greater proportion of foreign currency debt and short-term debt, among others)." To be taken into account also are rising trade tensions which could cause financial turbulence and lower commodity prices. Eclac says that in this context the motors of Latin American growth are likely to be internal demand and investment (both domestic and foreign).

Consultancy Capital Economics (CE), in its economic outlook for the region published in October, talks about a "slow and uneven recovery". That said it has some of the highest numbers in its projections: it sees Latin American GDP growing by 2.5% this year and by 3.0% in 2019, before falling back to 2.3% in 2020. It argues that with both monetary and fiscal policies tightening the acceleration in growth will be weaker than expected. Mexico is seen as an exception where policy will be loosened, and growth will be stronger. It

expects that a stable Mexican peso will enable the central bank to cut interest rates. Argentina is seen as remaining in recession in 2018-2019. CE comments, "A sovereign debt default is not in our central scenario, but the risk is higher than the markets are pricing in." It also sounds a cautionary note on the region's largest economy, Brazil, predicting a "slower and bumpier" recovery than has been expected. "Investor confidence about the potential for market-friendly reforms under the next president Jair Bolsonaro appears to have gone too far," it says, arguing that the politically fragmented congress will make major fiscal reform "unlikely".

Updated Growth Projections for Latin America and the Caribbean 2018-2019

Country or region	GDP growth	
	2018	2019
Latin America and the Caribbean	**1.3**	**1.8**
Argentina	-2.8	-1.8
Bolivia (Plurinational State of)	4.3	4.4
Brazil	1.4	2.1
Chile	3.9	3.3
Colombia	2.7	3.3
Ecuador	1.0	0.9
Paraguay	4.6	4.7
Peru	3.9	3.8
Uruguay	1.9	1.5
Venezuela (Bolivarian Republic of)	-15.0	-8.0
South America	**0.7**	**1.6**
Costa Rica	3.2	3.1
Cuba	1.1	1.3
Domincan Republic	5.6	5.3
El Salvador	2.4	2.4
Guatemala	2.9	3.0
Haiti	1.8	2.0
Honduras	3.6	3.7
Mexico	2.2	2.3
Nicaragua	-3.1	-0.3
Panama	4.8	5.3
Central America and Mexico	**2.4**	**2.5**
Central America	**3.2**	**3.3**
Latin America	**1.3**	**1.8**
Antigua and Barbuda	4.2	4.5
Bahamas	2.5	2.2
Barbados	0.0	0.8
Belize	2.6	2.0
Dominica	-4.4	7.0
Grenada	4.0	4.1
Guyana	3.0	3.7
Jamaica	1.7	1.9
Saint Kitts and Nevis	3.2	4.0
Saint Vincent and the Grenadines	1.3	1.6
Saint Lucia	2.1	2.5
Suriname	1.7	2.8
Trinidad and Tobago	1.9	1.7
The Caribbean	**1.9**	**2.1**

Source: ECLAC, October 2018

Note: Central America includes Cuba, Domincan Republic and Haiti

BRAZIL

Bolsonaro's vague plans for the economy

In the 82-page powerpoint document that passes for Jair Bolsonaro's plan for government, respect for private property features prominently. Though much of the plan consists of attacks on the left and the "cultural Marxism" that has undermined Brazilian institutions over the past few years, it does make a vague attempt to outline certain principles. A Bolsonaro government would be a liberal democratic administration, it states, with security, health, and education as its priorities. In the economic section, it insists its priorities are growth, opportunity, and employment.

Bold, but vague

Among one of its more concrete commitments is a target to tackle the fiscal deficit immediately. "Corruption and populists led us to an elevated fiscal deficit, an explosive fiscal situation, with low growth and high unemployment. We need to reach a primary surplus by 2020." Zeroing the almost 8% of GDP fiscal deficit in one year seems, frankly, unrealistic, and the only clue as to how a Bolsonaro government would manage that comes from its plans to slash the number of ministeries and to privatise a large number of Brazil's 147 state companies.

The plan for government, entitled 'The Path to Prosperity', notes that Brazil paid over R$400bn or 6.1% of GDP in interest payments alone last year. To slash the deficit and tackle the rising stock of public debt by 20%, Bolsonaro's administration would privatise. The document, however, neglects to name which companies it would sell off, though clearly this may have been a deliberate attempt to avoid alarming voters before securing victory. It also attempts to mitigate the shock of wide-ranging privatisation to Brazil's state-dominated economy by pointing to the "golden share" model that has featured in talks between Boeing and Embraer, in which the government ultimately retains a decisive say.

Notably, in interviews, Bolsonaro tends to focus more on the strategic companies that he would not privatise, such as Petrobras and the energy-generating units of Eletrobras, rather than those he would. It is also unclear what he would be able to offer congressional allies in return for their support if he does away with the state companies whose jobs are a traditional source of political patronage. Any privatisation plan, no matter how necessary or well-designed, will come against up powerful corporate interests.

While the document outlines plans to downsize the number of ministeries as a way to cut costs, in practice Bolsonaro has been backtracking on that idea. According to the powerpoint, finance, economy, industry, and commerce would all be folded into one mega-ministry; the environment and agriculture ministries would also become one. In practice, however, Bolsonaro has already walked back those ideas.

Similarly, the document pledges to end the practice of ear-marking budgetary commitments, which currently account for over 90% of all government spending. A laudable aim, but one which will require a constitutional amendment – a vote requiring three-fifths support in both houses of congress. Although Bolsonaro's allies did well in congressional elections, he will still stuggle to reach that number.

As for pension reform, the plan acknowledges the need for change and proposes a capitalisation system, whereby each worker would be responsible for their contribution to their pension pot. (At present current workers pay the pensions of retirees.) But it also accepts that this will represent a radical shift from the current system and insists the changes will be gradual – in other words, it hardly seems like a firm commitment.

Labour reform

One of the more concrete proposals in the document relates to labour reform, one of the hallmarks of the outgoing administration of President Michel Temer. While Temer's bill freed up employers to strike individual deals with employees and weakened the power of the country's powerful trade unions, Bolsonaro's plan goes even further.

New employees would have the 'choice' of opting between two types of employment contract, one that would allow them to negotiate directly the terms of their work with their employer or one that would offer them the standard labour rights guaranteed by the CLT, or current labour laws. It would remain to be seen whether this choice remains entirely in the hands of the labour force or whether it is one applied by employers.

Amazon

Bolsonaro's government plan promises to reduce the wait time to license small hydroelectric plants to a maximum three months, rather than the decade it can sometimes take. He's also said he won't add even a centimeter to indigenous reserves, and he wants native populations integrated into modern Brazilian society.

Another vaguely worded commitment that has been exploited by Bolsonaro's rival, Fernando Haddad, is what his government would do about the successful conditional cash transfer scheme, Bolsa Familia. Bolsonaro insists that he would strengthen the programme, cutting down on fraud so that the truly needy can receive slightly more. The left claims that this attempt to cut down on fraud would just be an excuse for reducing the programem altogether.

Bolsonaro has been clear that he wants an independent central bank, which maintains inflation targeting as its principal goal. Though he has said he would like the current central bank president Ilan Goldfajn to continue in office, Goldfajn himself has told friends that he expects to leave before the end of the year. Markets will be watching closely for signs that his successor will adhere to economic orthodoxy.

The Bolsonaro2018 document, stamped on the first page with the biblical verse, "And you shall know the truth, and the truth shall set you free", also promises to open up Brazilian markets, reduce tariffs and non-tariff barriers, as well as simplifying the process of setting up a business in the country. While the plan itself contains few references to the Amazon, Bolsonaro has repeatedly said in interviews that he wants to open up the rainforest to mining and farming interests.

Brazilian assets have soared in recent weeks on the expectation of a Bolsonaro victory. Much of investors' enthusasim stems from Bolsonaro's choice of finance minister, Paulo Guedes. Guedes, a University of Chicago-trained economist, is on record as wanting to privatise "everything". However, despite a good reputation as an academic, and founder of the liberal think-tank the Millennium Institute, Guedes has no political experience whatsoever. He is also famously thin-skinned and his commitment to Bolsonaro appears weak. Should he decide to flounce out of the government early on, markets are likely to take a nose-dive.

The former Army captain's cabinet will also be split between military nationalist types and economic liberals, such as Guedes. Balancing these two forces will be key to the success or not of his presidency, and given Bolsonaro's own self-professed ignorance of economics, it is not clear that he will be best prepared to adjudicate between the two sides.

Bolsonaro's Likely Cabinet

With Paulo Guedes set to take over at the finance minister, Bolsonaro has indicated that Onyx Lorenzoni, a former leader of the Democratas party in the lower house, will be his cabinet chief. Lorenzoni is an experienced political operator with a good relationship with the Chamber of Deputies. General Hamilton Mourao, Bolsonaro's vice-president, has apparently done a good job of wooing Brazil's business leaders and convincing them of the sincerity of Bolsonaro's conversion to economic liberalism.

Up to five generals may take a job in the cabinet, including Oswaldo Ferreira at infrastructure. Ferreira previously oversaw the construction of the BR-163 highway. General Augusto Heleno is expected to run the defence ministry. Gustavo Bebbiano, the current leader of Bolsonaro's party, the Partido Social Liberal (PSL), is tipped as a future justice minister, while Henrique Prata, a wealthy businessman and philanthropist is a possible health minister.

Bolsonaro's three adult sons – Flavio, Eduardo and Carlos – are expected to continue in their advisory role, although they will not have any ministerial position. Eduardo is a federal deputy who won more votes than any other in the history of Brazil's congressional elections; Flavio was elected one of Rio de Janeiro's senators while Carlos, who runs his father's social media feeds, is a city councillor in Rio de Janeiro.

ARGENTINA

IMF programme gains some traction

In Argentine political culture IMF-supported austerity programmes are deeply unpopular, even toxic. But if you are forced to go down that route, you might as well try to do it well. That seems to be the thinking in the government of President Mauricio Macri, as officials report some signs of progress in implementing the US$56.3bn stand-by agreement (SBA).

On 26 October the IMF's executive board approved the first quarterly review of the 36-month SBA. The agreement, initially reached in June, and totalling US$50bn, was later rescheduled and strengthened to US$56.3bn to counter continuing speculative attacks on the peso. A day before executive board approval, on 25 October, the government had managed to get its draft 2019 budget – with embedded SBA austerity targets – approved in the Chamber of Deputies. One of the major features is a commitment to cut the primary fiscal deficit (excluding interest payments) to zero, down from an estimated 2.7% this year.

After some careful political footwork, and despite angry protest demonstrations outside congress, the bill was approved by 138 votes to 103, with eight abstentions. The government was able to capture swing votes from provincial parties and the moderate Peronist opposition. It did so by offering a 'fiscal pact' with the provincial administrations, under which they get some extra help to ease the transition to lower public spending. There were also some concessions so as to make the re-introduction of export taxes a little less burdensome on farmers. Officials are now reasonably confident that the senate will approve the budget by mid-November. For the moment it looks as if policy U-turns that dilute or contradict the IMF programme can be avoided (one such U-turn had come earlier in October when, in response to public criticism, the government decided to slow down gas tariff increases, part of its plan to eliminate energy subsidies).

Budget assumptions confirm 2018 is a bad year and that in the best of cases, 2019 will see only modest improvement. The government now says the economy will contract by 2%-3% this year, and again by 0.5% in 2019. Inflation is expected to peak at just under 40% this year, and then to fall to 23% in 2019. That is a sharp reduction in inflation, but is of course a contrast

to the government's initial promise that it could get inflation down to single digits by the last of its four years in office in the current term.

Fifth consecutive loss for the economy

Source: *Indec*

One area of progress is that, for the moment at least, the foreign currency markets have gone relatively quiet. The value of the peso has remained within the 'non-intervention' band set by Guido Sandleris, the new president of the Banco Central de la República Argentina (BCRA) at the end of September. The band was initially set at 34 to 44 Argentine pesos per US dollar. The peso actually appreciated a little during October, ending the month at 36.83 to the US dollar (26 October). In an interview with the *Financial Times* Sandleris was ultra-cautious, commenting it was "definitely too soon" to say the currency had been stabilised and warning that financial turbulence could return. As he put it, "Confidence and credibility are two things that are very delicate…they break very easily and are difficult to rebuild. We are in that process – but this is a daily fight."

Although inflation remains high, Sandleris believes that the BCRA's policy of enforcing zero monthly growth in the monetary base (M0) will eventually pay off. Driven by peso depreciation, inflation had spiked up to 6.5% in September, bringing the 12-month rate to 40.5%. Sandleris says there is now a downward trend which may not be observed in October, but which will show up in the data from then onwards. Other economic data does give some limited encouragement to officials. In the first nine months of this year the primary fiscal deficit was almost halved, down to US$4.2bn or 1.1% of GDP. According to the Estimador Mensual de Actividad Económica (EMAE), the monthly index of activity, the economy contracted for the fifth month running in August, with a fall of 1.6%. The biggest falls were in retail and manufacturing. Analysts expect the impact of the turmoil on the foreign currency markets to keep the EMAE in negative territory for a few more months.

On the plus side the damaging impact of the drought in agricultural areas (April-July) is now beginning to fade. There are also some early signs that Argentina's big current account deficit may begin to narrow. In September, for the first time in 20 months, the country recorded a trade surplus. It was mainly due to a sharp fall in imports (down 21.2% to US$4.699bn) while exports dropped more modestly (down 4.1% to US$5.013bn). But with a steeply depreciated peso, there are hopes that by 2019 the country might begin to experience significant export growth, thereby bringing the prospect of recovery into sight.

Firing up non-traditional exports

A whole range of fruits and vegetables and speciality foods – key components of the country's non-traditional export sector – are showing signs of strong export-led growth.

Peru's non-traditional exports continue to surge ahead. In the first eight months of this year they were up by 16.2% to reach US$8.598bn. According to Comex Peru (the country's foreign trade association) this performance was particularly impressive because it came against the background of global trade tensions and disappointing prices for traditional commodity exports. Forecasts by the Banco Central de Reserva del Peru (BCRP) suggest the average of commodity export prices will grow 7.4% this year, four points below the mid-year forecast. But the value of non-traditional exports is more than doubling that rate of growth.

Comex says the main non-traditional products exported this year include fresh or dried avocados (+15.2% in value to US$669m), fresh grapes (+34.2% to US$306m), and frozen cuttlefish, squid and pots (+94.5% to US$303m). Demand for fish products is particularly strong in Asia, while Peruvian avocado sells well in both Asia and Europe. Exports of blueberries, Brazil nuts, and fresh and frozen prawns also grew strongly. This growth was expected to continue to the end of 2018 on the back of good weather conditions. However, growth might be held back in 2019 due to the possible emergence of a new El Niño weather pattern with higher-than-normal rainfall. Because of this the BCRP is predicting lower agriculture and livestock growth in 2019 (+4%) and a fall in fisheries output (-4.2%).

Note: Grey columns = value in US$m. Red line = annual % change

The major advantage the non-traditional sector offers Peru is that it diversifies exports away from excess reliance on mining and commodities, offering the potential of greater resilience if there are external shocks. Jaime Reusche, Vice President of Moody's Investor Services has said that agriculture and livestock exports, along with tourism, are additional "engines of growth" for Peru that are expected to help the government deliver on its objective to achieve 4% GDP expansion in 2018.

The South Korean route

One example of diversification can be found in Peruvian exports to South Korea, which have benefitted from a free trade agreement (FTA) signed in 2011. Since then, Peru has started exporting around 180 new traditional and non-traditional products worth up to US$600m, to that market. They include bananas, mangoes, prawns, cocoa, strawberries, quinoa, chestnuts, carrots, and pisco. There are also significant sales of manufactures, including shawls, sweaters, jackets, parquet friezes, machinery parts, dyes, and printing ink.

South Korea has climbed up the list of export markets ranked by value-added for Peru, going from number 24 in 2011 to number 14 last year. Nancy Arrelucé, an analyst at Adex, another Peruvian exporters' lobby, says up to 70% of Peru's universe of export products have benefitted from the FTA. However, Arrelucé notes that South Korean investment in Peru is still heavily concentrated in mining. In the first eight months of this year traditional exports to South Korea rose 49.6% to US$1.651bn, while non-traditional exports jumped 78.4% to US$251m.

COSTA RICA

Future of tax reform bill remains uncertain

October has seen a number of important developments related to long-running government efforts to push through a tax reform bill, aimed at reversing a recent widening of the fiscal deficit and a steady increase in already-high levels of public debt.

Previous governments have tried and failed to secure support for a reform that would structurally strengthen Costa Rica's public finances. Hopes for the current government's efforts have been somewhat higher: the 'Ley de Fortalecimiento de las Finanzas Públicas' (law to strengthen the public finances) has undergone extensive debate and modifications and was finally submitted to the legislature on 1 October. The proposals centre around efforts to replace the existing sales tax with a value-added tax (VAT); the suggested rate (13%) would be unchanged, but the new VAT would be levied on a much wider range of goods and services. Despite weeks of social unrest, with thousands of protesters taking to the streets in opposition to the bill, the tax reform was approved by the Legislative Assembly in a first vote on 5 October, with 35 out of 57 congressmen voting in support of the bill. Given that the Legislative Assembly is highly fragmented, with the ruling Partido Acción Ciudadana (PAC) in a minority position with only 10 seats, the government had to build cross-party support with a number of other political parties in order to secure approval of the bill.

A spanner in the works

However, a judicial ruling on 16 October threw a spanner in the works; the Plenary Court rejected the bill in its current form, on the basis that four points affect the independence and operations of the country's judiciary. These do not affect the main tax proposals, but instead relate to other proposed measures. The Court requested that the Legislative Assembly amend these points, in order to eliminate the Planning Ministry's oversight of public employment in the judiciary; eliminate the Civil Service review of judges' job performance; amend proposals that would cut funding for witness protection schemes; and eliminate salary modifications for judicial posts. The Court stated that if the Legislative Assembly complies with this request and makes the changes, it would approve the bill, enabling it to return to the Legislative Assembly for a second congressional vote, in which it would only need a simple majority to proceed. If the changes are not made, the bill can still progress, but the government would need to secure a two-thirds majority (which it did not have in the first vote).

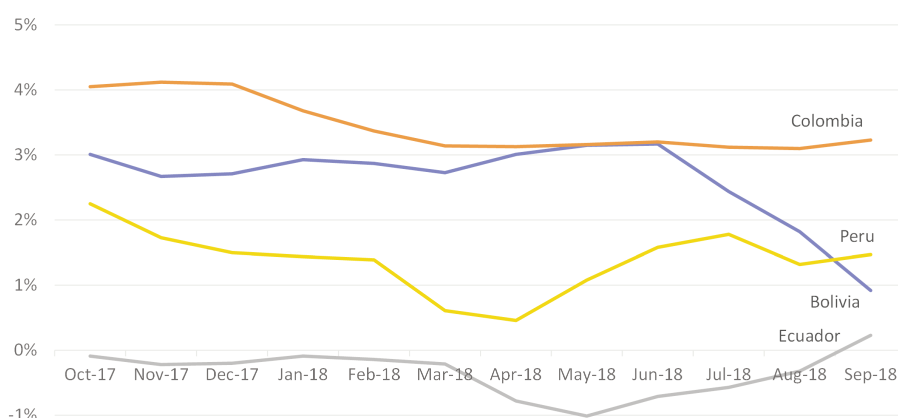
It remains unclear which path the government will take. It is not out of the question that the government will be able to secure a two-thirds majority, which would probably be quicker than amending the bill, but there would still be risks to the bill at a later stage, as the Constitutional Court would need to sign off on the legislation at the final stage. The bill is by no means dead in the water, but there are heightened risks to its eventual approval. Reflecting this, on 18 October international credit ratings agency Moody's Investors Service placed Costa Rica on review for a downgrade, citing the continued worsening of fiscal and government debt indicators, evidence of increased funding pressures, as well as reservations about the government's ability to implement effective fiscal consolidation. Moody's specifically referred to the tax reform bill as an "uphill battle", despite an acknowledgement of the government's continued efforts.

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)

Percentage variation (year-on-year)



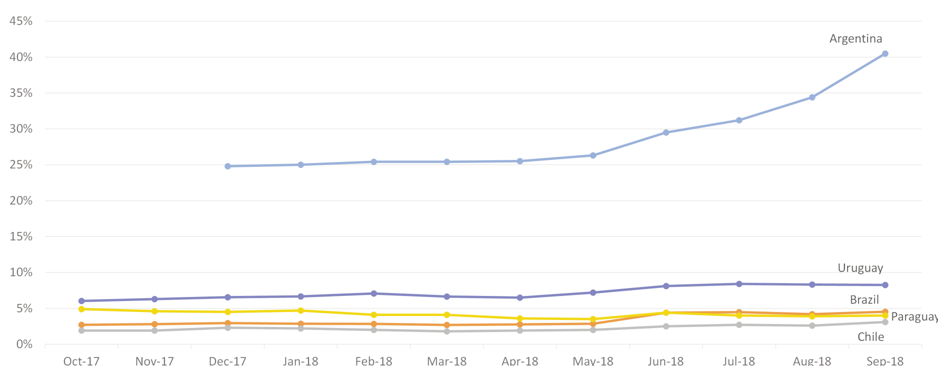
Source: *Local central banks. No reliable data available for Venezuela.*

Andean Countries: GDP growth (%)						
Quarterly figures are year-on-year growth						
GDP	**end 2017***	**2018 forecast***	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
Bolivia	3.9%	4%	Not available yet	Not available yet	Not available yet	Not available yet
Colombia	1.8%	2.6%	2.0%	1.6%	2.2%	2.8%
Ecuador	1%	1.3%	3.8%	3.0%	1.9%	0.9%
Peru	2.5%	3.5%	2.5%	2.2%	3.2%	5.4%
Venezuela	-9.5%	-5.5%	No data	No data	No data	No data
**Figures from the United Nations Economic Commission for Latin America & Caribbean August 2018*						
Quarterly growth based on figures from the local central banks. Bolivia has ceased providing quarterly y-o-y GDP data.						

BRAZIL & SOUTHERN CONE

Brazil & Southern Cone: Inflation rate (%)

Percentage variation (year-on-year)



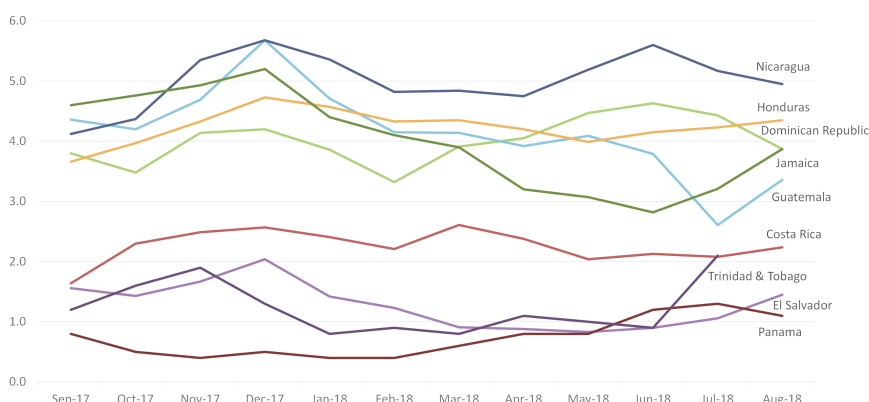
GDP growth (%)						
	End 2017*	**2018 forecast****	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
Argentina	-1.30%	2.20%	3.80%	3.90%	3.60%	4.20%
Brazil	-0.90%	2.00%	-0.17%	0.99%	1.29%	1.03%
Chile	1.50%	2.80%	2.50%	3.30%	4.10%	5.30%
Paraguay	4.00%	4.50%	3.10%	4.50%	4.10%	6.20%
Uruguay	3.00%	3.20%	2.20%	2.00%	2.20%	2.50%
Annualised quarterly growth based on figures from local central banks.						

ECONOMIC HIGHLIGHTS

CENTRAL AMERICA & CARIBBEAN

Central America & Caribbean: Inflation Rate

Percentage variation (year-on-year, selected countries, latest available data)

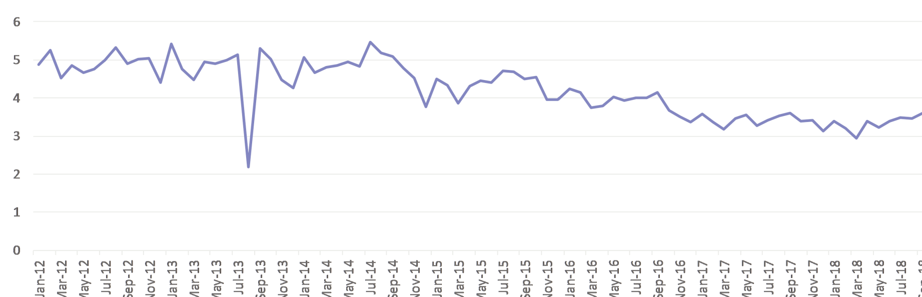


Central America & Caribbean, selected countries: GDP growth (%)						
GDP	**end 2017***	**2018 forecast***	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**
Costa Rica	3.9%	4.1%	2.7%	2.8%	3.2%	3%
Dominican Republic	4.9%	5.1%	3%	3%	6.5%	6.4%
El Salvador	2.4%	2.5%	2.3%	2.4%	2.4%	3.4%
Guatemala	3.2%	3.5%	2.3%	2.7%	2.9%	2%
Honduras	3.9%	3.9%	4.5%	6.5%	3.6%	3.1%
Nicaragua	4.9%	5%	4.3%	3.2%	4.3%	2.3%
Panama	5.3%	5.5%	5.4%	5.4%	4.9%	4.2%
Jamaica	1.2%	1.3%	-0.1%	range of 0.5%-1.5%	range of 1.0%-2.0%	range of 1.0%-2.0%
Trinidad & Tobago	-2.3%	0.5%	-3.4%	2.7%	-1.2%	Not available yet
**Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017*						
***Figures from the United Nations Economic Commission for Latin America & Caribbean August 2018*						
Quarterly growth based on figures from the local central banks, year-on-year growth						

MEXICO & NAFTA

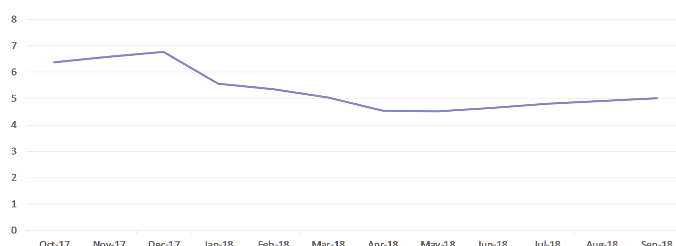
Mexico's unemployment rate

Economically active population



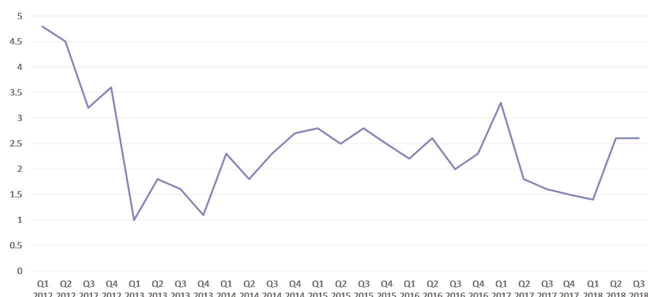
Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)



Source (all Mexico Highlights data): *National Statistics Institute (Inegi)*

Flying into crosswinds

After successfully convincing the markets that he will be business-friendly and follow sound macro-economic policies when he takes office on 1 December, Mexican president-elect Andrés Manuel López Obrador (AMLO) has ended up distressing investors with his cancellation of the NAIM airport project to serve Mexico City.

The president-elect has long questioned the US$13bn project to build a new Mexico City airport on a dried-out lake bed at Texcoco. He has argued that the project, now one-third complete, has been tainted by corruption and is being built on land prone to subsidence. From early on in his election campaign he had promised there would be a public consultation to decide the future of the project. His team came up with an alternative – to keep the current, saturated Benito Juárez international airport in operation, and to add two further runways at the Santa Lucia military airbase, 50km north of the capital, turning it into a civilian airport.

A four-day public vote on which of the two options to pursue came to an end on Sunday 28 October. Wasting no time, on Monday 29 October AMLO announced that his incoming administration would cancel the project.

Nearly 70% of those who voted opted against the expensive Texcoco project and for the less costly Santa Lucia alternative. AMLO hailed the decision as "wise" and claimed it would save taxpayers MXN100bn (US$5bn). But despite his confidence there were multiple questions about the validity of the exercise and the technical and financial viability of changing the plan. These came together to trigger business worries: immediately after the announcement the value of the peso, which has served a something of a litmus test of confidence in the incoming administration, fell by 3.5%. Share prices also took a tumble, with Mexico's stock exchange (BMV) falling 4.2% on 29 October (*see below*).

A first problem was the way the consultation was conducted. AMLO opted not to have it run by INE, the national electoral institute, but instead put it in the hands of a not-for-profit body, the Fundación Arturo Rosenblueth. Voting booths were located in only 538 of the country's 2,463 municipalities. Critics noted that it was technically possible to vote more than once (according to media reports, some people did so, although this appears to have happened in only a minority of cases). There were also problems with electronic software used to check voter identification. The net result was that only around one million people – about 1% of the national electorate – took part in the exercise. In short, only a tiny minority of Mexican voters took the decision. The result was supposed to be non-binding, but AMLO had earlier said he would respect it and act accordingly (the president-elect said he himself had cast a blank ballot).

A second major issue is what the consultations says about the incoming government's commitment to honour contracts with the private sector. The Texcoco project has been under way for a number of years and a wide group of local companies, including some controlled by Carlos Slim, one of Mexico's most powerful entrepreneurs, are acting as construction and engineering contractors. Mexican pension funds and private investors have also put money into the project. The immediate question is therefore how these

contractors and stakeholders will be affected and if necessary, compensated for the cancellation of the work. AMLO's team said the incoming government would allocate no further resources to Texcoco, but that the rights of investors and bondholder would be fully guaranteed. AMLO suggested some contractors might be asked to switch to work on Santa Lucía. For an incoming president promising fiscal austerity, the question is whether the true cost of stopping one airport plan and switching instead to another has been fully calculated, or is itself wasteful. According to Grupo Aeroportuario de la Ciudad de Mexico (GACM), which has been managing the Texcoco project, the actual cost of shutting it down, including lawsuits, severance payments, and penalties, will be around MXN120bn (US$6.1bn).

A third point is technical. Some experts have argued that operating two airports simultaneously in the capital (the existing airport plus the two proposed new runways at Santa Lucía) could complicate air traffic control and raise safety issues. The International Civil Aviation Organisation (ICAO) called for a technical tidy because of the danger of collisions or the need to stagger flights in a way that would severely limit traffic volume. It was only days before the consultation that Javier Jiménez Espriú, designated by AMLO as his future minister for transport and communications, was able to produce a consultancy report (by Navblue, a subsidiary of Airbus) confirming that the two sites can operate in parallel and safely.

Business groups were taken aback by the decision. The Consejo Coordinador Emprsarial (CCE) said that the cancellation of the NAIM project sends the wrong message and increases uncertainty as it undermines the commitments made by the Mexican state to the business sector, as well as the judicial framework. "The message being sent to citizens, to the international markets, to firms and investors, is that there is no certainty in the contracts signed," CCE president Juan Pablo Castañón said. Castañón added that this would have a negative effect on Mexico's international image, and he called on López Obrador to reconsider. Gustavo de Hoyos, president of business lobby Coparmex (and someone who has crossed swords with AMLO in the past) said the consultation lacked legitimacy and statistical validity and that the rational thing to do was to continue with the Texcoco project. Public consultations required clear rules he said, and should not be left to the whims of those in power. Cancellation of the project would mean that Mexican and international investors would think twice before taking part in any similar projects. A similar warning came from José Ángel Gurría, the Mexican general secretary of the OECD, who said cancelling the Texcoco project would make the country less attractive as an investment platform.

Clearly these views are shared by other international observers. Following the announcement, investment bank Morgan Stanley issued a note to its customers advising them against buying Mexican assets, noting that it now expects a fall in investor confidence in Mexico. Meanwhile, Moody's Investors Service, which had warned that the cancellation of the NAIM project would lead to it revising down Mexico's credit rating, immediately downgraded its rating of bonds issued by the Mexico City airport development fund from 'Baa1' to 'Baa3', which led to the BMV fall.

Enrique Cárdenas, a professor at Universidad Iberoamericana at Puebla, tweeted that AMLO's decision "will be remembered as one of the worst stupidities by a president in contemporary economic history. I hope I am wrong." Gabriel Siller, an economist at Banco Bas, said the cancellation of the Texcoco plan would raise perceptions of sovereign risk, limit fixed investment in Mexico, and reduce the country's long-term economic growth potential.

Government prioritises servicing Pdvsa 2020 bond

Although the government remains in default on most external bonds, it is desperately trying to remain current on its obligations on the Pdvsa 2020 bond, with a US$949m repayment falling due on 29 October. The bond is backed by 50.1% of shares in Pdvsa's US-based refinery arm, Citgo, which remains an important physical asset for the government.

The state oil company, Petróleos de Venezuela (Pdvsa), has failed to make over US$7bn in scheduled interest and capital repayments in the past year, as chronic shortages of foreign exchange have forced the government into default on most of its sovereign and Psvsa bonds. However, there have been reports that the government planned to make a scheduled US$949m repayment on the Psvsa 2020 bond that fell due on 29 October (at the time of writing, no confirmation was available about whether the payment has been made).

Government is desperate to retain Citgo

Unlike many of the sovereign and Psvsa bonds, the 2020 instrument is backed by Citgo as collateral. Although the country remains critically short of US dollars, with international reserves hovering around the US$8.8bn mark in late September, the Nicolás Maduro-led administration will want to service the bond, fearing that bondholders may take legal action to seize Citgo assets if it lets the instrument slip into technical default.

But even if the government has managed to make the payment, Citgo's assets remain under threat from other areas. The Canadian-based mining firm Crystallex has been pursuing the Venezuela government in international courts, related to Venezuela's failure to make a US$1.4bn payment awarded by the World Bank's arbitration panel after the government nationalised Crystallex's mining assets in the country in 2008. Crystallex is requesting that US courts authorise the sale of Venezuela's US-based Citgo assets in compensation. US courts ruled in August that Citgo assets must be sold; the Venezuelan authorities subsequently tried to reverse the sale order, but US courts ruled in late October that they would not halt the planned sale process. A further ruling is expected in late December regarding how the sale will be structured.

Oil production plummets

In the meantime, operational problems continue to hamper Psvsa's oil production capacity. According to the International Energy Agency (IEA), oil production has plummeted, falling to just 1.23m barrels per day (b/d) in September, down from 1.61m b/d in January and just under 2m b/d a year ago. Given that OPEC's quota for Venezuela currently stands at 1.97m b/d, oil production is clearly massively below potential (and one of the main reasons why total OPEC production remains under quota). This has meant that the Venezuelan economy has felt very little impact from the recent rise in international oil prices, particularly since the government remains under pressure to repay overdue bilateral credit from China and Russia.

With little obvious source of external finance available, the government looks set to limp on, only attempting to service debt that is backed by Citgo as collateral. The Venezuelan government has made repeated references to the possibility of fresh credit lines from Russia and China, but in reality there have been few new loans agreed in recent years, with Russia and China both preferring to renegotiate repayment terms rather than extend new funds. With officials from both countries currently meeting the Venezuelan authorities in Caracas, another easing of repayment terms might be on the cards, but it is difficult to see how this will do anything put delay an eventual collapse.

BRAZIL

Flurry of Brazilian IPOs on back of Bolsonaro win

Even before the victory of far-right candidate Jair Bolsonaro was confirmed on Sunday, several companies resumed their plans for initial share offers in late October after months of paralysis. With the Ibovespa entering bull market territory, technology firm Tivit relaunched its plans for an IPO, as did lender BMG and StoneCo, the Sao Paulo-based payments firm.

Speaking just ahead of the election, Pedro Galdi, an investment analyst at MiraeAsset, explained the rush to market. "The high probability of the candidate with a reformist bias winning the election has already begun to lure the interest of companies," he said. "The confirmation of a scenario of economic recovery, and of business and consumer confidence opens a window of opportunities for funding in the capital market, whether in equity or fixed income."

For months prior to the election, the uncertainty of the political scenario – with 13 candidates competing for the presidency and the legal battles surrounding the fate for former president Luiz Inacio Lula da Silva – had put lots of deals on hold. By the end of August, there were at least $33 billion in mergers, acquisitions, equity, and debt issuances stalled.

"The name of the president is already priced in, and the next drivers to move the market will be the announcement of concrete measures such as reforms and cost cutting measures, in addition to the definition of the economic team, the president of the Central Bank, BNDES," said Sergio Goldman, strategist at Magliano Corretora, a brokerage. In this scenario "it makes sense to see an unlocking of capital markets still this year".

Brazil's stock market has performed impressively in October, surging 14 percent in dollar terms. Analysts from some of the biggest brokerages covering Brazil are favouring state-controlled companies, banks, and stocks with strong ties to the domestic economy. Foreigners, however, are decidedly less bullish than locals. They took out 1.1 billion reais ($297 million) from the stock market over the first three weeks of October, while Brazilians invested 3.7 billion reais into the market over that time. They also have been boosting their bets against the real – the best-performing currency in the world over the past month – and have now established a large net short position in the futures market.

StoneCo IPO Proves a Big Success

In the face of strong demand, Brazilian card payment processor StoneCo Ltd. priced its initial public offering at $24 per share, above the initially suggested price range of $21-$23.StoneCo provides point-of-sale software to small merchants to handle card payments, and the tech company's success in disrupting a market controlled by Brazil's banks drew a global audience to its stock sale. Warren Buffett's Berkshire Hathaway Inc. and the finance affiliate of Jack Ma's Alibaba Group Holdings Ltd. sought to buy as much as $440 million of StoneCo shares, according to a regulatory filing this week.

Global growth in non-cash transactions is expected to grow 10.5 percent a year until 2020, with Brazil being Latin America's biggest country for digital payments, according to Capgemini SE's latest World Payments Report. Brazil's banking and finance sector is "on the brink of a technology-driven revolution", Street and Pontes said in a letter published as part of StoneCo's prospectus.

StoneCo had revenue of 766.6 million reals ($207 million) in 2017, a 74 percent increase from the previous 12 months. Its rivals include PagSeguro Digital Ltd., a Sao Paulo-based firm that had an IPO in January.

Banco do Brasil

On 26 October Banco do Brasil, a state bank and the nation's largest by assets, announced Chief Executive Officer Paulo Caffarelli is leaving as of 1 November. President Michel Temer appointed Marcelo Augusto Dutra Labuto, the former CEO of the bank's insurance unit, to replace him. It's not clear whether he will remain in his role after the new president takes office on 1 January.

Energy outlook under the next government

He's a right-wing nationalist with a history of supporting state-owned companies in the energy sector. On the other hand his top pick for economy minister wants to privatise as many state companies as possible to solve the country's fiscal crisis. Where will energy policy end up under a Jair Bolsonaro presidency?

The energy policies of the next Brazilian government have been in a state of flux, but a new consensus seems to be emerging. Bolsonaro, who admits not knowing much about economics, seems ready to give his proposed economy super-minister Paulo Guedes a relatively free hand – on certain conditions. One is that two key state-owned companies – Petrobras in oil and gas, and Eletrobras in the power sector – are not up for sale, at least in the short term. Gustavo Bebbiano, leader of Bolsonaro's Partido Social Liberal (PSL) party, said in October that divestment of Petrobras might be considered in the medium term, but only after it had been purged of political appointees put in place under previous governments and "revitalised". Separately, Bolsonaro said he was unwilling to sell energy generation assets, pointing to the core activities of Eletrobras also staying in the public sector.

There does however seem to be ample scope for the privatisation of Petrobras and Eletrobras subsidiaries. Since finding itself at the centre of the Lava Jato corruption scandal Petrobras has in any case been divesting non-core activities in an attempt to streamline its operations and pay down debt. Bolsonaro is expected to appoint a new chief executive with a brief to continue those spinoffs, particularly in the downstream refinery sector. However, that throws up a policy dilemma. Under previous governments domestic fuel prices have been subsidised – a classic populist policy. An attempt by the outgoing government of President Michel Temer to phase out those subsidies and thereby make downstream activities more profitable ran into trouble in May this year when truck drivers went on a damaging strike and forced a partial reinstatement of the diesel price subsidy. Many of the strikers were outspoken Bolsonaro supporters. So as he takes office the new president will face a dilemma: whether on this issue to favour big business (eager to see the divestment of commercially viable refining, retail, and transportation assets) or the truck divers (a powerful and influential group of supporters who want cheap fuel).

In the oil and gas upstream, Bolsonaro is expected to continue the liberalising policies implemented over the last two years by the outgoing government. These have included a steady stream of exploration and production licensing rounds, a reduction of obligatory partnering with Petrobras in pre-salt licenses, and simplification of local content rules. The calendar of new licensing rounds currently runs up to 2021, and it is expected that the new administration will stick to it. As a result of the 2017 and 2018 rounds there has been a major inflow of new investment, led by international oil companies. The once-dominant Petrobras now operates only 50% of the Campos and Santos basins, with the rest of the acreage controlled by ExxonMobil, Shell, BP, Equinor, Repsol, Andarko, and CNOOC. In the last round before the elections, on 28 September, companies including Shell and Chevron bid US$1.7bn for four blocks at auction.

Bonfire of environmental regulations?

Bolsonaro is widely expected to try to reduce and simplify regulations protecting the environment. He has said he supports a transition to renewable energies, particularly in the Northeast of the country, but has made little mention of the need to halt or reverse deforestation in the Amazon. A

The China angle

One interesting question is how the new government will react to energy investment proposals from Chinese companies. Bolsonaro has often expressed concern over Chinese investment in general, on ideological and geopolitical grounds. He has campaigned for protectionist policies for niobium, a metal used to make lighter and stronger steel alloys. Brazil controls 85% of global niobium supply. Bolsonaro has claimed that state or private sector Brazilian controlled niobium exploitation could trigger an economic boom and help pay down the national debt. He has bitterly criticised the sale of a niobium mine to China Molybdenum Co (CMOC).

proposal to merge the ministries of agriculture and the environment has been taken as sign that he will prioritise commercial production over environmental protection. Some have expected him, Trump-style, to pull out of the Paris climate control agreements, which he has criticised in the past. Under the terms of the agreement Brazil is committed to reducing carbon emissions by 43% by 2030. However, at a press conference on 25 October Bolsonaro said he would keep Brazil in the agreement while seeking guarantees that the country's sovereignty would be respected in indigenous lands and in the 'triple A' region (running from the Andes to the Atlantic and including the Amazon). Oil and gas companies do not yet have any details over how environmental permitting processes might change. Also lacking at this early stage is a long-run energy strategy.

This too may force some difficult decisions. Wary of Chinese influence, the soon-to-be president may find that the success of a future privatisation programme depends at least in part on Chinese companies. One of them, China National Petroleum Company (CNPC), has been in talks with Petrobras to buy a 20% stake in the 165,000 barrels per day (bpd) Comperj refinery in Rio de Janeiro, which is due for completion in 2023 and remains the single most important planned addition to the country's refining capacity.

MEXICO

Mixed signs on the oil front

There remains a high level of uncertainty about the policy stance of the incoming government, particularly with regard to the key energy sector. In recent weeks, the incoming president, Andrés Manuel López Obrador (AMLO), has reassured investors to some extent, stating that oil auctions will continue, provided that foreign oil companies who won stakes in previous auctions begin pumping oil. However, the declaration that Mexico will cease exporting oil in the medium term has also caused concern.

There have long been jitters among the investor community regarding oil policy under the incoming administrations, with concerns that he might cancel future auctions of oil fields, or even seek to roll back the 2013 oil reform bill that opened the sector to foreign investment. AMLO has started to pad out his policy proposals out in a little more detail, with investors welcoming comments in September that his transition team is preparing a new round of oil exploration and exploitation auctions. This has been followed by comments on 20 October that the scheduled February 2019 auctions (which have already been delayed from an initial launch date of September 2018) will go ahead, provided that companies who already own stakes from previous rounds begin pumping oil.

Less imprecise, but still vague

The difficulty is that, although AMLO is being a little more precise with regard to his plans once he takes office in December, his statements remain vague. He has yet to categorically state whether the February auctions will take place; given the time required from winning concessions in auction rounds, to conducting pre-drilling activities (including seismological surveys, obtaining permit rights, mapping out well boundaries), to initial exploration and finally drilling, it will be virtually impossible for those companies who won concessions in recent bid rounds to begin pumping oil before February, as a result of AMLO's statement. It is therefore possible that this demand may be a pretext for a further postponement of the February auction. There has already been speculation that AMLO might seek to halt the auction process while the government funnels cash into the state oil company Petroleos de Mexico (Pemex), to see whether that alone will be sufficient to reverse the ongoing slide in oil production.

Setting aside this ongoing uncertainty, there are other causes for concern relating to AMLO's energy policy. On 14 October, the president-elect stated that Mexico would stop exporting oil in the medium term, with the country only likely to produce as much oil as it needs for domestic consumption. The statement is worrying, for a number of reasons. For foreign investors, it implies that the government is only committed to raising oil production by a limited amount. Currently, crude oil production stands at just over 1.8m

barrels per day (b/d), down from 2m b/d in early 2017. AMLO has indicated that domestic consumption needs stand at around 2.5m b/d, implying that the government is committed to engaging with private-sector energy firms only in so much as oil production rises to this level (equivalent to 2013 production levels). Indeed, AMLO stated that he had no interest in seeing oil output return to levels of over 3m b/d, which Mexico produced until 2008. Given that there are believed to be some sizeable offshore oil reserves in the Gulf of Mexico, foreign oil companies may be more cautious about participating in future bid rounds – assuming that they continue – if there are questions about freedom to operate in the event of a large oil find.

Ratings agencies remain sceptical

AMLO's announcement also has negative implications for the domestic economy. The energy sector is the country's main source of foreign exchange and also accounts for a significant share of fiscal revenue and GDP. Ceasing oil exports would therefore cut off the main source of dollars; AMLO insists that this would be offset by a commensurate reduction in spending on oil imports, but the move would be likely to generate some instability in the foreign exchange market, given that the underlying demand-supply of foreign exchange would be altered. Two of the main international credit ratings agencies, Moody's Investors Service and Fitch Ratings, echoed these concerns, highlighting that any reduction in oil exports would hit Pemex (and thus the domestic economy) hard, with Fitch downgrading Pemex's outlook from stable to negative. Fitch emphasised concerns about the impact on Pemex's ability to service its debt, as ceasing oil exports would mean that Pemex's income from fuel sales would be in local currency, but 87% of the company's debt stock is denominated in foreign currency (almost entirely in US dollars). This would mean that any depreciation of the local currency against the dollar would make it more expensive for Pemex to service its debt, in turn raising concerns about long-term payment capacity.

In reality, however, Mexico is unlikely to cut its oil exports anytime soon. AMLO's plan is predicated on the construction of a new refinery in the state of Tabasco, as the country would only be able to stop exporting crude oil and importing refined product if it was capable of refining 100% of domestic consumption needs. Although the president-elect has reinforced his commitment to the construction of a new refinery, this will prove both expensive and time-consuming. As with many of AMLO's ambitious goals, it remains to be seen whether fiscal and political constraints will hamper progress towards stated policy objectives.

PANAMA

The geopolitics and economics of LNG

The enlargement of the Panama Canal, completed in 2016, has made it possible for liquid natural gas (LNG) tankers to use the bi-oceanic crossing. This has increased revenues, but also helped place the country at the centre of US-China rivalry.

Business is brisk at the Panama Canal. In fiscal year 2018 (the 12 months to end-September) cargo shipped through the Canal locks rose by 9.5% to a record 442.1m tonnes. According to the Canal Authority the biggest contribution to the increase came from liquid petroleum gas (LPG) and liquid natural gas (LNG) carriers, followed by containerships, chemical tankers, and vehicle carriers. Since the enlargement in 2016, tanker traffic has zoomed up to take second place with a 29% share of all tonnage, behind containerships with 36%. Canal enlargement made tanker traffic possible. As the US continues to boost its domestic shale oil and gas production, there is a growing trade in US LNG departing the East Coast and being shipped through the Canal to buyers in Asia.

Panama is not just a convenient transit point for LNG. In August the country became an LNG importer in its own right, when it opened a US$1.15bn LNG import terminal and associated 381 MW gas-fired power plant at Colón near the Atlantic entrance to the Canal. The facility has been built by the US company AES Corp. The idea is to use the hub to supply both LNG and the electric energy it produces not just to Panama, but also to other markets including Guatemala, Honduras, Nicaragua, and potentially some of the Caribbean island-states. Analysts say that the Colón facility will begin importing US$140m worth of LNG from the US every year, but that it could eventually re-export three times that much making a significant net positive contribution to the country's balance of payments.

Overall, increased LNG usage and the creation of a hub-and-spoke regional distribution model based on Panama can be seen as falling in step with long-standing US influence in the area. According to Diana Carranza of ICIS, a gas markets intelligence company, "The hub-and-spoke business model proposed by AES could open doors to smaller markets to access a cleaner and cost efficient alternative to diesel and fuel oil for power generation." While this is a commercial and private sector project, the US administration of President Donald Trump supports it. The spread of cleaner gas-fired power generation in the region will at least in part reduce the regional influence of the left-wing government in Venezuela, which has for years been supplying dirtier fuel and diesel oil at heavily discounted prices under its Petrocaribe programme.

There is however a new kid on the block: China. Panama established diplomatic relations with the Peoples' Republic of China in June 2017, and has since signed a plethora of commercial cooperation agreements (and continues to negotiate a free trade agreement). The vision shared by both sides in this partnership is that Panama could be a logistics hub for China's trade with Latin America, a key link in Beijing's super-ambitious One Belt, One Road (OBOR) global logistics investment programme.

A significant number of Chinese companies have launched big investment projects in Panama. China Railway Group is conducting feasibility studies for a US$5.5bn railway project linking Panama City to David near the border with Costa Rica. China Harbor Co is building a cruise ships terminal on the Amador peninsula on the Pacific side of the Canal. China Harbor has also won the contract to build a fourth bridge over the Canal. On the Atlantic side of the Canal Shanghai Gorgeous is investing US$900m to build a 441MW natural gas fired electricity generation plant. Chinese mobile phone company Huawei is using the Colón Free Trade Zone as its distribution centre for Latin America. Chinese companies are also well represented in the ports sector, with speculation that COSCO could be planning to expand there.

From the Panamanian point of view it makes sense to maximise investment and business opportunities with both the US and with China. To some extent, that is exactly what the government has been doing. The two superpowers are now Panama's top trading partners. The US is Panama's top export market, and China is its top source of imports. The US is the number one user of the Panama Canal, while China is number two. However, it may well be that amid growing US-China trade tensions, Panama will no longer be able to have "the best of both worlds".

A sign of this was a visit to Panama by US Secretary of State Mike Pompeo in October. He said the US welcomed competition for business deals, but would not accept "predatory" Chinese companies acting in a way that was not transparent or market-driven, and which did not serve the interests of the Panamanian people. The US is claiming that Chinese investment in the country is politically and strategically motivated rather than commercially

led. Pompeo's comments were described as "ignorant and malicious" in Chinese media. It remains to be seen whether Panama will modify its approach. Vice President Isabel de Saint Malo's initial response was to say that Panama welcomed investment from the US and other countries including China, but that it would be "careful" when admitting new companies and awarding government contracts.

REGION

Corporate Radar

YPF to boost investment: Yacimientos Petrolíferos Fiscales (YPF), the state-owned Argentine oil company, will invest between US$4bn and US$5bn each year until 2023 to boost its output, said chief executive Daniel González. He stated that the aim was to boost output by 5%-7% with the emphasis on non-conventionals such as shale, given the company's big investment in the Vaca Muerta shale oil and gas deposits in Patagonia. YPF accounts respectively for 45% and 39% of Argentina's total oil and gas output. González said the company was set to grow faster and in a more disciplined fashion, and to "significantly" reduce its debt leverage.

Femsa profits down: Mexican Coca-Cola bottler and retailer Femsa reported an 86% drop in third-quarter profits, down to MXN4.7bn (US$250.7m). However, the basis of comparison – Q3 2017 – was unusually high because the company in that quarter received a one-off windfall from the sale of its 5.24% shareholding in Heineken. In Q3 2018 operating revenue was up 7.9%, reflecting a good performance from Oxxo, the convenience store network. A company-owned chain of pharmacies and its interest in petrol stations also performed well.

SQM green light for Chinese purchase: In a 3-2 decision Chile's Constitutional Court (Tribunal Constitucional – TC) rejected a motion trying to block the sale of shares in mining group SQM to Tianqi Lithium of China. Tianqi had agreed to buy a 24% stake in SQM from Nutrien of Canada for a reported US$4bn. An objection to the sale had been filed by SQM's controlling groups (Pampa Calichera, Potasios de Chile, and Global Mining) who had argued that Tianqi would secure an unfair competitive advantage by gaining access to SQM's commercially sensitive information.

Rappi becomes a unicorn: Rappi, the Colombian home delivery company, became a 'unicorn' in September – the name given by Silicon Valley to start-ups that reach a valuation of US$1bn or more. The company is the 11th Latin American and 270th global unicorn. Rappi started in 2015 in Bogotá and is now present in 27 cities and six Latin American countries. It specialises in delivering food, documents, cash, and just about anything else that its customers may need on their doorstep. It currently has a staff of 1,500 and a total of 25,000 part time couriers, known as rappitenderos. However, echoing similar disputes that have affected companies like Uber, some rappitenderos are campaigning for better treatment and employment rights.

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