Latin America Economics Analyst

Mexico: A New Political Order!

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Political Map Shifted Visibly to the Left

A new political force has emerged from left field to establish a dominant position in Mexico's political landscape. Voter disillusionment with the political establishment and deep-rooted discontent with law and order issues (corruption and impunity, and violence) made Andrés Manuel López Obrador (AMLO) the unquestionable winner of the July 1st elections. Like no other Mexican election over the last 30 years, these elections reshaped the political map and triggered an extraordinary rebalancing of political forces. Since elections became competitive in Mexico, no other president had amassed so much political power as AMLO has done. The axis of power at the federal and local levels shifted notably to the left, and the implications of the new political order for policy direction and for how different institutions will operate and interact going forward is unclear. Only time will tell how AMLO's mandate for change, high political capital, and dominance of the political landscape will shape policy preferences and implementation, and how a likely powerful presidency will interact with other branches of government and autonomous institutions.

AMLO May be Able to Secure Approval of Constitutional Reforms

AMLO's ***Morena-PT-PES*** coalition secured a comfortable absolute majority in the Lower House and the Senate, and became the largest political force in 17 to 19 of the 32 state legislatures. The **Morena-led coalition will be just 28 votes in House, and 16 votes in the Senate, shy of securing a qualified two-thirds majority to approve constitutional amendments.** However, given the sizeable benches of the left-wing PRD and MC parties in Congress, AMLO and Morena may be able to reach across the aisle to build qualified majorities to approve constitutional changes.

AMLO's Post-Election Statements Have Been Balanced and Conciliatory

Recent statements by president-elect López Obrador and by members of his future cabinet have been to a certain extent conciliatory. The incoming administration seems to be making an effort to build bridges with the outgoing administration and private sector business associations. Financial markets have reacted favorably to the appeasing post-election statements and announcements.

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"The measure of a man is what he does with power"

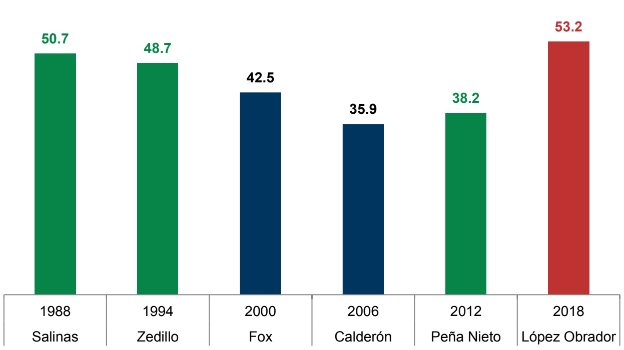
Plato (428/427 or 424/423 - 348/347 BC), Greek philosopher and founder of the Academy of Athens, the first institution of higher learning in the Western world.

Political Map Shifts to the Left

A new political force has emerged from left field to establish a dominant position in Mexico's political landscape. Strong voter disillusionment with the political establishment and deep-rooted discontent with law and order issues (corruption and impunity, and public insecurity) made Andrés Manuel López Obrador (AMLO) the unquestionable winner of the July 1st general elections.

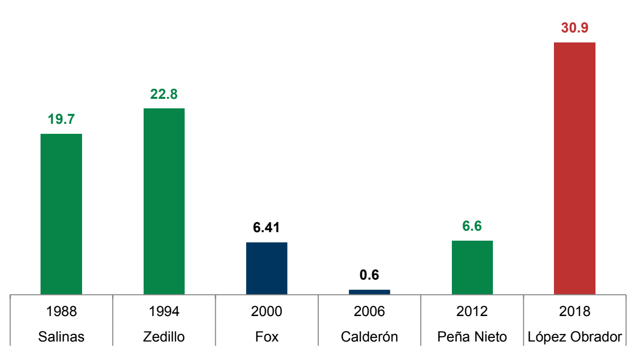
President-elect López Obrador's campaign slogan was "*Together We Will Make History*". And to a significant extent history has been made: a new chapter has been written as AMLO's and his Morena-led party coalition swept to power in a landslide win. Like no other Mexican election over the last 30 years, the July 1st general election reshaped the country's political map and triggered an extraordinary rebalancing of political forces. Since elections became competitive in Mexico, no other president had amassed so much political power as president-elect López Obrador has done. The axis of power at the federal and local levels shifted significantly to the left, and the implications of the new political order/reality for policy direction and for how different institutions will operate and interact going forward is unclear. Only time will tell how the new administration's strong and unequivocal mandate for change, high initial political capital, and dominance of the political landscape will shape policy preferences and implementation, and how a powerful and dominant presidency will interact with other branches of government and independent/autonomous institutions.

Exhibit 1: AMLO Got the Highest Vote Share of Any Elected President since 1988



Source: Goldman Sachs Global Investment Research

Exhibit 2: AMLO Won by the Largest Margin for Any Elected President since 1988



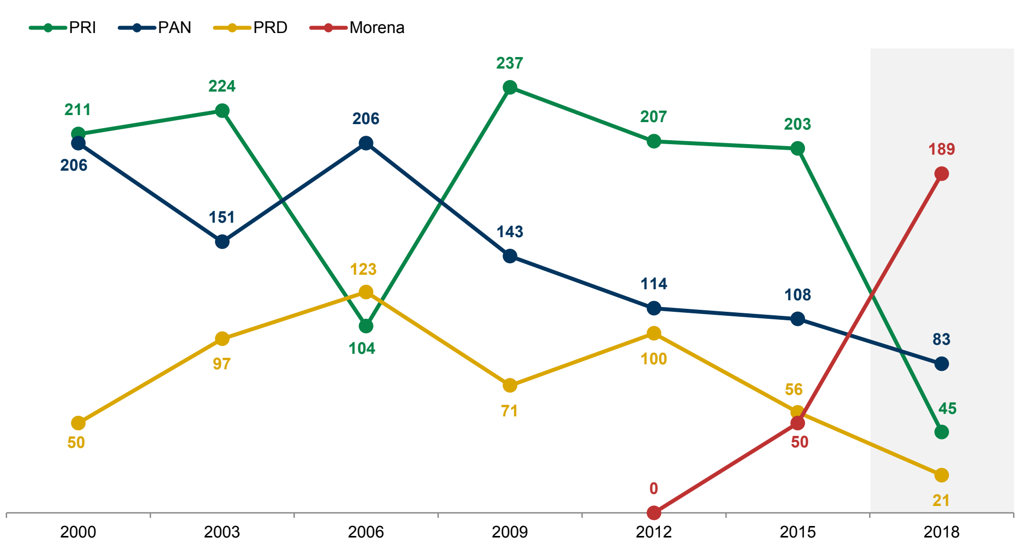
Source: Goldman Sachs Global Investment Research

Andrés Manuel López Obrador won the presidential election by a landslide: he received 53.2% of the vote (54.8% of the effective vote) and a commanding 30pt lead over the runner-up, Ricardo Anaya, the conservative candidate representing the right-left

PAN-PRD-MC alliance. Furthermore, his political party, **Morena, and the three-party coalition that supported his presidential bid significantly increased their footprint in both chambers of the federal Congress and also at the local executive and legislative level**. In fact, the ***Morena-PT-PES*** coalition managed to secure a comfortable absolute majority in the Lower House (306 of 500 seats; 61%) and the Senate (69 of 128 seats; 53%) and will be the largest political force in 17 to 19 of the 32 state legislatures. **Overall, voters endowed president-elect López Obrador with a clear, strong mandate and significant political backing in Congress to deliver on his transformational agenda**.

The ruling PRI was the unquestionable underachiever in these elections. The party lost the presidency (the PRI candidate, former finance minister José Antonio Meade, received just 16.4% of the vote), saw its bench in the Lower House and Senate shrink by more than three-quarters, and failed to win any of the nine state governorships at stake, including the two states in which it was running as the incumbent. In fact, in the Lower House, the PRI went from being the dominant political force (with 203 seats; 41% of the House) to just the fifth-largest party with only an estimated 45 seats (9% of the total seats in the House).

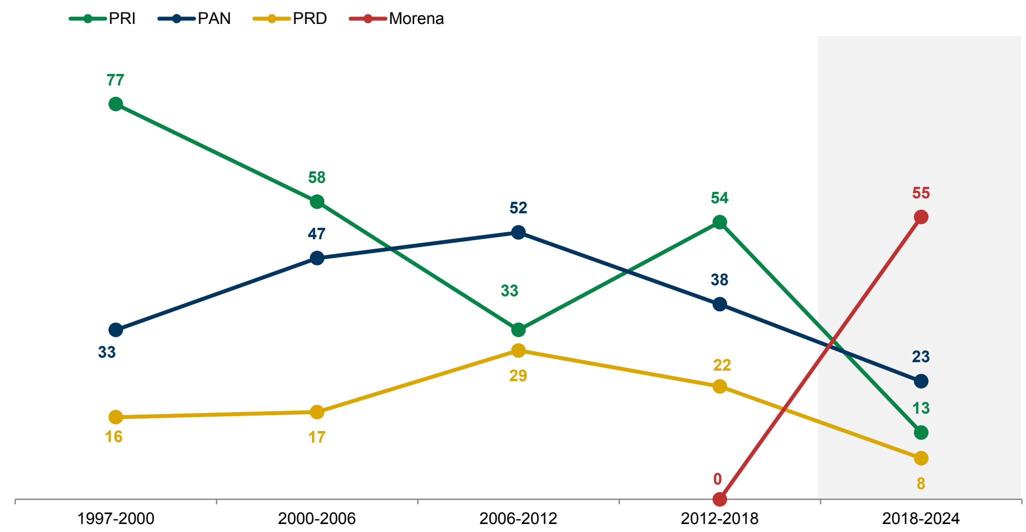
Exhibit 3: Lower House: Morena Becomes Dominant Force at the Expense of the PRI



*Distribution of seats in the Lower House at the beginning of each 3-year term. This may change during each term as representatives change parties or become independent.

Source: INE, El Economista, Goldman Sachs Global Investment Research

Exhibit 4: Senate: Morena Goes from No Seats to Majority in a Single Election



*Distribution of seats in the Senate at the beginning of each 6-year term. This may change during each term as Senators change parties or become independent.

Source: INE, El Economista, Goldman Sachs Global Investment Research

The center-right PAN will be the main opposition force, but lost roughly 25% of its bench in the House, and 40% of its bench in the Senate. In the new congress, the PAN is projected to control about 16% of the Lower House and 18% of the Senate seats. Overall, the **PAN emerged from the election smaller, divided and without clear leadership.** The only silver lining for the PAN from the July 1st election is that the PAN-PRD-MC coalition managed to win 3 of the 9 governorships: it won comfortably in Guanajuato, and prevailed in competitive races in Puebla and Yucatán. The *Movimiento Ciudadano* (MC) ran alone and won Jalisco's governorship, but within a week of the election governor-elect Enrique Alfaro announced he was severing all ties with MC and that he would serve as an independent governor. This shows the appeal that AMLO and Morena may exert going forward over many opposition lawmakers and governors.

It was NOT the Economy, Stupid!

A robust labor market backdrop (12-year low unemployment rate) and the fact that private consumption grew at a solid 3% rate on average during 2015-17 did not benefit the incumbent PRI. Rather than serving as a referendum on the state of the economy or indicating a deep voter desire for a new economic paradigm, the election was mostly contested on non-economic issues.

President-elect López Obrador, a former mayor of Mexico City, carried the banner of the political left and campaigned on a nationalist, socially progressive, anti-corruption platform. He recurrently highlighted what he perceives to be the failures of the political and business establishment: crony capitalism, rampant corruption and impunity, violence and inequality. In essence, Mr. López Obrador campaigned as an outsider, a candidate who was not corrupted by traditional business or by political and party structures. More than on any other issue, during the campaign, president-elect López

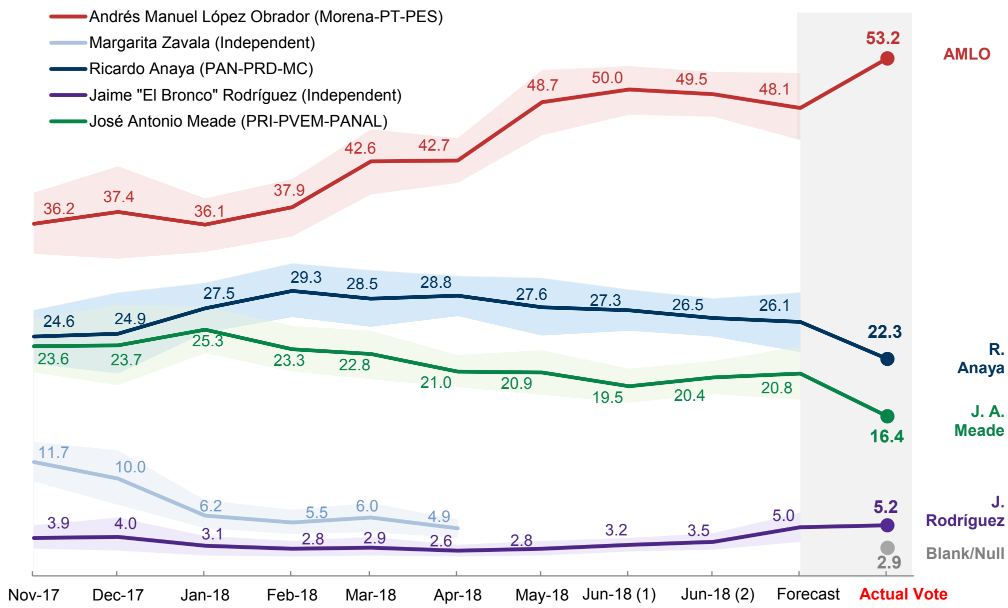
Obrador expressed determination to end a long cycle of corruption and violence, and to shake up the traditional political and business establishment.

Overall, voter dissatisfaction with the political and institutional status quo (and only secondarily with poverty and inequality) and a growing demand for political change/renewal have favored Mr. López Obrador's populist-nationalist platform and of the relatively new leftist Morena party he created just four years ago.

A New (Red) Political Landscape

Andrés Manuel López Obrador (AMLO) won the election with a large 53.2% of the vote and a commanding +30pt lead over **Ricardo Anaya** (22.3%)—the conservative candidate representing the three-party coalition between the center-right PAN, leftist PRD, and the smaller MC (Citizens Movement) party. In third place with 16.4% of the vote preferences was the official ***PRI-PVEM-Panal*** candidate, former finance minister **José Antonio Meade**. Independent candidate **Jaime "*El Bronco*" Rodriguez** got a respectable 5.2% of the vote. Blank/null votes totaled 2.9%.

Exhibit 5: Presidential Election Results: AMLO Obtained a Clear Mandate from the Ballot Box

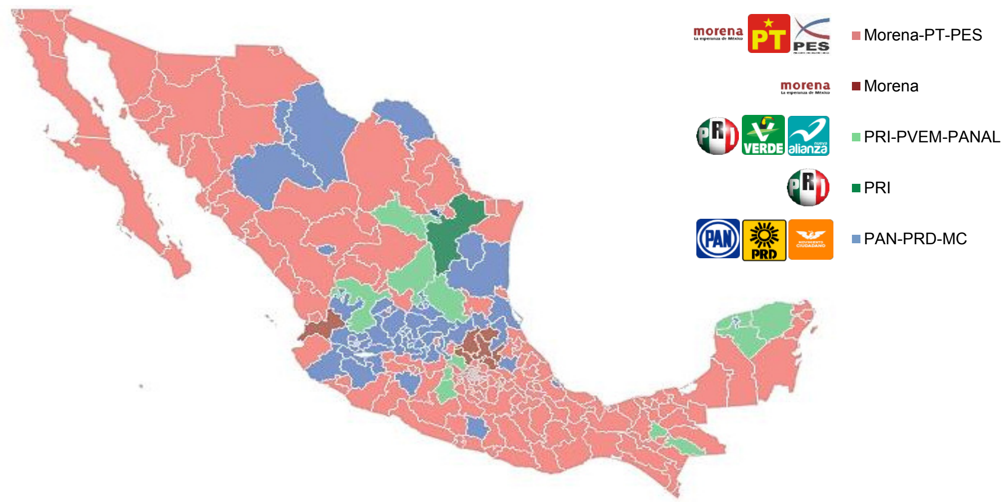


Source: INE, Oraculus, Bloomberg, Goldman Sachs Global Investment Research

AMLO's ***Morena-PT-PES*** party coalition also performed well in the legislative election: it secured a comfortable absolute majority in both the Lower House and the Senate.

For the **Lower House** the ***Morena-PT-PES*** coalition parties won a remarkable 218 of the 300 districts, the PAN-PRD-PT won in 68, and the PRI-PVEM-Panal won just 14. Notably, the incumbent PRI won in fewer than 5% of the electoral districts. A district victory guarantees one seat in the House and the remaining 200 seats are allocated by proportional representation according to the share of the vote in five multi-state districts. Overall, **the Morena-PT-PES Lower House bench rose to 306 seats (61% of the House seats): well above the absolute majority threshold and just 28 votes shy of the qualified two-thirds (334 vote) majority to approve constitutional changes.**

Exhibit 6: Lower House: Morena Coalition Won in 218 of the 300 Districts



Source: INE, Goldman Sachs Global Investment Research

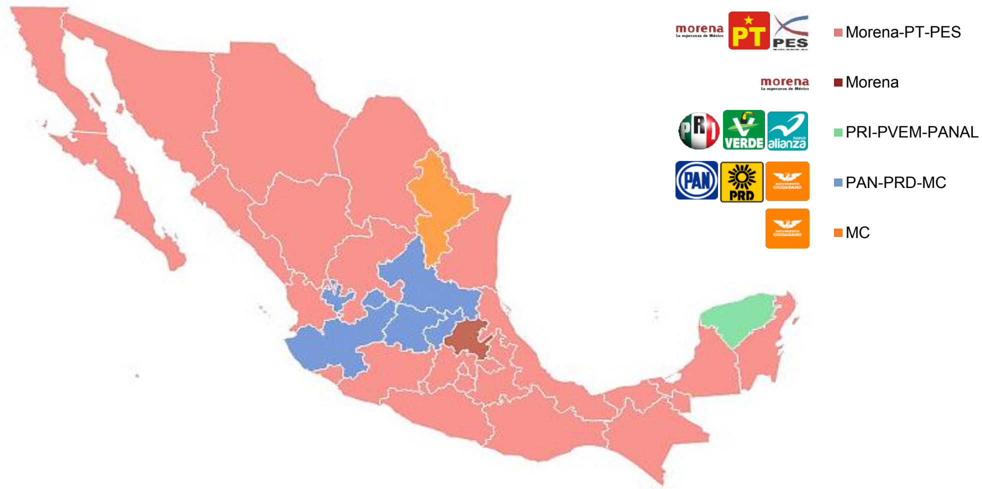
Exhibit 7: Lower House Results: Morena-PT-PES Coalition Will Control 61% of the Seats in the House

	Morena	PT	PES	Morena-PT-PES	PAN	PRD	MC	PAN-PRD-MC	PRI	PVEM	PANAL	PRI-PVEM-PANAL
Gross Vote Share (%)	37.3	3.9	2.4	**43.6**	17.9	5.3	4.4	**27.6**	16.5	4.8	2.5	**23.8**
Majority Seats	105	57	56	218	42	9	17	68	7	5	2	14
Proportional Representation Seats	84	4	0	88	41	12	10	41	38	11	0	49
Total Seats	189 (38%)	61 (12%)	56 (11%)	306 (61%)	83 (17%)	21 (4%)	27 (5%)	131 (26%)	45 (9%)	16 (3%)	2 (0.4%)	63 (13%)

Source: INE, Integralia, Goldman Sachs Global Investment Research

The ***Morena-PT-PES* parties will also control the Senate**: 69-seat bench in the 128-seat Senate (53% of the total number of Senators). Morena and its allies won in 25 of the 32 states (PAN-PRD-MC in 5 and PRI-PVEM-PANAL in just 1 state) and finished second in 5 other states (PAN-PRD-MC in 16 and PRI-PVEM-PANAL in 11). For the Senate, 32 seats are assigned according to the share of the national vote for Congress, and the other 96 seats by a simple majority vote in the 32 states: the most-voted party in each of the states elects two Senators, and the runner-up (first minority) elects one Senator.

Exhibit 8: Senate: Morena Coalition Won in 25 of the 32 States



Source: INE, Goldman Sachs Global Investment Research

Exhibit 9: Senate Results: Morena-PT-PES Coalition Will Also Have an Absolute Majority in the Senate

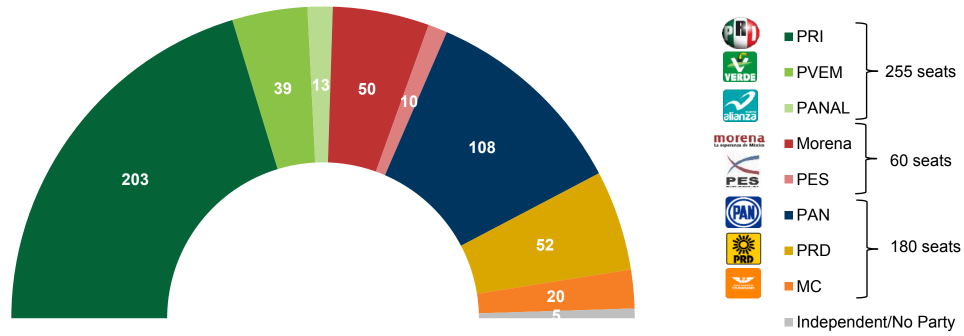
	Morena	PT	PES	Morena-PT-PES	PAN	PRD	MC	PAN-PRD-MC	PRI	PVEM	PANAL	PRI-PVEM-PANAL
Gross Vote Share (%)	37.5	3.8	2.3	**43.6**	17.6	5.3	4.7	**27.6**	15.9	4.5	2.3	**22.7**
Majority and First Minority Seats	42	5	8	55	17	6	5	28	7	5	1	13
Proportional Representation Seats	13	1	0	14	6	2	2	10	6	2	0	8
Total Seats	55 (43%)	6 (5%)	8 (6%)	69 (54%)	23 (18%)	8 (6%)	7 (5%)	38 (30%)	13 (10%)	7 (5%)	1 (1%)	21 (16%)

Source: INE, Integralia, Goldman Sachs Global Investment Research

Most of the Morena-led coalition's increase in representation in Congress came largely at the expense of the ruling PRI, which had been the dominant political force in Congress for more than 20 years. In fact, the PRI saw its benches in both the House and Senate shrink by roughly three-quarters. In the Lower House, the PRI went from being the largest single party to just the fifth-largest political force.

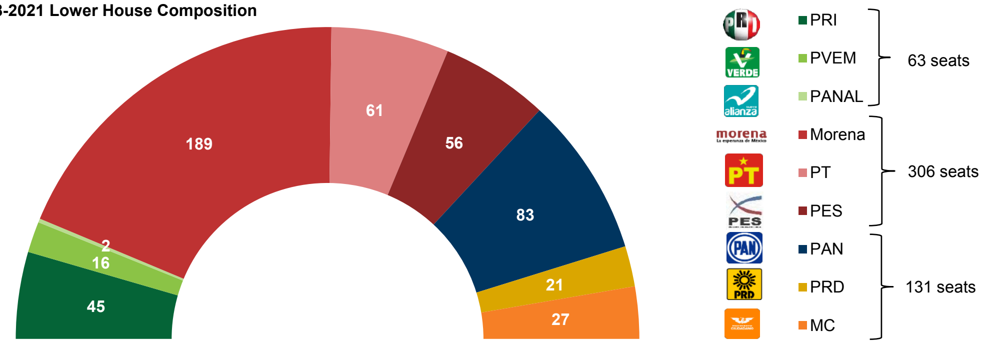
Exhibit 10: Lower House Balance of Power Shifted Significantly to the Left

2015-2018 Lower House Composition*



*Composition of Lower House as of July 1st, 2018

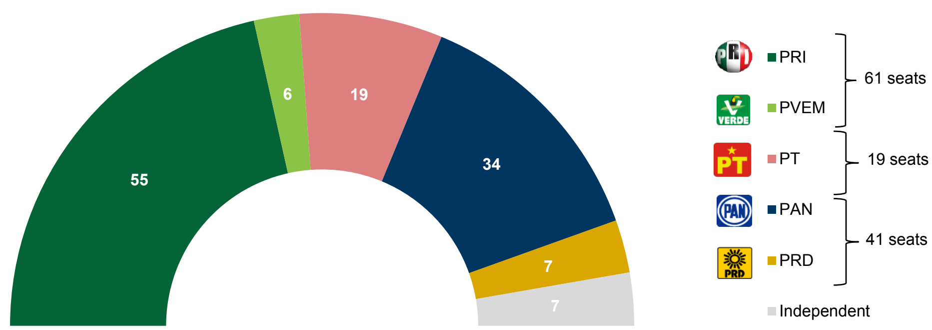
2018-2021 Lower House Composition



Source: INE, Integralia, Goldman Sachs Global Investment Research

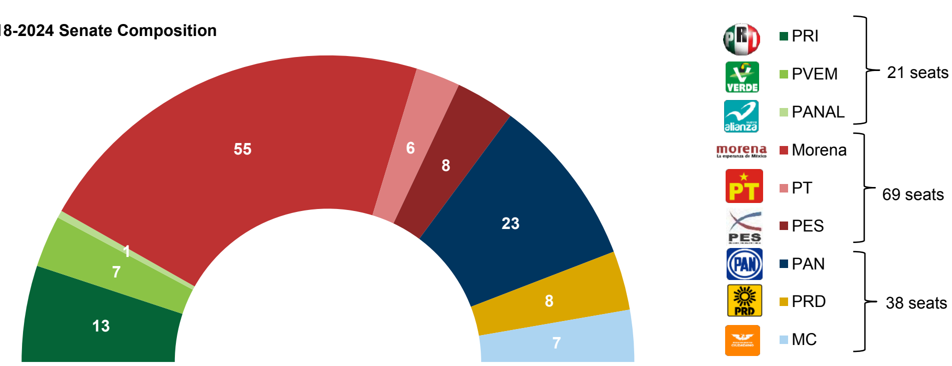
Exhibit 11: Morena Also Becomes the Dominant Force in the Senate

2012-2018 Senate Composition



*Composition of Senate as of July 1st, 2018

2018-2024 Senate Composition



Source: INE, Integralia, Goldman Sachs Global Investment Research

Strong Initial Governability Conditions

President-elect López Obrador is likely to enjoy strong governability conditions: he has a large bench of legislators in Congress and faces a weak/fragmented opposition. Given that the PAN (center-right) and the PRD/MC (left wing) parties have traditionally been on opposing sides of the political spectrum, it is likely that the PAN-PRD-MC presidential alliance will break up given the deep ideological and policy preference differences between them. This implies that president-elect López Obrador may be able to add to his base in Congress by co-opting support from legislators from the PRD and MC parties, and potentially also from some PRI legislators. That is, a significant number of legislators from the PRD and MC, and possibly also from the PRI, may drift closer to the AMLO administration, or even switch aisles and join the ranks of Morena given their ideological affinity. Overall, the López Obrador administration is likely face weak opposition as the PRI emerged from this election much smaller and weaker and the PAN thinner, divided and without clear leadership.

The new Congress will be sworn in on September 1, and the new president elect will take the oath of office a long five months after the election, on December 1.

Morena Also Made Significant Inroads at the Local Level

Morena also performed strongly in the 9 state level governorship races:

- **Morena won five governorships**: Chiapas, Mexico City, Morelos, Tabasco, and Veracruz (broadly in line with expectations). Overall, Morena will now govern states that are home to about 15% of the population and this would be the first time since 1997 that the president's party will also control/govern the capital city;
- **The PAN-PRD-MC surprised positively**: it won convincingly in Guanajuato, came on top in Puebla in a competitive race with the Morena-PT-PES candidate, and surprised by dislodging the incumbent PRI from the governor's office in Yucatán.
- The **Citizens Movement** (MC), running alone, won in Jalisco (previously held by the PRI), but soon after the election, the governor-elect abandoned the party and promised to govern as an independent;
- Finally, the **PRI was the clear underachiever**: did not manage to win a single governorship, including the two where it was running as the incumbent (Guanajuato and Yucatan).

Exhibit 12: 2018 Gubernatorial Election Results

State	Incumbent party	Winner	Margin (pp)
Chiapas	PVEM	Morena-PT-PES	+16.7
Guanajuato	PAN	PAN-PRD-MC	+25.7
Jalisco	PRI	MC*	+14.6
Mexico City	PRD	Morena-PT-PES	+16.0
Morelos	PRD	Morena-PT-PES	+38.6
Puebla	PAN	PAN-PRD-MC	+4.2
Tabasco	PRD	Morena-PT-PES	+42.1
Veracruz	PAN	Morena-PT-PES	+5.6
Yucatán	PRI	PAN-MC	+3.0

* The Governor-elect left MC and became an independent after the election

Source: INE, Goldman Sachs Global Investment Research

AMLO May be Able to Secure Approval of Constitutional Reforms

AMLO's Morena became the largest political force in 17 to 19 of the 32 state level legislatures (local legislative elections took place in 26 states).

With the new composition of Congress, AMLO's Morena-led coalition will be just **28 votes in House, and 16 votes in the Senate, shy of securing a qualified two-thirds majority to approve constitutional amendments.** However, given the sizeable benches of the left-wing PRD and MC parties in Congress (48 seats in the House and 15 in the Senate), AMLO and Morena may be able to reach across the aisle to build a qualified two-thirds majority to approve constitutional changes if it so chooses (334 votes in the House and 85 in the Senate).

Approving constitutional amendments requires: (1) a qualified majority in both chambers of Congress (possible with the support of left-wing PRD and MC legislators, and potentially also some PRI legislators) followed by, (2) ratification by at least half of the States (at least 17 local legislatures). **With the new federal and local political map president-elect López Obrador can potentially secure the approval of constitutional reforms/amendments.**

During the campaign, president-elect López Obrador did not propose any specific major constitutional changes/reforms, perhaps because he did not anticipate that he would attain the require level of political representation to do so. But AMLO and his Morena-led coalition did better than expected, and now such a possibility is real. Hence, the administration will likely propose some constitutional changes to further enshrine and cement its policy views and preferences and eventually diminish the resistance from other government entities. For instance, the president-elect mentioned recently that he will indeed pursue a number of legal changes and reforms, some of which require changes to the constitution, such as: (1) modifying article 108 (lifting presidential immunity) so that presidents can be tried for corruption and electoral-related actions, and remove certain legal immunities/protections for elected officials; (2) establish in article 3 the constitutional right to free public education at all levels, including higher public education; (3) insert in the Constitution a provision allowing for a *recall-referendum* on the presidential mandate.

Limited Checks and Balances

Mr. López Obrador became the first candidate to win the presidency with more than 50% of the vote since the 1988 election of president Carlos Salinas de Gortari. Furthermore, Mr. López Obrador will also wield significant control and influence over Congress and local executive and legislative power structures. This would imply that the AMLO administration will start from a very solid political position and will very likely enjoy strong initial governability conditions.

The opposition will still govern and control most of Mexico's 32 states, but this may not provide enough of a counterweight to the power of the presidency, particularly as some opposition lawmakers and state governors may decide, post-election, to work closely with, rather than opposing, the federal government. That is, given the new correlation of political forces, the opposition PAN and PRI governors may not adopt a truly independent/opposition stance vis-à-vis the AMLO administration. They may instead choose an accommodating stance, as after all many governors will be facing opposition-dominated local legislatures, and all of them depend on federal fiscal transfers.

Exhibit 13: Party Distribution of Governorships Before and After the Election

Party	Before Election		After Election		Change (+/-)
	Governorships	Population (%)	Governorships	Population (%)	
PRI	14	44.3	12	36.0	-2
PAN	12	32.6	12	34.3	0
Morena	0	0	5	15.1	+5
PRD	4	14.5	1	6.6	-3
PVEM	1	4.4	1	4.2	0
Independent	1	4.2	1	3.8	0

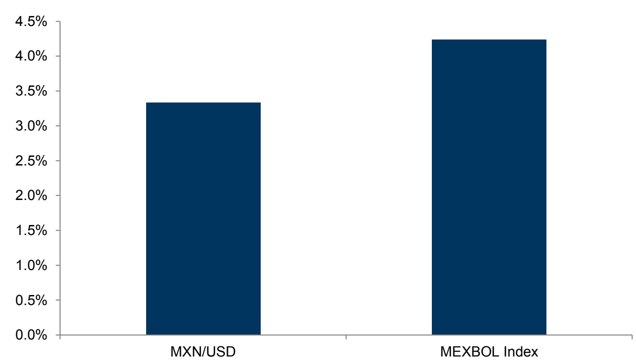
Source: INE, Integralia, Goldman Sachs Global Investment Research

Of the three branches of government, the judiciary is the only independent power whose structure has not and will likely not change significantly during AMLO's six-year presidential term. Assuming no premature departures, during his tenure the new president will be able to nominate only two of the eleven Supreme Court justices.

AMLO Post-Election Remarks Have Been Balanced and Conciliatory

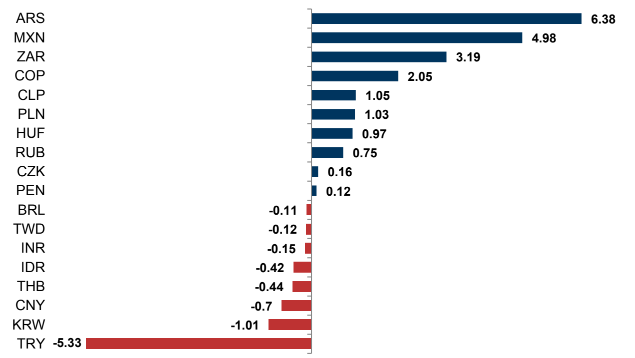
Recent statements by President-elect López Obrador (during his acceptance speech and in a number of other venues) and by several members of his future cabinet and transition teams have been balanced and conciliatory (not polarizing). The incoming administration seems to be making a genuine effort to build bridges with the outgoing administration and private sector business associations. Financial markets have, on average, reacted favorably to the conciliatory post-election statements and announcements.

Exhibit 14: MXN Strengthened and Equities Have Rallied since the Election



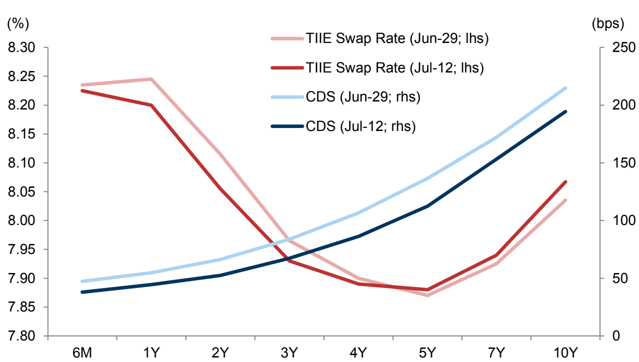
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 15: MXN is One of the Best Performing EM Currencies since June 29
Spot Returns (%)



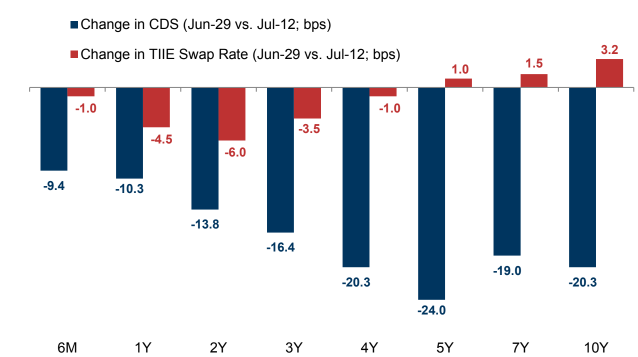
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 16: CDS and TIIE Swap Rate Curves



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 17: Change in CDS and TIIE Swap Rate Curves



Source: Bloomberg, Goldman Sachs Global Investment Research

In his acceptance speech, president-elect López Obrador stated that his administration will deliver profound changes, but always within the confines of the law and the constitution, and that his government will protect "*economic freedom*". He promised to respect the autonomy of the central bank, preserve financial and fiscal discipline, and respect the obligations to domestic and foreign companies. He restated that oil sector contracts signed with the private sector will be audited for signs of illegality/graft and corruption (but always within the law, as the government will not act arbitrarily and will not engage in expropriations). He stated that eradicating corruption and ending impunity will be the top priorities of his administration. He mentioned that there will be no need to increase taxes in real terms and that savings from the fight against corruption and government wasteful spending will be used to boost investment and employment. He stated that Mexico should produce what it consumes and that his administration will hear and respect all, but give priority to the poor. He also stated that peace and prosperity are the fruits of social justice and promised not to "*disappoint or betray the people*". Finally, the president-elect mentioned that he will seek a friendly relationship with the United States, based on mutual respect.

Over the last few days, AMLO's Finance Minister-designate, Carlos Urzúa, reiterated that the new administration will be committed to fiscal discipline, and that the future of the big-ticket US$13bn new Mexico City airport will not be decided forcefully and unilaterally: the decision will be taken on technical grounds by a working group that will be created to review the project. In addition, the incoming officials expressed support for the continuation of NAFTA and for the current negotiating team. Finally, recent remarks suggest that the new administration would view favorably the conclusion of the NAFTA negotiation by the current administration.

Box 1: AMLO's Key Cabinet Nominations

Alfonso Romo Garza (Chief of Staff): Businessman; Chairman and CEO of Grupo Plenus, an investment company focused on biotechnology, agriculture, education, and financial services. Owns several ventures, such as brokerage firm Vector, biotechnology initiative Synthetic Genomics, and agro-industrial company EnerAll. Former CEO of the tobacco manufacturer Empresas La Moderna (sold to British American Tobacco). Member of the World Bank's External Advisory Board for Latin America and the Caribbean. Supported former PAN presidents Vicente Fox and Felipe Calderón, and Morena's Andrés Manuel López Obrador in 2012.

Carlos Manuel Urzúa Macías (Secretary of Finance): Professor of Economics at ITAM and former Secretary of Finance of Mexico City (2000-2003) under López-Obrador's first mandate as Mayor. During his time in government, Mr. Urzúa focused his efforts in improving the efficiency of tax revenue and re-allocating public spending, with a special focus on social programs. Holds a PhD in Economics from the University of Wisconsin-Madison and his academic research focused on fiscal and monetary policy and international trade. Consulted for the World Bank, ECLAC, UNDP, and the OECD.

Rocío Nahle García (Secretary of Energy): Petrochemical engineer and Congresswoman from the Morena party. Holds a Bachelor's degree in Chemical Engineering from Universidad Autónoma de Zacatecas, and graduate courses in engineering from UNAM and Universidad Veracruzana. She was an engineer for Pemex and later for Industrias Resistol, and is a member of the National Committee for Energy Studies (CNEE) for Latin America and the Caribbean. Ms. Nahle was elected as a Congresswoman for Veracruz in 2015 and is the leader of the Morena Party in the Lower House. Critical of the 2013 energy sector reform.

Graciela Márquez Colín (Secretary of the Economy): Professor of Economics at El Colegio de México. Taught at UNAM, Instituto Tecnológico de Monterrey, and the University of Chicago. Holds a PhD in Economic History from Harvard University and is a member of the Mexican National System of Researchers. Her research focused on trade policy, industrialization, economic development, and the economic history of Mexico and Latin America.

Marcelo Ebrard (Secretary of Foreign Affairs): Politician affiliated to the Morena party. Served as Head of Government of Mexico City from 2006 to 2012. Previously served as the Secretary of Social Development and Secretary of Public Security for Mexico City during López Obrador's administration as mayor from 2000 to 2006. Deputy Secretary of Foreign Affairs from 1993 to 1994 in the Salinas administration. Ebrard holds a Bachelor's degree in International Relations from the Colegio de Mexico and a graduate degree in public administration from the École Nationale d'Administration (ÉNA) in Paris.

Jesús Seade (Chief NAFTA Negotiator): Professor of Economics and Vice-President for Global Affairs at the Chinese University of Hong Kong at Shenzhen and a Professor Emeritus and former Vice-President at Lingnan University in Hong Kong. Also taught at UNAM in Mexico and the University of Warwick in the United Kingdom. Holds a DPhil in Economics from the University of Oxford and has previously served as a Principal Economist at the World Bank, Mexican Ambassador to the GATT, Deputy Director-General of the GATT and founding Deputy Director-General of the WTO, and a Senior Advisor to the International Monetary Fund.

Uncertain Funding for Ambitious Spending Proposals

At a broader level, during the campaign president-elect López Obrador promised to regenerate the agricultural sector, fight poverty, reduce income inequality and regional development asymmetries, boost employment and wages, increase the minimum wage, revamp state-owned companies, decentralize from Mexico City key ministries and government agencies, and restore national dignity. On monetary policy, he promised to respect the independence of the central bank and on fiscal policy, to run a disciplined budget: Mr. López Obrador vowed not to increase overall spending, not to increase debt, and not to increase taxes in real terms. In fact, with regards to taxes, Mr. López Obrador promised to lower taxes (VAT and corporate income tax) in the northern border states, something that Congress is expected to validate.

With regard to specific policies for the oil sector, Mr. López Obrador's program entails more public investment to expand and upgrade the local refining capacity (by upgrading six existing and building two big new refineries; something that could stretch the budget) and has vowed to stop fuel imports within three years. Mr. López Obrador also stated that Mexico should stop exporting crude in order to focus on higher valued-added petrochemical refined products and promised to manage/administer domestic fuel prices.

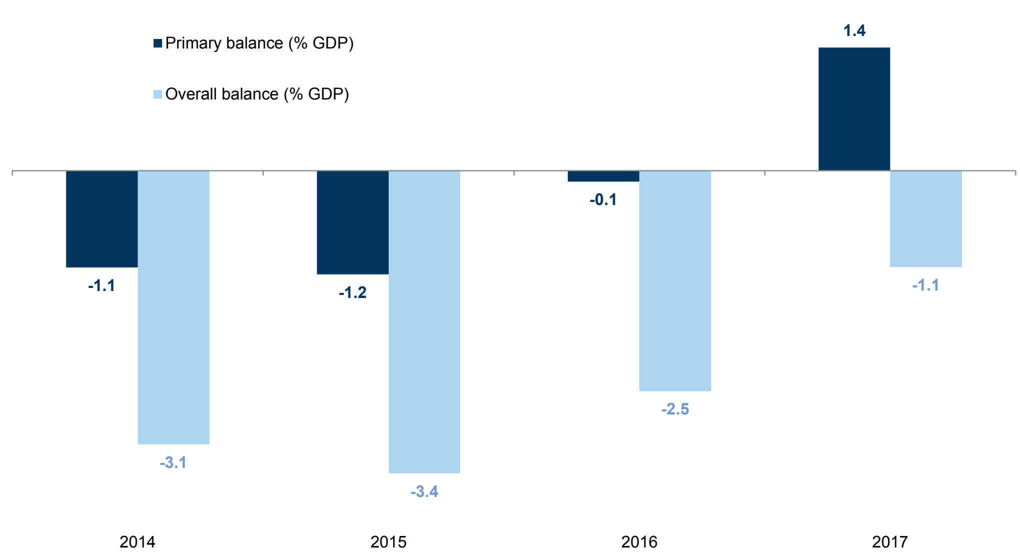
Ultimately, Mr. López Obrador's campaign proposals and public statements suggest that if elected, his administration is likely to: (1) give state-owned oil and electricity companies more funds and a more central role in their respective sectors; (2) turn the operating and regulatory environment less market-friendly and less supportive of private investment; and (3) eventually subordinate energy sector pricing policies to non-commercial policy objectives. This approach arises from the view that the state should play a bigger, more direct, and central role in key strategic sectors of the economy (e.g., oil and gas, electricity, farming).

Beyond the energy sector, as part of a broad inward-looking import-substitution strategy, Mr. López Obrador promised to aim for self-sufficiency in food by boosting local production and has controversially advocated minimum selling prices for some agricultural products.

On the fiscal spending side, Mr. López Obrador promised to expand social and entitlement programs (for the young, elderly, farmers, unemployed, single mothers, etc.) and to boost public investment. Furthermore, the president-elect promised to keep gasoline prices stable in real terms.

Funding for the new investment and social programs would be secured chiefly by: (1) eliminating corruption and graft in public contracts and procurement (centralize and consolidate all government purchases at the Ministry of Finance); (2) cutting wages for senior public officials in half; (3) budgetary spending reallocations; and (4) slashing wasteful/inefficient spending and government programs. This combination, AMLO's team estimates, would yield close to 2% of GDP in fiscal savings, which would them be more efficiently and productively allocated to education and healthcare spending, public works, and social assistance programs. The main risk with such a strategy is that spending rationalization and cuts in wasteful spending may not generate the savings the president-elect is counting upon. Hence, sequencing will be important: in order to protect the current solid fiscal stance, it is key that permanent spending commitments are not enacted before the materializing of the expected fiscal savings. In other words, if the new government ends up facing a tighter budget constraint and does not backtrack on its fiscally expensive campaign promises, either the fiscal stance and the debt dynamics will deteriorate, or the tax burden would need to go up.

Exhibit 18: Solid Fiscal Backdrop

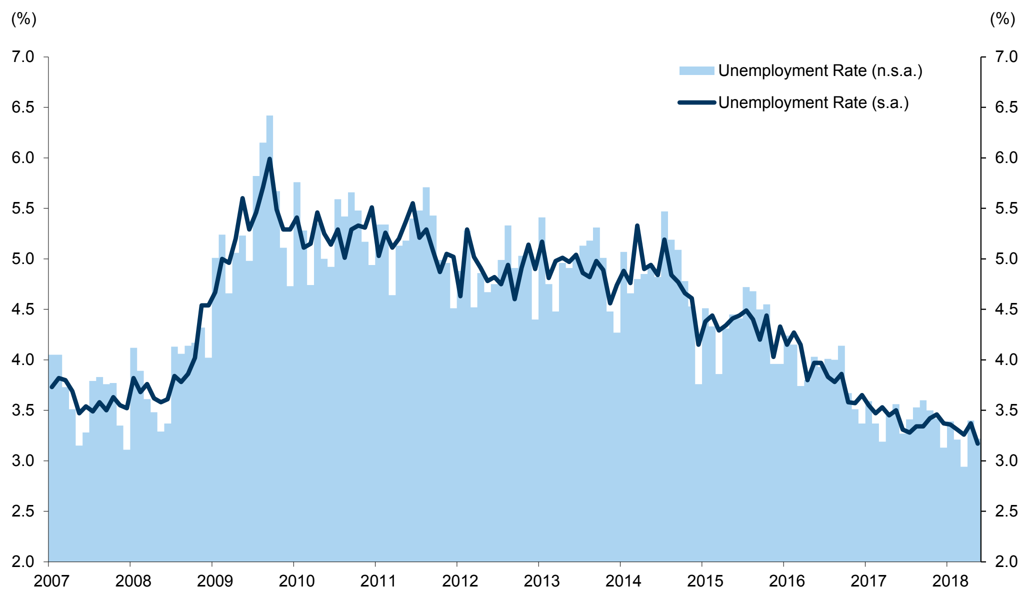


Source: Haver Analytics, Goldman Sachs Global Investment Research

The Future: Main Policy Challenge is To Improve Upon the Inherited Solid Macro Backdrop

The new administration inherits a balanced and resilient economy operating at full-employment, a solid and credible monetary and fiscal policy framework, a strong balance of payments, a competitive exchange rate, and a moderate and declining public debt load. That is, from a macroeconomic standpoint the new administration should not have to adopt major corrective measures to fix a broken economy and can instead focus on adopting measures to boost investment and improve productivity growth, in order to elevate the still-low potential growth rate of the economy.

Exhibit 19: Solid/Tight Labor Market Backdrop
Lowest Unemployment Rate in 12 Years



Source: Haver Analytics, INEGI, Goldman Sachs Global Investment Research

AMLO's Government: Monitor Both Style and Substance

The López Obrador administration has been endowed with high initial political capital (from the fresh and strong ballot mandate) and relatively limited political constraints to move forward with its policy agenda. The risk of a ***super-presidency*** (an administration in which the balance of political power is heavily tilted towards the presidential office) is that a López Obrador administration may (at least initially) face few obvious political constraints and counterweights. Hence, investors should be looking both at public policies (substance), but also to the governing posture (style). The risk is that a skewed balance of political power could eventually encourage the new administration to pursue a more radical and uncompromising policy approach (as it could see little need to negotiate with the legislative branch and compromise on policies and/or legislation) and to eventually adopt a posture that undercuts the current system of institutional checks and balances and weakens or undermines other independent powers and autonomous agencies and institutions.

In our assessment, the key immediate challenge for the president-elect will be to find ways to work constructively with the departing administration on the elaboration of the 2019 budget and other issues, in order to generate a smooth handover of power, and to avoid the policy communication inconsistencies and contradictions that plagued the campaign. Once in office, in our assessment, the main challenge for the coming president will be to show tangible progress in fighting corruption and graft and improving public security, as 2018 is shaping up as the most violent and deadly year on record in Mexico. On foreign policy, the immediate challenge will be to steer the NAFTA renegotiation towards a favorable outcome.

Ultimately, the new administration will be challenged to avoid excessive encroachment on private sector activity and markets, to embrace rational market-based solutions to eventual policy and economic challenges, and to strengthen and protect independent institutions and autonomous agencies critical for the operation of a liberal democracy and market-based economy. A strong and functional partnership with the private sector would be critical to support investment and through that, generate steady and sustainable growth, and economic and social opportunity for underprivileged and disenfranchised segments of Mexico's population.

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$bn)	5,083	5,079	5,224	5,183	4,367	4,166	4,650	4,632	5,026	5,368	5,700
Real GDP growth (% yoy)	4.6	2.6	2.8	1.3	0.3	-0.3	1.7	2.0	2.9	3.3	3.3
CPI Inflation (% yoy)	7.3	6.6	7.0	8.6	9.0	8.8	6.6	6.9	5.2	3.9	3.6
Domestic Demand (% yoy)	5.9	2.8	3.0	1.0	-0.7	-1.1	1.8	2.8	3.4	3.7	3.7
II. External Sector (US$bn)											
Current Account Balance	-111.8	-122.2	-152.1	-170.3	-140.1	-82.4	-77.7	-87.1	-100.3	-113.3	-131.5
Trade Balance	53.8	46.7	9.8	-3.6	-10.7	34.6	56.9	58.1	54.6	48.9	40.2
Gross International Reserves	673.8	722.6	715.9	737.9	705.2	729.3	751.7	763.5	787.2	812.1	840.7
Change in Reserves	109.5	48.8	-6.8	22.0	-32.7	24.1	22.4	11.8	23.7	24.9	28.6
Net Capital Inflows	221.3	171.0	145.3	192.3	107.4	106.5	100.1	98.9	124.0	138.2	160.1
Foreign Direct Investment	153.5	155.2	167.7	176.1	163.9	150.0	144.7	163.6	169.1	178.5	193.7
III. Public Finance and Indebtness (% GDP)											
Primary Fiscal Balance	1.2	0.8	0.4	-1.0	-1.7	-1.8	-1.0	-1.0	-0.8	-0.4	-0.1
Overall Fiscal Balance	-2.1	-2.1	-2.5	-4.3	-6.3	-5.6	-4.7	-4.9	-4.7	-4.3	-4.0
Total Public Sector Debt	41.4	42.0	42.1	46.2	51.3	55.1	56.4	60.0	61.5	62.7	63.2
Total External Debt	22.2	24.7	26.1	29.1	34.4	36.8	35.1	37.3	38.3	39.2	39.4

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

Source: Goldman Sachs Global Investment Research

Global Macroeconomic Framework

						2017				2018F			
	2016	2017	2018F	2019F	2020F	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F
Real GDP Growth (%, yoy)													
United States	1.5	2.3	2.9	2.2	1.5	2.0	2.2	2.3	2.6	2.8	3.0	3.0	2.9
Euro Area	1.8	2.5	2.2	1.9	1.6	2.1	2.4	2.7	2.8	2.5	2.3	2.1	1.9
Japan	1.0	1.7	1.0	1.3	0.5	1.4	1.6	2.0	1.9	1.1	0.9	0.9	1.0
World Economy	3.1	3.8	4.1	4.0	3.8	3.5	3.7	4.1	4.0	4.1	4.1	4.0	4.1
CPI Inflation (%, yoy)													
United States	0.9	2.1	2.6	2.3	2.2	2.6	1.9	2.0	2.1	2.3	2.7	2.8	2.5
Euro Area	0.2	1.5	1.6	1.1	1.4	1.8	1.5	1.4	1.4	1.3	1.7	1.8	1.6
Japan	-0.1	0.5	1.1	1.1	1.5	0.3	0.4	0.6	0.6	1.3	0.7	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	1.51	1.88	2.13	2.38
UST 10-Year	2.44	2.41	3.25	3.60	3.60	2.39	2.30	2.33	2.41	2.74	3.08	3.16	3.25

Source: Goldman Sachs Global Investment Research

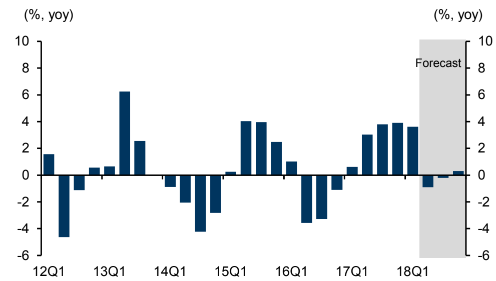
LatAm Country Data Tables

Argentina

	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-1.8	2.9	0.6	1.9
Nominal GDP (US$bn)	554	637	576	570
Consumer Prices, IPC (yoy, e.o.p.)*	N.A	25.0	29.5	17.8
Consumer Prices, IPCBA (yoy, e.o.p.)*	41.0	26.1	30.8	17.7
External Sector				
Current Account (% GDP)	-2.7	-4.9	-5.7	-4.9
Trade Balance (% GDP)	0.8	-0.9	-0.9	0.0
Exports (% yoy)	2.0	0.9	5.2	3.9
Imports (% yoy)	-7.1	19.6	3.8	-3.9
Exchange Rate ($/ARS, e.o.p.)	15.9	18.6	27.7	31.9
Gross International Reserves (US$bn)	39.3	55.1	55.0	59.0
Monetary Sector				
Monetary Base (% yoy)	26.6	24.7	22.0	17.0
Credit to the Private Sector (% GDP)	13.7	16.1	16.7	16.3
Policy Interest Rate	24.75	28.75	31.00	20.00
Fiscal Sector **				
Federal Govt Primary Balance (% GDP)	-4.3	-3.9	-2.5	-1.5
Federal Govt Overall Balance (% GDP)	-5.9	-6.0	-5.3	-4.6
Debt Indicators ***				
Gross Non-fin. Public Sector Debt (% GDP)	49.7	52.3	70.0	77.8
Domestic (% GDP)	27.6	36.1	49.5	54.4
External (% GDP)	13.6	16.2	20.5	23.3
Total External Debt (%GDP)	36.3	33.8	40.7	44.0

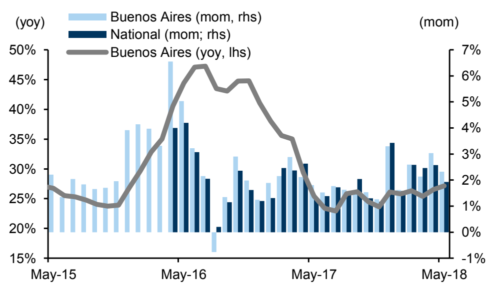
*IPC computed by INDEC, IPCBA by Statistical Institute City of Buenos Aires. **Before Rents from CB and Anses. Accumulated 4Q. *** Including non-performing debt.

Economic Recovery Underway



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

Improving Inflation Dynamics



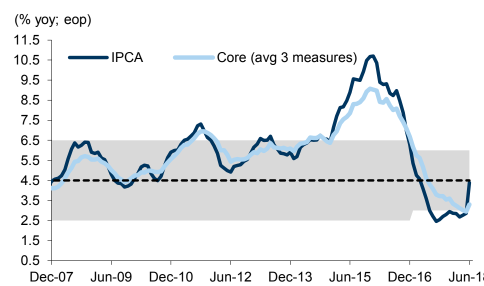
Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research.

Brazil

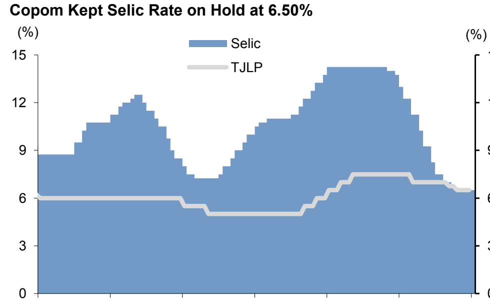
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-3.5	1.0	1.5	2.8
Nominal GDP (US$bn)	1,806	2,055	1,917	2,083
IPCA Inflation (yoy e.o.p)	6.3	2.9	4.2	4.3
External Sector				
Current account (% GDP)	-1.3	-0.5	-1.1	-1.7
Trade balance (% GDP)	2.5	3.1	2.9	2.4
Exports of goods (% yoy)	-3.0	17.8	4.9	5.2
Imports of goods (% yoy)	-19.1	9.9	12.7	10.4
Nominal Exchange Rate ($/BRL e.o.p.)	3.26	3.31	3.50	3.56
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	43.8	43.9	45.9
SELIC rate (e.o.p)	13.75	7.00	6.50	8.25
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-2.5	-1.7	-1.9	-1.8
Public Sector Nominal Balance (% GDP)	-9.0	-7.8	-7.7	-7.5
Debt Indicators				
Gross general govt debt (% GDP)	70.0	74.0	77.0	79.0
Domestic public debt (%GDP)	66.3	0.0	73.5	75.4
External public debt (%GDP)	3.6	0.0	3.5	3.6
Total external debt (% GDP)	30.4	26.7	29.8	30.2

Source: Goldman Sachs Global Investment Research.

Headline/Core Inflation Back to Target Range



Copom Kept Selic Rate on Hold at 6.50%



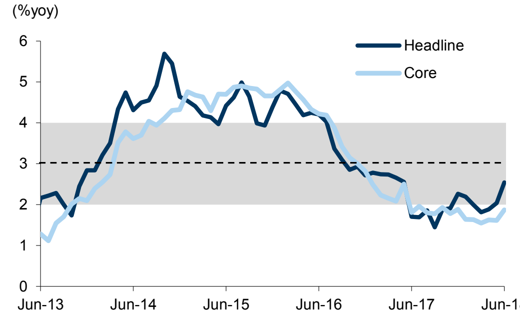
Sources: Bloomberg; Goldman Sachs Global Investment Research; Haver Analytics; IBGE.

Chile

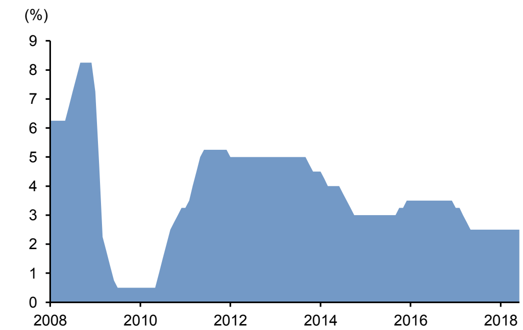
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	1.3	1.5	4.0	3.6
Nominal GDP (US$bn)	250	277	321	359
Consumer Prices (% yoy, e.o.p.)	2.7	2.3	2.9	3.0
External Sector				
Current Account (% GDP)	-1.4	-1.5	-1.2	-1.6
Trade Balance (% GDP)	2.2	2.9	3.3	2.6
Exports (% yoy)	-2.1	14.0	16.3	4.8
Imports (% yoy)	-5.7	10.9	14.4	6.9
Exchange Rate ($/CLP, e.o.p.)	667	615	590	570
Gross International Reserves (US$bn)	40.5	39.0	36.5	36.8
Monetary Sector				
Broad Money (M3, % yoy)	8.2	7.0	9.0	9.0
Credit to the Private Sector (% GDP)	81.3	80.2	80.8	81.8
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	-1.0	-1.0
Central Gov't Overall Balance (% GDP)	-2.7	-2.8	-1.9	-1.9
Debt Indicators				
Central Govt Debt (% GDP)	21.3	23.7	24.3	25.0
Domestic (% GDP)	17.3	19.1	19.0	19.5
External (% GDP)	4.0	4.6	5.3	5.5
Total External Debt (% GDP)	65.5	63.1	58.1	55.1

Source: Goldman Sachs Global Investment Research.

Headline Inflation Back to Target Range



Central Bank on Hold at 2.50% in June



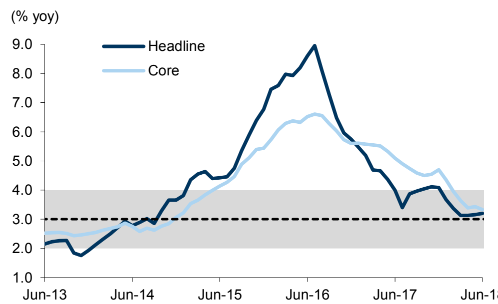
Source: Haver Analytics; INE; Central Bank of Chile.

Colombia

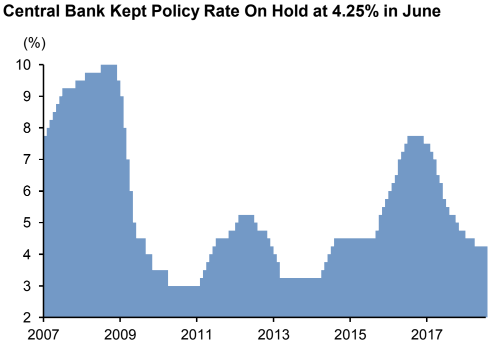
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.0	1.8	2.7	3.3
Nominal GDP (US$bn)	283	314	356	399
Consumer Prices (% yoy, e.o.p.)	5.7	4.1	3.1	3.0
External Sector				
Current Account (% GDP)	-4.2	-3.3	-3.2	-3.2
Trade Balance (% GDP)	-3.2	-1.5	-1.2	-1.5
Exports (% yoy)	-11.7	15.9	7.9	3.5
Imports (% yoy)	-16.9	2.3	6.1	6.8
Exchange Rate ($/COP, e.o.p.)	3001	2984	2700	2650
Gross International Reserves (US$bn)	46.2	47.1	47.3	47.3
Monetary Sector				
Monetary Base (% yoy)	2.5	5.0	7.0	9.0
Credit to the Private Sector (% GDP)	48.8	50.8	52.5	53.7
Policy Rate (% e.o.p.)	7.50	4.75	4.25	5.00
Fiscal Sector				
Central Government Primary Balance (% GDP)	-1.1	-0.8	-0.2	0.4
Central Government Overall Balance (% GDP)	-4.0	-3.6	-3.1	-2.4
Debt Indicators				
Gross Non-fin. Public Sector Debt (% GDP)	54.9	55.9	55.8	55.1
Domestic (% GDP)	31.1	33.0	34.8	34.1
External (% GDP)	23.7	22.8	21.0	21.0
Total External Debt (% GDP)	42.5	39.6	43.0	44.0

Source: Goldman Sachs Global Investment Research.

Inflation Back to Target Range



Central Bank Kept Policy Rate On Hold at 4.25% in June



Source: Banco de la República.

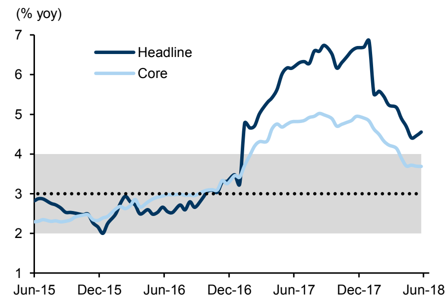
Mexico

	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.9	2.0	2.1	3.0
Nominal GDP (US$ bn)	1078	1151	1231	1360
Consumer Prices (yoy, e.o.p.)	3.4	6.8	4.1	3.4
External Sector				
Current Account (% GDP)	-2.2	-1.7	-1.4	-1.4
Trade Balance (% GDP)	-1.2	-1.0	-0.9	-0.9
Exports (% yoy)	-1.7	9.5	7.7	4.9
Imports (% yoy)	-2.1	8.6	7.4	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	177.0	185.0
Monetary Sector				
Monetary Base (% yoy)	14.4	8.8	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	7.75	6.50
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	46.0	45.5	44.9
Domestic (% GDP)	30.9	29.0	28.9	28.5
External (% GDP)	17.8	17.0	16.6	16.4
Total External Debt (% GDP)	38.5	39.5	40.4	42.6

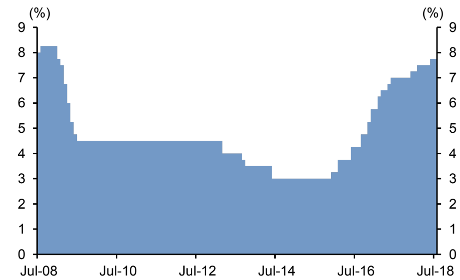
Note: *Public Sector Borrowing Requirements

Source: Goldman Sachs Global Investment Research.

Headline Inflation Has Likely Peaked



Banxico Hiked Policy Rate by 25bp to 7.75% in June



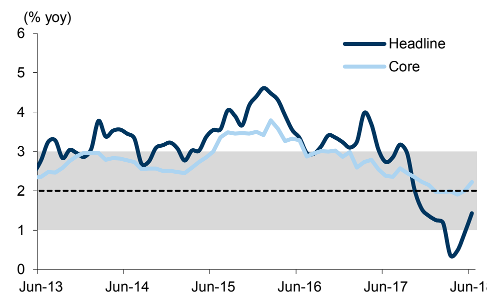
Source: Haver Analytics; INEGI; Goldman Sachs Global Investment Research.

Peru

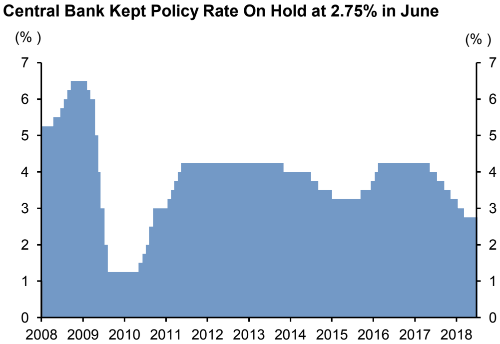
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	4.0	2.5	3.8	4.0
Nominal GDP (US$bn)	195	215	232	255
Consumer Prices (% yoy, eop)	3.2	1.4	2.5	3.0
External Sector				
Current Account (% GDP)	-2.7	-1.3	-0.6	-0.3
Trade Balance (% GDP)	1.0	2.9	5.4	5.5
Exports (% yoy)	7.6	21.3	21.4	8.3
Imports (% yoy)	-5.9	10.0	8.7	6.9
Gross International Reserves (US$bn)	61.7	63.7	62.7	64.1
Exchange Rate ($/PEN, e.o.p.)	3.36	3.24	3.18	3.10
Monetary Sector				
Monetary Base (% yoy)	4.1	7.2	19.0	10.4
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)	-1.4	-1.9	-1.9	-1.7
Non-fin Pub. Sector Overall Balance (% GDP)	-2.5	-3.1	-3.1	-2.9
Debt Indicators				
Total Federal Govt Debt (% GDP)	23.8	25.4	27.0	28.6
Domestic Public Debt (% GDP)	13.5	14.5	15.6	16.8
External Public Debt (% GDP)	10.3	10.8	11.3	11.8
Total External Debt (% GDP)	38.2	38.7	39.8	40.3

Source: Goldman Sachs Global Investment Research.

Headline Inflation Back to Target Range

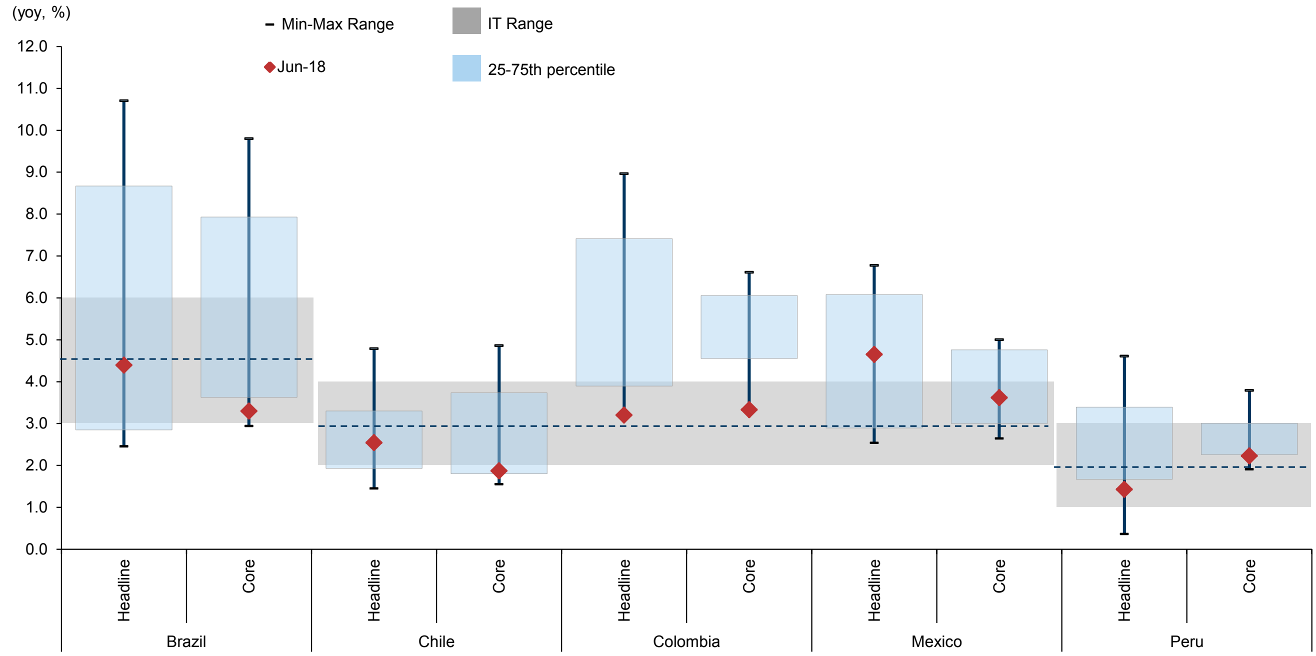


Central Bank Kept Policy Rate On Hold at 2.75% in June



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

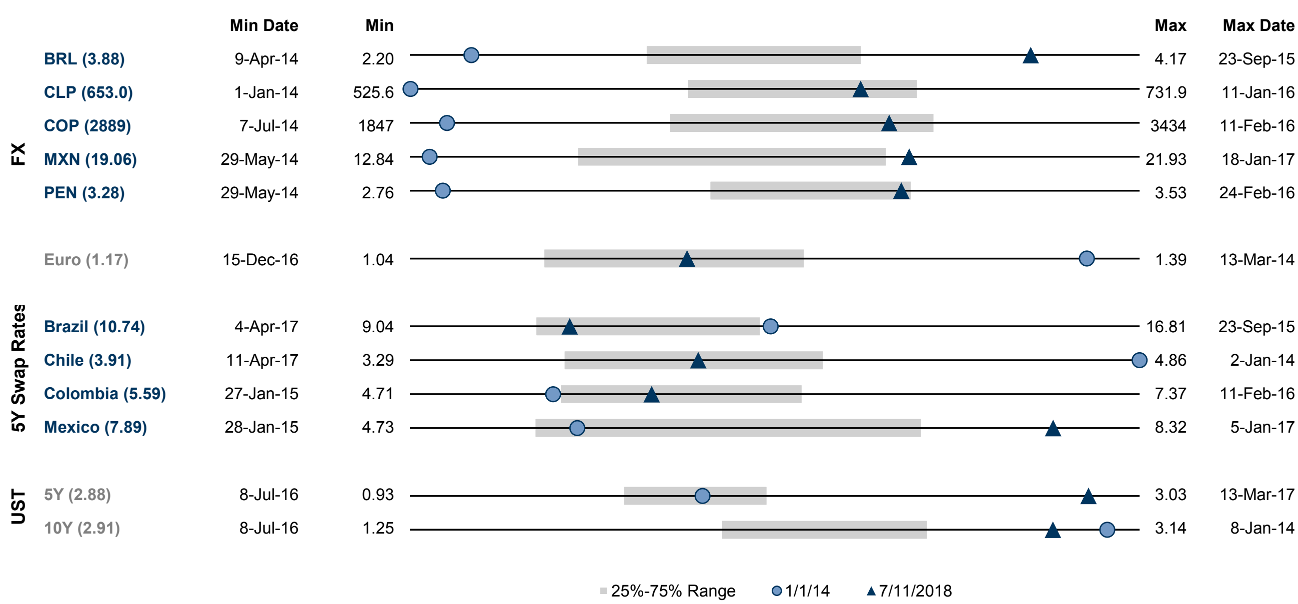
LAIT-5 Annual Headline and Core Inflation Dynamics Since January 2016



Source: Haver Analytics, Goldman Sachs Global Investment Research

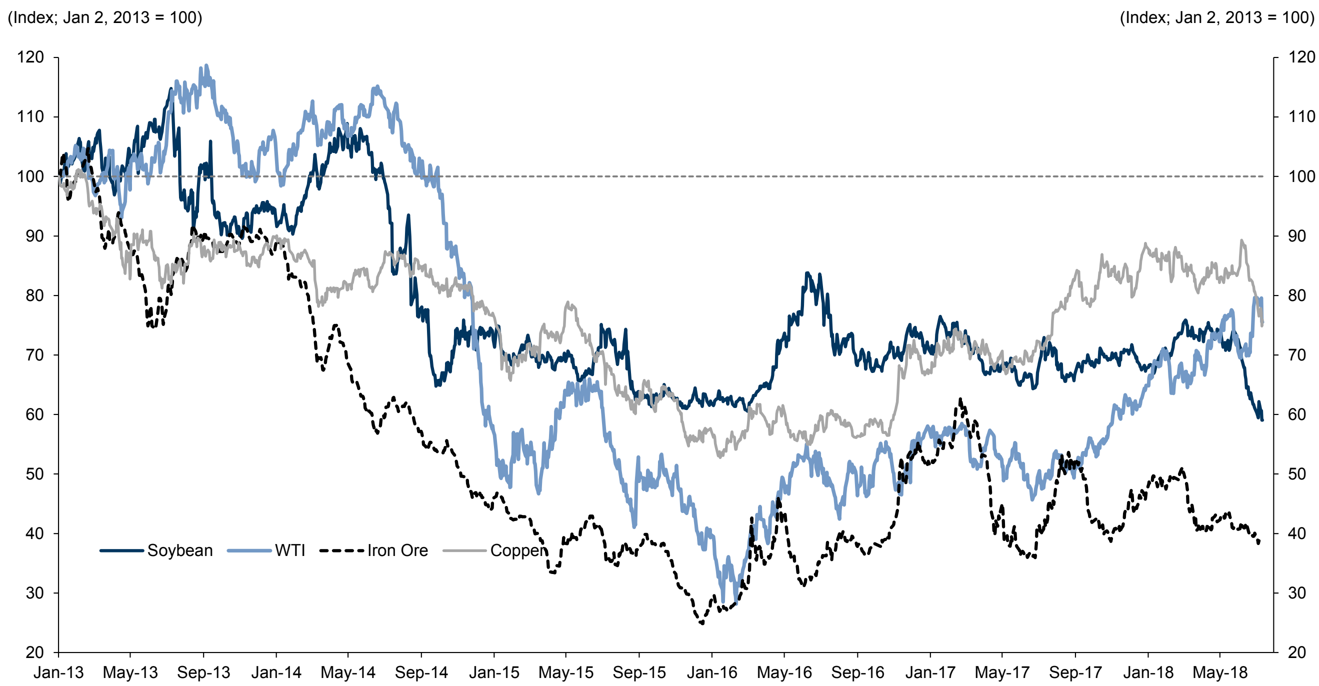
LatAm Financial Markets Outlook

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 (07/12/2018)	Change Since (bps) End-2016	Change Since (bps) End-2017
Swap Rates (%)	**Brazil**					
	2y	11.05	8.06	8.74	-231	67
	10y	11.66	10.78	11.67	1	90
	Chile					
	2y	3.06	2.84	3.28	22	44
	10y	4.17	4.24	4.32	15	8
	Colombia					
	2y	5.61	4.44	4.86	-75	42
	10y	6.57	6.10	6.15	-42	6
	Mexico					
	2y	7.20	8.02	8.11	91	9
	10y	7.93	7.98	8.12	19	14
	United States					
	2y	1.45	2.08	2.83	137	75
	10y	2.34	2.42	2.92	58	50

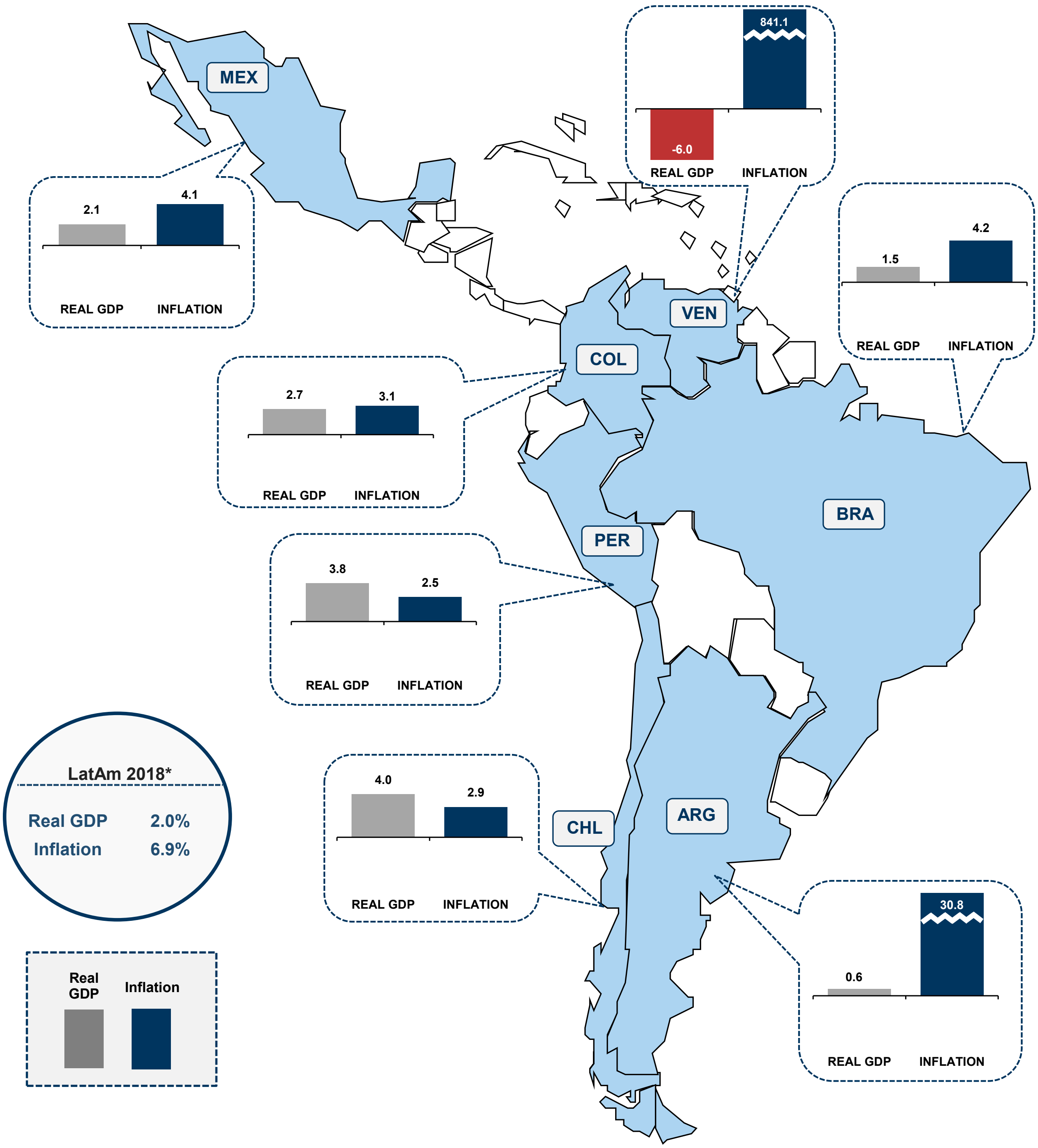
Source: Goldman Sachs Global Investment Research

Latin America Forecasts

		Policy Rates and FX Levels (End of Period)						Implied Change by (Rates in bp; FX in %)		
		Current	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2018	3Q2018	4Q2018
Policy Rates (%)	**Brazil**	6.50	6.50	6.50	6.50	6.50	6.75	0	0	0
	Chile	2.50	2.50	2.50	2.50	3.00	3.25	0	0	50
	Colombia	4.25	4.50	4.25	4.25	4.25	4.25	0	0	0
	Mexico	7.75	7.50	7.75	7.75	7.75	7.50	0	0	0
	Peru	2.75	2.75	2.75	2.75	2.75	3.25	0	0	0
FX (Local / USD)	**Argentina**	27.20	20.12	26.00	26.00	27.70	28.68	-4.4%	-4.4%	1.8%
	Brazil	3.88	3.32	3.86	3.60	3.50	3.51	-0.7%	-7.3%	-9.9%
	Chile	649.10	605.3	608.6	602.0	590.0	578.0	-6.2%	-7.3%	-9.1%
	Colombia	2880.10	2780	2861	2729	2700	2663	-0.7%	-5.2%	-6.3%
	Mexico	18.98	18.33	20.06	19.00	18.50	18.38	5.7%	0.1%	-2.5%
	Peru	3.27	3.23	3.24	3.21	3.18	3.16	-0.9%	-1.9%	-2.8%

Source: Goldman Sachs Global Investment Research

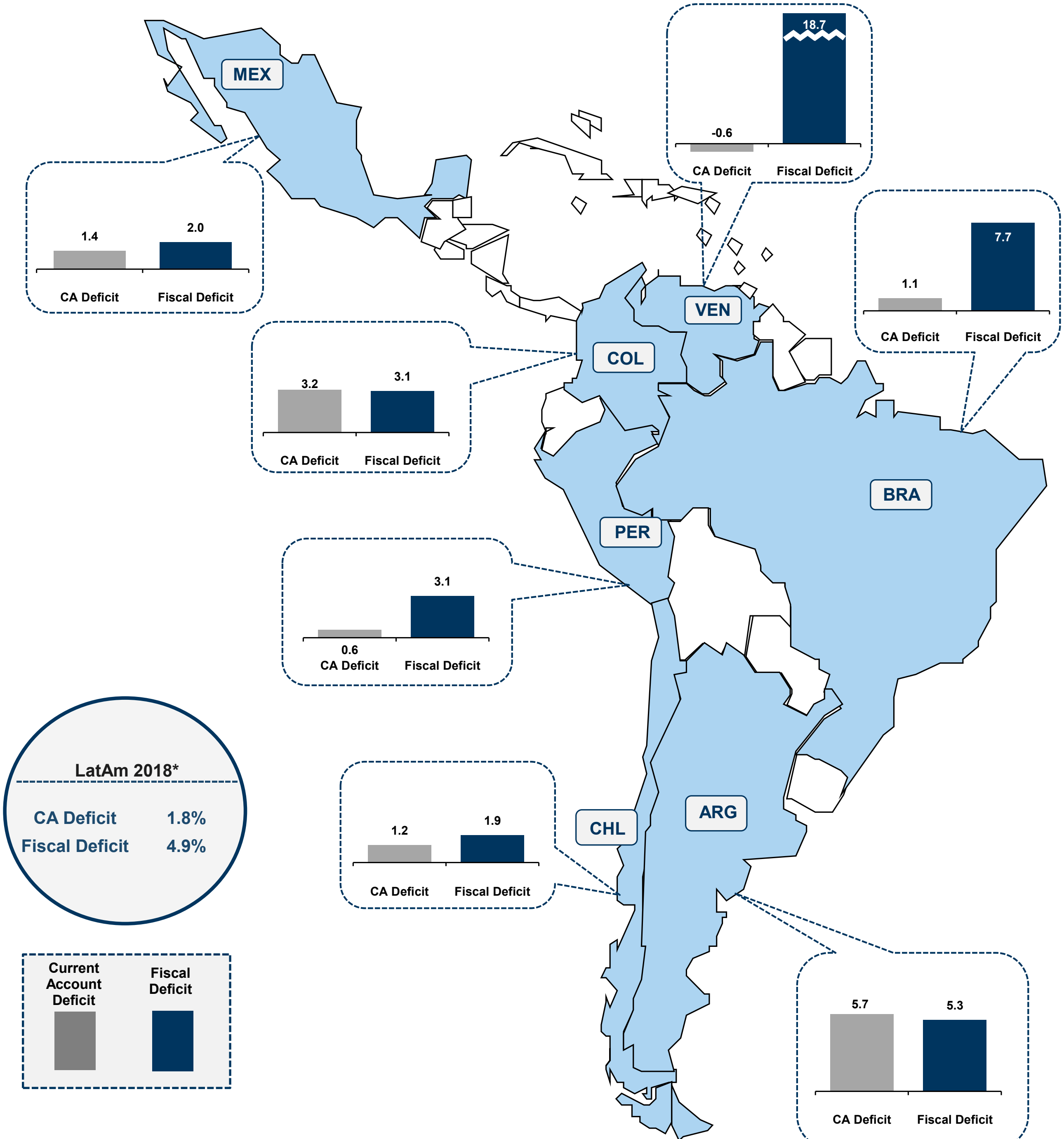
LatAm Outlook for 2018: Real GDP Growth and Inflation (YoY, %)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

LatAm Outlook for 2018: 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							
17-Jul	15:00	Consumer Price Index	Jun	3.20%	28.80%	2.10%	26.30%
24-Jul	15:00	Economic Activity Index (yoy nsa)	May			-2.70%	-0.90%
25-Jul	15:00	Trade Balance	Jul	-US$850mn		-US$1285mn	
Brazil							
16-Jul	7:00	IGP-10 Inflation	Jul	0.62%	7.72%	1.86%	6.17%
16-Jul	7:30	Economic Activity Index (yoy nsa)	May	-2.40%		0.46%	3.70%
20-Jul	8:00	IPCA-15 Inflation	Jul	0.70%	4.59%	1.11%	3.68%
24-Jul	7:00	Consumer Confidence	Jul			8210.00%	
26-Jul	9:30	Foreign Direct Investment	Jun	US$6.0bn		US$3.0bn	
26-Jul	21:30	Current Account Balance	Jun	-US$0.5bn		+US$0.7bn	
27-Jul	7:30	IGP-M Inflation	Jul			1.87%	6.92%
27-Jul	9:30	Bank Lending				0.50%	
Chile							
24-Jul	18:00	Monetary Policy Meeting	Jul	2.50%		2.50%	
Colombia							
27-Jul	9:30	Monetary Policy Meeting	Jul	4.25%		4.25%	
Mexico							
23-Jul	9:00	Economic Activity Index (yoy nsa)	May		2.00%	-0.57%	4.53%
24-Jul	9:00	INPC Headline Inflation (biweekly)	Jul 2H	0.17%	4.69%	0.0025	4.76%
24-Jul	9:00	INPC Core Inflation (biweekly)	Jul 2H	0.15%	3.60%	0.14%	3.64%
25-Jul	9:00	Retail Sales	May		1.00%	-1.10%	3.30%
26-Jul	9:00	Unemployment Rate	Jun	3.10%		3.17%	
Peru							
16-Jul	9:30	Economic Activity Index (yoy nsa)	May		5.20%		7.80%
16-Jul	9:30	Unemployment Rate	Jun	6.80%		6.60%	

Source: Goldman Sachs Global Investment Research

Calendar of Economic and Political Events

Date	Forthcoming Events	Comment
Argentina		
7-Aug	MPC Meeting	At the July 10 meeting the MPC kept the policy rate (7-day repo) unchanged at 40.00%. The forward bias/guidance remained hawkish. The MPC announced that it will change to the way it implements monetary policy alongside other operational changes monthly meetings). The MPC will continue to pursue a formal inflation target with interest rates as the instrument, but that will be complemented by a "*more attentive monitoring of monetary aggregates*" until inflation returns to single digits.
Brazil		
1-Aug	COPOM Meeting	We expect the Copom to leave the Selic policy rate unchanged at 6.50%. The forward guidance may harden given the recent BRL depreciation pressure.
7-Oct	General Elections	On October 7, voters will elect a new president, Congress, governors, and state legislations. The presidential race has narrowed, and four candidates lead the polls: right-wing Jair Bolsonaro, center-left Marina Silva, center-right Geraldo Alckmin, and left-wing Ciro Gomes.
28-Oct	Presidential Election: Second Round	If no presidential candidate wins over 50% of the vote, the two leading candidates will face a run-off vote on October 28.
Chile		
24-Jul	MPC Meeting	We expect the BCCh to hold the policy rate at 2.50% through 3Q2018 and start normalizing monetary policy in 4Q2018, delivering 25bp hikes in October and December to 3.00% by end-2018.
Colombia		
27-Jul	MPC Meeting	We expect Banrep to keep the policy rate at 4.25%.
Mexico		
2-Aug	MPC Meeting	The central bank MPC hiked the policy rate by 25bp to 7.75% at the June 21 meeting. The decision was unanimous. The forward guidance/bias remained conservative and vigilant, suggesting the risk of a follow up 25bp rate hike if post-election the MXN remains under pressure.
Peru		
9-Aug	MPC meeting	We expect BCRP to keep the policy rate at 2.75% in the near term but see increasing probability of rate hikes on the back of strong activity growth and rising headline inflation.

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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