South America, Review

Part 1 - South America

The State of Every Country

Here we see São Paulo, the most populous city in Brazil. Despite a presidential impeachment, the Bovespa, Brazil's main stock market index, logged over a 60% return in 2016.

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South America

Argentina

Keep an eye on: Exchange rate, inflation

Outlook: Positive

Currency: Argentine peso

After a rocky 2016, with the economy contracting approximately 2%, Argentina looks to return to expansion in the upcoming year. Barclays is currently predicting 3.4% growth for the Latin American country in 2017, and the IMF is forecasting a yearly 3% average growth rate for the country over the next five years. The new Argentine president, Mauricio Macri, has looked to overhaul outdated economic policies from prior administrations, too, strengthening the outlook for Argentina’s economy in the upcoming months.

Although I believe Argentina has a positive economic outlook for the new year, worries do persist. First, even though inflation is predicted to drop nearly 15% in Argentina this year, inflation rates will most likely remain over 25% in 2017. Additionally, in August of this past year, Argentina returned to debt markets for the first time in over 15 years with a $16.5 billion bond issuance. Since Trump was elected in November of 2016, however, the dollar has continued to strengthen, making this external debt more expensive for Argentina to repay.

Alfonso Prat-Gay, the Argentine Finance Minister, has said that Argentina will prioritize economic growth in 2017.

Bolivia

Keep an eye on: Energy prices

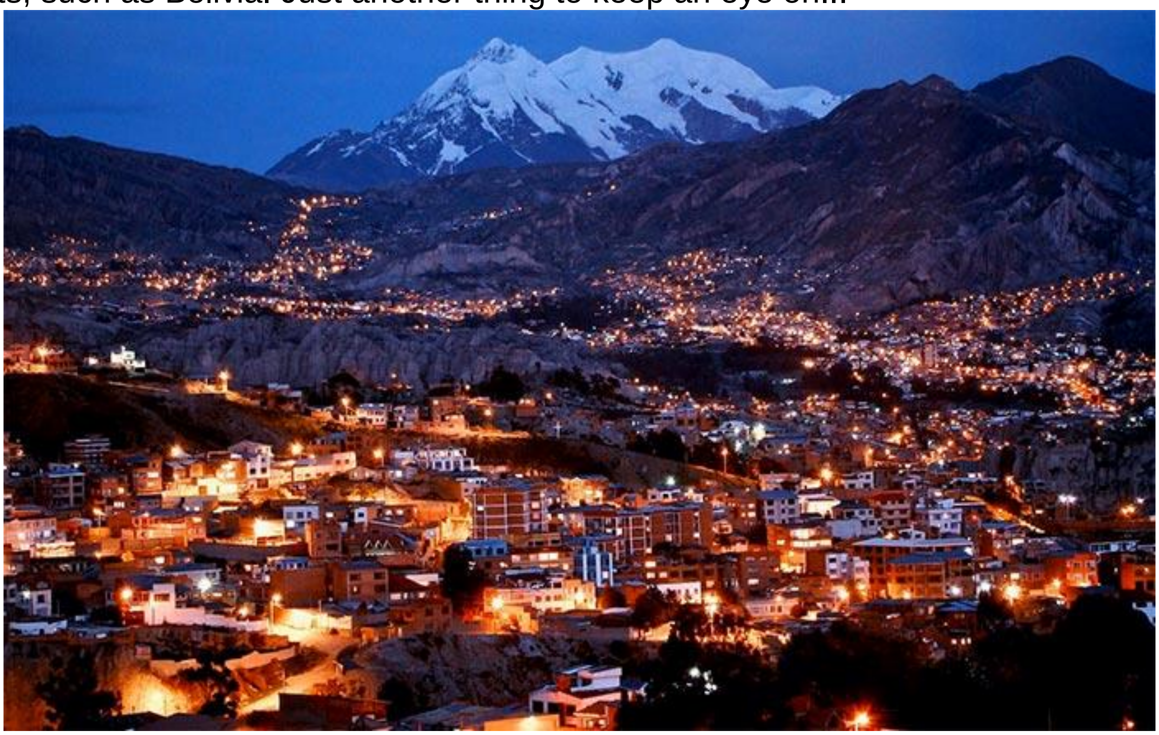
Outlook: Stable

Currency: Bolivian boliviano

This past year was nothing special for Bolivia's economy, as GDP growth readings faded in and out of negative territory. Bolivian leaders accused the South American economic downturn for this decreased Bolivian growth, but low energy prices over the past few years were also to blame, with natural gas constituting nearly half of all Bolivian exports. Luckily, natural gas prices skyrocketed in the later half of this past year. If energy prices stabilize at elevated levels throughout 2017, as Goldman and Credit Suisse are predicting, the Bolivian economy will benefit from increased energy revenue.

This upcoming year, Bolivia's economic success will also rely on an increased import appetite from its two main trading partners: Argentina and Brazil. Over 50% of Bolivian exports are sent to Argentina and Brazil, so the fate of Bolivian companies rests in whether or not these countries return to economic growth in 2017. This past year, the Argentine and Brazilian economies contracted -2.0% and -3.6%, respectively.

As a final note, the so-called "Trumped-Up" U.S. dollar could cause pain for Bolivia in 2017. Since Trump was elected in November of this past year, the U.S. dollar has continued to strengthen against emerging market currencies, making external debt more difficult to service for emerging markets, such as Bolivia. Just another thing to keep an eye on...



Higher energy prices could fuel Bolivian economic growth in 2017.

Brazil

Keep an eye on: Political stability, oil prices
Outlook: Negative
Currency: Brazilian real

Brazilian assets won on all levels in 2016. Government bond yields fell, the Brazilian real gained 20.96%, and the Bovespa, Brazil's main stock index, ended the year up over 60% in terms of the U.S. dollar. Astonishingly, in 2016, all of these gains took place during a presidential impeachment process and the country's worst-ever economic recession.

However, I believe many of these gains from 2016 will be given up in the next few months. This past November, Brazil posted its worst-ever budget deficit under the new president Michel Temer. The country is still struggling to rebalance depleted public accounts, and the economy continues to contract, with households and companies struggling to pay off high debt loads.

Additionally, in a Bloomberg survey, 51% of respondents rated Temer's government as "bad" or "terrible." Temer's majority in Congress has begun to crumble, too, and he continues to be investigated over his use of illegal campaign financing techniques.

As an additional note, after Trump was elected in 2016, bond yields have begun to rise around the developed world, and the prospect of increased interest rates in the U.S. could wreak havoc on Brazil. When U.S. interest rates rise, investors often pull capital from emerging market funds. As seen in the figure below, Brazil is one of the countries most dependent on weakness of the U.S. dollar. Thus, in my opinion, the market right now is overly optimistic for Brazil's situation. Unless oil prices continue to rally, bonds and equities of this Latin American country are set to suffer in 2017.

Economies Viewed As Being Vulnerable to Rising US Interest Rates				
US FED	***Morgan Stanley***	***Société Générale***	***UBS***	***Moody's***
Brazil	Brazil	Brazil	Brazil	Brazil
India	Mexico	Mexico		Chile
Indonesia	Indonesia		Indonesia	Malaysia
Turkey	Turkey	Turkey	Turkey	Turkey
South Africa	South Africa	South Africa	South Africa	South Africa

Brazil’s new president, Michel Temer, has struggled his first months in office.

Chile

Keep an eye on: Copper prices

Outlook: Negative

Currency: Chilean peso

Since Chile is a large net exporter of copper, Chilean companies benefited from higher copper prices in 2016. However, according to predictions from Goldman Sachs Research, copper prices will fall in 2017, harming these same companies. Additionally, under socialist president Michelle Bachelet, slow wage and job growth continue to hold back Chile, with the country having a relatively high level of hostility towards business. Unless copper prices further increase, I believe the market right now is *overly* optimistic about Chile.

Elevated copper prices boosted Chile's economy this past year.

Colombia

Keep an eye on: OPEC production cut limits, inflation

Outlook: Positive

Currency: Colombian peso

According to Barclays Research, Latin America contracted 1.3% in 2016. Colombia, however, turned out to be a bright spot in Latin America, with a yearly growth rate of 2.0%. Barclays Research is projecting 2.7% growth for the economy in 2017. As another positive note for the Colombian economy, Barclays Research is also projecting the country's inflation rate will fall from 7.0% in 2016 to 3.9% in 2017.

A large exporter of oil, Colombian assets have also been boosted recently by the 2016 recovery in energy prices, with crude oil ending the year up 45%. If OPEC holds to their production limit promises, crude could continue to rally, further benefiting Colombia.

Of course, worries still exist for this country. For example, since Colombia's main trade partner is the United States, Donald Trump could harm the Colombian economy if he slaps tariffs on imports from Latin American.

Overall, however, I am bullish on Colombian assets in 2017. With a revised peace deal between the Colombian government and Marxist guerrillas finally being signed this past November, Colombia seems to have all factors going its way in the new year.

Higher oil prices due to the 2016 OPEC production limit agreement should benefit the Colombian economy in 2017.

Ecuador

Keep an eye on: OPEC production cut limits, debt

Outlook: Stable

Currency: U.S. dollar

Ecuador, a member of OPEC, is suffering similar problems to many export-driven, commodity-dependent countries: economic contraction and rising debt levels. Due to low oil prices for the majority of 2015 and 2016, Ecuador's economy, a country 40% dependent on oil for export revenue, fell into contraction in 2015. Luckily, after an OPEC production limit agreement, oil prices have risen and stabilized around $50, with Goldman Sachs and Credit Suisse predicting oil prices will finish 2017 between $55 and $60. These elevated prices should boost the Ecuadorian economy, and the Central Bank is predicting growth over 1.4% in 2017. As an added benefit, Ecuador recently added a new trade agreement with the EU, which should boost growth in this new year.

Ecuador is not *"worry-free"*, however. In September of 2016, Ecuador offered $1 billion in new bonds maturing in 2022 with a yield of 10.75%. Since defaulting on $3.2 billion worth of debt during the financial crisis, the country has managed to tap global debt markets four times. With global borrowing costs at record lows, Ecuador has binged on cheap credit, and yield-hungry investors have been happy to supply Ecuador with cash in exchange for a nice coupon. Servicing this debt could become a problem for Ecuador in upcoming years if oil prices begin to fall once again. Just something else to keep an eye on...

A new trade agreement between the EU and Ecuador should boost Ecuador's growth in the new year.

Guyana

Keep an eye on: Commodity prices
Outlook: Stable
Currency: Guyanese dollar

Guyana, a relatively small South American country, is a commodity-driven economy, exporting gold, aluminum ore, sugar, and rice. The Economic Commission for Latin America and the Caribbean (ECLAC) is predicting 5.2% growth for the country in 2017, mainly due to increased gold production and exports.

Of course, commodity prices are volatile, so Guyana's economic success is volatile, too. Additionally, 30% of Guyanese exports are sent to the U.S. As stated previously, if Trump decides to slap import tariffs on South American products, Guyana's economy would immediately suffer.

Approximately 90% of forests in Guyana remain intact.

Paraguay

Keep an eye on: Soybean prices

Outlook: Positive

Currency: Paraguayan guaraní

In the past few years, Paraguay has utilized prudent macroeconomic policies and effective economic overhauls to position the country for success in upcoming years. For example, Paraguay has enhanced fiscal transparency and recently introduced a corporate tax on agricultural income. The country has also diversified its export markets to new countries, such as Qatar and Israel. The Central Bank is predicting the economy will grow at a rate of 4% in 2017. For these reasons, I am bullish on Paraguayan assets in the new year.

Paraguay does have worries in the upcoming year, though. With a heavily reliance on soybean exports, Paraguayan companies could suffer if prices of this agricultural commodity drop in 2017. Additionally, similar to many other Latin American countries, Paraguay issued new debt in 2016, as borrowing costs remained at record-low levels throughout the majority of this past year. After Trump was elected, however, bond yields have begun to rise, and the dollar has started to strengthen. If the dollar continues to rally and the Federal Reserve hikes rates a few times in 2017, servicing this debt will become more expensive for Paraguay, a possible hit to the economy.

Paraguay’s economic success is heavily reliant on increasing soybean prices.

Peru

Keep an eye on: Pedro Pablo Kuczynski, metal prices

Outlook: Positive

Currency: Peruvian sol

Peru was a bright spot in Latin America in 2016. As a whole, Latin America experienced a -1.3% contraction, yet Peru’s economy expanded 4%. Similarly, while Latin America experienced inflation of 6.3%, Peru’s inflation rate in 2016 was a modest 3.5%. The outlook for Peru in this upcoming year is bright, too. Barclays Research is predicting Peru will expand at a rate of 4.4% with a 2.7% inflation rate in 2017. Similarly, Peru’s new president, Pedro Pablo Kuczynski, is forecasting approximately 5% growth for the country this year. With strong reforms, low inflation and prudent macroeconomic policies, Peru seems set for success in 2017.

Of course, like all countries, Peru does have worries in the upcoming year. As stated previously, according to predictions from Goldman Sachs Research, copper prices will decrease in 2017. Falling copper prices would detract from GDP growth, as copper is a main export of Peru. Additionally, similar to most Latin American countries, a strengthening dollar and increasing interest rates in the U.S. could negatively impact Peruvian assets, as investors may pull capital from emerging market funds and pump this capital back into the United States if rates continue to rise.

Here we see Peru's new president, Pedro Pablo Kuczynski, a former economist and a pro-business advocate.

Suriname

Keep an eye on: Metal prices

Outlook: Stable

Currency: Surinamese dollar

The smallest country in South America, Suriname is in the midst of a brutal recession, with the country experiencing the third highest inflation rate in the world according to the World Bank, behind only South Sudan and Venezuela. Similar to many export-driven, commodity-dependent countries, Suriname's economy expanded during the commodity boom before collapsing during the bust. The Surinamese dollar has continued to collapse during this brutal economic recession, too.

Luckily, unlike Venezuela, there still seems to be hope for Suriname in 2017. Although the closure of a massive Alcoa aluminum refinery hurt the Surinamese economy this past year, new investments in gold and oil are projected to help bring the economy back to expansion in 2017. Of course, this recovery is dependent on stabilized metal and energy prices, as well as a slowing depreciation of the Surinamese dollar.

A pillar of the economy, the Alcoa aluminum plant was recently shut down due to slumping metal prices.

Uruguay

Keep an eye on: Agricultural commodity prices
Outlook: Positive
Currency: Uruguayan peso

According to the World Bank, economic openness and strong macroeconomic policies have enabled Uruguay to thrive over the past decade. Although growth is now slowing, with Uruguay projected to expand a mere 0.5% in 2017, the country has remained resilient to deep recessions in both Argentina and Brazil, its two biggest neighbors. Luckily, Barclays Research is projecting both Argentina and Brazil will return to growth in 2017, giving an extra boost the Uruguayan economy.

However, there are factors that could slow Uruguay's economic growth in 2017. For example, since Uruguay's main exports are beef and soybean, the economic success of the country remains highly dependent on the prices of these key exports. If either of these commodity prices decreases, Uruguay's growth could slow in the upcoming year.

Beef exports will remain a pillar of the Uruguayan economy in 2017.

Venezuela

Keep an eye on: Oil prices, debt levels, Nicolás Maduro

Outlook: Negative

Currency: Venezuelan bolivar

Venezuela is in the midst of a brutal economic recession, contracting over 10% in 2016. Additionally, under president Nicolás Maduro, the country's currency, the bolivar, has also continued to degrade with sky-high inflation levels. Don't be fooled by the massive stock market gains seen in Venezuela this past year – the country is in terrible shape, with political upheaval and rampant corruption. The only reason the Caracas Stock Exchange boomed in 2016 is because Venezuelans were forced to pump money into the stock market to avoid losing all the value in their assets.

In the first days of 2017, Venezuela has already issued $5 billion in new bonds, pushing the country further into debt. Amazingly, the country has yet to default, but *only* because China offered a lifeline of cash in exchange for future oil production. Although rising oil prices would benefit the country, as Venezuela is an initial founding member of OPEC and sits on the largest proven oil reserves in the world, the country's economic problems run much deeper than low oil prices. Unless Maduro is overthrown within the next few months, I believe the country is doomed in 2017.

Under Nicolás Maduro, Venezuela has experienced political upheaval, sky-high hyperinflation, and a painful economic recession.