LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, October 27, 2015

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Catterton Aimara

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President, Boeing Latin America

Jon Huenemann
Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones
Co-chair, Manatt Jones
Global Strategies LLC

Craig A. Kelly
Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto
Director, U.S. Education
Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty
Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

What Does Sunday's Election Say About Argentina's Politics?

Mauricio Macri celebrated with supporters Sunday night after forcing ruling party candidate Daniel Scioli into a runoff. // Photo: Macri Campaign.

Q Center-right Buenos Aires Mayor Mauricio Macri won enough votes on Sunday in the first round of Argentina's presidential election to trigger a runoff against the top vote-getter, ruling party candidate Daniel Scioli. To what can Macri attribute his unexpectedly strong showing? What factors between now and the runoff on Nov. 22 will decide who is elected in the second round? Which of the two candidates will receive the bulk of third-place finisher Sergio Massa's supporters? What other races in Sunday's election in Argentina had most significance?

A Claudio Loser, visiting senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "Daniel Scioli won credibly in the first round of elections in Argentina on Sunday. However, this has become the worst defeat for the ruling Peronist Frente para la Victoria (FPV), and the pollsters who predicted either an outright victory, or a large difference in the electoral vote. The two percent difference between the candidates shows a competitive run for the second round. The marginal presidential win and the inconceivable gubernatorial loss in Buenos Aires province (40 percent of the electorate) suggest an end to the FPV reign. This is further supported by their loss in the next four largest districts plus the eighth, with a share of about 30 percent of the electorate. Furthermore, the FPV lost control of the lower house of Congress. However, the fight ahead is tough. In particular, the followers of the neo-Peronist

Continued on page 2

TODAY'S NEWS

POLITICAL

Venezuela Fires López Trial Prosecutor

Venezuela's attorney general fired the prosecutor who was part of the trial of opposition leader Leopoldo López. The prosecutor later fled the country and called the trial a "farce."

Page 2

BUSINESS

Chile's Codelco Cuts Investment Plan

The state-owned copper company is cutting its investments amid the global slump in metals prices, said CEO Nelson Pizarro.

Page 2

POLITICAL

Attack by ELN Rebels Kills 12 in Colombia

Rebels killed 12 members of Colombia's security forces as they escorted poll workers and ballots to be counted in Boyacá department. President Juan Manuel Santos responded by ordering the military to step up attacks against the ELN.

Page 2

Santos // Photo: Colombian Government.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Colombian Rebels Kill 12 in Ambush

National Liberation Army, or ELN, rebels on Monday killed 12 members of Colombia's security forces in an ambush as they were escorting poll workers and ballots to be counted after local elections the previous day, said Defense Minister Luis Carlos Villegas, BBC News reported. The attack resulted in the deaths of 11 soldiers and one police officer, said Villegas. Six others, including poll workers and a local guide, were missing, the defense minister added. The ambush happened just after the group left an indigenous reservation near the town of Güicán, in Boyacá department. "This attack shows that ELN does not understand that this is a time for peace, not a time for war," Colombian President Juan Manuel Santos said in a statement Monday night, The Washington Post reported. "If the ELN thinks that these actions will help raise its political profile and strengthen its bargaining position, it is totally mistaken." Santos added that he has ordered the military to step up strikes against the ELN in response to the attack. The attack put an end to a period of relative calm in Colombia as the government and the Revolutionary Armed Forces of Colombia, or FARC, have observed an unofficial cease-fire in recent months and recently announced a breakthrough in their three-year peace talks. The government and the FARC last month set a March deadline for a final peace deal. The FARC has called for the ELN to participate in the peace talks, and speculation has risen recently that Santos was close to engaging in talks with the ELN, the newspaper reported. However, Monday's ambush appears to have put an end to that speculation, at least temporarily. "For the ELN and all of those who don't accept the path to peace, the message is clear," said Santos. "We will confront them with the full weight and power of our armed forces."

BUSINESS NEWS

LetterOne Investing $4 Bn in Brazil's Oi

Russian billionaire and head of investment firm LetterOne, Mikhail Fridman, has pledged to invest $4 billion in Brazilian telecommunication company Oi, pending a merger between Oi and Tim Participações, a local unit of Telecom Italia, MarketWatch reported Monday. Despite Brazil's market being marred by a recession, inflation and a weakening currency, the mobile phone market is booming, and smartphone

FEATURED Q&A / Continued from page 1

Massa are difficult to predict. The mostly self-inflicted poor economic performance, the aggressive use of raw power and clientelism, and the allegations of corruption and drug dealing are rejected by the Argentine middle-class. But Peronists are attracted by power, and they will go for the one candidate who promises the most credible access to it. Kirchnerism is not credible in this regard, and Macri, while a coalition person, may seem too far removed from Peronist populism. But the economy or scandals may worsen, and that will certainly move more people to Macri's camp. However, a clear case cannot be made until the dust of this storm settles."

Alberto Bernal, head of research at Bulltick Capital Markets in Miami: "The impressive performance showed by PRO candidate Mauricio Macri on Sunday will go down in history as one of the most benevolent surprises ever recorded in Argentina. All of the polls were showing that the uncertainty over the race was not whether Daniel Scioli would win the election, but rather if he would receive enough support to win in the first round. No one was expecting to see a competitive race, which is exactly what we got on Sunday. The strong showing of Macri is likely a function of the materialization of a democratic reaction to the 'need for

Continued on page 4

NEWS BRIEFS

Venezuela Fires López Trial Prosecutor

Venezuela's attorney general announced Monday that she has fired prosecutor Franklin Nieves who participated in the case against opposition leader Leopoldo López. The prosecutor then fled the country and called the trial a "farce," BBC News reported. Nieves posted a video online in which he apologized for his role in the case. Attorney General Luisa Ortega Diaz denied that officials were pressured to provide false evidence against López.

Regulator Considering Sanctions Against OHL Mexico

Mexico's stock regulator (CNBV) is studying possible sanctions against a unit of Spanish construction group OHL after videos were released in May that show top OHL Mexico executives discussing overcharging on a government contract, Reuters reported Monday. CNVB alleges that OHL Mexico did not follow proper accounting and securities rules and did not report updated traffic levels for its highway concessions. OHL has already responded to some of the allegations, and denied involvement. The company said the recordings had been manipulated.

Codelco Cuts Five-Year Investment Plan

Codelco, Chile's state-owned copper mining company, cut its five-year investment plan amid a slump in global copper prices, Bloomberg News reported Monday, citing CEO Nelson Pizarro. Changes to the company's investment plan, which had been designed to avoid a slump in production, are mostly technical. Codelco will still request the same amount of funding from the Chilean government, although the government has requested more information before deciding on funding, Finance Minister Rodrigo Valdés said.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

penetration is expected to grow by at least 10 percent this year in Brazil, according to Bloomberg News. "Having substantial funds to invest, LetterOne is interested in large markets where opportunities for consolidation exist," said Sergey Libin, an analyst at ZAO Raiffeisenbank. "Emerging markets like Brazil better fit this goal, while developed markets may be more difficult to enter." Oi is valued at $650 million, while Tim is valued at about $5 billion. Oi also carries a large sum of debt, which has impeded its attempts to consolidate in past years. In 2014, Oi had said that it was considering the possibility of merging with another telecommunications company in Brazil such as Tim, and that it hired Brazilian investment bank BTG Pactual to look into the feasibility of said merger, MarketWatch reported. Tim said in a filing that it is not in talks with Oi and LetterOne, Bloomberg News reported.

Banco do Brasil Eyes Debt Deal With Sete

Brazilian government-run Banco do Brasil is expecting to reach a deal with Sete Brasil, a manufacturer and lessor of drillships, by the end of the year, the bank's CEO said Monday, Reuters reported. Sete Brasil owes some $3.6 billion to Banco do Brasil, Caixa Econômica

Abreu // Photo: Brazilian Government.

Federal, Itaú Unibanco Holding, Banco Santander Brasil and Banco Bradesco, the wire service reported. Banco do Brasil CEO Alexandre Abreu said that although he expects to reach an agreement this year with Sete Brasil, debt repayments under the deal would likely start next year. "We have a positive expectation for an agreement this year. We want to reach a deal that will allow us to restructure the debt," Abreu told reporters. The bank is also planning to restart a loan program for Petrobras' suppliers and is eyeing a plan to help finance companies that plan to bid next month for hydroelectric concessions in Brazil, Abreu added. Through the bidding, Brazil's government is expecting to raise as much as 17 billion reais ($4.38 billion) through the process, in which utilities would take over the expired licenses for more than two dozen hydroelectric dams. "It is a good deal, because there are no construction risks and 70 percent of the energy will be contracted for concessions running 30 years," Abreu said, Reuters reported.

COMINGS & GOINGS

Argentine Cabinet Chief Loses Gubernatorial Race

Argentine Cabinet Chief Aníbal Fernández on Monday acknowledged defeat to María Eugenia Vidal in the race to become governor of the influential province of Buenos Aires, Clarín reported. A powerful figure in the country's national government, Fernández captured 35 percent of the vote compared to Vidal's 39 percent. Fernández told local media Monday he planned to disclose "some issues" that will "put the record straight" about his unexpected defeat, saying that he intended to shed light on negative news reports that linked him to drug trafficking. "Don't make me be so explicit to give names and last names," Fernández said, the Buenos Aires Herald reported. "I want to address Ms. Vidal, with a lot of respect and I want to acknowledge the defeat; at the same time, I want to congratulate her for the victory," he added. Vidal, 42, has been serving as vice mayor of the city under Mauricio Macri, who is now running for president.

Fernández // File Photo: Argentine Government.

Mercer Moves from Astellas to India's Lupin

Mumbai-based drug maker Lupin on Monday appointed Martin Mercer as president of its Latin America business, The Economic Times reported. Mercer assumes responsibility for the company's Latin American business including the overall strategy for its generics and specialty business in Brazil, Mexico, Venezuela, Colombia and Argentina, the company said. In May, Lupin entered the Brazilian market with its acquisition of 100 percent stake in Medquímica Indústria Farmacêutica, and in 2014 it acquired Mexico's Laboratorios Grin. Mercer, who will be based in Naples, Fla., joins Lupin from Astellas Pharma where he was the head of Latin America, based in the company's Illinois offices. Prior to that, he held management positions at Valeant and GlaxoSmithKline.

Diaz Reus Hires Javier Ruiz in Mexico City

Diaz, Reus & Targ has hired Javier Ruiz as an associate in its Mexico City office, the Miami-based firm said Oct. 12. He will focus on corporate finance, mergers and acquisitions, international contracts, and corporate governance matters for companies in Mexico and throughout Latin America, according to the firm. Ruiz graduated summa cum laude from the Universidad Nacional Autónoma de México's law school.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 2

change' that the Argentine population seems to be cherishing after so many years of the Kirchners being the sole political force of the country (many Argentines associate that regime with incessant corruption).

> **"We think that if Massa supports Macri, it will prove very hard for Scioli to win the election."**
>
> **— Alberto Bernal**

Our guess is that the soon to be published polls will show that Mauricio Macri will be carrying a commanding lead going into the second round (because his campaign will be carrying huge momentum). Candidate Sergio Massa will most likely not ignore the polls, hence we suspect that he will decide in favor of supporting Macri going into the ballotage. We think that if Massa supports Macri, it will prove very hard for Scioli to win the election. If Macri wins the election later this year, there will be fireworks in the financial markets and the economy in general, because Macri's economic program is very friendly toward investment. The other impressive surprise coming out of the elections was the triumph of Margarita Vidal in the Province of Buenos Aires gubernatorial race. Ms. Vidal defeated Aníbal Fernández, a staunch supporter of president Cristina Fernández de Kirchner. Ms. Vidal is a key member of the PRO, Macri's party. The ruling party's loss of control of Argentina's most populous province implies a huge political blow for the president."

Miguel Kiguel, executive director of EconViews in Buenos Aires: "Cambiemos was the big winner in the elections as María Eugenia Vidal became the new governor of the province of Buenos Aires with her defeat of the official FPV candidate, Aníbal Fernández, while Macri did a much better election than the opinion polls had anticipated and he now appears to be the front-runner in the runoff with Daniel Scioli on Nov. 22. The big question at the moment is whether Macri will be able to capture a big part of the opposition vote (mainly from Massa who obtained 21 percent of the popular vote), with whom Cambiemos seems to have more elements in common. Markets reacted positively to the news, as there was a strong rally in stocks and bonds. Macri is clearly favored by the markets as he seems to be the candidate who is more likely to move the country toward a normalization of the relationship with international financial markets and the creation of a better business climate that encourages investment with clear and stable rules of the game. Nevertheless, if Macri wins, he will face important challenges on the macroeconomic front as he will take over a country with large macroeconomic imbalances, as the fiscal deficit exceeds 7 percent of GDP, reserves are very low, the currency is grossly overvalued and the country remains in default. While Macri is the front-runner, the election is not a done deal. Scioli still has room to make a comeback, though he probably will need to change his strategy and separate himself from Cristina and from the more radical views in order to capture centrist voters. Two debates will help set the stage for the runoff. These will be four very exciting weeks in Argentina."

> **"While Macri is the front-runner, the election is not a done deal."**
>
> **— Miguel Kiguel**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2015

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Maria Darie, Director, Finance & Administration
Ramón Espinasa, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:

1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036

Phone: 202-822-9002
Fax: 202-822-9553

www.thedialogue.org

ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.