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THEDIALOGUE

FEATURED Q&A

Can Carstens Steady Mexico's Economy Before His Exit?

Agustín Carstens will delay his departure as Mexico's central bank chief, staying on until November. // File Photo: Mexican Government.

Q Agustín Carstens, Mexico's longstanding central bank governor, is delaying his planned resignation from July until November this year, reportedly to help the government renegotiate provisions of the North American Free Trade Agreement. Widely respected on Wall Street, Carstens is slated to become head of the Bank for International Settlements. How important is Carstens to the Mexican government's standing in international markets? What pressures and challenges does he face at the helm of Banxico in the coming months? Facing external pressures and a record-low currency, should Mexico make major changes in how it manages its monetary policy?

A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México: "This news about Carstens is disturbing for two reasons. First, Carstens is known for his expertise on monetary policy—not as a trade negotiator. They are different skills. To wit, his appointment at the BIS is for his banking expertise. Second, how much weight would the market give to a person who is slated to leave within six months? Either way, whatever credibility Carstens has in the market, has no value for NAFTA renegotiations. His challenges at the head of Banxico stay the same: the inflation in Mexico, the exchange rate with respect to the U.S. dollar and economic growth in Mexico. Controlling the rate of inflation is the first order of business for any central bank. Here, the sudden jump in gasoline price is sure to feed into inflation—even though it might be a one-time

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TODAY'S NEWS

POLITICAL

ELN Claims Responsibility for Fatal Bombing

The Colombian rebel group has demanded a bilateral cease-fire as it engages in peace talks with the government of President Juan Manuel Santos. The government, however, said it will not be pressured into declaring a cease-fire.

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BUSINESS

Pemex Reports Smaller Loss for Fourth Quarter

The Mexican state-run oil company said the smaller loss, of $1.58 billion as compared to $9.80 billion a year earlier, was due mainly to higher prices for crude oil.

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POLITICAL

U.N. Taps Norwegian to Help Settle Venezuela-Guyana Dispute

The United Nations' secretary-general named Norwegian diplomat Dag Halvor Nylander to help settle a border dispute between Venezuela and Guyana.

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Nylander // File Photo: LinkedIn.

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POLITICAL NEWS

Colombia's ELN Claims Responsibility for Fatal Bombing

Colombia's National Liberation Army, or ELN rebel group, on Monday claimed responsibility for a bombing earlier this month that killed a police officer in Bogotá, the Associated Press reported. The Feb. 19 blast, which happened near the Plaza Santamaria bullring, also left more than 20 people injured. The ELN and the government of President Juan Manuel Santos recently entered peace talks aimed at putting an end to decades of conflict. The rebels and the government began the talks after the government reached a peace accord with the larger Revolutionary Armed Forces of Colombia, or FARC, rebel group. In a statement Monday, the ELN said that both it and the government must declare a bilateral cease-fire in order to prevent future attacks, the AP reported. Santos' government said Monday that the ELN is "very mistaken" if it thinks it can pressure the government into a cease-fire. "The cease-fire will be reached when the ELN understands that it is reached by de-escalating, not escalating, the conflict," Juan Camilo Restrepo, the government's chief negotiator, said in a tweet, Agence-France Presse reported. Santos' government has rejected the possibility of a cease-fire so early in the talks, saying it would only strengthen the ELN. The rebels criticized that decision. "It is not coherent on the government's part to sit down to peace talks while delaying a bilateral ceasefire and subjecting the population to the suffering of war," the ELN said in a statement. [Editor's note: See **Q&A** on Colombia's peace talks with the ELN in the Jan 18 issue of the Advisor.]

A police officer was killed in the blast, which also left more than 20 others injured.

ECONOMIC NEWS

Chile Increases Liquefied Natural Gas Imports

Chile imported three times more liquefied natural gas in December as compared to the same month a year earlier, caused by limited supplies of hydroelectricity in the country, Platts reported Monday. The country imported 263,000 metric tons of LNG in December, a significant increase also from the 171,000 metric tons it imported in November. The spike in imports led to a 80.6 percent fourth-quarter increase in imports to 716,000 metric tons and an annual

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affair. The movement of the exchange rate is being driven by the U.S. policies. A trade war can and will affect the peso negatively. There is not much the Mexican government can do now about that. The deportation of a large number of Mexicans from the United States would put further pressure on the value of the Mexican peso. Economic growth in Mexico is at present positive but anemic. Unless the problem of insecurity in the country can be tackled, this is not going to change even in the medium run."

David Ross, global equity fund manager at La Financière de l'Echiquier in Paris: "A 'rock star' of the central banking crowd, Governor Carstens agreeing to delay his resignation is good news. In light of the accelerated peso depreciation after the U.S. election, maintaining monetary credibility is a necessity. Governor Carstens, with his long record of excellent economic leadership, provides that credibility. Indeed, when he announced his pending departure from the

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NEWS BRIEFS

Part of Float Collapses During Rio Carnival, Injuring Twelve

The top part of a float collapsed early this morning during a Carnival parade in Rio de Janeiro, leaving at least 12 people injured, the Associated Press reported. The float involved belonged to the Unidos de Tijuca samba school.

U.N. Taps Norwegian Envoy to Help Settle Venezuela-Guyana Row

United Nations Secretary-General Antonio Guterres on Monday appointed Norwegian diplomat Dag Halvor Nylander, who helped with the peace negotiations between the Colombian government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group, to help settle the long-standing border dispute between Venezuela and Guyana, the Associated Press reported. If Guterres determines by the end of this year that no significant progress has been made toward a resolution, he will refer the issue to the International Court of Justice for a settlement, unless the governments of both Venezuela and Guyana jointly request that he not do so, according to U.N. spokesman Stephane Dujarric.

Peru's Central Bank to Lower Reserve Requirements

Peru's central bank on Monday said it will lower its reserve requirements for deposits in foreign currencies and soles, starting on Wednesday, Reuters reported. The decision is a bid to stimulate credit as global interest rates increase. The foreign reserve ratio limit will now be 46 percent, down from 48 percent. The central bank had previously cut the reserve requirement for dollars in January from 70 percent, following the U.S. Federal Reserve's increase in interest rates.

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increase of 31.8 percent to 4.165 million metric tons last year. Trinidad and Tobago supplied the majority of Chile's LNG last year, exporting 206,000 metric tons in December to the South American country. Chile also imported 57,000 metric tons from the United States in December, its first LNG imports from the United States since September. Chile also resumed exports of natural gas to Argentina, sending 70,000 metric tons during December for the first time since August. Chile began pumping gas over the Andes mountains, which separate the two countries, in May under an agreement between Chilean state energy company ENAP and Argentine state energy company ENARSA.

BUSINESS NEWS

Pemex Reports Smaller Loss for Q4

Mexican state-run oil company Pemex on Monday reported a smaller year-over-year loss in the fourth quarter, due mainly to higher crude prices, Reuters reported. The loss of $1.58 billion was much less than the $9.8 billion loss during the same time period a year earlier. "Pemex's finances are today stable with positive trends; however, we believe there is certainly room for improvement," said Chief Financial Officer Juan Pablo Newman. Revenue rose more than 20 percent to $15.7 billion, and the price of Mexico's crude oil export mix increased by 22 percent during the quarter to nearly $41 per barrel on average. Pemex's crude output has steadily declined from a peak of 3.4 million barrels per day in 2004. The government predicts an output average of 1.94 million barrels per day this year and between 1.9 million and 2 million barrels per day next year. The company has not posted a quarterly profit since 2012.

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COMINGS & GOINGS

Vale's Ferreira to Step Down in May

Brazilian mining giant Vale announced on Feb. 24 that its chief executive officer, Murilo Ferreira, plans to step down from his position when his term ends in May, The Wall Street Journal reported. The announcement followed widespread reports of pressure to replace Ferreira with a political appointee. Days before the announcement, the company also unveiled a plan to eliminate its controlling shareholder pact, amid criticisms that the company was run like a quasi-state company, The Sydney Morning Herald reported. The Brazilian government holds a substantial portion of Vale's voting stock, though the company is not controlled by the government outright, The Wall Street Journal reported. Ferreira was installed as Vale's CEO at the request of former President Dilma Rousseff in 2011. No reason was given for his decision to step down. Ferreira did not say whether he had been forced out of his position, but said that his age was a factor in his decision. The company has an age limit of 65 for its executives, and Ferreira will turn 64 in June.

Ferreira // File Photo: Vale.

Brazilian Foreign Minister Cites Health in Resigning

Brazilian Foreign Minister José Serra on Feb. 22 resigned from his post, citing health reasons, Agence France-Presse reported. He did not give any further details related to his health concerns, beyond saying that they would prevent him from keeping up with the pace of leading the country's foreign ministry. The resignation is another blow to President Michel Temer's administration, which has already seen six ministers and a senior advisor leave their posts.

Ghosn to Step Down as Nissan's Chief Executive

Brazilian-born Carlos Ghosn announced he will step down as the CEO of Nissan after serving in the position for 16 years, El Financiero reported. Ghosn was known as the "Le Cost Killer" for his restructuring of multinational automobile manufacturer Renault in the 1990s, of which Nissan is a subsidiary. Ghosn led an aggressive downsizing campaign to steer Nissan away from bankruptcy in 1999. He will continue to serve as a member of the boards at Nissan, Renault and Mitsubishi. Hiroto Saikawa will succeed Ghosn in the position.

Fraser Tapped to Head Brazil-U.S. Business Council

The Brazil-U.S. Business Council, an affiliate of the U.S. Chamber of Commerce, on Monday announced that the CEO of Citigroup Latin America, Jane Fraser, will serve as the business council's new chair. Fraser succeeds outgoing chair Thomas F. McLarty of McLarty Associates. The Brazil-U.S. Business Council aims to strengthen the economic and commercial ties between the two countries, and has represented major U.S. companies invested in Brazil.

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central bank, the peso dropped a full percent in fear of a leadership vacuum in this environment of inflationary pressures, currency volatility and NAFTA uncertainty. A recent week spent in Mexico revealed the effect of this leadership, as both corporate executives and government officials expressed cautious confidence about a surprisingly resilient economy. Recent economic numbers demonstrate that resiliency with robust retail sales and a jobs report that posted its best number for a January in the last nine years, including a strong increase in manufacturing jobs. Along with good economic performance, the measures policymakers implemented in February, such as the bold moves of increasing monetary policy rates by 50 basis points and introducing a $20 billion currency hedge program, have turned the peso into the top-performing major currency in the month following President Trump's inauguration. The peso's reversal of fortune is a vote of confidence by global markets in the direction of Mexico's economic policies, and by having Governor Carstens at the helm of the ship for a few extra months during this critical year for Mexico, it raises confidence that the country can safely sail through these turbulent times."

Alfredo Coutiño, director for Latin America at Moody's Analytics: "Nobody is indispensable, and in the case of Mexico, there are very-well trained and experienced economists to perform a good job as a central banker. The departure of Mr. Carstens has certainly introduced some nervousness in domestic markets, particularly because of the uncertainty surrounding the nomination of the new head of the central bank. But there are also concerns about a nominee with close ties to fiscal management, which introduces the risk of having a monetary policy subject to certain fiscal dominance. Mr. Carstens' appointment to the BIS is mostly a personal recognition of his professional career, and even though it is good for the country, it will not represent any kind of privileges for Mexico inside the institution. Unfortunately, this year Mexico faces a monetary problem: increasing inflation. The steady upward trend of structural inflation has its main root neither in the peso's depreciation nor in the realignment of prices of fuel, nor in the minimum wage raise, but rather in the steady expansion of the quantity of real money (per unit of output). The challenge for monetary policy in the coming months is not only to cure the root of inflation but also to avoid the deterioration of expectations that could result in prolonged inflation inertia. Mexico's monetary policy has a single mandate: preservation of price stability. Based on its constitutional mandate, the main challenge for the incoming head of the central bank is to comply with that goal and to preserve monetary independence. If economic growth is an issue and a concern, then Mexican politicians should change the monetary mandate to a dual one."

> **"Unfortunately, this year Mexico faces a monetary problem: increasing inflation."**
>
> **— Alfredo Coutiño**

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

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