Mexico's recent upbeat economic reports confirm a good start to the year; expect further good news.

Retail sales rebounded in January, and leading indicators point to a steady growth in the first half.

Colombia's economic activity index rebounded in January; fundamentals are finally stabilizing.

A Good Start to Q1 for Mexico and Colombia; Fears are Easing

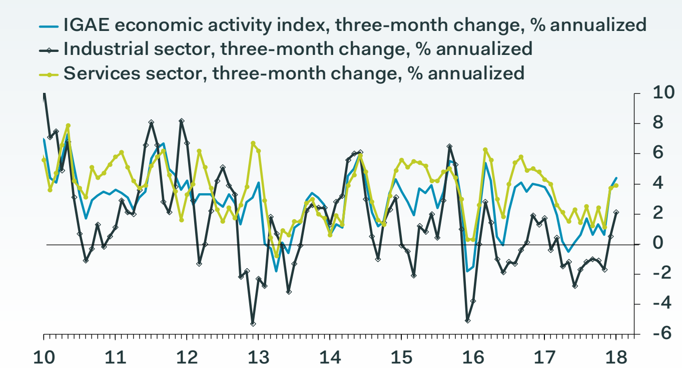
Recent upbeat economic reports have mitigated the downside risks we had been flagging to our growth forecast for **Mexico** for the current quarter. Last week, the monthly IGAE economic indicators, a proxy for GDP, showed the economy continuing to recover gradually, rising 2.2% year-over-year, overshooting consensus, and up 1.4% in Q4. A solid expansion in services, up 2.9% year-over-year, following a 1.9% gain in December, and a modest recovery in industrial output were the key drivers of the headline increase. Industrial activity rose 0.9% in January, up from -1.0% in Q4. The oil and construction sectors are still under strain, but finally showing signs of life.

This encouraging outcome masks important subtleties, though, highlighting that economic growth is stabilizing, but won't accelerate anytime soon. Recent annual readings have been distorted by calendar effects. Correcting for these distortions, growth actually slowed to 1.1% in January, from 1.6% in December, but the underlying trend is stable. *Moreover, the IGAE increased at an annualised rate of 4.4%, the biggest gain since March 2016, pointing to stronger momentum rather than a deceleration.*

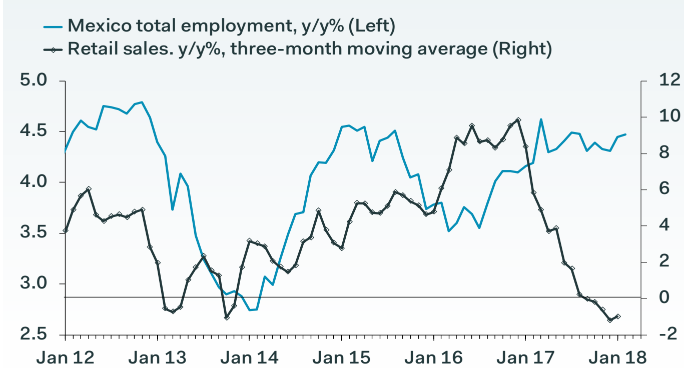
More important, in our view, January marked a significant pick-up in sequential growth momentum in key sectors, after a relatively poor performance in Q4. The large annualised gain in January partly reflected a 3.9% annualised increase in services output. But it was also driven by solid 2.1% growth in industrial activities, following a 0.5% gain in December, with all the key sub-sectors finally gathering strength.

Yesterday's retail sales report also eased some concerns regarding the health of private consumption at the start of the year. Sales rose 0.5% year-over-year in January, up from -2.0% in December and -1.2% in Q4. In seasonally adjusted terms, January's retail sales fell 0.2% month-to-month, following a 0.5% fall in December. January's modest decline was led by a 1.4% fall in sales of "hardware items", and a similar drop in stationery and recreational goods sales. These falls, however, offset the solid performance of key components such as autos and food. Sales in

ACTIVITY IN KEY SECTORS ACCELERATED AT THE START OF Q1



CONSUMER SPENDING SHOULD STABILIZE THIS YEAR



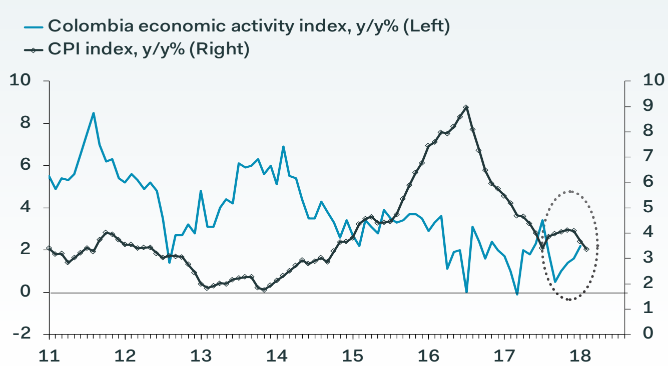
the supermarket and department store component jumped 2.5% month-to-month, reversing the fall in Q4.

It is too soon to say anything convincing about Q1 as a whole, given the volatility of these data. But we believe that the worst of the cycle is likely over for Mexican retailers. We expect retail sales to improve in Q2, particularly given the healthy momentum in ANTAD same-store sales and the visible improvement in consumer fundamentals in recent months. *Inflation is falling, the labour and credit markets remain strong, and consumer confidence has been recovering since early last year, despite a marginal correction in recent months.* In addition, the MXN has remained relatively stable year-to-date.

All these data bolster our confidence that domestic demand won't collapse. The relatively soft cyclical performance likely will be offset by improving external demand, following a rough patch in Q4. Against this backdrop, we expect the economy to continue to grow at its current pace. The positive drivers will be partly offset by weak investment and relatively tight monetary and fiscal conditions, but we expect these drags to ease later this year. Most importantly, abating NAFTA-related uncertainty, and the growing likelihood of a deal before the Mexican presidential election, bode well for the manufacturing sector and the economy as a whole.

Elsewhere in the region, in **Colombia**, recently-released data signal that the economy started the year quite strongly. The economic activity index—a monthly proxy for GDP—rose 2.2% year-over-year in January, better than the upwardly-revised 1.6% in

COLOMBIA'S ECONOMY HAD A GOOD START TO THE YEAR



December and up from a meagre 1.4% in Q4. Falling interest rates, subsiding inflation, and a relatively stable COP in recent months, are helping Colombia.

We expect the economy to keep improving, in line with the recovery of leading indicators and recent hard data. Consumer and business confidence are on the mend, and political risk has diminished significantly following the result of the March 11 legislative elections, with the majority of the seats going to market-friendly parties. Meanwhile, in the forthcoming presidential election race, recent polls have shown a clear lead for centre-right candidate Iván Duque, ahead of populist left-wing candidate Gustavo Petro. This will help business and market confidence to improve further.

External conditions are also improving. Commodity prices are rising, particularly oil, and Colombia's main trading partners are performing well. Data released last week underscores this view. Colombia had a modest USD518M unadjusted trade deficit in January, better than the USD754M gap a year ago. The 12-month deficit fell slightly to USD6.9B, from USD 7.2B, and the underlying trend is improving. Exports rose 14.6% year-over-year in January, up from 13.3% in Q4, led by the strong performance of coal exports, offsetting a modest fall in oil sales. We expect exports to remain solid this year, led by key commodities.

Imports, meanwhile, jumped 10.4% year-over-year in January, following a 1.8% drop in Q4, driven by robust demand for capital goods. January's increase was the fastest pace since mid-year, in line with the story of a steady rebound of private investment. Consumer goods imports remain a drag, but we expect a gradual stabilization over the coming quarters. Improving fundamentals, and stronger COP compared to last year, point to a pick-up in Q2. *Overall, we expect Colombia's external accounts to remain close to their current levels this year.*

The *Latin America Economic Monitor* will not be published from Thursday, March 29 through Friday, April 6. Publication will resume on Monday, April 9.

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THIS WEEK IN BRIEF

Note: "**D**" prefix denotes Datanotes for these releases.

Monday, March 26

• D: Mexico Retail Sales (1)/8:00 Local
Retail sales rose **0.5%** year-over-year in January, up from -2.0% in December. We think consumers' spending growth in Mexico will stabilize soon, as inflation falls and the labour market improves, in line with rising confidence. The underlying trend likely will remain below its long-run average, though, due still-tight monetary and fiscal conditions, and NAFTA-related fears and domestic politics.

Tuesday, March 27

• Mexico Trade Balance (2)/8:00 Local
We expect an unadjusted surplus of **USD0.3B** in February, up from a USD4.4B deficit in January, but down from a US0.7B surplus a year ago. Net trade likely will make a positive contribution to Q1 GDP growth. **Consensus: USD0.5M.**

• Mexico Unemployment Rate (2)/8:00 Local
We expect the unadjusted unemployment rate to fall to **3.2%**, from 3.4% in January. The rate in February 2017 was 3.4%. **Consensus: 3.3%.**

Wednesday, March 28

• D: Brazil FGV Inflation IGPM (3)/8:00 Local
The IGPM index should rise 0.6% month-to-month, pushing the year-over-year rate up to **0.1%** from -0.4% in March. Inflation pressures are under control. **Consensus: 0.2%.**

• Colombia Unemployment Rate (2)/10:00 Local
The unadjusted jobless rate likely fell to **11.5%** from 11.8% in January, unchanged from a year ago. Colombia's labour market is under temporary strain, but we expect better numbers in Q3. **Consensus: 11.4%.**

• Argentina Economic Activity Index (1)/16:00 Local
The economic indicator likely will rise **2.5%** year-over-year, up from 2.0% in December. **Consensus: 2.5%.**

Thursday, March 29

• Brazil Unemployment Rate (2)/9:00 Local
The unadjusted jobless rate likely will rise to **12.5%**, up from 12.2% in January. The rate was 13.2% a year ago. Recent upbeat GDP data suggest that the headline rate will continue to decline. **Consensus: 12.5%.**

• D: Chile Industrial Production (2)/9:00 Local
Industrial output likely rose **9.3%** year-over-year, up from 5.3% in January, due to strong mining activity, and helped by a favourable base effect. The Escondida mine strike hit the mining sector and related activities in Q1 2017. Manufacturing output likely will increase 7.5% year-over-year, up from 5.7% in January. Expect good numbers in coming months. **Consensus: 9.0%.**

• Chile Unemployment Rate (2)/9:00 Local
We expect the unadjusted jobless rate to edge up to **6.7%** from 6.5% in January. The rate in February 2017 was 6.4%. **Consensus: 6.6%.**

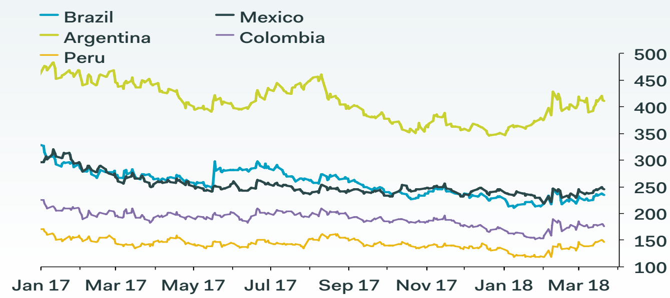
Friday, March 30

• No significant data released.

PANTHEON'S LATAM FINANCIAL CONDITIONS DASHBOARD

	Currency			Benchmark Stock index		
	Value	Week, %	YTD, %	Value	Week, %	YTD, %
Argentina	20.19	0.0	-7.7	31,461	-3.4	4.6
Brazil	3.31	-1.0	0.0	84,377	-0.6	10.4
Chile	607.8	0.1	1.3	5,490	-1.9	-1.3
Colombia	2,842	0.4	5.1	11,408	0.1	-0.6
Mexico	18.53	0.9	6.1	46,516	-2.7	-5.8
Peru	3.22	1.5	0.5	20,640	0.1	3.3
Venezuela	43M	0.0	-100.0	5,580	-15.7	341.8

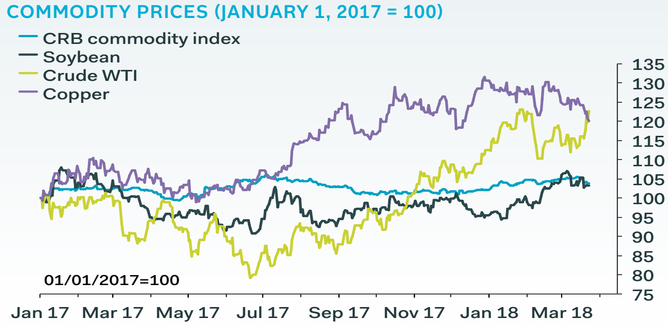
INDEX EMBIG SPREAD LATAM HISTORY



PANTHEON'S ECONOMIC FORECASTS

	Real GDP, y/y%		Inflation, Avg.		Interest rate, Q4	
	2017	2018	2017	2018	2017	2018
Argentina	2.9	2.6	24.8	21.5	28.75	23.00
Brazil	1.1	3.0	3.5	3.9	7.00	6.25
Chile	1.6	3.3	2.2	2.6	2.50	2.75
Colombia	1.8	2.5	4.3	3.0	4.75	4.25
Mexico	2.0	2.4	6.0	4.2	7.25	7.50
Peru	2.5	3.7	2.8	2.0	3.25	2.75
Venezuela	-10.5	-8.0	1500	5000	--	--

COMMODITY PRICES (JANUARY 1, 2017 = 100)



PANTHEON'S FINANCIAL FORECASTS

	Currency			Benchmark Stock index		
	Q1F	Q2F	Q3F	Q1F	Q2F	Q3F
Argentina	20.0	20.5	20.8	31,300	32,600	33,200
Brazil	3.20	3.22	3.35	85,300	87,700	90,100
Chile	588	590	595	6,120	6,250	6,400
Colombia	2,800	2,850	2,780	1,650	1,830	1,950
Mexico	18.5	18.0	17.5	52,200	53,400	54,500
Peru	3.24	3.23	3.24	20,700	20,800	21,300
Venezuela	12.0	12.0	12.0	--	--	--