S&P Global Ratings

Regional Credit Conditions Chair

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Credit Conditions Latin America:

Weakening Investor Sentiment Will Test Latin America's Decision Makers

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Key Takeaways

- **Overall:** Credit conditions in Latin America are weakening due to tighter financing conditions, the U.S. dollar's strength, investors' increasing risk aversion to emerging markets, rising trade tensions, and the expectation for continued interest rate hikes in the U.S. The effects of these factors vary across the region depending on each country's fundamentals and domestic challenges. In general, we have seen currency depreciation to various degrees; we expect higher interest rates if soft conditions prevail and result in inflationary pressures. Overall, the combination of domestic challenges and deteriorating external conditions has prompted us to lower our expectations for the region's economic growth for this year and the next.
- **What's changed:** The favorable environment we saw at the beginning of the year is now wavering. Investors' pullout from emerging markets is causing financing conditions to tighten. Economic growth in the region is no longer synchronized, and now we expect a recession in Argentina and lower growth in the region overall. While political risks have decreased in some countries, we expect global unease to test the new administrations in several countries of the region. Furthermore, uncertainty still hangs over the outcome of Brazil's October elections and the next administration's ability to pass crucial reforms. Mexico's incoming president has generated high expectations among the population, and the question remains if he can deliver on his promises while maintaining fiscal discipline.
- **Risks and imbalances:** Risks continue rising as external conditions weaken and regional political uncertainties prevail. Investor sentiment towards emerging markets--including Latin America--remains fragile and volatile, and we expect episodes of capital outflows and further strains on regional currencies. Trade tensions between the U.S. and China continue escalating, undermining investor confidence. Commodity price trends could bring additional risks for Latin America, in light of dimming global economic expectations.
- **Financing conditions:** Financing conditions are deteriorating, despite the high levels of liquidity in the markets, investors' appetite for emerging-market debt is souring, demanding higher risk premiums especially from speculative-grade issuers mainly in the 'B' rating category. On the positive side, and with some exceptions, Latin American issuers we rate have a manageable maturity profile and leverage levels, along with adequate liquidity.
- **Macroeconomic conditions:** On balance, they have further dampened in Latin America since our previous quarterly update. External financing conditions have tightened further amid the dollar's ongoing strength and rising U.S. short-term interest rates. These factors have eroded investor confidence towards emerging market economies with large fiscal and/or external account imbalances. This is particularly so among economies that harbor uncertainties over the governments' ability to implement policies that correct those imbalances.
- **Sector themes:** The negative bias in most sectors has decreased over the past months. However, credit quality is worse and is reflected in lower ratings across all sectors. Rising interest rates and falling currencies, stemming from weakening external conditions, will continue pressuring issuers in the region.

(Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Latin America, North America, and Europe, the Middle East, and Africa). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Latin America committee on Sept. 20, 2018.)

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Table 1

Top Latin America Risks

Volatile capital flows that restrict market access

Risk level*	Very low	Moderate	Elevated	High	Very high	**Risk trend****	Improving	Unchanged	Worsening

Investor sentiment towards emerging markets remains fragile and we expect more episodes of volatility and pressure on capital flows to the region. A combination of domestic and external factors has caused investor sentiment to stumble over the recent months. We expect volatility to continue as the U.S. increases its rates and trade tensions continue climbing. Also, domestic political challenges will continue weighing on investor decisions.

Increasing U.S. Protectionism

Risk level*	Very low	Moderate	Elevated	High	Very high	**Risk trend****	Improving	Unchanged	Worsening

Trade spats between the U.S. and China continue rising. After a tit-for-tat exchange of tariffs, the U.S.-China trade battle could spill over into services, given that China is running out of room to retaliate on goods. Such retaliation could hurt U.S. sectors that rely on China's expanding import market for growth. This step-up in tensions could also exacerbate investor worries about China, damaging business and consumer confidence and growth prospects. Uncertainty over the North American Free Trade Agreement's (NAFTA) outcome remains. While negotiations have resumed with positive developments, we don't expect the agreement to be finalized this year.

Regional Political Challenges

Risk level*	Very low	Moderate	Elevated	High	Very high	**Risk trend****	Improving	Unchanged	Worsening

We now view political risk in the region as elevated; credit conditions in the region will remain subdued in light of the U.S. tightening monetary policy, a strengthening dollar, and increasing protectionist measures. Policy makers across the region will confront the external shocks, and their decisions over the coming months will influence operating conditions for issuers and investors' sentiment. In many cases, these issues will be faced by new administrations, following several elections in the region.

Potential for future commodity price shocks

Risk level*	Very low	Moderate	Elevated	High	Very high	**Risk trend****	Improving	Unchanged	Worsening

Commodity price trends could act as an additional drag on Latin American economies. On one side, metals prices have come under pressure due to softer demand expectations and fears of a trade war. However, oil prices remain relatively high. These factors can, on one side, drive fuel prices up, raising inflation, and on the other side, weaken revenues for countries that depend on metals exports.

Sources: S&P Global Ratings.

* **Risk levels** may be classified as very low, moderate, elevated, high, or very high, are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically these risks are not factored into our base case rating assumptions unless the risk level is very high.

** **Risk trend** reflects our current view on whether the risk level could increase or decrease over the next twelve-months

Regional Credit Conditions

What's changed?

Rising trade tensions, tighter financing conditions, the dollar's strength, increasing risk aversion among investors to emerging markets, and the likely continuation of interest rate hikes in the U.S. are impairing credit conditions in Latin America. The extent these factors have an impact on the region's countries varies due to their individual characteristics. Depreciation of local currencies has also varied; we expect higher inflation if lackluster conditions prevail, which could lead to increasing interest rates. Overall, given current economic and political hardships among several Latin American countries and slumping external conditions, we trimmed our forecasts for the region's economic growth for in 2018 and 2019.

In our view, credit conditions in the region will remain pressured in light of the U.S. tightening monetary policy, dollar appreciation, and increasing protectionist measures.

Uncertainties over the political landscape in the region have yet to abate. While political risks have been diminishing in Chile, Colombia, and Peru, they're considerable in Argentina, Brazil, and Mexico. Argentina currently faces difficult policy trade-offs in implementing its recently revised economic plan, which requires tighter economic policies. The combination of additional fiscal austerity and monetary tightening may help stabilize the exchange rate and contain inflation, but it will hurt GDP growth. Deteriorating economic conditions could, in turn, weaken the government's political standing ahead of national elections late next year. Brazil lacks a clear frontrunner in its upcoming presidential election, and we're concerned about the next administration's ability to pass crucial reforms. Andres Manuel Lopez Obrador's (AMLO) stunning electoral victory in Mexico, owing to ambitious campaign promises, raises questions about how he will deliver on them while keeping fiscal discipline. Overall, new administrations—following recent or upcoming elections in several countries of the region--will grapple with difficult conditions over the coming months.

Commodity prices could bring additional ill-effects for Latin America. Metals prices have slipped as a result of softer demand expectations and fears of a trade war. However, oil prices remain relatively high. The combination of these effects may be adverse: it could drive fuel prices up, consequently spiking inflation, while it erodes fiscal revenues for countries that depend on metals exports. Paradoxically, falling oil prices would make things worse because most large Latin American economies depend on oil revenue to some degree, while a drop in crude prices is usually a symptom of sluggish global economic conditions.

On the bright side, the large amount of liquidity in global markets and still synchronized GDP growth in developed economies supports satisfactory access to financing, although investors' recent pullback is reflected in tighter conditions.

Assessment of key risks

Risks continue rising as external conditions grow shakier and regional political uncertainties prevail. Investor sentiment towards emerging markets--including Latin America--continues to ebb, and further capital outflows and greater pressure on regional currencies are possible. Trade tensions between the U.S. and China continue climbing, further denting investor confidence. These impediments will test policy makers across the region, and their responses over the coming months will have an impact on issuers' decisions and on investor sentiment. Commodity prices could generate additional risks for Latin America, given softer global economic expectations.

We expect capital flows to remain volatile and investor sentiment towards emerging markets to remain fragile. In our view, these conditions will remain due to increasing interest rates in the U.S. (we expect one more hike in 2018 and three additional ones are likely in 2019), the rising dollar, and trade tensions. Given a significant amount of liquidity stemming from the very large balance sheets among central banks in the U.S., Europe, Japan, and China and low interest rates in developed economies, investors continue searching for yield. But as credit cycle evolves, investors are looking for these opportunities in developed markets and less in emerging ones. Perception is that if credit cycle turns, depreciation of emerging-market currencies and the potential for recession in these countries could wipe out investors' returns. In our view, over the next quarters, such views will only become more acute, which will exacerbate volatility and put a further strain on financing conditions for emerging markets.

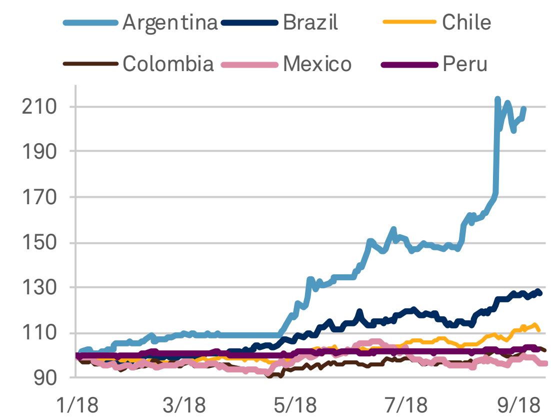
Trade tensions between the U.S. and China continue to escalate, weakening investor sentiment and raising doubts over global GDP growth expectations. While Latin America is relatively closed in terms of global trade, the indirect effects from increasing trade spats can be substantial. A full-blown trade war could weigh significantly on investors' sentiment, commodity prices, and consequently capital flows. On the bright side, NAFTA negotiations continue progressing with optimistic signs for a trilateral agreement, which is positive for both Canada and Mexico. However, given the necessary political processes and the need to finalize terms with Canada, the agreement is not likely to be finalized this year, and investors are still hesitant as midterm elections approach in the U.S.

Ability of most countries in the region to deliver fiscal stimulus—to respond to these external difficulties--by increasing government expenses is either narrow or negligible. The room to cut expenses is also limited because of large pension commitments, low public investment levels, or political constraints. Only few countries such as Chile or Peru could increase debt levels to some degree without compromising their credit quality. With some notable exceptions, such as Argentina, countries in the region have fairly adequate monetary flexibility. Vulnerability to worsening conditions and weakening investor sentiment will depend on policy responses and also on domestic fundamentals; fiscal and monetary flexibility, along with the relative strength of each country’s external position would be key.

If expectations for commodity prices continue softening, leading to their fall, this could erode sentiment towards emerging markets, adding to the risks for Latin America.

Chart 1

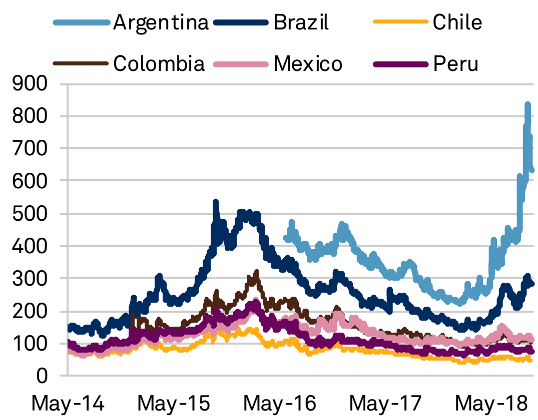
Latin America's Exchange Rate Performance (Jan. 2, 2018=100)



Source: S&P Global Ratings

Chart 2

Five-Year CDS Spreads (bps)



Source: S&P Global Ratings

Financing Conditions

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Financing conditions are eroding. Despite the high levels of liquidity in the markets, investors are asking higher risk premiums and are becoming skittish towards emerging markets and speculative-grade issuers, especially the ones in the 'B' rating category. As interest rates rise, entities with higher exposure to international funding may see additional constraints with respect to capital flows, as investors may allocate capital to higher yielding securities in developed markets, instead of emerging markets. We have observed this over the course of 2018 thus far in Latin America and don't expect it to abate in the next few months.

The pace of loans granted by banks has slowed down over the past few quarters. While Latin America's banks have adequate to solid fundamentals, their willingness to lend is closely linked to economic growth. In Brazil, for example, we expected lending growth to resume at the beginning of the year, but the truckers' strike in May and the uncertain political panorama have undermined banks' risk appetite. Therefore, we expect credit growth to remain subdued in 2018 and perhaps rebound in 2019. In general, we expect credit expansion to follow GDP prospects. Therefore, countries with improving economic growth pace--such as Chile, Colombia, and Peru--will probably benefit from expanded lending, while the trend in others--such as Argentina and Brazil--will remain sluggish. Entities refinancing their market debt with bank loans will face tougher conditions, with higher interest rates and shorter maturities, and in many cases the need to pledge some sort of collateral.

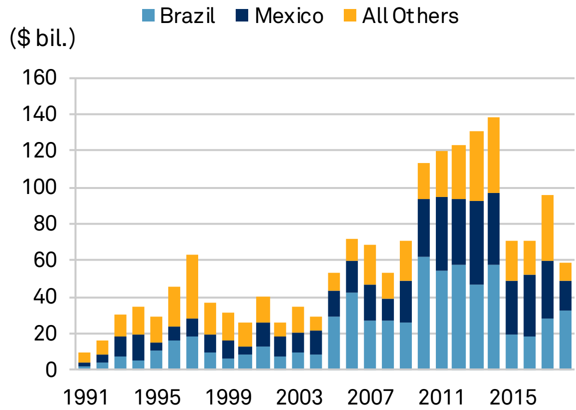
Neutral conditions. Financing conditions in Latin America remained neutral in the second quarter, though we expect them to deteriorate in the second half of 2018. The Institute of International Finance's (IIF) composite index of second-quarter 2018 Latin America bank lending conditions survey declined to 47 points (see appendix), a decrease of about four points since the first quarter in 2018. This reading implies that financing remains on the edge of restrictive territory (i.e., index below 50), and is likely to remain in this area for the remainder of the year. The majority of sub-indices are forecasted to see little to no movement from current levels other than NPLs (see appendix for detailed IIF chart).

Maturing debt. S&P Global Fixed Income Research expects $234 billion of rated financial and nonfinancial corporate debt in Latin America (including the Caribbean) to mature through 2023, compared with $11 trillion globally. Of the total, $15.3 billion is due in the second half of 2018, and scheduled maturities will reach a peak of $48.6 billion in 2021. About 73% of the rated debt maturing through 2023 is from nonfinancial companies, and about $89 billion (38%) is among speculative-grade (rated 'BB+' or lower) issuers. We believe issuers of such debt are more susceptible to refinancing risk, higher funding costs, and tighter credit availability in periods of credit market volatility. We expect the region's corporate refinancing demands to remain largely manageable, especially because issuers in this sector have a multi-year window in which to refinance before the largest sums come due in 2021.

New issuance. Over the past few quarters, Latin America has experienced modest issuance growth and economic recovery. Corporate bond issuance in Latin America steadily grew in 2017 after declines in previous years. This momentum--particularly in Brazil--has continued into 2018, with $59 billion that came to market so far this year, compared with $54.3 billion this time last year. Brazil currently accounts for 55% of this year's total and Mexico accounts for 28%.

Chart 3

Latin America's New Bond Issuance

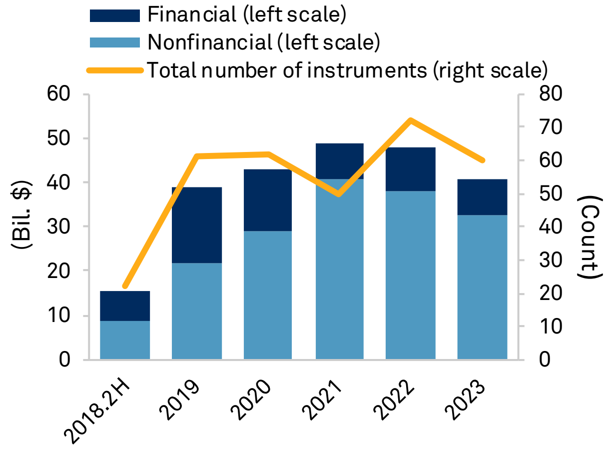


Source: S&P Global Fixed Income Research, Thomson Financial.

Data as of Aug. 31, 2018

Chart 4

Latin America's Debt Maturities By Year



Source: S&P Global Fixed Income Research.

Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Excludes debt instruments that do not have a global scale rating. Data as of June 30, 2018

Macroeconomic Developments And Assumptions

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(Editor's Note: The views expressed in this section are those of S&P Global Ratings' economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees, exercising their analytical judgment in accordance with publicly available ratings criteria.)

On balance, the macroeconomic conditions have become more difficult for Latin America since our previous quarterly update. External financing conditions have tightened further amid ongoing dollar strength and rising U.S. short-term interest rates. This has soured investor confidence towards emerging-market economies with large fiscal and/or external account imbalances. This is particularly so among those that exhibit uncertainty over the government's ability to implement policies that correct those imbalances, as seen in Argentina and Brazil. As a result, we have lowered our GDP forecasts for those two economies. Our macroeconomic outlook for the rest of the major Latin American countries has remained broadly unchanged. We still expect just over 2% in Mexico's real GDP growth this year and next, while trade and investor relations with the U.S. to remain strong. We also continue to expect faster GDP growth in Chile, Colombia, and Peru this year than in 2017.

Forecast Changes

- **Argentina:** we now forecast its economy to contract 2% this year and post no growth in 2019. We expect the central bank to keep interest rates elevated to contain inflation expectations, which will freeze domestic demand. An acceleration of fiscal consolidation in an attempt to balance the budget by 2019 will also lower domestic demand in the short term, while helping to reestablish investor confidence on the long-term trajectory of the economy.
- **Brazil:** we lowered our real GDP growth forecast to 1.4% and 2.2% for 2018 and 2019, respectively, from 1.8% and 2.4% in our previous Credit Conditions Committee. The more challenging external scenario fuels concerns how the presidential election outcome can affect key pending fiscal consolidation initiatives, such as pension reform. This is evident in the deterioration in fixed investment in the second quarter.
- **Chile:** we have kept our GDP growth forecast unchanged at 4.0% for 2018 and 3.3% for 2019. An improvement in the non-mining sectors is signaling that strong economic growth can be sustained in the coming quarters.
- **Colombia:** our GDP growth forecast inched up to 2.6% and 2.7% for 2018 and 2019, respectively, from 2.5% and 2.6% previously. This is primarily due to a stronger-than-expected expansion of 2.8% in the second quarter year over year. Encouragingly, oil production is starting to grow again, after contracting about 4% in 2017.
- **Mexico:** slightly weaker-than-expected GDP growth in the second quarter prompted us to trim our growth forecast to 2.2% and 2.4% for 2018 and 2019, respectively, from 2.4% and 2.5% previously. However, our underline assumptions haven't changed; we continue to see services-led growth, and expect trade and investment relations with the U.S. to remain broadly unchanged.
- **Peru:** our 2018 GDP forecast slightly rose to 3.8% from 3.7% previously, following the 5.4% expansion in the second quarter. An improvement in fixed investment in the first half of 2018 bodes well for robust growth in the coming quarters.

Key assumptions

- We expect monetary policy tightening in the U.S to be gradual, with one more 25 basis points (bps) interest rate hike this year, and three in 2019.
- Although we assume GDP growth among the major advanced economies in the second half 2018 and in 2019 to be more moderate than in the first half of 2018, it's likely to remain robust.
- We assume that Argentina's recent steps to accelerate fiscal consolidation will broadly succeed in stabilizing investor confidence towards the economy.
- Our baseline scenario for the ongoing NAFTA renegotiation is that a trade deal will be reached, which keeps strong trade and investment linkages between Mexico and the U.S.
- We assume the next Brazilian government will put forward a version of pension reform.

Table 2

Latin America's GDP Growth

			Baseline scenario				Downside scenario			
(%)	2016	2017	2018f	2019f	2020f	2021f	2018f	2019f	2020f	2021f
Argentina	-1.8	2.9	-2.0	0.0	2.5	3.0	-3.0	-1.5	1.0	1.5
Brazil	-3.5	1.0	1.4	2.2	2.5	2.6	0.7	1.2	1.2	1.2
Chile	1.2	1.6	4.0	3.3	3.0	3.0	3.5	2.5	2.3	2.3
Colombia	2.0	1.8	2.6	2.7	2.8	2.8	2.2	2.2	2.3	2.3
Mexico	2.6	2.3	2.2	2.4	2.5	2.5	1.7	1.8	2.0	2.0
Panama	5.0	5.4	4.5	5.5	5.5	5.5	3.0	4.5	5.0	5.0
Peru	4.1	2.5	3.8	3.8	3.8	3.8	3.5	3.0	3.0	3.0
Uruguay	1.7	2.7	2.2	2.5	2.7	2.9	1.8	2.0	2.2	2.4
Venezuela	-12.0	-10.0	-10.0	-5.0	2.0	2.5	-16.0	-10.0	-2.0	-2.0
Latin America	**-1.1**	**1.1**	**1.0**	**1.8**	**2.6**	**2.7**	**0.0**	**0.6**	**1.5**	**1.5**
Latin America ex Venezuela	**-0.4**	**1.8**	**1.7**	**2.2**	**2.7**	**2.7**	**1.0**	**1.3**	**1.7**	**1.7**

Source: S&P Global Economics. Note the Latin America GDP aggregate forecasts are based on three-year average (2014-2016) PPP GDP weights. Our GDP numbers are based on seasonally-adjusted series when available.

Table 3

Changes In Baseline GDP Growth Forecast From Second-Quarter 2018 Credit Conditions Report

(%)	2018	2019
Argentina	-3.0	-2.0
Brazil	-0.4	-0.2
Chile	0.0	0.0
Colombia	0.1	0.1
Mexico	-0.2	-0.1
Panama	0.0	0.0
Peru	0.1	0.0
Uruguay	-0.5	-0.5
Venezuela	-2.0	-1.0
Latin America	**-0.6**	**-0.4**
Latin America ex Venezuela	**-0.5**	**-0.3**

Source: S&P Global Economics

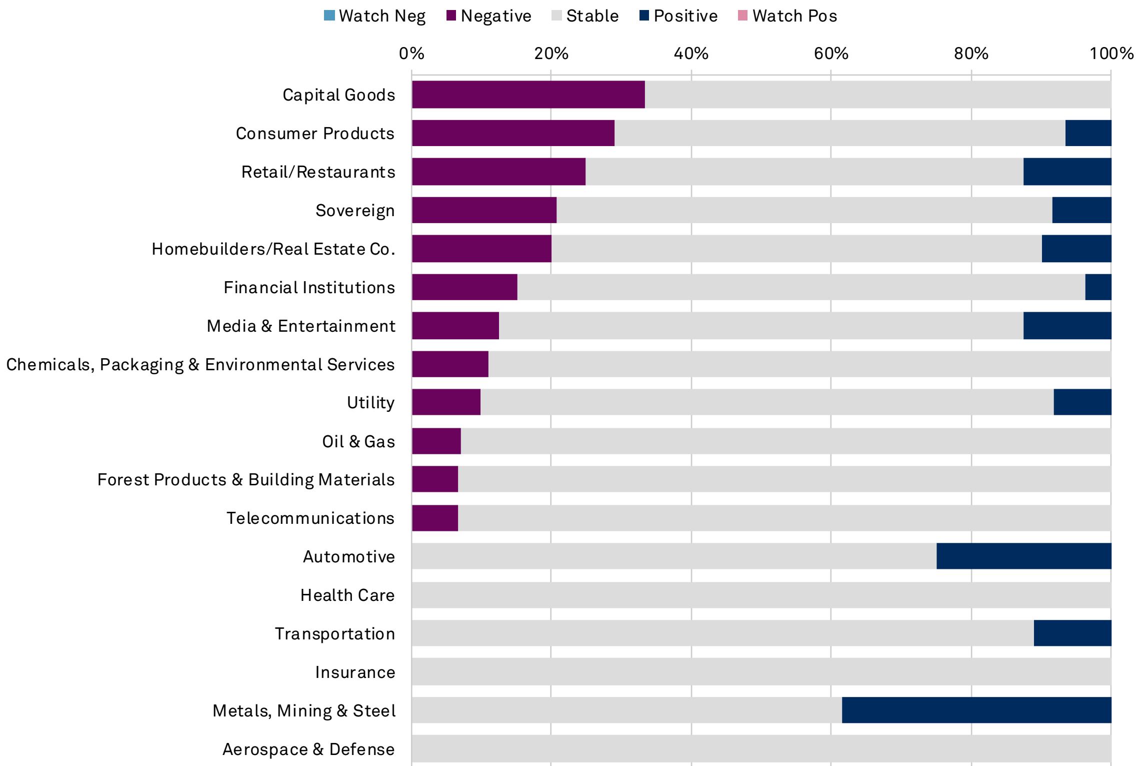
Risks to our macroeconomic outlook

- Pro-cyclical fiscal stimulus in the U.S. could increase inflation more than we currently expect, which could in turn pressure on the Federal Reserve to increase interest rates at a faster pace, boosting the already strong dollar, and consequently, tightening external financing conditions further.
- Political instability, or gridlock, following the November midterm elections in the U.S., could increase market volatility and discourage capital flows into Latin America.
- A more pronounced slowing in real GDP growth in the major advanced economies than what we currently assume for 2019 could dampen the economic recovery we forecast for several Latin American economies.
- The political situation in both Argentina and Brazil is volatile, which could dilute the implementation of fiscal consolidation, which both countries need to reactivate their economies.

Sector Themes

Chart 5

Outlook Bias Distribution Of Latin American Issuers By Sector, August 2018



Source: S&P Global Fixed Income Research. Data as of Aug. 31, 2018.

Sovereigns

- Continued solid GDP growth in the U.S. and moderate commodity prices maintain GDP growth of Latin American sovereigns just below 2% in 2018.
- New political leadership in Mexico and Brazil raises uncertainty about long-term economic policies in both countries.
- Argentina remains the most vulnerable country in the region to potentially greater risk aversion in financial markets, due to its heavy dependence on external funding.

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What's changed?

The region will grow at a modest pace again this year, highlighting its structural weaknesses. Many years of recession in Brazil and low GDP growth in Mexico have shifted political trends towards greater likelihood of populist or ineffective economic policies.

Argentina's economic problems have worsened in recent months due to a sharp depreciation of its currency, which has spiked inflation and central bank interest rates, and a more difficult political environment for the Macri administration. The signing of a $50 billion agreement with the IMF in June failed to stabilize the market. The government has responded with the appropriate set of policies but has suffered from a recent loss of market confidence.

There has been progress in renegotiating NAFTA, with the U.S. and Mexico agreeing in principle to a new deal. It remains to be seen if Canada can also agree to a deal with its two partners. The tentative bilateral deal introduces more protectionism into NAFTA and dilutes the dispute settlement mechanism within it. The announcement of the bilateral agreement in principle raised confidence in Mexico that NAFTA will survive, an important signal at a time of major political change in that country. Mexico's newly elected president, who takes office in December, is likely to introduce significant long-term changes in key economic policies, including in the politically-sensitive energy sector.

Change of leadership in Colombia has been smooth, with new president Ivan Duque likely to pursue similar market-oriented economic policies as his predecessor. Growth has picked up moderately in Colombia, Chile, and Peru. All three countries have had recent changes in presidents (through elections in Chile and Colombia and an impeachment in Peru) with continuity in economic policies (or improvements in Chile). Venezuela remains in dire straits, with record numbers of its people leaving to other countries.

Key assumptions

- U.S. growth remains strong and protectionist measures don't escalate to a degree of threatening global trade.
- Broad continuity in fiscal discipline and macroeconomic policy in Mexico following the change in administration.
- Argentina adheres to austere fiscal and monetary policies
- Continued GDP growth in China maintains commodity prices at moderate levels.

Key risks

- Despite our assumptions that the NAFTA renegotiations will eventually result in a new trade arrangement that largely maintains the cross-border links between the three countries, the midterm election results in the U.S. could complicate progress in trade matters.
- More adverse external shocks could spark capital flight from Argentina, undermining stability and its credit quality.
- Brazil's upcoming elections could produce an unfavorable mix of elected leaders that reduce prospects for a cohesive and decisive new government.

What to look for over the next quarter

- What is fate of NAFTA, and will the U.S. attempt to replace it with a bilateral agreement with Mexico (and potentially Canada)?
- Will overall U.S. trade policies result in a shock to global confidence and disturb global investment?
- Will the policies of the new Mexican government maintain private and foreign investment and GDP growth?
- Will the new leadership in Brazil be effective enough to address deep fiscal and other problems?
- Will Argentina implement its economic adjustment program as it enters an election year?

Local and Regional Governments (LRGs)

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- Finances of Argentine provinces squeezed by lower economic growth prospects as well as by increasing uncertainty over access to capital markets toward the end of 2018 and in 2019.
- Brazilian LRGs grapple with increasing liquidity pressures to cover operating needs, as well as repayments of debt obligations. Although the sovereign guarantees most of the states' debt, fiscal woes will continue to hamper the latter and are likely to exacerbate during political transitions toward the end of 2018.
- Mexican LRGs remain the most stable in the region despite some fiscal challenges during the last quarter of 2018, given that some states may still need to refinance their debt in 2019. Increasing political uncertainties given that the incoming president indicated that he will mandate super delegates at the state level to deal with federal transfers, while state governors' roles could diminish.

What's changed?

Argentina's economic performance stumbled during 2018, and a sharp depreciation of its currency over the past few months increased liquidity pressures to repay provincial debt in foreign currency. Unlike the past financial crisis, most provincial governments currently have reserves to repay upcoming debt repayment in 2018, while confidence about their ability to access international capital markets to finance budget gaps has taken a hit during the last quarter (See "Will Argentina's Mounting Policy Woes Derail Subnational Governments?," published on Sept. 11, 2018).

Brazilian LRGs are struggling to address long-term fiscal issues, such as pension funding, in light of general election on October 7th that will bring in new administrations at the federal, state, and municipal levels. We have observed rising liquidity risks, as seen in the delays in debt repayment to public banks. However, such debt benefits from the sovereign's guarantee, which we don't expect to change in the short to medium term.

NAFTA renegotiation has taken longer than expected, and there's a chance that a trilateral agreement would be signed before the end of September 2018. Mexican states with close ties to the U.S. economy continue to be more vulnerable than their Canadian and U.S. peers, given the still heavy dependence on U.S. investments among the former.

Key assumptions

We don't expect Mexico's economic policies to change dramatically after AMLO takes office, but certain political decisions could impact the way states interact with the new administration. AMLO has expressed his desire to appoint a single delegate for each state who could deal with all the financial resources that the central government transfers to states. Although there's going to be a reduction of federal delegates and in principle could lead to public-sector savings, it's currently unclear how this proposal will be implemented, given that governors currently have similar functions.

The primary risk that could undermine our current base-case assumptions for Argentina is related to political developments that could threaten the central government's plan to stabilize the economy and finally reach an agreement with the IMF. Argentine provinces have adhered to fiscal austerity measures similar to those that the central government is implementing. However, debate is increasing over the 2019 federal budget to achieve savings starting this year.

Brazil's presidential election will delay the resolution of long-term issues that hurt states' finances. Although we expect fiscal pressures to rise among some LRGs toward the end of 2018, we consider the central government will continue guaranteeing states' debts and maintain transparency of its monitoring of LRGs' finances. A rising number of states that decide to stop paying their debt obligations would deviate from our base-case assumptions.

Key risks

- Increasing political instability that derails economic policies in Argentina.
- Mounting liquidity pressures could prompt Brazilian states to delay debt repayments toward the end of the year and beyond if the economy doesn't recover in 2019.
- AMLO's more intrusive way to deal with state governors, putting at risk large transfers that states could use to repay their short-term debt.

What to look for over the next quarter

Toward the end of 2018, we will be closely observing the implementation of Argentina's economic measures to control inflation and final agreement with the IMF. These factors, in addition to the approval of the 2019 federal budget, would be very important to understand the fiscal position of provincial governments as well as their financial needs toward 2019. We will follow up on Brazil's structural issues that are pressuring states' finances, while the elections are delaying a frank debate on how to finance pensions and public works in the future. Finally, the fate of NAFTA would be very important to project economic growth in Mexico and in those states that are integrated in trade with the U.S. and Canada.

Non-Financial Corporations

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- Political risk continues to weigh on Latin American corporations' prospects.
- Corporations in the region are suffering from subdued market access, worsening domestic conditions, and weaker local currencies.
- Private investments constrained by political risks and uncertainty about future global trade activity, particularly amid rising interest rates in the international markets, which may undermine medium-term growth prospects.

What's changed?

Political uncertainty remains at the top of the list. Brazil's presidential election campaign currently doesn't provide clear visibility on potential outcomes. Argentina's Macri administration is suffering from market scrutiny and capital outflows that pushed the government to ask for a stronger assistance from IMF. Mexico is confronting potential changes that the new government will introduce as well as trade renegotiations with the U.S. and Canada.

These factors, combined with investors' recent shift away from emerging markets and fears over trade tensions between the U.S. and China, have spiked capital flows' volatility. Corporations in the region are struggling as a result of muted access to capital markets, worsening domestic conditions, and depreciating currencies, which is always a problem for companies with dollar debts and domestic cash flows.

On September 3, we placed 10 Argentine corporate issuers on CreditWatch with negative implications following a similar action on the sovereign (see "Ratings On 10 Argentine Companies Placed On CreditWatch Negative Following Similar Action On The Sovereign").

Brazilian corporations currently have difficulty obtaining funding from international markets, but they have relatively easy access to the domestic market, especially those with stronger credit profiles. Recent rating activity has been mostly rating affirmations with only very few rating changes due mostly to companies' individual characteristics.

Despite healthy macroeconomic fundamentals in Mexico, domestic corporate sector is struggling to protect its credit quality, as seen in the increasing negative rating bias to 20% from 10% for the past 18 months. Such a rise mostly stems from the cooling aggregate demand that has increasingly constrained top-line growth and profitability, which is denting EBITDA margins and cash flow generation. For some companies in the 'B' category, refinancing risk may be on the rise and putting pressure on liquidity.

Key assumptions

The U.S. economy continues at a healthy pace despite the uncertainty of trade wars and the possibility of broad emerging market pullback, which reinforces our view that the Federal Reserve will raise the policy rate in September and again in December.

We have raised our Brent crude oil price assumption to $70 per barrel (bbl) from $65 per bbl on average for the remainder of 2018. We also lifted our crude oil price assumptions for 2019 to $65 per bbl from $60 per bbl.

We have lowered our copper and zinc price assumptions, which would reduce operating cash flows among the metals and mining companies we rate, but this has no impact on their ratings due mainly to the companies' strong balance sheets.

(See appendix for more details)

Key risks

- Volatile capital flows exacerbate exchange-rate movements, resulting in inflationary pressures and weak leverage metrics for companies with foreign currency debts.

- Political risks and uncertainty about future global trade activity are curbing private investments, particularly amid rising interest rates in the international markets, which may jeopardize medium-term growth prospects.
- Access to markets is likely to remain very limited for the rest of the year due to lack of investor appetite, especially so for Argentine and Brazilian corporations. Refinancing needs are minimal, with only $500 million for Argentine corporations and $2.3 billion for their Brazilian counterparts in 2019.
- Weaker sovereign ratings in Argentina and Brazil could push down corporate ratings.
- In general, our view on commodity prices is less optimistic due to the stronger dollar, rising interest rates globally, and trade tensions that may reduce trade flows.

What to look for over the next quarter

New terms and conditions for the IMF loan to Argentina and market stability, particularly in terms of exchange rate and inflation. Also, the evolution of public-private partnerships (PPPs) given that they may spark economic activity in 2019 as well as the repercussions of the corruption case, 'Cuadernos'. (The latter is related to allegations of bribery payments to the members of the preceding administration.) Argentina's corporate sector faces the highest risks in the region, because economic activity may be rapidly decelerating due to rampant inflation and a plummeting consumer confidence that's close to its five-year historical low. We expect to resolve the CreditWatch listing on 10 Argentine companies within the next three months, depending on the resolution of the CreditWatch listing on the sovereign.

The outcome of Brazil's presidential election will decide the agenda of the new government, as well as market perceptions on political support for reforms.

There's uncertainty around the effectiveness of the new Mexican government's implementation of its agenda. Such plans include a more decisive deployment of infrastructure projects and public works that could end the contraction of public-sector construction. In parallel, the incoming government will try to increase the number of housing starts to address the existing shortage. Also, an expansion of social programs to increase household disposable income would likely boost private consumption. One caveat, however, is that these measures may prompt a medium-term spike in inflation. Finally, reducing violence and crime could eliminate costs associated with theft, private security, as well as the replacement and repair of damaged assets that currently are taking a toll on profitability in some industries.

Infrastructure

- Concerns over the future of Mexico's energy reform and infrastructure plans following AMLO's assumption of power in December.
- Brazil's upcoming elections and potential effect on the appetite for infrastructure assets.
- Potentially negative impact on infrastructure ratings given Argentina's current woes.

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What's changed?

We have placed the ratings on six Argentine infrastructure companies on CreditWatch negative, following a similar action on the sovereign. We believe these companies will continue to be vulnerable to a sovereign default scenario. In particular, we believe they would follow the same trend as the sovereign in such a scenario because of their regulated status and/or reliance on the economic activity (i.e. potential rate controls, revenue collection, and credit availability would be affected in such a scenario, in our view). We expect to resolve the CreditWatch listing in the next three months. Ratings on the infrastructure entities could remain at current levels if the government were to recover its policy credibility, thereby reducing pressures on the currency and allowing the authorities to gradually set the stage for an economic rebound next year.

Brazil's economic recovery has been sluggish amid the turbulent political scenario and the upcoming presidential election. Nevertheless, we continue to see solid merger and acquisitions (M&A) activity, with large deals closed in the energy sector. The latter includes the recent auctions of distribution companies previously owned by Eletrobras, CEPISA, Ceron, Eletroacre, Boavista Energia, and the upcoming auction of toll-road Rota das Bandeiras in the state of São Paulo. This has attracted various international players, which may benefit from the Brazilian real's current depreciation.

Concerns exist about AMLO's skeptical view on the energy reform and on the infrastructure plans that his predecessor has put in place. Our base-case scenario doesn't assume major changes to the country's energy strategy in the near term. This is because we believe the new government will have incentives to take advantage of the flexibility stemming from the energy reform to continue attract private investment to the sector. In particular, as the post-energy reform thermal, wind, and solar power plants started to enter into operations, whose output would support the new administration's GDP growth target. (For additional details, see "Is AMLO's Government Plan The Answer To Mexico's Cross-Sector Success?," published July 4, 2018).

Key assumptions

- We continue to expect single-digit volume growth for infrastructure assets, in line with GDP growth in the region following historical elasticity.

Key risks

- The combination of Argentina's macroeconomic weakness and the corruption case in the domestic corporate sector may act as a drag on the development of the PPP projects auctioned in June 2018. More precisely, we believe economic malaise and investors' greater risk aversion towards Argentine companies may delay financing closing for PPP, especially if sponsors are under investigation.
- Changes in Mexico's commercial relations with the U.S., regarding the imported gas from the latter, could change the framework of gas pipelines under construction, and energy matrix and cost in Mexico.
- Uncertainty stemming from the regional elections could delay investment decisions by market participants.

What to look for over the next quarter

Except for Argentina, the outlook for Latin American utilities and transportation infrastructure will remain broadly stable, mirroring those on the respective sovereigns, because credit quality of the latter limit those of many assets due to their highly regulated nature.

Revision and potential cancellation of the construction contracts of the Mexico City new airport. Those are executive decisions, which don't require Congress's approval. Still, this wouldn't impact the entity's rated senior secured debt, because our base-case scenario assumes the main source of repayment will stem from the aeronautical rates associated with the existing airport.

Financial Services

- Political uncertainties remain in some countries, particularly in Brazil, while in others, continuity of economic policies remains a key concern for investors.
- Currency depreciation will likely pressure inflation and interest rates, particularly in Argentina.
- Less favorable economic prospects, in general, are delaying the expected improvements in banks' asset quality and credit demand.
- Therefore, banks currently maintain a conservative strategy to grow modestly in less risky lending segments.

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What's changed?

The regional economies have taken a beating from depreciating currencies, especially Argentina. The likely economic contraction in 2018 and sharply weaker peso will likely impair the domestic banks' asset quality. Our ratings on Argentine banks are currently on CreditWatch negative, reflecting our view that funding and industry conditions could deteriorate. In addition, while it's too early to assess the full impact the "Cuadernos" case could have on Argentine corporations, we consider it could have negative ramifications on economic activity, further pressuring banks' asset quality.

In contrast, the outlook on Chilean financial institutions has improved, reflecting reduced risks of potential credit-fueled asset price bubbles. This stemmed from moderating growth in lending and property prices. Chile's economic prospects have been strengthening as a result of renewed business confidence and stronger copper prices (although it has recently slipped), which will support banks' operating performance and sound asset quality metrics.

The uncertainty over a clear frontrunner in Brazil's presidential election and the recent truck drivers' strike have slowed Brazil's economic activity, prompting banks to reverse their growth strategies and return to a more conservative mode.

Mexico and the U.S. recently reached a bilateral trade accord, but NAFTA renegotiations are still ongoing to preserve the cross-border trade and financial links between the U.S., Canada, and Mexico.

Credit demand in Colombia is rising slowly amid better economic prospects and continuity of economic policies under Ivan Duque's administration.

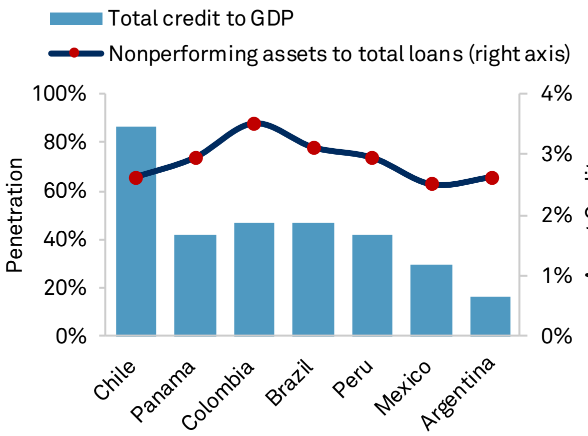
Economic forecast revised downwards, delaying the expected improvements in asset quality and credit demand. As a result, banks returned to a conservative strategy to grow modestly in less risky segments.

Key assumptions

- Credit demand remains sluggish in the region's largest economies (Brazil, Mexico, and Argentina) due to weak investor confidence and economic performance. As a result of these factors, along with solid retail deposits, banks' financing needs will remain manageable.
- Higher inflation due to weakening exchange rates and increasing interest rates could pressure households' debt payment capacity.
- We currently don't expect recovery in some Latin American economies, given that we have lowered the GDP forecasts for some.
- Our base-case scenario assumes the cross-border trade and financial links between the U.S., Canada, and Mexico will remain in place; the recent bilateral accord between the U.S. and Mexico is consistent with such a scenario.
- Regional banks offer dollar-denominated loans mainly to borrowers with dollar-based income, which will likely mitigate the weakening currencies' impact on asset quality. Peru's banking system has the highest exposure to dollar loans, although it has been decreasing due to actions that the regulator and the central bank have taken.

Chart 6

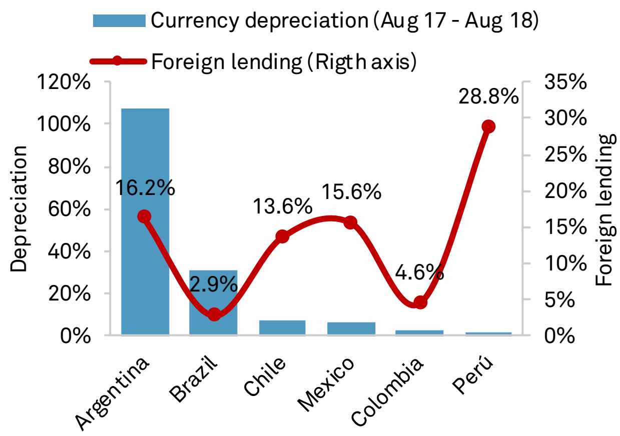
Credit To GDP And Asset Quality, 2018 Forecast



Source: S&P Global Ratings

Chart 7

Currency Depreciation vs. Foreign Lending



Source: S&P Global Ratings

Key risks

- Funding conditions for Argentine banks and corporations could deteriorate.
- Corruption investigations could hamper the much needed economic recovery in Argentina.
- Ongoing NAFTA negotiations could impair certain sectors of the Mexican economy.
- Significant changes in economic policies that new governments establish could affect the operating performance of financial institutions.
- Cyber security is an emerging risk, as seen in recent attacks in Mexico and Chile.

What to look for over the next quarter

We assign a fairly high probability to the scenario in which funding for Argentine banks and business conditions could erode. Exchange-rate volatility, as seen in **Argentin**a, could jeopardize the implementation of economic adjustment measures, absent further steps to boost investor confidence. However, the deposit base in the country has remained relatively stable, while reserves and liquidity have been increasing. A prolonged period of currency depreciation could elevate inflation, hinder income capacity, and increase delinquency.

In our view, the political uncertainty and still difficult economy in **Brazil** remain the biggest risks for the domestic banks' credit quality. At the same time, corporate demand for credit remains muted due to weak business confidence and investment.

We continue monitoring if asset prices significantly rise above our expectations in **Chile**, which could increase the risk of potential credit-fueled asset prices bubbles, a risk we consider has been diminishing.

More details about the new administration's future economic policies and political decisions in **Mexico** will influence investors' confidence.

Credit growth and asset quality metrics in **Colombia** slightly improved amid more favorable economic conditions--reflected in lower inflation and interest rates--for households, and corporate and commercial sectors.

In **Peru**, investor and business confidence showed signs of recovery. We believe these factors will moderate the deterioration of banks' credit portfolio. Furthermore, the new infrastructure law, in our view, could help remove the financial strains on the construction sector, prompting banks to start lending again to this segment. We will continue watching the asset quality trends in the country.

Structured Finance

- Current asset performance across asset classes and across the region remains in line with our expectations.
- The prospects for collateral performance and new issuance have weakened in Argentina as a result of its economic woes and stubbornly high inflation.
- We expect new issuances to pick up in Mexico during the fourth quarter. Conversely, we expect a slowdown in new issuances in Brazil as the elections near.

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What's changed?

In response to a sharp sell-off of its currency, **Argentina**'s central bank raised its seven-day policy rate by 1,500 bps to 60% and has indicated that it won't reduce the rate for the remainder of 2018. This curbs the attractiveness of securitization versus the dollar and government debt for domestic investors and issuers. Therefore, we now expect that new issuance in Argentina will remain flat and in line with the 2017 level. In addition, the weakening economy and high inflation are likely to dent employment and consumption. Therefore, we believe delinquencies could rise and credit origination to decrease in Argentina. Nevertheless, collateral levels in our portfolio of credit transactions should be sufficient to absorb higher delinquencies. We're closely following the development of the "Cuadernos" corruption case. We believe that the closing of financing of the proposed transportation PPPs may be delayed, especially if sponsors are under investigation.

Our outlook for collateral performance in **Brazil** remains unchanged. Commercial assets continue to show weakness, but other asset classes continue to perform in line with our expectations. Issuances of traditional securitizations via Credit Receivables Funds in Brazil are staging a comeback after a prolonged recession, particularly amid small- and mid-size companies, and should remain strong through the fourth quarter. As the elections near, we expect issuance to slow.

Activity in **Mexico** is beginning to rise, and we expect issuances to increase significantly during the fourth quarter, particularly in equipment leasing and transportation. Rating trends are stable and the outlook for collateral performance remains in line with our expectations, with a few exceptions. Mexico's newly elected president has signaled that 1 million homes could be built during his administration. Therefore, Mexico's residential mortgage-backed securities (RMBS) market could recover after more than three years of relative dormancy.

Key Assumptions

- Our issuance forecast for this year is $12 billion - $15 billion.
- Asset diversification will remain across the region, although at a slower pace.
- We expect stable collateral performance across asset types and jurisdictions with temporary spikes in delinquency levels of some consumer transactions, particularly in Brazil and Argentina.
- Nevertheless, the sector ratings will remain stable.

Key risks

- Further weakness in Argentina's economic performance and negative ramifications from the "Cuadernos" investigation.
- Overall, our rated portfolio has no dollar exposure. However, currency depreciation in the region's main economies, higher inflation, and tighter monetary policies could slow credit origination, and consequently, the use of securitization, as well as borrowers' capacity to pay.

What to look for over the next quarter

- The ongoing developments in Argentina.
- Performance of commercial assets in Brazil.
- Statements by the Mexico's new president regarding housing policies and the capital markets.

This report does not constitute a rating action.

Related Research

- Credit Conditions Asia-Pacific: Tighter, Weaker, Riskier, Sept. 27, 2018
- Credit Conditions EMEA: Looking Over The Edge On Trade And Brexit, Sept. 27, 2018
- Credit Conditions North America: U.S.-China Trade Tensions Threaten Favorable Conditions, Sept. 27, 2018
- How Latin America Is Grappling With U.S. Monetary Policy Tightening And A Stronger Dollar Today Versus During The Taper Tantrum, Sept. 21, 2018
- Will Argentina's Mounting Policy Woes Derail Subnational Governments?, Sept. 11, 2018
- Argentina 'B+/B' Ratings Placed On CreditWatch Negative On Risks To Implementation Of Economic Adjustment Measures, Aug. 31, 2018
- Scenario And Sensitivity Analysis: AMLO's Policies And Redrawn NAFTA Will Shape Mexico's Corporate Sector, Aug. 7, 2018
- Is AMLO's Government Plan The Answer To Mexico's Cross-Sector Success?, July 4, 2018
- Mexico’s New Political Panorama Following The Presidential Election, July 3, 2018
- Argentina Has Secured Support From The IMF, But Challenges Remain, June 12, 2018

Appendix 1: Ratings trends and surveys

Table 4

Latin American Sovereigns and IPF

	Economic conditions	Economic conditions outlook	Budgetary performance	Sector outlook
Brazil	Weak	No change	Same	Negative
Mexico	Weak	No change	Same	Stable
South America (excluding Brazil)	Satisfactory	No change	Same	Stable
Central America & Caribbean	Weak	No change	Same	Stable
Mexico IPF	Satisfactory	No change	Same	Stable
Argentina IPF	Satisfactory	No change	Same	Stable
Brazil IPF	Weak	No change	same	Negative

Source: S&P Global Ratings.

Table 5

Latin American Corporate and Infrastructure Sector Trends

	Current business conditions	Business conditions outlook	Financial trends outlook	Sector outlook
Aerospace & Defense	Satisfactory	No change	Same	Stable
Auto suppliers	Satisfactory	Somewhat weaker	Same	Stable
Building materials	Weak	No change	Same	Stable to Negative
Chemicals	Satisfactory	No change	Same	Stable
Consumer products A (including protein and bottler)	Satisfactory	No change	Lower	Stable
Consumer products B (agro)	Satisfactory	Somewhat weaker	Lower	Stable
Forest products	Strong	No change	Higher	Stable
Merchant power	Satisfactory	No change	Lower	Stable to Negative
Metals and mining	Satisfactory	No change	Same	Stable
Oil and gas	Weak	Somewhat stronger	Higher	Stable to Negative
PPP/Infrastructure project finance	Satisfactory	No change	Same	Stable
Real estate: homebuilders	Weak	Somewhat stronger	Same	Stable
Regulated utilities	Satisfactory	No change	Same	Stable
Retail	Satisfactory	No change	Same	Stable to Negative
Telecom	Satisfactory	No change	Same	Stable
Transportation	Weak	Somewhat Weaker	Lower	Stable to Negative

Source: S&P Global Ratings.

Table 6

Latin American Banking Industry Trends

		Economic risk factors					Industry risk factors				
Country	BICRA Group	Economic Resilience	Economic imbalances	Credit risk in the economy	Economic risk score	Economic risk trend	Institutional framework	Competitive dynamics	System wide funding	Industry risk score	Industry risk trend
Argentina	8	Very High	Very High	High	8	Stable	High	High	Very High	7	Stable
Brazil	6	Very High	High	High	7	Negative	Intermediate	High	Intermediate	5	Negative
Mexico	4	High	Low	High	5	Stable	Intermediate	Intermediate	Low	3	Stable
Colombia	6	High	High	High	7	Stable	High	Intermediate	Intermediate	5	Positive
Peru	5	High	Very Low	Very High	6	Stable	Low	Intermediate	Intermediate	3	Stable
Chile	3	High	Low	Intermediate	4	Stable	Low	Intermediate	Low	3	Stable

Source: S&P Global Ratings. Data as of August, 2018.

Table 7

Latin American Insurers and Reinsurers Sector Trends

	Current business conditions	Business conditions outlook	Sector outlook
Mexico	Satisfactory	No change	Stable
Brazil	Weak	Improving	Stable
Colombia	Satisfactory	No change	Stable

Source: S&P Global Ratings.

Table 8

Latin American Structured Finance Sector Trends

	Current collateral performance	Collateral performance outlook	Sector fundamentals	Ratings trends
Argentina				
Consumer assets	Satisfactory	Somewhat weaker	Stable to Negative	Stable to Negative
Brazil				
Commercial assets	Weak	No change	Stable	Stable
Consumer assets	Satisfactory	No change	Stable	Stable
RMBS	Satisfactory	No change	Stable	Stable
Future flows	Satisfactory	No change	Stable	Stable
Mexico				
Commercial assets	Satisfactory	No change	Stable	Stable
Consumer assets	Satisfactory	No change	Stable	Stable
RMBS	Satisfactory	No change	Stable	Stable
Future flows	Satisfactory	No change	Stable	Stable
Colombia				
RMBS	Satisfactory	No change	Stable	Stable
Cross-Border				
Future flows	Satisfactory	No change	Stable	Stable

Source: S&P Global Ratings.

Appendix 2: Economic forecasts

Table 9

Latin America CPI inflation

(%)	2016	2017	2018f	2019f	2020f	2021f
Argentina	43.5	24.8	40.0	23.0	16.0	12.0
Brazil	6.3	2.9	4.2	4.0	4.0	4.0
Chile	2.7	2.3	3.0	3.2	3.0	3.0
Colombia	5.8	4.1	3.6	3.5	3.0	3.0
Mexico	3.4	6.8	4.4	3.4	3.0	3.0
Peru	3.2	1.4	2.6	2.5	2.0	2.0

Source: S&P Global Economics

Table 10

Latin America Policy Rate

(%, Year-End)	2016	2017	2018f	2019f	2020f	2021f
Argentina	24.8	28.8	60.0	35.0	30.0	25.0
Brazil	13.8	7.0	6.5	8.0	8.5	8.5
Chile	3.5	2.5	2.75	3.75	4.5	4.5
Colombia	7.5	4.8	4.25	5.25	5.75	5.75
Mexico	5.8	7.3	7.75	7.0	7.0	7.0
Peru	4.3	3.3	2.75	3.75	4.25	4.25

Source: S&P Global Economics

Table 11

Latin America Exchange Rate (USD, Year-End)

	2016	2017	2018f	2019f	2020f	2021f
Argentina	15.9	18.7	40.0	45.0	50.0	55.0
Brazil	3.3	3.3	4.00	4.15	4.25	4.25
Chile	667	615	670	680	685	685
Colombia	3,002	2,984	3,000	3,100	3,150	3,150
Mexico	20.7	19.7	19.5	20.0	20.5	20.5
Peru	3.4	3.2	3.35	3.45	3.50	3.50

Source: S&P Global Economics

Table 12

Latin America Exchange Rate (USD, Average)

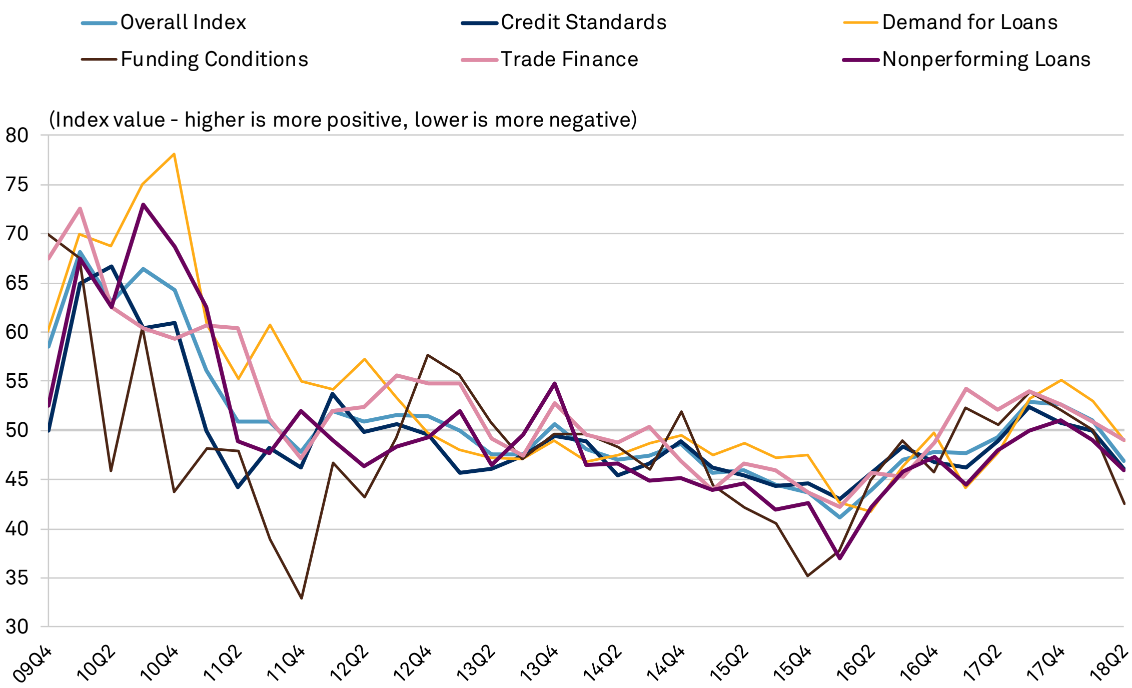
	2016	2017	2018f	2019f	2020f	2021f
Argentina	14.77	16.56	29.00	42.50	47.75	52.50
Brazil	3.48	3.19	3.7	4.05	4.20	4.25
Chile	677	649	635	675	683	685
Colombia	3,054	2,951	2,900	3,050	3,125	3,150
Mexico	18.69	18.91	19.25	19.75	20.25	20.50
Peru	3.38	3.26	3.25	3.40	3.48	3.50

Source: S&P Global Economics

Appendix 3: Reference Charts

Chart 8

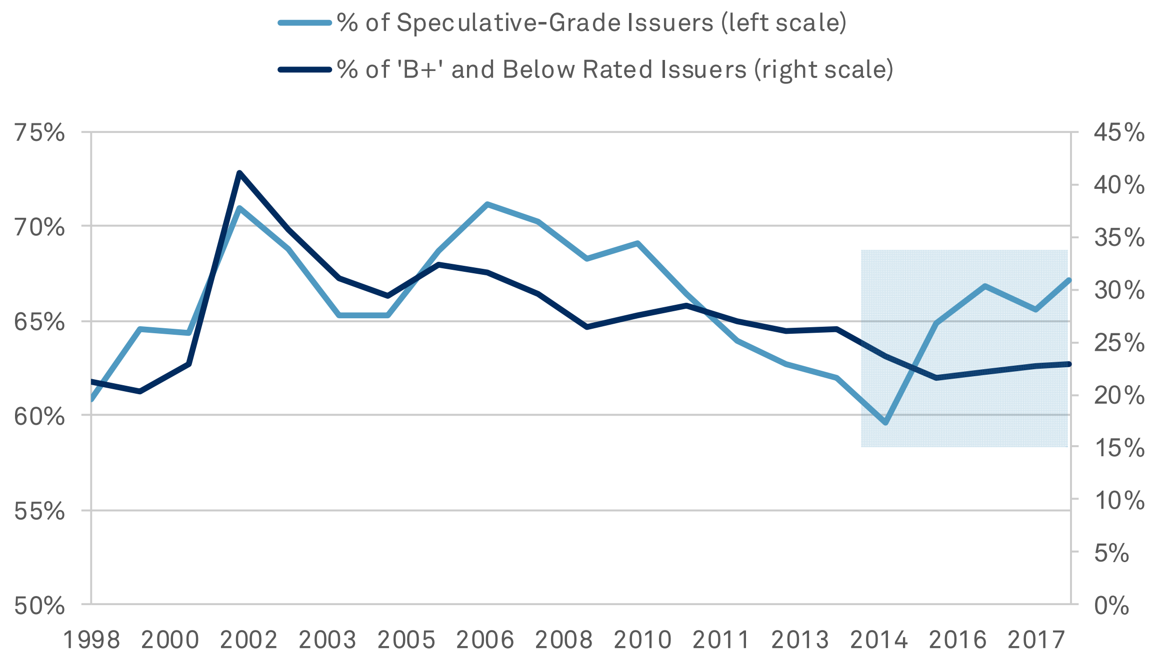
Institute of International Finance Survey of Lending, Latin America



Source: IIF. e-Estimated. Data as of Aug. 22, 2018

Chart 9

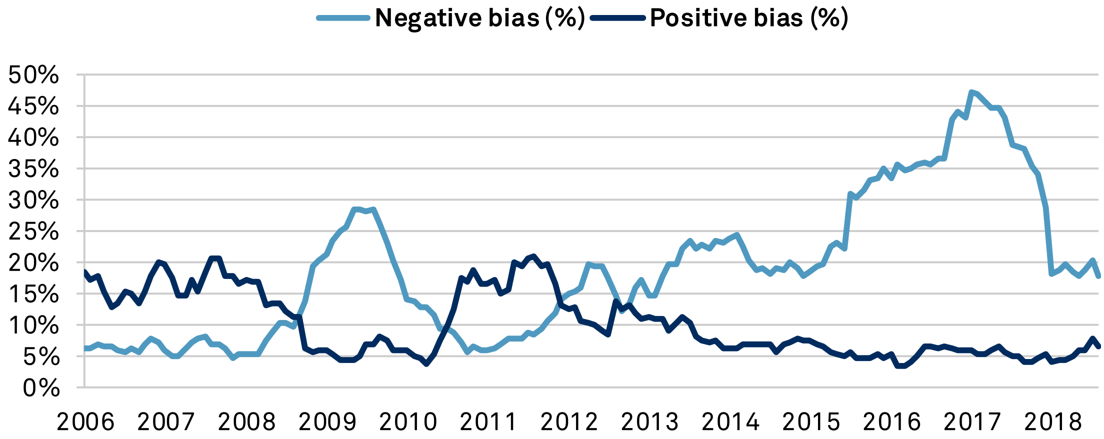
Latin American Corporate (Financial and Non-Financial Issuers) Weakening Credit Quality



Source: S&P Global Fixed Income, S&P CreditPro. Data as of Aug.31, 2018

Chart 10

Latin America Negative and Positive Bias (%)



Source: S&P Global Fixed Income, S&P CreditPro. Data as of Aug.31, 2018

Appendix 4: Commodity Prices Assumptions

Table 13

Standard & Poor's Oil And Natural Gas Price Assumptions

	New Prices			Old Prices		
	2018	2019	2020 and beyond	2018	2019	2020 and beyond
Brent ($/bbl)	70	65	60	65	60	55
WTI ($/bbl)	65	60	55	60	55	55
Henry Hub ($/mil. Btu)	3	3	3	3	3	3

Source: S&P Global Ratings

Table 14

Standard & Poor's Metals Price Assumptions

	Current assumptions			Previous assumptions		
Metal	Rest of 2018	2019	2020	Rest of 2018	2019	2020
Aluminum $/mt	2,100	2,100	2,100	2,100	2,100	2,100
Copper $/mt	6,000	6,100	6,200	6,600	6,800	7,000
Nickel $/mt	13,000	13,500	14,000	13,000	13,500	14,000
Zinc $/mt	2,800	2,800	2,800	3,200	3,000	2,800
Gold $/oz	1,250	1,250	1,250	1,250	1,250	1,250
Iron ore $/dmt	65	60	55	65	60	55

Source: S&P Global Ratings

spglobal.com/ratings