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FEATURED Q&A

How Is Metal Price Volatility Affecting Latin America?



The outbreak and spread of COVID-19 has meant volatility in the prices of commodities, including metals. A project of Chilean state-run copper miner Codelco is pictured above. // File Photo: Codelco.

Q The coronavirus outbreak has prompted high volatility in metals prices over the past month, as concerns continue over the disease's economic impact on China, which consumes approximately half of the world's metal and mining resources, the Financial Times reported. What have been the major consequences of coronavirus fears on the prices of metals, including copper and gold? Will such trends continue into the foreseeable future? What will be the economic fallout for Latin American metals exporters, such as Brazil, Chile, Peru and Colombia, and what can they do to prepare for potential losses?

A Jorge Heine, research professor at the Pardee School of Global Studies at Boston University and former Chilean ambassador to China, India and South Africa: "The coronavirus outbreak has had a severe impact on stock markets and on the price of metals. In combination with the tug-of-war between Russia and Saudi Arabia over oil production, the consequences for the world economy can be severe. The price of copper is down to \$2.49 per pound. It may fall to \$2.33 a year from now. The price of gold, a classic 'refuge to safety' metal, is up to \$1,661 an ounce. Projections are it may rise to \$1,852 a year from now. With the main impact of the pandemic on China, where it originated, Latin American countries such as Brazil, Chile and Peru, whose number-one export market is China, are especially exposed, though Colombia not so much. In January-February, Chinese exports fell 17 percent year-on-year, though (surprising the markets) imports fell only 4 percent. Given the weak economic performance and political upheavals

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TODAY'S NEWS

POLITICAL

Anti-Government Protesters, Police Clash in Caracas

Anti-government protesters threw rocks and sticks at police, who responded with tear gas in a demonstration in Caracas. Protests happened in cities around Venezuela in marches called by opposition leader Juan Guaidó.

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POLITICAL

Colombian Police Used Excessive Force: Report

Colombian police used excessive force against demonstrators late last year, Human Rights Watch said in a report released ahead of more protests planned for this month.

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ECONOMIC

Ecuador's Moreno Seeks Budget Cuts Amid Oil Plunge

Ecuadorian President Lenín Moreno said he will seek to cut \$1.4 billion from the government's budget following the plunge in oil prices and economic effects of the coronavirus outbreak.

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Moreno // File Photo: Ecuadorean Government.

POLITICAL NEWS

Security Forces Hit Protesters With Tear Gas in Caracas

Venezuelan security forces fired tear gas at anti-government demonstrators Tuesday in Caracas during a protest led by opposition leader Juan Guaidó. The demonstration, which drew tens of thousands of Venezuelans into the streets, was the first that Guaidó had called since returning to the country on Feb. 11 from an international trip. He visited Colombia, Europe and the United States, where he met with U.S. President Donald Trump, the Miami Herald reported. Local media showed huge crowds of anti-government protesters in several Venezuelan cities, while state-run television showed images of a large rally of supporters of President Nicolás Maduro in downtown Caracas, the newspaper reported. In the capital, riot police carrying heavy shields and backed by armored vehicles confronted anti-government protesters who had assembled with the goal of retaking the National Assembly, the Associated Press reported. Demonstrators threw sticks and rocks at police, who responded by firing tear gas that scattered the protesters, the wire service reported. Using a megaphone, Guaidó addressed the marchers, saying, "They try to intimidate us with weapons of war. We'll keep going until we reach our goal." Guaidó, whom dozens of countries recognize as Venezuela's legitimate president, then led a smaller group of demonstrators to a calmer part of Caracas and led an impromptu outdoor session of the National Assembly. Speaking to lawmakers, Guaidó repeated his assertion that the only way out of the country's political and economic crises is a free and fair presidential election. However, even some of Guaidó's supporters say that a new presidential vote is unattainable for now and that the opposition should focus on legislative elections that are scheduled to be held this year, the AP reported. "What are we going to do? Stay at home and let the government grab the National Assembly?" said legislator Henry Ramos, who leads the Dem-

ocratic Action party. Ramos' stance marked a break from the position of Guaidó, who has rejected participation in any legislative elections until the electoral council, which is made up of Maduro supporters, is overhauled. While Tuesday's protests drew larger crowds than the last few anti-government protests, they were smaller than the massive demonstrations at the beginning of last year, which filled the streets with hundreds of thousands of people, The New York Times reported. Hours after Tuesday's protests, police forces raided a hotel where opposition legislators had been meeting and detained three of them. [Editor's note: See related [Q&A](#) in the Jan. 7 issue of the Advisor.]

Colombian Police Used Excessive Force: Human Rights Watch

Members of Colombia's police used excessive force against protesters in demonstrations late last year, including beatings and detentions, according to a Human Rights Watch, or HRW, report released Tuesday, ahead of planned pro-

“ President Duque should send a clear message that these violations will not be tolerated...”

— José Miguel Vivanco

tests by unions and student groups this month. Marches in November and December were called to demand action from President Iván Duque's government on issues ranging from murders of human rights activists to youth unemployment, Reuters reported. "We have gathered worrying accounts and evidence of abuses by Colombia's police, including arbitrary detention and brutal beatings against peaceful protesters, detainees, and bystanders," José Miguel Vivanco, Americas director for HRW, said in a statement. "President Duque should send a clear message that these violations will not be tolerated, and the authorities should ensure that those responsible for violations are

NEWS BRIEFS

IDB Postpones Annual Meeting Over Coronavirus Concerns

The Inter-American Development Bank announced late Tuesday that it was postponing its annual meeting, scheduled for next week in Colombia, over concerns about the spreading coronavirus. The IDB announced the decision jointly with Colombian President Iván Duque and said the annual meeting, planned to be held in Barranquilla, will be pushed to the first half of September.

Ecuador's Moreno Seeks to Cut Budget After Oil Price Plunge

Ecuadorian President Lenín Moreno on Tuesday said he will seek to improve debt payments and cut \$1.4 billion from the government's budget following the plunge in oil prices and the economic effects of the coronavirus, Reuters reported. The oil price crash has trampled Moreno's hopes of closing Ecuador's worrying fiscal deficit and slashing the government's debt. The \$20 fall in oil prices means that Ecuador loses more than \$8 million in revenue every day, or a \$2.9 billion loss in revenue a year, Moreno said.

Brazil's Petrobras Plans \$3.4 Billion Injection Into Workers' Pension Fund

Brazilian state oil company Petrobras plans to inject \$3.4 billion into its employees' pension fund, Petros, over the next 25 years, the company said Tuesday, Reuters reported. The company expects a future deficit in the pension fund of 33.7 billion reais (\$7.26 billion), according to calculations made in December. Petrobras said it would make an immediate payment of 2 billion reais, in addition to extraordinary contributions over the next 25 years. The rest of the funds will be paid by other distributors.

held to account.” As part of the report, HRW interviewed 26 victims of abuse, their relatives, human rights lawyers and government officials, and it also corroborated videos published on social media and reviewed medical reports and criminal complaints, the statement said. Colombia’s director of national police, Óscar Atehortúa, responded to the report, saying “many” of the cases in the study had been reported by the same individuals who had been detained during protests “for attacking public servants” and engaging in other crimes, such as obstruction of public roads, El Tiempo reported. He added that police are carrying out 47 disciplinary investigations into alleged abuse complaints.

ECONOMIC NEWS

Mexico Seeks to Mediate Russia–Saudi Arabia Oil Price War

Mexico is among the nations seeking to mediate between Russia and Saudi Arabia in a bid to end an oil price war that has sent world markets into a frenzy, Mexico’s finance minister said Tuesday, citing the country’s prior



Herrera // File Photo: Mexican Government.

experience in calming a crude producer feud, Reuters reported. International crude oil prices saw their steepest plunge in nearly 30 years on Monday after negotiations between Saudi Arabia and Russia to cut production failed at a time when oil demand has fallen due to coronavirus concerns. Prices have only partially recovered on hopes of economic stimulus. “We along with some other countries are looking to

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in these Latin American countries recently, this makes them especially vulnerable—though more so Chile and Peru than Brazil and Colombia, because of their dependence on copper exports and higher share of exports to the Chinese market. Some projections indicate that first-quarter growth in China will be flat, and a mere 4 percent in 2020, the lowest since the 1970s. The good news is that in China the virus seems to have peaked, with only 40 new cases reported on March 8 (all in Hubei province), the lowest since Jan. 20. If this holds—and it’s a big if—the Chinese economy should be able to ramp up growth. The question then becomes whether there would be enough external demand to drive it.”

A John Price, managing director of Americas Market Intelligence in Miami: “For the year through Monday, copper prices have dropped 12 percent, thanks to the freezing of new orders out of China, the epicenter of the coronavirus outbreak. The prospect that infrastructure projects around the world slated to commence this year might be significantly delayed has also contributed to the collapse of the prices of copper and other industrial metals. (Zinc lost 16 percent and nickel 12 percent over the same timeframe). As significant suppliers of industrial metals, the Brazilian real (down 16 percent) and Chilean peso (down 8 percent) have suffered. China’s quarantine-induced economic shutdown has been particularly troubling for Brazil, because Brazil was one of the beneficiaries of the U.S.-China trade dispute as Chinese

buyers increased their purchases of Brazilian soy, beef, chicken and other commodities after tariffs were applied to U.S. imports. Gold has its own unique personality as a metal. Some demand for gold has industrial origins that suffer in an economic slowdown, but a larger portion of the demand for gold

“China’s quarantine-induced economic shutdown has been particularly troubling for Brazil...”

— John Price

is derived from its traditional safe-haven status. Institutional investors, uber-affluent individuals, central banks and traditional Indian households are all important buyers of gold as a hedge against recession and/or inflation. Since Jan. 1, gold has appreciated at times as much as 12 percent, rising above \$1,700 per ounce. Peru is the largest producer of gold in Latin America, which has helped limit its currency slippage this year to only 3 percent. Much like SARS (2003), the H3N2 Hong Kong flu (1968), the H2N2 Asian flu (1958) and the Spanish flu (1918), coronavirus will likely drive global economic growth to close to zero for a six-month period and then produce a V-shaped recovery with growth rates jumping to double pre-epidemic levels for three to six months thereafter. The impact will be minimal over the medium and long terms, but we should all anticipate a difficult year ahead.”

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be a type of third party to build bridges,” Mexican Finance Minister Arturo Herrera said at a news conference. Mexico is part of a group of countries that, in addition to the Organization of the Petroleum Exporting Countries, or OPEC, had kept production low in recent years to support prices. Mexico in 1998 had helped Saudi Arabia and Venezuela reach a deal that led to a rise in oil prices, which Herrera mentioned as a

model of what countries are looking to do this time. “Mexico was a country that mediated, it requires certain diplomatic abilities,” he said. Though the crisis is “concerning,” Herrera said Mexico’s renowned oil hedging program, which locks in oil prices for the country, mitigates the price shock’s impact on the government’s budget. [Editor’s note: See related Q&A in the Jan. 21 issue of the Advisor.]

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A **Mariano Machado, senior Americas analyst at Verisk Maplecroft:** "The uplift in market sentiment (on the back of a de-escalation in the U.S.-China trade war) has rapidly vanished, and impacts on the mining commodities trade are unavoidable, as the COVID-19 epidemic involves not only demand shocks but also supply shocks. Although metals exports from Latin America to China have not yet been significantly interrupted, prices have suffered sharp swings. In the case of iron ore (Brazil is the world's top producer), while Chinese demand has held reasonably steady and supply had already been tightening due to a heavy monsoon season in Brazil in December and recent cyclones in Western Australia, prices have fallen sharply in anticipation of weaker global demand for the rest of the year. For copper (Chile's main export), the outbreak is expected to weigh on the seasonal first-quarter slowdown. Nevertheless, the overall impact for 2020 is expected to be minimal, as we expect aggressive stimulus measures from Beijing (including the front-loading of infrastructure projects and tax incentives) in

order to support copper demand and prices. The rolling disruption to Latin American economic activity relating both to internal factors such as social unrest, as well as the global economic slowdown caused by COVID-19, may affect the region more than just through health effects. Our base scenario is that commodity-exporting countries in or near recession will struggle to improve their prospects (Argentina, Brazil and Chile), while better-performing Andean countries (Peru and Colombia) will have to settle for a weaker-than-expected year, which could exacerbate latent social tensions. Governments, central banks and multilateral organizations will look to policy responses such as interest rate cuts (Brazil) and new export incentives (Chile). We would caution, however, that the room for fiscal maneuvering in most South American countries is quite limited, which will constrain authorities' ability to respond to a more prolonged global pandemic."

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

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have posted recently.

Macquarie Group: Vice President, Renewable Energy (U.S. & Latin America), New York

Sony Pictures Entertainment: Vice President, Research, Latin America and Canada, Miami

Inter-American Development Bank: Economics Senior Specialist, Washington, D.C.

CAF-Development Bank of Latin America: Senior Executive, Private Sector Finance, Credits and Risk, Panama

SMBC: VP, Latin America Corporate Finance, New York

Covenant House International: SVP, Latin America Operations, New York

Chemonics: Chief of Party, Latin America and Caribbean

LATIN AMERICA ADVISOR is published every business day by the Inter-American Dialogue, Copyright © 2020

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

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