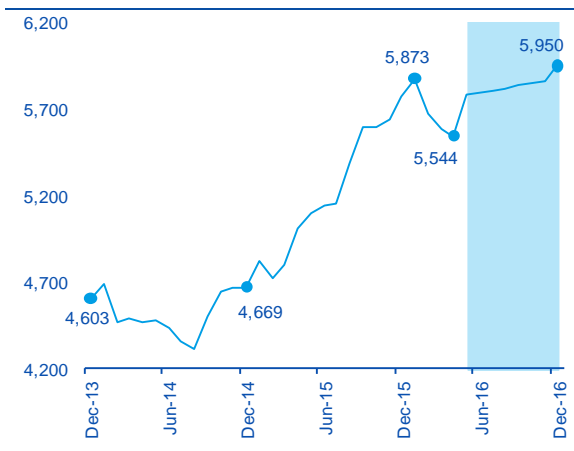


4 We anticipate a more modest depreciation of the Guaraní

Until mid-February, the Guaraní was being depreciated mainly as a result of increased external volatility. In the last two months, on the other hand, it has undergone a strong appreciation, like other currencies in the region, in line with the revaluation of all assets in emerging economies and the relative stability of the international environment (significant changes have not been observed in the global and regional panorama). Thus, the average exchange rate closed the month of April at around the PYG 5540/USD, close to the levels recorded in September last year (see Figure 4.1).

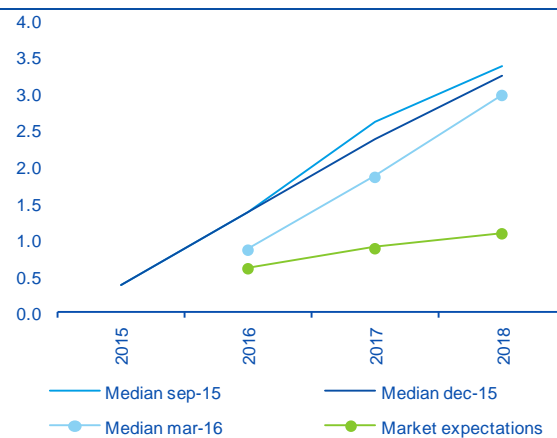
We anticipate that the currency will return to its depreciatory path because, on the one hand, the foundations of the Paraguayan economy have deteriorated in structural terms (fall in the terms of trade and weakening fiscal position). On the other, we expect to see a short-term overreaction in the global markets (including the Paraguayan market) prompted by the adjustment which will take place in emerging country asset prices following the Fed's key interest rate hike (we are assuming two hikes each of 25 bps), considering that the market forecasts expect it to be zero (see Figure 4.2).

Figure 4.1
Nominal Exchange Rate
(PYG per dollar)



Source: Bloomberg and BBVA Research

Figure 4.2
Fed interest rate*
(%)



*Medians are calculated using individual forecasts by members taking part in the Fed meeting. Market consensus is as of 10 May 2016.

Source: Bloomberg and BBVA Research

Overall, the structural trend of the Guaraní will be towards depreciation. Thus, we expect an additional upward path for the currency to around PYG 5950 per USD towards the end of the year and closer to PYG 6200 per USD by the end of 2017.

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This report has been produced by the Peru Unit:

Chief Economist for Peru

Hugo Perea
hperea@bbva.com
+51 1 2112042

Francisco Grippa
fgrippa@bbva.com

Yalina Crispin
Yalina.crispin@bbva.com

Vanessa Belapatiño
Vanessa.belapatio@bbva.com

Ismael Mendoza
Ismael.mendoza@bbva.com

Marlon Broncano
Marlon.broncano@bbva.com

BBVA Research

Group Chief Economist

Jorge Sicilia Serrano

Developed Economies Area

Rafael Doménech
r.domenech@bbva.com

Spain

Miguel Cardoso
miguel.cardoso@bbva.com

Europe

Miguel Jiménez
mjimenezg@bbva.com

US

Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets Analysis

Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia

Le Xia
le.xia@bbva.com

Mexico

Carlos Serrano
carlos.serranoh@bbva.com

Turkey

Alvaro Ortiz
alvaro.ortiz@bbva.com

LATAM Coordination

Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Peru

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
juliocesar.pineda@bbva.com

Financial Systems and Regulation Area

Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems

Ana Rubio
arubiog@bbva.com

Financial Inclusion

David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy

María Abascal
maria.abascal@bbva.com

Digital Regulation

Álvaro Martín
alvaro.martin@bbva.com

Global Areas

Economic Scenarios

Julián Cubero
juan.cubero@bbva.com

Financial Scenarios

Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:

BBVA Research

Azul Street, 4
La Vela Building - 4 and 5 floor
28050 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com