

## LATAM Market Update

- **Peru: Crisis averted—Attorney General backtracks on decisions that put Odebrecht investigations at risk after deluge of protests and counter measures**

Just four hours before midnight on New Year's Eve, the Attorney General, Pedro Chavarry, had announced the removal of the two leading prosecutors on the Odebrecht (Lava Jato) case. The decision led to an outcry in the press, social media, the government, most political parties, and from inside the Attorney General's office (Fiscalía) itself. The fear was that Chavarry's intention had been to abort, or at least control, the Odebrecht investigations so as to prevent political leaders who are under investigation for illegally receiving funds from Odebrecht, including Keiko Fujimori and Alan García, from being successfully prosecuted. However, 18 hours later, Chavarry backtracked on his decision after the government prepared a bill to declare the Fiscalía in a State of Emergency, and all political parties, including opposition Fuerza Popular and Apra, came out against the decision. President Vizcarra had returned urgently from Brazil, where he was to attend the inauguration of President Bolsonaro to announce that the government would submit a bill to Congress putting the Fiscalía in a State of Emergency. Unexpectedly, Keiko Fujimori stated that Fuerza Popular would back the Fiscalía emergency bill, and Apra spokespersons called for Chavarry to resign.

The current situation is that Chavarry's position as Attorney General has become untenable, and he will probably not last much longer. The outcome is likely to be seen as a significant political victory for the government and its anti-corruption stance, and, therefore, strengthen the Vizcarra regime considerably. It's less clear what this outcome means for the opposition parties, Fuerza Popular and Apra, as many may see them as having acquiesced because of the public outcry, rather than of having acted conscientiously, in opposing Chavarry. Events are still developing, and there is still room for some surprises, although the recent decision by Chavarry deflates a crisis situation in the making. There is still a call out for the Council of Supreme Prosecutors to meet, and make a determination that could impact the Attorney General's office, but have little other political bearing.

Inflation ended 2018 at 2.2%. This was just a tad above our expectations of 2.1%. The main reason is that the lag in impact domestically of lower global oil prices is proving greater than we expected. With inflation hovering around the mid-point of its target range, the CB continues to have little motivation to change its policy rate in January.

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November GDP figures for resource sectors have been released. The impact on our aggregate GDP forecast is minimal: from 4.79% to 4.76% (you need two decimal places to see it). These are the details:

Agriculture	SBP forecast:	5.8%
	Actual:	5.2%
Fishing	SBP forecast:	200%
	Actual:	189%
Mining	SBP forecast:	-2.3%
	Actual:	-2.5%

Meanwhile, cement consumption rose 7.2%, which suggests that Construction GDP for November could surpass 8.0%, above our forecast of 6.0%.

Finally, note that the new regional governors and mayors take office today.

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