OUTLOOK

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Crisis and Opportunity: An Update on Latin American Economies

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Amid the many headlines about immigration issues and the political, economic and humanitarian crisis in Venezuela, it can be easy to overlook the historic strength of the ties between the United States and its neighbors to the south, and the two regions' long-standing economic importance to each other. In 2018, Mexico was the second-largest destination for U.S. exports, ranking behind only Canada, and was also the second-largest source of U.S. imports, after China. Brazil, too, ranks among the top 15 U.S. trading partners. And though hardly as well known as the U.S. pact with Mexico and Canada, the U.S. also has free-trade agreements with all of the countries of Central America as well as Chile, Colombia and Peru.

Latin America has an important stake in the U.S. trade war with China, already the top destination for exports from several Central and South American countries, says José Antonio Ocampo, a board member of Colombia's central bank, Banco de la República, and a professor at the School of International and Public Affairs at Columbia University in New York. While ongoing tensions between the two economic superpowers present opportunities for Latin America, the conflict also injects significant risks, Ocampo says. And ongoing economic and human displacements caused by the Venezuelan crisis loom large throughout Latin America.

OUTLOOK turned to Ocampo, who also chairs the Committee for Development Policy of the United Nations Economic and Social Council, to gain perspective on Latin America's economic prospects and its importance to the U.S.

OUTLOOK: Who are the main trading partners for the U.S. in Latin America today?

José Antonio Ocampo: The largest U.S. trading partner by far is Mexico, because of geographic closeness but also because of a long history of trade agreements, starting with North American Free Trade Agreement (NAFTA), and now its replacement, the United States-Mexico-Canada Agreement (USMCA).

This Month's Expert

José Antonio Ocampo is professor and director of the economic and political development concentration in the School of International and Public Affairs at Columbia University, where he is also a member of the Committee on Global Thought and co-president of the Initiative for Policy Dialogue. Currently on leave from the university, he is a board member of Banco de la República, Colombia's central bank, and chairs the United Nations Economic and Social Council's Committee for Development Policy. He was also Minister of Finance of Colombia and UN Under-Secretary-General for Economic and Social Affairs.

Ocampo earned his bachelors' degree in economics and sociology from the University of Notre Dame and his PhD in economics from Yale University. He served as professor of economics at Universidad de los Andes and of economic history at the National University of Colombia, as a non-resident fellow at Rice University's Baker Institute, and as visiting fellow at Cambridge, Oxford and Yale universities. Personal honors and distinctions include the 2012 Jaume Vicens Vives Prize of the Spanish Association of Economic History for the best book on Spanish or Latin American economic history for "The Economic Development of Latin America since Independence," which he co-authored with Luis Bértola, the 2008 Leontief Prize for Advancing the Frontiers of Economic Thought, and the 1988 "Alejandro Angel Escobar" National Science Award of Colombia.

For other countries in Central America, and for countries in the northern part of South America, such as Colombia, the U.S. is the top market, and it is the largest trading partner for Latin America as a whole. The region is a major exporter of agricultural and other commodities to the U.S. as well as of manufacturing products, particularly from Mexico. It is also a major importer of U.S. capital goods and intermediate goods.

OUTLOOK: Looking at Latin America overall, which are the strongest economies, and which are struggling?

Ocampo: Let's start with the two largest economies, Mexico and Brazil. Mexico is weakening a bit. After several years of growth in the neighborhood of 3 percent, this year most projections say 2 percent. Brazil is also on course for 2 percent growth, but on a different trajectory – after going through the greatest recession in its history, the Brazilian economy is recovering.

Next, let's talk about the three strongest medium-sized economies: Chile, Peru and Colombia. Peru is probably the strongest of the three, but both Peru and Chile grew at 3 percent to 4 percent last year, and Colombia was close to 3 percent. Most projections forecast that those three countries will perform about as well this year.

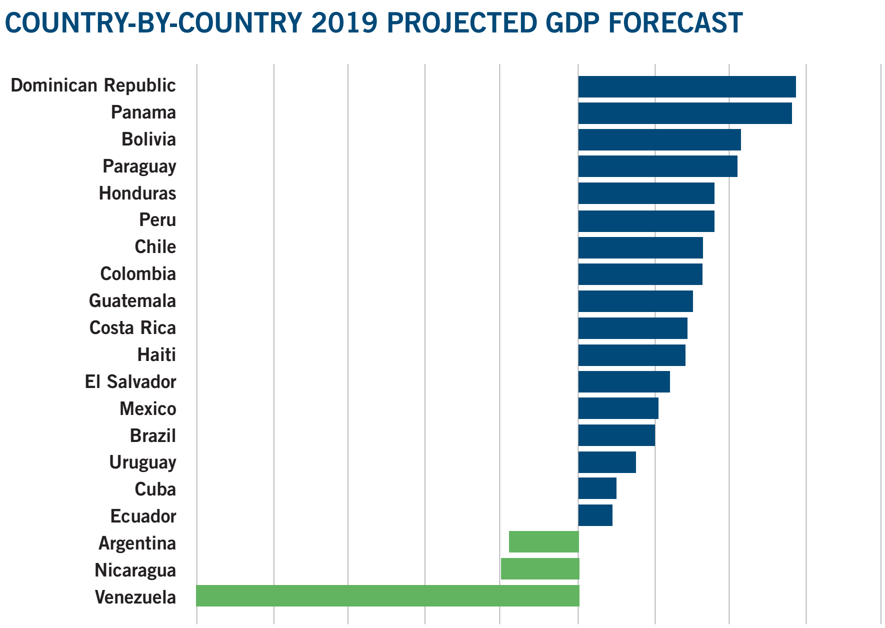
Of the remaining two countries among the seven largest in the region, Argentina is still struggling to recover from recession, and, of course, Venezuela is going through a major crisis.

OUTLOOK: How deep is the Venezuelan crisis, and what's the outlook for the country?

Ocampo: It's the worst economic crisis of any Latin American country in history. It's actually one of the most severe in recent world history, among countries that are at peace. For something comparable, you'd have to go back to the breakup of the former Soviet Union. One basic problem we have in analyzing specific economic conditions is that we don't have access to reliable data. But according to all the estimates, Venezuela's gross domestic product has already fallen something on the order of 45 percent to 50 percent. There are very diverse projections for 2019. The International Monetary Fund (IMF) predicts the Venezuelan economy falling by another 5 percent this year, but I think that's too moderate. The Economic Commission for Latin America forecasts a 10 percent decline, but it could be more. Others project a 20 percent decline, which is possible.

The country's humanitarian crisis may also worsen in the short term – in part because of current U.S. sanctions, which have cut the country's oil exports to the U.S., and access to trading with U.S. firms and financial markets.

COUNTRY-BY-COUNTRY 2019 PROJECTED GDP FORECAST



Source: Economic Commission for Latin America and the Caribbean

Venezuela will continue to have difficulties importing even very basic foodstuffs and medicines. Francisco Rodriguez, a prominent Venezuelan economist, has called for an oil-for-food program, similar to what the United Nations put in place in Iraq in 1995 after the first Gulf War. It would allow Venezuela to export oil to the U.S. under the condition that the proceeds go towards food and medicine and other necessities. Russia, in particular, seems to be providing humanitarian aid to Venezuela, but the problems and needs are massive, even for the very basic necessities, so the possibility of the crisis getting worse and more people being forced to leave the country is very high. Rodriguez estimates that current humanitarian aid meets only about 3 percent of Venezuela's actual needs.

OUTLOOK: How is the Venezuelan crisis affecting other Latin American economies?

Ocampo: Trade between Venezuela and neighboring Colombia collapsed three to four years ago, and Venezuela has ceased to be an important trading partner for all of Latin America. Going back to the 1970s, Venezuela, with its enormous reserves, sold oil to Caribbean and Central American countries, including Cuba, Nicaragua and some of the small islands, on very favorable terms. That has collapsed because Venezuela's oil production is half or less than half of what it was five or six years ago.

Another major impact is outward migration of labor to other Latin American countries. According to UN statistics, through last year, some 2.5 million people had left Venezuela. That's a huge number by any standard, but as a proportion of Venezuela's population of about 30 million, it's astounding. These numbers are growing, and the people are generally arriving in terrible conditions. About half of these migrants, 1.3 million, are in Colombia, but they are spreading throughout South America. Colombia has been extremely welcoming, allowing migrants to get work permits and recently allowing Venezuelans to enter with expired passports. This openness is putting a strain on Colombia's labor market and social spending, though.

> "China has been raising duties on U.S. soybeans, reducing U.S. exports and resulting in a boom of soybean exports from Brazil to China... Commodities account for about 85 percent of Latin America exports to China"

OUTLOOK: What are some of the most important commodities exports for Latin American countries, and what's the outlook for commodities?

Ocampo: In mining, iron ore is important for Brazil, and you have also nickel, gold and copper from several countries. Of course, agriculture is a huge export industry. Coffee is a very important export for several countries. Fruits and vegetables are very important for Chile, Peru, Costa Rica and others. Mexico is also a major exporter, particularly of avocados, and Colombia is now the second largest flower exporter in the world, with the U.S. being its most important market. The decline in coffee prices over the past couple of years has hurt the region, but other commodities may be partly benefiting from the trade war between the U.S. and China.

China is now the number two trading partner for Latin America; for several countries, including Brazil and Chile, China is now the top destination for exports, and many others are looking at the possibility of exporting more to China. That's a huge change that has taken place over the past 10 years.

OUTLOOK: Which commodities, in particular, are being impacted by the trade war?

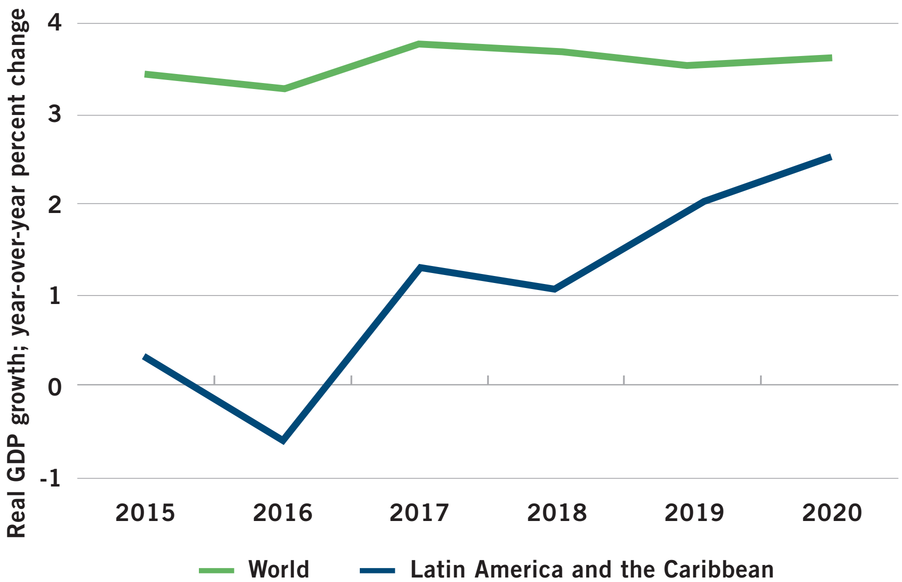
Ocampo: China has been raising duties on U.S. soybeans, reducing U.S. exports and resulting in a boom of soybean exports from Brazil to China. This is also true of corn exports and possibly of other products. Commodities account for about 85 percent of Latin America exports to China.

OUTLOOK: What risks does the U.S.-China trade war represent for the region?

Ocampo: The major danger would be if the trade war starts to seriously affect China's economic growth. That could hurt Latin America directly by limiting its ability to export to China, and indirectly by depressing commodity prices. That's less of a danger with oil, because oil is such a massive global market, but it could certainly apply to other commodities such as soybeans, copper and iron ore.

Another risk comes from what economists refer to as trade deviations, meaning that when sanctions disrupt regular trade routes, exporters look for other buyers. Sometimes, those favor Latin America. This is the case of soybean and corn exports from Latin America to China that I already mentioned. There are other cases, of different magnitudes. For example, Colombia is increasing exports of aluminum products to the U.S., an opportunity because of U.S. tariffs against Chinese aluminum. But trade deviations can also occur in the opposite direction. For example, there is a lot of talk that, because the U.S. has put high tariffs on steel imports from China, China is dumping steel into Latin American countries, which hurts the region's domestic manufacturers.

MODERATE RECOVERY



Source: IMF, World Economic Outlook database

OUTLOOK: Would it be better for Latin America if the trade war continues or ends?

Ocampo: If the trade war escalates and the Trump administration continues raising tariffs – and China responds – you could see a lasting collapse of confidence in the U.S. market as a supplier of soybeans to China, for example, and in China as a supplier of aluminum to the U.S. Those developments would continue to help soybean exporters in Brazil and Argentina, and exporters of aluminum products from Colombia, and would contribute to economic growth in those countries.

But in a larger sense, a trade war between the two largest economies in the world (and the two largest trading partners for Latin America) has generated a lot of uncertainties that could have a long-term impact on global trade. If an end to the trade war favors better economic growth for both the U.S. and China, that would be good for Latin America.

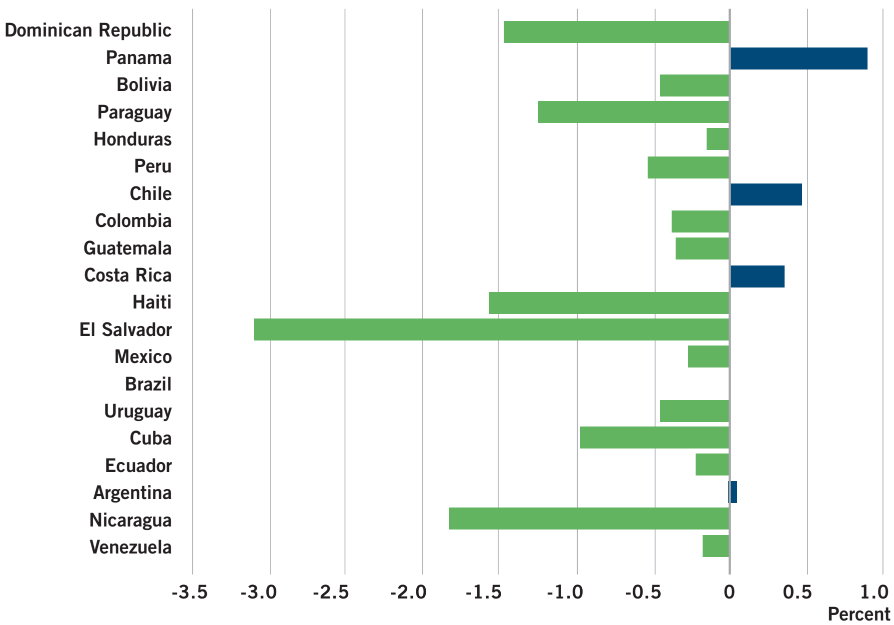
OUTLOOK: How did Mexico fare under the new USMCA treaty?

Ocampo: The best analysis I have seen is that the changes are not terribly significant. One component of the agreement is that the value chains have to be more North American in content, so manufacturing in North America would rely less on Asian intermediate goods. Because more components must come from the U.S. and Canada – higher wage countries – there may be some impact on Mexico in terms of higher prices for the goods they manufacture. But nothing I've seen indicates big changes in Mexico's trade with the U.S.

OUTLOOK: Will the treaty have a spillover effect on other Latin American countries?

Ocampo: Actually not, for one basic reason: Mexico's value chains involve very few intermediate goods produced in other Latin American countries. In other words, there's not much existing trade of this kind that could be disrupted.

NET MIGRATION, SHARE OF POPULATION



Source: UN Data, U.S. Census Bureau Data, Eurostat Data, Secretariat of the Pacific Community, other national statistics offices and CoBank calculations.

OUTLOOK: What about monetary policy in the region? Is there significant variation from country to country?

Ocampo: Among the largest Latin American economies, Brazil, Chile, Peru, Colombia and Mexico have fairly orthodox monetary policies, but currency volatility is a recurring problem throughout the region.

Argentina has been much more volatile due to its long periods of instability. It's problems trying to control inflation, resulting in very high interest rates.

Last year, the most important shock was the drop in the Argentine peso, which led to emergency support from the IMF amounting to the largest IMF package in history. Brazil and Mexico also experienced some episodes of volatility in 2018, depending also on political conditions. Chile and Colombia are more stable, though Colombia suffered a major depreciation in 2014 when oil prices collapsed. Among all Latin American countries, Peru stands out as particularly stable, mainly because of efforts by its central bank to control foreign exchange volatility.

OUTLOOK: What affect is U.S. immigration policy having on Latin America these days?

Ocampo: Latin America has a large number of migrants already in the U.S., both regular and irregular. Remittances from migrants is a major source of income for many Latin American countries, and that's been booming lately, which means the U.S. labor market is going strong.

According to all the numbers, new migration from Latin America into the U.S. has been falling, and not only because of U.S. immigration regulations. Some countries, such as El Salvador, already have large portions of their population in the U.S. and simply have fewer migrants to send right now. Migration to the U.S. is also falling because many Latin American countries, as I described earlier, have been doing fairly well, making their citizens less likely to leave for the U.S. Central America has been the fastest-growing sub-region of Latin America for several years.

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 2/28/19. They are intended to provide rate or cost indications only and are for notional amounts in excess of $5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

ECONOMIC AND INTEREST RATE PROJECTIONS

Forecasts courtesy of Bloomberg and Blue Chip Economic Indicators

				U.S. Treasury Securities	
2019	**GDP**	**CPI**	**Funds**	**2-year**	**10-year**
Q1	2.00%	1.50%	2.40%	2.63%	2.82%
Q2	2.60%	2.30%	2.41%	2.74%	2.91%
Q3	2.20%	2.30%	2.41%	2.81%	2.99%
Q4	2.00%	2.20%	2.41%	2.86%	3.03%
2020	**GDP**	**CPI**	**Funds**	**2-year**	**10-year**
Q1	1.60%	2.30%	2.38%	2.88%	3.08%

PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	2.68%	2.67%	2.57%	2.57%	2.63%	2.73%
0.25	2.65%	2.63%	2.56%	2.53%	2.60%	2.71%
0.50	2.64%	2.61%	2.53%	2.54%	2.61%	2.72%
0.75	2.66%	2.61%	2.53%	2.58%	2.65%	2.76%
1.00	2.56%	2.56%	2.48%	2.54%	2.62%	2.74%
1.50	2.52%	2.51%	2.52%	2.60%	2.68%	2.79%
2.00	2.41%	2.48%	2.51%	2.60%	2.69%	2.80%
2.50	2.42%	2.48%	2.57%	2.64%	2.73%	2.82%
3.00	2.42%	2.48%	2.62%	2.68%	2.77%	2.85%
4.00	2.50%	2.59%	2.69%	2.79%	2.87%	2.91%
5.00	2.61%	2.70%	2.81%	2.91%	2.96%	3.00%

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

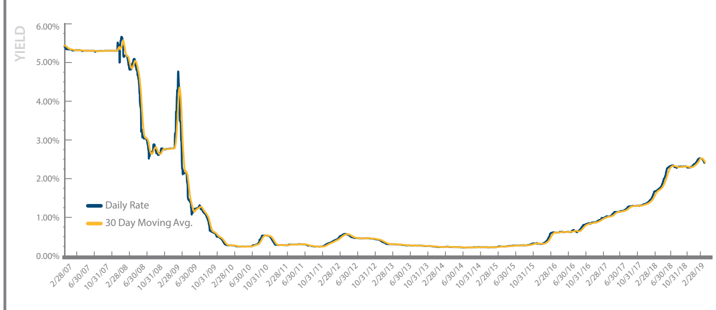
Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	5	5	5	5
90	5	5	5	5
180	5	5	8	8
365	5	7	17	13

Costs are stated in basis points per year.

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

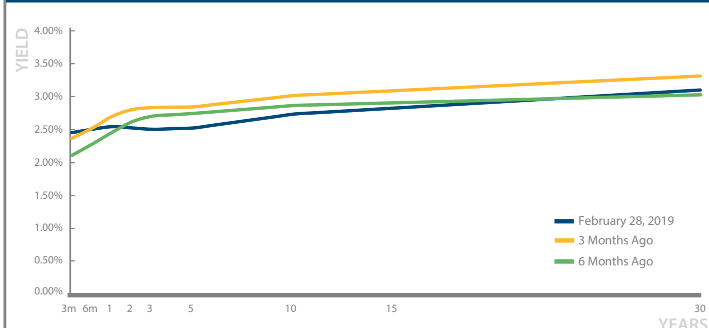
3-MONTH LIBOR



RELATION OF INTEREST RATE TO MATURITY

The yield curve depicts the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity and for potential default risk.

TREASURY YIELD CURVE



COBANK UPDATE

CoBank Commits $300,000 in Support of Midwest Flood Relief

Matching Fund Established to Support Customer Contributions

CoBank, a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States, announced it has committed $300,000 to support relief efforts resulting from the ongoing flooding in the Midwest.

This critical agricultural region has experienced record flooding in the wake of the "bomb cyclone," a rapidly intensifying weather event that brought extreme cold, heavy snow and rain to the region in early March. The states of Nebraska, Iowa and Wisconsin have declared states of emergency and Nebraska's Governor has called it the most widespread disaster in the state's history. Reports indicate that surrounding states may see additional flooding in the coming weeks.

Thomas Halverson

"The recent floods have profoundly impacted lives and livelihoods throughout the Midwest," said Thomas Halverson, CoBank president and CEO. Our hearts go out to those affected by this disaster and CoBank is proud to support relief efforts throughout the region. We hope that our contributions will help to ease the most immediate suffering and assist our customers and the communities they serve as they begin the journey to recovery."

CoBank is partnering with Farm Credit Services of America, a fellow member of the Farm Credit System serving farmers and ranchers throughout Iowa, Nebraska, South Dakota and Wyoming, to provide immediate contributions to support the farmers, ranchers and rural communities impacted by this disaster. Recipient charities include the American Red Cross, the Nebraska Cattlemen's Disaster Relief Fund, the Nebraska Farm Bureau and the Farm Credit System Employee Relief Fund.

About CoBank

CoBank is a $139 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit www.cobank.com.

In addition, CoBank will work with its customers, which include farmer-owned agribusiness cooperatives and rural electric, communications and water companies to support their relief efforts. The bank has established a $170,000 fund that will match the contributions of its customers and employees to charitable organizations providing flood relief.

CoBank matching fund

CoBank's Midwest Flood Relief Fund will be available through April 19 or the point at which the fund is fully exhausted, whichever comes first. The fund will be operated on a first come, first served basis and is open to any CoBank customer or affiliated Farm Credit organization that makes a contribution to support Midwest flood relief efforts.

Customers may apply for a matching grant by completing the application available on cobank.com. Questions about the program and completed applications may be directed to Sherry Johnson, senior manager of Corporate Social Responsibility at sjohnson@cobank.com or 303-740-6518.