

Perspectives

Edition: July – September 2024

State of the financial market in Paraguay



Fed cut the rates, at last

Entering the last quarter of the year, global growth expectations remain at 3.2%, with the upward adjustments to Brazilian, UK and US growth projections offsetting the downward corrections for Argentina, China, EU, Japan and Mexico (WEO, October 2024), in a context in which most economies are in the process of reversing their contractionary monetary policies.

In international financial markets, the highlight of the last quarter was the beginning of interest rate cuts by the Federal Reserve, which surprised with a bigger-than-expected 50 bps cut in September. However, the October data in the US showed a strong labor market (unemployment rate fell to 4.1% and job creation increased above expectations), while inflation (2.4% in September, higher than expected), despite continuing its downward trajectory, slowed its convergence to the target. These data have diminished the market's optimism, which has moderated its expectation of the pace of interest rate cuts for 2024 and 2025. In this context, the international weakening of the dollar has been put on hold.

The Bank of Japan's decision at the end of July to increase its interest rate for the second time in the year marked a turning point in the carry trade operations that had been very lucrative in recent years.

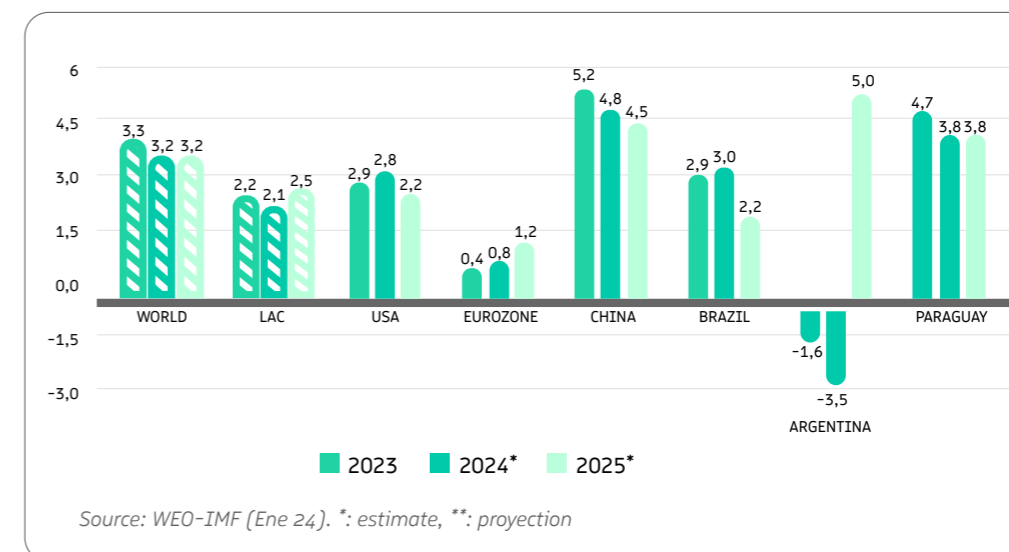
The European Union, on the other hand – characterized by an economy that continues with meager growth, but with inflation that is already below its monetary policy target – cut its interest rate in October for the second time this year. China has implemented a new package of expansive monetary-financial policy

measures with an aim to reactivate its internal demand. However, in the presence of structural problems in the world's second largest economy, the new measures may not be sufficient to stop China's economic slowdown (4.8% forecast for 2024). The slowdown in demand from China, a key player in the commodities market, and a dollar that remains strong, keep the prices of Paraguayan export commodities submerged.

In the region, Brazil maintains a pace of growth that has so far exceeded expectations from the beginning of the year, largely due to stronger domestic demand. Faced with inflation that in September remained at the limit of the BCB's target range, in September the BCB increased its monetary policy rate by 25 bps. This decision was taken in the setting in which the trajectory of the fiscal deficit and the upcoming change of president of BCB could introduce some uncertainty about its future stability.

In Argentina, inflation in September reached the lowest value since November 2021. Also in September ended the first phase of the capital laundering scheme ("blanqueo de capitales") that seeks to regularize undeclared assets and property, and among whose aims is to rebuild the country's international reserves. In a context of strong fiscal contraction, despite lower-than-expected export income, the parallel dollar has fallen, and the exchange rate gap has reduced to 20%. However, the conditions for lifting the exchange rate restriction are being postponed until 2025. The real sector continues to register a sharp contraction, with significant impacts on employment and income.

Graph 1. Level of activity (percentage changes, real GDP)



Most economies are in the process of reversing their contractionary monetary policies.



Local economic context

At the end of the third quarter of the year, the official projection of the GDP growth for the Paraguayan economy for 2024 has been - again - revised upwards, meaning that, with an expected GDP growth of 4.0% (BCP), Paraguay would once again be the fastest growing country in the region.

Although agricultural sector has remained practically at 2023 levels (+0.6%), and the energy sector has contracted sharply due to drought (-3.7%), the dynamism of industrial (+5.6%) and services (+5.6%) sectors, along with the start of a recovery in construction sector (+1.2%) have driven the dynamics of the first half of the year (GDP: +4.6%). In line with these developments, the monthly activity index (IMAEP) in August showed an accumulated growth of 4.2% (+6.1% excluding agriculture and binationals), indicating that the dynamic would continue during the second half of the year, although at a slower pace, due to a base effect of 2023 when the economy exhibited faster growth towards the end of the year.

The flip side of this sectoral pattern is a greater dynamism of private consumption (+5.0% in the first semester) - more dynamic than in the same period of 2023 (3.0%) and then the GDP - which, together with the reactivation of investment (+6.1%) drive imports, which grow faster than exports (8.1% and 9.9% respectively). As a result, due to the greater dynamics of imports and the negative shock to the terms of trade, as of the end of the September there was a difference of USD 992 million between the trade balance at the end of September 2024 and the same period of 2023.

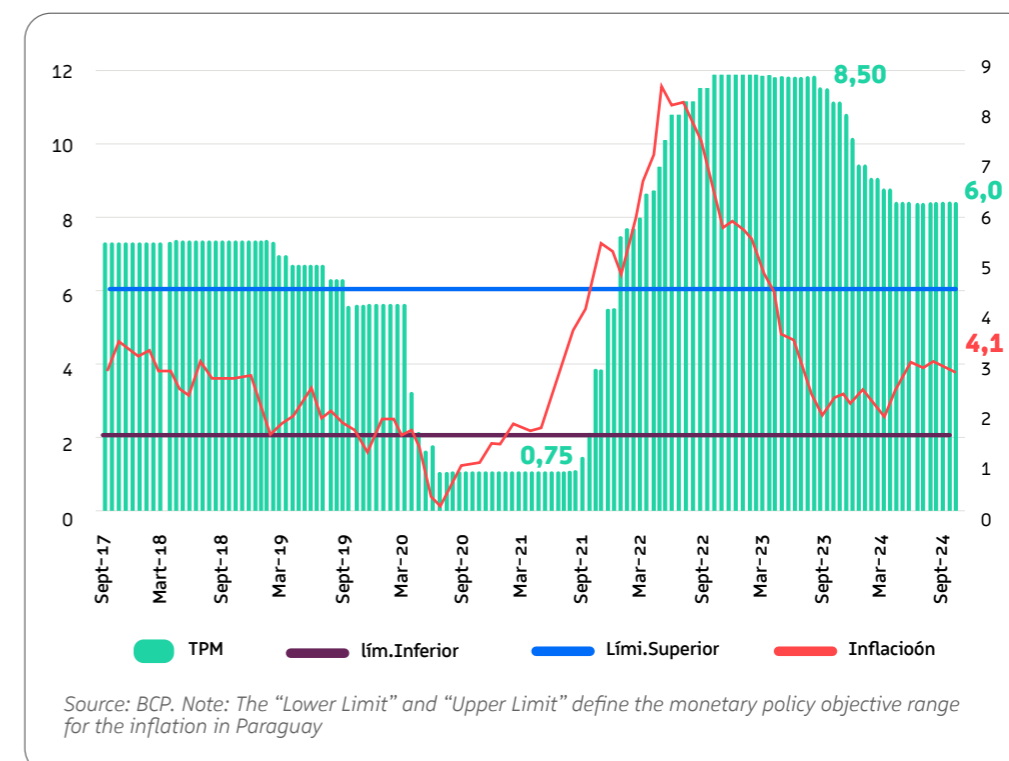
Considering the lower capital flows to developing economies, the nearly USD 1 billion smaller trade balance helps to explain the depreciation of the Guaraní, which in October reached 6.7% compared to the same month of the previous year. This depreciation is in line with that of regional currencies, ensuring the external competitiveness of the economy (real exchange rate: +0.5% compared to August 2023). With net purchases of USD 610 million in mid-October by the Central Bank (sales to the financial sector of USD 1,277 million and net purchases by the public sector of USD 667 million), International Reserves remain above 20% of GDP.

As the base effect of inflation in 2023 fades and food prices reverse the dynamics of previous months, inflation (4.1% in September) returns to the monetary policy target.

Market expectations for October are at 4.1% for the end of the year and remain at 4.0% for the monetary policy horizon. On the other hand, despite the fact that public spending is expanding (+13.8%) basically in sectors defined as priority and reflecting the greater burden of interest on public debt (1.9% of GDP), the increase in tax collection (17.4%) keeps the fiscal result in line with the convergence plan (annualized ordinary result: 2.4% of GDP).

As a result of a more dynamic internal demand, greater pressure from tradable prices due to the greater depreciation of the Guaraní, and cuts in international interest rates that stared later than expected, we do not expect to see new cuts in the monetary policy rate for the rest of the year.

Graph 2. Inflación interanual (% , eje izq.) y Tasa de Política Monetaria (TPM) (% , eje der.)



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Market continues to grow...

Trading Volumes

The stock market continues to show significant growth.

In the first nine months of the year, the Electronic Trading System (SEN) of the Stock Exchange (BVA) recorded trading volumes totaling Gs. 34,615,692 million, which represents a year-on-year growth of 31.3% in the total amount traded compared to the same period of 2023.

The repo market represents the largest proportion of the volume traded in the SEN, 74.5% of the total. This volume represents a year-on-year growth of 36.1% compared to the same period of 2023 and 311.6% of what was traded in the same market throughout 2022 within the same period. This exponential growth demonstrates the market's preference for this instrument with regard to the management of the liquidity of its securities.

Primary Placements

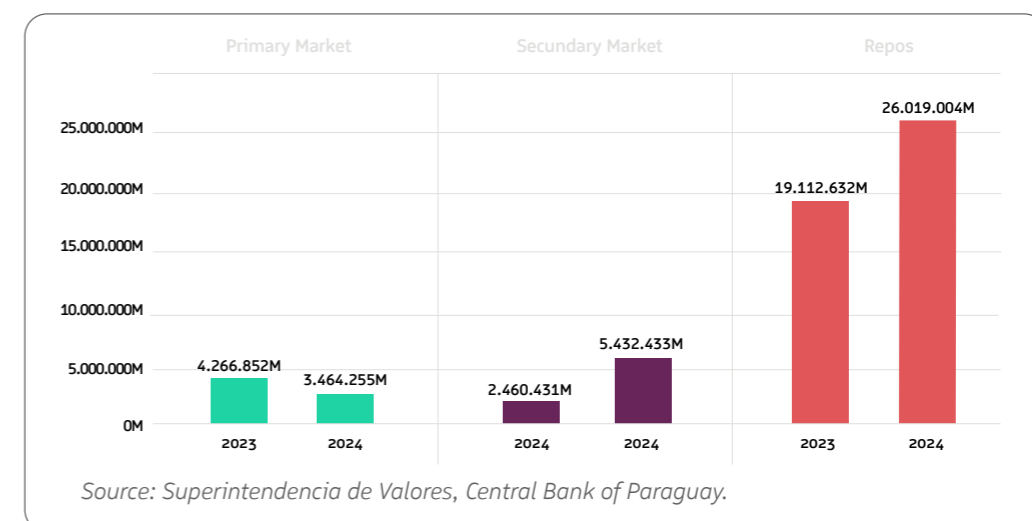
During the third quarter of 2024, many companies from various economic sectors considered the stock market as a way to raise funds and support investment projects. These companies managed to raise a total of Gs. 1,530,735 million during the third quarter, adding to the total of Gs. 3,464,521 million captured since the beginning of the year.

During the third quarter, the public, financial and service sectors were the largest fundraisers from investors, representing 86.0% of the total amount captured during this quarter. The agricultural and the commercial sector showed the greatest diversification of investors, reaching a total of 223 and 112 investors, respectively (Chart 4.)

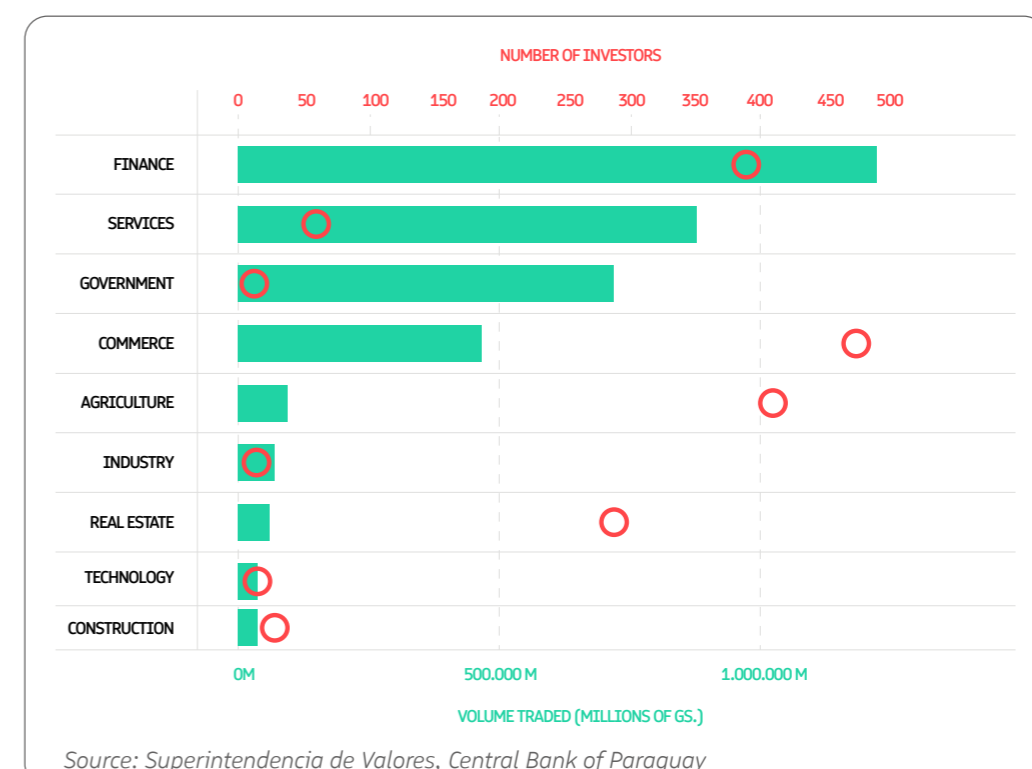
As for the instruments issued, 98.1% of the total placed was through debt securities, 0.5% through shares and the remaining 1.4% through investment funds. We highlight the large participation of debt securities in the primary market, which, due to more attractive fixed-income financing conditions caused by decreases in interest rates, has been a widely used instrument for issuers.

“The repo market represents the largest proportion of the volume traded in the SEN, 74.5% of the total.”

Graph 3. Trading Volume (SEN)



Graph 4. Primary Emissions - Jan - Sep 2024



...offering oportunities

Sovereign Yield Curve

In a more stable economic outlook, negotiated rates at government bond auctions have decreased compared to the same period last year. We also observed a fluctuation in the slope of the curve, where longer maturities are already accompanied by a higher rate of return.

Monetary Regulation Letters (LRM) exhibited the greatest variations in their yields. Specifically, short-term maturities showed the most pronounced fluctuations, with reductions reaching 2.00% in 1-month maturities and 1.80% in 2-month maturities compared to the same period last year (see Table 1).

Regarding the issues of the Ministry of Economy and Finance (MEF), Treasury Bonds (BOTES) have also experienced downward fluctuations of around 1.05% and 1.08% compared to the same period last year (Table 1). It is worth mentioning that, in addition to what is illustrated in the table, a 10-year series was placed with a yield rate of 7.70%.

We highlight that, for the third consecutive quarter, the MEF has chosen to carry out the auction of these securities through the Central Bank of Paraguay instead of the Asunción Stock Exchange (BVA), which is reflected in the decrease in the volumes traded on the primary market compared to the previous year.

Trades in the Stock Market

During the second quarter of the year, trading in the primary and secondary securities markets continued to adjust to current economic conditions and fluctuations in interest rates.

Considering that in September the US Federal Reserve (FED) made the first cut in interest rates since March 2020 (0.50%), and that one or two cuts are still possible before the end of the year, we project that the gap between Guaraní and dollar yields will widen in the coming months.

In terms of purchase-sale transactions in the stock market, trading in Guaraní-denominated fixed-income securities, excluding BOTES, totaled approximately USD 833 million (USD 318 million during the third quarter), with an average market yield of 8.55% and an average maturity of 5.65 years (Table 2).

On the other hand, dollar bond trading ranged from USD 251 million (USD 126 million during the third quarter), with an average market yield of 6.94% and an average maturity of 4.76 years (Table 3). When analyzing only the issues in the primary market, Guaraní bonds had average residual terms of 3 to 8 years (Table 5), with average rates by sector that ranged between 5.50% and 16.00%, depending on the level of credit risk (Table 4). Dollar issues had rates that ranged between 6.44% and 8.23%, with average maturities of 4 to 10 years.

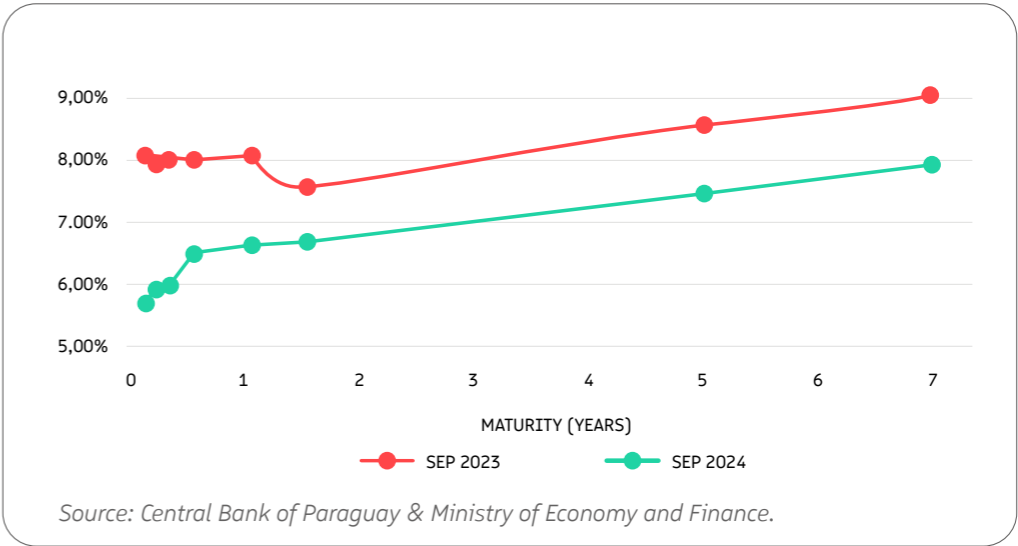
Table 1. Yield on Government Bonds

INSTRUMENT	SEP 2023	SEP 2024	DIFFERENCE
LRM - 1 MONTH	7,90%	5,90%	-2,00%
LRM - 2 MONTH	7,80%	6,00%	-1,80%
LRM - 3 MONTH	7,82%	6,05%	-1,77%
LRM - 6 MONTH	7,84%	6,45%	-1,39%
LRM - 1 YEAR	7,85%	6,55%	-1,30%
LRM - 1,5 YEARS	7,49%	6,60%	-0,89%
BOTES - 5 YEARS	8,25%	7,20%	-1,05%
BOTES - 7 YEARS	8,63%	7,55%	-1,08%

*LRM: Monetary Regulation Bills: instruments issued by the Central Bank of Paraguay (Last Auction - September 2024).
*BOTES: Public Treasury Bonds: instruments issued by the Ministry of Economy and Finance (Last Auction - September 2024).

Source: Central Bank of Paraguay & Ministry of Economy and Finance.

Graph 5. Sovereign Yield Curve



Source: Central Bank of Paraguay & Ministry of Economy and Finance.

Table 2. Fixed Issues – Bond Characteristics by Risk Rating (Guaraníes) – Jul – Sep 2024

AVERAGES						
	COUPON (%)	PRICE (\$)	YIELD (%)	MATURITY (YEARS)	DURATION (YEARS)	AMOUNT (MIL. GS.)
Corporate, Financial, Municipal and Subordinated Bonds in Guaraníes						
MARKET	8,49	99,95	8,55	5,65	5,04	1.921.045
AAA	7,37	100,17	7,27	6,23	5,58	807.841
AA	8,32	100,92	8,10	4,73	4,37	173.087
A	8,61	99,25	9,00	6,15	5,35	664.380
BBB	11,52	100,40	11,41	3,37	3,10	267.744
BB	13,46	100,00	13,46	3,37	3,14	7.296.120

Table 3. Fixed Issues – Bond Characteristics by Risk Rating (Dolars) – Jul – Sep 2024

AVERAGES						
	COUPON (%)	PRICE (\$)	YIELD (%)	MATURITY (YEARS)	DURATION (YEARS)	AMOUNT (USD)
Corporate, Financial, Municipal and Subordinated Bonds in Dolars						
Market	6,98	100,20	6,94	4,76	4,42	126.156.150
AAA	5,46	100,11	5,32	1,02	1,01	664.695
AA	6,65	100,32	6,56	4,97	4,56	36.260.407
A	6,53	100,18	6,50	4,13	3,96	55.085.926
BBB	8,12	100,20	8,06	5,74	5,14	33.176.025
BB	7,39	99,67	8,51	1,95	1,90	969.098

Source: Superintendency of Securities, Central Bank of Paraguay

Table 4. Coupon Rates (%) – Primary Emissions – Jul – Sep 2024

DOLLAR	AAA	AA	A	BBB	BB	B
COMMERCE		8,00		7,55		
CONSTRUCTION			6,50			
FINANCE		6,49	6,44			
SERVICES				8,23		
GUARANÍ	AAA	AA	A	BBB	BB	B
AGRICULTURE				13,83		
COMMERCE		8,07	9,74	11,13		
FINANCE	7,32	7,80	8,04			
REAL ESTATE				15,02	13,33	
GOVERNMENT	5,50					16,00
SERVICES	8,17		12,00		13,50	

Source: Superintendency of Securities, Central Bank of Paraguay.

Table 5. Maturity (Years) – Primary Emissions – Jul – Sep 2024

DOLLAR	AAA	AA	A	BBB	BB	B
COMMERCE		9,74		4,37		
CONSTRUCTION			4,97			
FINANCE		7,43	3,49			
SERVICES				6,35		
GUARANÍ	AAA	AA	A	BBB	BB	B
AGRICULTURE				4,95		
AGRICULTURE		4,17	6,36	4,74		
FINANCE	6,24	6,32	6,82			
REAL ESTATE				5,14	4,03	
GOVERNMENT	4,00					3,87
SERVICES	8,00		4,57		3,24	

Source: Superintendency of Securities, Central Bank of Paraguay.

Important Information

Published on 10/30/2024, information as of 09/30/2024 (financial sector) and 10/22/2024 (economic sector)

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An aerial photograph of a vast, dense tropical rainforest. The canopy is a rich, textured green, with many small gaps and variations in shade, suggesting a high level of biodiversity. The perspective is from directly above, looking down on the forest floor.

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