

LATAM Market Update

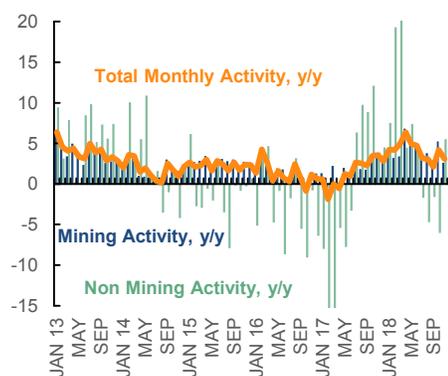
- **Chile:** Better-than-expected activity in November, but confidence remains in the doldrums
- **Peru:** Mining investment growth continues strong

CHILE: BETTER-THAN-EXPECTED ACTIVITY IN NOVEMBER, BUT CONFIDENCE REMAINS IN THE DOLDRUMS

Yesterday, the Central Bank stated that economic activity in November grew at 3.1% y/y (made up of 5.5% y/y of growth of mining activity and 2.7% y/y in all other sectors) in the highest extreme of the market's forecast range (whose median was circa 2%, but our forecast was at 2.5%). Apparently the surprising result was linked to services (specifically to the public sector services that had shrunk in Q3). Besides given more support to a hike of the MPR on January 31th, this positive result makes more likely an annual growth of 4%, which would require an expansion of 2.5% in December, which will be critically conditioned by mining activity. (There are good reasons to expect a supportive mining activity). The final result will be known on February 5th.

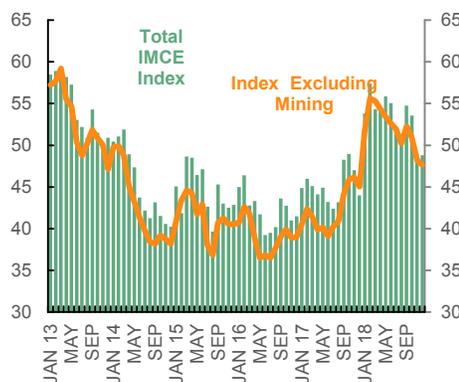
In more fresher stuff, in December business confidence (Monthly Economic Business Confidence Index, known as IMCE by its acronym in Spanish) fell again (it was into the negative zone since the previous month). Indeed, it is not very surprising, since the two likely more determinant factors (terms of trade and political confidence) have been deteriorating in the last months. However, one can be still optimistic about future developments in both areas, we must keep in mind that likely the volatility for both elements will be high in the new year. Fortunately, recent updates of the cadaster of investment projects were very positive. On the other side, consumer confidence index also remained well-into the negative zone,

Monthly Economic Activity Indicator (IMACEC) Annual % Change



Sources: Scotiabank Economics, Banco Central de Chile.

IMCE: Monthly Business Confidence Index



Sources: Scotiabank Economics, ICARE, UAI, BCCCh.

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though in this case the bad result seems more related with a still weak labour market, because inflation remains healthy contained. Accordingly, a recovery in this area will likely be rather slow, but interesting considering its effect on some sectorial investments.

We also we got foreign trade data for December (and, therefore, for the whole year). Exports contracted by 5.5% y/y (with a strong negative effect coming from mining exports that fell 12.6%, and manufacturing goods slowed to 4.6%), while imports accelerated to 5.7% (heavily supported by the less demanding comparison base). For the whole year, exports expanded 9%, while imports did it at 14.3%. Anyway, it seems a good picture of the performance of both domestic and foreign critical elements.

For the rest of the week, the only critical slated release is CPI for December. Our economic team is expecting 0% m/m, while the market is calling -0.1%. Accordingly, annual inflation would be between 2.6% and 2.7%, below most of the initial forecasts. Of course, data, especially those core components closely tracked by the Central bank, will be a meaningful factor to be considered in the next MPR decision. By the way, since the January CPI a new basket of goods and services will be used (the basket, including the products and their respective weights, is updated each 5 years). According to our specialized team, the new basket will convey less seasonal factors but more lingering inflationary momentum (less volatility of total CPI), due to a higher weight of services (vs. that of goods), and if it were applied to the previous 5 years, the inflation would have been, in average, 0.2pp per year.

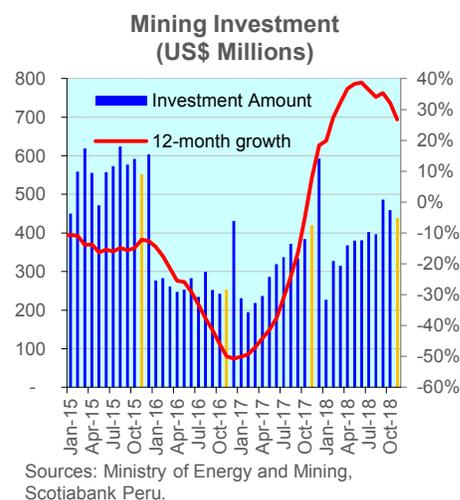
PERU: MINING INVESTMENT GROWTH CONTINUES STRONG

Mining investment was up 25% in the year-to-November, reaching US\$4.2bn. Though strong, growth has been slowing from a mid-year peak of nearly 40%. This was expected. Given the November figures, which included backdated revisions, mining investment growth could surpass 20% in 2018. We maintain our forecast of 13% growth in 2019.

Highlights include:

- Investment in the expansion of the Toquepala (Southern) and Shougang operations are winding down. The Shougang expansion came on stream in August, while the Toquepala expansion was 98% concluded the last time the company reported in October.
- The greatest increase in investment in the YTD included: Anglo American – Quellaveco (+233%), Shougang (+108%), Marcobre-Mina Justa (+336%) and Chinalco-Toromocho (+114%).
- Investment in exploration continues to decline, down 14% (-12.7% to October). The decline in exploration investment at Buenaventura has fallen especially large, down 68%.

The CB will release official November trade balance data on Friday, January 11th. However, the head of the ministry of trade, Edgar Vásquez, gave initial information, stating that exports have risen 8.9% in the January-November period, led by non-resource exports, up 14.2%, led by agro-industry. Resource exports, including metals and fishmeal, rose 7.0%. These figures point to a strong November, and robust growth. However, imports growth is likely to have been greater, so the trade surplus will be mildly lower in 2018 than in 2017.



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