

## LATAM Market Update

- **Chile:** Expectation and an approach to revealed parameters
- **Mexico:** Strong consumer confidence in the last month of 2018; Shortage of gasoline sums up to 10 days in some states
- **Peru:** The Central Bank leaves its policy rate unchanged; Infrastructure investment slowly gets back on track

### CHILE: EXPECTATION AND AN APPROACH TO REVEALED PARAMETERS

Yesterday the Central Bank (BCCh) released the results of its survey, that is monthly requested to the economic wizards about their expectation. Let's make some remarks. First up, about inflation, expectations for current year are now pretty distributed between 2.8% and 3%, which represents a tiny reduction (a month ago the value was mostly centered at 3%). From prices of the financial securities (average), the market would be expecting 2.8% (a day before that level was even a tenth lower). What happened? Two factors are the most important: the retrench of the oil price, which is expected to be transmitted to local prices in the coming months, and a gloomier perspective for consumption demand for the rest of the year. Let's say that is the state-of-the-art today. However, recent developments point that both factors may have bottomed or being close to it.

Anyway, expectation for 2020 (which is almost to say 24 months, that is, the Monetary Policy horizon) continued mostly in 3% (73% of surveyed), while in December 86% expected that level. Though the fall in that percentage still leaves expectation well-anchored to the monetary goal, it reflects that there are lingering factors in the mind of the experts (like those of demand) which weakened a tad. However, our economic team continues to think that inflation would converge to 3% even in the current year. As far as Monetary Policy Rate is concerned, two thirds of the market expect a 25bp hike on January 30<sup>th</sup> (vs. 88% in the previous survey), as we do, but 83% think the hike may take place in the next MPM or in the following. In big lines, most of the people are expecting a less expansive policy but the profile of hikes normalization looks less intense, despite half surveyed continue to expect a MPR at 3.5% at the end of the current year. More interesting, as most of the market expects the MPR at 4% in two years, and inflation at 3% in the same period, probably a big part of the market conceives the neutral MPR is 4% nominal (or 1% real).

Finally, linked to that, it is interesting to note that 72% think that GDP growth should be 3.5% or less in 2020, which suggest the cruise velocity of the economy is not expected to be higher than 3.5%. Interesting results, very good to have them as a reference, but, please, remember that wizards are able to change those "not observable" variables with extreme quickness, perhaps quicker that the real changes in the economy.

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## **MEXICO: STRONG CONSUMER CONFIDENCE IN THE LAST MONTH OF 2018; SHORTAGE OF GASOLINE SUMS UP TO 10 DAYS IN SOME STATES**

During the last month of 2018, consumer confidence improved both in its annual and monthly comparisons, with a generalized advance in practically all its components for both measurements. Inclusive, the component of perception on the economic conditions of the country foreseen for the next twelve months, which on the prior month added four continuous monthly losses, rebounded significantly in both original and seasonally adjusted figures.

Today is the tenth day where Mexicans have had to scramble for gasoline amid long lines at gas stations and widespread shortages prompted by a change in distribution methods due to the closing of several pipelines to unplug clandestine outlets. President López Obrador and State oil company Petroleos Mexicanos said the use of more secure transportation methods has resulted in delays for fuel delivery to gas stations in the states of Guanajuato, Hidalgo, Jalisco, Michoacán, Nuevo León, Tamaulipas, Mexico, Queretaro and Mexico City. At a conference press Mr. Obrador urged the country not to panic and reassured there is enough gasoline in the country.

## **PERU: THE CENTRAL BANK LEAVES ITS POLICY RATE UNCHANGED; INFRASTRUCTURE INVESTMENT SLOWLY GETS BACK ON TRACK**

The Central Bank held its monthly policy meeting yesterday. As expected, the CB did not modify its reference rate, at 2.75%. We are currently expecting the CB to raise rates twice in 2019, but our conviction has been waning. Our expectation is increasingly that the CB will do less and do it later in the year.

Work on the construction of the long-awaited Chinchero (Cusco) airport has begun. Initial activity is in land movement. The government announced it was working on a legal framework that would allow a State-to-State project manager arrangement, similar to the one currently being used for the Pan-American games installations under a contract with the British government. The government also announced that the initial work on the expansion of the Lima airport would begin "in a matter of days". Both announcements are positive in that they suggest government resolve in putting infrastructure investment back on track, perhaps not quickly, but certainly more credibly.

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