LATAM Market Update

- **Chile: Risk-on tone for Chilean assets? It's all about global preferences!**
- **Colombia: January BanRep Survey**

To view our latest "*Mexico: Initial Thoughts About the Gasoline Shock*" report, publish yesterday, please click here.

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CHILE: RISK-ON TONE FOR CHILEAN ASSETS? IT'S ALL ABOUT GLOBAL PREFERENCES!

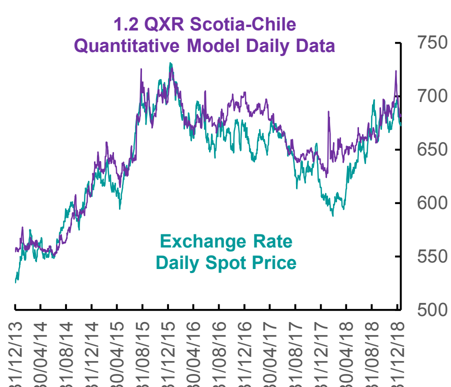
Since its bottom on December 24th the domestic stock market (whose most important index is the IPSA) has increased around 7%. That has given rise to comments in the media, even remarking this is the longest recovery of the domestic stock market in the last 27 years (considering the number of days without any negative daily change). In my view, what we are witnessing is just an updating, that is, a re-alignment of the domestic stock market with several variables historically correlated with it. So it is shown with sharpness comparing the IPSA and our model in the chart. The main factor behind the recovery is the risk-on tone in foreign markets (the VIX declined 50% in the said period, while other indices, like the US stocks and Latin American indices jumped around 12%). At the same time, there are other variables that are not helping: terms of trade spoiled (in the margin), domestic long term rates declined just a smidgen and even traded amounts have not changed significantly in the domestic stock market.

Chile Stock Market: Quantitative Approach

Sources: Scotiabank Economics; Reuters Eikon.

A specific paragraph deserves the exchange rate (USDCLP): it fell around 2% in the period, being very well aligned with our quantitative approach model, after a muted reaction to risk-off factors (that peaked on December 24th). Though technical analysis suggests it is close to a relative short-term bottom, there are no good reasons to expect a dramatic rebound (at least, not far from the neighborhood recently visited).

Chile Exchange Rate: Quantitative Approach



Sources: Scotiabank Economics; Reuters Eikon.

Furthermore, last high-frequency economic data do not give room to be too optimistic in the very short term: foreign trade figures up to the first week of the year suggest the economy headed into the new year with the same sluggish trend we saw in the last months of the previous year. According to our team, retail data for December will be disappointing and there are no good reasons to expect a dramatic rebound in short. As far as money is concerned, its growth remains the same that we saw in the previous year (circa 10%), which is not bad but does not seems enough to spark the optimism very-very soon. Of course, for the rest of the year we expect an uptrend in growth but not enough to cause, by itself, a dramatic rebound in asset prices, though should back a better performance of other relevant variables for the market.

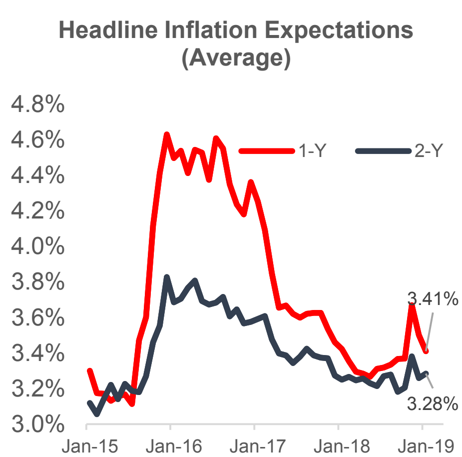
Accordingly, we remain positive for the domestic stock market for the current year, as we have longly been, but the ongoing rally should be taken with a grain of salt. At the end of the day, an update is always convenient but (almost by definition) very different from a brisk uptrend and (sadly) uses to be excessive and, therefore, usually followed by corrections. Volatility seem to be the rule for the markets in the coming few months, while cautiousness short term steadiness is the best ingredient for sensible strategies.

COLOMBIA: JANUARY BANREP SURVEY

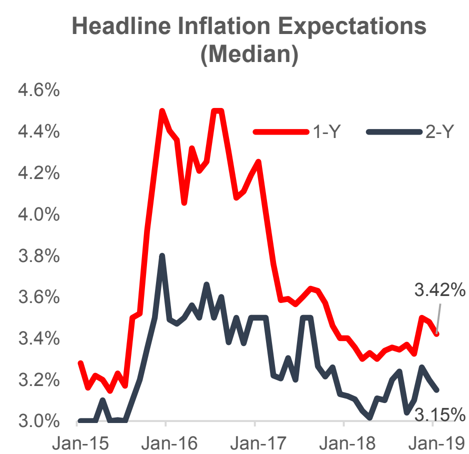
Yesterday, January BanRep survey came out. Bottom line, no relevant changes. 1-Y and 2-Y headline inflation expectations (IE) kept levels close to target. For the median, 1-Y IE dropped 9bps to 3.41% and 2-Y IE came in at 3.28%, which is two bps higher than last month. December 2019 inflation expectations came flattish at 3.5%. For core inflation measures 1-Y IE fell 11bps to 3.22%, while 2-Y IE dropped two bps to 3.16%. The changes in 1-Y IE measure seems relevant, however it is important to note that last month 1-Y expectations was for December 2019 (with some effects from El Niño phenomenon and FX pass-through), while this month this measure talks about January 2020.

For January 2019 consensus says inflation will come in at 0.66% m/m, which is 6bps higher than January 2020.

Finally, on monetary policy, according to BanRep survey, BanRep will start the hiking cycle in April 2019 with 25bps hike to 4.5% and only in August would hike another 25bps to 4.75% and keep its level for the rest of the year.



Sources: BanRep, Scotiabank.



Sources: BanRep, Scotiabank.