LATAM Market Update

- **Chile: Improvements? Yeah… But patience will continue to be critical!**
- **Colombia: January Citi survey; No major changes**

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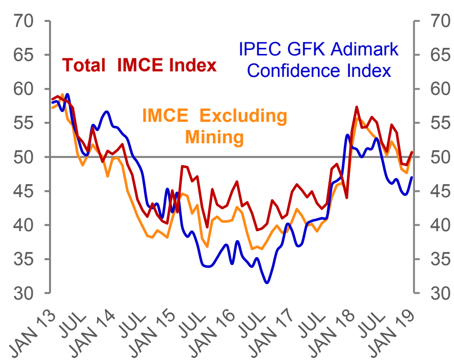
CHILE: IMPROVEMENTS? YEAH… BUT PATIENCE WILL CONTINUE TO BE CRITICAL!

IMCE & IPEC: Monthly Business and Customers Confidence Indices



Sources: Scotiabank Economics, ICARE, UAI, GFK Adimark, BCCh.

In the eve of the Central Bank of Chile (BCCh) monetary policy meeting (whose communiqué is expected for 6pm local time, which is EST+2, that is, 2 hour after the Fed release), the two main confidence indices were unveiled. First, the IMCE (the Spanish acronym for Monthly Business Confidence Index), compiled by ICARE (a prestigious private organization) said that its index got (marginally) into the optimistic zone, after two months of having been very pessimistic. What happened? It's hard to say, but terms of trade (in its most restricted, that is ratio of prices) indeed worsened in January, while domestic political conditions did not change materially. One critical explanation can come from the recovery in risk propensity around the world. Just as a reference, the VIX index fell from a very scary average level above 25 to less than 20 (not into the normal range yet, but even so a significant improvement). By the same reason, it is not for sure that will remain steadily so in coming months, unless we see some improvement in more relevant conditions (like better international or domestic conditions). Excluding mining, all sectors improved in January, however, in the optimistic zone are just commerce and mining (construction and manufacturing, though improved, remained at pessimistic level). Despite the improvement, the report shows a shrinking demand (vs. December) and inventories are above desired level. On the consumption side, IPEC (Costumers Economic Perception Index by its acronym in Spanish), compiled by Adimark GfK (a private company) showed the customer view of the economy remained in the negative zone, but rebounded, reaching its highest level since August. About this, it can be said that inflation expectation are stable or weakening (what can be helping) but the labour market is far from showing a very solid recovery and is unlikely to reach that for some months. Accordingly, a recovery in the mood of customers does not seem impending (in following two or three months).

Also yesterday, the BCCh released its quarterly banking loans survey, applied in Q4 2018. The survey gauges the disposition of banks (supply side) to lend and that of the demand (corporate, construction and real estate, and consumption) to borrow. About the former, a marginally more conservative attitude came across in the mortgage sector, but the general situation depicted did not show significant changes. On the demand side, however, there is a strengthening in the corporate segment, real estate and construction companies. This is rather aligned with a normal cyclical recovery in the Chilean economy, primarily led by investment, but investment accomplished by big companies. In other words, no dramatic changes for the very short term, but backs some optimism for H2.

As said in previous days, most of the market is expecting a 25bp hike in MPR this afternoon, with a message that realizes the activity has been slowing recently, which should support the view that the MPR is going to stay stable for several months (according to our economic team, at least up to the June 7th MPM). Worthwhile to say that the day and time of the BCCh release has nothing to do with the Fed MPM, it is a simple coincidence that, I think, make their decision process more stressing because they will have to read the Fed's statement and the market reaction just before to write down their own (if it were relevant, of course).

COLOMBIA: JANUARY CITI SURVEY; NO MAJOR CHANGES

Yesterday, January Citi survey came out. This survey is use by BanRep as one of the expectations measures on inflation, monetary policy rate (MPR), GDP and COP.

Bottom line, Analysts do not expect this Thursday's BanRep meeting to be an important event. All analysts think BanRep will stay put at 4.25%. For 2019, although with some dispersion the consensus is that Banrep will end at 4.75%.

For inflation, Analysts think (in average) January headline inflation will come at 0.65% m/m, close to our own forecasts of 0.64% m/m. For 2019 average projection is 3.52%, close to BanRep survey and similar to last month.

Consensus for 2019 GDP growth forecasts is 3.18%, a bit below our own forecast of 3.3%. For 2020 economic activity, analysts think GDP growth will be 3.35%.

Finally for COP, Citi survey has an average of COP3132 per USD for 2019 (eop) and COP3099 for 2020.