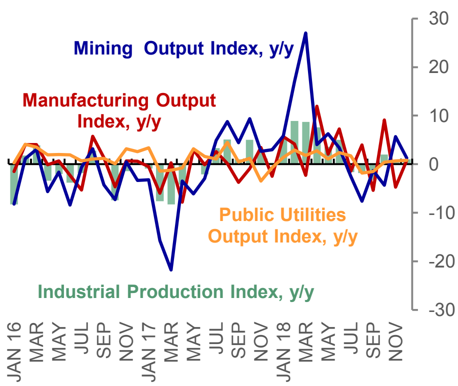
LATAM Market Update

- **Chile: Lots of data, few surprises but rather positive for assets**
- **Peru: Opposition party Fuerza Popular loses more leverage in Congress**

CHILE: LOTS OF DATA, FEW SURPSISES BUT RATHER POSITVE FOR ASSETS

Yesterday, the INE (Spanish acronym for National Office of Statistics) released sectorial data for December, which resulted in a mixed bag: mining output disappointed with growth of just 1.3% y/y (totaling a 2018 growth of 3.8%), while output of both the manufacturing and public utilities expanded 0.8% y/y (reaching annual expansions of 2.4% and 1.1%, respectively). With this chunk of data, but still waiting for the commerce figures (slated for next Monday) our team estimates that aggregate activity grew between 3.5% and 4% y/y that month. This range points to an annual GDP growth of 4%, which is not surprising for the market. Recall for the current year the forecasted growth reaches 3.2%, and the same for the following year.

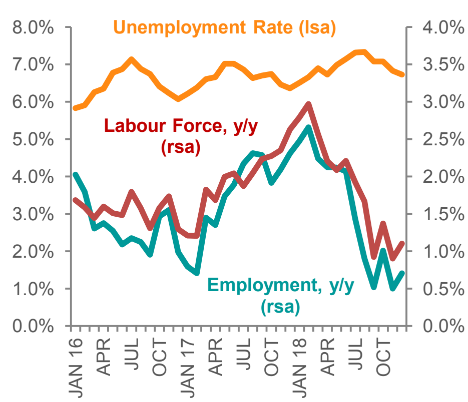
Chile Industrial Sector Production Indicators - Y/Y Growth Rate



Sources: Scotiabank Economics, National Statistics Bureau (INE).

Labour market showed a still limited recovery. The unemployment rate in the last quarter of the year reached 6.7%, a marginal recovery compared with the 6.8% in the previous mobile quarter, fitting well with the benign seasonality. It must be said this figure was reached by an acceleration of both labour force (from 0.9% to 1%) and employment (from 0.5% to 0.7%). About the latter, salaried employment (around 69% of total) accelerated its increasing pace to 1.3%, while self-employment (around 21% of total) contracted by 1.3% (its biggest decline since H1 2015). The unemployment rate for 2018 reached 6.9%. Our economic team expects some limited reduction of the unemployment rate in the current year, due to faster investment growth, though there are other factors that might nuance that effect (being the final outcome of proposed reforms and business expectation a couple of critical factors).

Labour Market and Unemployment



Sources: Scotiabank Economics, INE.

CONTACTS

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

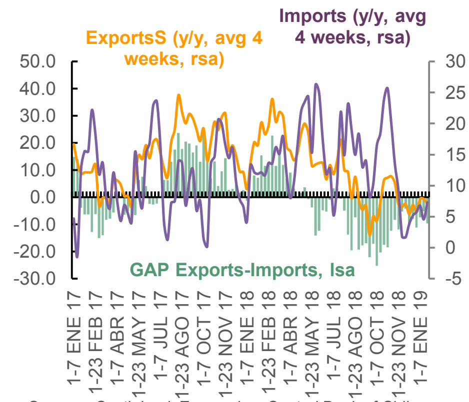
Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
olarteas@colpatria.com

Benjamin Sierra
56.2.2619.4974 (Chile)
Scotiabank Chile
benjamin.sierra@scotiabank.cl

Digging into fresher stuff, weekly data up to the 3rd week of January, also released yesterday by the Central Bank (BCCh) showed the money annual growth (in all cases are last 4 weeks average) eased a tad, to 9.3%, while banking loans accelerated to a similar extent. In none of those cases comparison basis can be blamed. On the foreign trade side, the negative annual change in exports deepened to more than 2%, heavily impacted by lower copper exports, while both agricultural and manufacturing accelerated in the margin. Imports, on the contrary, moderately accelerated, with oil dominating the scene (logical due to price rebound). Fortunately, capital goods imports strengthened and, even though busses imports improved again at a very “strange” scale, other areas were positive. Data are not concluding: specially about capital imports we will see more demanding comparison bases in the coming weeks, but anyway suggests/confirms the cycle has a regular profile, passing through its weak period in current months. A stronger improvement could come in H2. Accordingly, the view of a year-end MPR at 3.5% is kept. Bottom line for assets prices: as can be seen in the chart, the gap is still in the negative zone and will likely remain so in the coming months.

Chile: Exports and Imports Annual Growth

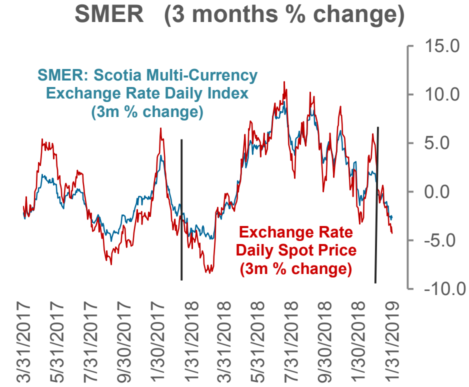


Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

Also worthwhile to comment that last Wednesday, the BCCh decide to elevate its MPR by 25bp, to 3%, like most of the market and our economic team were expecting. Known that, all glances were on the statement, which came out a tad more dovish (or less hawkish, to avoid any quarrel about it). Even more than that, the communiqué conditioned any change in the future guidance to the next Monetary Policy Report, and “In particular, the next Monetary Policy Report (which) will pay special attention to the evolution of the international scenario and its implications for the convergence of inflation to the target”. According to that view, our economic team now expects no change in the MPR up to the July 18th regular meeting, when a new dose of 25bp would be given then and other similar later in the H2. Accordingly, the view of a year-end MPR at 3.5% is kept.

As far as critical variables are concerned, of course the Fed directions strengthened the CLP vs. the USD as a first reaction and consistent with the international environment. The BCCh view likely pushed in the opposite direction, but the change is so “subtle” compared with the international news (putting aside the positive result of the Chinese PMI’s), that a plunge was very likely. According to our proxy-model (SMER), the plunge in the USDCLP is well accompanied by other currencies, though not perfectly, with the CLP appreciating a tad more than relevant currencies for the foreign trade. However, it seems small and early enough to have a significant effect in short. As far as the long term rates are concerned, data released put some additional pressure on them, which is not surprising and also looks coherent with our view of weak yield in the short term, and a more dynamic trend that would start along the second half of Q2. To some extent, there are good reasons to think change in some prices should be understood as part of the expected volatility, of which we will have more in coming weeks and months. Of course, the same can be extended to the stock market, for which we keep a positive view in the current year.

Spot Exchange Rate (USDCLP) vs. SMER (3 months % change)



TECHNICAL NOTE: Calculated considering energy and consumption goods imported from several countries that represent relevant proportion on total.

Sources: Scotiabank Economics, Reuters Eikon.

PERU: OPPOSITION PARTY FUERZA POPULAR LOSES MORE LEVERAGE IN CONGRESS

Fuerza Popular, FP, has lost the chairmanship of four congressional committees, and now hold only 9 (down from 13), out of 24 total. FP has also lost two members, to only 9, in the 24-seat Directing council, as well as seats in a number of key committees. This re-accommodation takes into account the loss of membership of FP in Congress, which has accelerated in recent weeks. FP is now down to 55 members of the 130 member Congress, from 74 in 2016. FPs loss of power significantly improves the relationship of Congress with the Vizcarra regime. The new relationship with Congress gives the government the opportunity to focus more on its own policy agenda. The business environment has improved as well, on the perception of less political turbulence going forward.

Other political and corruption events:

FP Congresswoman, Yeni Vilcatoma submitted to the Attorney General's office an accusation against President Vizcarra for having remained a stockholder and director of the family business C y M Vizcarra, while he was a cabinet member during the Kuczynski regime. Most legal analysts agree that the accusation cannot proceed legally. Vilcatoma is likely acting under the intention to tarnish Vizcarra's anti-corruption image, rather than expecting an actual legal victory.

New witnesses have stated that the former Minister of Transportation during the Humala regime (2011-2016) had received bribes to turn a blind eye toward the dealings of the Construction Club with the Ministry in investment Project tenders. A number of private sector construction companies are under investigation for colluding with government officials to divide up among themselves tenders in investment projects.