

LATAM Market Update

- **Chile: Another week with critical data**
- **Banxico's Survey: Compared to the previous month, in January Economy specialists reduced their expectations for 2019 in both economic growth and exchange rate at year-end**
- **Peru: Inflation low in January, GDP growth high on seasonal factors, the Central Bank stable**

CHILE: ANOTHER WEEK WITH CRITICAL DATA

In the current week we will know some important data for the Chilean economy. Today we will know the index of commerce activity for December, for which our economic team expects a null variation in 12 months. It is a very weak result considering the low comparison base (December 2017 showed a relatively low growth of just 2.8% and last December had one more business day). This data will be important for the aggregate activity index for the same month (and, therefore, for the whole year), to be released on Tuesday. We adjusted our forecast to 3.4% but the range of forecasts in the market is pretty wide. Completed that information we will have to wait up to next Friday, when the (INE) National Statistics Office will release inflation for January. As said before, most of the market is expecting between 0.2% and 0.3% (our team is in the highest part of the range), and anything out of that level would cause some adjustment in fixed income in mid-term. Worthwhile to recall that the day after the MPR hike (Wednesday) the inflation expectation for the current year rose to 2.8%, despite the USDCLP correction the same day. It must also be said that the short part of the yield curve moved up in the last week, and with the heaviness shown by the long term rates, it has resulted in a flattening of the steep, but nothing of that is really surprising in our view.

BANXICO'S SURVEY: COMPARED TO THE PREVIOUS MONTH, IN JANUARY ECONOMY SPECIALISTS REDUCED THEIR EXPECTATIONS FOR 2019 IN BOTH ECONOMIC GROWTH AND EXCHANGE RATE AT YEAR-END

In the Survey on the Economy Specialists Expectations in Private Sector, drawn up by the Central Bank of Mexico between January 15th and 29th, stand out the following shifts in contrast to December's survey: the average growth forecast for Mexico's GDP for 2019 and 2020 were adjusted downwards to 1.80% and 1.92%, from 1.89% and 1.96%, respectively; the projections for the exchange rate at the end of 2019 and 2020 decreased to 20.16 and 20.39 pesos per dollar, from 20.70 in 2019 and 20.81 pesos per dollar in 2020. Furthermore, the main risk factors for growth in the short term were those related to: governance (48% of responses), external economic conditions (19%) and internal economic conditions (17%).

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@scotiabank.com.mx

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

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

PERU: INFLATION LOW IN JANUARY, GDP GROWTH HIGH ON SEASONAL FACTORS, THE CENTRAL BANK STABLE

Inflation in January was a negligible 0.07%, taking the 12-month figure down a notch from 2.2% to 2.1%. With inflation hovering comfortably around the mid-point of the Central Bank's target range, we continue to see little motivation for the CB to move its reference rate over the next few months. We ratify our view that the CB will raise rates at most 50bps this year if GDP growth accelerates, with a good chance of one or no rate increase.

Initial GDP growth figures were released. Fishing was up 223%. This was, actually, largely expected. We had estimated a round 250% increase, on a very good fishing season. This is seasonal, however, with some effect still in January, but dissipating afterwards. Mining GDP fell 1.2%, versus our expectation of a small 0.9% increase. Mining GDP has been falling during most of the year, due to mine depletion and to important companies operating in lower yield areas of their mines. We still expect December to be a strong month, although when we punch the new numbers in, instead of 5.3% growth y/y, we get 4.9%. About 1.6 percentage points is due to fishing, which is not sustainable. Excluding fishing, GDP growth would be about 3.4%, which is a better representation of the strength of the underlying trend in growth.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.