

## 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 15<sup>th</sup> and 29<sup>th</sup>, 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%).

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**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.

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