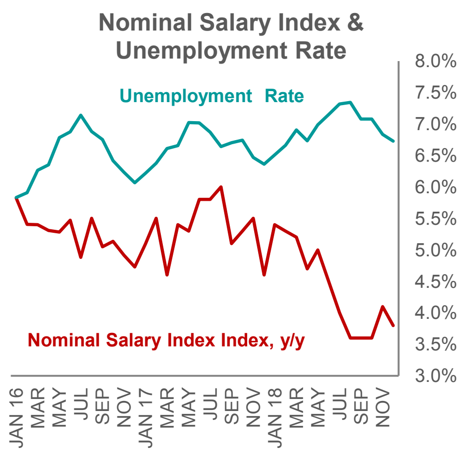
LATAM Market Update

- **Chile: Latest data confirm sluggish growth**
- **Mexico: Inflation below expectations in January; Banxico holds rates at 8.25%**

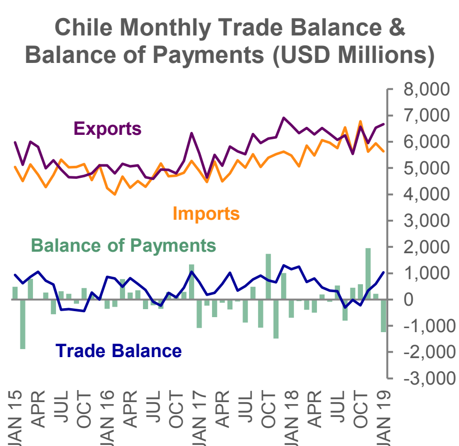
CHILE: LATEST DATA CONFIRM SLUGGISH GROWTH

Yesterday, the National Statistic Office (INE by its initials in Spanish) released its report on salaries. Data were rather weak: the growth of nominal salaries decelerated from 4.1% y/y in November to 3.8% y/y in the last month of the year. Even seasonally the result seems pale, but is coherent with a labour market still sluggish. Our economic team estimates that salary income growth rebounded a tad in December, but its growth remains low, which seems pretty coherent with the weakness shown by consumers expectation and final spending.



Sources: Scotiabank Economics, National Statistics Office (INE)

As far as foreign trade data for January are concerned, some recovery in the growth of exports (0.6% y/y) was expected vs. the negative figures in the previous two months, but comparison base (more demanding) did not help too much. Mining exports still contracted in 12 months (-3.3%), but was good enough to compensate some worsening in agricultural and manufacturing goods. Imports slowed to 3% y/y, dominated by weak data in consumption (durable goods are responding to the plunge of car sales, by all means sensible), and the positive tone came from capital goods, that regained some traction. From a broader point of view, putting aside some specific factors, foreign trade trends are consistent with the recovery of the economy, including the recent soft patch.



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

Some banking data for January were also released yesterday. In general, according to what we had seen in the weekly data, loans continued growing at a rate close to 10% y/y. There are no major changes in specific kinds of loans, but worthwhile to note the commercial credits (represent 54% of total loans) also kept an annual growth close to 10%. Recall that one year ago the rhythm reached just

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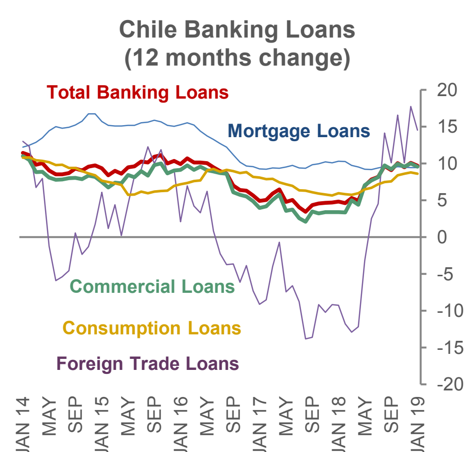

Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

3.4% and the current level looks coherent with the velocity of the investment that has increased since Q2 to near around 7% y/y. Much of the future improvement of this kind of loans will depend on the investment rate. There are good reasons to be moderately optimistic. Interest rates for commercial credits are increasing, in average, very mildly from low levels, what likely capture the higher short term interest rate and, also partially, the some less risk aversion. Accordingly, the rate should continue increasing moderately in coming months.

On the other side, basic money (M1) slowed its annual rate to 9.2%, which is not a dramatic change either, though confirms some deceleration, also partially coherent with the higher MPR in the last three months. Accordingly, we should expect the same trend in the next months, but not dramatically and to get an stabilization in short and some improvement later. The counterpart of this is an acceleration in M3 in last months.

Finally, today we will know the CPI for January. Most of the market is expecting 0.2% and some of them even 0.1%. Our team estimates monthly change of 0.3%, which would leave the 12m change around 2.4%. We can say now that the market would be really surprised if the result were out of the range between 0.1% and 0.3%. Within that range the market will refer with nuances to it. The monthly core CPI (excluding foods and energy) change could be closer to 0.5%.

MEXICO: INFLATION BELOW EXPECTATIONS IN JANUARY; BANXICO HOLDS RATES AT 8.25%

In the first month of the year, headline inflation increased by 0.09% m/m, well below the market consensus (0.19% m/m) and last year's result (0.53% m/m), mainly driven by a decline in the non-core component, due to a fall in energy prices. In its annual comparison, inflation moderated its growth from 4.83% in December to 4.37% (vs. 5.55% in January 2018), still above the central bank's target of 3.0% ± 1 pp. Core and non-core components registered annual price increases of 3.60% and 6.81%, respectively.

Yesterday, Banxico's Board of Governors decided, by unanimity, to hold the overnight interbank rate at 8.25%, in line with market expectations. According to Banco de México's press release, Mexican output moderated its growth during the last quarter of 2018 due to a slowdown in world economic activity and a weaker domestic demand. Annual headline inflation deaccelerated from 4.83% in December to 4.37% in January, mainly driven by a decrease in the non-core component; however, the board considered that the balance of risks regarding inflation still shows an upward bias in an environment of marked uncertainty. Banxico will closely follow the prevailing uncertainty and firmly adjust its monetary policy to achieve a price convergence to its objective of 3%.