LATAM Market Update

- **Chile: Inflation—New basket presses current variation and triggers downward revisions to past changes**
- **Mexico: November's 2018 gross investment step back confirms uncertainty in business sentiment, meanwhile private consumption deceleration continues**

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CHILE: INFLATION—NEW BASKET PRESSES CURRENT VARIATION AND TRIGGERS DOWNWARD REVISIONS TO PAST CHANGES

On Friday, the INE (Spanish acronym for National Office of Statistics), said the CPI monthly change in January reached just 0.1%, in the low part of the market forecasts segment. Due to the change in the basket (accomplished regularly each 4 years), the inflation in the last 12 months reached just 1.8% (with the old basket a monthly change of 0.1% would have left the 12 month CPI change at 2.2%). In other words, the inflation rhythm captured by the new basket would have been, at least in the last 12 months, lower. In the next few months that effect should predominate, but if we see a stronger recovery of domestic demand starting Q2 or in H2, we should see the inflation tone improve beyond mid-year. Going to core indices, the CPI (ex foods & energy) increased 0.4% m/m (our team's forecast was 0.5%), while according to the new basket the 12 months change reached 1.9%. Where is the difference between 0.1% (total) and 0.4% (core)? Well, foods fell 0.3% (fresh foods plummeted 2.7%) and energy did it at 1.8%. Non tradable goods increased 0.4%, while services (usually similar or very close) increased 0.3%. What happened with goods and tradable? The former decreased 0.1% while the latter did it at 0.2%, but most of it can be attributed to energy (a tradable product). All in all, though dominant negative incidences are the most volatile, other not so volatile components did not show a very fast pace, and the resulting new inflation panorama should help the Central Bank to stand on the sidelines for longer.

MEXICO: NOVEMBER'S 2018 GROSS INVESTMENT STEP BACK CONFIRMS UNCERTAINTY IN BUSINESS SENTIMENT, MEANWHILE PRIVATE CONSUMPTION DECELERATION CONTINUES

The gross fixed investment, n.s.a., contracted in November 2018 by 3.2% real annual (vs. + 3.4% in October and -4.9% in a previous year). First, expenditure on machinery and equipment fell 3.0% real annual, compared to a strong prior advance of 7.1%, as its national component accentuated its fall, from -3.0% to -12.1% y/y, accumulating six consecutive setbacks, while the imported component softened its advance 14.0% to 3.0% y/y. Second, construction spending resumed its downward trend, going from 0.8% to -3.3% real annual, with its residential component falling, from 3.7% to -2.4%, and non-residential deepening its decline, from -1.9% to -4.1%.