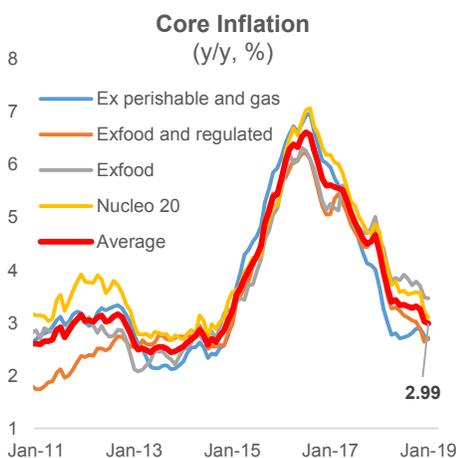


LATAM Market Update

- **Colombia: 2019 core inflation measures, right on BanRep's target**
- **Mexico: Industrial production closed the year with a monthly and annual contraction**

COLOMBIA: 2019 CORE INFLATION MEASURES, RIGHT ON BANREP'S TARGET

BanRep published core inflation measures with the new basket. Worth to note, all measures dropped in January 2019 and are within target range (2%-4%). On average core inflation fell by 4bps to 3%, which is exactly BanRep's target. The highest core inflation measure in January was ex-food inflation that came in at 3.46% y/y and dropped 2bps, while the lowest core inflation measure and Governor Echavarría's favorite (Ex perishable and regulated prices) came in at 2.69% y/y.



January 2019 core inflation measures show, in our opinion, that: i) New basket did not change much CPI inflation convergence; and ii) Core inflation, that tries to capture demand side inflation, is under control. Additionally, we think that tradable goods normalization (which means upward pressures to headline) will be net-off by normalization of non-tradable goods (which means downward pressures to headline inflation). Therefore, our forecast for 2019 headline inflation lays out around 3.3% y/y.

MEXICO: INDUSTRIAL PRODUCTION CLOSED THE YEAR WITH A MONTHLY AND ANNUAL CONTRACTION

In the annual figure, industrial production fell -2.5% in December (well below the consensus forecast +0.5% a/a) and comes from a contraction of 1.2% in November. The downfall was driven by a slowdown in manufacturing activity going from 1.6% in November to 0.2% in December, as well as a decline in the three remaining components: construction went from -3.5% to -4.3%, electricity, gas and water from 0.8% to -1.4%, and mining, from -7.9% to -8.4%.

In its monthly comparison, industrial production decreased 0.4% compared to November, which posed the third continuous monthly fall. If this trend in consumption and production figures continues, an even less dynamic GDP growth will be expected during 2019.

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