

## LATAM Market Update

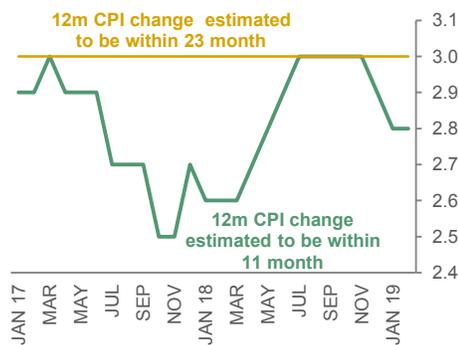
- **Chile: Lower growth plus lower inflation implies lower MPR, but does not imply lower asset prices**

The BCCh monthly survey about forecasts of several macro and financial variables was released yesterday. I think the most interesting part is the view of the market about inflation, monetary policy and activity growth. Though is far from being foolproof, it marks the mood of the market, which is later considered by private forecasters and even policy makers. What's new this month?

First, to note that dispersion of inflation estimated for the current year remains relatively high with the median at 2.7% (vs. 2.8% a month ago). Diverging from this, inflation deduced from market process has been showing an expectation closer to 2.5%. Part of the correction, as said, may have to be with the change in the basket used to calculate inflation and the relative low result last month. Though most of the market continues expecting 3% inflation for 2020, the percentage of that decreased to 61.5% (from 73% in January) with a shift to a lower level (those thinking of 2.9% or less are 27% vs. 19% last month). In an even more general view, considering the monetary policy standard horizon (close to 24 months in Chile) ¾ of those surveyed think annual inflation is going to reach 3%, a smidgen higher than the 73.1% that supported that call last month.

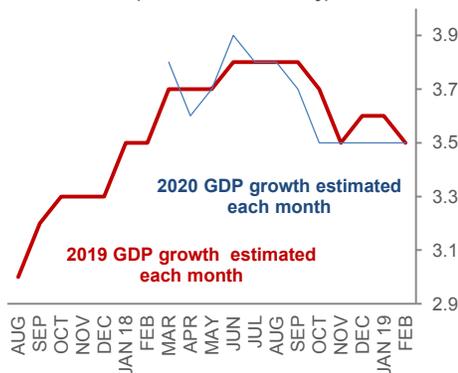
As far as growth is concerned, there is a less optimistic perspective. The median estimated for the current year was reduced from 3.6% to 3.5%. Most of the market (28%) continues expecting growth of 3.5%, but proportion forecasting less than that increased from 25% to 36%. For 2020 the median continues at 3.5%.

**12 month Expected Inflation within 11m & 23m**  
(median of the monthly survey)



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

**Expected Economic Growth for 2019 & 2020**  
(median of the survey)



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

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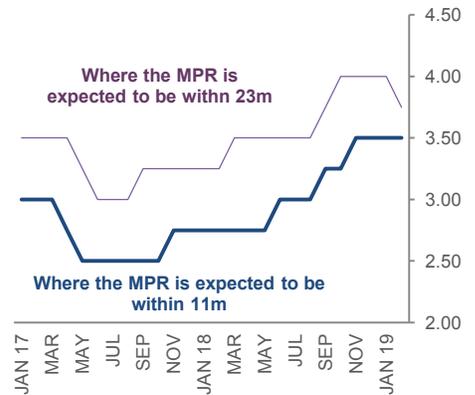
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About monetary policy, 98% expects no change in the MPR (currently at 3%) on March 29<sup>th</sup>. Percentage expecting a rise in coming 5 months decreased from 56% to 50%. The median for the year-end MPR fell from 3.5% to 3.25%. In a 23 months horizon, the median decreased from 4% to 3.75%.

Summing up, the market became softer, which seems pretty consistent with moderation in international conditions, domestic growth expectation and lower inflation pressures (including those coming from the new basket). Accordingly, though volatility coming from the monetary policy has not quite faded, should be less intense and if that is not happening with a backdrop of plunging growth, it usually is a plus for most assets prices.

**MPR Level Expected within 11m & 23m**



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

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