

LATAM Market Update

- **Mexico: Annual inflation during the first half of February within Banxico's target range (3% +/- 1%)**
- **Peru: Full-year 2018 GDP demand components**

MEXICO: ANNUAL INFLATION DURING THE FIRST HALF OF FEBRUARY WITHIN BANXICO'S TARGET RANGE (3% +/- 1%)

Headline consumer inflation was -0.10% in the first half (1H) of February (vs. +0.08% expected and +0.20% a previous year), its lowest variation for a similar period since 2002. Meanwhile, core inflation was 0.26% biweekly (slightly above the expected +0.24), as the merchandise component increased 0.34% (vs. +0.38% a year earlier) and the service component grew 0.17% (vs. +0.23% a previous year). Non-core inflation printed a -1.15% in February's 1H (vs. -0.06% a year earlier), also its biggest decline for a similar fortnight since 2002, with a greater contraction, from -1.23% to -2.78%, in the agricultural component. Finally, annual headline inflation was 3.89% in February's 1H (vs. +5.45% a year earlier), as the core component advanced 3.51% and the non-core component 5.15%.

PERU: FULL-YEAR 2018 GDP DEMAND COMPONENTS

The Central Bank published the full-year 2018 GDP demand components, as follows below. Much of the information had already be released. The only, mild, surprises were the strength of consumption, up 3.8% for the year, exceeding our expectations of 3.5%–3.6%. Consumption has been consistently robust throughout the year, and has ended in even greater strength. Private investment, on the other hand, is still mildly underperforming expectations, up only 4.4%, versus our already modest expectations of 5.6% growth. Overall, the economy ended 2018 in strength, with signs that this is carrying over into 2019.

2018 GDP GROWTH

| | 2018 |
|---------------------------|------------|
| GDP | 4.0 |
| Imports | 3.4 |
| Domestic Demand | 4.3 |
| Household Consumption | 3.8 |
| Public Sector Consumption | 2.0 |
| Private Investment | 4.4 |
| Public Sector Investment | 8.4 |
| Exports | 2.5 |

Source: Estudios Económicos - Scotiabank Perú

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The BoP Current Account deficit for 2018 came in at 1.5% of GDP. If non-remitted foreign company profits are excluded, the Current Account balance would have been negligible. Pretty much all major macro balances ended 2018 much better than was expected at the beginning of 2018. A year ago the market expected a fiscal deficit of 3.3% of GDP, much greater than the actual fiscal deficit of 2.5%. A year ago consensus called for an 1.7% of GDP current account deficit, versus the 1.5% registered. Peru's economy is beginning 2019 in very healthy conditions. Having said this, the public sector debt did rise to 25.7%, its highest level since 2009. This represented a mild increase from 24.9% in 2017.

Bank loans were up 8.0%, y/y, in January. This represented a moderate slowdown from 8.8% the month before. Most of the slack was in business loans, up 6.4%, y/y in January, versus 7.8% in December. Business loans outstanding actually fell in January, versus December. This is, largely, seasonal, as some banks bring loans forward to December to bolster their year-end results. However, the magnitude of the decline this January was much greater than in previous years. In contrast, household loans, which had already been growing consistently strong, accelerated further, to 10.9%, versus 10.6% in December.

The truckers strike went into its fifth day, and has begun to alarm private sector exporters. We have still not seen evidence that the strike is generating inflation, although this may be because the strike is mostly affecting cargo that is exported, rather than for domestic demand.

More corruption accusations have emerged, this time involving the Lima Chamber of Commerce. An Odebrecht spokesperson that was questioned by Peru's prosecuting attorneys, stated that Odebrecht paid one or more members of the arbitration committee of the Lima Chamber of Commerce slush funds to favour Odebrecht in its rulings on contractual discrepancies with the State. By involving the Lima Chamber of Commerce, a private institution, the claims increase the ripples through the business community, and adds another layer to the extension of the Odebrecht corruption issue.

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