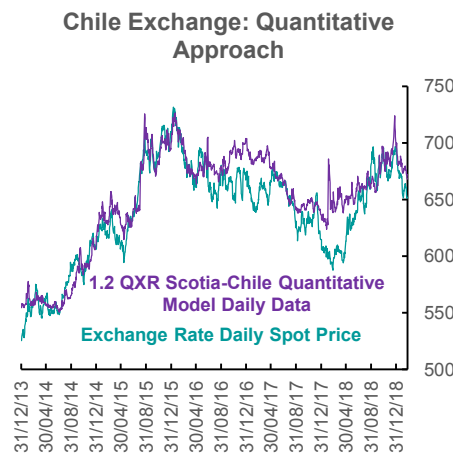


LATAM Market Update

- **Chile: A warming up week—A good analysis toolbox at hand**
- **Mexico: GDP slows in the fourth quarter; Pemex oil production shrank to its lowest level in 30 years**
- **Peru: CB is biased towards raising rates in the future, but in no hurry to do so**

CHILE: A WARMING UP WEEK—A GOOD ANALYSIS TOOLBOX AT HAND

Is the copper rally as positive as it could be considered? If we are referring to a real rally (not just a transitory rebound) of course it can change the profile of some variables. Beyond the exchange rate plunge (whose more notable and immediate spinoff effect is a marginal additional pressure on inflation expectation), in order to have a significant effect on business confidence, as we explained in our February 15th note, it should last two or three months at least (much better if longer and if it goes higher than 3 USD/lb). However, we will likely see a limited improvement in the coming report (February). About the exchange rate, though the gap vs. our quantitative model remains (one of whose determinants is copper price), recent downtrend is the same in both cases. However, volatility coming from abroad seems unlikely to be in a terminal condition. On the contrary, extremely “liquid” facts like the USA-China trade talks will likely remain so in coming weeks. Accordingly, effects on the domestic assets, being the exchange rate the first buffer, but also that of stock market will likely stay high.



Sources: Scotiabank Economics, Reuters Eikon.

Yesterday, the Central Bank released data up to the first fortnight of February. According to which seemed to be more likely due to the adjustment process related with the MPR we mentioned in the past, money growth expansion continued losing steam at a very limited pace. On the opposite, banking loans described an also limited recovery but in the opposite direction, which was also expected considering the previous trend of the economic growth and the lag, as we explained a week ago.

Other (unfortunately) not surprising dataflow came from foreign trade. Exports deepened their contraction, and comparison bases can hardly be blamed for it. Though some recovery is expected in coming data coming from copper prices, however, agricultural and manufacturing products also contracted. About the latter, the worst part came from forestry products (expected) and that would continue in the very short term. Accordingly, next data should show a mix of trends, which would be finally positive (if copper prices hold up, of course).

CONTACTS

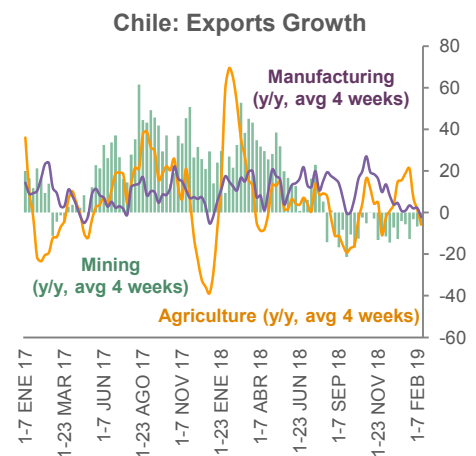
Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Benjamin Sierra
56.2.2619.4974 (Chile)
Scotiabank Chile
benjamin.sierra@scotiabank.cl

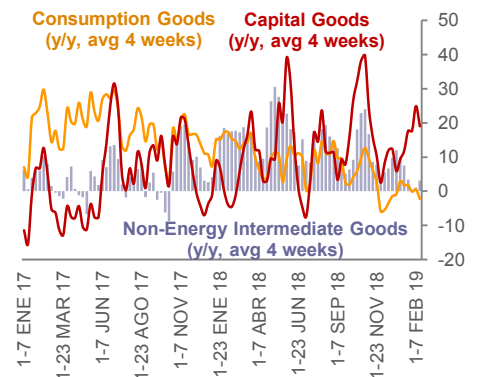


Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

About domestic demand, which imports suggest continued being the same: weakness of consumption not an actual news (cars and smartphones, are the most negative among relevant components, that is, durable goods) and its slowdown should remain for some months. In intermediate goods, a tepid recovery is confirmed, aligned with the uptrend expected for some activities (recall we are talking about a limited uptick and the stocking process usually starts before). Finally also aligned with the cycle, capital goods imports (machinery) eased a tad, but continued growing around 20%, though it must be said that comparing bases are helping in that case.

The current week will be one of relevant figures, being the most important those to be released on Thursday: manufacturing and mining activity in January. For the former the market is expecting an annual growth of 0.3%, which would mean a limited slowdown (0.8% in December) Besides, we will know about the labour market in the mobile quarter that finished that month, where the seasonal effect should press on the unemployment rate (in Q4 2018 it decreased to 6.7%), but even so the market is expecting an increase to 6.8%. In any case, conclusions from these data should be taken carefully.

Chile: Imports Growth



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

MEXICO: GDP SLOWS IN THE FOURTH QUARTER; PEMEX OIL PRODUCTION SHRANK TO ITS LOWEST LEVEL IN 30 YEARS

Mexico's economy grew 1.7% in the fourth quarter, this was less than what was previously estimated (1.8%). In its annual measure, GDP slowed from 2.1% in 2017 to 2.0% in 2018. Fourth quarter growth decreased from 0.6 in the preceding quarter to 0.2% in seasonally-adjusted terms; this was originated by a strong decrease in its industrial component, from 0.2% to -1.2%, it's lowest performance since 2015-4Q, this could have been driven by the marked volatility produced in Mexican financial markets during the last quarter, much of it triggered by the announcement in late October that the US\$13 billion New Mexico City Airport was canceled; and a modest recovery of its agricultural components (from 1.4% to 2.2%) and commercial components (from 0.6% to 0.7%).

Petróleos Mexicanos (Pemex) produced a daily average of 1.6 million barrels per day in January 2019, its lowest level for a month in over 30 years, with an annual decrease of 15% compared to the same month of 2018. Compared to December, Pemex reduced oil production by 5.1%. In 2014, when the Energy Reform was approved, the government's expectation was to maintain the decline during the first two years so that, with investments, Pemex could reach 2019 with a production of at least 2.6 million barrels per day. Nowadays, with the Program for Strengthening Petroleos Mexicanos and the National Hydrocarbon Production Plan, president Andrés Manuel aims to produce 2.4 million barrels per day by 2024.

PERU: CB IS BIASED TOWARDS RAISING RATES IN THE FUTURE, BUT IN NO HURRY TO DO SO

Julio Velarde, President of the Central Bank, stated that "it would be a good signal to withdraw monetary stimulus, but this would not be feasible in the short term". Velarde made this statement at a press conference held in London. His statement is in line with our perception of CB policy, namely, that, with the real reference rate, currently around 0.5%, well below the neutral rate of 1.75%, the CB is biased towards raising rates in the future, and yet, with inflation (2.2%) comfortably near the mid-point of the inflation target range (2.0%), and no signs of overheating in the economy, the CB feels there is no hurry to do so. The CB policy rate has been held stable at 2.75% for nearly a year, now, and will conceivably remain stable for the next six months, in our view. We're still leaning towards the possibility of at least one 25bps increase in 2019, but this would still mean a bullish monetary policy, in line with Velarde's statement.

Velarde also stated that he expected GDP growth of 4% in 2019, and inflation of around 2.0%. This is not new, and is in line with our forecasts of 4.0% GDP growth, and 2.5% inflation rate.

The truckers strike was lifted, after seven days, yesterday. The government would have agreed to lowering diesel prices, promoting a bill in Congress on fuel tax reimbursements, and initiating conversations (a "working group") to discuss pending issues.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.