LATAM Market Update

- **Chile: More data asking for patience and eagerness for investment**
- **Mexico: Inflation returns to Banxico's variability interval in February**
- **Peru: Mixed mining output growth in January, affected by rains**

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

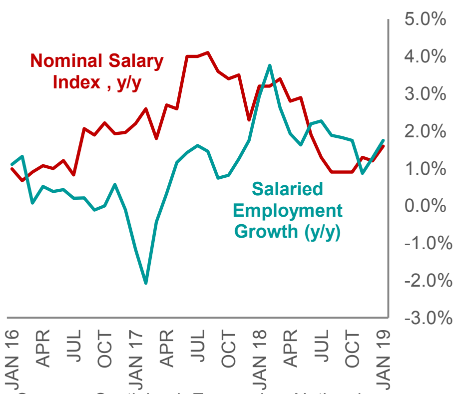
Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

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

CHILE: MORE DATA ASKING FOR PATIENCE AND EAGERNESS FOR INVESTMENT

Chile: Real Salary Index & Salaried Employment

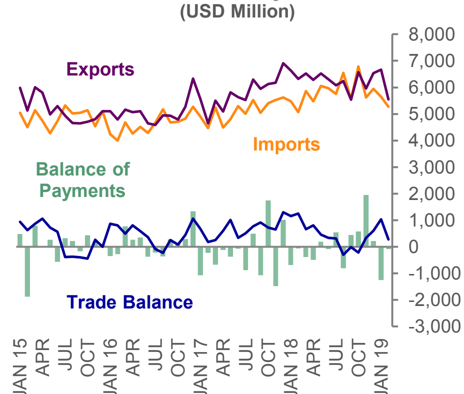


Sources: Scotiabank Economics, National Statistics Office (INE)

Yesterday, the INE (Spanish acronym for National Statistics Office) said that nominal salary index in January increased by 3.8%, continuing with a very early upward trend. In real terms, that is, deflated by the CPI increase in the same period, growth reached 1.6%. Putting aside the several methodological changes and deficiencies in that calculation, that rhythm does not seem very high, but we have to remember that labour market has not been very dynamic, which is usual in the first stage of cyclical recoveries in Chile, as I have been saying for more than a year, and this time there are even more headwinds, like the labour reform that has not been fixed or completely defined, and that international conditions of the recovery have been more moderate. However, combined with the 1.8% y/y increase of the salaried employment in the mobile quarter finished in January, the salary income likely increased its rate expansion, though it is still moderate. How does this fit with private consumption? Well, there is a trend-based correlation, but not enough to exclude other factors in the analysis. Like the consumer confidence index, which stepped down to 46.3 in February (vs. 47 the previous month and 51.1 one year ago). All in all, considering the trend performance of the retail sector, the better off process of salary income but with confidence still in the doldrums, a recovery in consumption will likely take place in coming quarters but it is going to be moderated and (hopefully) progressively accelerated in H2. Needless to say, any recovery in the asset prices of the sector will happen before, and that might mean in close months and this is the kind of symptoms that must be tracked.

In February exports plummeted 12.3% y/y, their worst contraction since June 2016. Probably there were specific elements, but are not enough to explain. Notwithstanding the result is not quite surprising when you track weekly data, as we intend to do in these notes, and very demanding comparison bases are considered. Even though, mining exports fell 17.6%, which bodes ill for the sector's support of general activity again that month. Agricultural and manufacturing products also contracted (12.2% y/y and -4% y/y respectively) which suggests some specific factor, beyond statistical or demand (or multiple

Chile: Monthly Trade Balance and Balance of Payments
(USD Million)



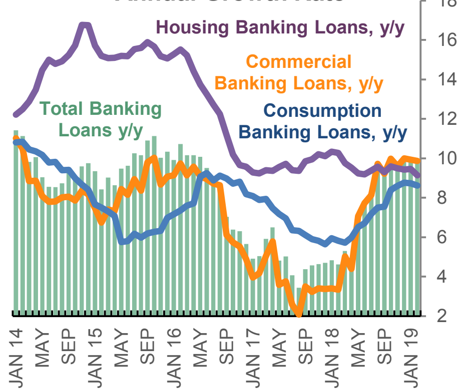
Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

specific factors, at least). On the opposite, imports improved 4% y/y, supported by capital goods (14% y/y after a positive January is a good signal) and consumption (3%, but vs. a more demanding comparison base). Intermediate goods, however, were disappointing, with a small contraction. However, imports fit well with the profile of the economic activity, with imports still mirroring a weaker rhythm of aggregate growth. Figures will remain rather weak and volatile in the coming months, with a very smooth uptrend (if some) which could gain strength in H2, if everything happen as expected.

There were no major aggregate changes in banking loans reported by the Central Bank for February. The nominal expansion continued at 9.9% y/y, Commercial credit did it at the same rate, and other major components of loans did it at a similar rate than in previous month, with comparison bases being very stable. Again, the star was credit for foreign trade that grew at double digit, like has been the case since last August. However, it must be said the stable growth in the rest of the components suggests some lost of momentum that has to be tracked. Part of the cause should be related with the interest rate increase seen in last months, which will likely continue but at a decreasing rhythm in the coming months. It is not clear, as has happened in the past, that rates increase is just caused by monetary policy. Less restrictive credit policies in some segments usually helps to increase rates, too.

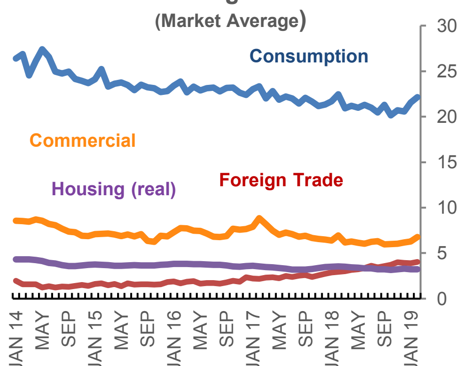
In a more holistic view of the monetary aspect, lets say that basic money (M1) deepened its slowdown in February. Despite money having lost a good part of its forecasting power for activity in Chile in the last years, of course it continues being a factor to consider in any analysis for investment. That is, taken all together, we should see some weakness in closer months, but a rebound continue to be the basic scenario for current year. Once again, for investment this seems to be a text-case (risk included, of course). Today, inflation for February will be released. Up to yesterday the market was expecting 0.1%, and the inflation expectation for the whole year was risen to 2.6%. But the most interesting will be to know core indices, specifically that without energy and foods.

Chile: Monthly Banking Loans Annual Growth Rate



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

Chile: Annual Interest Rates for Banking Loans
(Market Average)



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

MEXICO: INFLATION RETURNS TO BANXICO'S VARIABILITY INTERVAL IN FEBRUARY

In February, headline inflation fell -0.03% m/m, below the market consensus (0.00% m/m) and last year's result (0.38% m/m), mainly driven by a decline in the non-core component, due to a fall in some agricultural prices, that compensated the increase in gasoline prices. In its annual comparison, inflation moderated its growth from 4.37% in January to 3.94% (vs. 5.34% in February 2018), the lowest level since December 2016. Core and non-core components registered annual price increases of 3.54% and 5.25, respectively.

Despite this positive result, it is worth noticing that it was determined by a solid contraction of the non-core component, while core inflation still hasn´t shown a significant reduction. Evidence suggests that, in the short term, there were no adverse effects related to the recent events of fuel shortages and railways blockages.

PERU: MIXED MINING OUTPUT GROWTH IN JANUARY, AFFECTED BY RAINS

Mining output growth January (y/y):

Copper +7.0%
Zinc -7.8%
Gold: -9.4%
Silver: -14.0%

Note that metal output in January is volatile from one year to the next, and low on a monthly basis, as this is the rainy season.

Highlights:

- Copper output was up at Cerro Verde (10.1%), Las Bambas (31.4%), Antamina (0.2%) and Southern Peru (26.8%).
- Lower gold output was mainly a reflection of depletion at Barrick's Alto Chicama and Pierina mines (-41.5%, together). Production at illegal mines also declined. Meanwhile, output rose 7.5% at Yanacocha.
- Lower zinc output largely reflected a shift in Antamina's mining plan towards ore deposits that have higher copper grades and lower zinc (and silver) grades. Zinc and sliver output at Antamina were down 19.8% and 16.9%, respectively.