

LATAM Market Update

- **Chile:** February CPI a tad lower than expected
- **Mexico:** Consumption and investment reaffirm signs of deceleration in economic activity
- **Peru:** A Central Bank in its comfort zone, did not (and will not for a good while) raise its reference rate; Head of Cabinet, Cesar Villanueva, surprisingly resigns

CHILE: FEBRUARY CPI A TAD LOWER THAN EXPECTED

Once more, in February the CPI surprised much of the market: the monthly change reached to 0% (1.7% y/y, vs. 1.8% in January) while most of the agents (including revealed by notes traded prices) were expecting 0.1%. The most negative incidence came from foods. Taking out foods and energy, the index increased by 0.3% (2% y/y), aligned with our specialists' forecast, and suggesting the demand remains alive. Services and non-tradable goods increased 0.3%, while tradable goods fell 0.2%. According to our specialists, the increase in minimum wage in could help to services index in March, while announced increase in electric power fares should not have effect before April. Finally, our team increased its inflation forecast for the current year from 2.7% to 2.8%, and estimates that recent dataflow seems not enough to delay the next MPR hike from July to September.

MEXICO: CONSUMPTION AND INVESTMENT REAFFIRM SIGNS OF DECELERATION IN ECONOMIC ACTIVITY

Gross fixed investment ended 2018 with negative results. The worse performance confirmed that the high levels of uncertainty, both external and internal, are affecting the business sentiment and the performance of productive investment in Mexico. Non seasonal adjusted investment accentuated its decline in December 2018, going from -3.3% to -6.8% y/y real (vs. -0.9% in 2017).

Domestic private consumption annual growth moderated in December, while its monthly s.a. figure contracted as well as all its components. There are still signs of an economic slowdown in 2019 and now consumption could be even more sluggish than expected. Private consumption in the domestic market index (n.s.a.) smooth once again its growth pace in December, from 2.2% (revised from 2.1%) to 0.4% y/y real (vs. 0.9% in 2017), being its weakest growth since November 2013.

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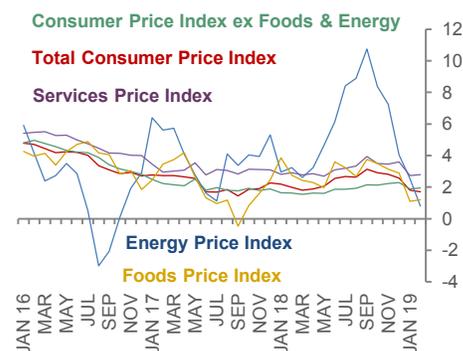
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Chile: Consumer Inflation Indices
(12 months change)



Sources: Scotiabank Economics, Instituto Nacional de Estadísticas (INE).

PERU: A CENTRAL BANK IN ITS COMFORT ZONE, DID NOT (AND WILL NOT FOR A GOOD WHILE) RAISE ITS REFERENCE RATE; HEAD OF CABINET, CESAR VILLANUEVA, SURPRISINGLY RESIGNS

The Central Bank left its reference rate unchanged, as predicted. We see the CB keeping the rate stable at 2.75% for longer, perhaps for the full year. What with inflation right where it should be, an economy that is growing but not overheating, a well-behaved FX market, and even metal prices that are neither hot nor cold, it is not surprising that the CB has opted for not doing anything. It has done so with great precision, one might add. It did not change the wording in its announcement in any meaningful way. The caveat to this view: the real rate is 0.35%, which means a very expansionary monetary policy for an economy growing at 4.0%. The CB has justified this by referring to global risks. In reality, in our view, the CB is simply nested in its comfort zone, in an economy with very stable indicators.

The trade balance surplus was US\$374mn in January, down 45%, y/y, and below the monthly average of US\$587mn in 2018. Imports were up marginally, 1.6%, so most of the lower surplus reflected a 6.2% drop in exports value. Metal exports fell 14%, as prices in January had still not recovered to last year's levels. January's surplus is in line with our forecasts that the trade surplus will slip mildly from US\$7bn in 2018, to US\$5.5bn in 2019.

The head of the cabinet, Cesar Villanueva, resigned on Friday. This came as a great surprise, even though Villanueva had been unusually quiet for quite some time. In his resignation letter, Villanueva stated reasons of health for his resignation, although there may be other reasons behind his decision. However this may be, the decision does not seem to imply greater political issues between Villanueva and Vizcarra. There is unconfirmed talk that there may be broader changes in the cabinet. This would be normal, and frequently occurs when a cabinet head resigns. Changes within the cabinet are likely to change sectorial policies and management, but will not necessarily mean broader or more profound changes in policy.

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