LATAM Market Update

- **Peru: January GDP growth of 1.6% y/y disappoints, even accounting for temporary weather impact**
- **Chile: Older data may provide more colour than recent results**

PERU: JANUARY GDP GROWTH OF 1.6% Y/Y DISAPPOINTS, EVEN ACCOUNTING FOR TEMPORARY WEATHER IMPACT

GDP growth of 1.6% y/y was below our expectations of 2.5% (market consensus: 2.4%). We, as well as the market, had been expecting a more modest (and temporary) slowdown in growth in January. Part of the reason for the slowdown was a mild El Niño which impacted fishing (-31.3%) and mining (-1.3%). However, the greater surprise was the 46% decline in metal refining. In the past, production declines of this size have been linked to maintenance shutdowns, although we have not been able to confirm this. The January aggregate GDP figure overstates the magnitude of the slowdown and is not indicative of a broad decline. Only resource sectors declined whereas the non-resource sectors all showed positive growth, despite negative public sector investment growth. Growth in February should also be somewhat weak, once again due to resource sectors and declining public sector investment. We do expect to see a rebound in March however. We continue to expect 4.0% growth for the full-year.

The partial sector breakdown of January GDP growth is as follows:

Agriculture	3.5%
Fishing	-31.3%
Mining	-1.3%
Manufacturing (non-resource)	3.5%
Resource Processing	-27.5%
Construction	4.9%
Retail	2.5%
GDP	**1.6%**

Peru's fiscal deficit fell to 2.1% in the twelve months to February, after ending 2018 at 2.5%. This is in line with our expectations of a 2.0% deficit for full-year 2019. Tax revenue continues to be healthy, up a strong 13% y/y. However, the rather less healthy 0.4% decline in government spending also contributed.

CHILE: OLDER DATA MAY PROVIDE MORE COLOUR THAN RECENT RESULTS

Today the Central Bank will release national accounts data for Q4 2018 (and the whole year, of course). Expectation for the aggregate activity growth is deeply conditioned by the Central Bank activity index (a string of previously released data), which suggest annual growth of 3.3% y/y for Q4 and 4% for 2018. Indeed, it is hard to expect large deviations, though revisions to previous data usually apply and could result in some surprises. Nevertheless, it will be interesting to compare

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the rhythm of the economy and specific sectors, in addition to specific components of the domestic demand, to compare them with previous partial indicators.

Fresher data was released on Friday, when partial data up to the first week of March was unveiled. Money supply confirmed a growth around 8.3% y/y, its lowest pace for a long time, and could remain so before showing some acceleration, a symptom that the economy will take longer (not before midyear, at least) to gain more traction. Second, banking loans did not show any relevant change and foreign trade remains weak, with very tiny signs of recovery in exports and some weakening of imports (capital goods rate of annual growth decreased to single digits once more).

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