

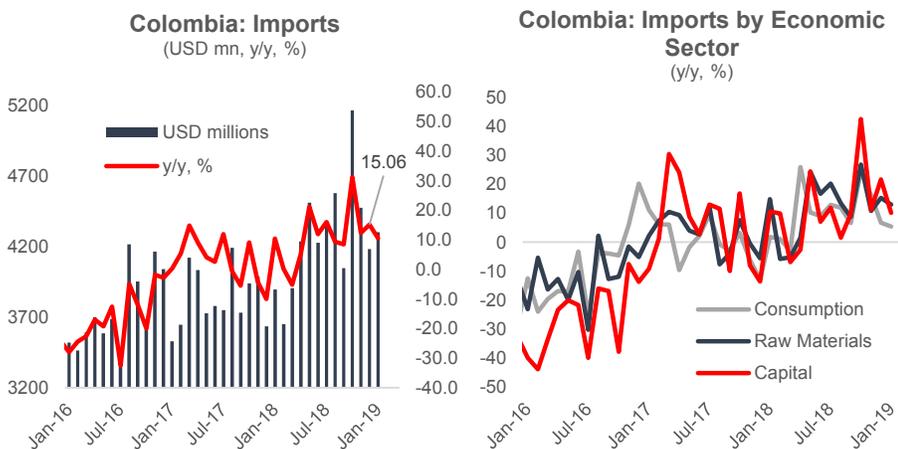
## LATAM Market Update

- **Colombia: Trade balance deteriorated further; March Citi survey; March monetary policy meeting preview**
- **Peru: No improvement yet in government investment in transportation (as expected)**

### COLOMBIA: TRADE BALANCE DETERIORATED FURTHER; MARCH CITI SURVEY; MARCH MONETARY POLICY MEETING PREVIEW

#### Capital and raw material imports grew more than 10% y/y in January; Trade balance deteriorated further

DANE released January imports. They came in at 10.4% y/y or US\$4.3bn and continued showing strong behaviour. Capital imports grew 10.1% y/y due to construction materials and transportation imports. Raw materials (48% of total imports) also grew above 10% (12.9% y/y) on the back of fuel imports. The strong numbers that capital and raw materials imports showed in January (and last year) are consistent with investment recovery in 2019 investment. Today's import data do not change our GDP forecast for 2019 of 3.4% y/y.



Sources: DANE, Scotiabank.

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The bad news came from the external imbalance that deteriorated further. January 2019 trade deficit was -US\$1bn due to higher imports but also lower exports. Although higher capital imports are good news to domestic demand recovery and to a possible higher potential output in the future, it rises concerns of external imbalance sustainability due to financing. So far external imbalances have been financed by FDI, however FDI inflows are always uncertain.

#### CONTACTS

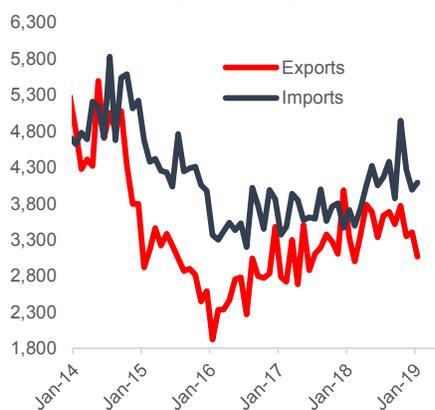
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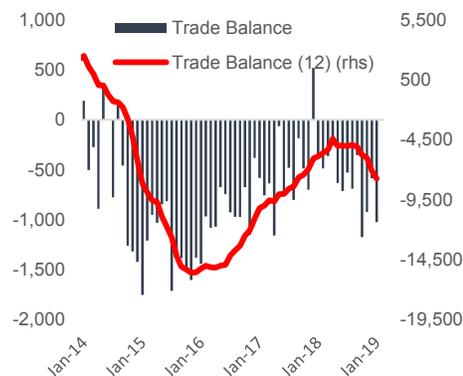
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**Colombia: Exports vs Imports**  
 (USD Millions)


Sources: DANE, Scotiabank.

**Colombia: Trade Balance**  
 (USD Millions)


Sources: DANE, Scotiabank.

### March Citi survey; Inflation expectations dropped

March Citi survey came out. This survey is used by BanRep as one of the expectations measures on inflation, monetary policy rate (MPR), GDP and COP.

Bottom line, Analysts do not expect next Friday's BanRep meeting to be an important event. All analysts think BanRep will stay put at 4.25%. For 2019, although with some dispersion the consensus is that BanRep will end at 4.75%.

For inflation, Analysts think (on average) March headline inflation will come in at 0.32% m/m, close to our own forecasts of 0.34% m/m. For 2019 average projection is 3.24%, close to BanRep survey and below last two months due to recent downward CPI surprises.

Consensus for 2019 GDP growth forecasts is 3.22%, a bit below our own forecast of 3.3%. For 2020 economic activity, analysts think GDP growth will be 3.38%.

Finally for COP, Citi survey has an average of COP\$3103 for 2019 (eop) and COP\$3098 for 2020, very similar to our projections.

### March monetary policy meeting preview: Expansionary rate for longer

This Friday (March 22<sup>nd</sup>) BanRep will hold its second meeting of 2019. We (and market consensus) expect BanRep to keep the monetary policy rate (MPR) at 4.25% in a unanimous decision. Rate slightly expansionary. The Board has kept this expansionary stand due to GDP growth below potential, lower than expected headline inflation and inflation expectations closer to 3%.

Recent communication from BanRep has been rather dovish. Many board members have stressed that recent FED dovishness let them to think that international rates will be lower for longer which implies a lower neutral rate for Colombia. In fact Juan Pablo Zarate and Governor Echavarría said that neutral rate should be around 1.5%, which is half of a percentage point lower than the 2% that BanRep had three months ago. Additionally, Governor Echavarría, Ana Fernanda Maiguashca and Gerardo Hernandez (All of them from the Board) said that January and February inflation results are very good news and anticipate that headline inflation will continue hovering around 3% for the rest of the year, which implies that BanRep is downplaying the possible effects that that minimum wage increment of 6% and El Niño phenomenon could have on 2019 inflation. Finally, recent thematic surveys have shown that the market has revised down. Inflation expectations for both this year and 2-y horizon to close to 3%, which was the major concern of BanRep two months ago on the inflation side.

On economic activity recovery, Governor Echavarría and Juan Pablo Zarate have shown concerns of January employment results (recall that January unemployment was above 12%) and although all Board members are confident on economic activity recovery this year, BanRep has stressed that only by the end of the year negative output gap will start to close down.

Finally, recent COP stability around COP\$3100 vanishes the possible concerns than market and BanRep could have at the beginning of the year about a sharp depreciation that could pass-through to domestic prices and increase tradable inflation.

Bottom line, all stars are aligned to think that BanRep will keep policy rate constant this Friday at 4.25% and to keep expansionary rate for longer. In fact market (and us) shifted to a more stable rate this year with only one hike in 2H19.

#### **PERU: NO IMPROVEMENT YET IN GOVERNMENT INVESTMENT IN TRANSPORTATION (AS EXPECTED)**

Government investment in transportation was US\$48.5mn. Although the news agencies present this as a three-fold y/y increase, the actual figure is not spectacular. The increase is only due to a very low base in January 2018, and this year's figure is actually lower than the average monthly investment for 2018, which was US\$58mn. We expect total investment in transportation to be US\$800mn in 2019, versus US\$706mn in 2018. The bottom line is that there is still no evidence that the government is accelerating investment in transportation, as it should. The Lima Metro Line 2 makes up the bulk of the investment, with US\$32mn in January, in line with our expectation of US\$325mn for full-year 2019 (versus US\$166mn in 2018).

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