LATAM Market Update

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COLOMBIA: BANREP'S MINUTES CONFIRMED DOVISH TONE FROM THE BOARD

Today BanRep published the minutes of the March meeting where the Central Bank kept the MPR at 4.25% in line with consensus. The text of the minutes confirmed the dovish tone that the BanRep Board has sent recently to market. The Board said that inflation results this year has been excellent and concerns about supply shocks on the back of El Niño phenomenon and minimum wage increment of 6% have vanished. Additionally, the minutes said that international liquidity are much better now, which eases COP depreciation concerns. The Board also stressed that inflation expectations have dropped recently and are close to 3%.

On economic activity, although BanRep thinks GDP is on a recovery path, growth is still below potential and for some Board members economic activity recovery has been at a slower path than expected.

Finally, according to the March minutes, the only concern within the Board is the increment in the current account deficit, although stressed that financing continue to be healthy.

Bottom line, today's minutes confirm that BanRep has no rush to start hiking rates and in the reaction function growth coefficient is gaining momentum. We think BanRep will hike only once to 4.5% in September after confirmation of 1H19 economic activity recovery.

MEXICO: ECONOMIC SURVEY OF EXPECTATIONS SHOWED MIXED RESULTS; REMITTANCES HIT A NEW RECORD IN FEBRUARY

The Economic Survey of Expectations raised by Mexico's Central Bank between the 22nd and 28th of March, continued to show mixed results. Although better performance is expected for the macro-financial variables at the end of 2019 and 2020, GDP growth for this and the next year was revised downwards for the 6th consecutive month, now to 1.56% and 1.82% from 1.64% and 1.91%, respectively. With regards to the general inflation in Mexico at the end of 2019 and 2020, a significant improvement is expected, decreasing from 3.67% in 2019 and 3.71% in 2020, to 3.65% for both cases. Projections for the exchange rate at the end of 2019 were revised downwards, reaching below the ceiling of 20 pesos per dollar for the first time since October 2018, and a better performance it is also expected by the end of 2020. In reference to monetary policy, most of the respondents anticipate for the third quarter of 2019 Central Bank's funding rate to stay at the current target rate of 8.25%. As for the fourth quarter of 2019, the preponderant fraction correspond to those expecting the funding rate below the current target. In reference to the main risk factors identified for growth in the short term, are those related to governance (+39% of responses) and internal economic conditions (+29%). Particularly problems related to public insecurity and oil production jumped to the first position (+14% in both cases), followed by domestic political uncertainty and the sense of lack of rule of law (+12% and +10%, respectively).

Remittances, an important source of foreign exchange and resources to Mexico, added 2.387 million dollars (md), the highest gain registered for any February. Although its monthly comparison was negative for the second continuous month, as it usually happens in the first months of each year, moderating from -17.6% to -1.1%, its annual variation was positive at 6.4% (vs. +6.5% in January and +4.8% of February 2018). In cumulative figures, for the first two months of the year, remittances also reported a record balance for a similar period of 4,802 md, which implied an annual growth of 6.4% (vs. +5.2% a year earlier). The average exchange rate was 19.18 pesos per dollar in February.

PERU: INFLATION RISES TO 2.2% FROM 2.0%. THE CENTRAL BANK TWEAKS ITS FORECASTS, RATIFIES SIGNALS OF NO INCREASE IN REFERENCE RATE FOR THE TIME BEING

Inflation for the month of March came in at 0.7%, taking the 12-month figure to 2.2%, from 2.0%. This mild increase was expected, mainly reflecting seasonal factors, especially the one-time per year increase in school fees as the new school year began. Inflation continues well within the CB comfort zone, and should not affect the signals the CB has been giving of keeping its reference rate stable for longer.

This signal, of stable for longer, was ratified on Friday during the CB presentations of its quarterly Inflation Report. A few highlights of the Report and Q&A session: On balance, the CB sees that upside inflation risks (low external demand and global market volatility) are compensated by downside risks (lower domestic demand), such that the overall risk is neutral. This was one reason given to state that they “see no reason to increase rates”. The CB also warned that inflation would rise temporarily, to a 2.5% to 2.7% range, in 2Q-3Q, due to y/y base comparisons, before beginning to subside again. The message seems to be that this increase would not affect CB policy.

In general, the CB made few changes to its forecasts, which it updates in this report. These are the highlights:

- Ratify 2019 and 2020 GDP growth forecasts at 4.0%
- Ratify 2019 domestic demand forecast at 3.9%, increase 2020 from 4.0% to 4.1%
- Increase 2019 private consumption growth from 3.7% to 3.8%, maintain 2020 at 3.9%
- Ratify private investment growth at 6.5% for 2019 and 6.0% for 2020.
- Lower public investment growth for 2019 from 2.8% to 1.0%, raise 2020 from 3.4% to 5.0%

Basically, what the CB has done is tweak its figures to take into account ongoing strong consumption, and very weak public investment figures so far in 2019. Its forecasts are well-aligned with ours, and also in the general vicinity of market consensus. The main difference within consensus is in public sector investment, where many analysts expect negative growth, given the change in regional and local authorities. Our forecast is of close to nil growth.

The CB was a bit more aggressive in changing its Balance of Payments forecasts for 2019:

- Terms of Trade: from a decline of 0.7% to an increase of 1.3%
- Current account: from -1.6% of GDP to -1.3%
- Trade balance surplus: from US$6.3b to US$8.0bn
- Capital account surplus: from US$4.5b to US$7.3bn

Perhaps more significantly, the increase in capital inflows is exclusively purchases of government bonds by offshore, which was raised from US$0.8bn to US$5.1bn. This helps explain why the CB began intervening in the FX spot market with USD purchases, after a 14 month pause. The CB tends to be more active in the FX market when it views large movements in short-term capital flows. The CB specifically mentioned that offshore participation in sovereign bonds outstanding had reached 51%. It also apparently believes that this will continue, albeit not with the intensity of the first quarter.

- The CB also reduced its fiscal deficit forecast for 2019 from 2.6% to 2.3%, and is now closer to our own forecast of 2.0%.

Initial February GDP information has begun to come out. The divergence between resource sectors and non-resource sectors continues. Fishing fell 9.5%, y/y, and mining was down 0.7%. Although both figures bear up will with deeper plunges in February, mining was below expectations (fishing: in line). Meanwhile, electricity GDP rose 5.6%, and cement consumption rose 0.6%. Both suggest that domestic demand continues leading growth, but its strength may have waned a little, due to low public investment. We forecast 3.0% aggregate GDP growth with some downside risk.

Update on Las Bambas: talks continue. The government has offered to lift the State of Emergency, if the community unblocks the mine access road.