LATAM Market Update

- **Chile: March inflation above expectation, but no changes**
- **Mexico: The gross fixed investment increased in January, contrary to expectations, giving a positive surprise to the sector**

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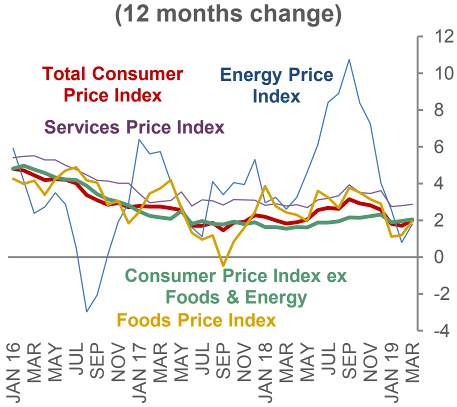
CHILE: MARCH INFLATION ABOVE EXPECTATION, BUT NO CHANGES

Chile: Consumer Inflation Indices (12 months change)



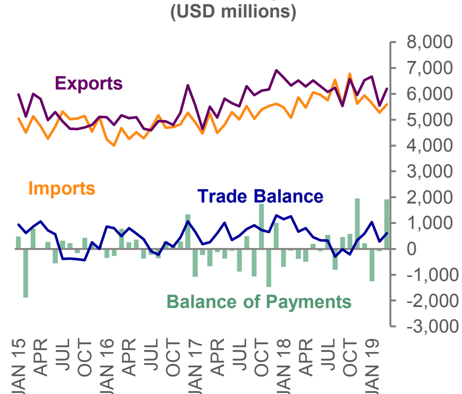
Sources: Scotiabank Economics, Instituto Nacional de Estadísticas (INE).

Monthly CPI in March increased 0.5% m/m, dominated by education (a seasonal factor), foods and drinks and a fall in transportation. The result was above market expectation (and ours) which pointed to 0.3% m/m. The CPI excluding foods and energy increased just 0.4% m/m, with foods 0.8% m/m and energy -0.1% m/m. Putting aside the deviation in forecasts in March, this higher-than-expected result underscores our team's opinion that inflation in the period March to May would be higher than expected by the market, due to the adjustment of the minimum wage that began in March and the increase in electricity rates. With the result released yesterday, the last 12 month change inched up to 2%. Likely the market will increase their forecast for the current year by the same 2 tenths of the deviation, that is, to 2.7%. We keep our forecast at 2.8% but the higher than expected result leaves the forecast risk upward biased. As far as Monetary Policy perspective is concerned, according to our economic team, the scenario of recovery of the activity towards the second semester is kept, plus the higher inflation records leads to expect a 25bp MPR hike in MPR towards Q4 and a couple of similar increases in H1 next year.

More details about the result of the CPI series released yesterday can be summarized in: core inflation increased 0.4% m/m (2.0% y/y), with a positive surprise in services, which increased 0.7% m/m (3.1% y/y), while goods decreased 0.1% m/m (0.3% y/y). Regarding foods, increases came mainly from vegetables, which show increases somewhat greater than their historical seasonality. At the product level, the biggest incidents came from university educational services (+ 0.11pp), training courses (0.05pp) and tomatoes (+ 0.04pp). On the downside side, the largest negative incidents occurred in the Transportation division, in the interurban transportation service (-0.12pp) and gasoline (-0.02pp) products.

Also yesterday, the Central Bank released some relevant data for March: exports contraction fell to -4.6%, while imports contracted 4.9%, the first negative change since October 2016. Trade balance continued positive and the balance of payments was one of the three strongest results in the last two years. All that seems pretty consistent with the current stage of the cycle. Money (M1), on the other hand grew just above 8%, in the lowest zone in the last past quarters.

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



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

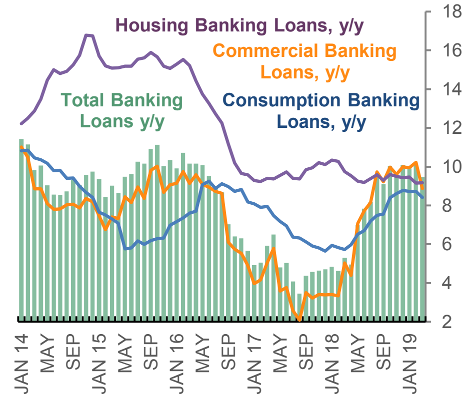
Banking data for March showed little changes. Aside the always volatile foreign trade, all other a very subtle loss of steam can be seen, but it is also consistent with cycle and it seems very far from making a change of the relatively stable trend of growth. It must be said that in March the banking sector launched a very strong advertising campaign for customer credits, but the growth rate eased a tad.

MEXICO: THE GROSS FIXED INVESTMENT INCREASED IN JANUARY, CONTRARY TO EXPECTATIONS, GIVING A POSITIVE SURPRISE TO THE SECTOR

Contrary to what was expected, the gross fixed investment, measured with original figures, rebounded from -6.8% y/y in December to 1.6% y/y in January (vs. -2.0% expected and +3.7% a year earlier). This performance was driven by a positive performance in construction spending, which increased 2.9% y/y from -5.0% y/y in December as a result of an improvement in its residential component (6.9% y/y Jan vs. -1.9% y/y previously), while its non-residential component continued to fall, although at a lower rate, (from -7.8% y/y Dec to -0.7% y/y Jan). Expenditure on machinery and equipment remained in negative territory although it moderated its decline to -0.2% y/y vs -9.3% y/y previous, while its national component continued to fall, accumulating eight consecutive losses (-4.6% y/y vs. -11.7% y/y previously). On the other hand, the imported component grew 2.3% from -7.7%.

In monthly figures, it recorded an increase of 8.0% from the previous month, representing the highest monthly gain since December 1995, when it rose 9.1%. By components, expenditure on machinery and equipment increased 9.6% m/m and construction 5.3% m/m in January compared to the previous month.

Chile: Monthly Banking Loans Annual Growth Rate



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