April 22, 2019

LATAM Market Update

- **Chile: Good news but more time required to rule out new mirages**

Last week was poorly populated of economic and/or financial data in Chile and the current week will not be very different. It is a good time to track financial prices (almost as a group of control to be used in the future). The most interesting information in recent days was not economic but political: the agreement of the Finance Commission of Congress to begin to legislate about a reform to the tax law. It was hard for the Government, and sometimes even risky for its political program, but as we anticipated long ago, that was likely going to be the case: a very arduous work but the support of the centrist opposition was going to be decisive. Of course, it does not mean the problem is solved, but at least they can start to work on it. The most critical point, as said, will be if the final design will help to stimulate investment through a process that can allow to avoid taxes if benefits are kept in the companies (not distributed to their owners). Other aspects of the reform will be the compensation to balance the lower income for the Government and the degree of consensus in order to anticipate the lasting of the reform. The debate itself, before an agreement is reached and voted in both chambers will take at least 4 months in order to be promulgated by the President. Of course effects for the business mood will be previous and, expectedly linked to the news coming from the debate.

Other relevant chunk of data for the Chilean economy came from the activity indices released by China. In general, they should have been positive for critical variables for this economy. However, due to several well-known reasons, the immediate reaction was positive but followed by some moderation in its reading (or even skepticism, when talking with some agents). Indeed, at the end of the day results were not enough to change the exchange rate, which, according to our quantitative model remains pretty aligned with historical variables. However, perhaps this upturn plus the tax reform discussion could be a couple of factors that could help to improve the limited business sentiment in its next reading (first week of May) which, in turn, could be other positive signal for the recovery. Needless to say the course of both lines of information will be critical in coming months for the forecasts.

From the Central Bank we knew a couple of news but not very new, indeed. The minutes of the last Monetary Policy meeting that supported the idea that the MPR will stay at current level (3%) for a long time. According to our team, at least up to Q4. That means stability, some degree of support for activity and not additional pressure on the exchange rate. The Central Bank also showed data for the first week of April, but numbers were very similar to those of March, which points to a weak performance of the economy and just very tiny signs of accelerations which should be more intense towards midyear.

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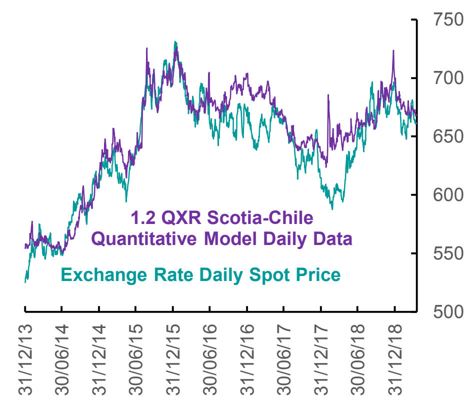
Chile Exchange Rate: Quantitative Approach



Sources: Scotiabank Economics, Reuters Eikon.