

LATAM Market Update

- **Colombia: April Citi survey—Inflation expectations a bit higher; April monetary policy meeting preview— a non-event**
- **Mexico: Inflation surprised on the upside in 1H April**
- **Peru: Round 1 of Odebrecht confessions involve most political heavyweights; Loans growth improves in March**

COLOMBIA: APRIL CITI SURVEY—INFLATION EXPECTATIONS A BIT HIGHER; APRIL MONETARY POLICY MEETING PREVIEW— A NON-EVENT;

This survey is used by BanRep as one of the expectations measures on inflation, MPR, GDP and COP.

For inflation, Analysts think (on average) April headline inflation will come at 0.37% m/m, close to our own forecasts of 0.35% m/m. For 2019 average projection is 3.28%, 7bps higher than last month due to March upward CPI surprise.

Consensus for 2019 GDP growth forecasts is 3.21%, a bit below our own forecast of 3.4%. For 2020 economic activity, analysts think GDP growth will be 3.37%.

Finally for COP, Citi survey has an average of COP\$3128 for 2019 (eop) and COP\$3119 for 2020, very similar to our projections.

April monetary policy meeting preview— a non-event

This Friday (April 26) BanRep will hold its third 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 lower than neutral policy rate for more than a year has been justified by the Board on the back of GDP growth below potential, headline inflation under control and inflation expectations closer to 3%.

1Q19 headline inflation (3.12% y/y average) is close to the mid-level of BanRep's target range and core inflation measures are even slightly below 3%. Additionally, inflation expectations (as per BanRep's survey) have converged to levels also close to 3%. In fact 1-y and 2-y inflation expectations are at 3.25% according with April survey. Therefore, the Board has no concerns about inflation for the time being. The only possible risk about future inflation is the recent COP depreciation that can affect tradable prices, however, up to March tradable inflation was 1.73% y/y well below BanRep's target.

On the economic activity arena, although recent coincident and leader indicators continue pointing to a gradual recovery this year, GDP is still running with spare capacity, which means that negative output gap will not close this year, although will start reducing during the second half of the year. Lower than potential GDP, supports BanRep to stay on the sidelines for longer. Additionally, FED dovish stand, lower trade partners' growth (as per IMF) and dovishness from ECB, reduce the need from Colombia's central bank to normalize monetary policy rate, since international rates will be low for longer.

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Bottom line, stars continue aligned to keep policy rate constant for the time being while inflation is close to target, economic activity is still below potential and international rates continue to be low.

MEXICO: INFLATION SURPRISED ON THE UPSIDE IN 1H APRIL

Headline inflation decreased -0.03% during the first fortnight of April, well above market expectations (-0.19%), and recording its highest print for a similar fortnight within 10 years. This development was mainly explained by a higher-than-expected increase in its core component, which printed at 0.40% biweekly (vs. +0.20% consensus forecast). Within, air tariffs and tourism services rose sharply, due to the seasonal impact of the Easter Holiday. On the other hand, the non-core component contracted -1.32% biweekly driven by the summer decline in electricity tariffs and lower perishable food prices.

In its annual comparison, headline inflation accelerated to 4.38% (vs. +3.95% in March and +4.69% observed in the previous year), slightly above Banxico's target range, while its core component rose from 3.60% to 3.94% in April's 1H. These prints reinforce our view that the Central Bank will hold interest rates, and open the door for the institution to maintain a hawkish stance, since the core component continues to exhibit some resistance to decrease.

PERU: ROUND 1 OF ODEBRECHT CONFESSIONS INVOLVE MOST POLITICAL HEAVYWEIGHTS; LOANS GROWTH IMPROVES IN MARCH

During a first round of depositions, Odebrecht personnel, led by a chief Odebrecht officer for Peru at the time, Jorge Barata, provided statements and information on campaign financing by Odebrecht for the campaigns of Alan García, Lourdes Flores Nano, Keiko Fujimori, Pedro Kuczynski, Alejandro Toledo, Ollanta Humala and Susana Villarán. Barata also stated that the local construction firm Graña y Montero also participated in the payment of bribes for the Lima metro Line 1 and Line 2 projects. The depositions will continue until Friday.

Loans growth accelerated to 7.8%, y/y, in March, from 7.3% in February. Rather than point to a strong recovery in demand for financing, the increase reflected a rebound from a slump in loans demand during January-February. The improvement was exclusively in business loans, up 5.9% in March (from 5.3% in February). Household loans remained stable at a robust 11.3%. The improvement in trend is a hopeful sign that the January-February dip in loans growth was mostly exceptional, although the figures do leave one with the sensation that business loans are underperforming.

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