LATAM Market Update

- **Chile: From a gloomy week to one with plenty of data**
- **Colombia: BanRep kept policy rate at 4.25% as expected**
- **Mexico: Economic Activity in February without luster, whereas total trade shrunk**

CHILE: FROM A GLOOMY WEEK TO ONE WITH PLENTY OF DATA

Last week was not very positive for the Chilean economy. First, the Government adjusted its growth forecasts from 3.8% to 3.5% for current year, which also meant an increase in the fiscal deficit, from 1.7% to 1.8%. Indeed, the correction is not quite extraordinary and according to the Consensus Forecast and our own data, both pointing to 3.2% for annual growth, it can even be optimistic. However, the opinion of the Government is important, beyond the magnitude of the change (foreign conditions were blamed). Other negative factors came from a decline in—the resilient—copper price and from the neighbourhood, especially from Argentina, where expectations have deteriorated even more. The effect of the Argentinian economy on the Chilean one is not aggregately strong but of course in some areas, like in the retail ant touristic sectors, is very relevant.

On Tuesday we will know a myriad of critical data: sectorial activity and labour market for March. About the former, manufacturing output (Scotia's estimate is growth of 2% y/y) and mining output (we expect a contraction of 4% y/y). That chunk of data leads the forecast to an aggregate activity growth for that month between 1.75% y/y and 2% y/y, though the market is in the highest range of that level (even some of the agents are considering 2.2%). About the labour market, the unemployment rate is expected to increase to 6.9% in Q1 (from 6.7% in the mobile quarter that ended in February).

COLOMBIA: BANREP KEPT POLICY RATE AT 4.25% AS EXPECTED

BanRep kept its monetary policy rate (MPR) constant at 4.25% in a unanimous decision, in line with market consensus. The communiqué did not change much and lacked information about future scenarios for the policy rate. As in the last three policy meetings, BanRep seem confident that inflation will remain under control and inflation expectations will continue close to target (3%) for all tenors. On economic activity, the only piece of information that BanRep gave, was that recent data confirm BanRep's base case scenario of gradual economic activity recovery, therefore the staff did not change its 2019 GDP growth of 3.5% which will start to close negative output GAP.

According to the communiqué, headline inflation and core inflation measures in March 2019 continued close to target. In fact, headline inflation came in at 3.21% and average core inflation measures came in at 2.8% last March. Minister Carrasquilla said that core inflation measures are below 3% and short run inflation volatility has not affected core inflation measures.

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Governor Echavarría stressed that staff has 3.2% y/y for GDP growth in 1Q19 and 3.9% y/y for 4Q19. He said that although the staff did not change 2019 GDP growth, the quarterly path of the projection shows that BanRep is expecting economic activity to accelerate through the year. Having said that, he stressed that negative output gap, according to staff's projections, will only close by the end of 2020.

In a different communiqué, Governor Echavarría announced that BanRep will auction on April 30th, put-options of international reserves accumulation for US$400mn (expected) in continuity with the program that started in September last year.

Bottom line, the April monetary policy meeting showed that BanRep continues in a wait-and-see mode and will keep the MPR in expansionary side as long as they can to boost economic activity that is still running below potential. Inflation and inflation expectations under control help BanRep to keep policy rate in the expansionary side. Additionally, despite recent COP depreciation, FX pass-through has been rather low and tradable goods inflation is below 2% y/y. Therefore, recent COP depreciation are not raising concerns for BanRep. We continue to think that BanRep will keep policy rate constant until 4Q19.

MEXICO: ECONOMIC ACTIVITY IN FEBRUARY WITHOUT LUSTER, WHEREAS TOTAL TRADE SHRUNK

February's economic activity growth, measured through the Global Economic Activity Index (IGAE), moderated to 1.1% y/y, from 1.3% y/y in January. In the first two months, IGAE's annual increase was around the half relative to 2018, as a result of the ongoing weak industrial activity and a lower dynamism in the services sector. By components, services grew 2.2% (vs. +2.2% in January) and industrial production continued its downwardly path with a slump of 0.8% y/y (vs. -1.0% in January). Within industrial production, a slower growth pace was observed in manufacturing (+1.1%), as well as a more moderate decline in mining (-6.4%) and utilities (-1.1%).

The trade balance in March exhibited a US$1.429 billion surplus, but decreased 16.6% versus the same month in the previous year as both exports and imports dropped: non-oil exports decreased 1.2% y/y and oil exports were down by 2.0% y/y; meanwhile, capital goods imports surged to 0.2% y/y (vs. -5.5% in January) and intermediate goods slowed down to 0.1% y/y (vs. +5.2% in January). Therefore, total trade print with its first setback since April 2017 (-0.9%).

Broadly, economic and commercial activity outlook haven't improved and figures seem to indicate that it could worsen as consumption and investment continue to deteriorate in both Mexico and the US.