

LATAM Market Update

- **Chile:** Business confidence remains in the doldrums and foreign news are not very supportive; Little changes in short term inflation
- **Peru:** Both inflation and partial sector GDP figures were up mildly in March

CHILE: BUSINESS CONFIDENCE REMAINS IN THE DOLDRUMS AND FOREIGN NEWS ARE NOT VERY SUPPORTIVE; LITTLE CHANGES IN SHORT TERM INFLATION.

Yesterday, the business confidence index for April was released. Aligned with many international indicators, but opposite to what it could be expected from the stability of copper price in March-April and some breaks in the apparently overcast political sky for a tax reform a bigger possibility of wide agreements, the index was below the previous month. The total indicator fell from 54 in March to 52 in April. Both are positive and remark expansion, but taking out mining sector (which even improved vs. previous register), the index showed contraction. However, the conclusion can not be a direct contraction in non-mining economy, among other reasons, because the index has been below 50 before and that did not happened. But it reflects a remarkable weakness in those sectors. Needless to say that plunge of copper price after international dataflow in the last days (about activity in 2 main commercial partner) and their consequences on the copper price will not be supportive for business confidence. Anyway, as we expect that investment will be led by mining and public works in the first stage (as usually happens in Chile) and that should start at midyear, some more patience in required.

Of course there is not so much patience in financial markets. Exchange rate (CLP/USD) was hit by new copper price, even if that is not expected to last for a long time, coupled with an uptick risk aversion. According to our quantitative approach, we see the current exchange rate relatively aligned with historical parameters (there is no a meaningful gap between the spot price and the model). Nothing of this is definitive enough to change our forecast of an exchange rate 5% or a little more below current level at year end, but it validates our warning about high volatility in the meanwhile, with a trading range of 5% above and below CLP 660.

We estimate a monthly inflation of 0.4% for April (2.1% y/y, both data to be released on next Wednesday), slightly above forwards and economists' surveys. Increases will come from transportation (air and interurban transport services, gasoline) and housing expenses (rent, co-ownership expenses). This rise would be partially offset by drops in communication and clothing. At the core level, we expect of 0.3% m/m, with goods increasing 0.1% m/m and services 0.4% m/m. For May, we anticipate CPI inflation of 0.4%-0.5% (in line with forwards and above traders and economists' surveys), explained by electricity bills (which would contribute around 0.2pp) gasoline prices and seasonal factors. By divisions, the main positive incidences would come from transport (0.18pp), influenced by a higher demand due to Easter, followed by housing (0.08pp) and foods (0.06pp).

CONTACTS

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

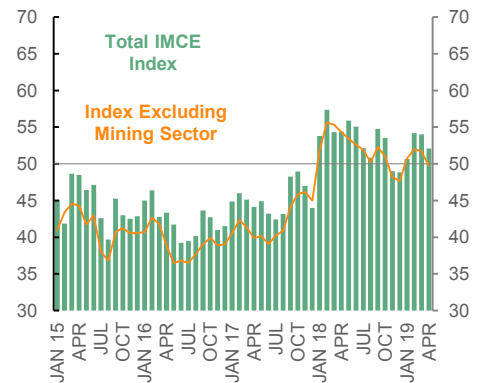
Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

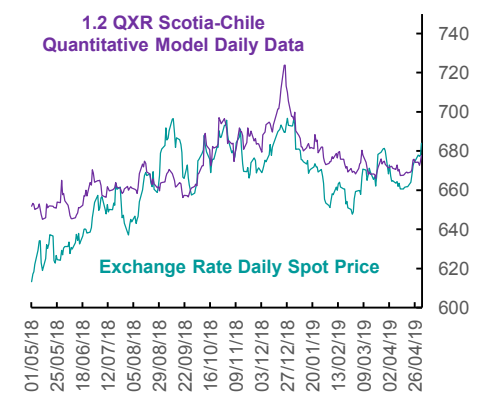
Benjamin Sierra
56.2.2619.4974 (Chile)
Scotiabank Chile
benjamin.sierra@scotiabank.cl

Chile IMCE: Monthly Business Confidence Index



Sources: Scotiabank Economics, ICARE, UAI, BCCh.

Chile Exchange Rate: Quantitative Approach



Sources: Scotiabank Economics, Reuters Eikon.

These rises would be partially offset by communications (-0.04pp) and clothing and footwear (-0.01pp), due to rate updates and mid-season sales, respectively. This little change leaves unmodified our forecast for the whole year which should reach to 2.8%.

Today we will know the official result for the commerce sector in March, which is widely expected to be rather weak. Specifically in the retail, our team estimates a sales growth of 1% (this is not very different of previous months behavior but vs. compared with historical average in Chile, is pretty low). An index based in a sample of the private sector (Chamber of Commerce) just for Santiago anticipated a contraction, but discrepancies between this series and that of the National Office of Statistics are relatively wide.

PERU: BOTH INFLATION AND PARTIAL SECTOR GDP FIGURES ARE UP MILDLY IN MARCH

Inflation came in at 0.2% for the month of March, just marginally lower than our expectations, and largely in line with our 12-month forecast of 2.6%-2.7%. Inflation will continue bordering the ceiling of the Central Bank target range (1% to 3%) for at least another quarter, but this will mostly reflect a low base comparison. By year end, inflation should have corrected down to our full-year forecast of 2.4%. The CB has signaled its awareness that this temporary hike will not affect policy.

Partial sector GDP growth figures for March have been released. Mining GDP rose a marginal 0.15%, y/y. This was the first positive growth since September 2018. As a result, Mining GDP growth is now trending closer to -0.6% for 1Q2019, versus our forecast of -2.1%. Fishing, down 9.5% y/y, came more in line with our expectations. March is not a fishing season month, however, so the sector carries a low weight. Electricity, up 6.3%, and cement consumption, +5.2%, suggests that domestic demand remains resilient. Overall, the partial figures so far available suggest GDP growth in March which is much better than January-February, but still rather modest.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.