

LATAM Market Update

- **Chile:** Retail data aligned with our expectations; Starts a week with plenty of data
- **Colombia:** Inflation higher than expectations for the second month in a row

CHILE: RETAIL DATA ALIGNED WITH OUR EXPECTATIONS; STARTS A WEEK WITH PLENTY OF DATA

On Friday, we learned that retail sales in March increased 1% y/y, perfectly aligned with our team's estimate. Half-empty glass: the growth is very low (car sales contracted 1.2% y/y); half-full glass: the landslide stalled and there are good reasons to expect a rebound alongside a recovery in total activity in the coming quarters. Considering the specific class of retail goods, durables increased 0.3% y/y and non-durables did at 0.9% y/y (annual growth registered in February was revised down, however, for durable goods from 1.4% to 1% and for non-durables from 0.5% to -0.2%). Wholesales increased 5.1% y/y, which helped to leave the commerce sector activity index with an annual growth of 2.6%.

Aggregate activity index for March will be released today. Our team expects an increase between 1.75% y/y and 2% y/y. Mining sector, of course, would be a drag (we knew the output contracted 3.5%, the less severe contraction in the last three months). That result would mean a growth in Q1 of 1.8-1.9%, much below the growth estimated for the whole year by our team (3.2%), implying that we expect a recovery for the rest of the year, but mainly in H2.

This week, we will get plenty of economic data (and followed by three very sparsely populated): tomorrow we will know trade balance data, which are a first sign for monthly activity (a priori, it is expected to be another consolidation month) and monetary data (M1 and loans). The quarterly banking credit poll will also be published tomorrow (interesting to track, especially at this stage of the cycle). On Wednesday, the most important data will be the CPI. As said last week, our team's estimate points to a monthly inflation of 0.4% for April (2.1% y/y). Finally, on Thursday, the Central Bank will have its meeting. We don't expect further changes in its monetary stance; that is, we expect a slow normalization of the MPR, with the next increase in 4Q19.

COLOMBIA: INFLATION HIGHER THAN EXPECTATIONS FOR THE SECOND MONTH IN A ROW

Dane released April 2019 CPI Inflation (recall Dane published a new base and some methodological changes). The figure came in at 0.5% m/m or 3.25% y/y, higher than market expectations of 0.39% m/m (according to Bloomberg), we had 0.37% m/m. The big upward surprise came, again, from foodstuff that expanded 1.07% m/m, while market had 0.69% m/m. April foodstuff CPI was the second print in a row showing higher than expected monthly expansions due to a possible effect of strikes in the south-west of Colombia during March and part of April that

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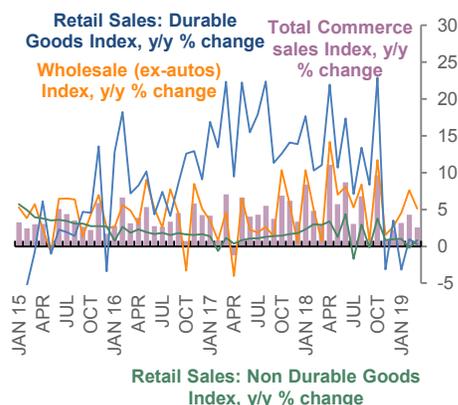
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Chile: Commerce Monthly Sales



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

made difficult to transport perishable goods to the rest of the country. Although annual inflation continues in comfortable levels, close to 3%, we think April upward surprise can increase a bit inflation expectations which is in line with our base case scenario of a single hike of policy rate in September 2019 to 4.5%.

April ex-food inflation came in at 0.39% m/m or 3.31% y/y, which although is 4bps higher than last month, continues within BanRep's target range. 2019 core inflation behaviour is showing that indexation effects this year are helping inflation down. The only black sheep in April inflation, although expected, continued being energy prices (regulated, as gas bill, power bill and gasoline prices), which came in at 2.2 m/m, way above core and headline prints.

Food prices came in higher than expected due to some perishable goods, as potatoes (+8.6% m/m), plantain (+7.9% m/m), tomatoes (+8.3% m/m), among others. April perishable goods upward behaviour, in our opinion, was due to a higher transportation costs due to the strike in the south-west of Colombia in March and April (as commented above), which although temporary, can make a noise and affect inflation expectations.

Bottom line, April inflation surprised to the upside, again, due to higher foodstuff inflation. Having said that, since core inflation continue under control we keep our forecasts of 3.17% y/y for 2019, and attribute upward surprise to the normal volatility that foodstuff prices have in Colombia. However, we think inflation expectations can react to today's print, especially for December 2019.

Colombia: Headline Inflation
(y/y, %)



Sources: DANE, Scotiabank.

Colombia: Ex-Food Inflation
(y/y, %)



Sources: DANE, Scotiabank.

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