

LATAM Market Update

- Chile:** Early data for April not very strong
- Mexico:** United States imposed tariffs of 17.5% on imports of Mexican tomatoes; Gross fixed investment shows negative results
- Peru:** The central bank will not raise its policy rate; Social protests are brewing

CHILE: EARLY DATA FOR APRIL NOT VERY STRONG

Banking data for April were released yesterday. In a general commentary, with a wide view, one must say that banking loans rhythm is losing some steam, but at a very subtle pace, which seems a logical consequence of comparison bases subtly more demanding in an annual base. That is likely going to be the case in coming months since in H2 2018 the growth of credit was even higher and the macroeconomic expansion was weaker. To some extent, we should expect that will take the toll to the credit growth in the very short term. But it is not for ever: as a rebound in the activity growth is expected (led by investment) we should see some recovery in growth, so a possible weakness in coming data must be taken with a grain of salt.

To some extent, that view is confirmed by the quarterly banking credit poll also unveiled yesterday by the Central Bank. Data are referred to Q1. Credit demand was less strong than before, especially in consumption and corporate. On the supply side, there are no changes in standard required for credit, though for consumption and mortgages there is marginal additional flexibility. In general, the Chilean banking reaction (supply side) to new conditions usually is very prudent when cycle turns are not quite clear.

Also yesterday, we knew about trade balance for April. Data were not very supportive. Exports contracted 6.3% y/y, while imports did at 4.3% y/y. In exports, the setback was rather generalized, but in imports there is an improvement in capital goods that seems consistent with a sustained investment spending. Other positive data for April came from money: the M1 growth accelerated for the first time since September 2018, to 9.1% y/y. as said many times, money does not have the predictability power that showed in the past in Chile but is a relevant data in a total perspective.

Today we will know April CPI. Our team's forecast is 0.4% (the same for the current month and 0.2% for June), while the market is expecting 0.3%. Our specialists' estimate for inflation excluding foods and energy in April is 0.3%. Forecasts for the whole year are at 2.8% and a normal increase to 3% in 2020. Tomorrow the Monetary Policy Meeting will take place. Despite no change in the MPR (currently at 3%) is expected, the statement will likely be more dovish since last data were a tad below their base case. After that, on May 20th the Central Bank will release national accounts data for Q1. Based on the monthly indicator we expect a growth of 1.9%, but marginal corrections are usual. On May 27th the minutes of the Monetary policy Meeting will be released and on May 31th main sectorial and labour market data for April.

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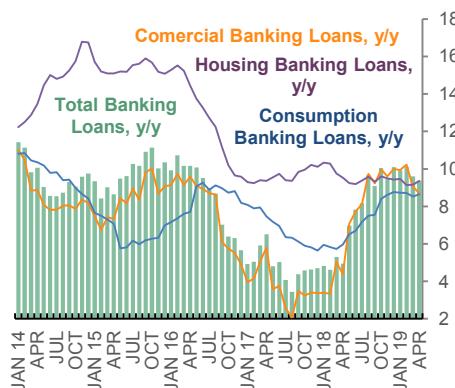
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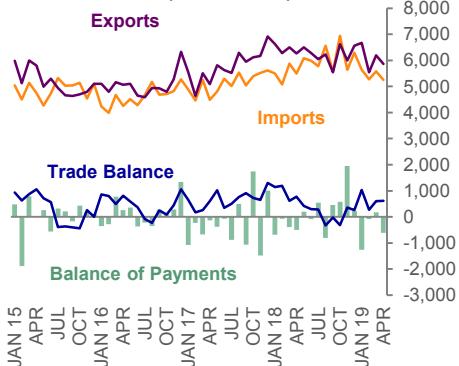
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Chile: Monthly Banking Loans (Annual Growth Rate)



Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

Chile: Monthly Trade Balance and Balance of Payments (USD Millions)



Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

MEXICO: UNITED STATES IMPOSED TARIFFS OF 17.5% ON IMPORTS OF MEXICAN TOMATOES; GROSS FIXED INVESTMENT SHOWS NEGATIVE RESULTS

Since the two countries were unable to renew a 2013 agreement that suspended a US anti-dumping investigation, the US has imposed a 17.5% tariff to Mexican tomatoes. The elimination of the Suspension Agreement will imply, as of today, among other things, that the Department of Commerce will reactivate the anti-dumping investigation suspended since 1996. Its final determination must be issued no later than September 19, 2019. In the meantime, the two countries will continue negotiating with the objective of achieving a successful conclusion in the following weeks. Mexico's Economy Department estimates that the country exports about \$2 billion in tomatoes to the United States and supplies about half the tomatoes the US consumes annually. This could very much affect Mexican tomato exporters as small and medium producers won't be able to pay higher costs creating an excess of supply in Mexico implicating the prices of that vegetable could fall in the Mexican market and rise in the United States.

The country's investment recorded a monthly contraction of 2.5% in February based on seasonally adjusted figures, which represented the biggest setback for a similar period since 2015. The monthly report revealed decreases in the two major items that integrate the Gross Fixed Investment indicator. The sharpest fall was observed in the construction sector, registering a contraction of 2.3% m/m, which placed the indicator at its lowest level in the last six months. Moreover, spending on machinery and equipment reported a negative variation of 2.0% m/m, a figure that contrasts with the increase of 9.6% m/m observed in January. The annual figure contracted in February, going from 1.6% to -1.9% y/y (vs. 4.4% a year earlier). With this, it accumulated an average rate of only -0.1% in the first two months of the year, which compares with 4.1% in the same period of 2018.

PERU: THE CENTRAL BANK WILL NOT RAISE ITS POLICY RATE; SOCIAL PROTESTS ARE BREWING

We do not expect the Central Bank to raise its reference rate at its monthly meeting tomorrow, Thursday. In fact, and despite a temporary spike in inflation to 2.6%, we expect the reference rate to remain put at 2.75% for the rest of 2019.

More social protests are brewing. Local communities near the Las Bambas mine are once again threatening to block the access road to the mine. This is allegedly due to dissatisfaction with the results of talks with the company. The new road blocks would occur sometime next week at the earliest. The threat is real, although there is the possibility that it is more of a pressure tactic, than an actual intention. At the same time, different agriculture associations (farmers, water management associations) have announced a strike to begin on May 13th. The government is to meet with these associations this week in seeking to forestall the strike. The organizers of the strike claim to represent two and half million people throughout the country. In past similar agrarian strike, main highways were blocked.

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