LATAM Market Update

- **Chile: Monthly GDP growth of 2.1% YoY in April supports expansion between 3.0 and 3.2% in 2019; Remarkable seasonally adjusted non-mining activity confirms recovery path**
- **Colombia: May headline inflation came in line with market expectations**
- **Peru: Congress gives the cabinet its vote of approval, lowering, but not eliminating, political tension**

CHILE: MONTHLY GDP GROWTH OF 2.1% YOY IN APRIL SUPPORTS EXPANSION BETWEEN 3.0 AND 3.2% IN 2019; REMARKABLE SEASONALLY ADJUSTED NON-MINING ACTIVITY CONFIRMS RECOVERY PATH

Monthly GDP expanded 2.1% YoY in April (Scotiaf 2.1% YoY). The first month of the second quarter did not surprise expectations negatively as was the case during the first quarter. The Expectation Survey and Bloomberg Survey were expecting 2.3% and 2.1% YoY, respectively. Based on that, we do not anticipate additional cuts in the median forecast for 2019 GDP. Currently, the consensus forecasts GDP growth of 3.2% for 2019 without differences with our forecast raised one year ago.

Seasonally adjusted non-mining activity expanded a solid 0.3% m/m which is a positive surprise for those that were anticipating a deepening performance of the activity. Moreover, the quarterly dynamism of total and non-mining activity shows a rebound in April, showing the worst is behind, due to a solid expansion of GDP in core sectors. On the other hand, mining GDP registered an annual growth of 1,9%, confirming a slight upward trend in this sector.

We need to correct UPWARD our estimate for GDP growth in May from 2.5% to the range 2.5%-3.0% YoY, consistent with a 2Q19 around 2.5% YoY. We still maintain our view of a significant recovery path for activity during the rest of the year based on the dynamism of private and public investment in mining, forestry, real estate and energy. It seems that some part of the market is completely focus on the external scenario, which is indisputable relevant, but they forget to acknowledge that loans continued their upward trend in every segment. Moreover, other sectors' activity not related to Natural Resources have performed in line with expectations (ours at least), particularly those linked to investment and services, such as business services, and some lines linked to wholesale trade. The outlook for investment has remained favorable, despite the slowdown in imports of capital goods, in line with the upward revision of the Corporación de Bienes de Capital's survey. Finally, regarding the creation of employment, the different sources of information pointed to stronger growth in salaried employment and the annual expansion of nominal wages was 4.8% in its last reading.

Regarding the Central Bank decision, we see the rate at 3.0% as a baseline scenario for the rest of the year, and no agreement at the Board for preventative cuts. Even though the new estimate for potential GDP to be release in the

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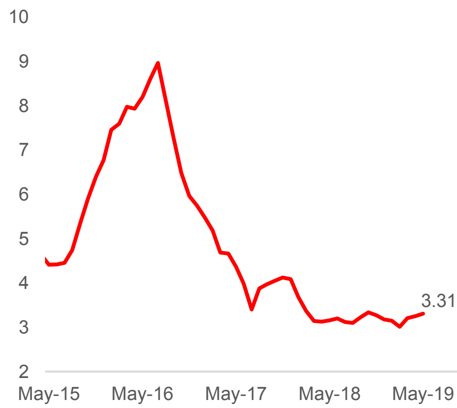
Monetary Policy Report next week might signal that output-gap is wide enough to justify a corrective action. In that context, we do not disregard a 25-50 bp cut in the MPR, conditional to absent surprises coming from prices during the next two months.

COLOMBIA: MAY HEADLINE INFLATION CAME IN LINE WITH MARKET EXPECTATIONS

May 2019 CPI Inflation came in at 0.31% m/m or 3.31% y/y, exactly as market consensus (according to Bloomberg survey), we had 0.24% m/m. Housing and Foodstuff were the main source of inflation during May (expected). May foodstuff prices were the third print in row showing high monthly expansions due to higher than expected rain that produced an increment in some perishable goods. Annual inflation continues in comfortable levels, although is the third month in a row showing small increment. We think May inflation data will not change significantly inflation expectations, which continue anchored for longer tenors, but it shows that inflations will keep at the upper level of the target range (2-4%). Therefore, we keep our base case scenario of a single hike of policy rate in September 2019 to 4.5%.



Sources: DANE, Scotiabank.

May ex-food inflation came in at 0.25% m/m or 3.27% y/y, which is 4bps lower than last month, and continues not only within BanRep's target range but also close to headline inflation. May core inflation behaviour continue showing that indexation effects this year are helping to keep inflation under control, especially for non-tradable goods as rent fees that expanded 3.1% y/y in May very close to the BanRep's target. Worth to note, in May power bill decreased 0.27% m/m and stopped its steady increasing path. Having said that, Electricity prices continued showing annual expansions above 7%, that we expect will be reduced through the year since rainy season is helping hydroelectric energy source to recover making cheaper energy production.

Sources: DANE, Scotiabank.

Food prices surprised us a bit to the upside on the back of some perishable goods, as tomatoes (+38% m/m), eggs (+2% m/m), meat (+1.2% m/m), among others. May perishable goods upward behaviour, in our opinion, was due to a stronger rainy season that harmed some crops and increased transportation costs due to some landslides on important roads in the country. We think, perishable goods prices will normalize through the year once the rainy season is behind us.

Bottom line, May inflation came in line with expectations and core inflation continue close to target. Therefore we do not expect May inflation to change BanRep's or market base case scenario of steady policy rate for at least next two meetings.

PERU: CONGRESS GIVES THE CABINET ITS VOTE OF APPROVAL, LOWERING, BUT NOT ELIMINATING, POLITICAL TENSION

Congress gave the cabinet of the Vizcarra government its vote of confidence by a vote of 77 in favour, 44 against and 3 abstentions. This vote aborts, at least for the moment, the greater political uncertainty that would have occurred otherwise. The opposite outcome would have meant that the cabinet in full would have had to resign, and would have opened the door to the government calling for new congressional elections. The drama is not quite over, however. The government had called for a congressional vote of confidence specifically on the proposals of political reform that it submitted to Congress last year, the approval of which Congress has been delaying. Now that it has given its vote of confidence, in principal, Congress would seem to be under the moral requirement to approve the government reforms. But, with no legal obligation to do so, it is far from clear whether moral pressure is enough. The question remains as to what will Congress do regarding the political reforms, and what will the government do if Congress continues to delay their approval. The government initially suggested the end of the current legislature, June 15th, as the deadline for the approval of the reforms, although it has since waivered on this deadline. The situation continues to be messy. It is difficult to see a scenario in which Congress accepts the political reforms broadly and in essence, but is equally difficult to see what path the government will take if it doesn't.