LATAM Market Update

- **Chile: Higher inflation of imported goods reveals a normalization in the CLP pass-through**
- **Mexico: Rating actions released just at a bad time; Meanwhile inflation exhibited lower-than-expected figures**
- **Peru: April trade surplus is weak, mining investment strong, both broadly in line with expectations**

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CHILE: HIGHER INFLATION OF IMPORTED GOODS REVEALS A NORMALIZATION IN THE CLP PASS-THROUGH

Monthly CPI of 0.6% was above market expectations (0.5% m/m, Scotiaf:0.5%), and reaches an annual inflation of 2.3%. Underlying inflation (core CPI) remained benign (+0.4% m/m), with a surprisingly high inflation of core goods (0.7% m/m; 0.6% y/y) while services grew a stable 0.2% m/m (2.9% y/y). At the goods level, tourist packages raised 23.4% m/m, due to higher CLP pass-through, which had not been seen in past registers. In services, the highest increases came from air transport services, which grew 5.8% m/m, and rent (0.4% m/m). This last item continues to grow at stable levels, accumulating a total increase of 2.7% since January, and due to its high indexation to past inflation, we expect this trend to continue the following months.

The main contribution to monthly inflation in May came from electricity bills which increased 11.3% m/m (inc. +0.25pp) reflecting the new tariff adjustment that took place in early May. Furthermore, gasoline prices registered again a relevant contribution to monthly inflation (+0.09pp), due to the increase of international prices of oil and a relevant depreciation of the peso during the month. However, as international prices have gone down and the peso has appreciated around 3% in the last week, we expect the local prices stabilization mechanism (Mepco) will continue to transfer decreases in fuel prices. Thus, the divisions that show a positive incidence in inflation are housing, recreation and culture and transportation, while the remaining divisions show no relevant contributions.

The higher inflation of goods seems a generalized phenomenon in the basket. Inflationary pressures remain solid, pointing to a normalization in annual inflation figures towards the range 2.8-3.0% by the end of the year. Diffusion index of headline inflation was 48.5%, around historical average. On the other hand, after several months of a weak pass-through, Inflationary diffusion of goods reached 48.6%, which is more aligned with historical patterns.

Our main positive surprises came from tourist packages (+23.4% m/m, inc. +0.18 pp), inter-urban transport services (-1.5% m/m, inc. -0.01pp) and electricity (11.3% m/m, inc. +0.25pp), as we projected lower expansion on these items.

According to our call of these past months, May inflation would have been the last high register in the first part of the year, as we do not expect June CPI to reach the levels of March-April-May. As a matter of fact, we forecast June inflation to be 0-0.1% m/m, with negative contribution of gasoline and a normalization in the CLP pass-through.

MEXICO: RATING ACTIONS RELEASED JUST AT A BAD TIME; MEANWHILE INFLATION EXHIBITED LOWER-THAN-EXPECTED FIGURES

Fitch downgraded Pemex rating to junk territory while Moody's revised its outlook to negative. Just as Mexico's Chancellor, Marcelo Ebrard, announced unsuccessful trade talks, so the outlook worsened for the Mexican economy after two rating agencies deteriorated the sovereign credit profile: Fitch downgraded Mexico's sovereign credit rating by one notch, to "BBB" from "BBB+", and Moody's changed Mexico's outlook to "negative" from "stable". Following the sovereign's rating actions, Fitch and Moody's took similar measures on Petroleos Mexicanos' (Pemex) rating. First, Fitch downgraded Pemex's rating to "BB+" from "BBB-" and kept the "negative" outlook, slipping into speculative grade zone: as drivers for the action, the rating agency mentioned that despite the implemented cost cutting measures and the moderate tax cuts, the company continues to severely underinvest and Pemex cash flow generation and reinvestment ability remain pressured by the high level of transfers to the government. Second, Moody's changed Pemex outlook to "negative" but affirmed its "Baa3" rating and lowered its standalone credit assessment to "caa1" from "b3": the agency's rationale reflects the anticipation of an ongoing negative free cash flow and declining reserves at Pemex; additionally, it will be a challenge the building of a new refinery. Mexican peso and interest rates have been harshly hit by these announcements and uncertainty regarding Pemex business plan, that is expected to be released in late June, has added some heat to the situation.

Inflation stayed above the central bank's spectrum variability. May's headline inflation figure was below market expectations (-0.29% m/m vs. -0.22% market consensus), as services sector prices decelerated and energy prices fell. Core inflation increased 0.16% m/m driven by a rise of merchandise prices (+0.29 m/m). In the annual comparison, headline inflation slowed down between April and May, from 4.41% to 4.28%, (vs. +4.51% a previous year), while its core and non-core components increased from 3.87% to 3.77% and from 6.08% to 5.78%, respectively. Core and headline inflation figures add to our anticipation that the central bank of Mexico will hold the current monetary policy stance for the remainder of 2019.

PERU: APRIL TRADE SURPLUS IS WEAK, MINING INVESTMENT STRONG, BOTH BROADLY IN LINE WITH EXPECTATIONS

The external trade surplus came in at a weak US$259mn in April, a six-month low. Exports were down 2.3% for the month, y/y, and 5.4% in the YTD. The decline in metal prices was the main reason for lower exports, with mining exports, which make up nearly 60% of total, declining 2.7% in the month and 12.0% YTD, and is something that will continue to bear down on exports in May and June, if not also in later months. We expect exports for full-year 2019 to come in nearly US$2bn lower than the US$7.3bn surplus in 2018. Imports also fell in April, 0.2% y/y, and 0.7% YTD. As expected, durable goods are declining sharply versus 2018 which was a World Cup year in which the purchase of televisions and associated durables rise sharply, but temporarily. However, even accounting for this one-off factor, imports were soft, and seem to be pointing to a weakening in domestic demand.

Mining investment has increased 31% in the year-to-April. This is down from 37% to March. The trend is in line with our expectations of a deceleration in mining investment, towards our forecast of 23% growth for the full year 2019.

The following companies were the leaders in investment in January-April 2019:

Peru Mining Investment by Company (US$)		January-April	
Company		2019	% chg
1	ANGLO AMERICAN QUELLAVECO S.A.	284,509,136	374.4%
2	MARCOBRE S.A.C.	217,559,987	670.6%
3	SOUTHERN PERU COPPER CORPORATION SUCURSAL DEL PERU	126,419,495	-27.4%
4	MINERA CHINALCO PERU S.A.	123,999,105	116.9%
5	SHOUGANG HIERRO PERU S.A.A.	79,204,486	-59.1%
6	MINERA LAS BAMBAS S.A.	70,339,054	153.7%
7	SOCIEDAD MINERA CERRO VERDE S.A.A.	69,522,448	-31.4%
8	MINERA YANACOCHA S.R.L.	53,564,911	149.5%
9	COMPAÑIA MINERA ANTAMINA S.A.	51,748,669	-4.2%
10	COMPAÑIA MINERA ANTAPACCAY S.A.	50,395,898	52.8%
11	MINSUR S.A.	38,516,327	64.5%
12	NEXA RESOURCES PERU S.A.A.	33,791,881	775.4%
13	COMPAÑIA MINERA ARES S.A.C.	31,872,064	8.1%
14	COMPAÑIA MINERA PODEROSA S.A.	29,978,642	1.1%
15	VOLCAN COMPAÑÍA MINERA S.A.A.	24,902,115	3.9%
16	COMPAÑIA MINERA CHUNGAR S.A.C.	17,893,187	4.9%
17	COMPAÑÍA DE MINAS BUENAVENTURA S.A.A.	16,646,522	-19.6%
18	CONSORCIO MINERO HORIZONTE S.A.	14,929,780	-18.6%
19	EMPRESA MINERA LOS QUENUALES S.A.	14,495,504	176.8%
20	COMPAÑIA MINERA RAURA S.A.	12,995,328	54.8%

Source: Ministerio de Energía y Minas del Perú.