

LATAM Market Update

- **Chile:** We forecast CPI of -0.1% M/M for June
- **Mexico:** Public finances registered a surplus in May
- **Peru:** A decline in June inflation leads to greater expectation for the CB's quarterly report on Friday

CHILE: WE FORECAST CPI OF -0.1% M/M FOR JUNE

A decline in fuels and a reversion of the tourism package would offset the high print for May. We estimate a monthly inflation of -0.1% for June (2.2% y/y), in line with forwards and slightly below traders' surveys. Decreases will come from the tourism package (incidence around -0.1pp) and transport (gasoline, inter-urban transport services). This drop would be partially offset by increases in food and non-alcoholic beverages division (incidence around 0.08pp). At the core level, we also expect an inflation of -0.1% m/m, with goods decreasing 0.5% m/m and services expanding 0.1% m/m.

The main negative contribution comes from the product tourist package, which had a monthly increase of 23.4% m/m in May, the second largest expansion that month after electricity bills. For June, we expect that category to offset its previous increase, due to an appreciation of the CLP and seasonal factors, resulting in a decrease of around 11% m/m. We already saw such an expansion of this category in 2017, where tourist package raised 25.7% m/m in May, followed by a drop of 15% m/m in June. In that occasion, the appreciation of the CLP was lower than it was in June this year.

On the other hand, fuels (gasoline, diesel and LPG) is expected to show its first decline after increasing for two months, due to lower international prices and an appreciation of the CLP. We expect the gasoline and LPG products to have a negative contribution of around -0.03pp each.

By divisions, the main positive incidence would come from food and non-alcoholic beverages (0.08pp), as a result of increases in avocado and meat, whereas the negative contributions would come from recreation and culture (-0.10pp) and transport (-0.05pp).

For July, we project a CPI expansion of 0.2% m/m, in line with its historical average. The main contributions would come from transport services and food products. We expect fuels to have a lower negative contribution than June, due to the rebound in international prices of oil.

MEXICO: PUBLIC FINANCES REGISTERED A SURPLUS IN MAY

During the first five months of the year, Mexico's public balance recorded a MXN32.35 billion surplus, contrary to the programmed MXN79.08 billion deficit, due to a sharp cut in public spending, which more than offset the decrease in revenues. In May, net spending was 2.2% lower than that registered one year

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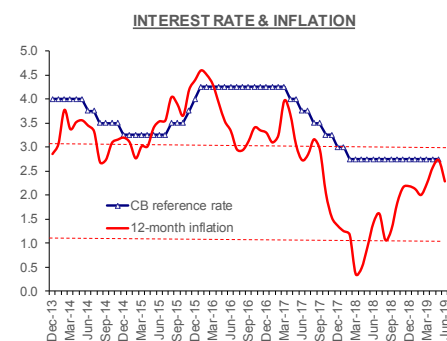
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earlier, as revenues were 4.7% higher than those in May 2018. The primary balance, the main anchor of public debt stabilization, stood at 0.9% of GDP in May, in line with its annual target of 1.0% of GDP.

We consider that the balance of risks for public revenues is skewed to the upside due to a lag in oil revenues that could widen further if the oil production platform continues to deteriorate, and as a more marked economic slowdown could negatively affect tax revenues, requiring additional spending adjustments to meet fiscal targets.

PERU: A DECLINE IN JUNE INFLATION LEADS TO GREATER EXPECTATION FOR THE CB'S QUARTERLY REPORT ON FRIDAY

Inflation was a negative 0.09% in the month of June, taking the yearly figure down to 2.3%, from 2.7% in May. Most of the decline was in agricultural goods, which is notably volatile. Even so, the breakdown shows that there is very little underlying structural inflation that could suggest a reversal in coming months. The trend reversal represented by June's inflation figure was expected, although the magnitude of the decline in inflation was a bit larger than anticipated. We expected, inflation to be nil, not negative. Going forward, inflation should continue to be subdued, as it falls back to a trend less contingent on the low base in 2018, and more in line with rather soft domestic demand. Inflation is comfortably within the CB target range, and closer to the mid-point of the range, which the markets might see as an argument for the Central Bank reducing its reference rate in 2019. We hold to our 2019 base case scenario of a stable reference rate with a downward bias, at least until this Friday, when the CB will hold its quarterly Inflation Report conference. This would be an opportunity for the CB to provide the market with a policy signal, should it choose to do so.



Sources: BCR, INEI, Scotiabank Peru.

Resource sectors will continue impairing growth in May. While early domestic demand indicators were not bad; cement consumption rose 4.3%, y/y, in May, and electricity was up 4.4%, the same was not true for resource sectors. Fishing fell 27%, and mining and oil & gas, were down 1.5%. These figures suggest GDP growth of just under 2% in May.

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