

LATAM Market Update

- **Colombia:** BanRep did not bring additional information on monetary policy
- **Peru:** Oliva sees GDP picking up in June, and pre-announces construction license for Tía María copper project

COLOMBIA: BANREP DID NOT BRING ADDITIONAL INFORMATION ON MONETARY POLICY

BanRep published the minutes from its June meeting where the central bank kept the MPR at 4.25% in line with consensus. The text of the minutes continued weighting more the economic activity slack than recent upward inflation surprise. The Board is confident that inflation will return to 3% by next year, after climate shocks vanish. Additionally, inflation expectations continue close to target. On economic activity, although Board members think that domestic demand recovery continue, 1Q19 GDP growth came lower than staff expectations and unemployment data is deteriorating due to lower labour demand. Additionally, the minutes stated that FED and ECB's strong switch to the dovish side increases uncertainty about world GDP growth, especially under a higher uncertainty on the geo-political side.

Finally, according to the June minutes, the Board is concern about the current account deficit that came in at 4.6% of GDP in 1Q19 and is expected to keep above 4% levels in FY19. The Board said that although financing has been healthy via FDI and portfolio investment, international conditions are very volatile, which make it more difficult to forecast inflows in the near future to finance current account deficits. BanRep's external imbalance concern makes us think that BanRep wants to resume the international reserves accumulation programs if COP levels allows them. In fact, last week BanRep's member Ocampo said explicitly that Colombia needs higher international reserves.

Bottom line, June minutes confirmed that BanRep has no rush to move the policy rate and in the reaction function, the growth coefficient continues to win relevance. We think BanRep will be on hold for the rest of the year waiting for further economic activity recovery and more certainty on the world geo-political side.

PERU: OLIVA SEES GDP PICKING UP IN JUNE, AND PRE-ANNOUNCES CONSTRUCTION LICENSE FOR TÍA MARÍA COPPER PROJECT

Finance Minister Carlos Oliva spoke with the press on Monday. Some of the things that he mentioned included:

- GDP growth in June will be between 3.5% and 3.7%, y/y. Our view: this is a very precise range, which is presumably backed up by more information that has been made public. However, it is quite possible, and within our own forecast range of 3.4% to 4.0%. June will likely be the first month this year without an extraordinary decline in some resource sectors. But, first will come May, where we expect under 2% growth.

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- Public investment rose 16% in June, after having fallen 31% in May. As a result, public sector investment growth was 0% in 1H2019. Our view: the magnitude of these monthly figures suggest that Oliva was talking about disbursements, rather than actual execution, so the official execution figure should be much lower. They will, however, likely be in the same direction: positive in June and negative in May. The 0% growth figure for 1H2019 is somewhat of a puzzle. It seems low for disbursements, but high for execution. What we do expect is that public sector investment will be much less negative in 2019 than it was in previous years in which local and regional authorities changed.
- Tía María will be awarded a construction license, as it has complied with all legal requirements. Our view: the government needs to award Southern Peru's Tía María copper a construction license before August, when its Environmental Impact Study expires. Oliva is (rightly) backing this decision on the fact that all legal requirements have been met, and that the government must comply with its own norms in obeisance to the Rule of Law. Once Southern Peru receives the license, it will have the legal possibility to begin investment, but it is not likely to do so quickly, as it must still deal with opposition from the local population.

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