

## LATAM Market Update

- **Colombia: July Citi survey—Inflation expectations increased but, no rate hikes are expected by the end of 2019**
- **Mexico: Inflation decelerated in 1H July, albeit its core component continues to show resistance to decline**
- **Peru: Political reforms make headway in Congress**

### COLOMBIA: JULY CITI SURVEY—INFLATION EXPECTATIONS INCREASED BUT, NO RATE HIKES ARE EXPECTED BY THE END OF 2019

July Citi survey came out. This survey is used by BanRep as one of the expectations measures on inflation, monetary policy rate (MPR), GDP and COP.

Bottom line:

- **Rates:** Analysts do not expect any changes in the repo rate (currently at 4.25%) for the next BanRep meeting (this Friday). 68% of respondents expect BanRep will end 2019 at 4.25%. One respondent expects a rate cut of 25bps; six analysts expect rate hikes: 3 respondents expect a hike of 25bps to 4.5% and 3 of 50bps to 4.75% by the end of 2019.
- **Inflation:** Analysts think (on average) July headline inflation will come in at 0.17% m/m, slightly below our forecasts of 0.20% m/m. It is worth saying that there is a wide dispersion (max: 0.28%; min: 0.06%). For December 2019 average projection is 3.56%, 13bps higher than last month.
- **GDP growth:** Consensus for 2019 GDP growth forecasts is 3.11%, below our own forecast of 3.2%. For 2020 economic activity, analysts think GDP growth will be 3.30%.
- **COP:** Citi survey has an average of COP\$3187 for 2019 (eop) and COP\$3165 for 2020.

### MEXICO: INFLATION DECELERATED IN 1H JULY, ALBEIT ITS CORE COMPONENT CONTINUES TO SHOW RESISTANCE TO DECLINE

During the first half of July, consumer prices increased 0.27% biweekly, broadly in line with market consensus (+0.26%) and below what was registered during the same period in the previous year (+0.32%). With the 1H July print, annual headline inflation eased to 3.84%, its lowest level since December 2016, and within Banxico's target range for second fortnight in a row.

This development was mainly explained by non-core inflation, which decelerated to 3.92% y/y (vs +8.52% a year ago), while the core component continues to exhibit resistance to decline. In this respect, core inflation printed at 0.17% biweekly and marginally decelerated to 3.81% in annual terms (vs +3.64% a year ago). The main upward surprise was driven by core-services, in which prices accelerated from 0.22% to 0.27% biweekly, due to the holiday-related seasonality reflected in airfares and tourism packages. Regarding monetary policy, we expect that Banxico will remain on hold and retain a neutral tone, as core inflation is poised to remain sticky due to renewed cost pressures stemming from rapid wage growth.

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**PERU: POLITICAL REFORMS MAKE HEADWAY IN CONGRESS**

Congress has made significant progress on political and elections reforms this week, under pressure to conclude the process before the end of the current legislative year which closes on Friday. Four reform proposals were approved: the conditions for registering and de-listing political parties, new rules for primaries, requirements for candidacies to public office (which needs a second vote, as it requires a change in the Constitution), and campaign financing regulations. Although the versions that were approved by Congress did not match exactly the versions submitted by the Executive, the head of the government cabinet, Salvador del Solar, has already suggested that they are “not materially different”. So far so good. The reforms that are still pending include establishing gender parity and eliminating preferential listing, of party congressional candidates, and, finally, modifications to Congressional immunity. This latter point is the most contentious of those remaining. The progress made so far has been very promising. However, a majority in Congress may be tempted to believe that they have shown sufficient good will in the reforms approved so far, and that they can now oppose the government initiatives in one or more of the issues that are still pending. This would place the government in an awkward position of having to either pragmatically accept this, or maintain a more principled, and confrontational, approach.

The IMF’s decision to lower its 2019 GDP growth forecast for Peru from 3.7% to 3.5% has raised a bit of a ruckus in the country. However, the markets have ignored the change. If anything, the IMF did not go far enough in lowering its forecast, which is still significantly higher than our own, of 3.1%.

Protests around Southern Peru’s Tía María copper mine have entered their tenth day, with no sign of letting up so far. The protests are not widespread, and the number of protestors are rather modest, so much so, in fact, that the police have usually been able to clear the roadblocks that have been set up. However, they are persistent, and there have been a few acts of violence. Perhaps of more importance is the opposition of the governor of Arequipa, where the Project is located, and of other local elected authorities. President Vizcarra traveled to Arequipa to meet with governor Elmer Cáceres.

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