LATAM Market Update

- **Chile: The minutes of the last monetary policy meeting of the Central Bank confirmed our opinion that we will have another 25 bp cut; Retail Sales came in line with our forecast**
- **Colombia: June exports contracted 8.7% y/y; Non-traditional exports weakened**

CONTACTS

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

CHILE: THE MINUTES OF THE LAST MONETARY POLICY MEETING OF THE CENTRAL BANK CONFIRMED OUR OPINION THAT WE WILL HAVE ANOTHER 25 BP CUT; RETAIL SALES CAME IN LINE WITH OUR FORECAST

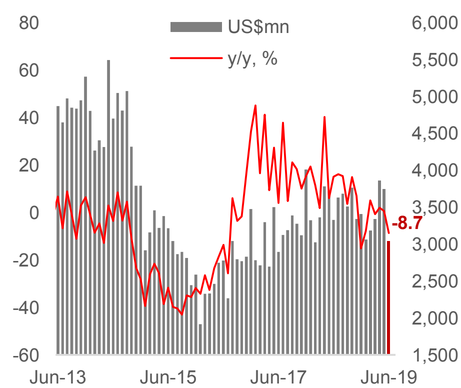
The minutes of the last monetary policy meeting of the Central Bank confirmed our opinion that we will have another 25 bp cut in the September meeting, and another 25 bp. during 4Q19. Why not 50 bp. at once? There are two reasons to advance by 25 bp: (1) Not all Board members are convinced that an additional monetary stimulus is needed, which decreases the probability of a "greater than usual" cut. We suspect that Joaquín Vial (VP of the Board) still expects some recovery in consumption and the effects on the economy of the greater monetary stimulus adopted at the previous meeting; (2) Better economic growth in 3Q19 than the Central Bank knows will come, and that they will prefer to analyze before acting aggressively in September.

Retail sales came in line with our forecast, contracting 0.9% y/y in June. The market expected zero growth. The main negative effects came from clothing and construction materials. Retail sales excluding cars expanded 0.2% y/y. Imports of durable and non-durable consumer goods in the last month had brought significant unexpected nominal drops, in an environment of steadily deteriorating consumer expectations. We need to stress that forces are operating in opposite directions for private consumption: consumer expectations are pointing down, while the possible evolution of the wage bill and better financial conditions point to some containment. In that context, it should not surprise us that retail sales expand significantly in July, which had two additional business days.

COLOMBIA: JUNE EXPORTS CONTRACTED 8.7% Y/Y; NON-TRADITIONAL EXPORTS WEAKENED

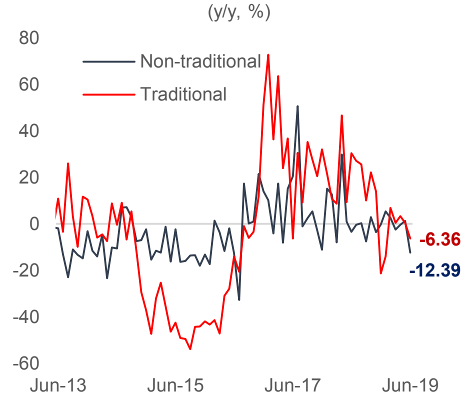
Monthly exports were US$3.0bn, decreasing by 8.7% y/y. Weak June result was due to a decrease in manufacturing (-13.1% y/y), agricultural (-2.0% y/y) and mining exports (-5.2% y/y). Traditional exports contracted 6.36% y/y with mix signals. On one hand, coal exports (12% of total exports) contracted 27.4% y/y, mainly due to statistical effects. On the other hand, oil-related exports (46% of total exports) grew 1.93% y/y due to favourable price and quantities effects. Coffee exports (5% of total exports) increased by 1.01% y/y after three months of contractions due to higher quantities effect. Non-traditional exports were US$1.1bn (-12.4% y/y), the worst performance since mid-2016. YTD exports have decreased US$0.3bn to US$20.2bn, or -1.5%, compare with same period of 2018, traditional exports explain 7% of the contraction while non-traditional exports explain 27% of it.

Colombia: Total Exports



Sources: DANE, Scotiabank.

Colombia: Exports—Traditional vs Non-Traditional
(y/y, %)



Sources: DANE, Scotiabank.

June's export results support the expectation of a widening in the current account deficit for 2019; we expect a deficit of 4.1% of GDP for 2019 which is compatible with a GDP growth rate of 3.2% this year. It is worth saying that the Central Bank explicitly has stated the external deficit as a concern and expects a deficit to increase to 4.4% of GDP this year; a factor that continues playing against possibilities of rate cuts and also could encourage BanRep to resume the international reserves accumulation program in the future.