

LATAM Market Update

- **Chile:** GDP growth of 1.8% YoY in the first half of the year
- **Mexico:** Consumer confidence declined for a fifth month in a row

CHILE: THE ECONOMY COLLAPSED IN JUNE PARTLY DUE TO TRANSITORY/SEASONAL FACTORS; WE ANTICIPATE A STRONG REBOUND IN JULY

Economic activity expanded a disappointing 1.3% YoY in June, with mining activity growing an anticipated 0.3% YoY, but non-mining sectors growing a low 1.4% YoY. The seasonally adjusted growth of non-mining activity showed a decrease of 0.1% m/m, driven by the poor performance of manufacturing, which was partially offset by services and construction, confirming the resilience of some parts of non-mining activity during the last quarters (chart 1). A business day less that was considered a greater influence than usual by the Central Bank in its seasonal adjustment could explain half a point of monthly GDP growth. This could lead to upward corrections in the GDP growth for June when National Accounts are delivered (August 19th) or to an even stronger rebound in GDP growth in July.

July will change the (negative) mood of many. The first half of the year showed a significant contraction in mining in conjunction with other supply shocks from primary sectors. All these supply factors explain a significant proportion of the low GDP growth of the first semester (1.8% YoY) as well as high bases of comparison after having seen these same supply factors explaining the high dynamism of the first half of 2018. **For July, with two more business days, we anticipate an expansion of not less than 4.5% YoY (4.3% *saar*)** which, if materialized, will probably be a pleasant surprise for the large group of analysts who have corrected their annual growth expectations. In fact, the EEE anticipates a 3.5% expansion for 3Q19 that we anticipate will be widely exceeded (Scotiabank expects GDP growth around 4.5% YoY in 3Q19).

Part of the positive surprise will come from the mining sector which, together with more favorable bases of comparison and greater copper extraction, would begin to contribute positively during the second half of the year. Indeed, July electricity generation data show a higher demand from mining zones (chart 2).

The recent external events that show an escalation of the trade war only confirm that the Chilean Central Bank will have local and external justifications to cut the MPR by 25 bps at its September meeting. We anticipate an initial cut of 25 bps and an additional 25 bps during 4Q19. The reasons for not cutting 50 bps in September come from at least two fronts: (1) The economy should have better activity results during 3Q19 thanks to the recovery of mining, resilience of non-mining activity and better bases of comparison; (2) The recent multilateral depreciation of the peso confirms our expectation of higher inflation than expected by the market over the coming months, which will also add some caution to the Central Bank before proceeding with an aggressive cut in September even after the very low expansion of activity observed in June.

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Chart 1

Non-Mining GDP: Strong Collapse In June Driven by Transitory/Seasonal Factors
(percentage, seasonally adjusted monthly growth)

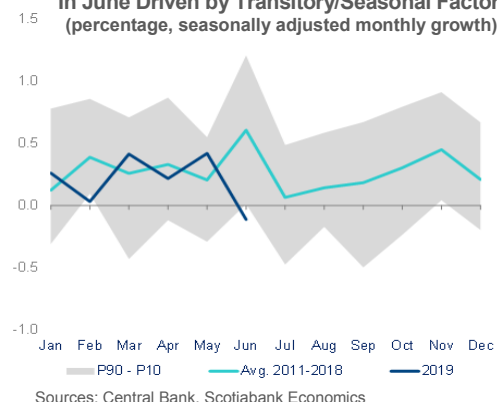
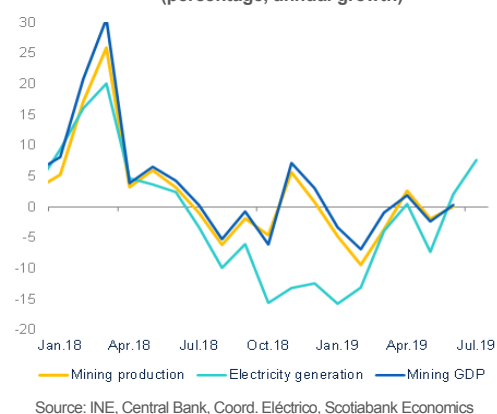


Chart 2 **Mining Activity: Positive Contribution to GDP During 3Q19**
(percentage, annual growth)



MEXICO: CONSUMER CONFIDENCE DECLINED FOR A FIFTH MONTH IN A ROW

Confidence among Mexican consumers continued to weaken in July, as households became more pessimistic about both their future situation and the outlook for the economy. The consumer confidence index sank to an eight-month low of 43.3, standing at the same level as that reported a year ago. On a seasonally adjusted basis, consumer confidence declined for the fifth consecutive month, posting a 1.4% m/m drop in July. Within the index, its five components weakened with respect to the previous month. The index measuring the current situation of households declined by 1.2% m/m, while that assessing consumers' expectations regarding the economic outlook fell by 1.5%. Moreover, the index measuring the current capacity of households to buy durable goods posted a 3.5% m/m decline.

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