

## LATAM Market Update

- Banxico surprises with 25 bps rate cut
- Peru GDP disappoints in June; Tía María discussed in Congress

### MEXICO: BANXICO SURPRISES AND LOWERS RATES FOR THE FIRST TIME IN 5 YEARS

In its fifth monetary policy meeting of the year, Banco de México's Board of Governors decided to unexpectedly lower the overnight interbank rate by 25 basis points, to 8.00%, contrary to market expectations that anticipated the institution to keep the rate steady. This time only one member voted to hold the target at 8.25%. According to Banxico's press release, in the second quarter of 2019 economic activity continued to show signs of stagnation due to a further weakening of the aggregate demand, while the negative output gap widened further. Additionally, the institution noted that inflation decelerated from 3.95% to 3.78%, between June and July, driven by lower increases in the non-core component (specifically energy, fruits and vegetables prices), while core inflation remained persistent around 3.8%. "High uncertainty still persists regarding the risks that might affect inflation", stemming from factors such as potential exchange rate pressures; energy and agricultural price increases; trade tensions; cost-related pressures; and weak public finances; among others. The Central Bank stressed that it will "maintain a prudent monetary stance" and keep a close eye on the potential exchange rate pass-through to prices; the relative monetary position between Mexico and the United States; the behaviour of economic slack conditions; and on cost-related pressures in the economy. The minutes from yesterday's monetary policy decision will be released on August 29<sup>th</sup>, and the next decision is scheduled for September 26<sup>th</sup>.

### PERU: GDP GROWTH DISAPPOINTS IN JUNE; TÍA MARÍA DISCUSSED IN CONGRESS

GDP growth for June came in at 2.6% y/y, spot on with consensus. Of course, the consensus forecast was not all that difficult, as sector growth data had largely been already released. Prior to the early release of sector growth information, most forecasts had surpassed 3%. Thus, in general, GDP growth figures continue to underperform expectations. Of significance, GDP growth was 1.7% in 1H2019. Growth should improve in 2H, as resource sectors growth should be closer to normal after a poor first semester, and regional government investment improves over time as the new authorities learn how to spend. But, this improvement will most likely not be as strong as initially envisioned. Discouraging recent events—including political turmoil, social conflicts and worsening terms of trade—will stifle a larger rebound, and we now view growth of over 3% for the full year as challenging. The following table provides a breakdown of major GDP sectors for June and 1H2019.

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**Peru GDP % Growth (y/y)**

	June	1H2019
<b>GDP</b>	<b>2.6</b>	<b>1.7</b>
Agriculture	-1.8	2.7
Fishing	14.2	-26.9
Mining and oil & gas	-3.0	-1.4
Non-resource manufacturing	-1.3	0.7
Power & water	3.5	4.9
Construction	13.6	5.0
Transportation	2.5	2.1
Government	5.0	4.9
Financial services	3.8	3.8

The Minister of Finance, Carlos Oliva, and Minister of Mining, Francisco Ísmodes, were questioned in Congress on Wednesday, August 14<sup>th</sup> over the government's actions regarding Southern Peru Copper's Tía María mine. Oliva stated that the protests around Tía María would have cost the economy ("of Arequipa") S/ 250 million, or under US\$75 million. This is a huge understatement. Most likely, Oliva's figure was based mainly on an estimate of lost working hours locally due to the protests, and does not take into account the greater impact on the regional and national investment environment, or the risk of copycat protests at other projects and mines. More interestingly, Ísmodes appeared to suggest that the decision taken by the cabinet last week to suspend for four months the construction license for Tía María was based on fear of protests escalating, and a desire to seek a larger social consensus around the project through meetings with local leaders and authorities. However, these reasons could conceivably open the door for Southern Peru Copper (SPC) to seek compensation, as they are not considered in mining regulations, which SPC would have complied with.

Following the two, rather uninformative, presentations, a few members of Congress called for Oliva and Ísmodes to resign "out of dignity". More importantly, nothing was said to suggest any change in the government position to put off a decision on Tía María until the end of the year. Also, there was no assurance given as to what the decision will be, when the suspension ends in December.

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