

## LATAM Market Update

- **Mexico: Inflation surprises to the downside in the first half of August**
- **Peru: Household loans growth in July, up 12%, continues robust**

### MEXICO: INFLATION SURPRISES TO THE DOWNSIDE IN THE FIRST HALF OF AUGUST

In the first half of August, headline inflation printed at -0.08% biweekly, well below market consensus (+0.16%), and recording its lowest variation for a similar period since records have been kept. This outcome was mainly driven by a decline in energy prices (natural gas and low octane gasoline); airfares; tourism services; and some agricultural commodities, which were partially offset by increases in the prices of housing, and education. In its annual comparison, inflation moderated its pace for the seventh consecutive fortnight, this time from 3.72% to 3.29% (vs. 4.81% a year earlier), with both, core and non-core components decelerating from 3.83% to 3.77% and from 3.37% to 1.81%, respectively.

If inflation continues to converge to Banco de Mexico's target, it is likely for the institution to continue to cut the overnight interbank rate, as some downside risks continue to materialize, such as decreases in energy prices; greater slack conditions in the domestic economy; and more accommodative monetary stances worldwide that may strengthen the peso. However, a highly uncertain outlook persists and the risks that could deteriorate inflation should be closely followed, such as i) a greater volatility and risk aversion in global financial markets due to the escalation of geopolitical and trade tensions; ii) the USMCA non-ratification; iii) a possible downgrade of Pemex's and/or the Mexican sovereign credit ratings; and iv) cost-related pressures, given the magnitude of wage revisions.

### PERU: HOUSEHOLD LOANS GROWTH IN JULY, UP 12%, CONTINUES ROBUST

Total loans rose 7.2%, y/y, in July. Loans growth has stabilized in this moderate growth range since May, after slowing previously in the year. At the same time, the sharp divergence between household loans growth and business loans growth continued. Business loans growth was 4.6% in July, also fairly stable since May. Meanwhile, household loans growth was strong in July, up 12.1%, y/y and climbing from 11.7% since May. The net increase in household outstanding loans was the second greatest for any month of July in history. The divergence between business and household loans growths is in line with weak private investment versus robust consumption levels. However, while the rate of business loans growth lines up well with private investment, the pace of household loans is stronger than warranted, given the rate of consumption growth. In our view, a change in consumption patterns may be acting as an additional driver of household loans growth, as digitalization (or "uberization") of outlets and services give unbanked segments of the population a new motivation to open personal banking accounts. Just as the deceleration of bank loans in 2018 and early 2019 were a leading indicator of a slowdown in domestic demand, the stabilization in loans growth since May will hopefully be a harbinger of domestic demand growth stabilization.

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