LATAM Market Update

- **Chile: Sales start to pick-up in July**
- **Colombia: Current account deficit deteriorated further in 1H19. FDI continued being the main source of financing**
- **Mexico: Private Sector Expectations Survey of Bank of Mexico; President Lopez Obrador first State of the Nation Report; Public Finances registered a sharp cut in spending, which more than offset the lower income, mainly produced by oil and taxes**
- **Peru: August inflation hits mid-point of CB target range; initial indicators point to +3% GDP growth in July**

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CHILE: SALES START TO PICK-UP IN JULY

Commerce sales increased 6.5% y/y in July, showing a high dynamism of the wholesale sector (11.7% y/y), linked to the rebound in investment and higher demand for construction. Retail sales also recovered, increasing 1.8% y/y, although somewhat lower than expected by the market consensus due to transitory factors in supermarket sales. Car sales still falling (-6.7% y/y) but showing signs of stabilization.

—Waldo Riveras

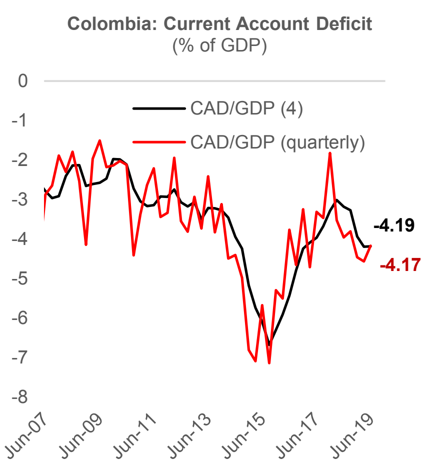
COLOMBIA: CURRENT ACCOUNT DEFICIT DETERIORATED FURTHER IN 1H19. FDI CONTINUED BEING THE MAIN SOURCE OF FINANCING

1H-2019 current account deficit widened to 4.37% of GDP (US$6.8bn), from 3.74% of GDP in 1H-2018 (US$6.1bn). The result is in line BanRep's staff. Although the external deficit financing continues to be healthy (net FDI was US$6.7bn), it continues to be one of the main vulnerabilities for the Colombian economy's long-run sustainability. On top of the external imbalance result, two additional issues raise concerns to market participants; i) exports have yet not responded to the recent exchange rate depreciation. In fact, non-traditional exports are stagnant at around US$3.5bn quarterly for the last five years, despite the 50% COP depreciation, and the 13% depreciation in the real exchange rate; and ii) recent economic recovery has been supported by domestic demand (higher investment), continues to pushing capital imports up, which increases the dependency of external inflows to finance the structural high current account deficit.

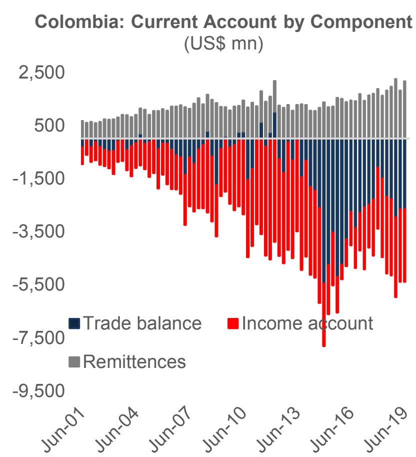
Trade balance deficit (goods and services) came in at US$3.5bn, US$1.97bn higher than in 1H18 due to imports expansion of 6.3% y/y, while exports came flattish in annual basis (-0,5% y/y). The significant increase in Imports was mainly on the back of fuel and transport equipment imports (+46.3% y/y and 30.8% y/y, respectively). The decline in exports was due to lower coal and industrial products, which offset the significant increase in oil exports.

On the financing side, financing account showed that FDI continued to be the most important source of current account deficit financing; 1H-19 FDI inflows stood at US$7.2bn (+4.7% y/y), while portfolio investment inflows came in at US$1.5bn (+24.4% y/y). In 1H-19 FDI composition shows that 40% was in oil and mining sectors, 17% in the financial system, 15% in the manufacturing sector, 8% in hospitality, and 20% in other sectors. Portfolio investment during the first half of 2019 recovery was due to an increase in TES net purchases by foreign investors (US$1.3bn).

On monetary policy, current account deterioration continues to be a difficult issue for BanRep. Although the Board has stressed many times that monetary policy is not the right instrument to fight a structural high current account deficit, second-round effects as currency depreciation and higher risk perception because of higher external imbalance can help inflation and inflation expectations to increase and force the central bank to maintain the repo rate unchanged for the rest of 2019. Also, the widening current account deficit supports the need for higher international reserves. Although FDI is financing the higher deficit, we think that the structural high current account deficit will continue to be a source of concern in terms of longer-run sustainability, especially under the current context of uncertainty and volatile financial markets worldwide.



Sources: BanRep, Scotiabank.



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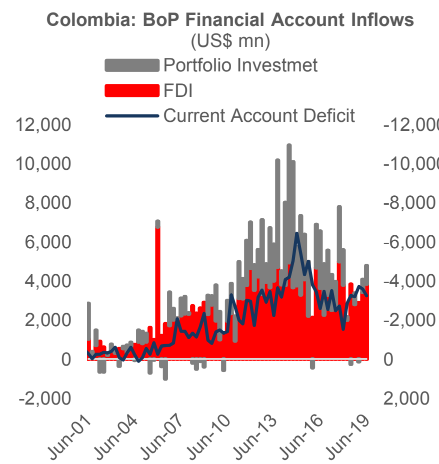

Sources: BanRep, Scotiabank.

—Jackeline Piraján

MEXICO: PRIVATE SECTOR EXPECTATIONS SURVEY OF BANK OF MEXICO; PRESIDENT LOPEZ OBRADOR FIRST STATE OF THE NATION REPORT; PUBLIC FINANCES REGISTERED A SHARP CUT IN SPENDING, WHICH MORE THAN OFFSET THE LOWER INCOME, MAINLY PRODUCED BY OIL AND TAXES

Monthly expectations of private sector analysts exhibit a mixed performance on macro financial variables projections, while those referring to economic indicators continue with a deterred foresight in August. The mean expected growth for Mexico was revised downwards by the eleventh consecutive time, it is now expected at 0.50% in 2019. For 2020, GDP outlook has also weakened, while expected growth has spun its third decline. The expected inflation at the end of 2019 has fallen around 30 base points, while by the end of 2020, the expectations decreased slightly, remaining at similar levels to the previous survey. As to monetary policy, most of the experts expect a funding rate below the current target of 8.0% for the third and fourth quarter of the year, as for 2020 they anticipate a rate below the current target. Regarding the exchange rate at the end of 2019 and 2020, expectations increased accordingly with recent evolution of the FX market. However, the forecast for this year remains below the 20 pesos ceiling for the sixth consecutive time.

On Sunday, President Lopez Obrador delivered his first annual report. The message focused on austerity, security, tackle on corruption and honesty, as well as the achievement of this government during these first months of his presidency. As for the 2020 budget, President Lopez Obrador maintained his intentions of having a healthy public finance without increasing debt or taxes. His speech supposes a primary surplus for the 2020 budget. On the other side, while he acknowledged a low growth for the year, he focused, without further details, that income distribution, economic development and wellbeing has improved during his government.

Tax revenues accentuated their weakening in July, following the dynamic of economic slowdown. In the accumulated January-July, total revenues extended their lag, now standing at 89.4 billion pesos below the program. The expense was lower than the one approved to compensate for a lower collection. In the accumulated January-July, the sub-exercise of expenditure amounted to 197.8 billion pesos. Thus, the main public finance balances again presented better results than those foreseen in the program, and their dynamics remain consistent with the fiscal goals approved for 2019. The fiscal policy room for maneuver continues to be reduced in an environment where budgetary responsibility and compliance with fiscal goals appear to be the priority. We hope that the government will reaffirm this commitment on September 8th in the presentation of the Economic Package for 2020.

—**Miguel Angel Saldaña**

PERU: AUGUST INFLATION HITS MID-POINT OF CB TARGET RANGE; INITIAL INDICATORS POINT TO +3% GDP GROWTH IN JULY

Yearly inflation hit 2.0%, the mid-point of the Central Bank target range in August, after rising a meager 0.06% in the month of August. The downward trend is stronger than expected, and the fact that there were no one-off factors driving inflation down in August, suggests that inflation is likely to continue low going forward. This would give the Central Bank room to lower rates at least one more time this year.

Initial GDP growth figures for resource sectors were released. Fishing rose 52%, which, however, was less surprising, and perhaps less significant, than the 0.3% increase in Mining and Oil & Gas. This compares with average monthly growth in 1H19 of -1.4%. Note, however, that most of the improvement was in gas production. Metal output continued declining, although at a more moderate pace. Furthermore, domestic cement consumption was up 11.4% for July, suggesting a fairly strong month for Construction GDP. All in all, the data ratifies our view of +3% aggregate GDP growth in July.