

LATAM Market Update

- **Mexico: In August job creation printed its weakest figure for a similar month in the last decade**
- **Peru: The Central Bank maintains its reference rate, and does not seem keen on future reductions; The 12-month trailing fiscal deficit came in at 1.7% of GDP to August, picking up from 1.5% in July; Everyone is to stay in jail**

MEXICO: IN AUGUST JOB CREATION PRINTED ITS WEAKEST FIGURE FOR A SIMILAR MONTH IN THE LAST DECADE

August's job creation exhibited 36,631 new formal jobs (vs. 16,713 in July). Thus the cumulative job creation in the year reached 342,645 new jobs (vs. 644,978 in August 2018). The cumulative job creation for the last twelve months hit the 358,577 jobs, comparable to a 1.8% y/y growth and accounting for the weakest increase for a similar month since 2010. The soft job creation could be symptomatic of a persistent atony in economic activity at the half of 3Q19, which points towards a less favorable outlook for consumption in the short term. However, employee's contribution base wage solid increase of 6.6% y/y are still improving employee's purchasing power.

—Daniel Mendoza

PERU: THE CENTRAL BANK MAINTAINS ITS REFERENCE RATE, AND DOES NOT SEEM KEEN ON FUTURE REDUCTIONS; THE 12-MONTH TRAILING FISCAL DEFICIT CAME IN AT 1.7% OF GDP TO AUGUST, PICKING UP FROM 1.5% IN JULY; EVERYONE IS TO STAY IN JAIL

The Central Bank maintained its reference rate at 2.50% on Sept. 12th, as widely expected. Thus, the CB did not follow its 25bps cut in August with another cut in September. The wording of the accompanying explanation document leaves wiggle room for further cut(s) down the road, by alluding to global risks (not new) and to domestic demand growth that is lower than expected (new). At the same time, however, the CB's president has stressed in recent meetings that in his opinion, lowering rates is ineffectual in stimulating demand during periods of uncertainty such as at the present. This underlines a certain discomfort on the part of the CB to lower rates. In light of this, although we're not quite ready to change our expectation of one more rate cut this year, the odds of this happening are lower than previously.

The 12-month trailing fiscal deficit came in at 1.7% of GDP to August, picking up from 1.5% in July. This is in line with our expectation of a 2% of GDP deficit by year-end. Fiscal spending was up 10%, y/y, in August, but has been very volatile and unreliable throughout the year. Fiscal revenue growth was nil in August. Interestingly, sales tax revenue rose a healthy 7%, but was compensated by greater tax refunds. The two are actually linked, as digital payments (but only digital payments) in a number of services, including restaurants and health, are now refunded. Thus, the increase in sales tax revenue and refunds signal increasing use of formal (and legal/taxable) forms of payments, which is something that has long been sought after.

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A Lima court denied Keiko Fujimori's appeal to await her trial at home instead of in jail. However, the court did reduce the maximum time Fujimori can be held without trial to 18 months, from 36. This means that she will be released in May 2020. Regardless of when she is released, Fujimori will be able to be a candidate for the presidency, as long as she is not sentenced. At the same time, a court in San Francisco upheld Alejandro Toledo's bail at US\$1 million, denying his appeal.

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