

LATAM Market Update

- **Mexico: August's trade balance reported an unexpected surplus**
- **Peru: A government in search of early elections; The Central Bank ratifies message of more rate cuts**

MEXICO: AUGUST'S TRADE BALANCE REPORTED AN UNEXPECTED SURPLUS

In August, trade balance figures reported a US\$775 million surplus, which compares with a US\$2,584 million deficit recorded a year earlier and opposite to the market's consensus deficit of US\$1,018 million. This result was determined by a fall in imports, from 2.0% to -5.9% (vs. +9.4% in August 2018), and by a lower export's dynamism, from 7.0% to 2.2% (vs. +10.1% a year earlier).

Specifically, total exports reached US\$40,430 million, due to a slowdown in non-oil exports, from 8.6% to 4.6% y/y (vs. +8.0% the previous year), as well as a strong decline in oil exports, from -14.1% to -29.1% y/y (vs. +48.1% a year earlier), the tenth consecutive decrease and its lowest rate since April 2016. In turn, manufacturing exports moderated, from 7.9% to 3.7% y/y (vs. +8.5% a year ago). On the other hand, total imports amounted to US\$39,655 million, driven by a drop in capital goods for a fifth consecutive time, on this occasion of -14.0% (vs. +9.3% in August 2018), while those of intermediate and consumption goods also exhibited bad results, in the first case from 5.0% to -3.7% (vs. +8.4% a year earlier) and in the second from -0.7% to -11.9% (vs. +15.0% in August 2018).

—Daniel Mendoza

PERU: A GOVERNMENT IN SEARCH OF EARLY ELECTIONS; THE CENTRAL BANK RATIFIES MESSAGE OF MORE RATE CUTS

In a surprise move, on Friday President Vizcarra announced that the government would submit to Congress a request for a vote of confidence, not on early elections, as had been widely expected, but, rather, on the designation of the new members of the Constitutional Tribunal. Congress had been delaying the designation of the six-member tribunal for some time, even though the deadline had lapsed. It is not clear why Vizcarra chose this as an issue for a vote of confidence, rather than on early elections. Although there is some discussion of the legality of this move, it has lowered the tension somewhat, if only because it's a secondary issue compared to early elections. Conceivably, Congress could choose the Tribunal members without loss of face or clout. If Congress does not give its vote of confidence, this could lead to the closure of Congress, as well as the resignation of the government cabinet, as it would be the second time that a nay vote would be given. Given legality issues, however, the government may prefer a decision from the Constitutional Tribunal first. Meanwhile, however, the issue of early elections remains unresolved. The head of the government cabinet, Salvador Del Solar, had previously held a press confidence on Thursday, following the vote in Congress against the government call for early elections. Del Solar's message was as aggressive as it was vague. He stated that the

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government would not stand idle, and would act with authority, fortitude, and the “sense of responsibility that this Parliament has not shown today”. However, what exactly the government plans to do was not stated. Accepting the Congressional decision, apparently, would not be an option. Outside of this, the problem the government faces is that there is no clear legal, non-controversial or obvious alternative before them. One alternative would be to call for a Congressional vote of confidence. However, the request for a vote of confidence on Constitutional Tribunal designations seems to interfere with this option. The government has not given a deadline for its decision, but it clearly must take one fairly quickly. In the meantime, the likelihood of early elections has diminished, and call for a vote of confidence on Constitutional Tribunal members, confuses the elections issue significantly.

The Central Bank held its quarterly Inflation Report meeting on Friday. The CB made significant changes in the structural indicators on which it bases much of its monetary policy. The CB reduced its potential GDP growth figure from 3.6% to 3.5%. As a result, the output gap has narrowed, and the neutral real interest rate has been lowered from 1.75% to 1.50%. This gives the CB a bit more room to reduce its reference rate. The real reference rate is currently 0.2% (2.50% nominal rate minus 2.30% expected inflation). This real rate now compares to 1.50% rather than 1.75%. Monetary policy continues to be expansionary, but a bit less so than was considered previously. The CB’s spokesperson at the conference suggested that this, plus their new expectation that inflation will fall below 2% (rather than stay at 2% as before) substantiate their view that there is room for reducing the reference rate further. In view of this information, we ratify our expectation that the CB will lower the reference rate one more time before year end.

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