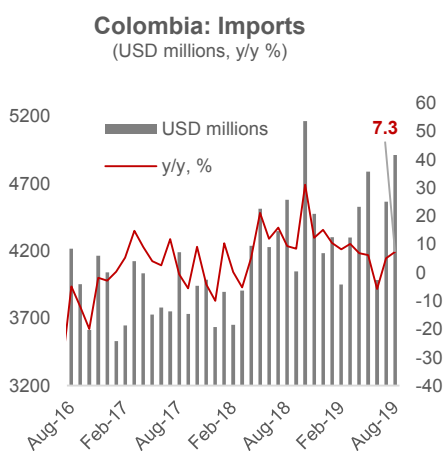


LATAM Market Update

- **Colombia: Imports increased by 7.3% in August, capital goods imports remained strong, external deficit keeps widening**
- **Peru: The government seeks to spend more in 4Q; Recent events are working in favor of Vizcarra's call for Congressional elections**

COLOMBIA: IMPORTS INCREASED BY 7.3% IN AUGUST, CAPITAL GOODS IMPORTS REMAINED STRONG, EXTERNAL DEFICIT KEEPS WIDENING

August's imports growth came in at +7.3% y/y or US\$4.9bn. Capital imports grew 9.7% y/y, especially in the transport sector (+23.7%y/y), but in the agricultural and construction sectors imports contracted by 35.3%y/y and 2.7% y/y, respectively. Consumption imports increased 4.2% y/y due to non-durable goods imports (7.5% y/y). The external deficit continued to widen. In fact, August's trade deficit was US\$1.4 bn. YTD, the deficit has increased by US\$2.9bn to US\$6.9bn.



Sources: DANE, Scotiabank Economics.

In August, imports grew for the second month in a row, oil and other fuels were the group with the highest contribution, mainly explained by an increase of 100% in imports of oil. Consumption goods imports increased on the back of non-durable goods (+7.5% y/y), while durable goods imports were almost flat (+0.31%); the exchange rate effect could weigh on the dynamics of durable goods imports.

Raw material imports increased by 7.21% y/y; fuel imports were the most dynamic (+86.2%y/y). Capital goods imports continued to grow at a favourable rate (9.7% y/y) due to imports of transport equipment (23.72% y/y). It is worthwhile to stress that agricultural sector capital imports posted double-digit contraction (35.3% y/y) again. Regarding consumption imports, both durable and non-durable goods imports were positive even with a depreciated exchange rate. YTD results are in line with our expectation of a gradual recovery in domestic demand.

The Colombian external imbalance continues to be one of the more significant concerns for the country's economy in the short run, although so far, it still enjoys healthy financing coming from FDI. It is worth saying that exports dynamics have been affected by a structural decreased in coal exports (due to lower volumes and prices) that will remain in the foreseeable future. On the other hand, imports will continue with a similar dynamic because it is associated with a high investment activity; however, the increase in non-durable goods imports is one thing to keep an eye on since it is not necessarily sustainable in time.

CONTACTS

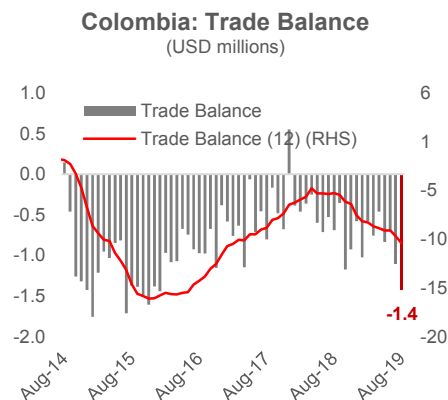
Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

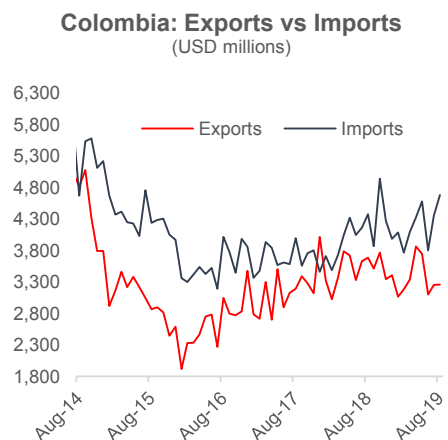
Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl



Sources: DANE, Scotiabank Economics.



Sources: DANE, Scotiabank Economics.

PERU: THE GOVERNMENT SEEKS TO SPEND MORE IN 4Q; RECENT EVENTS ARE WORKING IN FAVOUR OF VIZCARRA'S CALL FOR CONGRESSIONAL ELECTIONS

The Ministry of Finance announced that would increase fiscal spending by S/1 billion in 4Q2019, and that this would lead to a 0.5pp increase in GDP for the quarter (0.12pp for the year). A third of the increase would be apportioned to school maintenance, a third to broaden the current low-income housing program, and the rest to a number of initiatives. The increase is not accompanied by any measures to expedite or ensure execution, so we have our doubts as to whether actual execution of the total amount will occur in 4Q. Given precedent, and the nature of the spending initiatives, the spending is likely to take place over a longer period of time, in which case its impact on GDP growth, already rather modest, will be more diluted. However, it is one of the first signals sent out by the new Finance Minister, María Antonieta Alva, about her intentions to boost spending and stimulate demand. Hopefully, more initiatives of this nature will be forthcoming.

The Constitutional Court (Tribunal Constitucional in Spanish) determined, by a 5 to 2 vote, that Gonzalo Ortiz de Zevallos would not join the 7-member court. Ortiz de Zevallos, who is linked to opposition group Fuerza Popular, was voted by Congress to join the Court, before Congress was dissolved. However, two motions attempting to block his election were left undecided in Congress when it was dissolved, and the Court stated that until those issues are resolved by Congress, Ortiz de Zevallos could not join. This determination is important for what it means concerning the pending sentencing on whether the Vizcarra government acted correctly in calling for a vote of confidence, the basis upon which he made his decision to dissolve Congress. The opposition has submitted a demand for the Court to determine the legality of Vizcarra's action. The current makeup of the Constitutional Court, without Ortiz de Zevallos, is more likely to vote against the opposition's demand than one with Ortiz de Zevallos. The Constitutional Court has established October 29th as the deadline for reviewing the admissibility or not of the opposition's demand.

Meanwhile, opposition group Fuerza Popular has decided to participate in the newly called congressional elections to be held on January 26th. This decision suggests that Fuerza Popular does hold high expectations that the Constitutional Court will reverse Vizcarra's decision to dissolve Congress. On Sunday, October 20th, the party will meet to discuss the conformation of the list of candidates for the new interim Congress, and whether members of the past, dissolved, Congress are to participate or not.

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