

LATAM Market Update

- **Chile: Retail sales would have fallen a historical 8% to 10% y/y in October; Central Bank makes a non-quantitative intervention in the FX market**

The first macroeconomic data after October 18th - first-order impacts on economic growth that may lead to technical recession in 1Q20.

During the following weeks, the short-term impact of the social upheaval will begin to be known. These short-term impacts have medium-term implications through different transmission channels, which lead the market to correct its 2019 GDP growth to 1.9%. At Scotiabank we estimate an even smaller expansion in the 1.5-1.8% range. For now, according to transaction data with credit and debit cards (Transbank system) retail sales (excluding car sales) would have decreased between 6% and 8% y/y in October, their biggest contraction since this indicator is recorder (January 2005). This, coupled with the strong contraction in car sales, leads us to project a fall between 8% and 10% y/y of the October retail sales indicator.

As reported by the Minister of Finance, VAT collection decreased by about 25% y/y after October 18th, indicating that in the first two weeks of the month sales came with "high dynamism", especially due to CyberDay effect. If retail sales contract about 8% y/y in the month, it indicates that in the first two weeks the sector showed a growth of more than 5% y/y, which tells us about the great magnitude of the shock we are facing.

Although trade activity had been weak throughout the year, with an average growth of around 0.6% y/y between January and September, the fall is mainly explained by the effects of the recent social outbreak in our country. Since October 18th, commerce has faced the closure of many establishments, which added to the difficulties in public transport in the Metropolitan region that has forced the reduction of working hours in many sectors. Along with this, a significant drop in consumer and business confidence is expected, deepening the precautionary savings process that we had been detecting a few months ago at the local level.

This greater uncertainty regarding future revenues, together with an economy that continues at half-speed, have begun to affect the sale of durable goods, especially cars. According to ANAC, in the last two weeks of October, sales decreased about 50% compared to the same period last year, ending the month of October with a contraction of 24.5% y/y. Certainly, this is not only due to a momentary effect regarding the closure of some establishments, but also reveals the lower willingness of consumers to embark on the purchase of durable goods, a phenomenon with medium-term effects on the sales of the sector.

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Central Bank makes a non-quantitative intervention in the FX market

The Central Bank makes a statement that accounts for the existence of volatility in financial variables and impact on economic variables. In particular, it notes that the exchange rate has shown greater volatility given the greater uncertainty. It explicitly states that "Chile has a solvent financial system, a low exchange exposure of economic agents, a solid fiscal situation, an adequate level of international reserves and sovereign wealth funds".

We can mention some aspects about the recent FX depreciation and CB's statement:

- CB's statement corresponds to a non-quantitative exchange rate intervention. The exchange rate reacted immediately appreciating about 2%, and ending at levels of around USD/CLP 780 yesterday.
- CB mentions the sovereign wealth fund (US\$14 bn) as a tool to manage the recent depreciation, in addition to the usual international reserves (US\$40 bn - 13.8% of GDP)
- The nominal exchange rate misalignment is significant when evaluated with any quantitative model. We estimate a misalignment between 5% to 10% depending on the model we use to estimate it.
- The Real Effective Exchange Rate is at 103 (base 1986=100), markedly above historical average (94) and close to its highest historical level (107).
- The spread on-shore for USD dollar rates is close to its highest level for all maturities (30D, 60D and 1Y). We consider that the CB is monitoring closely that aspect of the interbank system, and it may provide liquidity in USD in case the on-shore spread on Libor continues increasing during the next days. A similar action was taken on Dec. 15th, 2017 (Please see full statement in Spanish [here](#)).

—Jorge Selaive

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