

## LATAM Market Update

- **Chile: Central Bank intervenes in the FX market with US\$20 billion**
- **Mexico: Banco de Mexico foresees a weaker economic growth in its Q3 report while inflation projections were slightly adjusted**

### CHILE: CENTRAL BANK INTERVENES IN THE FX MARKET WITH US\$20 BILLION

The Central Bank decided to intervene in the FX market selling US\$10 billion in the spot market and US\$10 billion in the forwards market. The program will begin on December 2<sup>nd</sup> until May 29<sup>th</sup>, 2020. The amount of daily sales will be reported at the end of each week. The intervention will be sterilized with the same instruments announced for the liquidity injection program implemented in the previous weeks. The impact on USDCLP on the announcement was around \$30. We estimate that at levels of \$800 we could have renewed USD purchase appetite. As economic data continues to show deterioration, and agreements to reduce levels of violence and looting are yet to be reached on the political front, the exchange rate could continue to be pressured. Link to the announcement in Spanish [here](#).

The Central Bank will meet next Wednesday to decide on the MPR. The CB may resolve to cut the MPR by “at least” 25 bp, which seems the lowest advisable dose of monetary stimulus, accompanying the statement with a stimulatory bias. We continue to expect the MRP to reach levels of 1% during the first half of 2020, but we also recognize that the recent exchange rate intervention leads to the CB being somewhat more cautious in injecting monetary stimulus in order to ensure the greatest possible success of this intervention. In terms of inflation, we expect annual inflation to reach levels of around 3.5% by the end of the first quarter of 2020, explained by the exchange rate pass-through to inflation, especially in non-regulated products and services.

### MEXICO: BANCO DE MEXICO FORESEES A WEAKER ECONOMIC GROWTH IN ITS Q3 REPORT WHILE INFLATION PROJECTIONS WERE SLIGHTLY ADJUSTED

On Wednesday, Banco de Mexico published its Quarterly Inflation Report corresponding to Q3-2019, updating its economic outlook for 2019-2020 and incorporating 2021 projections.

As already anticipated in Banxico's latest monetary policy statement, the institution reduced for the sixth consecutive time its growth forecast for 2019, from a range between 0.2% and 0.7% in the previous report to -0.2% and 0.2% on this occasion, in which a negative lower band hadn't been seen since the 2009 financial crisis. Even though a gradual rebound of economic activity is expected, growth estimates for 2020 were also revised downwards, from a range between 1.2% and 2.5% to a 0.8% and 1.8%, while projections for 2021 were incorporated, ranging from 1.3% to 2.3%. Additionally, the report mentions that the balance of risks for economic growth remains skewed to the downside due to the lingering uncertainty stemming from both, external and domestic factors.

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Finally, regarding Banxico's foreseen inflation trajectory, the central bank adjusted its 2019 forecasts from 3.2% to 3.0% while the 2020 estimate remained at 3.0%. Uncertainty remains as the risks that could deviate inflation from its expected trajectory.

—Alejandro Stewens

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