

LATAM Market Update

- **Chile:** Central Bank intensifies the selling of USD in the short run, and its President hints that he will vote for maintaining the rate in December's meeting
- **Colombia:** October's unemployment rate increased again, employment improved in urban areas
- **Mexico:** In October, the main lending and banking sectors exhibited poor results
- **Peru:** Government issues decree to accelerate infrastructure investment; What November brought us

CHILE: CENTRAL BANK INTENSIFIES THE SELLING OF USD IN THE SHORT RUN, AND ITS PRESIDENT HINTS THAT HE WILL VOTE FOR MAINTAINING THE RATE IN DECEMBER'S MEETING

The Central Bank announced on Friday that it will sell US\$200 million spot dollars and US\$200 million forward dollars daily the week of Dec. 2nd. Additionally, the President, Mario Marcel, said that monetary policy is already "significantly" expansive, and must consider the fiscal expenditure in its baseline scenario (+4.5% in 2020). Firstly, the decision to intensify the sale of USD in the short term at a rate of more than double what would correspond to the proportionality of the sales program from December 2nd to May 29th (approx. US\$76 million), signals the intention to promptly normalize the exchange market. Secondly, when the President points out that monetary policy is highly expansive, we consider that he will vote for not innovating in the monetary policy rate at the meeting on December 4th, but introduce a dovish bias. As a whole, we consider that the probability of observing a 50 bp cut decreases at the December meeting, as Marcel seems more interested in giving consistency to the FX and monetary policies, and ensuring the greatest possible success of the exchange rate intervention. We keep our view that the benchmark rate will reach 1% in the first half of 2020, but we move to a 25 bp. cut in the December meeting with divided votes at the Board of the Central Bank, as we think that Board members Pablo Garcia, Alberto Naudon and Rosanna Costa will vote for cutting the rate as soon as possible while the rest of the Board members will prefer to wait in order to give more time to the success of the FX intervention. In any case, the benchmark rate will be cut during the next months as the performance of the economy suggests so.

COLOMBIA: OCTOBER'S UNEMPLOYMENT RATE INCREASED AGAIN, EMPLOYMENT IMPROVED IN URBAN AREAS

The unemployment rate remains higher, and increased in y/y basis, although at a slower pace. Nationwide unemployment came in at 9.8% (Oct-18 was 9.1%), while urban unemployment (13 cities) came in at 10.4% (Oct-18, 10.2%). Labour force participation fell to 64.1% (Oct-18, 65.1%) for the nationwide figure and fell to 66.0% from 66.4% for urban reference. Seasonally adjusted series showed a relative stable behaviour, 10.8% vs. 10.6% on September-19 for nationwide, and a deterioration to 11.4% vs. 10.7% on September-19 for urban.

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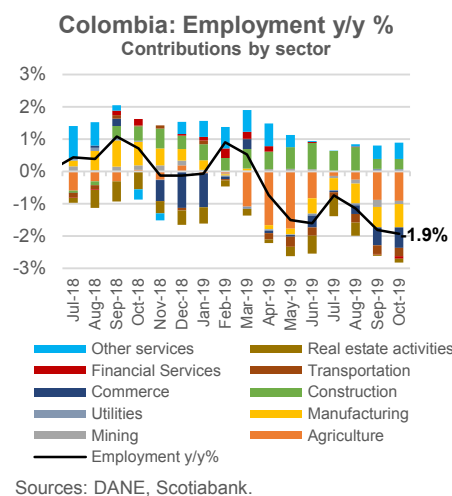
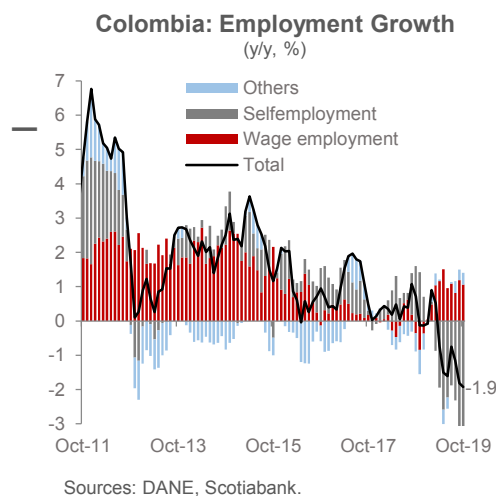
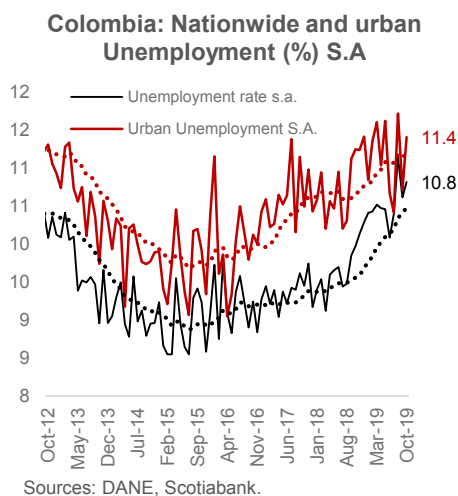
The labour market continues to show same trend of last 12 months, which is a divergence between the urban and rural areas. In fact, rural employment is deteriorating, while urban employment is finally pointing north. According to the DANE press conference, in rural areas, informal jobs are being replaced by formal jobs in sectors related to commercial activities (hard-discounters stores), which are less labour-intensive. As a result, employment is contracting but improving in terms of quality. For instance, the employed population in the nationwide figure contracted 1.9% y/y, but wage employment continues with robust growth (+2.6% y/y in October), while informal employment proxy (self-employment) is falling at a 6.9% y/y pace.

By sectors, the dynamic is broadly the same for urban and rural areas, employment in commerce and real estate activities are the most affected, while there was a recovery in employment creation in sectors such as personal services and construction, particularly employment in construction is gaining relevance in urban areas due to a better dynamic in new constructions starts.

Either way, employment data, although remains deteriorated, the deterioration pace has slowed down, and the employment quality is improving. Having said that, rural employment dynamics is still a concern due to the net destruction during all year.

We think that the unemployment report is gaining market relevance, since it is one of the most significant sources of discontent in the population, and also because this week starts the negotiation of minimum wage adjustment for 2020. As protests around the region are increasing, we think that the talks between labour unions and business associations would be harder than usual, as a result, the probability of a higher than previously expected wage adjustment has increased significantly (we had 4.5% of minimum wage increment for 2020 in our projections, with the recent protests this increment can go up to 7%).

On monetary policy, employment data is in line with our call that BanRep will not hike the monetary policy rate (MPR) in the coming months, and will wait for more economic activity information while keeping its neutral-dovish tone with a slightly expansionary policy rate.



Sergio Olarte & Jackeline Piraján

MEXICO: IN OCTOBER, THE MAIN LENDING AND BANKING SECTORS EXHIBITED POOR RESULTS

Non-bank commercial banking deposits moderated, the total uptake slowed from 3.7% y/y in September to 1.2% y/y in October (vs. +4.2% in October 2018), given a lower dynamism both in deposits of immediate enforceability and in term deposits. Similarly, total financing from commercial banks to the private sector slowed from 4.3% y/y to 2.5% y/y (vs. 5.8% a year earlier), after direct funding also softened from 4.3 % y/y to 2.5% y/y (vs. 5.8% in October last year). Within this, a slower rate is observed for the case of companies, that went from 3.9% y/y to 0.8% y/y, while consumption-oriented and housing advanced marginally. Finally, the balance of the current credit portfolio of commercial banks to the private sector showed a lower growth, decelerating from 4.6% in September to 2.6% y/y in October (vs. 6.4% the previous year), this being its lowest rate since 2010, derived from a sharp slowdown in credit for companies and individuals with business activity, that didn't compensate the small increases in housing and consumption. The slowdown in the financial activity is mainly attributed to the slower growth of the Mexican economy accompanied with the reduction that Mexico's Central Bank has made on its reference rate which discourages bank deposit.

—Paulina Villanueva

PERU: GOVERNMENT ISSUES DECREE TO ACCELERATE INFRASTRUCTURE INVESTMENT; WHAT NOVEMBER BROUGHT US

The government issued a decree containing measures to accelerate 52 high-priority infrastructure projects totaling US\$30bn. Investment in infrastructure projects have been significantly behind schedule for years, mainly due to two issues: 1. legal/regulatory obstacles and red tape, and 2. poor investment management and execution capability on the part of the different governments (national, regional, local) involved. The decree is, actually, quite powerful in dealing with the legal/regulatory obstacles. Because of this, it is promising. However, the issue of management and execution capability remains. In sum, although the measures are encouraging, until we see more convincing evidence of an improvement in spending capability, we prefer to be cautious as to their actual impact. The decree exempts projects from the need of having edification licenses before construction (the licenses can be obtained over the course of the investment); State institutions must comply with regulatory timetables and cannot require additional documents; the government can unilaterally establish land expropriation values; among other measures to expedite financing, expropriations, compliance with environmental and archaeological issues, etc.

The following are some of the more important economic and political events and information for November

Economic events

- GDP growth came in at 2.2% for September, y/y, which was low, but broadly in line with our 2.3% full-year forecast.
- Information on domestic demand growth was mixed. Private investment is doing better than expected, but consumption seems to be weakening a bit.
- GDP growth of 3.0% in Q3-2019 was better than previous quarters (1.2% in Q2 and 2.4% in Q1), but broadly in line with expectations.
- What was much better than expectations was domestic demand growth of 4.1%, a strong improvement over Q2: 1.9%, and Q1: 1.5%.
- Although private consumption growth, 3.3%, was mildly better than expected, the real upbeat numbers came from private investment growth, 7.1%, and government spending (non-investment), up 6.6%. Apparently, perhaps given its difficulties to invest, the government is finding other ways to spend.
- Now that there is no Congress to contend with, the government seems more involved in managing the economy. The focus appears to be on increasing public sector investment, as opposed to stimulating private investment. Progress is being made in increasing public spending, but it is still not significant enough to change our views.
- The Central Bank lowered the reference rate in November to 2.25%, surprising us in terms of timing. We expected a cut in December or early 2020. We now have a bit less conviction that there will be no further rate cuts going forward. We're waiting for more clarity from the CB.
- The fiscal deficit to October was 1.6% of GDP, and is likely to come in at or below our 2% full-year forecast. The data ratifies what we have been seeing throughout the year, namely that government spending is not rising nearly enough to stimulate greater GDP growth.
- The government approved its 2020 budget. Fiscal spending will increase 5.5%. The budget gives more spending responsibility to regional and local authorities.
- We've no changes in any our economic forecast during the month. Most of the information released in November was in line with 2019 growth (2.3%), inflation (2.0%), FX rate eop (3.35), fiscal deficit (2.0% of GDP), Central Bank interest rate (2.25%) forecasts for 2019.
- Peru issued approximately 10 billion soles (US\$.3bn) in bonds due in 2034 and 2040, at a historically low coupon for a local-currency issue. About 40% will be used to finance the 2020 budget, and the remaining 60% for debt reprofiling.

Political Events

- The overall feeling we have is that political tension has deflated somewhat after the closing of Congress, as this is an arena of confrontation that has disappeared.
- Keiko Fujimori was released from jail, pending her trial. Fujimori was in jail to prevent her from using her political relations and power to influence the outcome of her case. The Constitutional Court argued that she should not be deprived of her freedom

until she is actually sentenced. The importance of Keiko's release is that it gives her free reign to organize her party, Fuerza Popular, and to expend efforts on the party's campaign for the January 2020 campaign.

- New information continues to come out involving Lava Jato/corruption and campaign financing by the local business community. Many major companies are involved. Campaign financing investigation involve two issues: direct campaign financing to political parties; and contributions to a publicity campaign promoting the free market organized by a business chamber (CONFIEP), during campaign periods.
- The domestic debate revolves more about ethics than actually illegality. The question is how the prosecuting attorney will react. Sensibilities are so high on corruption issues within public opinion, that nothing actually illegal needs to occur for there to be political fallout whenever there is new information linking politicians to contributions from the business community. This is not a very encouraging environment for private sector investment.
- In the last week of November, the federation of mine workers held a 48-hour strike, and informal transportation workers organized protests. Both were contained in scope, and neither had a material impact on growth.
- We've been getting a lot of questions on whether Peru will see the type of protests taking place in other countries in the region. There are reasons to believe not (aren't there always?). These include:
 - ◇ Protests in neighboring countries are for local reasons, which suggests coincidence not contagion.
 - ◇ Past protests in the region had no repercussions in Peru.
 - ◇ Protest dynamics are different in Peru. Protests are actually quite frequent, but they are local and focused.
 - ◇ Political and corruption events in Peru overshadow all else and are being dealt with through institutional means.
 - ◇ Peru's large informal economy is in itself an escape valve.
 - ◇ But, then again, there are plenty of sources of dissatisfaction that could potentially escalate.

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