LATAM Market Update

- **Chile: Slow recovery and still with the favourable momentum of construction and mining investment**
- **Peru: Plenty has happened over the holidays, from inflation and the FX rate, to growth indicators and the fiscal deficit**

CHILE: SLOW RECOVERY AND STILL WITH THE FAVOURABLE MOMENTUM OF CONSTRUCTION AND MINING INVESTMENT

Decrease of 3.3% in economic activity confirms weak return to normal. Without differences regarding our expectations, economic activity in November shows a new contraction of 3.3% year-on-year (Scotiabank projected -3.2% y/y), with a weak seasonally adjusted growth compared to the month of October (0.9% m/m). This would account for a very weak normalization process after the semi-paralysis of production at the end of October, weaker even than in previous events of economic crisis, such as the sub-prime crisis, the Asian crisis of 1997 and the 2010's earthquake aftermath. As the Central Bank emphasizes, it was services and commerce that had a negative impact on the economy. The first one focuses on education influenced by the halt of the normal process of classes at primary and secondary levels, while the second is the result of the smaller flow of people making recurring purchases.

On the positive side, construction has continued with the favourable inertia it had prior to October 18th, which is also reflected in employment, as this sector has been one of the leading creators of wage labour due to the hiring necessary to finish the ongoing works. We anticipate that construction will gradually lose some strength as planned residential projects slow down and demand less work.

We also see a significant contribution from mining investment (not extraction) that has continued robust, in line with favourable international prices for metals. In fact, the manufacturing industry expanded 3.2% y/y in November thanks to the contribution of activities linked to the demand for machinery and equipment related to the mining sector. In spite of that relevant additional investment, which is underway and giving some support to domestic demand, mining extraction continues weak due to the fall in the mineral quality, water scarcity and other structural factors within the sector that led to a contraction in mining GDP of 5.1% y/y in November.

For December, we anticipate an economic activity growth between -1.5 and 0% y/y. Some recovery in commerce, hotels and restaurants, but new negative incidents from education services do not predict a positive record for December. We also expect a relevant execution of public spending that could support the construction of civil works and some demand for machinery and equipment. However, we expect a seasonally adjusted growth between 1.5 and 3.0% m/m. Thus, GDP 2019 would end up growing in line with our post-October 18th review of 1%.

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PERU: PLENTY HAS HAPPENED OVER THE HOLIDAYS, FROM INFLATION AND THE FX RATE, TO GROWTH INDICATORS AND THE FISCAL DEFICIT

What happened over the holidays?

- **Inflation** for full-year 2019 came in at 1.9%, in line with our 2.0% forecast. We see no looming inflationary pressures in 2020, and, therefore, expect a repeat of near 2% inflation for the year. With inflation hovering around the Central Bank's sweet spot, not too high, not too low, the CB will focus more on growth in determining its reference rate policy in 2020. In 2019 two arguments swayed the CB decision to lower rates: 1. GDP growth significantly below the CB's expectations, and 2. lack of fiscal stimulus, and, therefore, a perceived need for the CB to compensate. Although both factors will likely subsist in 2020, they will do so to a much lesser degree, which makes it hard to determine whether the CB will continue lowering rates. We maintain our expectation of one more reduction in 2020, but with only a 60:40 probability.
- The **PEN** ended 2019 at 3.31, versus our forecast of 3.35. This closing, and the strength of the PEN in recent weeks, lead us to reassess our forecast of 3.42 for year-end 2020, which we shall be revising shortly. Although it would not take much, in terms of global uncertainty, declining metal prices, or local uncertainty (the elections period will begin in earnest at the end of 2020), for the PEN to top 3.40, at the same time metal prices are actually improving, and one of the significant messages given in 2019 was that the PEN has proved exceedingly resilient to local and global uncertainty.
- The government changed the annual **fiscal deficit** ceilings for 2021 to 2024. The new ceilings are: 1.8% of GDP for 2021, 1.6% for 2022, 1.3% for 2023, and 1.0% from 2024 onwards (previous: 1.0% from 2021 onwards). The debt ceiling for 2020 remains at 1.8%. These targets are legally binding, although they will need to be ratified by Congress, once a new one is in place. The ceilings are feasible, although they can change on need, as has happened frequently in the past, to give more room for fiscal stimulus. The new 2021 ceiling coincides with our forecast. For 2020, our forecast is 2.0%, which actually looks a little high given the fact that the deficit is trending under 2% as we close 2019.
- Leading indicators for **November GDP** were released, mostly involving resource processing sectors. One positive surprise, mining GDP rose 3.5%, y/y, and one disappointment, fishing fell 13.8%. Given different weights, the mining figure was more important than fishing. However, curiously enough, the improvement is mining is based on lesser metals such as iron ore, 95%, molybdenum, 57%, and lead, 9%, whereas production of copper (-1.6%) and gold (-10.3%), continued declining. Meanwhile, the fishing season is, simply, not going well, and the information on fish availability is not encouraging for 1Q-2020. Oil & gas GDP rose 6.7%. Agriculture GDP was up a weakish 2.1%. As for non-resource sectors, cement consumption rose a decidedly weak 0.5%. Certainly, low public investment is part of the problem, but this would not be enough to account for such a low figure. It would seem, then, that private investment in infrastructure was also weak in November. All in all, the info released so far is in line with GDP growth of approximately 2.3% in November, which is in line with trend, but somewhat below our forecast of 2.3% GDP growth for the full-year.
- **Mining investment** rose a surprising 42% y/y in November, taking YTD growth to November to 27%, significantly above our forecast of 18%. Although the magnitude of investment was a surprise, the main projects were not; led by Quellaveco (Anglo American, copper) up 175%, Minas Justa, 116% (Marcobre, copper) and Toromocho 160% (Chinalco, copper). Quellaveco is investing at a greater pace than expected in 2019. It's horizon of investment is until 2022, so it is conceivable that the current investment pace will continue in 2020. If so, then mining investment growth in 2020 would be around 4%, lower than our previous forecast of 8% because of a higher base comparison in 2019. On a more negative note, investment in exploration fell 21%, y/y, and may not recover until there is more confidence of government backing in front of social protests.

Twenty Top Mining Investors 2019 to November

	November		January-November	
Company	US$	Growth	US$	Growth
ANGLO AMERICAN QUELLAVECO S.A.	188,208,879	175.2%	1,126,192,814	187.4%
MARCOBRE S.A.C.	51,715,063	115.9%	681,336,925	240.3%
MINERA CHINALCO PERU S.A.	44,550,090	160.4%	367,016,173	72.7%
SOUTHERN PERU COPPER CORPORATION	34,446,172	-25.9%	349,361,753	-33.7%
COMPAÑIA MINERA ANTAMINA S.A.	50,584,386	68.6%	267,300,381	23.7%
SOCIEDAD MINERA CERRO VERDE S.A.A.	27,186,933	39.7%	240,944,303	-5.0%
MINERA LAS BAMBAS S.A.	20,789,983	-5.6%	217,428,949	22.0%
SHOUGANG HIERRO PERU S.A.A.	14,679,599	-36.4%	180,196,885	-60.9%
MINERA YANACOCHA S.R.L.	12,173,797	26.2%	155,710,631	49.9%
MINSUR S.A.	8,881,231	-43.9%	132,258,651	51.0%
NEXA RESOURCES PERU S.A.A.	9,608,668	6.8%	120,844,187	259.5%
COMPAÑIA MINERA ANTAPACCAY S.A.	10,265,985	-27.4%	118,304,930	-17.5%
COMPAÑIA MINERA PODEROSA S.A.	8,141,752	18.4%	86,384,396	12.5%
VOLCAN COMPAÑÍA MINERA S.A.A.	9,203,087	12.3%	85,276,669	11.6%
COMPAÑIA MINERA ARES S.A.C.	5,545,819	-35.9%	79,805,827	-5.4%
COMPAÑIA MINERA CHUNGAR S.A.C.	8,778,771	-12.2%	72,018,424	15.0%
SHAHUINDO S.A.C.	7,641,098	0.0%	57,514,222	-42.8%
EMPRESA MINERA LOS QUENUALES S.A.	4,029,080	-27.3%	55,648,674	74.1%
COMPAÑÍA DE MINAS BUENAVENTURA S.A.A.	8,333,948	39.4%	55,249,071	0.7%
HUDBAY PERU S.A.C.	5,415,977	117.1%	54,122,803	62.4%

Source: Dirección de Promoción Minera - Ministerio de Energía y Minas.