

LATAM Market Update

- **Chile:** We project CPI of 0.4% m/m for January
- **Colombia:** November's Imports growth continues to be boosted by raw materials and capital goods imports
- **Mexico:** The unemployment rate averaged 3.5% during 2019

CHILE: WE PROJECT CPI OF 0.4% M/M FOR JANUARY

Increase in fuels and currency depreciation would boost inflation in January. We estimate a monthly inflation of 0.4% (3.3% y/y), slightly above forward prices and the survey of financial operators. January would be the third consecutive month in which there would be increases in fuels, explained by the recent depreciation of the exchange rate and a higher international price of crude oil due to tensions in the Middle East. Also, increases in cigarettes and in co-ownership expenses, coupled with higher prices of some fruits and vegetables (lemon, apple), would explain this high record. All in all, we project a core CPI of 0.4% m/m (2.5% y/y), with goods increasing 0.4% m/m (2.4% y/y) and services 0.3% m/m (2.6% y/y).

The division that would contribute the most this month would be transportation, contributing about 0.11pp, followed by non-alcoholic beverages and tobacco, with a contribution of 0.07pp. For transportation, only the fuel increase would contribute with about 0.07pp, given a depreciation of the peso and a higher international price crude oil prices. Out of the twelve divisions of the basket, only clothing and footwear would show a decline, explained by the seasonality of these products, which historically fall in January, which would subtract around 0.03pp from monthly inflation.

Other products that would show increases would be cigarettes (+0.05pp), given the seasonal adjustment in January, and co-ownership expenses (+0.03pp), given by the increase in expenses due to end of year holidays. Likewise, Odepa's pricing takes account of significant increases in lemons and apples, which together would contribute around 0.05pp. On the other hand, within the main decreases would be the air transportation services and some fruits, such as bananas, products that historically decrease in price in January.

Thus, throughout the first quarter, we anticipate inflationary recovery that would leave annual inflation at around 3.4% by March. The pending exchange transfer would continue, but in a limited way given the weakness of domestic demand. In the short term, for the February CPI we project a monthly record between 0.1 and 0.2% m/m, where the main positive contributions would come from the rise in the price of fuels and transportation services.

—Carlos Muñoz

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

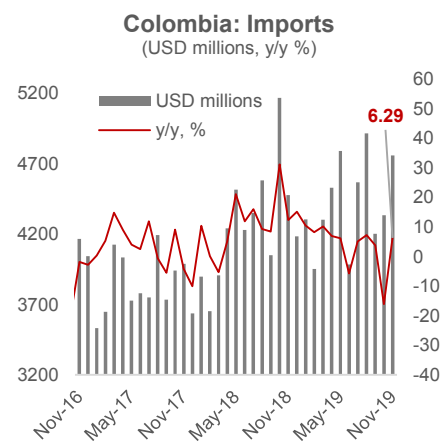
Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

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

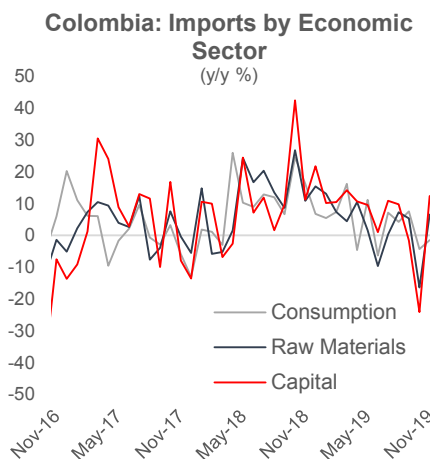
COLOMBIA: NOVEMBER'S IMPORTS GROWTH CONTINUES TO BE BOOSTED BY RAW MATERIALS AND CAPITAL GOODS IMPORTS

November's imports data came in at US\$4.8bn, above the YTD average (US\$4.3bn), which meant an expansion of 6.3% y/y. Raw materials explained most of y/y imports growth in November; fuel-related imports grew 82.7% y/y, offsetting the contraction of raw material imports for industrial and agriculture sectors, -7.03% y/y and -5.04% y/y, respectively. Capital imports grew 12.37% y/y, especially in the transportation sector (53.6 %y/y), industrial sector imports contracted by 1.19%y/y. Consumption imports fell by 1.5% y/y due to non-durable goods imports (-3.4% y/y), interrupting four months in a row of strong expansions; durable goods imports remained weak (+0.53% y/y). November's imports data confirmed that external deficit continued to widen. In fact, November's trade deficit was US\$1.7bn, the worst since July-2015. YTD, the deficit increased by US\$3.88bn to US\$10.34bn.

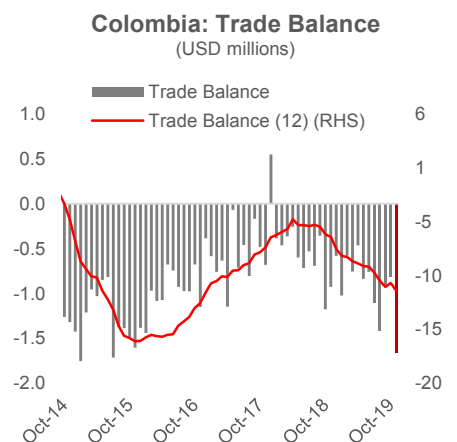
Imports grew again after the contraction of 16.1% y/y in October; it is worth to note that import's level in USD remained strong due to fuel-related imports; in contrast, other import items such as consumption imports contracted which could be partially associated with the FX depreciation effect. The external deficit continues to be a major concern, since points to a current account deficit above 4.0% for longer, although the deterioration rate has diminished, and so far, the external deficit has been financed via a healthy FDI. As we mentioned in previous reports, the expansion of non-durable goods imports is not sustainable in time. Having said that, the recent moderation on those imports could be a good signal of adjustment.



Sources: DANE, Scotiabank Economics.



Sources: DANE, Scotiabank Economics.



Sources: DANE, Scotiabank Economics.

—Sergio Olarte & Jackeline Piraján

MEXICO: THE UNEMPLOYMENT RATE AVERAGED 3.5% DURING 2019

Unemployment rate averaged 3.5% in 2019, this was the highest level since 2016, when the year averaged 3.9%. However, monthly series surprisingly showed a positive behaviour slowing down from 3.4% in November to 2.9% in December in original figures. Meanwhile, seasonally adjusted series also decreased from 3.5% in November to 3.1% in December. Unemployment data highly contrasts with the deceleration in formal job creation reported in December. In this respect, 382,210 worker positions were lost in the last month of 2019, in addition, the creation of employment over the last 12 months was the lowest since 2009. The annual growth rate remained at 1.7%, along with that of November, the weakest since February 2010.

Overall, the report suggests that although the labour market remains robust, it seems to be cooling down amid a less buoyant economic outlook and an acceleration in wage growth.

—Paulina Villanueva

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.