LATAM Market Update

- **Peru: New measures to battle COVID-19 eclipse January's better-than-expected 2.9% GDP growth**
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PERU: NEW MEASURES TO BATTLE COVID-19 ECLIPSE JANUARY'S BETTER-THAN-EXPECTED 2.9% GDP GROWTH

Peru, like much of the world, woke up this morning in an alternate reality. The government announced last night a 15-day State of Emergency, during which everyone must stay at home except to attend urgencies, social distancing is enforced, and all but essential activities are prohibited. The army and police have been patrolling the streets to ensure compliance. Essential activities that are allowed include the production/distribution and sale of essential products; health, emergency and security services; and financial services. Furthermore, Peru's borders have been closed, and in-coming flights are no longer allowed. We expect these measures to have a great—even if largely temporary—impact on the economy, the dimension of which is not easy to gauge. What seems clear is that we can no longer stand by our 2.4% GDP growth forecast for 2020. We understand that the Ministry of Finance, the Central Bank and the Superintendent of banks have been coordinating, and we would not be surprised if the Central Bank, which kept its policy rate unmoved last Thursday, lowers its rate before its meeting in April. This would be highly unusual, but so are the times. We also now believe that the Central Bank will be much more aggressive in lowering its rate. Instead of one 0.25pp reduction, the Central Bank could now lower rates close to its all-time low of 1.0% that occurred in 2009. The Central Bank has, so far, taken alternate measures, such as more flexible reserve requirements.

Meanwhile, January's unexpectedly robust GDP growth of 2.9% y/y was lost in the avalanche of negative news over the weekend. Construction was up 5.2%, proof that the execution of public sector investment did rise in January, although not nearly as much as government disbursements might have suggested. Mining output rose 2.8%, which was a bit of a relief, as mining exports volume had disappointed during the month, and we had some concern that this was linked to lower production. More likely, the decline in exports was the result of shipping delays, perhaps related to problems at ports in China. Note that there were no measures by the government to control covid-19 in January. This impact will be felt partially in February, and more strongly in March.

—Guillermo Arbe

CHILE: CENTRAL BANK USES PART OF ITS TRADITIONAL AND NON-TRADITIONAL AMMUNITION

75 bps cut does not surprise—Concern about flow of credit to companies and individuals. The Chilean Central Bank held an emergency meeting on March 16, in addition to the next meeting scheduled for March 31, and delivered the 75 bps cut that we had contemplated in our base scenario, leaving the MPR at 1%. It was not a unanimous decision, which anticipates that we will probably not have additional cuts for some months. However, the CB also undertook measures that should allow a more facilitated flow of credit.

The Facilities for Financing Conditional on Increasing Loans (FFCIL) is now created. With this measure, the Central bank tries to facilitate the flow of credit to companies and individuals (the latter only for consumer loans since it is restricted to loans of up to 4 years). Thus, for a 6-month term, banks will be able to have access to a loan from the Central Bank at the current MPR (at the time the bank uses the FFCIL), for an amount of up to 3% of the commercial and consumer portfolio of the whole system as of February 29 (close to USD 4.3 billion).

Likewise, corporate bonds will be allowed as collateral for liquidity operations and also for the FFCIL. This should facilitate the recurrence of the FCIC and also generate some support for the demand for corporate bonds that has been relatively subdued and is punishing in price/spread in recent times.

Lastly, a program to purchase bank bonds will be launched for an amount of USD 4 billion. This measure would help contain the expansion of the spread of local bank bonds, improving the financing conditions of banks at this juncture. This amount announced by the CB corresponds to a significant proportion of the outstanding bonds.

We anticipate that the CB's next innovations would not come from cuts in the MPR, but from macro-prudential and regulatory measures, where it still has ample options. We expect the Central Bank to maintain the MPR at 1.0% for at least the next two to three meetings, waiting for more information from local and international news.

Market impact: The cut in the MPR was of a magnitude that the market had contemplated (in CLP swaps). Given that the decision was not unanimous, this would imply that the CB would not be able for now to bring the MPR to its technical minimum. Accordingly, we anticipate some appreciative pressures following this press release. The actions to maintain the flow of credit are favorable, since they are accompanied by measures to contain the spread of local bank and corporate bonds.

—Carlos Muñoz