LATAM Market Update

- **Chile: Short-term COVID-19 impacts—depth and inflection**
- **Peru: Update on COVID-19 related events**
- **Mexico: COVID-19 update; inflation; referendum results**

CHILE: SHORT-TERM COVID-19 IMPACTS—DEPTH AND INFLECTION

To track the impact of the COVID-19 outbreak on economic activity, we are now publishing regular updates of high-frequency trackers. For now, there is a strong increase in supermarket sales, due to the "hoarding" phase prior to isolation. Consumer credit continues its slowdown while Commercial loans remain dynamic in the margin as at time of writing. Companies are accumulating liquidity as intensely as seen in October 2019 (social outbreak), and activity begins to suffer as measured by some our trackers of economic activity (electricity generation, exports and imports). We are adjusting our forecast for March economic activity to a range of -2% to -4% yoy.

Purchases with credit and debit cards remain stable until mid-March (chart 1). Consumption has been supported by the sharp increase in Supermarket sales from February, and exacerbated in the second week of March (chart 2), possibly by preventive purchases by households, anticipating periods of quarantine or possible exceptional measures adopted by the authorities. On the other hand, tourism travels were the item that decreased the most. In the coming days we expect to see a greater slowdown in consumption, due to the authorities' measures to avoid contagion.

As of the second week of March, total loans in national currency increased 5.5% annually (adjusted for inflation), continuing with the slowdown observed since February (chart 3). Although total loans have remained stable in recent months (6.7% yoy), consumer loans have slowed dramatically from October to date, with falls of 0.8% and 1.1% yoy (real) in January and February, something not seen since the subprime crisis. Even more worrying would be a possible slowdown in commercial loans, which for now remain solid due to investment projects under construction, but which could continue the downward trend of the consumer loans as well as observed in previous crises.

The more liquid money aggregate (M1) continues to show acceleration to the second week of March (17.4% yoy), similar to what happened after October 2019 (social outbreak), given a greater preference for liquidity by companies, anticipating lower demand in the next months (chart 4). Monetary aggregates maintain a high dynamism for the month of March, a month in which a greater preference for liquidity should not be expected seasonally.

The fall in exports and imports figures is deepening to the second week of March, heading for the worst fall since the 2019 social outbreak. Exports of goods decreased 14.3% yoy, due to the lower export value of Mining (-16.5% yoy)

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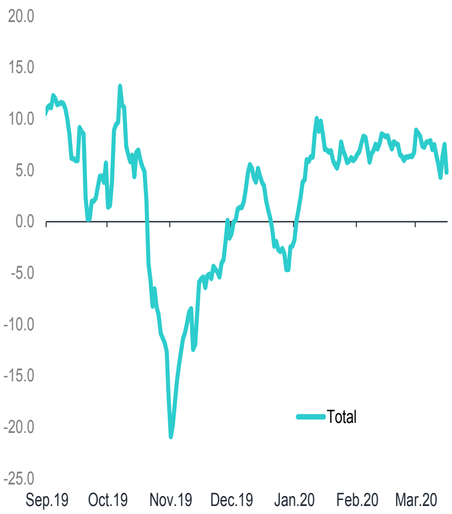
and the drop of 16.5% yoy in Industrial shipments (chart 5). These figures were a very good predictor of the fall in manufacturing production after the social outbreak. On the other hand, imports of goods decreased 21.6% yoy in the second week of March (chart 6), due to the sharp contraction shown by consumer imports (-28.7% yoy) and a further fall in capital goods (-22.1% yoy).

Chart 1: Purchases with credit and debit cards (percentage, annual growth, 14 days accumulated)

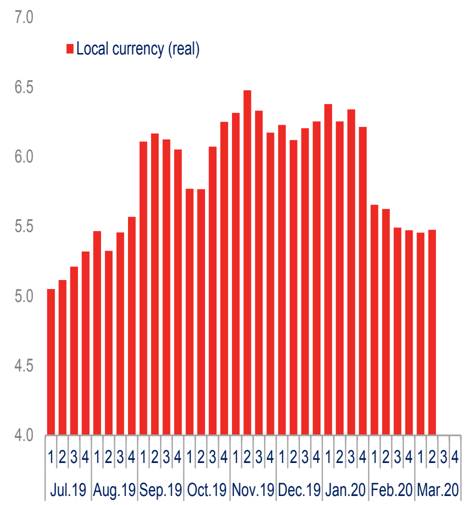


Source: Scotiabank Economics

Chart 2: Purchases with credit and debit cards in Supermarkets (percentage, annual growth, 14 days accumulated)

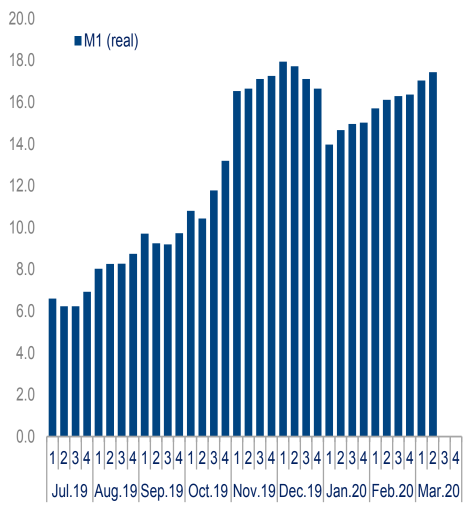
Source: Scotiabank Economics

Chart 3: Total loans in local currency (percentage, annual real growth, weekly)



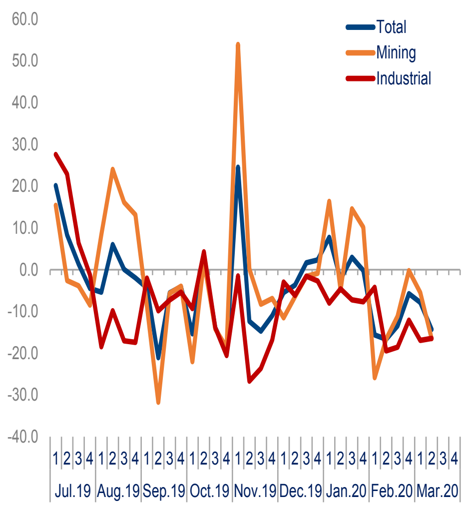
Source: Central Bank, Scotiabank Economics

Chart 4: Money aggregate M1 (percentage, annual real growth, weekly)



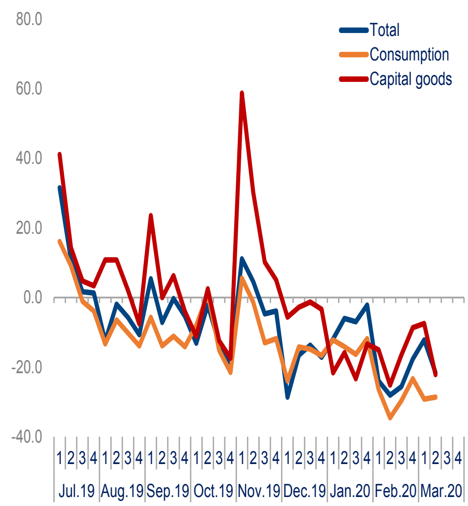
Source: Central Bank, Scotiabank Economics

Chart 5: Exports of goods (percentage, annual growth, in USD, month accumulated)



Source: Central Bank, Scotiabank Economics

Chart 6: Imports of goods (percentage, annual growth, in USD, month accumulated)



Source: Central Bank, Scotiabank Economics

—Jorge Selaive & Waldo Riveras

PERU: UPDATE ON COVID-19 RELATED EVENTS

The stock market oversight institution, Superintendencia del Mercado de Valores, extended the deadline from April 30 to June 30 for companies listed on the Lima stock exchange to provide periodic financial information.

State-owned Petroperú, the leader in setting gasoline prices in the country, announced a decrease in gasoline prices of between 2.5% and 2.7%. The market has been late and conservative in transferring lower global oil prices, and Petroperú may have been nudged in that direction to counter higher prices of agricultural goods due to the virus containment measures. We hold to our 1.7% inflation forecast for 2020, but there is likely to be a mild increase temporarily due to higher food prices.

On March 27, Peru awaits the arrival of the first lot of 1.4 million COVID-19 test kits from China. This will allow the government to conduct as many as 5,000 tests per day, compared to 500 currently. There have been, to-date, 416 registered cases and 7 deaths.

S&P has put the BBB rating of Minsur, Peru's major tin mining company, under revision, after the company announced that mining activities were suspended due to the State of Emergency.

—Guillermo Arbe

MEXICO: WORLD HEALTH ORGANIZATION (WHO) DECLARES MEXICO ENTERS STAGE 2 OF THE CORONAVIRUS PANDEMIC

Mexico has entered the second phase of the COVID-19 pandemic, with 370 people affected and 4 deceased. Some of the measures taken by the government until now include: (1) All schools must remain closed until April 20; (2) Random screening of passengers on international flights and cruises (but still no entry restrictions have been issued to ports and airports); (3) Pensioned adults will receive resources equivalent to four months (around 40 billion pesos, 0.2% of private consumption) of their welfare pension (adults +68 years old); (4) Large events have been banned; (5) The Ministry of Finance has conducted on two occasions, a swap of government securities (USD$76.76 billion), and lastly (6) The president said that in the upcoming days he will announc a program of interest-free or low-interest financing for people running small businesses.

MEXICO'S INFLATION DECELERATED

Mexican annual general inflation slowed in the first half of March from 3.87% to 3.71%, still remaining within the central bank's target. Annual core component decelerated from 3.63% to 3.60%, and the non-core component went from 4.60% to 4.04%. Meanwhile, monthly general prices rose 0.11% during the first half of March and core inflation increased 0.16% biweekly, while non-core inflation fell -0.04% in the fortnight.

Mexico's central Bank, which cut the benchmark interest rate 50 basis points to 6.50% last Friday, said there was heightened uncertainty about the inflation outlook, with risks both on the downside and the upside, along with increased slack in the economy.

MEXICAN REFERENDUM REJECTS CONSTELLATION BREWERY, A MOVE THAT RISKS UNDERMINING FOREIGN INVESTMENT IN MEXICO

Residents of Mexicali, a Mexican city on the U.S. border, voted against completing a billion-dollar brewery being built by Constellation Brands Inc., even though the brewery is about 70% complete and with about $900 million dollars having been invested to date. After the results of the referendum were announced on Monday, Constellation's shares dropped by 8%. This decision will likely further shake investors' confidence in Mexico. Meanwhile, President Lopez Obrador said he respects the decision of the people who apparently voted on grounds that its intensive water consumption was detrimental for the community. On the other hand, Mexico's Business Coordination Council (CCE) criticized the referendum and said this type of decision undermines the country's ability to attract foreign investment and increases the economic risk we face due to instability in the financial markets, the decline in oil prices and the international upheaval caused by the COVID-19 pandemic.

—Paulina Villanueva