

Latam Daily: Chile Economic Activity Up in September; Colombia Exports; Peru Politics

- **Chile:** Economy expanded 15.6% y/y (1.7% m/m) in September, driven by services; GDP 2021 on track to grow 12%
- **Colombia:** Exports reached the best level since the pandemic began; ferronickel exports strongly rebounded
- **Peru:** Weekend political events and conflicts: trick or treat, indeed

CHILE: ECONOMY EXPANDED 15.6% Y/Y (1.7% M/M) IN SEPTEMBER, DRIVEN BY SERVICES; GDP 2021 ON TRACK TO GROW 12%

On Tuesday, November 2, the central bank (BCCh) released September's Imacec (leading economic activity index), which grew 15.6% y/y, above both our and the market's expectations (Bloomberg: 12.3% y/y; Scotia: 12.0% y/y). In seasonally adjusted figures, the Imacec grew 1.7% m/m, mainly due to the contribution of service activities (+3.6% m/m), construction and manufacturing industry (+1.0% m/m) (chart 1). The non-mining Imacec grew 2.5% m/m (chart 2).

In Q3-2021, the economy would have had a preliminary growth of 17.6% y/y, the second highest in the last 25 years, after the 18.1% y/y of Q2-2021. In our view, it will be harder to maintain the robust growth observed since May 2021 into 2022, given the high comparison bases and lesser momentum from private consumption. Even so, we expect a GDP expansion of 4.5% in 2022 explained by a good statistical start, along with the possibility of adding USD 11 bn in liquidity for households should the new withdrawal of pension funds be approved. On the negative side, we will have a high degree of political uncertainty and less external impulse.

Chart 1

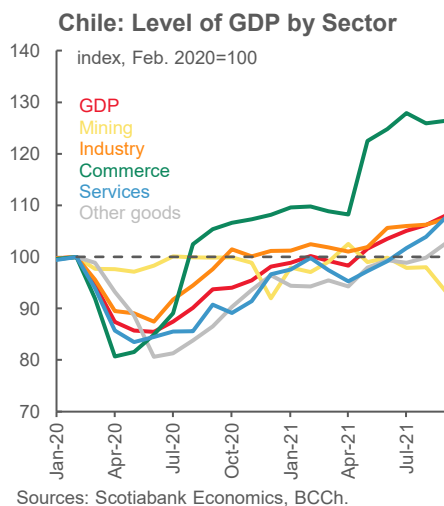
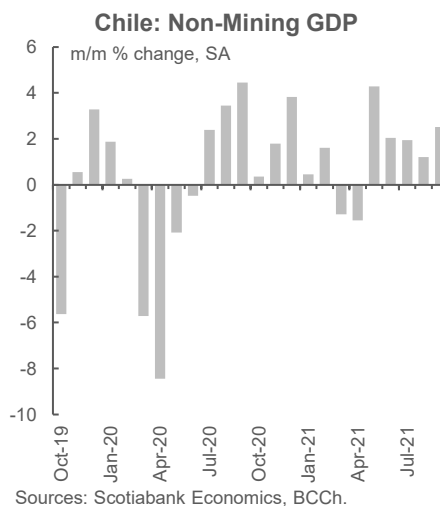


Chart 2



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By economic sectors, the y/y growth of September is largely explained by services, mainly education and health, followed by trade and manufacturing. Business services, restaurants and hotels and transportation also contributed, a performance associated with the economic reopening already installed in September. On the other hand, mining contracted 6.7% y/y, in line with the decrease in mining production reported by the INE in September (-7.3% y/y).

In September, public spending grew by 40.5% y/y in real terms, with the category of subsidies and donations expanding by 101.1% y/y. Public spending has continued to grow at double-digit rates in September due to the extension of the Universal Emergency Family Income (IFE) and other business support measures. With this, current spending expanded 42% y/y, while capital spending grew 26.5% y/y. As of September, the execution of budget spending reached 102.6%, compared to 77.1% in September 2020, showing that spending is likely to have exceeded allocations.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

COLOMBIA: EXPORTS REACHED THEIR BEST LEVEL SINCE THE PANDEMIC BEGAN; FERRONICKEL EXPORTS STRONGLY REBOUNDED

According to statistical agency DANE's data release on Tuesday, November 2, September's monthly exports stood at USD 3.57 bn (up 40.4% y/y, chart 3), the best level since the pandemic began. In September, traditional exports rebounded strongly. Oil and Mining led the gains increasing by 74.8% y/y. Non-traditional exports also consolidated robust levels showed in the last months. In fact, manufacturing-related exports and Agricultural-related exports expanded 32.2% y/y and 4.5% y/y, respectively.

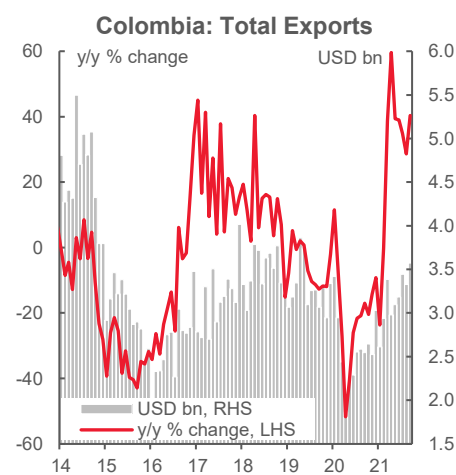
Traditional exports as a whole were up 69.8% y/y in September (chart 4), again benefitting from higher commodity prices. Oil exports grew by 58.7% y/y, however, they are still below their best levels since the start of the pandemic. On the other side, coal rebounded by 116.61% y/y, mostly explained by better prices, since exports in metric tons expanded by 7.51% y/y and remain 72% below from average tons exported in 2020. The best performer among traditional exports was ferronickel (+214.4% y/y), due to a high price effect but also amid a volume rebound (+123.3% y/y), which leads to this export category to its best monthly level in at least 12 years. Coffee exports also strongly rebounded by 116.7% y/y in September, however, the activity moderated from the previous month.

The value of non-traditional exports was USD 1.57 bn in September, an increase of 15.0% y/y, but lower than the previous month's 28.0% y/y (chart 4 again).

Manufacturing exports drove the overall advance in non-traditional goods exports with an expansion of 32.2% y/y, on the back of diverse goods (+18.1% y/y) and chemical products (a 9.7% y/y rise). On the other side, Agricultural products such as bananas other fruits (+37.7% y/y gain), and palm oil (+124.4% y/y) contribute to the overall rebound.

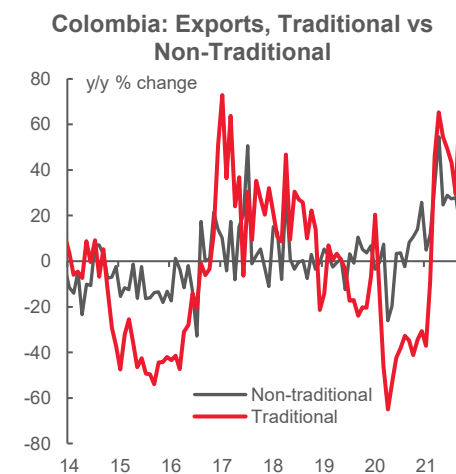
All in all, September exports showed a strong rebound led by ferronickel exports. Although there is some uncertainty about how long this positive shock would last, there is no doubt that it is good news for the current account deficit. On the other hand, mining exports related to oil and coal remained lagging the price recovery due to lower production issues. Meanwhile, non-traditional exports are still close to the best levels since 2012, with some items pointing to higher demand from traditional trade partners but also the conjuncture of higher prices in agricultural products. We expect a current account deficit of about -5.2% of GDP in 2021, larger than the -3.3% deficit observed in 2020. Even though financing has been more significant from the government's external debt, FDI would make greater contributions during the 2H-2021 and in 2022.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

—Sergio Olarte & Jackeline Piraján

PERU: WEEKEND POLITICAL EVENTS AND CONFLICTS: TRICK OR TREAT, INDEED

It was a long, hectic and bizarre weekend in Peru. Bizarre because the embattled Minister of the Interior, Luis Barranzuela, was reprimanded by the Head of the Cabinet, Ms. Mirtha Vásquez, for having organized a reunion/party in his house on Halloween night, disregarding COVID-19-related restrictions given by the Ministry of the Interior himself. Mr. Barranzuela answered that there had been no party, only a work reunion. This, despite press footage registering the event. Later on Sunday, Ms. Vásquez responded that his answer had been “unacceptable”. She also stated that “a decision will be made” soon regarding Barranzuela, presumably today (Tuesday) when she meets with President Castillo. Since being appointed cabinet member on October 6, Mr. Barranzuela has been under fire for conflict of interest, as he was Vladimir Cerrón’s (leader of the ruling party, Peru Libre) lawyer for corruption charges prior to his appointment, and had also been sanctioned repeatedly during a period in which he was part of the police service. Mr. Barranzuela’s permanence in the cabinet is, today, the main point of contention with much of Congress, which is due to vote on whether or not to award the cabinet a vote of confidence later this week. The events over the weekend increase the risk that the cabinet’s impending vote of confidence could be linked to Mr. Barranzuela’s appointment

Of equal, if not greater, concern, the large Antamina copper-zinc mine announced during the weekend that it would temporarily cease operations over recent protests and the risk they pose to its personnel. The protests at Antamina add to conflicts that have erupted recently around Minera Apumayo, Las Bambas, part of the Petroperú oil operations, coca-leaf farmers among others. Conflicts are emerging around the country, and may reflect expectations that the protesters will be backed by the Castillo Government, thus representing an opportunity to obtain greater concessions from mining activities. Adding to the mixed messages, the Minister of Justice Aníbal Torres suggested that the majority stockholders (“accionistas”) of Antamina should be investigated to see if they were promoting the impeachment of President Castillo. Minister Torres later withdraw his declaration when he found out that the majority stockholders were large foreign mining companies (including Teck, Glencore, BHP and Mitsubishi). The question is to what extent Torres’ initial statement may be indicative of the type of perception that some government officials have towards mining activities.

—Guillermo Arbe

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