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## Latam Daily: Chile's Recession Begins; BRL Relief as Mantega Quits

Markets traded quietly overnight with a mixed feeling in cash equities and US futures, and again minor changes against the dollar with the major currencies mostly trading in a +/-0.3ppts band. **The MXN is lagging but still holding up as the fourth best performing major currency this week and only behind the PEN in the region;** with respective gains of 0.3% and 0.6%.

**After trading very heavily earlier on Thursday, the BRL and Brazilian assets firmed in late-trading yesterday as Mantega announced his departure from Lula's transition team** where he operated as part of the group responsible for planning, budget, and management. The former finance minister (Brazil's longest serving) and close ally of Lula who served with him during his previous presidency and then under Dilma Rousseff, was seen as a risk to fiscal discipline given his penchant for tax cuts when he was in office. Note that Mantega was also serving as a volunteer due to disqualification from 'positions of trust' owing to 'fiscal pedaling' (in a nutshell hiding loans made by state-owned banks to government)—on top other fraud/corruption scandals. **Mercadante, the team's technical coordinator, and VP-elect Alckmin, also said late last night that tax exemptions, which amount to close to BRL400bn, could be reviewed. The BRL is rallying in early dealing, with a 0.8% gain vs the USD that places it in the top echelons of the majors' leaderboard.**

**In Colombia, Fin Min Ocampo noted that a proposed measure to fight inflation is de-indexing the price of a set of products and services from the minimum wage;** meaning, for instance, that a 10% minimum wage rise would not see rents increase by that same 10% (given they're indexed to the minimum wage increase currently). The move could arrest a feedback loop between minimum wage and certain indexed prices that was eroding the purchasing power of those in the bottom ranks of the income ladder—and should also result in softer headline inflation. **He also said that recent moves in the COP have been the result of "speculation"**—though we think political risks are, at least, partly to blame—and that current monetary policy is "slightly contractionary" which suggests more rate hikes ahead (our Bogota team expects 100bps next month). **The COP exchange rate traded back above the 5,000 level yesterday amid broad dollar strength.**

**Chilean GDP released shortly before writing showed a larger-than-expected 1.2% q/q contraction that marks the first of a series of negative prints over coming quarters;** in year-on-year terms, GDP only expanded 0.3% y/y. This compares to our Santiago team's forecast of 0.2% y/y (same as the Bloomberg median). We think Chilean data are reflecting conditions that will require the BCCh to quickly reduce its policy rate starting in January, with a reduction of between 100 and 200bps. **Chile's current account deficit also rose to a record high of USD9.43bn in Q3, up from USD7.89bn in Q2; the CLP opened the day with as much as a 0.8% depreciation.**

**Today, watch Peruvian political intrigue** with Castillo facing investigations of corruption and influence-peddling in Congress as well as continued developments in Brazil regarding fiscal plans.

—Juan Manuel Herrera

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