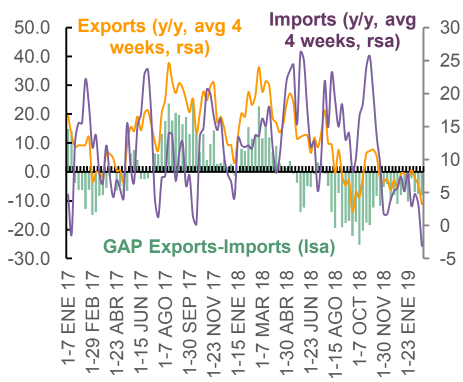
LATAM Market Update

- **Chile: The economy yawning… the market getting out of a "mini spree"**
- **Colombia: January employment showed deterioration, especially for the nationwide measure**
- **Peru: Formal employment rose 4.3% in 2018**

CHILE: THE ECONOMY YAWNING… THE MARKET GETTING OUT OF A "MINI SPREE"

Starting by diving in fresher stuff, the Central Bank unveiled some figures up to the 3rd week of February. First up, let me repeat that I used to compare the last 4 weeks with the equivalent period in the previous year, trying to be eclectic by mixing a reduction in volatility and an increase of freshness, without using not-so-trustable seasonal adjustments when are applied to ultrahigh-frequency data and highly disaggregate series). In general, it is more of the same (and deeper): the dataflow show a weakening growth rhythm for exports and imports. About the latter, they exhibit the first contraction since the 2nd week of January 2017. Aside an around 5% fall in consumption and intermediate goods, the growth pace of those of capital fell back to one digit (around 8%). About exports, copper price should support total data in coming weeks (if it lingers), but the weakening in agricultural and manufacturing and comparison bases are still dominating, so far.

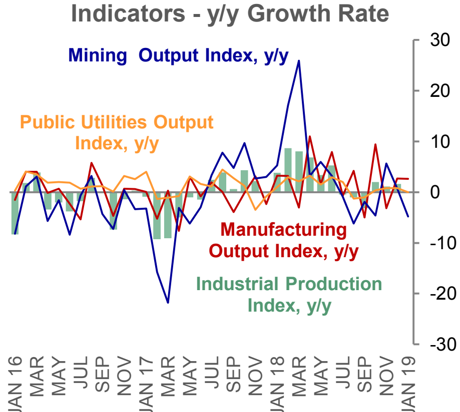
Chile: Exports and Imports Annual Growth



Sources: Scotiabank Economics, Central Bank of Chile (BCCh).

Also yesterday, we were informed about some economic sectors. Annual growth in January, Manufacturing output expanded 2.7%, higher than the expected 1.6%, and there were meaningful positive corrections in figures of the previous months which were notable (for example, December rose from 0.8% to 2.7%). On the opposite, mining output contracted 4.8% (partially due to depleted ore grades in major mines) and also weaker-than-expected public utilities sector output that did not show growth (notably, the report says that one of the most negative incidence came from electric power distribution to

Chile: Industrial Sector Production Indicators - y/y Growth Rate



Sources: Scotiabank Economics, National Statistics Bureau (INE).

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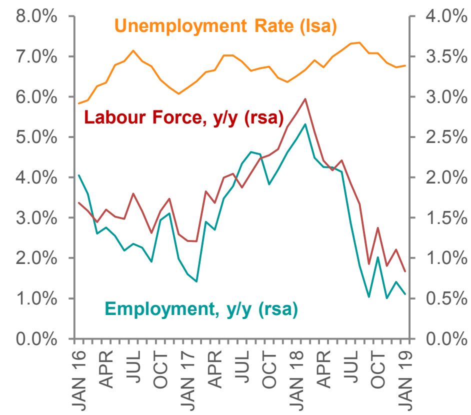
manufacturing and commerce). All in all, this chunk of data is rather weak, probably pressing of the recovery trend we expect for H2, but seems hardly enough to sterilize it.

Before the release of these sectors data the market was forecasting a growth of total economic activity of around 2.6%, according to the last surveys. Despite the official result being expected to be known next Tuesday, on Monday we will know the behaviour of commerce, which should not be very string, considering the message form the public utilities. Nothing extremely surprising indeed, the dataflow might be fuel for long term bond prices. Because of the seasonal period, volatility of these rates has diminished a tad, but that should change in the very short term. Does it change our view for the year? On the contrary, it reaffirms our forecast that data will continue pressing yields in the first third of the year or a little more, but the effect should be reverted around midyear.

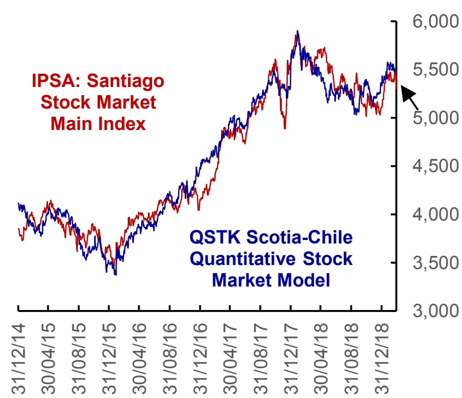
Chile: Labour Market and Unemployment



Sources: Scotiabank Economics, INE.

Labour market showed little changes in the mobile quarter finishing in January. Unemployment rate increased to 6.8%, aligned with market expectation and opposite to the seasonal factors (in the middle of the meridional summer some decrease is more usual). The labour force slowed its annual rate of growth to 0.8% (vs. 1.1% in the previous period), while employment also eased but just from 0.7% to 0.6%. However, data released at the time of writing suggest the growth of employment continues coming from the public sector, while manufacturing remains weak. Nothing of this is new and reflects that which should be expected from a cyclical process.

Chile: Stock Market Quantitative Approach



Source: Scotiabank Economics, Reuters Eikon.

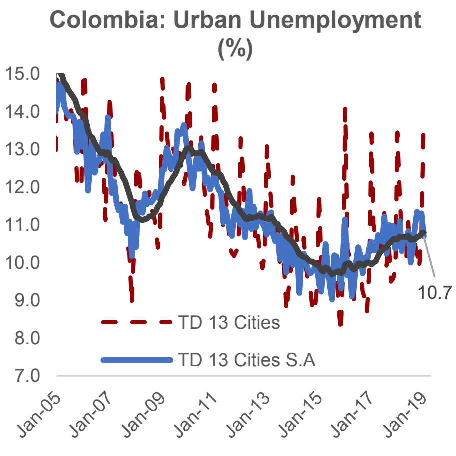
About the stock market, the most important retailer in the region (Falabella) showed disappointing results for Q4, being the exchange rates in the region partially responsible for that. However, we know consumption in that quarter was very weak, as confirmed by several macro indicators that we have been tracking and specific qualitative information we have been gathering in those months. In addition, also on Wednesday, one of the biggest companies traded in the local stock market (Enelam, an electric power holding that invest in the region) announced a capital increase, which was very negatively deciphered by analysts, which meant its share price fell 10% (and, according to the internal rules, its trading was suspended). Notwithstanding, we think the correction in the stock market summed both specific factors but also the fact that before these events the domestic stock market had closed the gap with our quantitative model (and open it again after the correction on Wednesday). Though we have a positive perspective for the domestic stock market in the current year, of course the acceleration we have seen since Christmas it seems to be excessive and requires some correction to be consolidated.

COLOMBIA: JANUARY EMPLOYMENT SHOWED DETERIORATION, ESPECIALLY FOR THE NATIONWIDE MEASURE

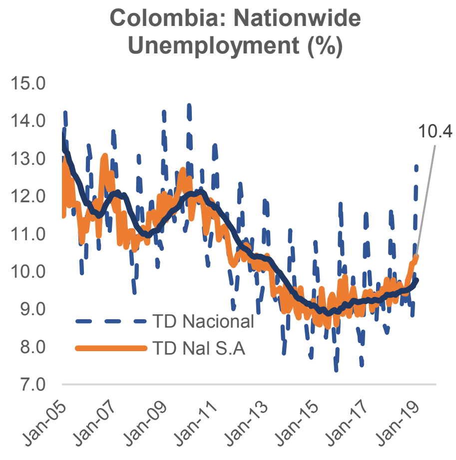
January employment data came out. Unemployment deteriorated in January for both, nationwide and urban measures. In fact Nationwide unemployment came in at 12.8% (Dec-18 was 9.7% and Jan-18 was 11.8%), while urban unemployment (13 cities) came in at 13.7% (Dec-18, 10.7% and Jan-18 was 13.4%). January employment data have strong seasonal effects, therefore it is better to analyze seasonal adjusted series. This measure showed deterioration for the nationwide figure (10.4% vs 10.2% in Dec-18) but an improvement for the urban number (10.7% vs 11.3% in Dec-18). The apparent mismatch between urban and nationwide figures could be related with higher rural informality, especially due to Venezuelans immigration. Employment creation was nil, again, in January.

Although January labour data did not make us change our economic activity forecast, due to still strong retail sales and manufacturing, it confirms our downside bias on 2019 economic activity.

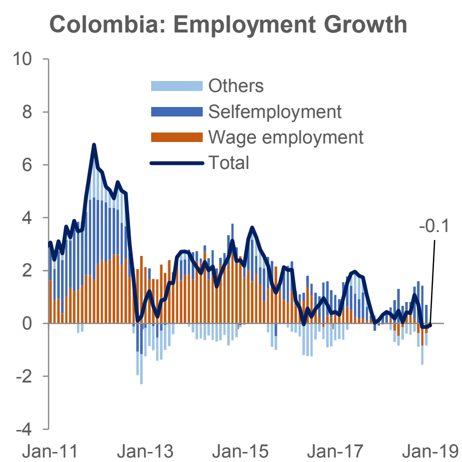
On monetary policy, weaker employment data support our call that BanRep will not hike the monetary policy rate (MPR) in 1H19 to boost economic activity, and will wait the initial data on 2019 GDP.



Sources: DANE, Scotiabank.



Sources: DANE, Scotiabank.



Sources: DANE, Scotiabank.

PERU: FORMAL EMPLOYMENT ROSE 4.3% IN 2018

Formal employment registered with the tax agency (Sunat) rose 4.3% in 2018. December came in at a 4.4% increase. However, the trend has changed. Jobs growth accelerated early in the year to 5.0% in September (it actually peaked at 5.7% in April, but this was an outlier in the trend), and has been decelerating slowly since. Job creation was greatest in agroindustry (21%), Construction (3.8%) and Mining (3.0%). We expect formal jobs growth to level off in the 3.5% to 4.0% range in 2019.