

LATAM Market Update

- **Chile: September retail sales will likely disappoint; Other data, marginally better; CLP improved**
- **Peru: Robust loans growth in September points to healthy demand; Political events—The chaos continues**

CHILE: SEPTEMBER RETAIL SALES WILL LIKELY DISAPPOINT; OTHER DATA, MARGINALLY BETTER; CLP IMPROVED

According to our economic team, retail sales would have been even weaker in September, reaching an annual growth between 1.7% and 3%, continuing a moderate slowdown. As in previous months, even a significant part of that growth would have come from new car sales. Supermarket sales might have grown 4.5%. This chunk of estimations would be coherent with our team's forecast of aggregate economic growth for that month, between 2% and 2.9% y/y. Our team's estimation of non-car retail sales is based in sales paid using credit and debit cards, that reached good results in the past. More relevant, this sluggish performance should continue in the coming months, with incidence of durable goods declining, but uncertainty about car sales, which could be hit by the higher exchange rate in recent months.

The Central Bank released its survey about banking loans for Q3. It shows that supply restrictions for consumption and corporative loans eased a tad, and demand in general, strengthened moderately. Partially because improvements in demand side were already taking place in previous quarters, the market seems to have a limited strength to rise them. Higher frequency data showed a better performance up to the first week of October, but nothing amazing indeed. The gap between growth of imports and exports increased (usually not positive for domestic assets), but money continued accelerating at a very moderate rate.

Considering this dataflow (plus the others we got in the past weeks) most of the market and our team do not expect change in the MPR (currently at 2.5%) in the meeting scheduled for this afternoon. A change in wording (to become more or less hawkish/dovish) looks unlikely either, because the Monetary Policy Report diagnosis is very recent, but a more precise view saying that next move (a 25bp hike) will take place on December 4th, seems very probable.

On another front, the exchange rate (USDCLP) deflated the following days after the spike (almost 690 last week) as risk aversion eased and copper prices regained some ground. However, markets turmoil is developing, so we are not out of the woods yet. By all means it seems more likely we will see more volatility in coming days and weeks. Our classic model shows the gap between the quantitative balance and the spot price keeps very narrow. We also maintain our forecast for year end, closer to 650.

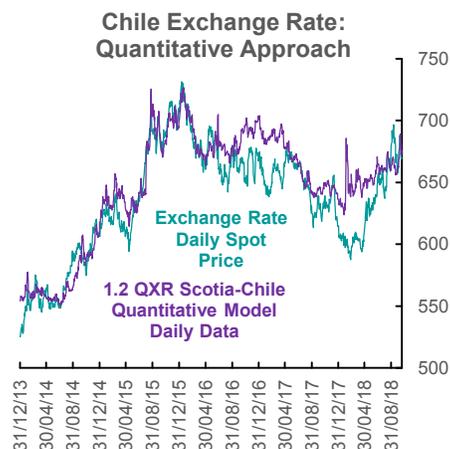
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Sources: Scotiabank Economics, Reuters Eikon.

PERU: ROBUST LOANS GROWTH IN SEPTEMBER POINTS TO HEALTHY DEMAND

Loans growth was 9.1%, y/y, in September, accelerating from 8.8% in August. The September result was healthy and better than expected. Household loans remained stable at a very robust 10.1%, an additional sign that the mid-year strength of consumption was not due to the World Cup alone. Business loans rose 8.4% in September, accelerating from 8.1%, which was a change in direction from the slowdown of the previous three months. The figures continue to point to private sector growth, both consumption and investment, leading the economy at an interesting pace.

Political events: the chaos continues

Lately, political events have been so convoluted that they have become difficult to follow, and even harder to understand. The more major events have included: 1. Keiko Fujimori spent her 6th day in jail yesterday, out of the ten day period determined by the courts for preliminary investigations on improper campaign financing (formally considered money laundering here). Keiko has appealed the detention; 2. over the last two days, key Fuerza Popular administrative and advisory figures have been detained; 3. the prosecuting attorney has been called by a Congressional Committee on accusations of abetting terrorism (due to remarks regarding Sendero Luminoso as a “guerrilla” group, rather than a terrorist group, made in Mexico); 4. on Tuesday the police failed to find the former Supreme Court Judge, Cesar Hinostroza, also under investigation for corruption, and who may have gone into hiding; 5. Congress, led by Fuerza Popular, voted against removing the Head of the Magistrates Council, Pedro Chavarry, also under suspicion of corruption, despite calls from most high-profile individuals and organizations for his removal.

Much of what is going on suggests a power struggle over control of the judiciary. The outcome could have long term consequences for the country.

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