Chile's central bank leaves rates on hold and finally accepts that there is no need to tighten further.

The industrial sector remains stuck in a rut; the temporarily weak mining sector is mainly to blame.

Decent manufacturing activity and the emerging stabilization of the labour market point to better days.

The BCCh Finally Admits that the Economy is not Overshooting

Chile's central bank left its policy rate on hold last Friday at 3.0%, in line with market expectations, amid easing inflationary pressures and a struggling economy. The timing of the pause was no surprise; in January, the BCCh hiked rates by 25bp and adopted a slightly dovish bias, saying it was going to act gradually and with caution. ***But this time policymakers admitted that given "the lower level of inflation, and its prospects, it is necessary to maintain the monetary stimulus for a longer time".***

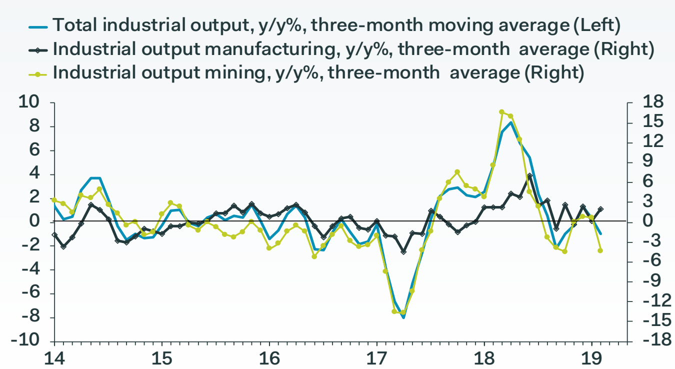
This confirms our long-standing view that interest rates will remain on hold for several more months. The tweaks to the communiqué, and the downside risks to growth and inflation, suggest medium-term rate risks are to be skewed to the dovish side. The hard data for the remainder of Q1 likely will be weak and inflation pressures are tame, due mainly to relatively low oil prices and the sluggishness of the economic recovery.

We still believe that the economy will accelerate in the second half of the year, supported by solid economic fundamentals and better external conditions for Chile's main exports. Inflation pressures should be more evident too. The Monetary Policy Report slated for today will shed more light on the Bank's view, but for now we think the BCCh will hold rates at the May and June meetings, and then resume tightening with a 25bp increase in late Q3, and another in Q4. That would put rates at 3.50% by the year-end.

What is clear, though, is that any further monetary tightening will be modest. The Fed turned more dovish last month and external financial conditions have been relatively benign for Chile. The CLP was the best performer in LatAm FX in Q1, rebounding by 2.4%. It has came under pressure recently, due mainly to global jitters and the latest USD rally, but we expect a gradual rebound ahead, ending Q2 close to 665 per USD. We see some room for further strengthening if the China-U.S. trade war ends soon. *Better Chinese hard data, boosted by the lagged effect of the government's monetary and fiscal stimulus, will also help the copper market and improve Chile's export outlook.* That said, the turmoil in Turkey has raised risks to all EM markets, so near-term upside for the CLP is limited.

On the domestic front, meanwhile, conditions support stable monetary policy in the near term. Inflation has surprised to the downside and economic activity indicators have been poor, dragged down

MINING OUTPUT REMAINS A KEY DRAG



by the weak mining sector. Data released on Friday showed that the industrial economy is under stress, though this should prove temporary. Total industrial production plunged 1.4% month-to-month, the third consecutive drop, pushing the year-over-year rate down to -3.4%, from -0.8% in January.

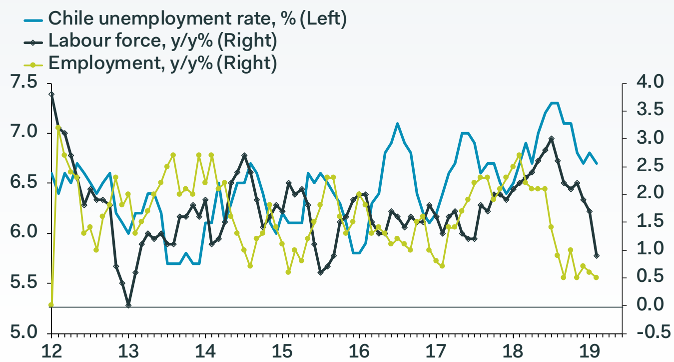
The headline was badly hurt by plunging mining activity, which fell 4.3% month-to-month. The year-over-year rate fell sharply to -9.3%, from -4.7% in January, and a modest 0.5% *increase* in Q4. This was the worst month since March 2017, when the sector was hit by the Escondida mine strike. *This time, mining output was depressed by adverse weather, which disrupted production in key mines, but it will rebound in March and Q3.* The Q1 weakness is not the start of a protracted downtrend.

ACTIVITY IS UNDER STRAIN, BUT FAR FROM COLLAPSING

Manufacturing output, meanwhile, rose 0.9% year-over-year in February. The underlying trend is stable but leading indicators are beginning to point to a sustained recovery. Decent capital goods imports—albeit weakening—and healthy machinery and equipment production are consistent with rising output over the next few months. *That said, falling business confidence suggests that investors, and especially the BCCh, should not expect miracles any time soon.* Finally, utilities output rose 0.8% year-over-year, and the trend is gradually rising.

Retail sales data due tomorrow likely will look soft too. We expect sales to rise 1.0% year-over-year in February, up from 0.0% in January, but risks are tilted to the downside. Data released on Friday showed that retail same-store sales in metropolitan regions fell 2.7% year-over-year, and the underlying trend is weakening. *Credit market conditions remain supportive, but the lagged effect of higher interest rates is starting to dent the resilience of the consumer and housing credit markets.*

THE LABOUR MARKET SEEMS TO BE STABILIZING, AT THE MARGIN



News on the labour market, meanwhile, remains positive, just. The unadjusted unemployment rate dipped marginally to 6.7% in February, from 6.8% in January; it was unchanged from February last year. The adjusted underlying trend is starting to fall, at the margin. This is good news after a long period of weak labour demand, but it was mainly helped by lower informal employment and a falling participation rate. The jobless rate likely will hover around its current levels in Q2, consistent with the subpar recovery in Q1. *But we expect a steady improvement as the year progresses, assuming growth picks up. For now, though, both the activity and inflation data suggest that the BCCh will maintain its current cautious stance, leaving rates on hold until Q3.*

Andres Abadia **+44 191 2600 309**
andres@pantheonmacro.com Twitter: @Andres__Abadia

THIS WEEK IN BRIEF

Note: "**D**" prefix denotes Datanotes for these releases.

Monday, April 1

• Peru CPI Inflation (3)/6:00 Local
The CPI likely will increase **0.5%** month-to-month in March. In year-over-year terms, inflation should remain unchanged at **2.0%**. **Consensus: 2.1%.**

• Mexico IMEF Manufacturing Index (3)/12:00 Local
The index should increase marginally to **55.0**, from 54.3 in February. Uncertainty seems to be easing, due to the USMCA trade deal. **Consensus: 52.0.**

• Brazil Trade Balance (3)/No specific time
The unadjusted surplus likely fell to **USD5.3B**, after a USD6.4B surplus in March 2018. **Consensus: USD5.4B.**

Tuesday, April 2

• D: Brazil Industrial Production (2)/9:00 Local
Production probably rose **3.0%** year-over-year, up from -2.6% in January. Survey and other hard data have improved consistently in recent months including business expectations and auto production, despite many domestic and external headwinds. We expect better news over the next few months, but risks remain. **Consensus: 2.3%.**

• D: Chile Retail Sales (2)/9:00 Local
Retail sales likely rose **1.0%** year-over-year in February, up from 0.0% in January. We think consumers' spending will gradually improve this year, helped by low inflation, low interest rates and a healthy credit market. High unemployment, however, should ensure that private spending growth remains weak by previous standards throughout the first half of the year. **Consensus: 1.5%.**

Wednesday, April 3

• No significant data released.

Thursday, April 4

• Mexico Consumer Confidence (3)/8:00 Local
We expect the index to fall slightly to **114.5,** from 116.8 in February, the cyclical high. Political noise, workers' strikes, railroad blockages, among other factors, likely will limit the rebound, which has been driven by the strength of the labour market and falling inflation. **Consensus: 117.2.**

• Argentina Industrial Production (2)/16:00 Local
Industrial output likely fell **8%** year-over-year, up from -10.8% in January. The economy is stabilizing, at the margin, but the pain will continue in Q1. This is putting Mr. Macri's chances of re-election in October in jeopardy, though our base case is that he will win. **Consensus: N/A.**

Friday, April 5

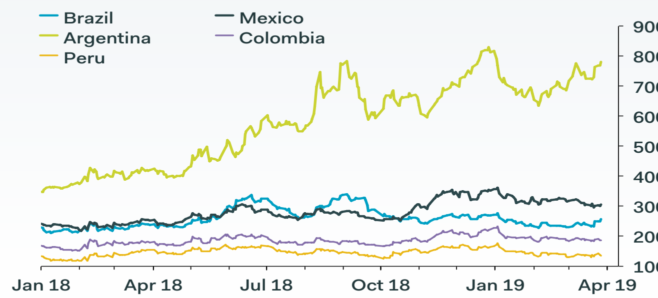
• D: Chile Economic Activity Index (2)/8:30 Local
The IMACEC likely increased **2.0%** year-over-year in February, down from 2.4% in January. The trend is slowing, but we expect it to stabilize soon, as copper prices have rebounded in recent months. **Consensus: 2.3%.**

• Colombia Consumer Prices (3)/19:00 Local
The index should increase **0.3%** month-to-month in March, with the year-over-year rate edging higher to **3.1%**, from 3.0% in February. The underlying trend likely will remain stable in Q2 and early Q3. **Consensus: 3.1%.**

PANTHEON'S LATAM FINANCIAL CONDITIONS DASHBOARD

	Currency			Benchmark Stock index		
	Value	Week, %	YTD, %	Value	Week, %	YTD, %
Argentina	43.32	-3.5	-13.0	33,466	1.9	10.5
Brazil	3.92	-0.4	-1.0	95,415	1.8	8.6
Chile	679.7	0.0	2.1	5,259	0.9	3.0
Colombia	3,189	-1.7	2.1	13,060	-2.3	17.2
Mexico	19.43	-1.7	1.1	43,281	2.3	3.9
Peru	3.32	-0.6	1.5	21,098	0.4	9.0
Venezuela	--	--	--	8,568	-3.4	433.7

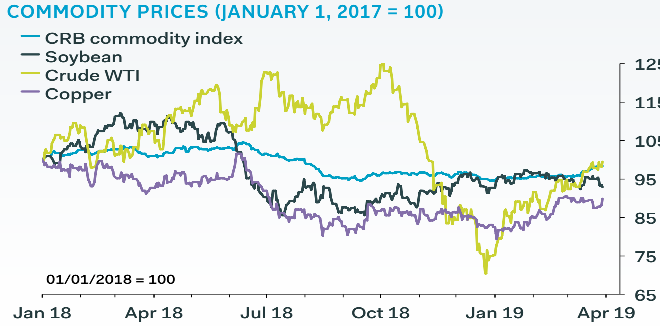
INDEX EMBIG SPREAD LATAM HISTORY



PANTHEON'S ECONOMIC FORECASTS

	Real GDP, y/y%		Inflation, Avg.		Interest rate, Q4	
	2018	2019	2018	2019	2018	2019
Argentina	-2.8	-1.2	33.8	36.0	59.25	32.00
Brazil	1.1	2.0	3.7	3.7	6.50	6.50
Chile	4.0	3.4	2.4	2.6	2.75	3.50
Colombia	2.7	3.0	3.2	3.1	4.25	4.75
Mexico	2.0	1.6	4.9	4.2	8.25	7.75
Peru	4.0	4.3	1.3	2.5	2.75	3.25
Venezuela	-17.0	-20.0	1.3M	25M	--	--

COMMODITY PRICES (JANUARY 1, 2017 = 100)



PANTHEON'S FINANCIAL FORECASTS

	Currency			Benchmark Stock index		
	Q2F	Q3F	Q4F	Q2F	Q3F	Q4F
Argentina	44.2	44.5	45.2	33,400	32,100	37,300
Brazil	3.75	3.45	3.67	98,100	101,500	103,200
Chile	674	667	648	5,240	5,380	5,460
Colombia	3,080	3,010	3,005	1,610	1,680	1,720
Mexico	19.2	19.4	19.3	43,500	44,300	45,600
Peru	3.25	3.23	3.24	21,200	22,500	23,800
Venezuela	--	--	--	--	--	