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# Latam Weekly: Post CPI 'Calm' with Economic Activity Data on Tap

## ECONOMIC OVERVIEW

- After a busy couple of weeks of CPI releases and central bank decisions in Latam and the G10, next week's regional calendar is a fair bit quieter with the release of Peruvian, Brazilian, and Colombian economic activity figures as the highlight.
- A sharp repricing of Fed cut expectations over the past week (and year-to-date) has meant that recent on-expectation or misses in Latam inflation data are unlikely to translate into faster easing from local central banks; in fact, the opposite is more likely.
- In today's report, our team in Peru previews next week's GDP print that they expect will show a strong (but perhaps misleading) expansion in output, while our economists in Mexico outline the drivers for the strength of the MXN, the best performing major currency of 2024.

## PACIFIC ALLIANCE COUNTRY UPDATES

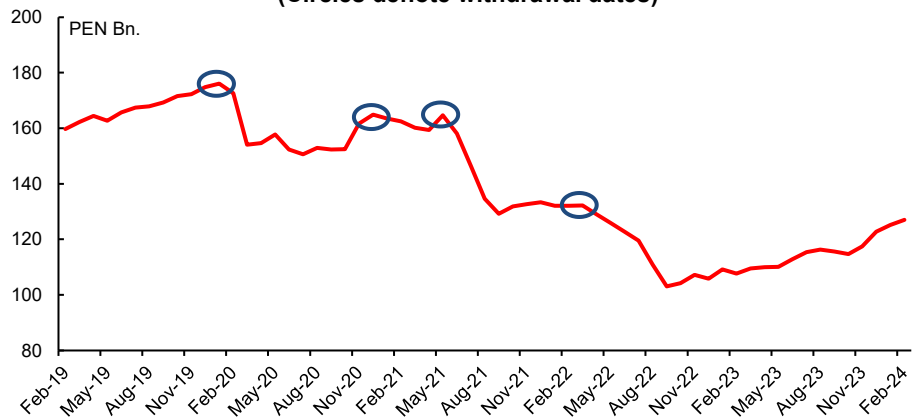
- We assess key insights from the last week, with highlights on the main issues to watch over the coming fortnight in the Pacific Alliance countries: Mexico and Peru.

## MARKET EVENTS & INDICATORS

- A comprehensive risk calendar with selected highlights for the period April 13-26 across the Pacific Alliance countries and Brazil.

### Chart of the Week

Peru: AFP Assets Under Management  
(Circles denote withdrawal dates)



Sources: Scotiabank Economics, SBS.

Chart of the Week: Prepared by: Cesar Amador, Economic Analyst.

## Economic Overview: Post CPI ‘Calm’ with Economic Activity Data on Tap

- **After a busy couple of weeks of CPI releases and central bank decisions in Latam and the G10, next week’s regional calendar is a fair bit quieter with the release of Peruvian, Brazilian, and Colombian economic activity figures as the highlight.**
- **A sharp repricing of Fed cut expectations over the past week (and year-to-date) has meant that recent on-expectation or misses in Latam inflation data are unlikely to translate into faster easing from local central banks; in fact, the opposite is more likely.**
- **In today’s report, our team in Peru previews next week’s GDP print that they expect will show a strong (but perhaps misleading) expansion in output, while our economists in Mexico outline the drivers for the strength of the MXN, the best performing major currency of 2024.**

It’s the calm after the storm in Latam and the US. We’re moving on from the flood of March CPI releases in the Americas, where we got a beat in the US and Peru but misses in Chile, Mexico, and Brazil and a roughly as expected Colombian print (we’re not quite done yet, however, as Canadian CPI is due next Tuesday). We also get a bit of a break in between rate decisions from key global central banks after widely expected pauses from the RBNZ, ECB, and BoC and the BCCh’s unsurprising 75bps cut on the 2<sup>nd</sup>, all in contrast to the BCRP’s surprise 25bps reduction (see [Latam Daily](#)).

Overall, considering the BCRP’s surprise cut and the broadly benign set of March inflation figures in the Latam countries, one may have thought that perhaps faster easing from the region’s central banks was on the horizon or being mulled. Wrong. A massive repricing of Fed cut expectations since last Friday’s jobs report—that now amounts to ~120bps less in cuts priced in by year-end—has also resulted in a reassessment of some Latam central bank forecasts (e.g. about a full 25bps cut less priced in from Banxico and the BCCh this year). Narrowing rate differentials vis-à-vis the US can cause unwanted increases in prices via weaker currencies, and also stand as a risk to domestic assets as the relative appeal US paper increases.

Unfortunately, data in local Latam calendars next week are unlikely to significantly move economists or markets one way or the other. From a CPI flood, we now enter a streak of monthly economic activity releases for February, starting with Peru on Monday, Brazil on Wednesday, and Colombia on Thursday; Mexico follows next Monday, and Chile already released a strong beat for the month. Central bank surveys will also be important to follow, with results from BCB and BanRep economist polls and the BCCh’s traders survey.

In today’s Latam Weekly, our team in Peru previews next week’s monthly GDP print, released on Monday alongside unemployment rate figures. Their preliminary tracking of industry/sectoral data points to a ~2.5% y/y expansion—not too shabby after of the last thirteen prints, nine have been contractions. Of course, an extra day in February 2024 helps, as does the low base due to social unrest. Still, progress is progress and Peru’s economy looks on firmer footing in early-2024, and soon we’ll have the flow of pension fund withdrawals adding to domestic demand (see [Latam Daily](#)).

On Tuesday the Mexican peso reached a new best level since 2015, around ~16.25, supported by the expectation that Banxico will take it very slow in its pace of easing—

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April 12, 2024

taking notes from Fed policy. But, it's not just Banxico rates policy that is helping out the MXN. Our Mexico economists outline in today's report the main reasons behind the peso's strength that is tracking around 3% year-to-date appreciation that makes it the best major currency against the dollar. In fact, only the MXN and PEN (just about) have appreciated versus the USD in 2024.

From outside of Latam, local markets may be sensitive to US retail sales and a parade of Fed speakers, Canadian and Japanese CPI, UK CPI and jobs/wages, and China's central bank announcement and Q1 GDP figures, while geopolitical developments (Israel/Iran, Ukraine/Russia) remain a major source for possible sharp moves in commodity and equity/high-beta markets.

## Pacific Alliance Country Updates

### Mexico—Mexican Peso Strength and Drivers

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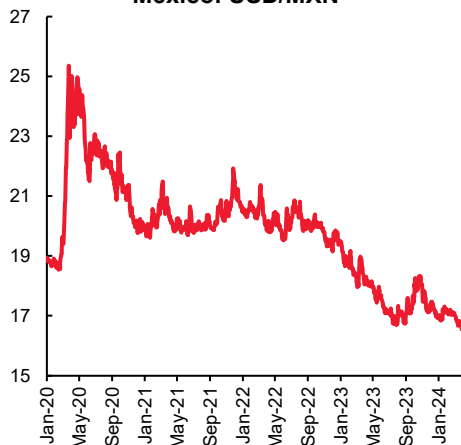
The Mexican peso has continued to appreciate against the dollar, closing Q1 2024 with a profit of +2.38%, maintaining the strength observed over the last two years. This week the USDMXN reached the lowest levels since 2015, standing at \$16.26 (chart 1), and then it bounced back, after Mexican inflation data came in lower than expected, causing some uncertainty about the trajectory that will follow in the next few months, since in the latest surveys the year-end forecast has been revised to up 4.15%. Likewise, the US higher-than-expected inflation data moved the peso back to \$16.51, reinforcing the perspective that the Fed could postpone rate cuts, resulting in only two cuts during the year, where some analysts consider that inflation will be so persistent that it will force the Fed rate to remain unchanged during 2024, which is currently in the 5.25%–5.50% range.

The most important factors for the USDMXN strength are:

- The flow of remittances recorded in recent years, which in 2023 exceeded \$60 billion dollars. This contrasts with around \$48 billion, which would be the amount of inertial receipt of remittances. Furthermore, a significant slowdown in the US economy is not expected, after the latest data showed that job openings and employment remain solid, so the flow of remittances would stand at similar levels.
- The real rate remains in restrictive levels, although Banxico cut to 11.0% in the last monetary policy meeting, and most analysts anticipate the next change in June—the consensus is not yet broad, as some analysts consider it appropriate for another cut in May given lower than expected readings in economic activity indicators. In this sense, if the Fed does not cut soon, it could put some pressure on Banxico to maintain its rate longer. Implicit rates have been increasing, now they expect rates close to 10.0% in twelve months and 8.75% in two years (chart 2). Mexico has one of the highest real interest rates among the thirty-two most liquid currencies in the world.
- Tourism data indicates a growth in the sector’s GDP of 7.6% seasonally adjusted y/y in Q3 2023. The INEGI International Traveler Survey shows that in February 2024, 6.626 million people entered the country, equivalent to a annual growth of 12.2% annually, increasing the demand for pesos.
- The net speculative position that is built with futures and options of non-commercial operators shows that they are betting more on an appreciation of the Mexican peso (chart 3).
- Although the federal government projects higher public debt for 2024, it has remained at relatively stable levels since the pandemic, in contrast to the behaviour in other emerging markets. According to IMF data, gross debt is around 52.7% as a percentage of GDP,

Chart 1

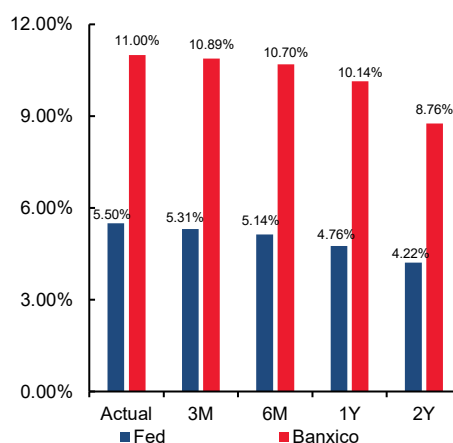
Mexico: USD/MXN



Sources: Scotiabank Economics, Bloomberg.

Chart 2

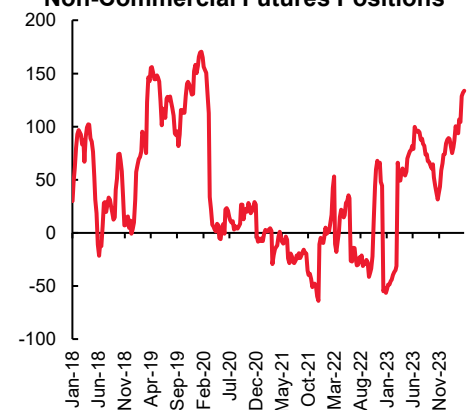
Mexico: Mon. pol. Implied Rates



Sources: Scotiabank Economics, Bloomberg.

Chart 3

Mexico: CME Mexican Peso Net Non-Commercial Futures Positions



Sources: Scotiabank Economics, Bloomberg.

registering healthier levels than developed economies, for example, Japan 255.2%, France 110%, Canada 106.4%, among others. The above may have generated a certain level of confidence and contributed to an appreciation of the peso.

- Optimism over nearshoring continues, as well as expectations for the Mexican economy in general, although this may deteriorate if the gross fixed investment and FDI data do not support the view that more companies are coming to settle in Mexico.

Something also surprising about this strength is the contrast with G10 currencies, since year-to-date they have all depreciated. Just to mention some of them, the GBP has fallen 2%, the EUR -3.5% and the JPY -8.0%. On the other hand, a significant change has not yet been seen in the indicators because of nearshoring, in fact, the World Bank just lowered the growth forecast for Mexico to 2.3% (2.6% previously), although the data is still scarce. Even so, we estimate that growth will not present a significant slowdown, so we estimate 2.8% in 2024, linked to the increase in the fiscal deficit and that consumption remains at good levels, which can help the exchange rate in the short term.

### Peru—GDP Growth and the Weather Both Turn Positive

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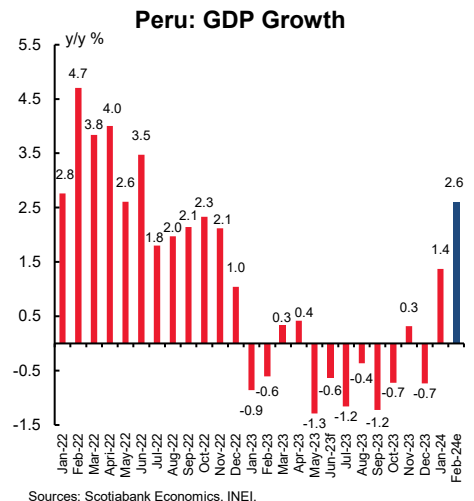
On April 15<sup>th</sup>, the figure for February GDP growth will be released. We expect growth of approximately 2.6% YoY, based on preliminary sector growth figures. This is not all bad at first glance. Note, however, that February 2024 was a leap year, which adds one day to growth. It's also off a low base, given the social protests a year ago. So one must take the February figure, which could feasibility turn out to be the highest monthly growth rate since mid-2022, with caution as it will be overstating the real strength of the economy.

February GDP figures for certain sectors have already been released. The most significantly positive figure that has released is mining GDP, up 17% YoY in February. This alone should add 1.6 percentage points to growth. On the other hand, fishing GDP declined 31% YoY and, together with processing, 0.6 percentage points off growth.

Domestic demand sectors would have held up well, although this is where the leap year additional day would have helped. We do not have much evidence yet, outside of cement demand and public sector investment which, together suggest that construction GDP growth could have surpassed 4% YoY.

February will have been the second consecutive month of mild, but clearly positive, growth, and ratifies that the 2023 recession is over. GDP growth in March may be subdued a bit, due to the Easter week calendar change, but what March loses to this will be regained in April. In any event, what is now also officially over is El Niño. Coastal waters are adequately cold, and the weather is fine!

Chart 4



Forecast Updates: Central Bank Policy Rates and Outlook

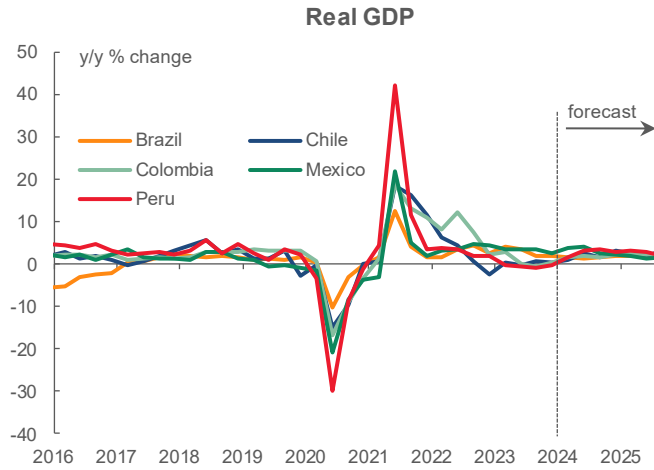
Latam Central Banks: Policy Rates and Outlook

|                              | Current | Next Scheduled Meeting |        | BNS Forecast |          | BNS guidance for next monetary policy meeting   |
|------------------------------|---------|------------------------|--------|--------------|----------|---|
|                              |         | Date                   | BNS    | End-2024     | End-2025 |   |
| <b>Brazil, BCB, Selic</b>    | 10.75%  | May-08                 | 10.75% | 9.00%        | 8.50%    |   |
| <b>Chile, BCCh, TPM</b>      | 6.50%   | May-23                 | 6.00%  | 4.25%        | 4.25%    | We anticipate a 50 basis point cut, bringing the interest rate to 6.00%, at the May meeting.  |
| <b>Colombia, BanRep, TII</b> | 12.25%  | Apr-30                 | 11.50% | 7.00%        | 5.50%    | The central bank decided to accelerate the easing cycle, maintaining a cautious approach as concerns around the compliance of the fiscal rule and noisy political announcements could imply challenges for the domestic risk premium. Inflation reduction and economic growth deceleration support the necessity of having lower rates; however, the majority of the board could continue to be tilted to the hawkish side as a signal of independence but also as a signal of concern around political developments.   |
| <b>Mexico, Banxico, TO</b>   | 11.00%  | Jun-27                 | 10.75% | 10.00%       | 8.00%    | The minutes of Banxico's March meeting revealed the arguments behind the votes for a rate cut, and in the case of Deputy Governor Espinosa, the arguments for leaving the rate unchanged. Another argument used by some of the members was that, although the inflationary outlook remains uncertain and with an upward balance of risks, some shocks have begun to be mitigated and the disinflation process has progressed since the rate has stood in restrictive territory. We believe that the Board will leave the rate unchanged at the next monetary policy meeting with gradual adjustments during the year, raising our year-end rate outlook to 10.0%. |
| <b>Peru, BCRP, TIR</b>       | 6.00%   | May-09                 | 5.75%  | 4.25%        | 4.00%    | The Central Reserve Bank of Peru (BCRP) surprised by reducing its policy rate by 25 basis points (bps) to 6.00%, contrary to market consensus and our expectations of a new pause. However, the BCRP's statement indicated that both local and global inflation are exhibiting resistance to further decline. Despite this, the bank views these effects as transitory, anticipating a decrease in inflation over the course of the year. We expect the BCRP to continue cutting its rate in May.   |

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

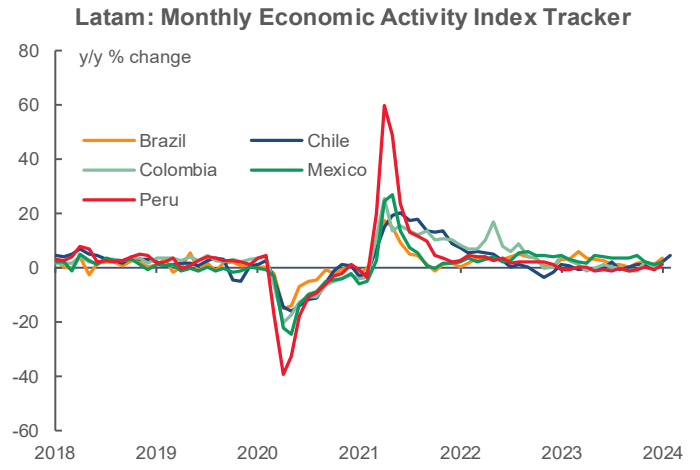
Key Economic Charts

Chart 1



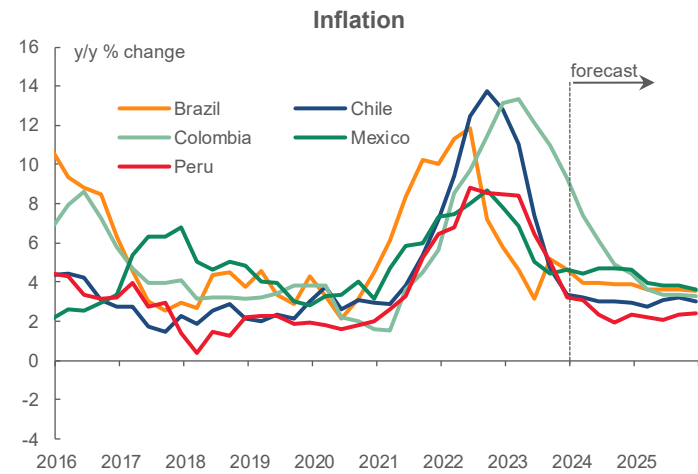
Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

Chart 2



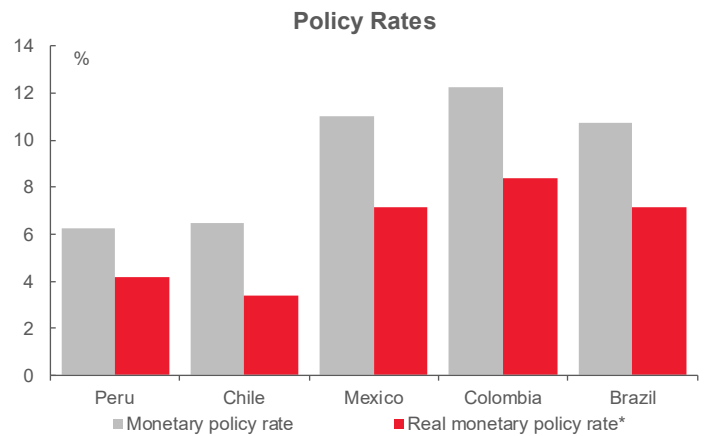
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



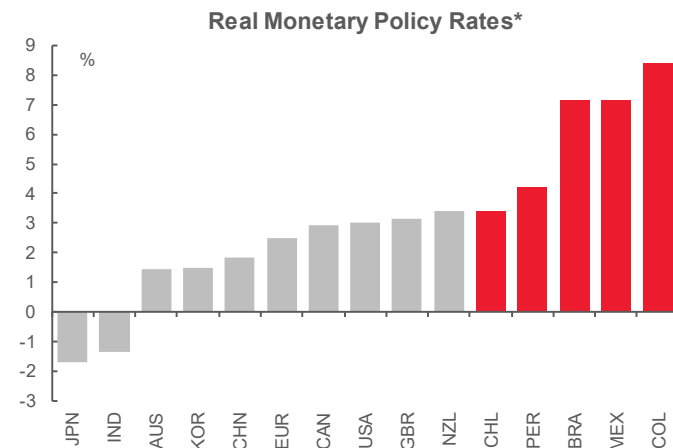
Sources: Scotiabank Economics, Focus Economics, Haver Analytics.

Chart 4



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2025, % y/y. Sources: Scotiabank Economics, Focus Economics, Haver Analytics.

Chart 5

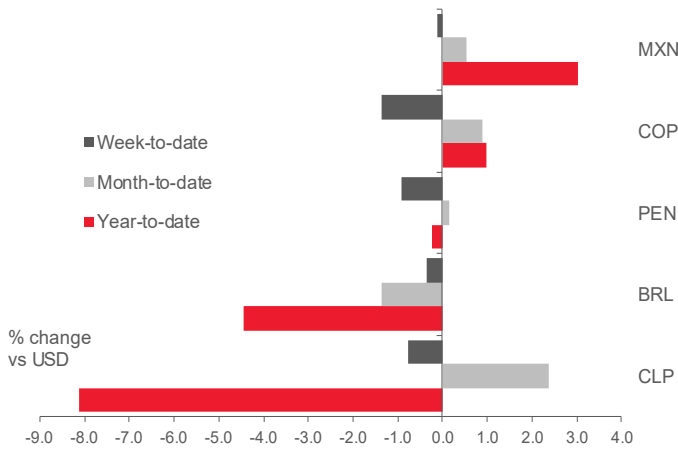


\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2025, % y/y. Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 1

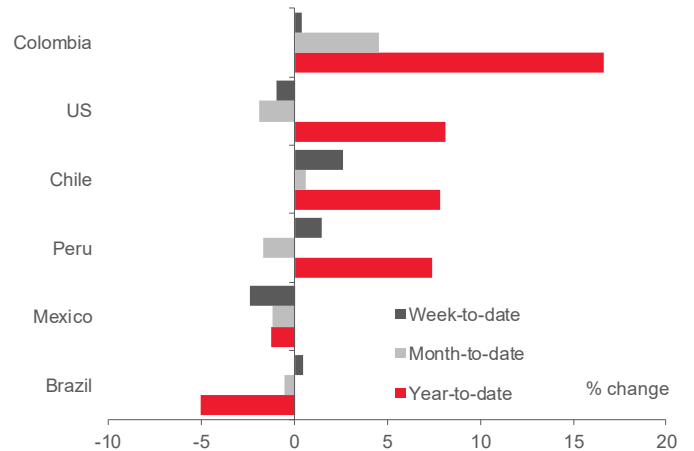
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 2

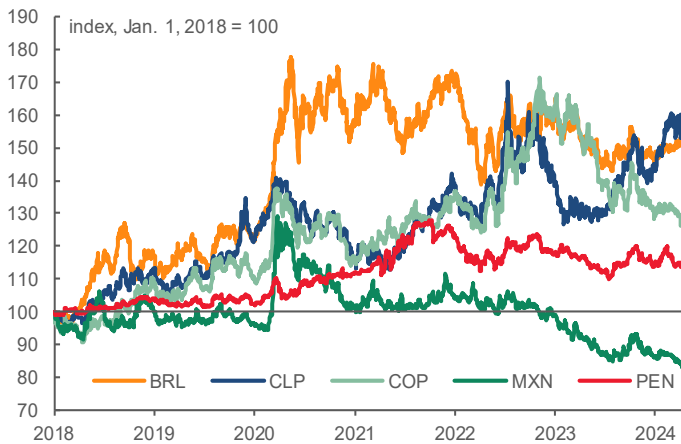
Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 3

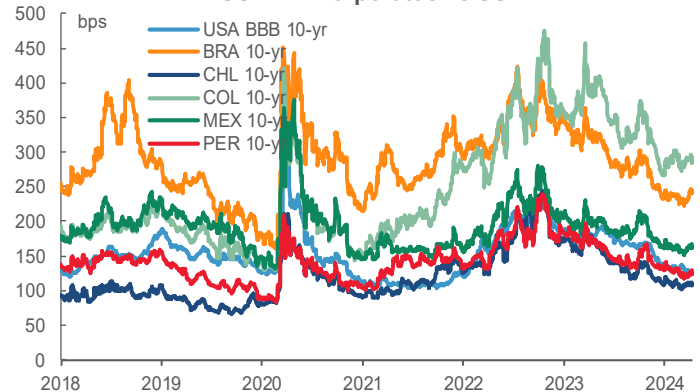
USD vs Latam Currencies



Sources: Scotiabank Economics, Bloomberg.

Chart 4

10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US\*

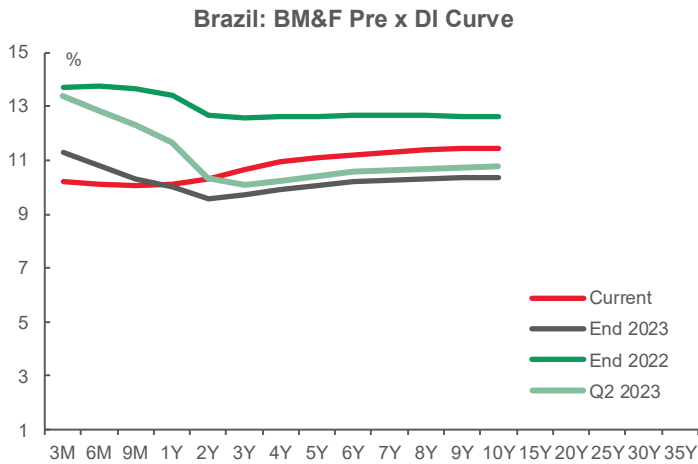


\*Sovereigns vs US swaps; BBB corporates vs 10-yr USTs. Sources: Scotiabank Economics, Bloomberg.



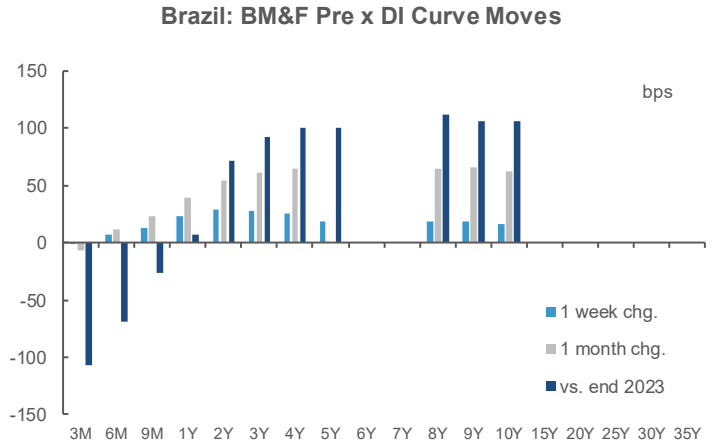
Yield Curves

Chart 1



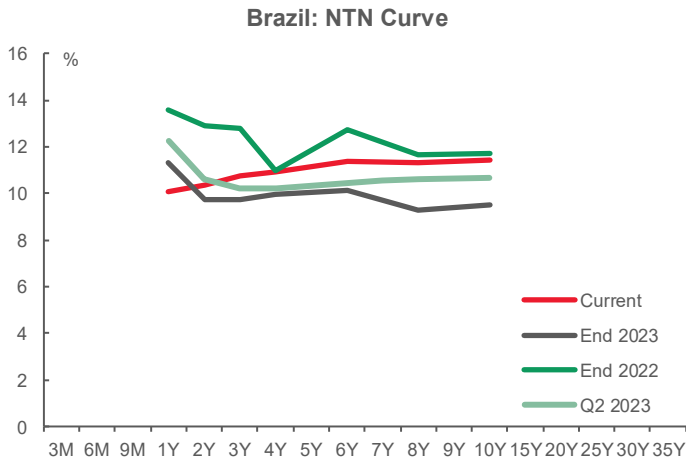
Sources: Scotiabank Economics, Bloomberg.

Chart 2



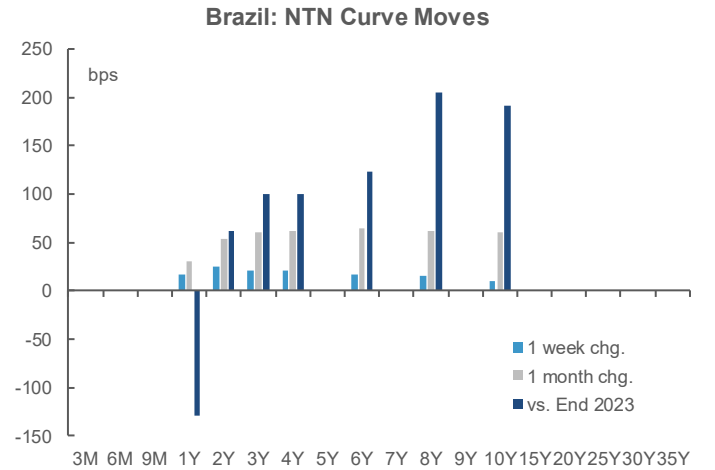
Sources: Scotiabank Economics, Bloomberg.

Chart 3



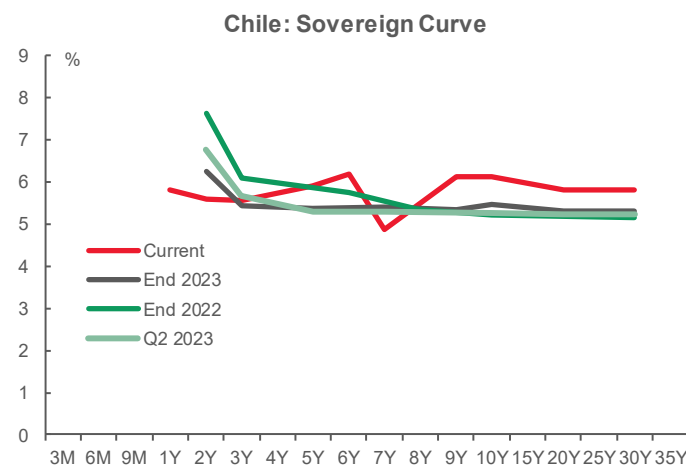
Sources: Scotiabank Economics, Bloomberg.

Chart 4



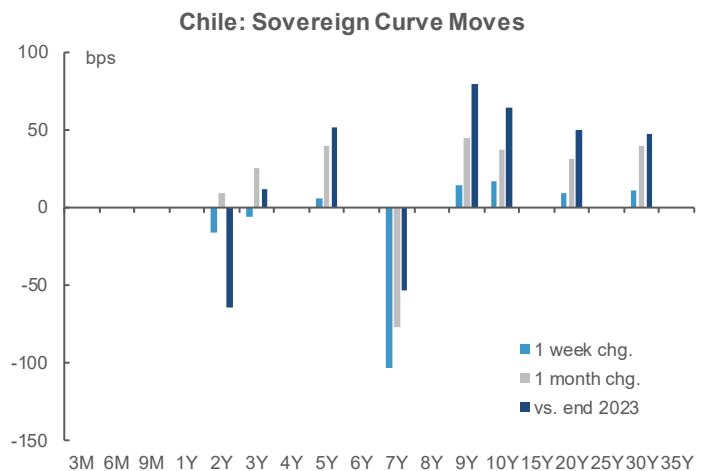
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

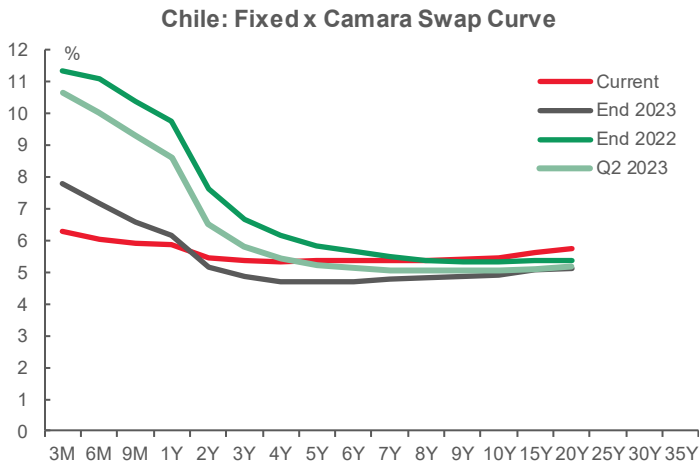
Chart 6



Sources: Scotiabank Economics, Bloomberg.

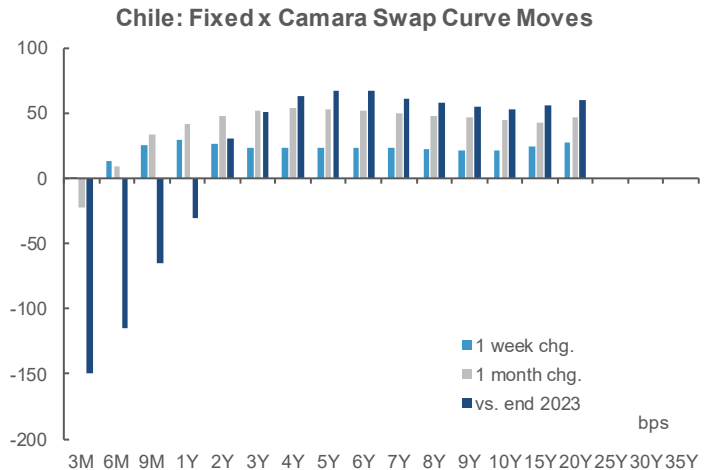
Yield Curves

Chart 7



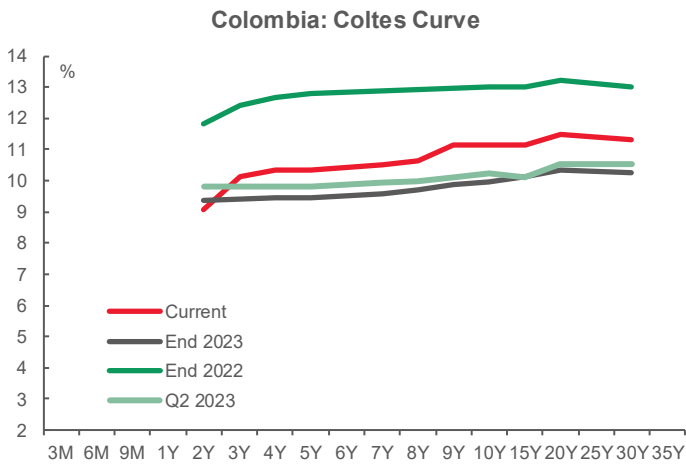
Sources: Scotiabank Economics, Bloomberg.

Chart 8



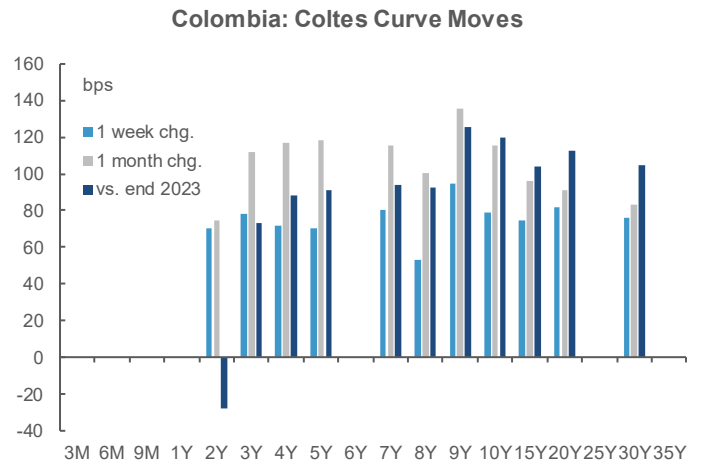
Sources: Scotiabank Economics, Bloomberg.

Chart 9



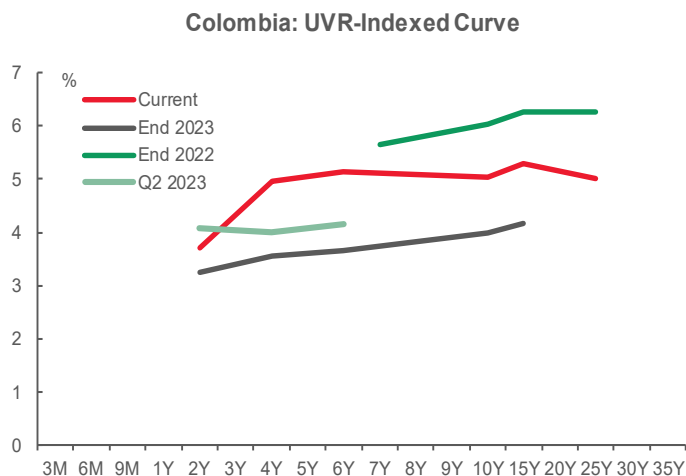
Sources: Scotiabank Economics, Bloomberg.

Chart 10



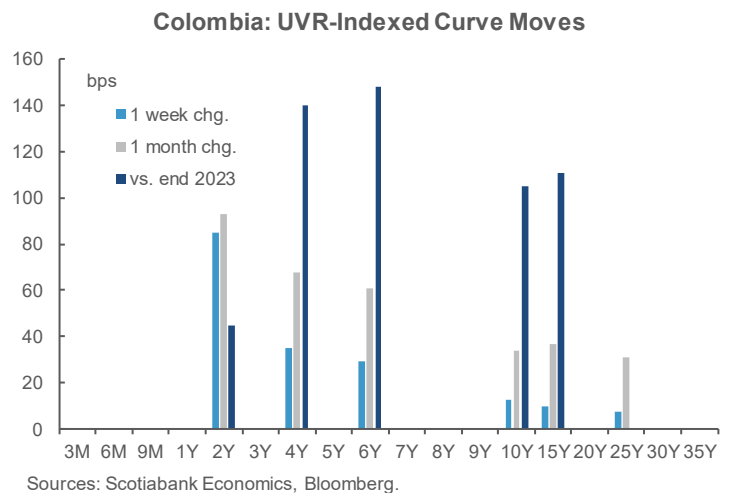
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

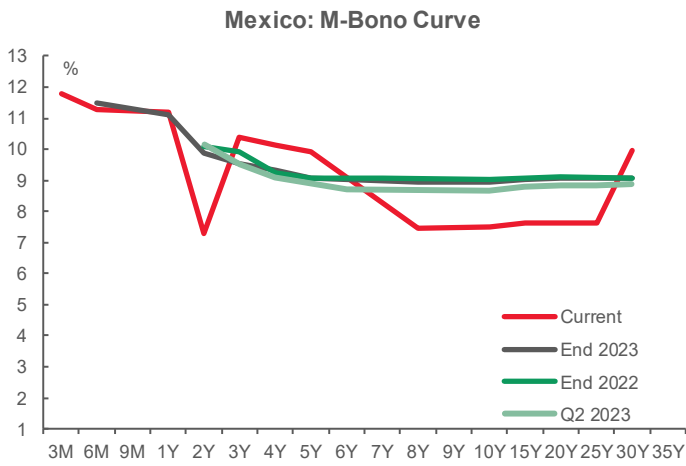
Chart 12



Sources: Scotiabank Economics, Bloomberg.

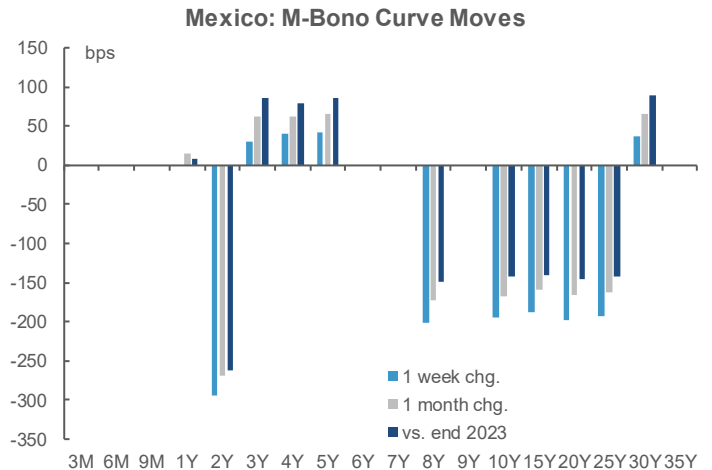
Yield Curves

Chart 13



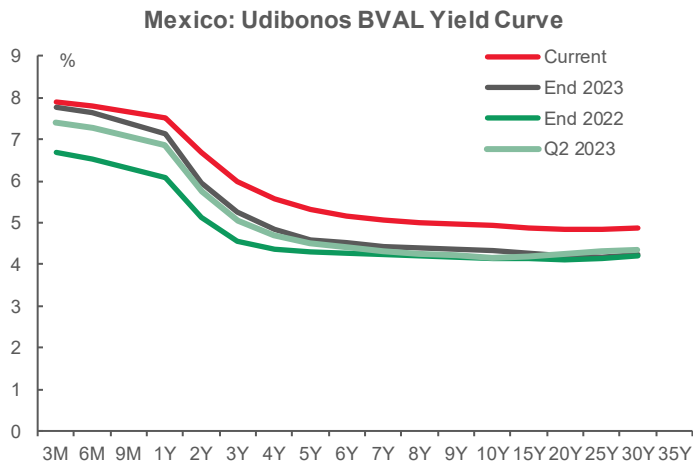
Sources: Scotiabank Economics, Bloomberg.

Chart 14



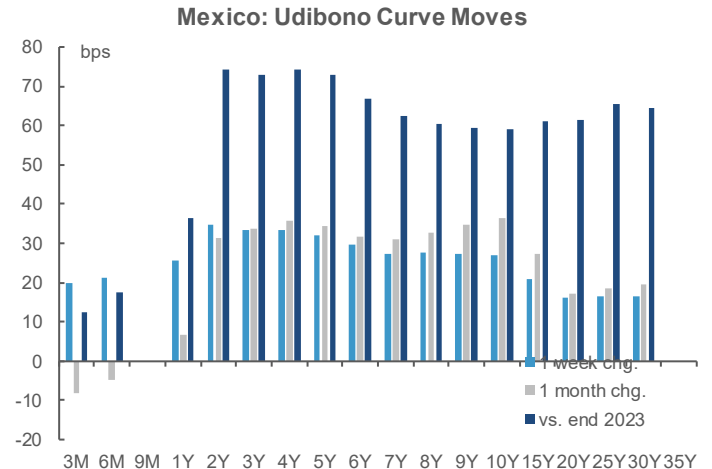
Sources: Scotiabank Economics, Bloomberg.

Chart 15



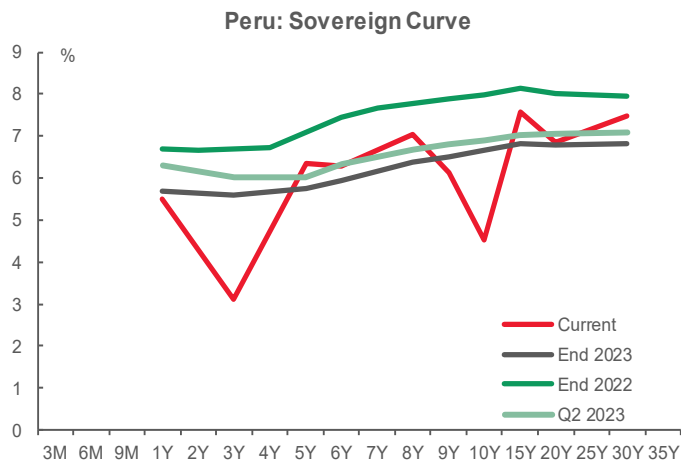
Sources: Scotiabank Economics, Bloomberg.

Chart 16



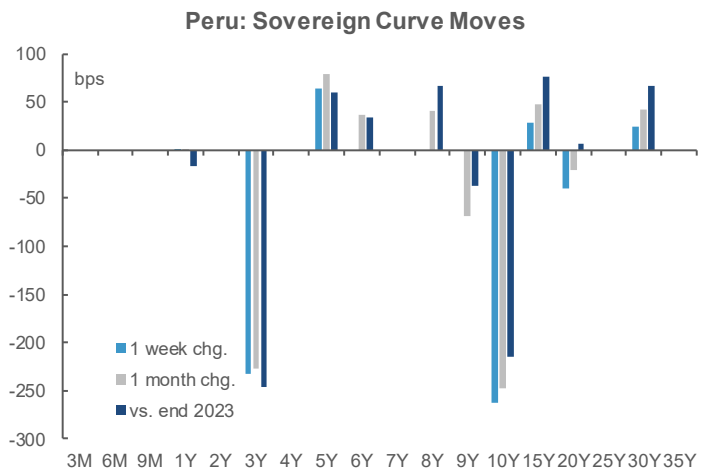
Sources: Scotiabank Economics, Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for April 13–26

**BRAZIL**

| <u>Date</u> | <u>Time Event</u>                         | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|---|---------------|------------|------------------|---------------|---------------------|
| Apr-15      | 7:25 Central Bank Weekly Economist Survey |               | --         |                  |               |                     |
| Apr-15      | 8:00 Economic Activity m/m                | Feb           | --         | --               | 0.6           |                     |
| Apr-15      | 8:00 Economic Activity y/y                | Feb           | --         | --               | 3.45          |                     |
| Apr-15      | 14:00 Trade Balance Weekly USD mn         | 14-Apr        | --         | --               | 2877          |                     |
| Apr-16      | 7:00 FGV Inflation IGP-10 m/m             | Apr           | --         | --               | -0.17         |                     |
| Apr-16      | 7:00 FGV CPI IPC-S (%)                    | 15-Apr        | --         | --               | 0.18          |                     |
| Apr-17      | 4:00 FIPE CPI - Weekly (%)                | 15-Apr        | --         | --               | 0.26          |                     |
| Apr-22      | 7:25 Central Bank Weekly Economist Survey |               | --         |                  |               |                     |
| Apr-22      | 14:00 Trade Balance Weekly USD mn         | 21-Apr        | --         | --               | 2877          |                     |
| Apr-24      | 7:00 FGV Consumer Confidence              | Apr           | --         | --               | 91.3          |                     |
| Apr-24      | 7:00 FGV CPI IPC-S (%)                    | 21-Apr        | --         | --               | 0.18          |                     |
| Apr-25      | 4:00 FIPE CPI - Weekly (%)                | 22-Apr        | --         | --               | 0.26          |                     |
| Apr-25      | 7:00 FGV Construction Costs m/m           | Apr           | --         | --               | 0.24          |                     |
| Apr-25      | 7:30 Current Account Balance USD mn       | Mar           | --         | --               | -4373         |                     |
| Apr-25      | 7:30 Foreign Direct Investment USD mn     | Mar           | --         | --               | 5012          |                     |
| Apr 22-25   | Tax Collections BRL mn                    | Mar           | --         | --               | 186522        |                     |
| Apr-26      | 7:30 Total Outstanding Loans BRL bn       | Mar           | --         | --               | 5797          |                     |
| Apr-26      | 7:30 Personal Loan Default Rate (%)       | Mar           | --         | --               | 5.5           |                     |
| Apr-26      | 7:30 Outstanding Loans m/m                | Mar           | --         | --               | 0.2           |                     |
| Apr-26      | 8:00 IBGE Inflation IPCA-15 m/m           | Apr           | --         | --               | 0.36          |                     |
| Apr-26      | 8:00 IBGE Inflation IPCA-15 y/y           | Apr           | --         | --               | 4.14          |                     |

**CHILE**

| <u>Date</u> | <u>Time Event</u>                | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|----------------------------------|---------------|------------|------------------|---------------|---------------------|
| Apr-19      | 8:30 Central Bank Traders Survey |               | --         |                  |               |                     |
| Apr-24      | 9:00 PPI m/m                     | Mar           | --         | --               | 2.9           |                     |

**COLOMBIA**

| <u>Date</u> | <u>Time Event</u>                    | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|--------------------------------------|---------------|------------|------------------|---------------|---------------------|
| Apr-15      | 11:00 Industrial Production y/y      | Feb           | --         | --               | -1.51         |                     |
| Apr-15      | 11:00 Manufacturing Production y/y   | Feb           | --         | --               | -4.26         |                     |
| Apr-15      | 11:00 Retail Sales y/y               | Feb           | --         | --               | -3.9          |                     |
| Apr-15      | Central Bank's Economists Survey     |               | --         |                  |               |                     |
| Apr-18      | 12:00 Economic Activity NSA y/y      | Feb           | --         | --               | 1.6           |                     |
| Apr-19      | 11:00 Imports CIF Total USD mn       | Feb           | --         | --               | 4959          |                     |
| Apr-19      | 11:00 Trade Balance USD mn           | Feb           | --         | --               | -959          |                     |
| Apr-23      | Industrial Confidence                | Mar           | --         | --               | -0.32         |                     |
| Apr-23      | Retail Confidence                    | Mar           | --         | --               | 10.9          |                     |
| Apr-26      | 11:00 Urban Unemployment Rate (%)    | Mar           | --         | --               | 11.62         |                     |
| Apr-26      | 11:00 National Unemployment Rate (%) | Mar           | --         | --               | 11.67         |                     |

**MEXICO**

| <u>Date</u> | <u>Time Event</u>                          | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|--|---------------|------------|------------------|---------------|---------------------|
| Apr-16      | 11:00 International Reserves Weekly USD mn | 12-Apr        | --         | --               | 217299        |                     |
| Apr-19      | 8:00 Retail Sales y/y                      | Feb           | --         | --               | -0.8          |                     |
| Apr-19      | 8:00 Retail Sales m/m                      | Feb           | --         | --               | -0.6          |                     |
| Apr-22      | 8:00 Economic Activity IGAE m/m            | Feb           | --         | --               | -0.63         |                     |
| Apr-22      | 8:00 Economic Activity IGAE y/y            | Feb           | --         | --               | 1.99          |                     |
| Apr-22      | Banamex Survey of Economists               |               | --         |                  |               |                     |
| Apr-23      | 11:00 International Reserves Weekly USD mn | 19-Apr        | --         | --               | 217299        |                     |
| Apr-24      | 8:00 Bi-Weekly CPI (%)                     | 15-Apr        | --         | --               | -0.03         |                     |
| Apr-24      | 8:00 Bi-Weekly CPI y/y                     | 15-Apr        | --         | --               | 4.37          |                     |
| Apr-24      | 8:00 Bi-Weekly Core CPI (%)                | 15-Apr        | --         | --               | 0.02          |                     |
| Apr-24      | 8:00 Bi-Weekly Core CPI y/y                | 15-Apr        | --         | --               | 4.41          |                     |
| Apr-26      | 8:00 Unemployment Rate NSA (%)             | Mar           | --         | --               | 2.45          |                     |
| Apr-26      | 8:00 Trade Balance USD mn                  | Mar           | --         | --               | -584.73       |                     |
| Apr-26      | 8:00 Imports USD mn                        | Mar           | --         | --               | 51306         |                     |
| Apr-26      | 8:00 Exports USD mn                        | Mar           | --         | --               | 50721         |                     |

**PERU**

| <u>Date</u> | <u>Time Event</u>           | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u>   |
|-------------|-----------------------------|---------------|------------|------------------|---------------|---|
| Apr-15      | 11:00 Economic Activity y/y | Feb           | 2.5        | --               | 1.37          | GDP improves through mining, primarily due to higher output of molybdenum, gold and copper. |
| Apr-15      | Lima Unemployment Rate (%)  | Mar           | 6.8        | --               | 7.3           | Labour market is gradually improving due to recovery in construction and services sectors.  |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

## Scotiabank Economics Latam Coverage

## Local Market Coverage

## CHILE

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## COLOMBIA

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