

Latam Charts: FX in a Long-Term Macro Lens

- Latam’s currencies have had a soft start to 2021 and are amongst the weakest performers so far in the EM complex.
- While our forecasts point to broadly stronger nominal exchange rates in the region, longer-term macro trends imply that the MXN and BRL could particularly benefit from positive policy developments and economic surprises.

SOFT START FOR LATAM FX IN 2021

Despite a broad improvement in global risk sentiment owing to the initial roll-out of COVID-19 vaccines and the (eventual) smooth transition between presidential administrations in the US, Latam currencies have had a soft start to the year (table 1).

- Depreciations so far in 2021 have been strongest in Argentina and Brazil. Argentine inflation is now running faster than 4% m/m and as we’ve long anticipated, a conclusion to talks on a new IMF lending arrangement remains far off. Meanwhile, as we argued in our February 10 [report](#) on Brazil, policymakers face a fork in the road where intensifying fiscal and inflationary pressures are converging. Other risk assets, such as local equities, have mirrored weakness in the ARS and BRL (table 2).
- On the other hand, Chile’s and Peru’s currencies and equity markets have performed relatively strongly compared with their peers (tables 1 and 2, again), reflecting, we think, some reward for strong policy responses to the pandemic even as the second waves of COVID-19 have risen (see below).

In trade-weighted real effective terms, all of Latam’s major currencies currently sit in the bottom half of the EM complex when judged against the last decade of performance (chart 1). This reflects, in part, Latam’s status as a COVID-19 hotspot for a substantial part of the last year. It’s also a by-product of decisions by local country authorities to prioritize domestic fiscal and monetary support to their economies over the—likely futile—defense of their currencies as the COVID-19 tide swept into Latam and risk-averse global capital flowed out. This policy mix has left Latam’s external sectors in a very competitive position to benefit from rising global demand for their exports.

Latam’s relatively soft real effective exchange rates (REERs) also cap the end of longer-term trends. In contrast with the PEN’s recent, pandemic-induced depreciation, Latam’s other major currencies have been persistently weak over the last three years (chart 2). Looking back further to 2013’s Fed-induced “taper tantrum”, Brazil’s BRL, Colombia’s COP, and Mexico’s MXN have been on a consistently soft path—reflecting oil and other commodity prices, mixed policy performance, and lagging productivity growth (chart 3). In contrast with Peru’s PEN and Chile’s CLP, the pandemic isn’t the major determinant of where these currencies find themselves today.

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Table 1

Latam FX Performance: Feb. 11, 2021

	Year-to-date	1-month	1-week
ARS	-4.9%	-3.5%	-0.6%
BRL	-3.6%	2.2%	0.9%
CLP	-1.9%	-0.4%	2.1%
COP	-2.7%	-0.4%	0.9%
MXN	-0.5%	-1.1%	0.4%
PEN	-0.6%	-0.8%	0.1%

Sources: Scotiabank Economics, Bloomberg.

Table 2

Latam Equity Market Performance (local currency): Feb. 11, 2021

	Year-to-date	1-month	1-week
Argentina	0.8%	0.9%	1.9%
Brazil	0.2%	-3.8%	0.0%
Chile	8.9%	-1.1%	3.1%
Colombia	-4.9%	-6.4%	0.6%
Mexico	0.0%	-4.1%	-0.2%
Peru	6.4%	2.5%	2.8%

Sources: Scotiabank Economics, Bloomberg.

Looking ahead over the next two years, our economics teams expect nominal appreciations in the BRL, CLP, COP, and PEN, with the MXN on track for a mild nominal depreciation owing to Mexico's anaemic growth prospects; similarly, the ARS is set to slide substantially further in the midst of Argentina's ongoing adjustment challenges (table 3, p. 3). While currencies can remain dislocated from their underlying long-term fundamentals for years and tend to move through, rather than linger at, fair valuations, purchasing-power-parity (PPP) comparisons indicate that the MXN is the most undervalued currency in Latam (chart 4). While this doesn't cast our short-term forecasts of MXN nominal depreciation in doubt, it does imply that the Mexican peso could stand to benefit handsomely from upside policy and economic surprises over the longer term, particularly given that the country's real policy rates remain the highest in the region (see chart 4 in the Key Economic Charts appendix). Similarly, given our expectation that the region's first interest rate hikes are set to come from Brazil's BCB, the BRL could catch a lift as well. But all of this is subject to an orderly withdrawal of exceptional monetary policy support in developed markets, as we argued [here](#).

COVID-19 SECOND WAVE UPDATES

Mirroring developments in Canada and the US, COVID-19 second waves appear to have crested in most Latam countries, with Peru representing the main exception (see COVID-19 charts 1–9, p. 9). With the caveat that testing remains too scarce and positivity rates too high in Brazil and Mexico for the official data to capture accurately recent COVID-19 developments in either country, new COVID-19 case trends are moving downward everywhere but in Peru. Peru's new COVID-19 case numbers, its new per capita cases, its cumulative COVID-19 case curve, its cumulative per capita curve, and its per capita deaths curve have, in recent weeks, bent the most markedly upward amongst Latam's major economies. The worst of Peru's second wave is still ahead.

Chart 1

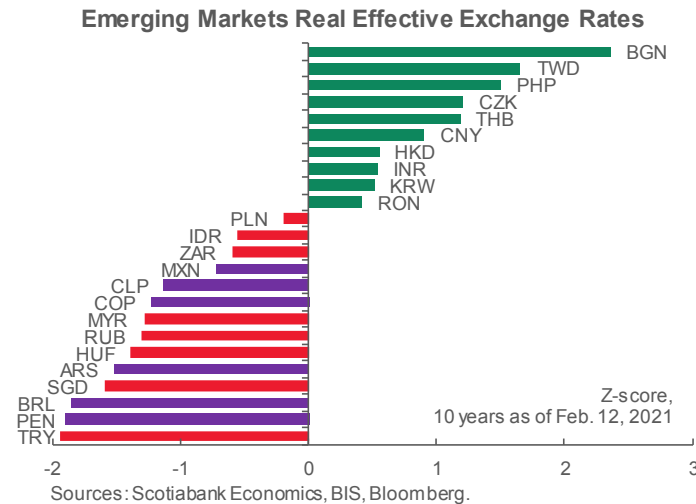


Chart 2

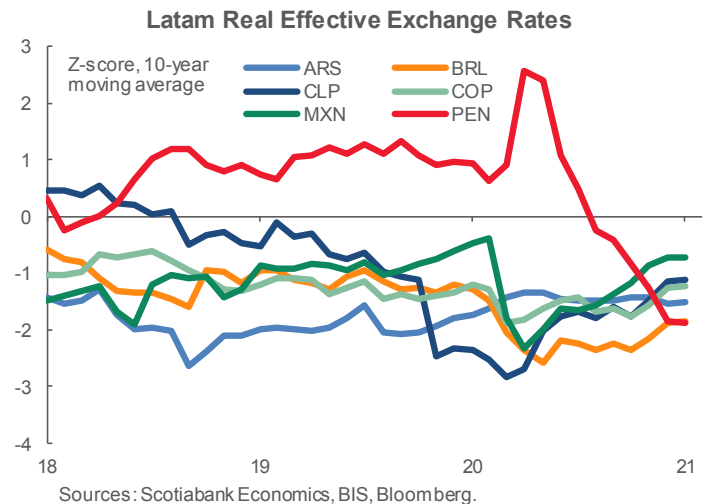


Chart 3

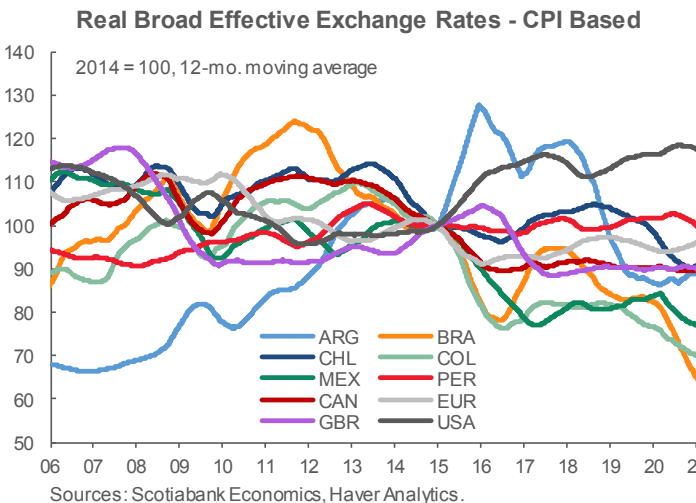


Chart 4

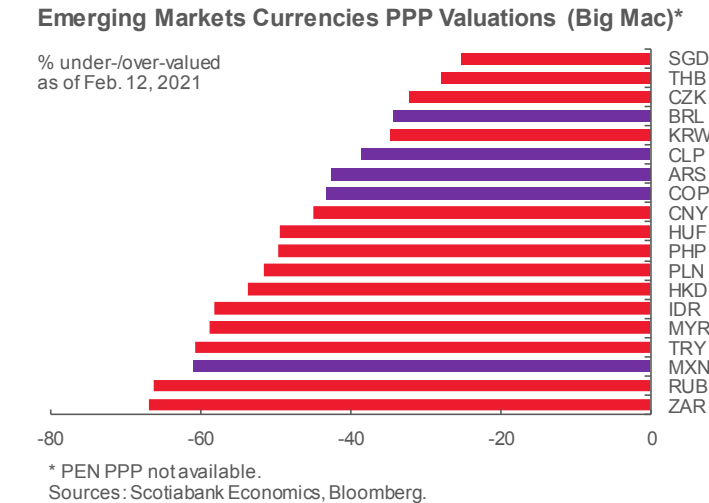


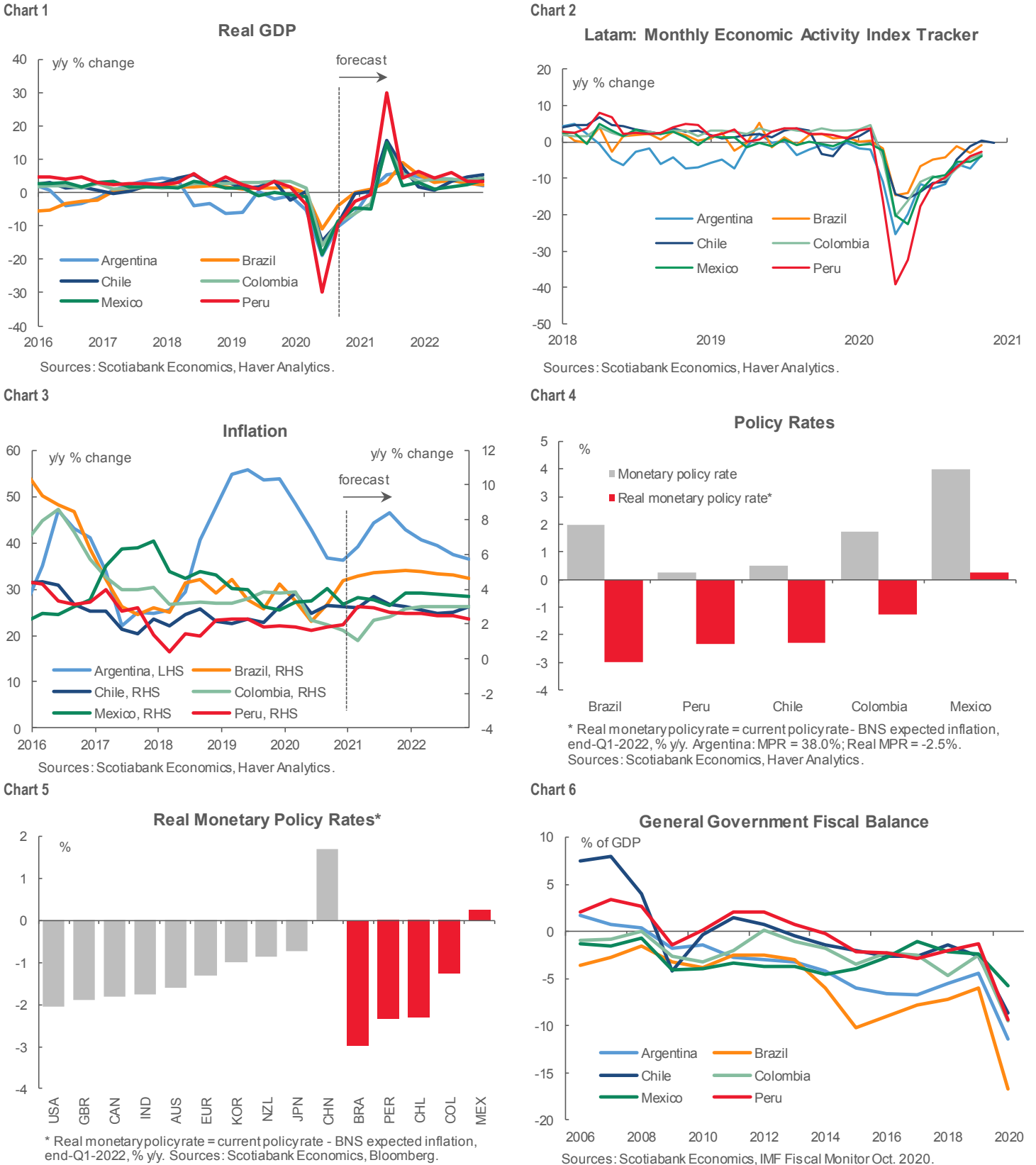
Table 3. Latest Latam Forecasts (from the February 8, 2021 *Latam Weekly*)

	2020				2021				2022							
	Q1	Q2	Q3	Q4e	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020e	2021f	2022f
Argentina																
Real GDP (y/y % change)	-5.2	-19.0	-10.2	-6.3	0.6	5.3	5.9	4.8	4.4	4.1	2.9	2.2	-2.1	-10.4	4.1	3.4
CPI (y/y %, eop)	48.4	42.8	36.6	36.1	39.1	44.3	46.4	42.9	40.5	39.5	37.5	36.5	53.8	36.1	42.9	36.5
Unemployment rate (% avg)	10.4	13.1	11.7	11.8	12.1	11.9	11.1	10.8	10.1	10.0	9.7	9.5	9.8	11.8	11.5	9.8
Central bank policy rate (% eop)	38.00	38.00	38.00	38.00	40.00	42.00	44.00	46.00	48.00	48.00	48.00	48.00	55.00	38.00	46.00	48.00
Foreign exchange (USDARS, eop)	64.40	70.46	76.18	84.15	89.90	95.80	99.70	106.10	108.30	107.20	105.00	101.40	59.87	84.15	106.10	101.40
Brazil																
Real GDP (y/y % change)	-0.3	-10.9	-3.9	0.1	1.1	3.2	8.9	5.4	3.1	3.6	2.8	2.4	1.4	-5.0	4.6	3.0
CPI (y/y %, eop)	3.3	2.1	3.1	4.5	4.8	4.9	5.0	5.1	5.0	4.9	4.8	4.6	4.3	4.5	5.1	4.6
Unemployment rate (% avg)	11.7	12.9	13.7	14.1	13.8	12.3	12.1	11.7	11.7	11.8	11.6	11.4	11.9	13.1	12.5	11.6
Central bank policy rate (% eop)	3.75	2.25	2.00	2.00	2.00	2.50	3.50	4.50	5.00	5.50	6.00	6.50	4.50	2.00	4.50	6.50
Foreign exchange (USDBRL, eop)	5.21	5.47	5.61	5.19	5.21	5.02	4.76	4.55	4.47	4.54	4.67	4.63	4.02	5.19	4.55	4.63
Chile																
Real GDP (y/y % change)	0.2	-14.5	-9.1	-0.4	0.3	15.6	7.8	1.8	0.8	3.3	4.6	5.3	1.1	-6.0	6.0	3.5
CPI (y/y %, eop)	3.7	2.6	3.1	3.0	2.9	3.6	3.1	3.0	2.8	2.6	2.7	3.0	3.0	3.0	3.0	3.0
Unemployment rate (% avg)	8.2	12.2	12.3	10.6	10.6	10.5	9.3	8.7	9.4	8.5	7.6	7.1	7.2	10.9	9.8	8.2
Central bank policy rate (% eop)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.50	1.75	0.50	0.50	1.50
Foreign exchange (USDCLP, eop)	854	821	784	711	720	720	720	720	720	720	710	700	753	711	720	700
Colombia																
Real GDP (y/y % change)	1.2	-15.8	-9.0	-6.2	-3.2	14.1	5.8	3.4	4.2	4.1	3.6	4.2	3.3	-7.5	5.0	4.0
CPI (y/y %, eop)	3.9	2.2	2.0	1.6	1.0	2.2	2.4	2.8	3.0	3.0	3.0	3.0	3.8	1.6	2.8	3.0
Unemployment rate (% avg)	12.6	20.3	17.6	13.8	14.8	13.1	12.6	12.1	12.0	11.5	11.2	11.0	11.2	15.9	13.2	11.5
Central bank policy rate (% eop)	3.75	2.75	1.75	1.75	1.75	1.75	2.00	2.50	3.00	3.50	4.00	4.00	4.25	1.75	2.50	4.00
Foreign exchange (USDCOP, eop)	4,065	3,758	3,828	3,428	3,473	3,465	3,458	3,450	3,438	3,425	3,413	3,400	3,287	3,428	3,450	3,400
Mexico																
Real GDP (y/y % change)	-1.3	-18.7	-8.6	-4.5	-5.0	15.1	2.1	3.0	1.0	1.6	2.3	3.6	0.0	-8.3	3.3	2.1
CPI (y/y %, eop)	3.2	3.3	4.0	3.2	3.5	3.4	3.0	3.8	3.8	3.7	3.7	3.6	2.8	3.2	3.8	3.6
Unemployment rate (% avg)	2.9	5.5	5.1	3.8	4.2	3.7	4.0	3.8	3.8	3.9	4.7	4.2	3.5	4.3	4.0	4.2
Central bank policy rate (% eop)	6.50	5.00	4.25	4.25	4.00	4.00	3.50	3.50	3.75	4.00	4.25	4.50	7.25	4.25	3.50	4.50
Foreign exchange (USDMXN, eop)	23.67	22.99	22.11	19.91	20.80	21.43	21.95	22.09	22.23	22.03	22.05	22.35	18.93	19.91	22.09	22.35
Peru																
Real GDP (y/y % change)	-3.5	-29.8	-9.4	-2.5	-0.8	30.1	4.4	6.3	4.5	6.2	3.4	3.4	2.2	-11.4	8.7	4.0
CPI (y/y %, eop)	1.8	1.6	1.8	2.0	3.0	2.9	2.7	2.6	2.6	2.5	2.5	2.3	1.9	2.0	2.6	2.3
Unemployment rate (% avg)	7.8	16.3	16.3	13.8	14.0	13.0	11.0	10.0	10.0	9.0	8.8	8.5	6.6	13.6	12.0	9.0
Central bank policy rate (% eop)	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	2.25	0.25	0.25	0.50
Foreign exchange (USDPEN, eop)	3.43	3.54	3.60	3.62	3.65	3.63	3.58	3.55	3.54	3.52	3.51	3.50	3.31	3.62	3.55	3.50
United States																
Real GDP (y/y % change)	0.3	-9.0	-2.8	-2.5	-0.8	11.4	6.3	6.9	7.3	5.3	3.0	1.7	2.2	-3.5	5.8	4.3
CPI (y/y %, eop)	1.5	0.6	1.4	1.4	1.5	1.8	2.0	2.1	2.3	2.5	2.6	2.7	2.0	1.2	2.1	2.7
Unemployment rate (% avg)	3.8	13.1	8.8	6.8	6.7	6.2	5.7	5.2	4.6	4.1	3.8	3.6	3.7	8.1	6.0	4.0
Central bank policy rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25	0.25
Foreign exchange (EURUSD, eop)	1.10	1.12	1.17	1.22	1.23	1.25	1.26	1.26	1.25	1.25	1.24	1.24	1.12	1.22	1.26	1.24

Source: Scotiabank Economics.

 Red indicates changes in estimates and forecasts since previous *Latam Weekly* on January 25, 2021.

Key Economic Charts



Key Economic Charts

Chart 7

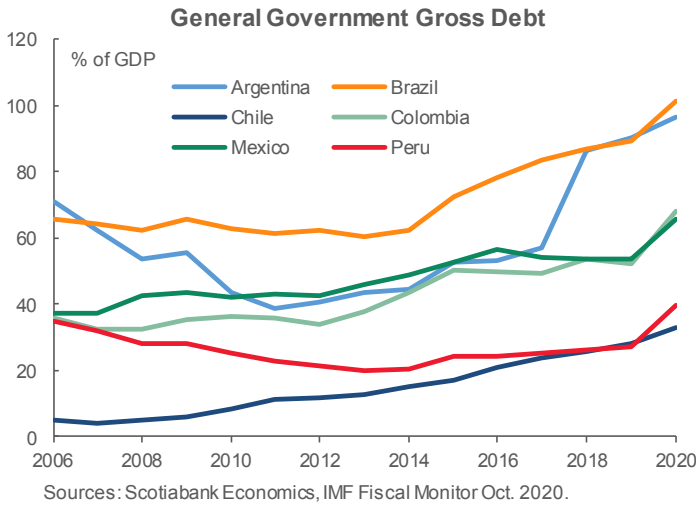


Chart 8

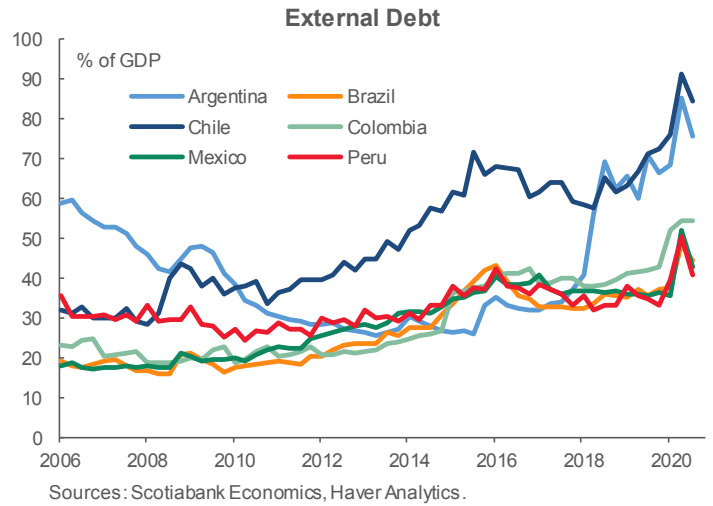


Chart 9

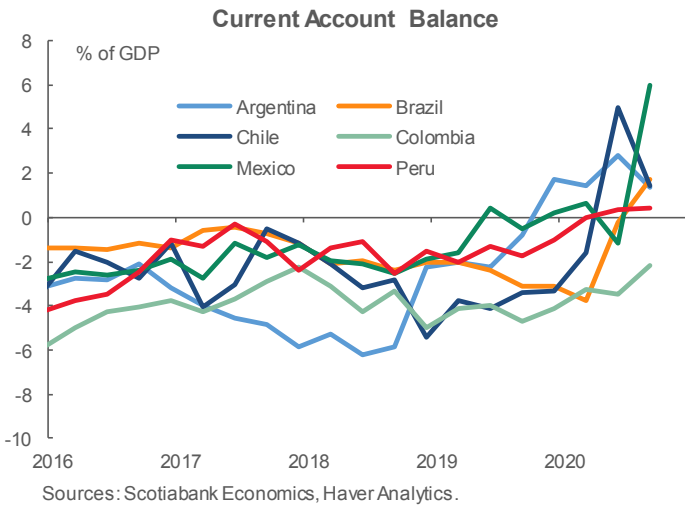
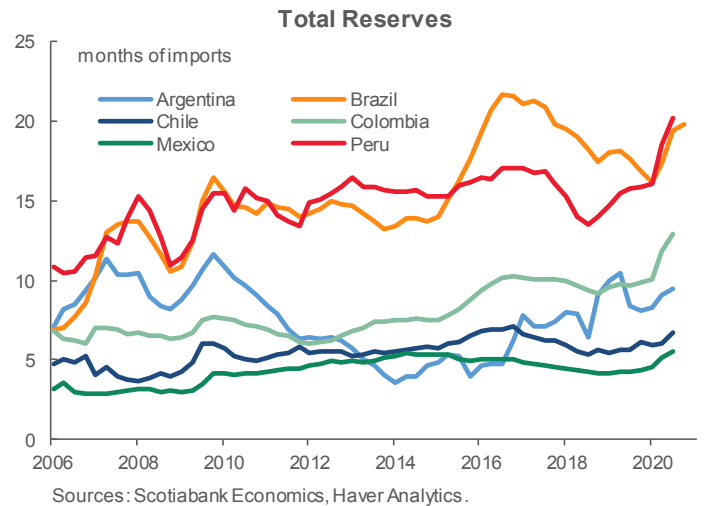


Chart 10



Key Market Charts

Chart 1

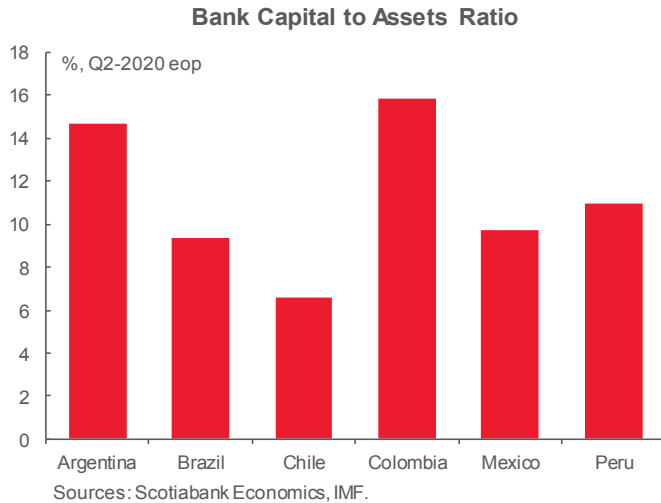


Chart 2

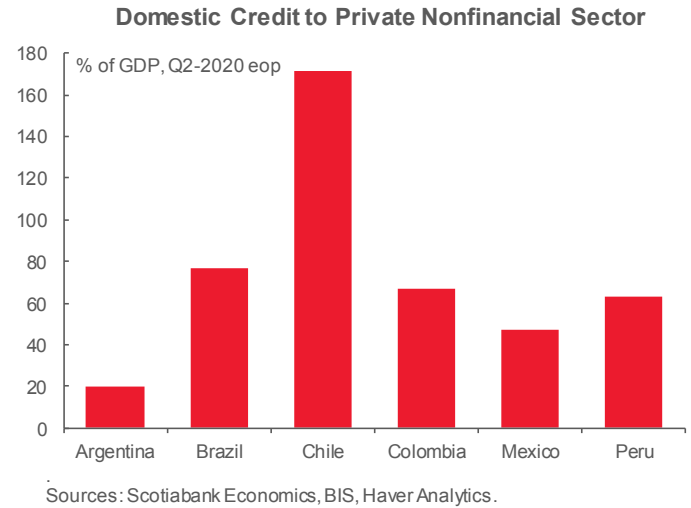


Chart 3

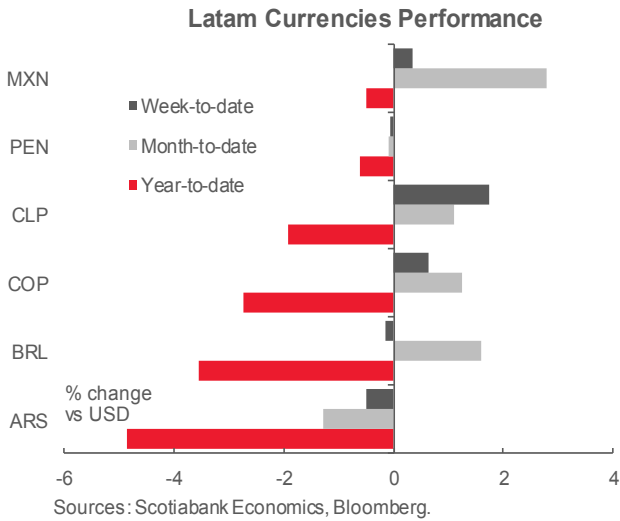


Chart 4

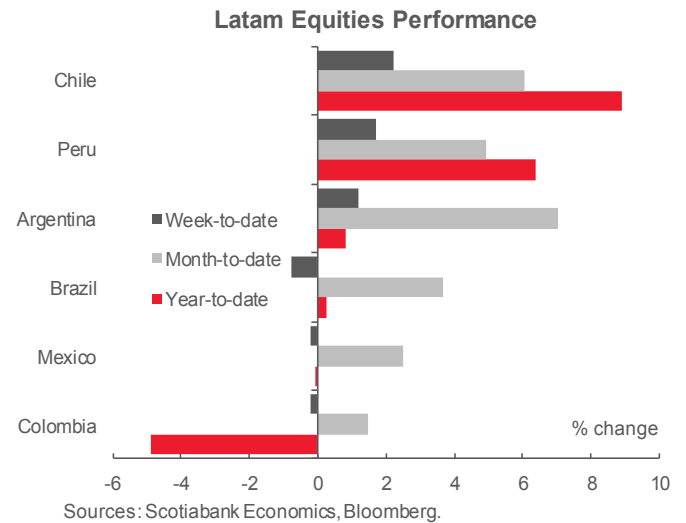


Chart 5

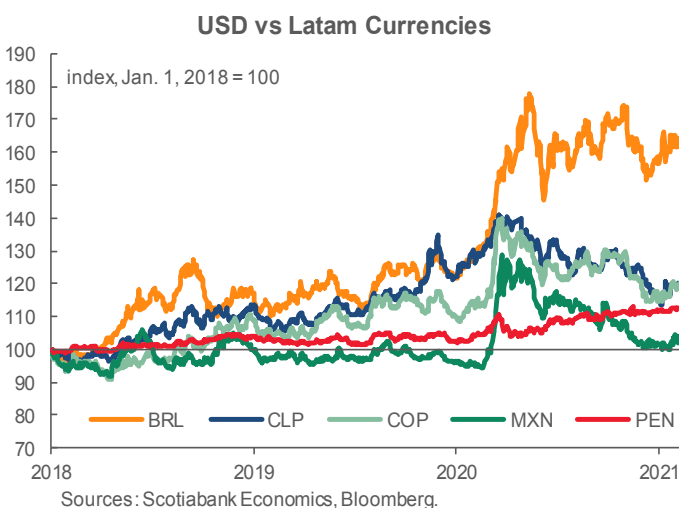
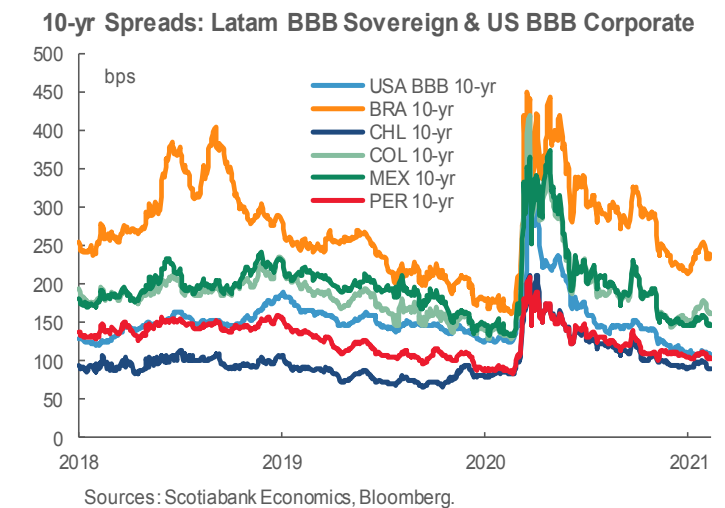


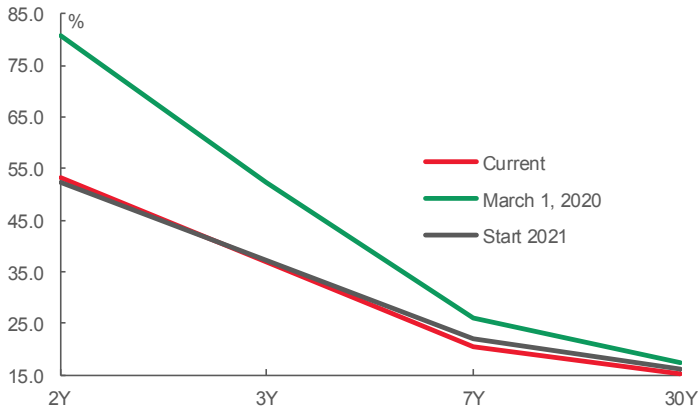
Chart 6



Yield Curves

Chart 1

USD Argentina Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 2

Argentina: Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 3

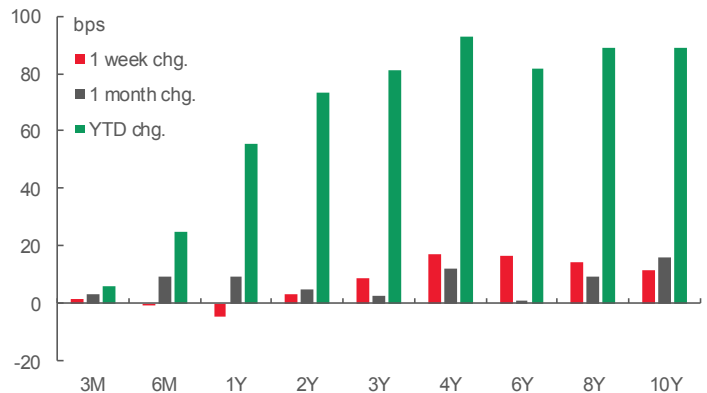
Brazil: NTN Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 4

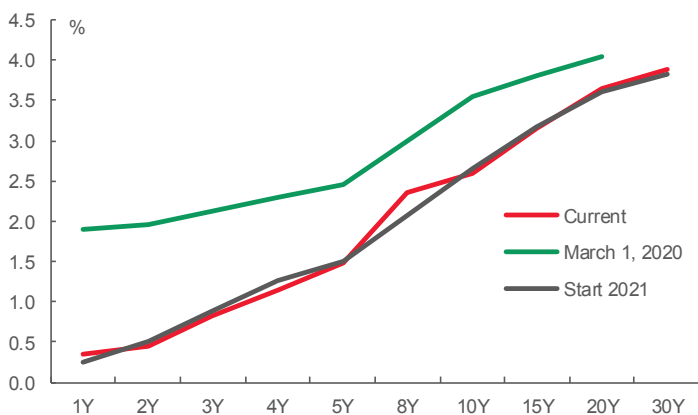
Brazil: NTN Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 5

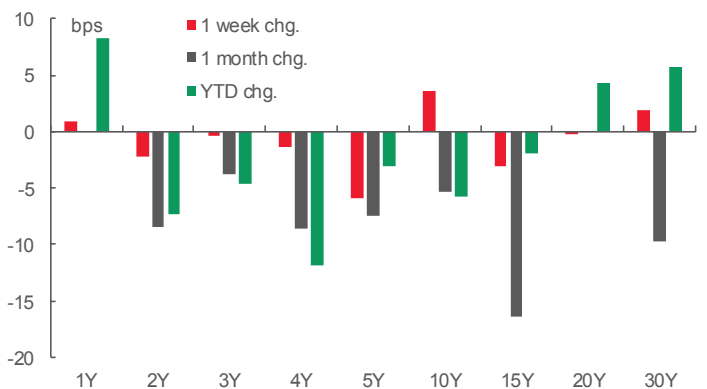
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 6

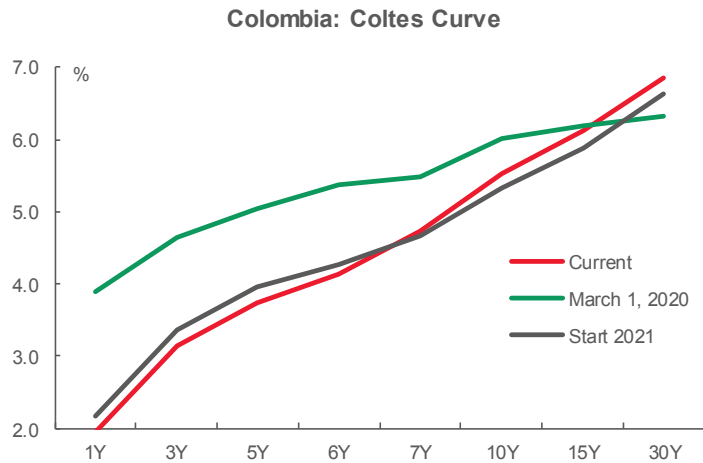
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

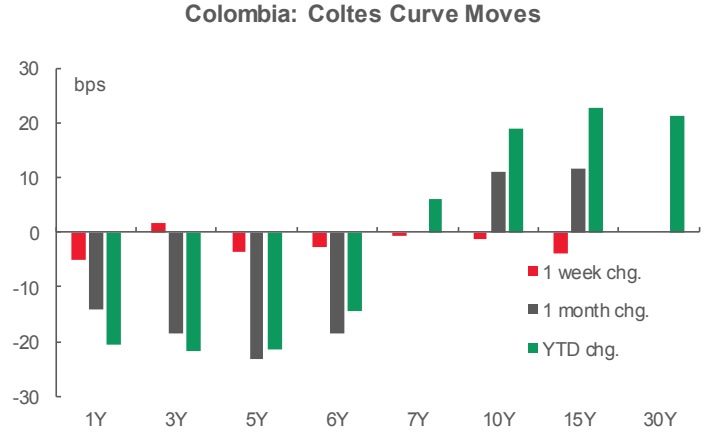
Yield Curves

Chart 7



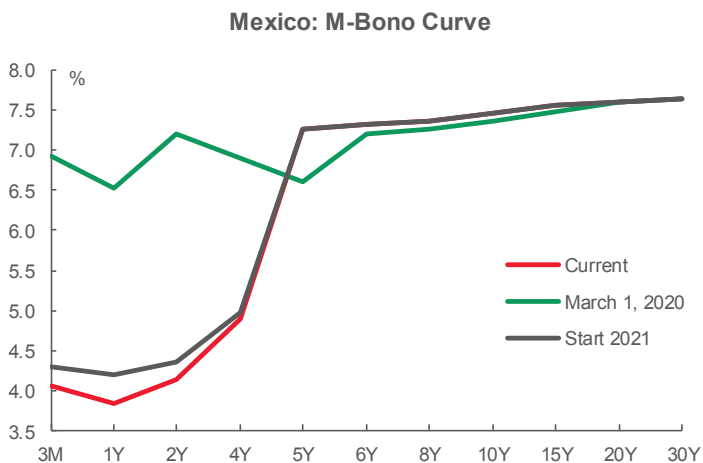
Sources: Scotiabank Economics, Bloomberg.

Chart 8



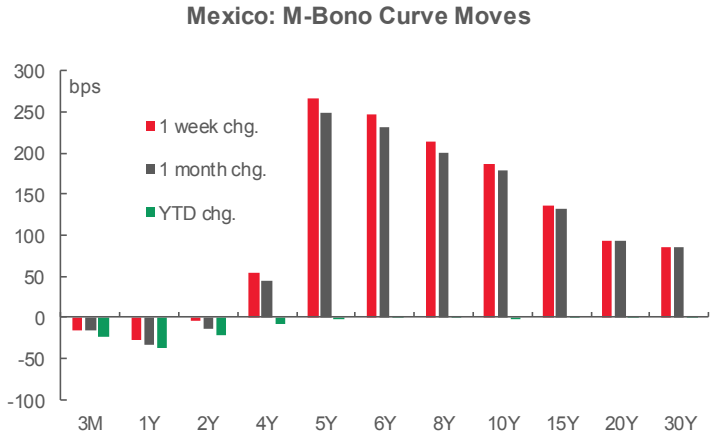
Sources: Scotiabank Economics, Bloomberg.

Chart 9



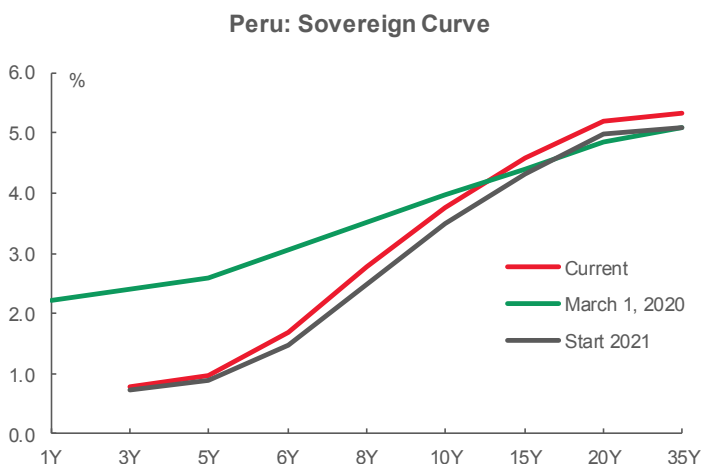
Sources: Scotiabank Economics, Bloomberg.

Chart 10



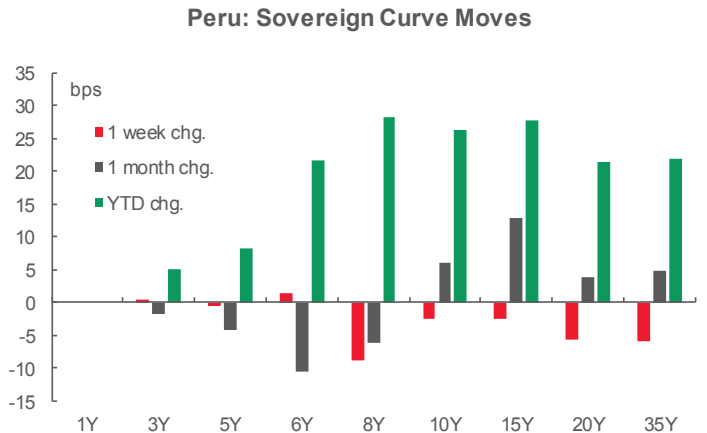
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12

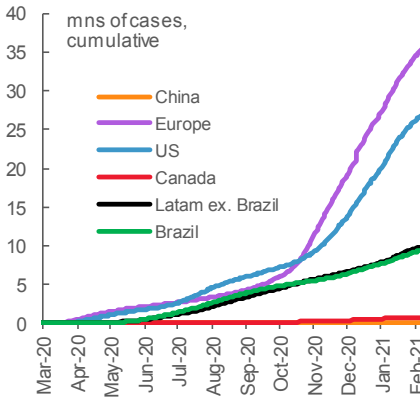


Sources: Scotiabank Economics, Bloomberg.

Key COVID-19 Charts

Chart 1

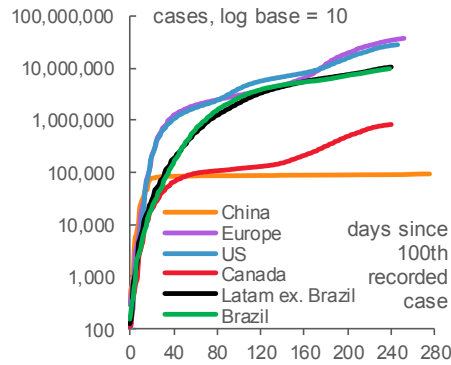
Global COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 2

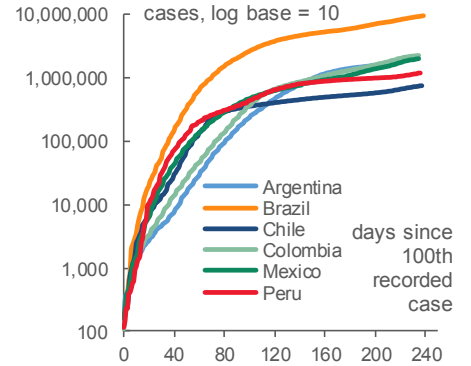
Cumulative COVID-19 Cases: Brazil and Latam in Tandem



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

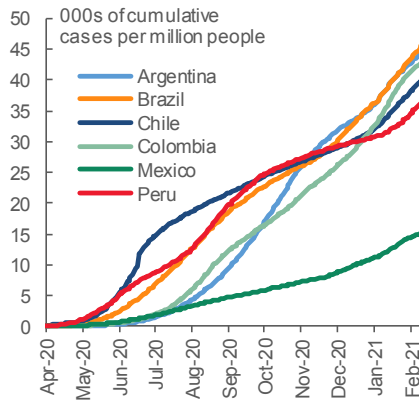
Cumulative COVID-19 Cases: Latam's Divergent Curves



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

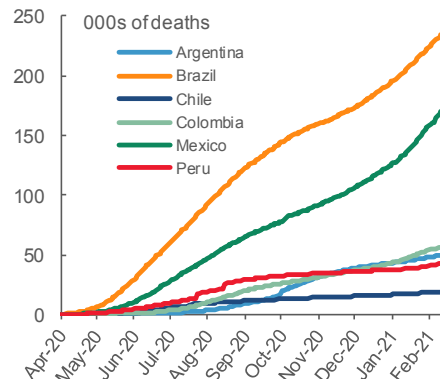
Latam Population-Adjusted COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5

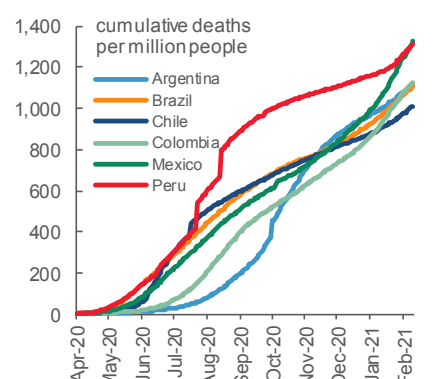
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

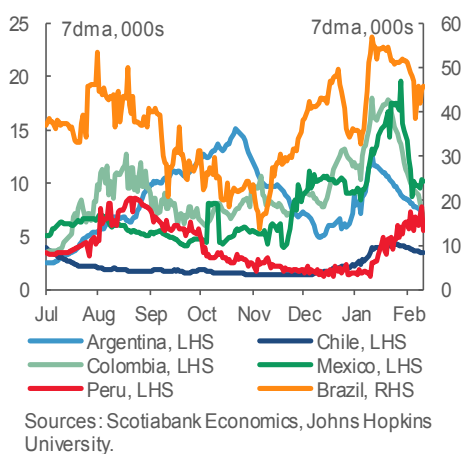
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

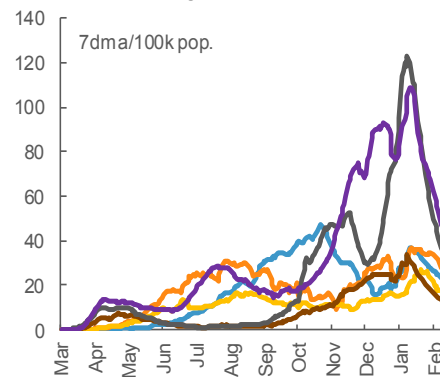
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

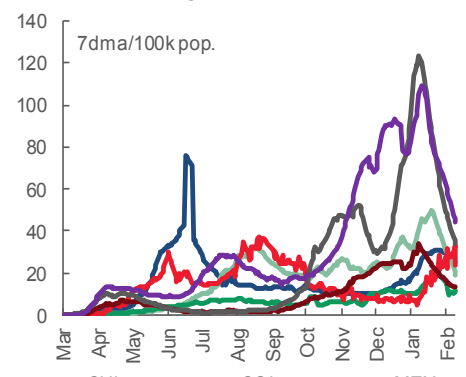
New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Chart 9

New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Scotiabank Economics Latam Coverage



Local Market Coverage

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