

Latam Charts: Taper Tantrum Redux

- March’s EM sell-off has echoes of 2013’s “taper tantrum” that imply a need for a shift in messaging at next week’s FOMC meeting.
- The Pacific Alliance countries’ (PACs’) risk assets are performing relatively well through this storm.

ECHOES OF 2013 AND AN INFLECTION POINT FOR THE FED

The recent back-up in US yields on strengthening recovery data, improving vaccination news, the Biden Administration’s stimulus package, inflation concerns, and the Fed’s pass on quelling taper speculation in its recent communications have translated into a substantial, but differentiated, sell-off across emerging-market (EM) risk assets so far during March. IIF [data](#) (subscription) show that capital flows out of EMs are reversing the recovery from last year’s pandemic-induced sell-off and are approaching the pace observed at the peak of the 2013 “taper tantrum”. Investors are looking through the potential positive spillovers from the US stimulus package on EMs, particularly Mexico, through increased demand for their exports, higher commodity prices, and direct transfers via remittances that have been estimated by, amongst others, the [OECD](#).

All of this makes the March 16–17 FOMC meeting and ensuing Fed speak critically important for the next few weeks in EMs. At the outset of 2013’s EM sell-off, the Fed accepted rising yields as a by-product of strengthening growth prospects, which deepened the rout when the FOMC moved ahead with the announcement at its June 2013 meeting of a plan to taper QE. Capital outflows from EMs were staunch only when the September 2013 FOMC meeting took a pass on pursuing the taper that had been teed up. Next week’s Fed communications will need to take the emphasis off the near-term quickening of the recovery and refocus markets on longer-term growth prospects in an attempt to anchor the far end of the US curve and reduce pressure on EMs. The bonus for the US is that such a move may also dampen the return to a strong USD that could impair efforts to raise inflation and boost exports.

CONTACTS

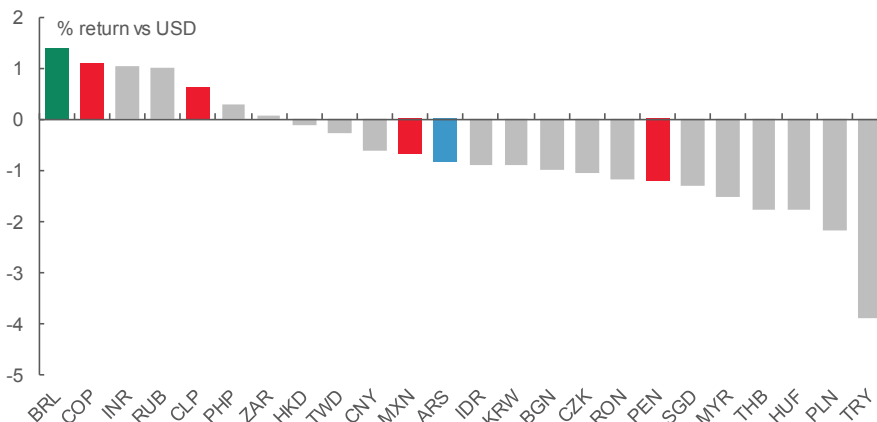
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Chart 1

EM FX: Spot Returns vs USD During March 1 to 12, 2021



Sources: Scotiabank Economics, Bloomberg.

PACIFIC ALLIANCE COUNTRIES: SAILING ROUGH FED WINDS

The Pacific Alliance countries (PACs) haven't been immune to global market developments, but so far they are weathering the storm better than most EMs. We look at the performance of the PACs' major risk assets since the beginning of March versus their peers.

- FX.** The PACs' currencies have performed reasonably well during the taper tantrum redux (chart 1 on p. 1, table 1, and charts 3 and 5 on p. 6).
 - COP** has been the star of the group, up 1.1% against the USD in March.
 - The declines in the **CLP** (-0.62%) and **PEN** (-1.22%) versus the USD have been relatively contained considering the concurrent moves in copper prices.
 - MXN** has rebounded this week: after being down -2.65% versus the USD during the month to March 9, it has recovered to being off only -0.70% in the month. Still, the peso is down -3.4% over the last four weeks (table 1). The peso's initial softness reflected the MXN's role as a liquid proxy for the generalized weakening in EM risk sentiment as UST yields rose; it also priced Mexico's relatively soft growth prospects compared with its regional peers (see our macro forecasts on p. 3). Since then, inflation and activity data, as well as the temporary suspension of the AMLO Administration's new Electricity Industry Law, have all helped improve views on Mexico's relative outlook.
 - The **BRL** also benefited from a turn in sentiment this week as markets further priced a rate hike on March 17 by the BCB. After recording one of the weakest performances amongst EM FX in 2020 (chart 5, p. 6), the BRL is now up 1.38% in March.
- Bond yields.** Yields have backed up and spreads have widened versus USTs, but at the 10-year tenor, for instance, **Chile's** and **Peru's** sovereign spreads have remained broadly in line with those of US BBB corporates (chart 6, p. 6). **Colombian** and **Mexican** government bonds have seen proportionately larger sell-offs, but the **PACs'** sovereign debt continues to trade much tighter than **Brazil's** paper, where a relative short average maturity heightens roll-over concerns.
- Policy rates.** Benchmark central bank rates are not expected to begin normalizing in the **PACs** until, at the earliest, H2-2021 (forecast table, p. 3).
 - Brazil's BCB** is about to kick-off rate increases in Latam with a first move in its hiking cycle at the Copom's meeting on March 17.
 - Colombia's BanRep** is projected to follow with an initial rate increase in Q3-2021.
 - Mexico's Banxico** is forecast to cut one more time during Q3-2021, followed by rate increases from Q1-2022.
 - Chile's BCCh** and **Peru's BCRP** are set to stay on hold at exceptionally low levels until mid-2022.
- Equities.** Equity markets in the PACs have broadly benefitted during March from weakening currencies that have boosted the competitiveness of domestic industries and provided a fresh buying opportunity for foreign capital (table 2).

Table 1

Latam FX Performance: eod Mar. 11, 2021

	Year-to-date	1-month	1-week
ARS	-7.3%	-2.6%	-0.5%
BRL	-6.2%	-2.8%	2.3%
CLP	-0.7%	1.2%	1.4%
COP	-3.5%	-0.8%	2.7%
MXN	-3.6%	-3.4%	3.1%
PEN	-2.0%	-1.4%	-0.3%

Sources: Scotiabank Economics, Bloomberg.

Table 2

Latam Equity Market Performance (local FX): eod Mar. 11, 2021

	Year-to-date	1-month	1-week
Argentina	-5.6%	-6.0%	1.2%
Brazil	-3.4%	-3.7%	2.0%
Chile	16.9%	6.1%	3.8%
Colombia	-6.1%	-1.1%	1.0%
Mexico	8.2%	7.9%	3.6%
Peru	9.2%	1.5%	0.9%

Sources: Scotiabank Economics, Bloomberg.

Table 3. Latest Latam Forecasts (from the March 10 [Forecast Tables](#))

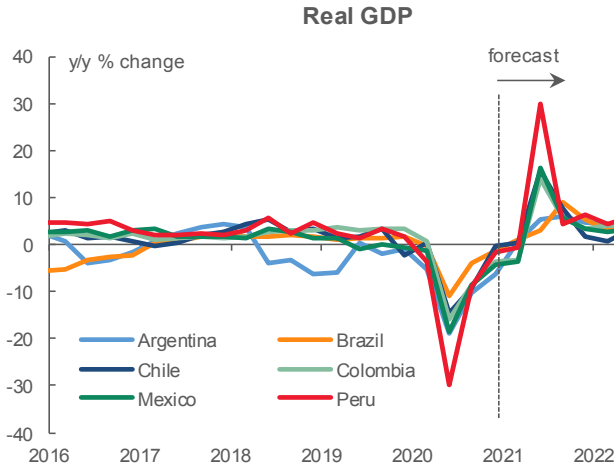
	2020				2021				2022							
	Q1	Q2	Q3	Q4e	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020e	2021f	2022f
Argentina																
Real GDP (y/y % change)	-5.2	-19.0	-10.2	-6.3	0.6	5.3	5.9	4.8	4.4	4.1	2.9	2.2	-2.1	-10.4	4.1	3.4
CPI (y/y %, eop)	48.4	42.8	36.6	36.1	39.1	44.3	46.4	42.9	40.5	39.5	37.5	36.5	53.8	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	-1.1	1.1	3.2	8.9	5.4	3.1	3.6	2.8	2.4	1.4	-4.1	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	2.50	4.00	5.50	6.00	6.50	7.00	7.00	7.00	4.50	2.00	6.00	7.00
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)	0.3	-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	3.1	3.8	3.5	3.0	2.5	2.2	2.5	3.0	3.0	3.0	3.0	3.0
Unemployment rate (% , avg)	8.2	12.2	12.3	10.3	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)	0.7	-15.8	-8.5	-3.6	-3.2	14.1	5.8	3.4	4.2	4.1	3.6	4.2	3.3	-6.8	5.0	4.0
CPI (y/y %, eop)	3.9	2.2	2.0	1.6	1.1	2.2	2.4	2.8	2.9	2.9	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)	-1.4	-18.7	-8.6	-4.3	-3.5	16.3	5.6	3.3	2.7	3.3	1.4	1.2	0.0	-8.3	4.9	2.1
CPI (y/y %, eop)	3.2	3.3	4.0	3.2	3.7	4.4	3.8	4.3	4.4	4.7	4.7	3.6	2.8	3.2	4.3	3.6
Unemployment rate (% , avg)	2.9	5.5	5.1	3.8	3.7	4.2	3.9	3.7	3.7	3.6	3.8	3.8	3.5	4.3	3.9	3.7
Central bank policy rate (% , eop)	6.50	5.00	4.25	4.25	4.00	4.00	3.75	3.75	4.00	4.50	4.75	5.00	7.25	4.25	3.75	5.00
Foreign exchange (USDMXN, eop)	23.67	22.99	22.11	19.91	20.81	21.20	21.53	21.62	21.32	22.07	22.45	22.87	18.93	19.91	21.62	22.87
Peru																
Real GDP (y/y % change)	-3.7	-30.0	-9.0	-1.7	-0.8	30.1	4.4	6.3	4.5	6.2	3.4	3.4	2.2	-11.1	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	13.5	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	-2.4	-0.1	11.8	6.6	7.3	7.0	5.4	3.3	1.9	2.2	-3.5	6.3	4.4
CPI (y/y %, eop)	1.5	0.6	1.4	1.4	1.6	1.9	2.2	2.3	2.4	2.5	2.6	2.7	2.0	1.2	2.3	2.7
Unemployment rate (% , avg)	3.8	13.1	8.8	6.8	6.2	5.8	5.3	4.8	4.2	3.7	3.4	3.2	3.7	8.1	5.5	3.6
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 March 9, 2021.

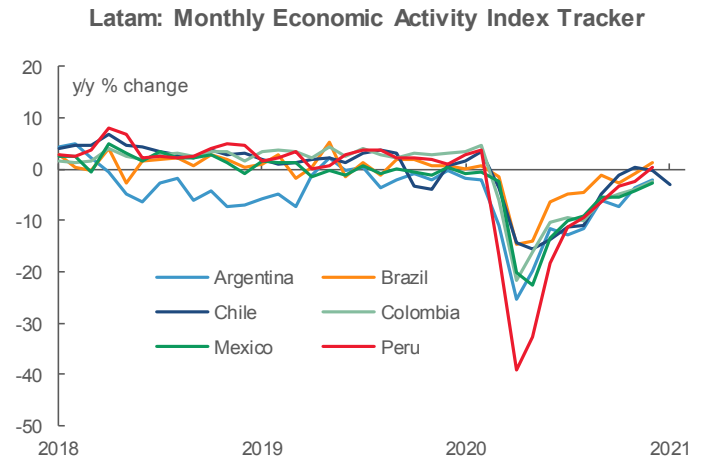
Key Economic Charts

Chart 1



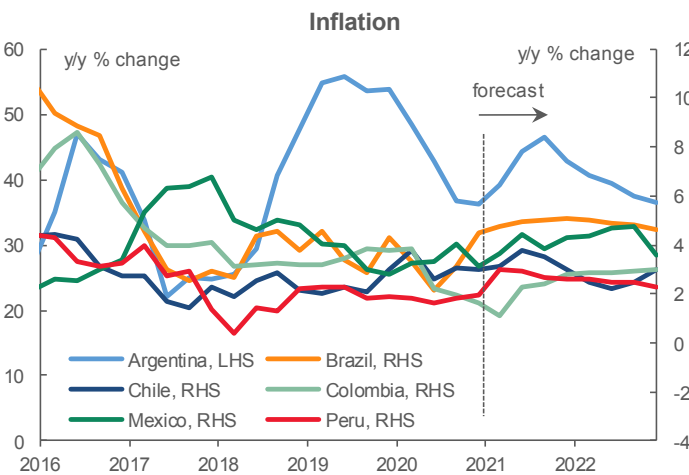
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



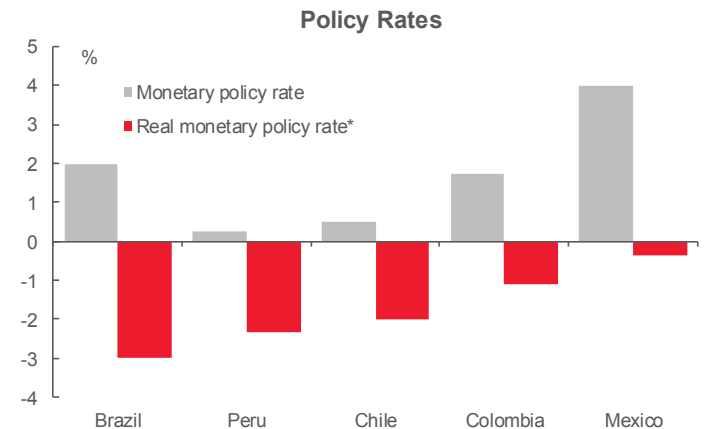
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



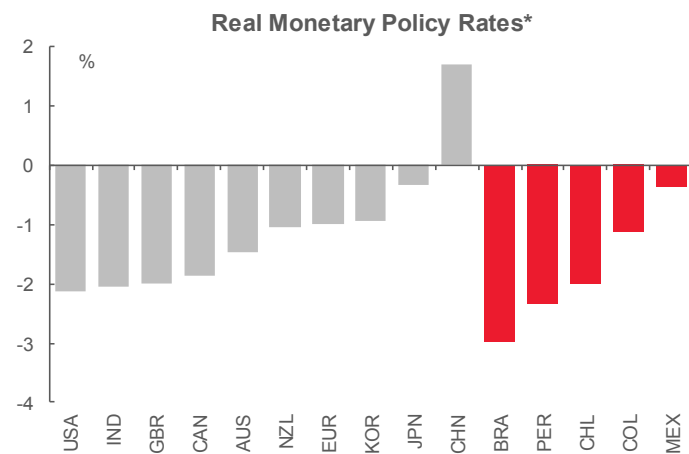
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



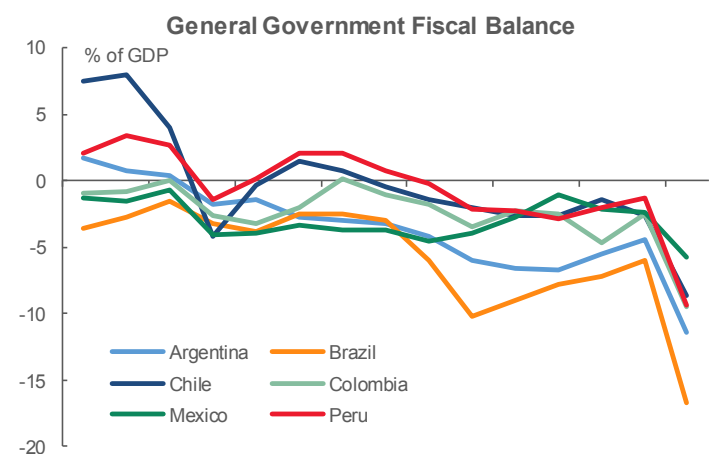
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q1-2022, % y/y. Argentina: MPR = 38.0%; Real MPR = -2.5%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 5



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q1-2022, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 6



Sources: Scotiabank Economics, IMF Fiscal Monitor Oct. 2020.

Key Economic Charts

Chart 7

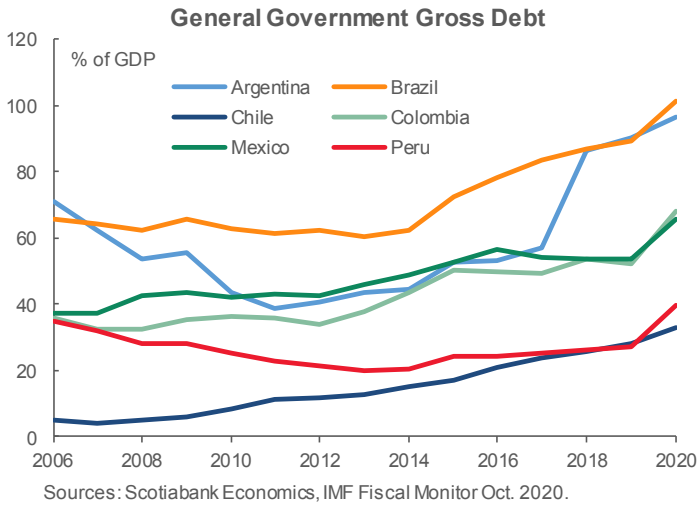


Chart 8



Chart 9

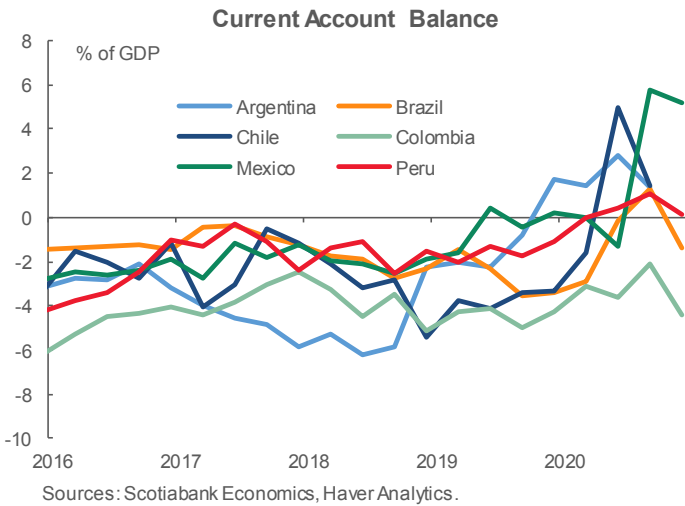
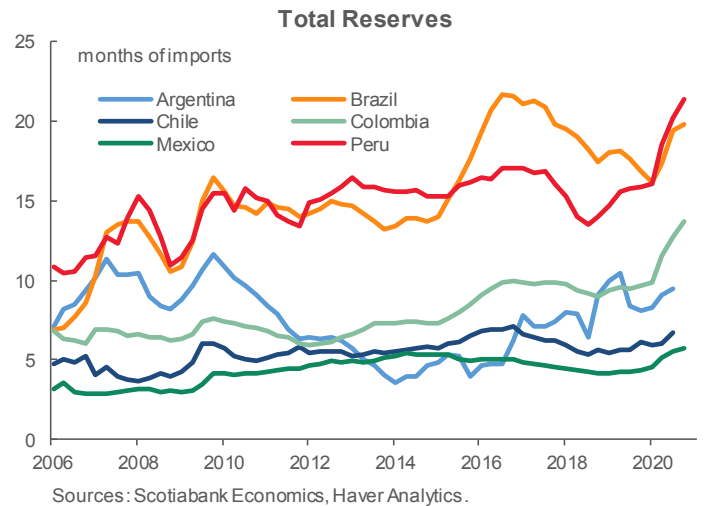


Chart 10



Key Market Charts

Chart 1

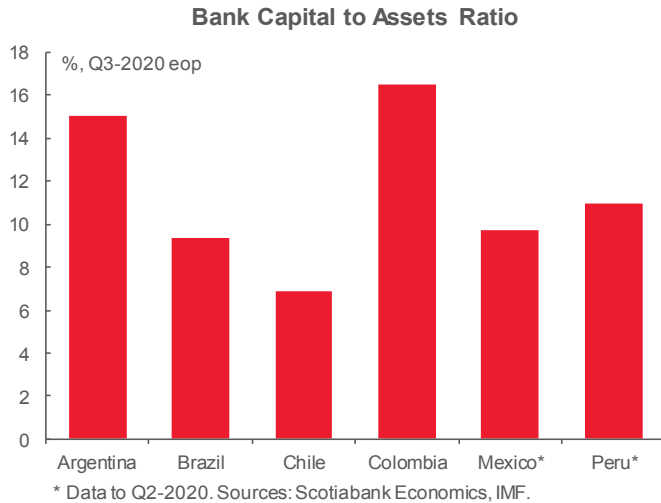


Chart 2

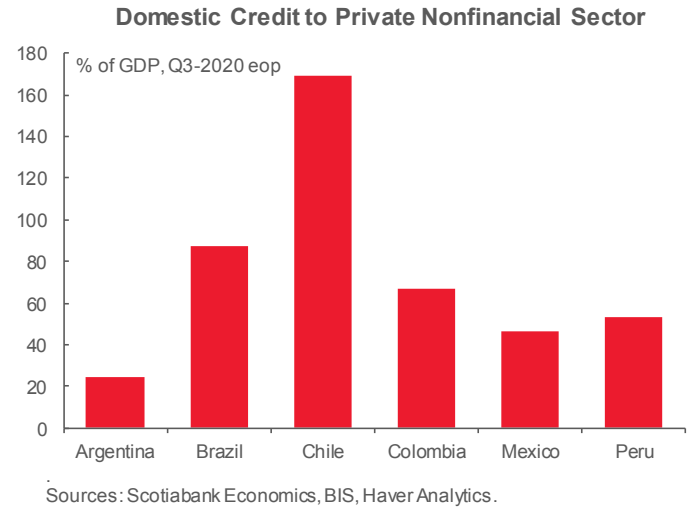


Chart 3

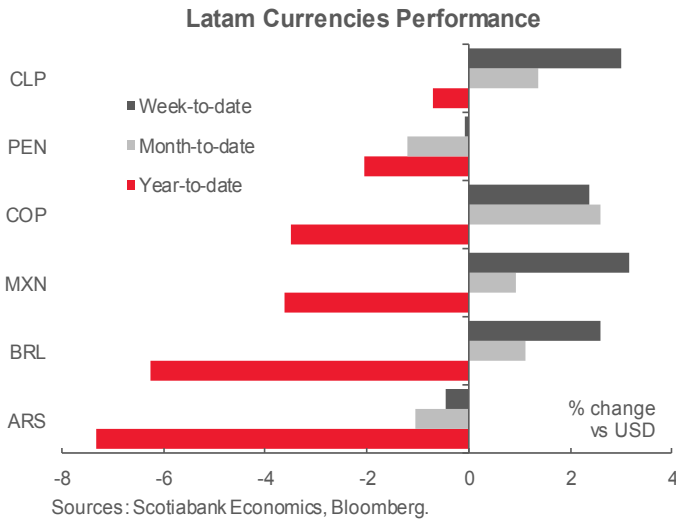


Chart 4

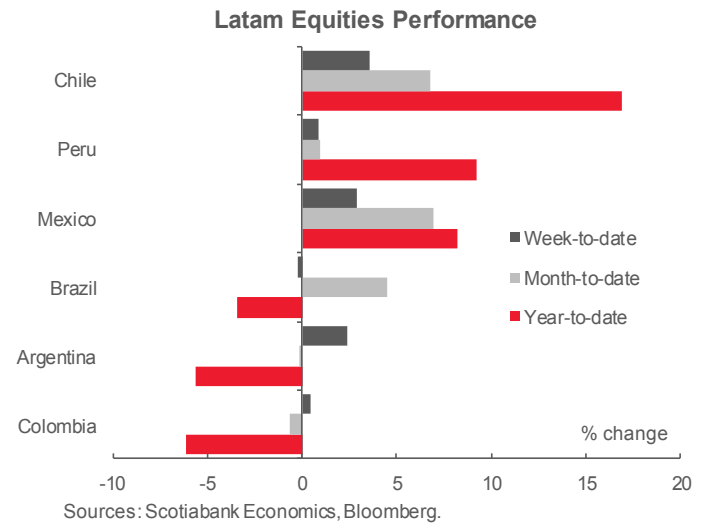


Chart 5

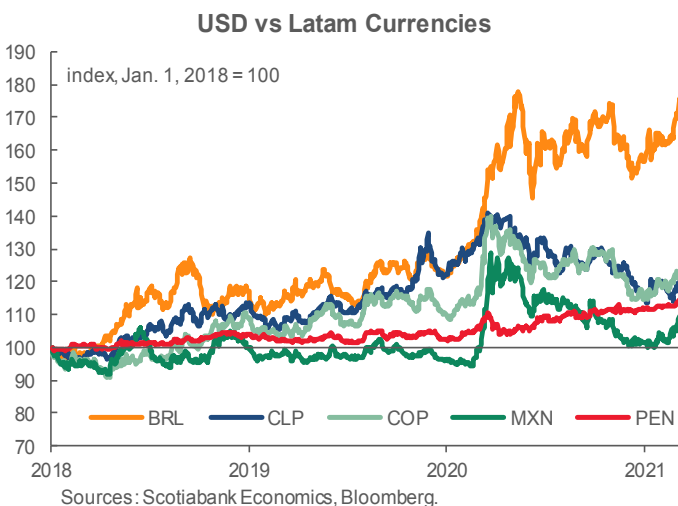
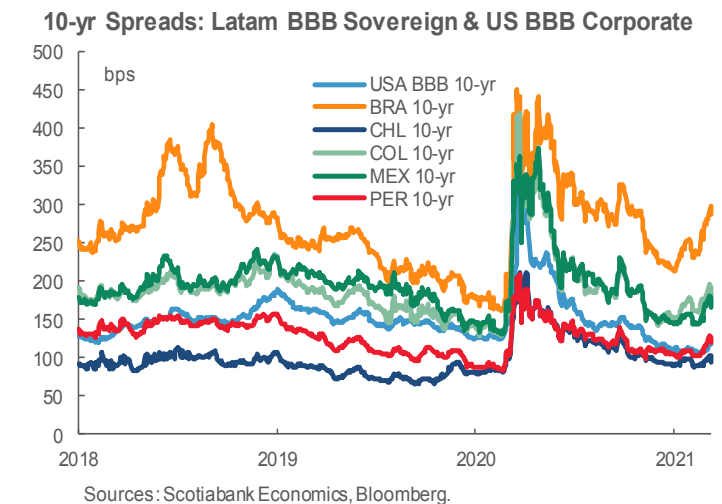


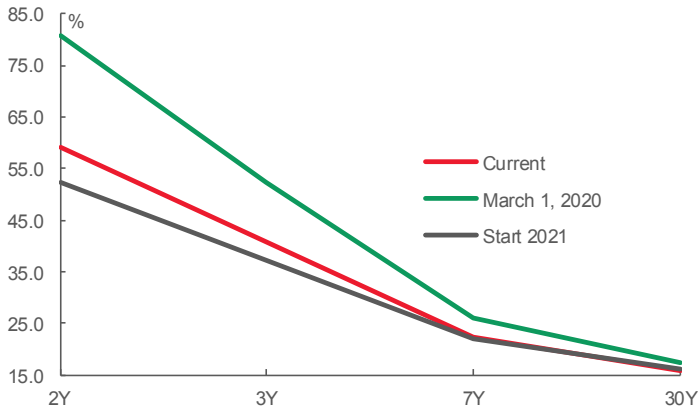
Chart 6



Yield Curves

Chart 1

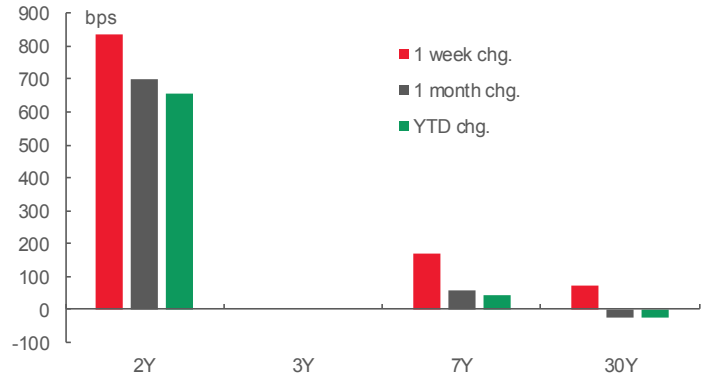
USD Argentina Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 2

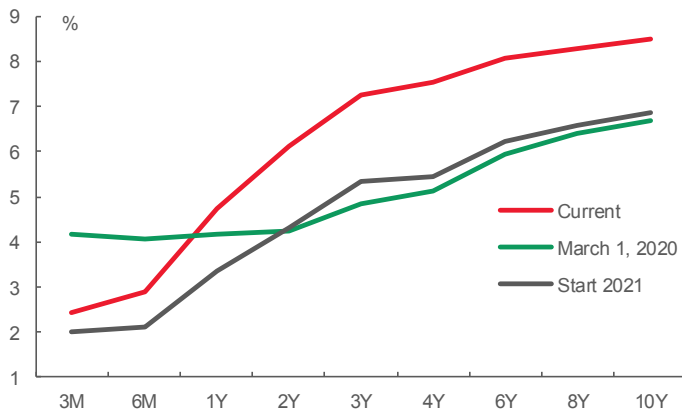
Argentina: Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 3

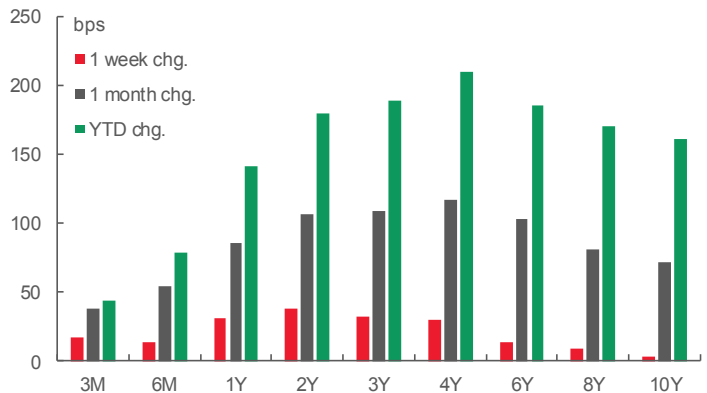
Brazil: NTN Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 4

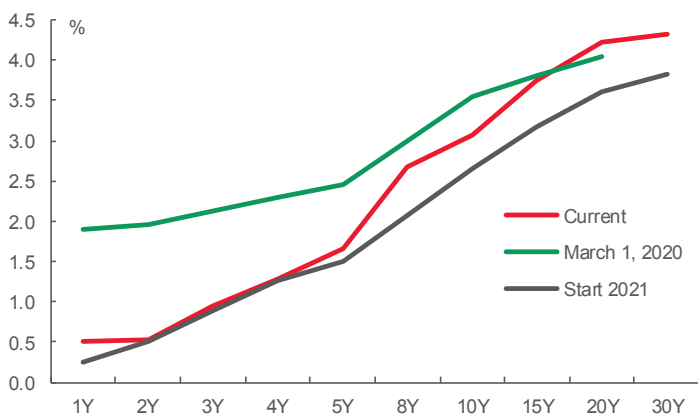
Brazil: NTN Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 5

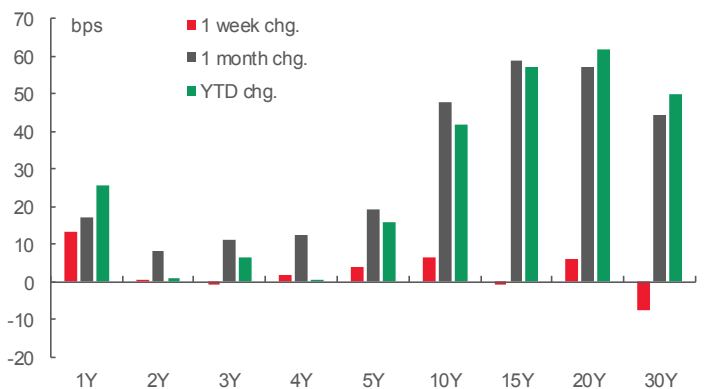
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 6

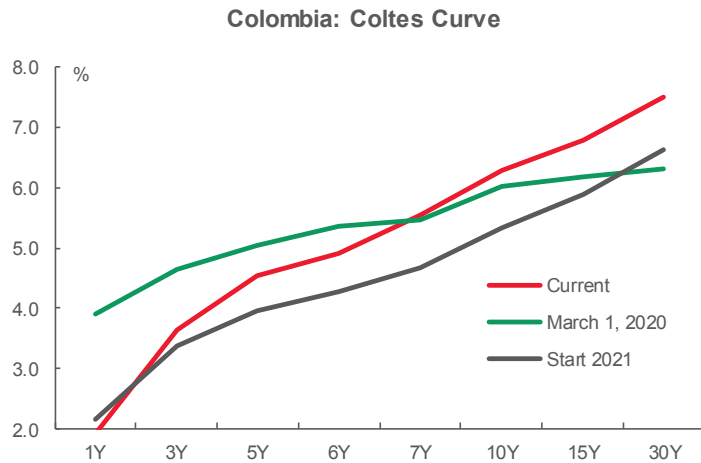
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

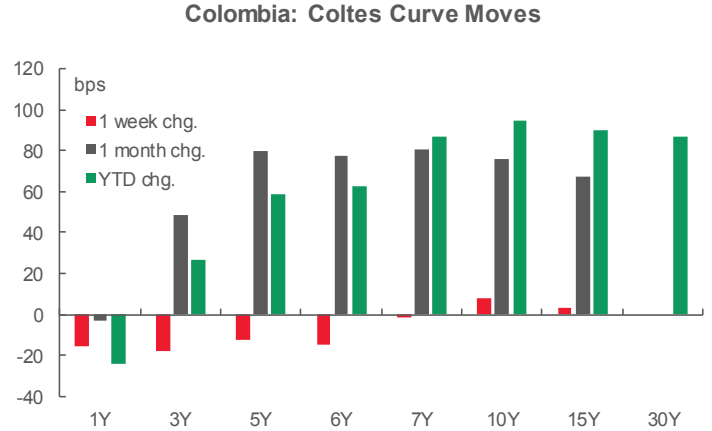
Yield Curves

Chart 7



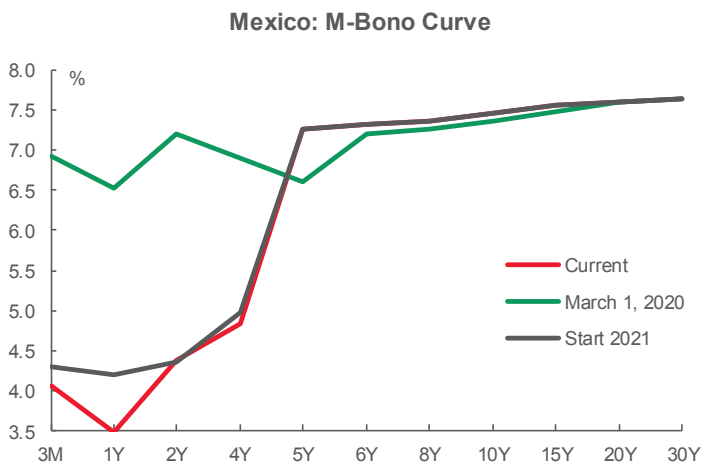
Sources: Scotiabank Economics, Bloomberg.

Chart 8



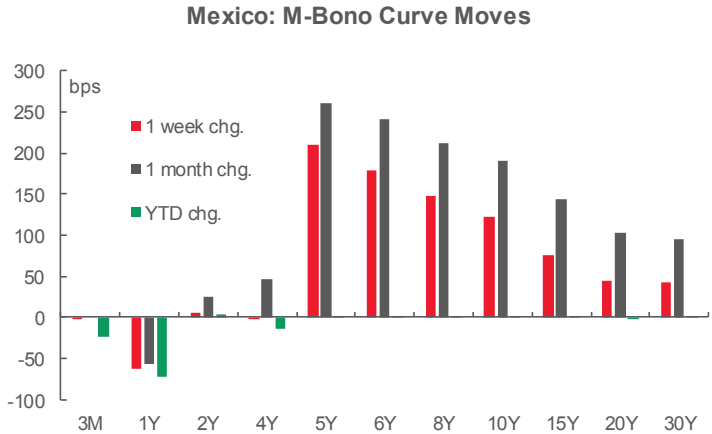
Sources: Scotiabank Economics, Bloomberg.

Chart 9



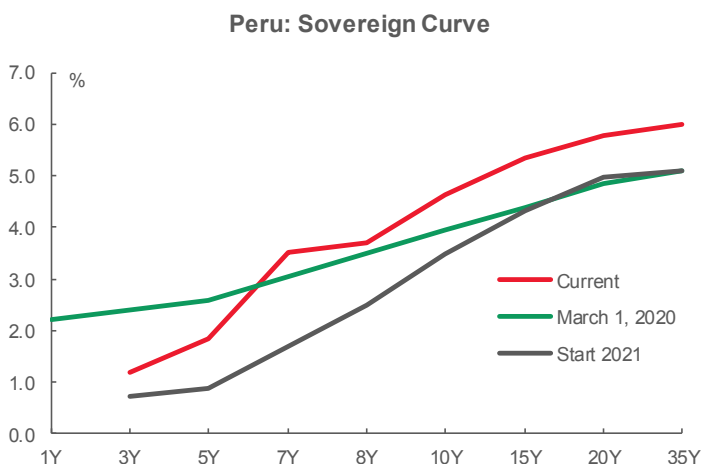
Sources: Scotiabank Economics, Bloomberg.

Chart 10



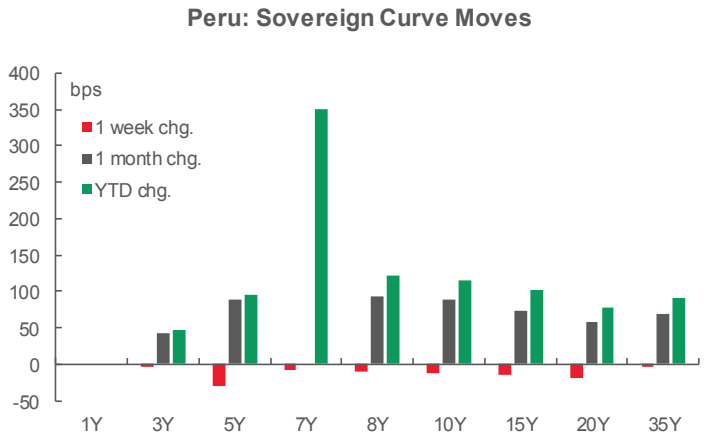
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12

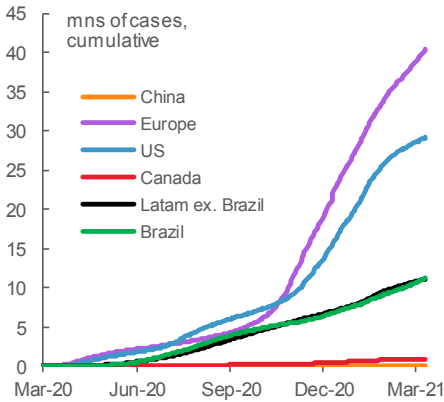


Sources: Scotiabank Economics, Bloomberg.

Key COVID-19 Charts

Chart 1

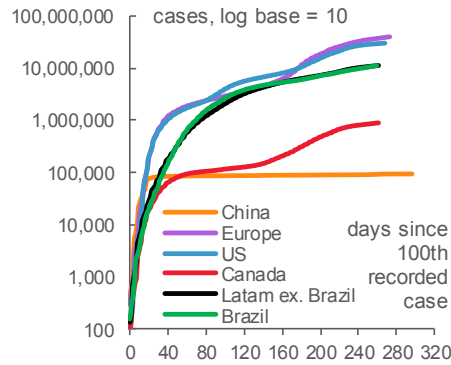
Global COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 2

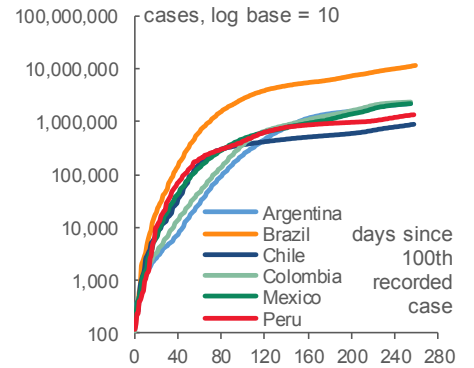
Cumulative COVID-19 Cases: Brazil and Latam in Tandem



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

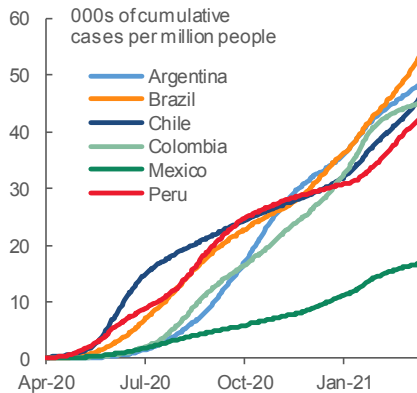
Cumulative COVID-19 Cases: Latam's Divergent Curves



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

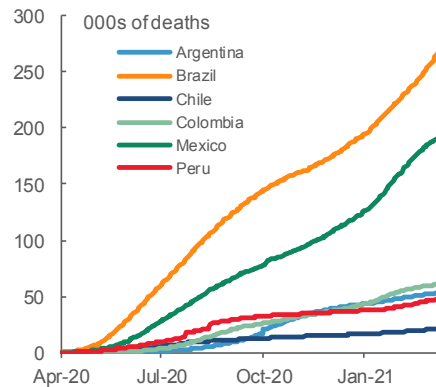
Latam Population-Adjusted COVID-19 Cases



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

Chart 5

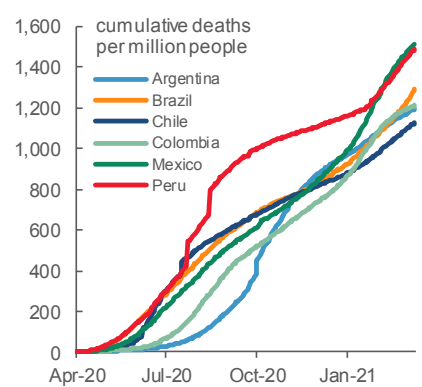
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

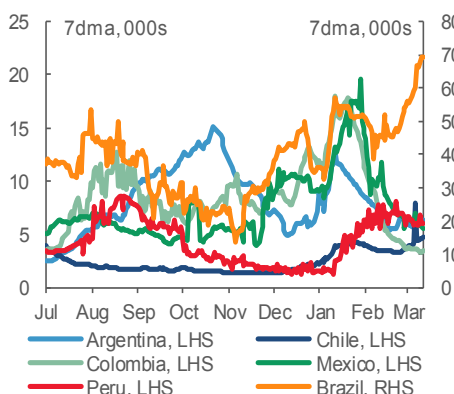
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

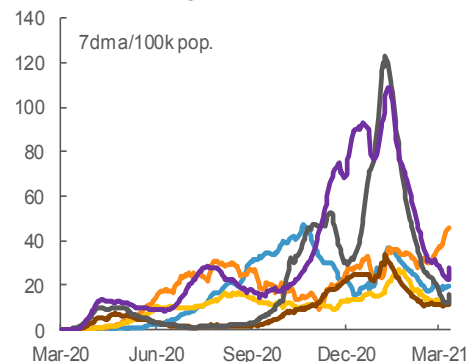
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

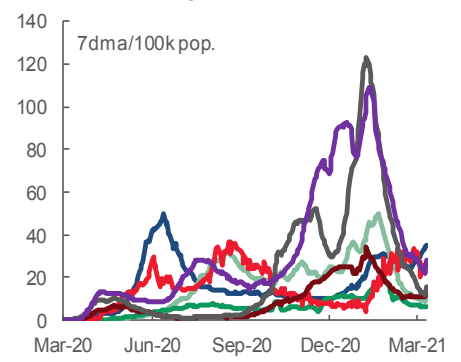
New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Chart 9

New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Market Events & Indicators for March 15–26

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-17		UTDT Leading Indicator	Feb	--	--	-0.8	
03-22		Budget Balance (ARS, mn)	Feb	--	--	24,074	
03-23	15:00	GDP (y/y)	4Q	-0.3	--	-10.2	Pandemic-induced losses continued to be pared in Q4-2020, but recovery
03-23	15:00	GDP (q/q)	4Q	--	--	12.8	remains incomplete.
03-25	15:00	Unemployment Rate (%)	4Q	--	--	11.7	
03-25	15:00	Shop Center Sales (y/y)	Jan	--	--	-32.7	
03-25	15:00	Supermarket Sales (y/y)	Jan	--	--	2.6	
03-25		Consumer Confidence Index	Mar	--	--	37.8	
03-26	12:00	Bloomberg March Argentina Economic Survey		--	--		
03-26	15:00	Trade Balance (USD, mn)	Feb	--	--	1,068.0	
03-26	15:00	Exports Total (USD, mn)	Feb	--	--	4,912.0	
03-26	15:00	Imports Total (USD, mn)	Feb	--	--	3,844.0	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-15	8:00	Economic Activity (m/m)	Jan	--	0.2	0.6	
03-15	8:00	Economic Activity (y/y)	Jan	--	-0.5	1.3	
03-15	14:00	Trade Balance Weekly (USD, mn)	14-Mar	--	--	-427.6	
03-16	7:00	FGV Inflation IGP-10 (m/m)	Mar	--	2.2	3.0	
03-16	7:00	FGV CPI IPC-S (m/m)	15-Mar	--	--	0.7	
03-16		Formal Job Creation Total	Jan	--	188,326	-67,906	
03-17	4:00	FIPE CPI - Weekly (m/m)	15-Mar	--	--	0.2	
03-17	17:00	Selic Rate (%)	17-Mar	2.50	2.50	2.00	We expect the Copom to initiate an extended hiking cycle at March 17 meeting.
03-18	7:00	IGP-M Inflation 2nd Preview	Mar	--	2.1	2.3	
03-22	14:00	Trade Balance Weekly (USD, mn)	21-Mar	--	--	-427.6	
MAR 22-25		Tax Collections (BRL, mn)	Feb	--	--	180,221	
03-23	7:00	FGV Consumer Confidence	Mar	--	--	78.0	
03-23	7:00	FGV CPI IPC-S (m/m)	22-Mar	--	--	0.7	
03-25	4:00	FIPE CPI - Weekly (m/m)	23-Mar	--	--	0.2	
03-25	7:00	FGV Construction Costs (m/m)	Mar	--	--	1.1	
03-25	8:00	IBGE Inflation IPCA-15 (m/m)	Mar	--	0.8	0.5	
03-25	8:00	IBGE Inflation IPCA-15 (y/y)	Mar	--	5.4	4.6	
MAR 25-30		Federal Debt Total (BRL, bn)	Feb	--	--	5,059.0	
03-26	8:30	Current Account Balance (USD, mn)	Feb	--	--	-7,253.2	
03-26	8:30	Foreign Direct Investment (USD, mn)	Feb	--	--	1,837.9	
03-26	11:00	Bloomberg March Brazil Economic Survey		--	--		

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-18	7:30	Current Account Balance (USD, mn)	4Q	--	--	-25.0	
03-18	7:30	GDP (q/q)	4Q	--	--	5.2	Chile is projected to be the first Pacific Alliance economy to return to 2019 levels of
03-18	7:30	GDP (y/y)	4Q	-0.4	--	-9.1	economic activity.
03-24	8:00	PPI (m/m)	Feb	--	--	1.1	
03-26	11:30	Bloomberg March Chile Economic Survey		--	--		

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-15	11:00	Manufacturing Production (y/y)	Jan	-2.8	--	1.5	Major cities implemented new lockdowns to contain the recent COVID-19 outbreak. Commerce
03-15	11:00	Retail Sales (y/y)	Jan	-8.0	--	-2.8	was hard hit as Bogotá faced strict mobility restrictions during weekends.
03-15	15:00	Industrial Production (y/y)	Jan	--	--	-5.4	
03-15		Central Bank Economist Survey		--	--		
03-18	11:00	Trade Balance (USD, mn)	Jan	--	--	-880.2	
03-18	11:00	Imports CIF Total (USD, mn)	Jan	--	--	4,142.5	
03-18	15:00	Economic Activity NSA (y/y)	Jan	-5.0	--	-2.5	Transitory softness from temporary restrictions in response to the COVID-19 2nd wave.
03-25		Industrial Confidence	Feb	--	--	3.7	
03-25		Retail Confidence	Feb	--	--	32.0	
03-26	11:45	Bloomberg March Colombia Economic Survey		--	--		
03-26	14:00	Overnight Lending Rate (%)	26-Mar	1.75	--	1.75	We expect a rise in policy rates in Q3-2021, the first in the Pacific Alliance.

Forecasts at time of publication.
 Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for March 15–26

MEXICO

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
03-17	11:00	International Reserves Weekly (USD, mn)	12-Mar	--	--	195,057	
03-19	8:00	Aggregate Supply and Demand	4Q	--	--	-11.4	
03-22		Citibanamex Survey of Economists		--			
03-23	11:00	International Reserves Weekly (USD, mn)	19-Mar	--	--	--	
03-24	8:00	Bi-Weekly CPI (w/w)	15-Mar	--	--	0.3	
03-24	8:00	Bi-Weekly Core CPI (w/w)	15-Mar	--	--	0.2	
03-24	8:00	Bi-Weekly CPI (y/y)	15-Mar	--	--	3.7	
03-24	8:00	Unemployment Rate (%) NSA	Feb	--	--	4.7	
03-25	8:00	Retail Sales (m/m)	Jan	--	--	-2.4	
03-25	8:00	Retail Sales (y/y)	Jan	--	--	-5.9	
03-25	8:00	Economic Activity IGAE (y/y)	Jan	--	--	-2.7	
03-25	8:00	Economic Activity IGAE (m/m)	Jan	--	--	0.1	
03-25	15:00	Overnight Rate (%)	25-Mar	4.00	--	4.00	We recently changed our view from -25 bps cuts in Q2 & Q3 to one cut in Q3.
03-26	8:00	Trade Balance (USD, mn)	Feb	--	--	-1,236.4	
03-26	11:15	Bloomberg March Mexico Economic Survey					

PERU

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
03-15	11:00	Lima Unemployment Rate (%)	Feb	13.0	--	13.0	New COVID-19 restrictions should cause improvements in unemployment to pause.
03-15		Economic Activity (y/y)	Jan	-1.5	--	0.5	January–February should see a softening in demand.
03-26	12:00	Bloomberg March Peru Economic Survey					

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