

Latam Charts: Doves Fly the Coop

- Emerging-market central banks are shifting to more hawkish stances in the face of rising developed-market rates and capital-market volatility.
- In Latam, central banks in Brazil and Mexico have made the most dramatic turns, with Argentina expected to follow if its authorities get serious about locking down a new IMF arrangement. Domestic conditions in Colombia, Chile, and Peru imply a little more room to run before policy rates may need to rise as domestic economies recover.

SHIFTING MONETARY STANCES

Quickening vaccine rollouts, stronger evidence of further recoveries in many advanced economies, and rising developed-market (DM) yields continue to shift the terrain for emerging-market (EM) central banks haunted by the spectre of the 2013 “taper tantrum”. In recent weeks, both Russia’s and Turkey’s monetary authorities have taken actions to tighten their policy stances, while South Africa’s SARB indicated on Tuesday, March 23, that it may raise rates at the next meeting of its monetary policy committee (MPC). Future moves by the CBRT are, of course, up in the air since its recent surprise rate hike prompted President Erdogan to sack and replace the central bank’s governor.

Sentiment has started turning amongst Latam central banks as well, but the region splits into two groups when it comes to current stresses on EM monetary policymakers. In one set of countries—Brazil, Argentina, and to a lesser extent Mexico—already high and/or rising inflation merits a refresh of the monetary stance; and in another set of countries—Colombia, Chile, and Peru—inflation is comparatively low, but rising US rates and volatile international markets imply financial stability concerns amidst relatively low real rates and narrowing carry trades. That said, it’s worth recalling that we continue to forecast inflation to stay muted by historical standards across the four Pacific Alliance countries through 2022 (chart 1) and core price pressures remain well contained (chart 2). Recent FX and equity performances generally reflect the two Latam camps laid out above (tables 1 and 2).

Mexico faces the toughest set of trade-offs of Latam’s major economies. With the highest real rates (key economic chart 5, p. 3) and the slowest real GDP growth forecast for 2021 (see the March 12 [Latam Charts](#) report), an end—not just a pause—to Banxico’s easing cycle implies a further drag on the country’s recovery. In contrast, relatively low real rates in Brazil and Argentina (key economic chart 4, p. 3) imply additional space—albeit rapidly shrinking—to normalize monetary policy without immediately implying a brake on activity. In Colombia, Chile, and Peru, comparatively low real rates and low to moderate inflationary pressures imply a more favourable policy mix to sustain their recoveries.

I. Incipient hawks: where inflation pressures conflict with soft growth

- **Brazil.** As expected, the BCB’s Copom initiated the region’s first hiking cycle at its meeting on Wednesday, March 17, but it did so with even more gusto than we or most analysts had expected. In line with the consensus, we had expected a 50 bps hike in the Selic, but the Copom unanimously voted to deliver a 75 bps rise, its first hike in six years and its

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TABLE OF CONTENTS

Commentary	1–2
Key Economic Charts	3–4
Key Market Charts	5
Yield Curves	6–7
Key COVID-19 Charts	8
Market Events & Indicators	9–11

Chart 1

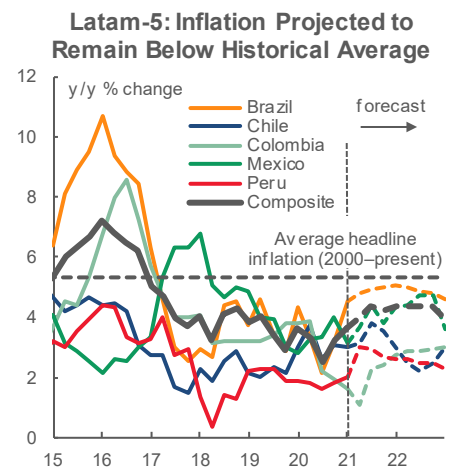
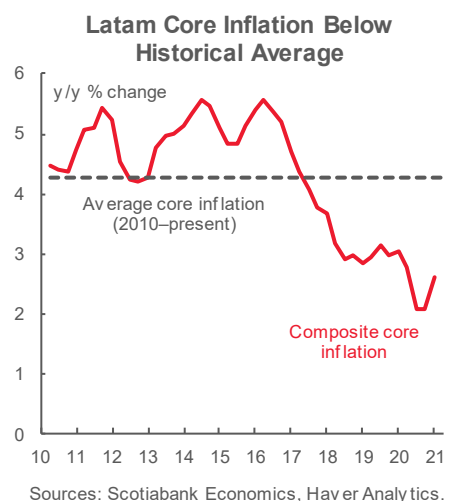


Chart 2



biggest upward move in over a decade, now under its newly-minted independence. The Copom also noted in its [statement](#) that it intended to raise rates again by the same delta at its next meeting unless inflation projections or risk assessments shift.

- Mexico.** Banxico's Board also took a step back from further easing at its Thursday, March 25, meeting where it [voted unanimously](#) to keep its overnight target rate at 4.00%. The hold had a hawkish tilt as it was a turnaround from the [unanimous decision](#) to cut by -25 bps from 4.25% to 4.00% at the Board's February 11 meeting. Only two months before, the Board "paused" its easing cycle in a split 3–2 [decision](#) to hold at 4.25% at its December 17 meeting. Yesterday's hold lacked a clear characterization that it was a *temporary* stay. Combined with the Board's concern that both headline and core inflation moved above Banxico's 2–4% y/y target range in the first half of March, the outcome of the meeting narrowed further the space for further monetary-policy easing in Mexico. Still, we believe the door isn't entirely closed and that one more cut could be delivered during Q3-2021 given that we forecast Mexican real GDP growth at a relatively lacklustre 4.9% y/y in 2021 and the real policy rate remains amongst the highest in in Latam. But Banxico's next steps likely depend more on international developments and financial stability concerns than on [ongoing softness in domestic activity](#). Even if a further cut fails to materialize, our team in CDMX doesn't expect a first hike until Q1-2022.
- Argentina.** We've long expected the BCRA to initiate a fresh hiking cycle in a move away from monetizing deficits to tame inflation that is currently running at 40.7% y/y. Real policy rates are currently hovering around -2.5% and will need to be pushed back into positive territory over the course of 2021. We expected the BCRA to begin increasing its key policy rates during Q1-2021 to signal to the IMF that the country is serious about undertaking meaningful adjustment. But with few advances in talks with DC since last August's sovereign debt restructuring, Vice-President Fernandez de Kirchner warning that Argentina won't be able to repay the IMF, and President Fernandez pushing a gradual approach to negotiations, IMF deliberations are likely to blow through the already loose May target and stretch deeper into 2021. Consequently, moves by the BCRA to raise rates could be delayed even further.

II. Birds of a different feather: monetary molting can take more time

- Colombia.** The BanRep Board followed its counterparts in Brazil and Mexico with a unanimous decision earlier today (March 26) to hold its benchmark policy rate at 1.75% after a split 5–2 decision at its January meeting that saw two members vote for a cut. Annual inflation remains well below the 3% target and inflation expectations are contained, but the BanRep staff raised its 2021 real GDP growth forecast from January's 4.5% y/y to 5.2% y/y, which put a hawkish gloss on the decision. Our team in Bogota still expects a first hike in Q3-2021 from the BanRep, but this remains contingent on both international financial conditions and follow-through in April on the next steps in the government's fiscal-reform program.
- Chile.** The Board of Chile's BCCh next rate decision falls on Tuesday, March 30, and a hold at 0.50% is nearly universally expected. The Board's deliberations will have to balance rising DM yields against the possible hit to growth from new lockdowns in Santiago, waning demand effects from two rounds of pension withdrawals, and uncertainties around the constitutional renewal process. We continue to anticipate that the Board will look through recent international developments and put off a move to raise rates until Q2-2022.
- Peru.** The BCRP Board next meets on rates on Thursday, April 8, and with inflation having subsided from a surprise at the beginning of the year, there is little pressure from the domestic economy to move the policy rate off its record-low 0.25% or to change the Board's forward guidance. Our team in Lima continues to expect the BCRP to stay on hold through Q3-2022.

Table 1

Latam FX Performance: eod Mar. 25, 2021

	Year-to-date	1-month	1-week
ARS	-8.3%	-2.2%	-0.5%
BRL	-8.0%	-2.3%	-1.5%
CLP	-2.3%	-1.8%	-1.2%
COP	-6.4%	-1.6%	-3.0%
MXN	-3.7%	0.8%	-0.9%
PEN	-3.1%	-2.3%	-0.7%

Sources: Scotiabank Economics, Bloomberg.

Table 2

Latam Equity Market Performance (local FX): eod Mar. 25, 2021

	Year-to-date	1-month	1-week
Argentina	-8.5%	-3.3%	-6.1%
Brazil	-4.4%	3.4%	-0.9%
Chile	14.1%	4.3%	-2.3%
Colombia	-8.2%	-2.9%	-1.7%
Mexico	6.7%	5.4%	-1.2%
Peru	2.1%	-5.7%	-4.7%

Sources: Scotiabank Economics, Bloomberg.

Key Economic Charts

Chart 1



Chart 2

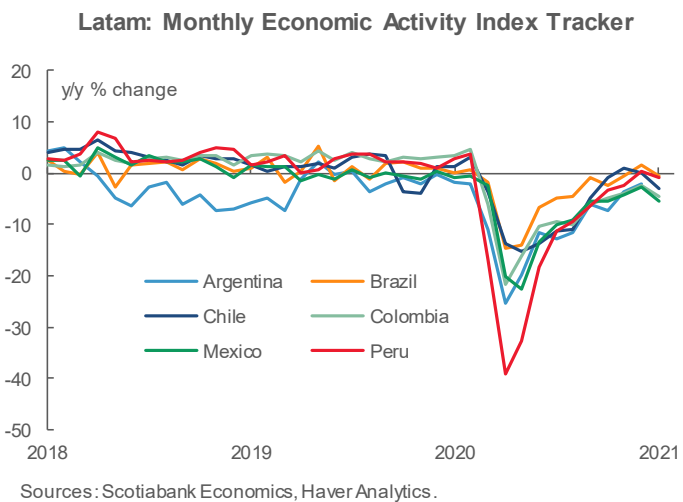


Chart 3

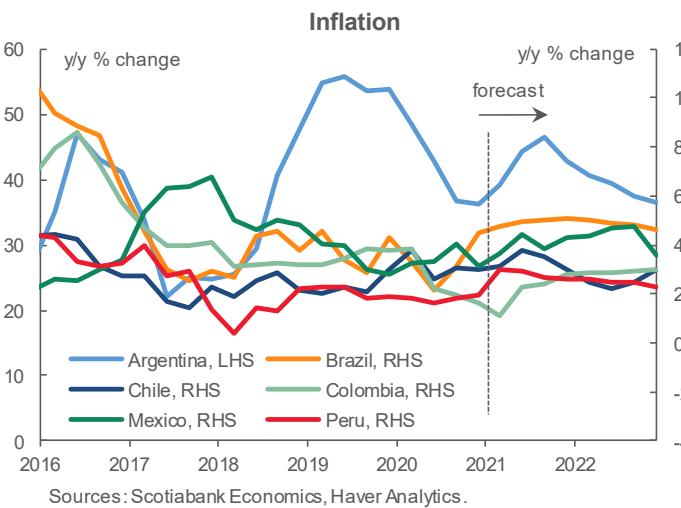


Chart 4

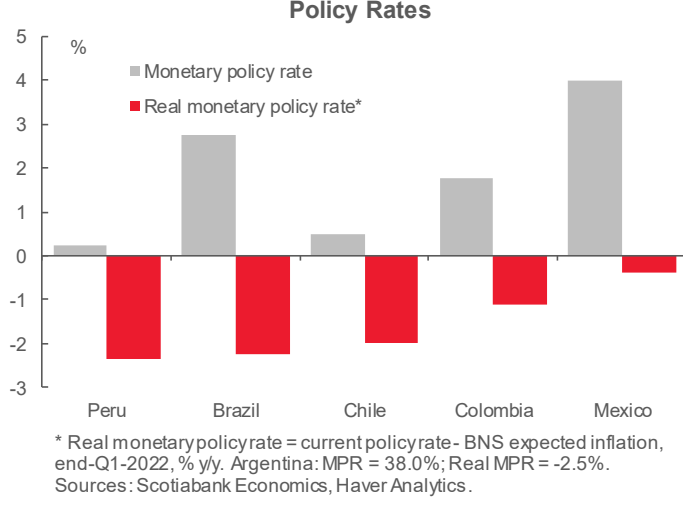


Chart 5

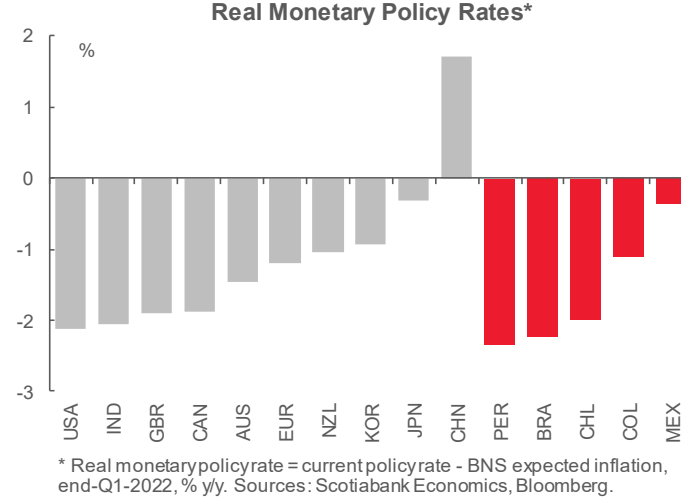
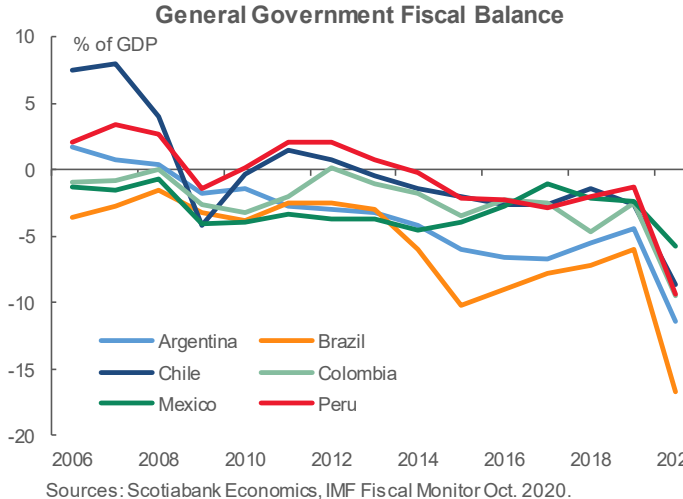


Chart 6



Key Economic Charts

Chart 7

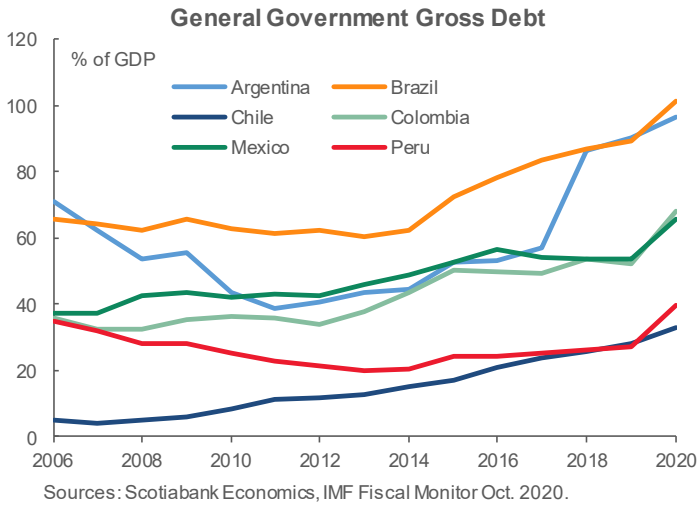


Chart 8



Chart 9

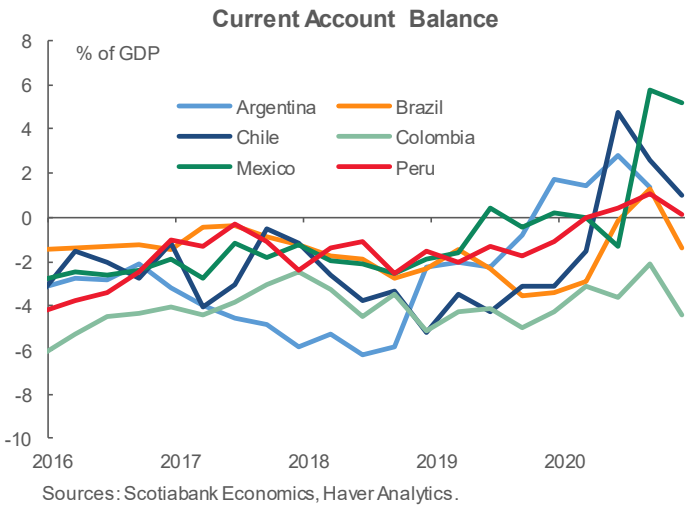
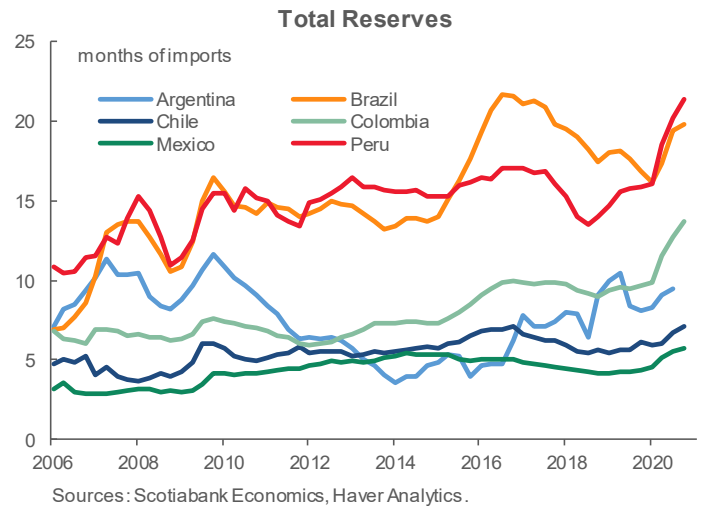


Chart 10



Key Market Charts

Chart 1

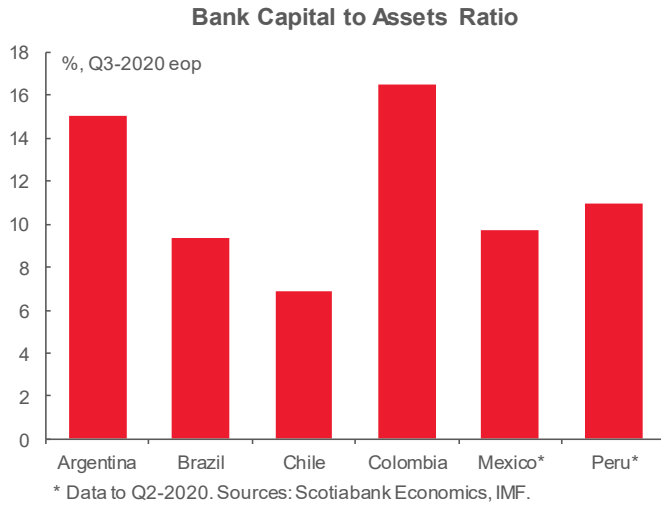


Chart 2

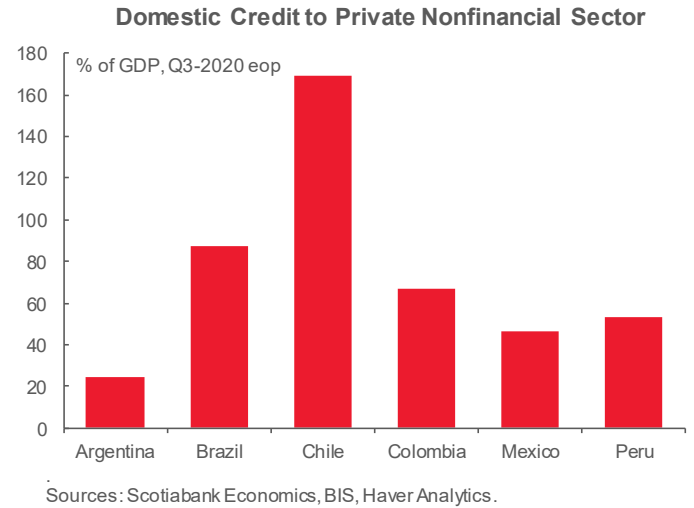


Chart 3

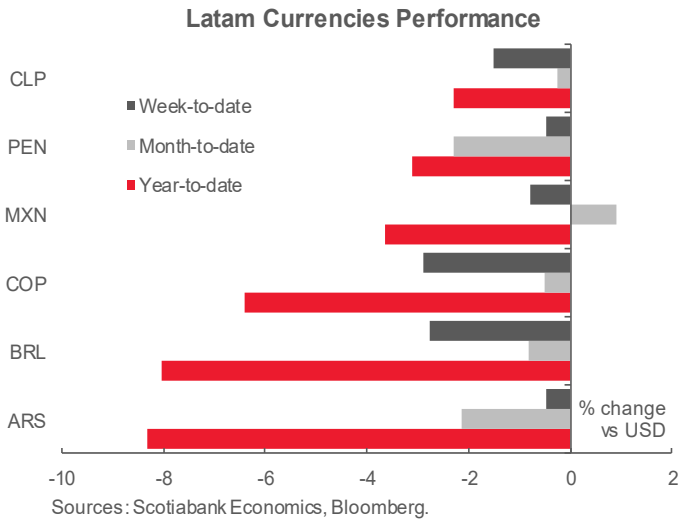


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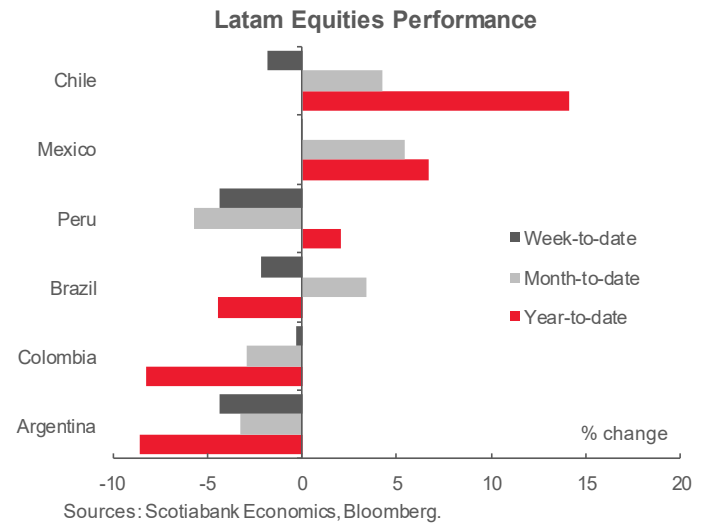


Chart 5

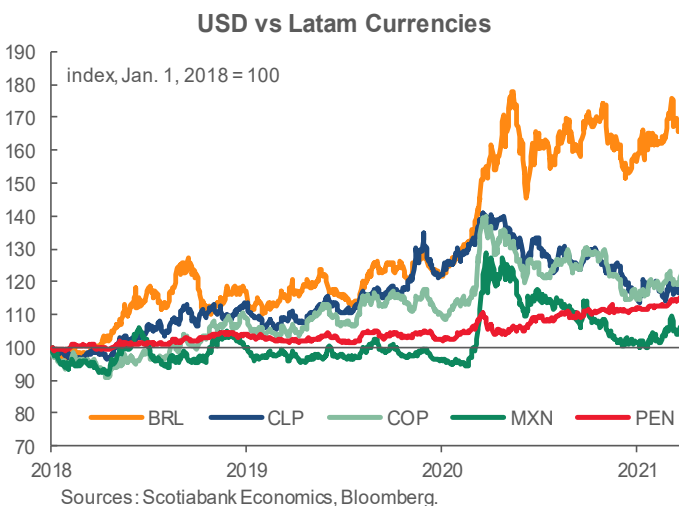
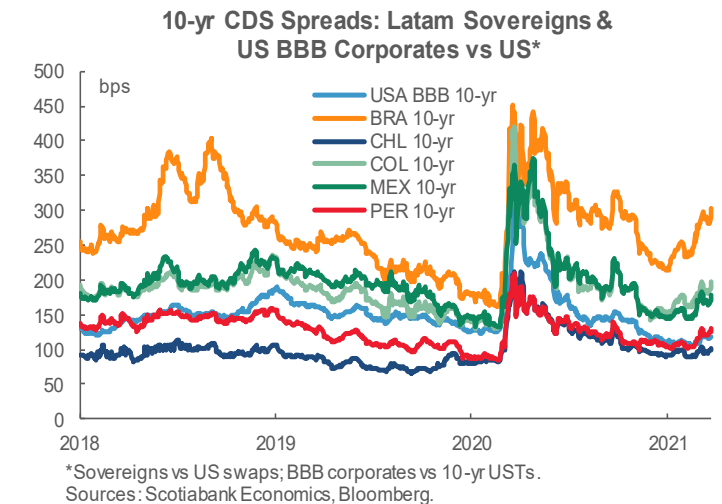
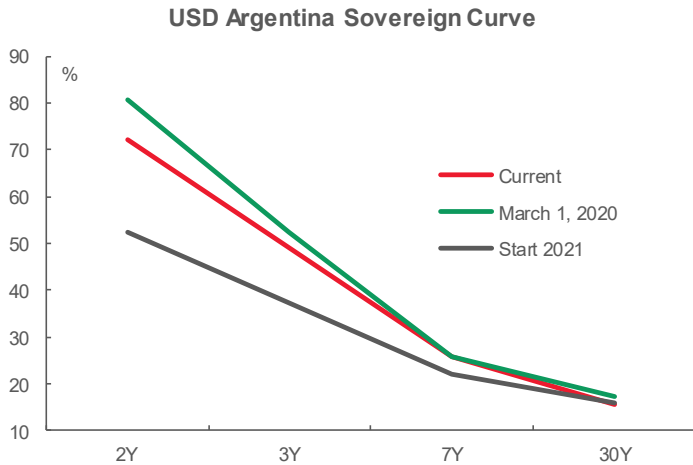


Chart 6



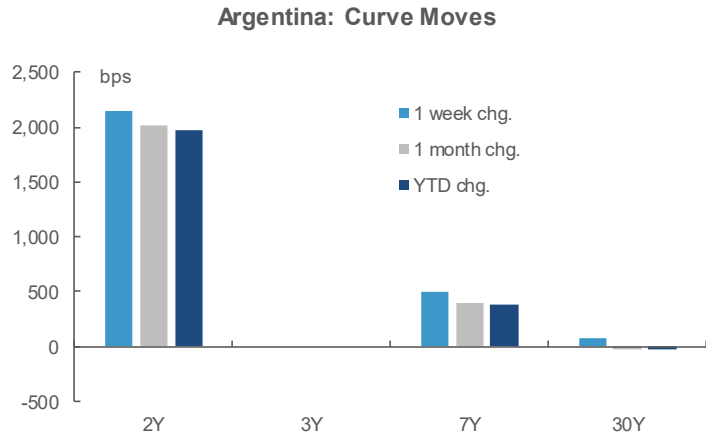
Yield Curves

Chart 1



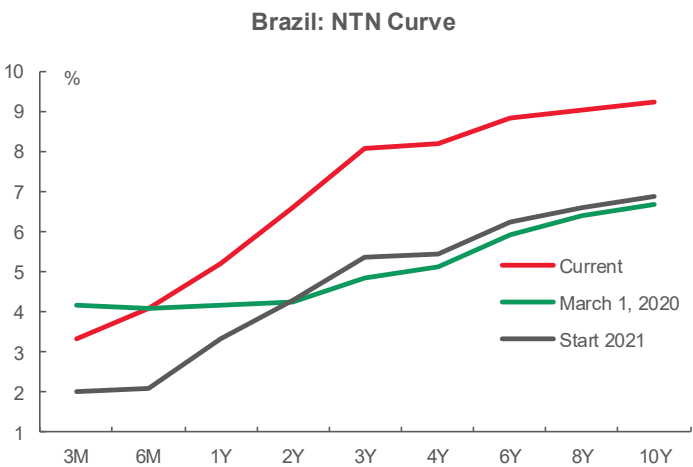
Sources: Scotiabank Economics, Bloomberg.

Chart 2



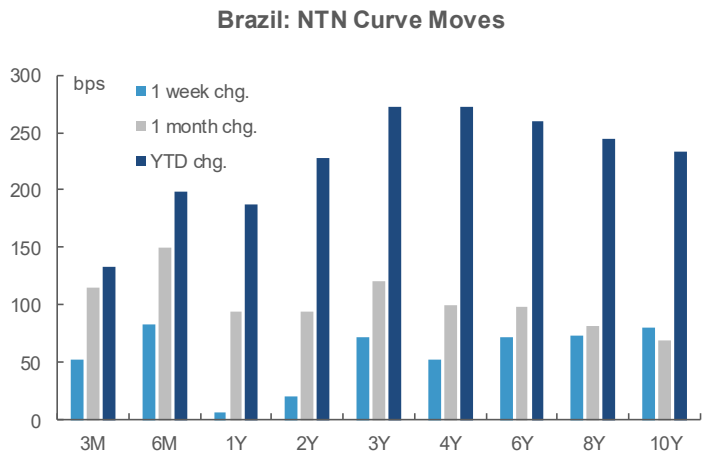
Sources: Scotiabank Economics, Bloomberg.

Chart 3



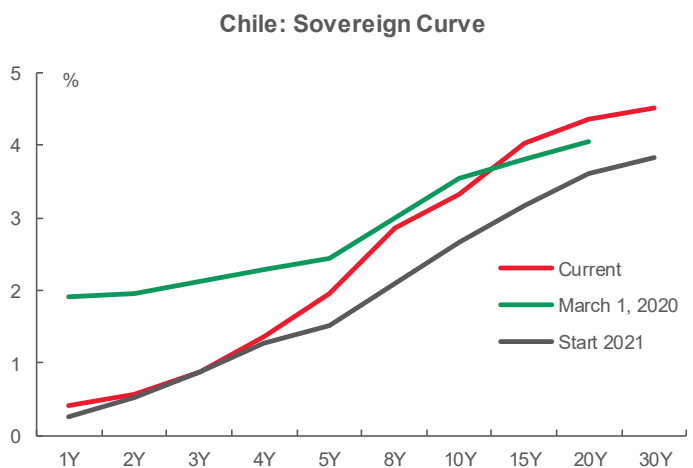
Sources: Scotiabank Economics, Bloomberg.

Chart 4



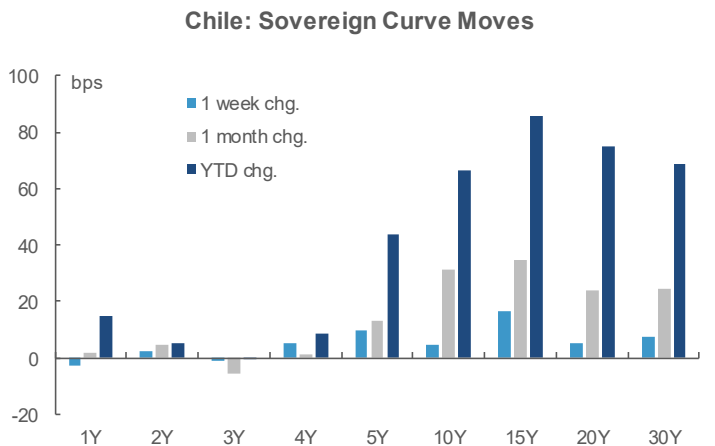
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

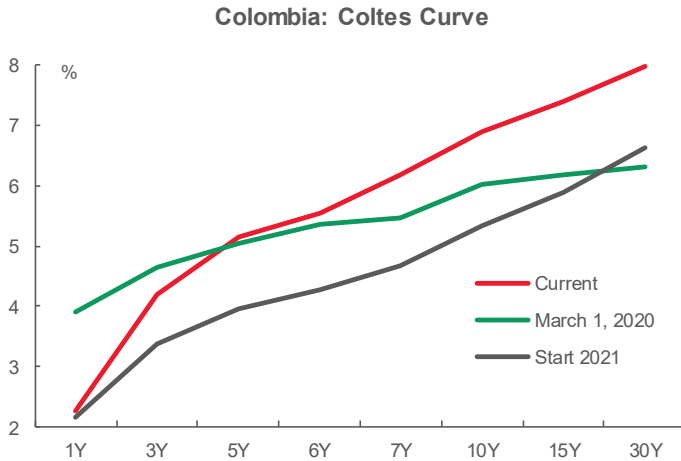
Chart 6



Sources: Scotiabank Economics, Bloomberg.

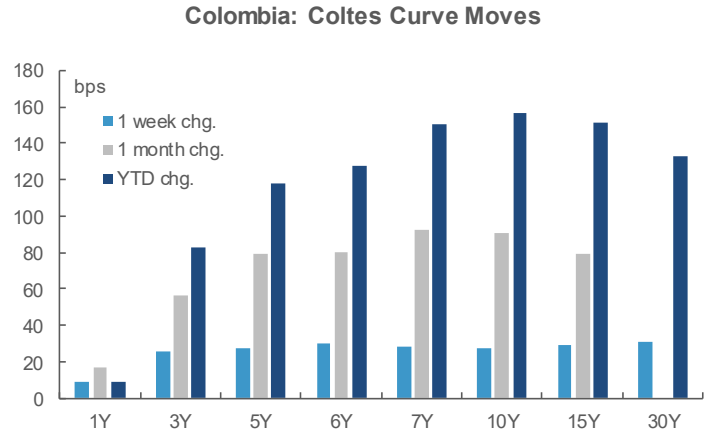
Yield Curves

Chart 7



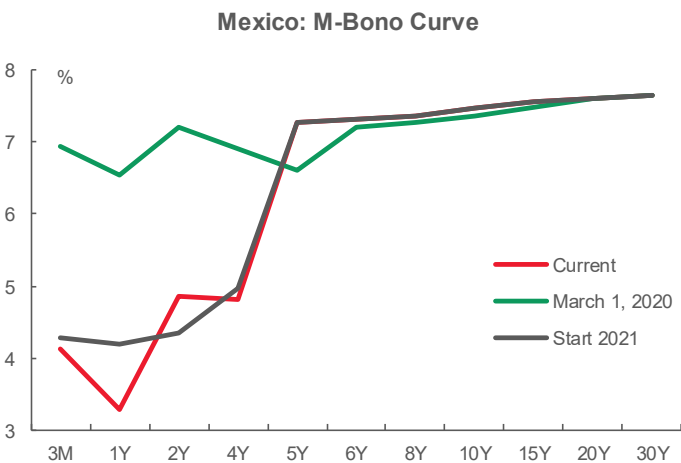
Sources: Scotiabank Economics, Bloomberg.

Chart 8



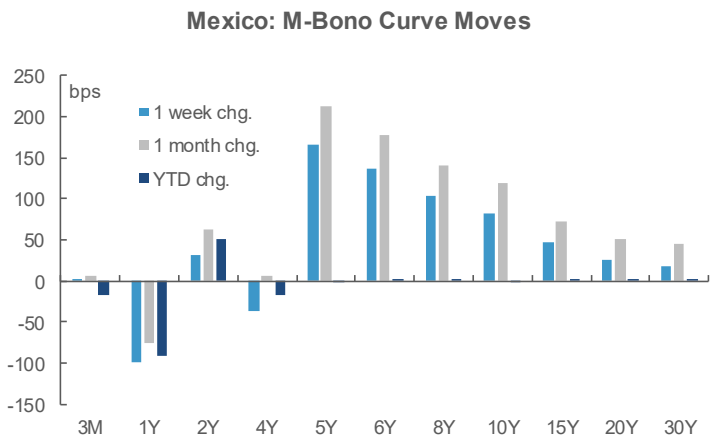
Sources: Scotiabank Economics, Bloomberg.

Chart 9



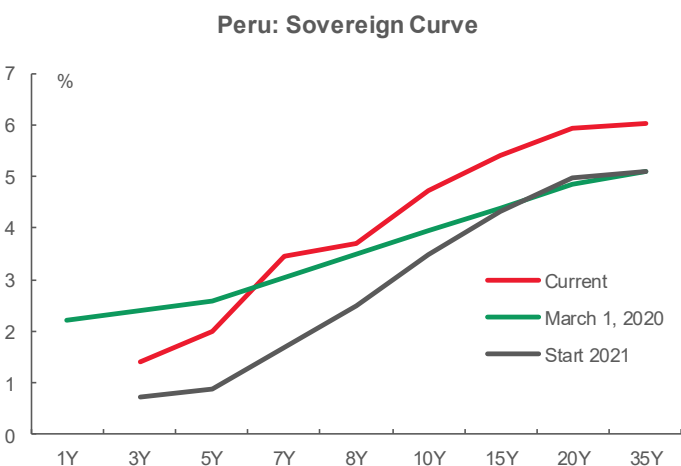
Sources: Scotiabank Economics, Bloomberg.

Chart 10



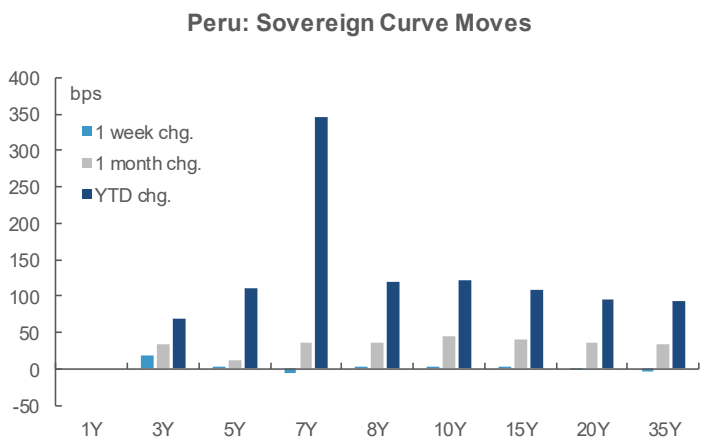
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12

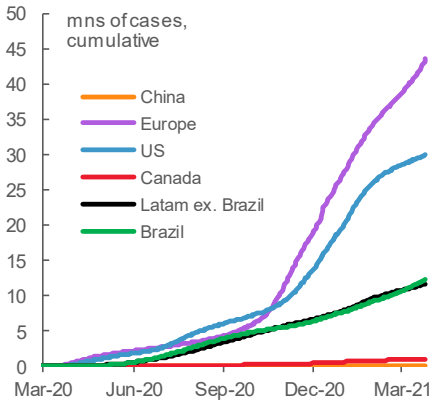


Sources: Scotiabank Economics, Bloomberg.

Key COVID-19 Charts

Chart 1

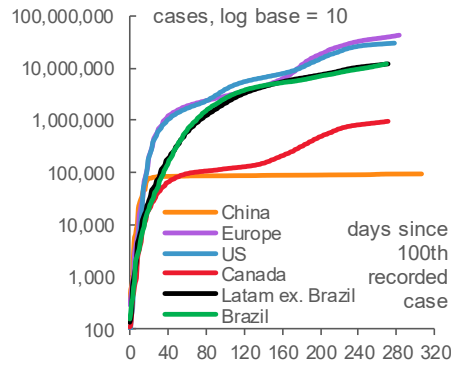
Global COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 2

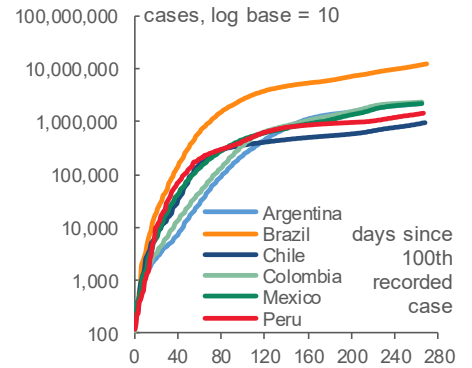
Global Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

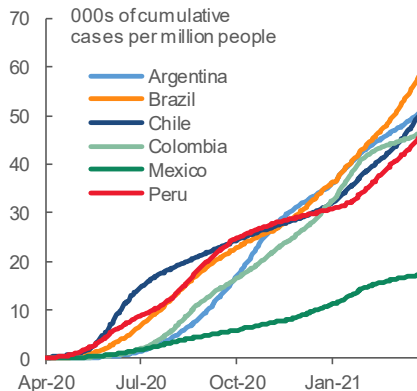
Latam Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

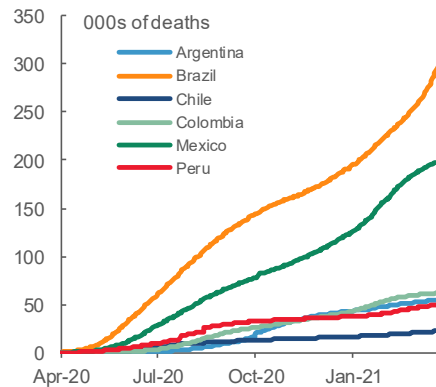
Latam Population-Adjusted COVID-19 Cases



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

Chart 5

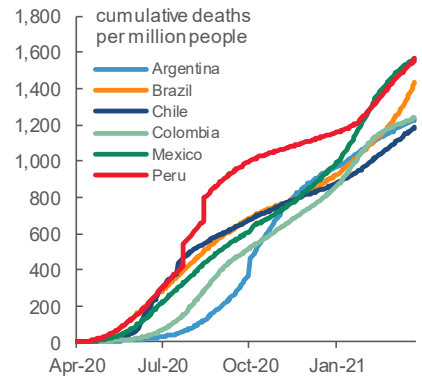
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

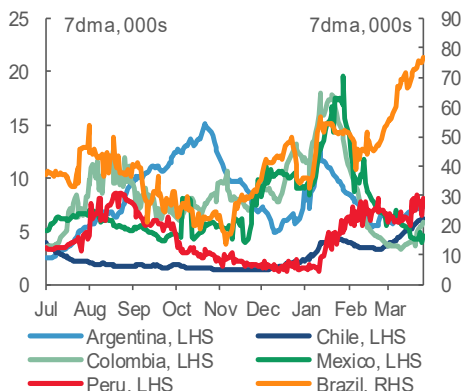
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

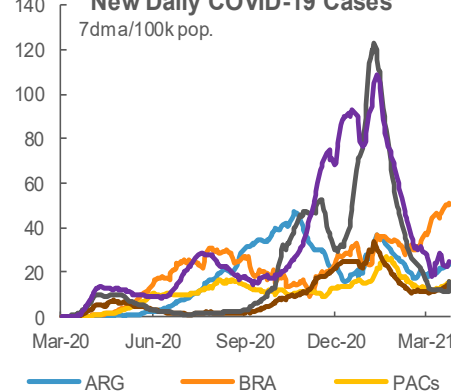
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

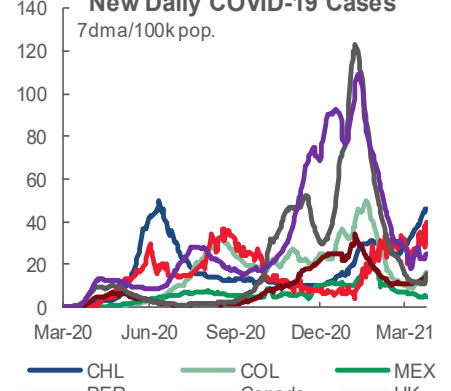
Latam vs World: New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Chart 9

Pacific Alliance vs World: New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Market Events & Indicators for March 29–April 9

ARGENTINA

<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>
03/30	15:00	Current Account Balance (USD, mn)	4Q	--	-1,500.0	1,162.8	
03/30	15:00	Economic Activity Index (y/y)	Jan	--	-2.6	-2.2	
03/30	15:00	Economic Activity Index (m/m)	Jan	--	--	0.9	
03/31	15:00	Wages (m/m)	Jan	--	--	1.8	
04/05		Government Tax Revenue (ARS, bn)	Mar	--	--	716.6	
04/07		Vehicle Exports Adefa	Mar	--	--	15,055	
04/07		Vehicle Production Adefa	Mar	--	--	21,809	
04/07		Vehicle Domestic Sales Adefa	Mar	--	--	26,676	
04/08	15:00	Construction Activity (y/y)	Feb	--	--	23.3	
04/08	15:00	Industrial Production (y/y)	Feb	--	--	4.5	
04/09		Central Bank Survey					We still expect rate hikes in 2021 for a new IMF loan.

BRAZIL

<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>
03/29	8:30	Outstanding Loans (m/m)	Feb	--	--	0.0	
03/29	8:30	Total Outstanding Loans (BRL, bn)	Feb	--	--	4,020.1	
03/29	8:30	Personal Loan Default Rate (%)	Feb	--	--	4.1	
03/29		Formal Job Creation Total	Feb	--	250,000	260,353	
MAR 29-31		Central Govt Budget Balance (BRL, bn)	Feb	--	-24.4	43.2	
03/30	7:00	FGV Inflation IGPM (y/y)	Mar	--	31.4	28.9	
03/30	7:00	FGV Inflation IGPM (m/m)	Mar	--	3.2	2.5	
03/30	8:00	PPI Manufacturing (m/m)	Feb	--	--	2.9	
03/30	8:00	PPI Manufacturing (y/y)	Feb	--	--	21.5	
03/31	8:00	National Unemployment Rate (%)	Jan	--	14.2	13.9	
03/31	8:30	Primary Budget Balance (BRL, bn)	Feb	--	-21.8	58.4	
03/31	8:30	Nominal Budget Balance (BRL, bn)	Feb	--	--	17.9	
03/31	8:30	Net Debt (% GDP)	Feb	--	61.9	61.6	
04/01	8:00	Industrial Production (y/y)	Feb	--	1.5	2.0	
04/01	8:00	Industrial Production (m/m)	Feb	--	0.5	0.4	
04/01	9:00	Markit Brazil PMI Manufacturing	Mar	--	--	58.4	
04/01	14:00	Trade Balance Monthly (USD, mn)	Mar	--	3,100	1,152	
04/01	14:00	Exports Total (USD, mn)	Mar	--	23,451	16,183	
04/01	14:00	Imports Total (USD, mn)	Mar	--	19,526	15,030	
APR 1-6		Vehicle Sales Fenabrave	Mar	--	--	167,384	
04/05	4:00	FIPE CPI - Monthly (m/m)	Mar	--	--	0.2	
04/05	7:00	FGV CPI IPC-S (m/m)	31-Mar	--	--	1.0	
04/06	9:00	Markit Brazil PMI Composite	Mar	--	--	49.6	
04/06	9:00	Markit Brazil PMI Services	Mar	--	--	47.1	
04/07	7:00	FGV Inflation IGP-DI (m/m)	Mar	--	--	2.7	
04/07	7:00	FGV Inflation IGP-DI (y/y)	Mar	--	--	30.0	
04/07	9:00	Vehicle Sales Anfavea	Mar	--	--	167,391	
04/07	9:00	Vehicle Production Anfavea	Mar	--	--	197,035	
04/07	9:00	Vehicle Exports Anfavea	Mar	--	--	33,064	
04/08	7:00	FGV CPI IPC-S (m/m)	07-Apr	--	--	1.0	
04/09	7:00	IGP-M Inflation 1st Preview	Apr	--	--	2.0	
04/09	8:00	IBGE Inflation IPCA (m/m)	Mar	--	--	0.9	
04/09	8:00	IBGE Inflation IPCA (y/y)	Mar	--	--	5.2	

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

Market Events & Indicators for March 29–April 9

CHILE

<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>
03/30	17:00	Overnight Rate (%) Target	30-Mar	0.50	0.50	0.50	Hold expected into mid-2022.
03/31	8:00	Unemployment Rate (%)	Feb	--	--	10.2	
03/31	8:00	Retail Sales (y/y)	Feb	--	6.0	5.8	
03/31	8:00	Commercial Activity (y/y)	Feb	--	--	4.3	
03/31	8:00	Manufacturing Production (y/y)	Feb	--	--	-4.4	
03/31	8:00	Industrial Production (y/y)	Feb	--	--	-2.4	
03/31	8:00	Copper Production Total (tons)	Feb	--	--	464,788	
04/01	7:30	Economic Activity (m/m)	Feb	--	--	1.3	
04/01	7:30	Economic Activity (y/y)	Feb	--	-1.5	-3.1	Chile leads the recovery in Latam.
APR 1-8		IMCE Business Confidence	Mar	--	--	55.7	
04/07	8:30	Trade Balance (USD, mn)	Mar	--	--	1,516.3	
04/07	8:30	Exports Total (USD, mn)	Mar	--	--	7,071.3	
04/07	8:30	Imports Total (USD, mn)	Mar	--	--	5,555	
04/07	8:30	Copper Exports (USD, mn)	Mar	--	--	3,879	
04/07	8:30	International Reserves (USD, mn)	Mar	--	--	39,562	
04/07	9:00	Nominal Wage (m/m)	Feb	--	--	1.1	
04/07	9:00	Nominal Wage (y/y)	Feb	--	--	4.2	
04/08	8:00	CPI (m/m)	Mar	--	--	0.2	
04/08	8:00	CPI (y/y)	Mar	--	--	2.8	
APR 8-13		Vehicle Sales Total	Mar	--	--	24,492	

COLOMBIA

<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>
03/31	11:00	National Unemployment Rate (%)	Feb	--	--	17.3	
03/31	11:00	Urban Unemployment Rate (%)	Feb	--	17.9	19.5	
04/05	11:00	Davivienda Colombia PMI Mfg	Mar	--	--	50.2	
04/05	18:00	BanRep Monetary Policy Minutes					Growth forecast raised in March 26 hold.
04/05	20:00	CPI (m/m)	Mar	--	--	0.6	Rising inflation is projected to prompt a first rate hike
04/05	20:00	CPI (y/y)	Mar	--	--	1.6	in Q3-2021.
04/05	20:00	CPI Core (m/m)	Mar	--	--	0.7	
04/05	20:00	CPI Core (y/y)	Mar	--	--	0.9	
04/06	11:00	Exports FOB (USD, mn)	Feb	--	--	2,594.5	
04/08		Consumer Confidence Index	Mar	--	--	-14.6	

Market Events & Indicators for March 29–April 9

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>
03/30	11:00	International Reserves Weekly (USD, mn)	26-Mar	--	--	194,939	
03/30		Budget Balance YTD (MXN, bn)	Feb	--	--	-8.0	
03/31	11:00	Net Outstanding Loans (MXN, bn)	Feb	--	--	4,590.2	
04/05	10:00	Remittances Total (USD, mn)	Feb	--	--	3,297.9	
04/05	10:00	Central Bank Economist Survey		--	--		
04/05	10:30	Markit Mexico PMI Mfg	Mar	--	--	44.2	
04/05	13:00	IMEF Manufacturing Index SA	Mar	--	--	49.1	
04/05	13:00	IMEF Non-Manufacturing Index SA	Mar	--	--	49.4	
04/06	7:00	Vehicle Domestic Sales	Mar	--	--	82,323	
04/06	7:00	Leading Indicators ((m/m))	Feb	--	--	0.4	
04/06	7:00	Consumer Confidence	Mar	--	--	38.4	
04/06	10:00	International Reserves Weekly (USD, mn)	31-Mar	--	--	--	
04/06		Citibanamex Survey of Economists					
04/07	7:00	Gross Fixed Investment (y/y)	Jan	--	--	-11.5	
04/08	7:00	CPI Core (m/m)	Mar	--	--	0.4	
04/08	7:00	CPI (m/m)	Mar	--	--	0.6	
04/08	7:00	CPI (y/y)	Mar	--	--	3.8	
04/08	7:00	Vehicle Exports	Mar	--	--	213,987	
04/08	7:00	Vehicle Production	Mar	--	--	238,868	
04/08	7:00	Bi-Weekly CPI (w/w)	31-Mar	--	--	0.5	
04/08	7:00	Bi-Weekly Core CPI (w/w)	31-Mar	--	--	0.4	
04/08	7:00	Bi-Weekly CPI (y/y)	31-Mar	--	--	4.1	
04/08	10:00	Banxico Monetary Policy Minutes					March 25 hold wasn't called a "pause".
04/09	7:00	Industrial Production SA (m/m)	Feb	--	--	0.3	
04/09	7:00	Industrial Production NSA (y/y)	Feb	--	--	-4.9	
04/09	7:00	Manuf. Production NSA (y/y)	Feb	--	--	-3.4	
04/09		Nominal Wages (y/y)	Mar	--	--	4.3	

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>
04/01	11:00	Lima CPI (m/m)	Mar	--	--	-0.1	
04/01	11:00	Lima CPI (y/y)	Mar	--	--	2.4	
04/08	18:00	Reference Rate (%)	08-Apr	0.25	--	0.25	Hold expected into mid-2022.
APR 9-13		Trade Balance (USD, mn)	Feb	--	--	346.9	

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