

## Latam Charts: The Monetary (Re)balancing Act

- **Latam economies continue to bounce back from the pandemic-induced recession. Inflation has significantly increased.**
- **Supply-side bottlenecks undoubtedly account for much of the observed price pressures. But with output gaps closing and employment slowly returning to pre-COVID levels, central banks are focused on the possibility that short-term, temporary increases could raise longer term expectations.**
- **Central banks across the region have therefore begun to rebalance monetary conditions, raising key policy rates. However, real policy rates remain negative in most Pacific Alliance countries, despite rate hikes.**
- **Financial markets have readily absorbed monetary rebalancing, which is entirely consistent with long-term inflation-control commitments.**

### KEY ECONOMIC CHARTS

The economic recovery across the Latam region continues to advance, with projected GDP returning to pre-COVID growth paths over the medium-term (chart 1). Monthly indicators of economic activity remain at elevated levels, measured on a year-over-year basis, reflecting the sharp contraction in activity as public health lockdowns took effect in the first half of 2020 (chart 2). As noted in previous editions of the *Latam Charts Weekly*, however, these base effects will diminish over time. Evidence of this diminution is found in Mexican data for June retail sales, which increased 17.7% y/y, down from 29.7% y/y in May (see [Latam Daily, August 25](#)).

The rebound in economic activity, together with widespread supply bottlenecks, has led to a sharp increase in inflation in Latam countries (chart 3). While inflation is expected to decline over time as transitory effects fade, the possibility that even temporary increases in inflation could become embedded in inflationary expectations, generating ongoing price pressures, has led to increased attention on central banks across the region.

Latam central banks are closely monitoring the speed at which output gaps are closing, looking for shifts in inflation expectations, and carefully weighing the likely path of global interest rates. Most have already embarked on a tightening cycle; Chile's central bank surprised markets by raising its key reference rate 75 bps in response to continuing strength in the economy (see [Latam Flash, September 1](#)). In Peru, inflation spiked in August at 0.98% m/m, well above the Bloomberg consensus of 0.21% and somewhat higher than Scotiabank's estimate of 0.65%. In the face of strong price pressures, our team in Lima is raising its inflation forecast for 2021 from 3.5% to 6.5%. Meanwhile, the BCRP, which hiked rates 25 bps on August 12th, will likely follow up with another increase next week.

Given the surge in inflation, real policy rates (nominal rate adjusted for inflation) in most countries remain negative (chart 4) notwithstanding the increase in key reference rates. Brazil and Mexico have been the most aggressive in terms of having positive policy rates, and are clear outliers both within the Latam region and around the globe in this regard (chart 5).

### CONTACTS

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Recent increases in policy rates reflect a rebalancing of monetary conditions from the extraordinary monetary policy responses to the pandemic. Those policy responses were instrumental in softening the economic and financial effects of the pandemic. Fiscal policy responses to the COVID crisis across the region were equally robust; they played a critical role in supporting individuals and mitigating the effects of widespread economic lockdowns. Those responses explain the sharp deterioration in fiscal balances (chart 6) and rising gross debt as a share of GDP (chart 7). Higher debt burdens do not necessarily signal potential sustainability problems, but as we previously noted (see [Latam Weekly, July 16](#)) they do underscore the need for governments in the region to lay out credible plans for public debt management over the medium term.

Notwithstanding pandemic-induced increases in external debt as a percent of GDP (chart 8), external debt burdens remain at moderate levels. Similarly, current account balances (chart 9)—which strengthened in 2020 as a drop in economic activity and demand reduced imports—have deteriorated with the economic rebound. In Colombia, current account deficits have widened, financed through portfolio flows as foreign direct investment has slowed amidst the uncertainty generated by nationwide strikes earlier in the year (see [Latam Daily, September 2](#)). Total reserves in months of imports have generally risen across the Latam region (chart 10).

### KEY MARKET CHARTS

Regional currencies have depreciated against the US dollar, with the Argentine, Chilean, Colombian and Peruvian currencies recording the biggest declines (chart 3). Over a longer time horizon, the Brazilian Real has experienced a steady decline. The Mexican peso, in contrast, has been broadly stable (chart 5). Other Pacific Alliance currencies lie between these two paths.

Equity markets have, on the whole, performed better (chart 4). Market sell-offs in Colombia and Peru likely reflect nationwide protests (Colombia) and political uncertainties surrounding the presidential elections (Peru). In Peru, the new government proposed a budget that our Scotiabank experts in Lima describe as a “steady-as-she-goes” approach, likely with an eye on reassuring nervous investors.

After spiking early in the pandemic, 10-years CDS spreads on Latam sovereigns have fallen to near pre-pandemic levels (chart 6). Spreads on Colombia and Peru have widened slightly relative to earlier in the year, reflecting the idiosyncratic uncertainties noted above. Likewise, spreads on Brazilian sovereign bonds increased early in the year, also reflecting political uncertainties, but fell back somewhat through the spring; Brazilian spreads have not narrowed by as much as other regional sovereigns.

### YIELD CURVE CHARTS

Yield curves on most Latam sovereigns have shifted up since the spring as inflation has picked up and in anticipation of a higher interest rate environment (charts 1–12). Mexico stands out in this regard (chart 9), with the M-Bono curve firmly anchored on its position at the start of 2021.

### KEY COVID-19 CHARTS

As stressed in previous issues of *Latam Charts Weekly*, uncertainty concerning the pandemic, particularly the risk of additional “waves” linked to new variants of the COVID-19 virus, is a critical factor in evaluating the economic outlook. Charts 1–12 provide key monitoring insights. Of especial importance is the pace of vaccination. Chile’s record in this regard is particularly impressive as it not only leads the Latam region (chart 10), but advanced countries (chart 11). The test positivity rate (chart 12) is also critical to gauging likely economic effects. While the decline of this metric in most Latam countries is encouraging, the steep rise in Mexico is worrisome and warrants close monitoring.

## Key Economic Charts

Chart 1

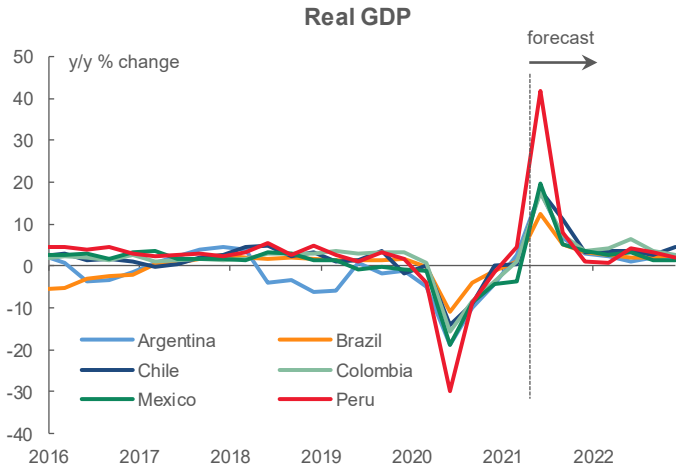


Chart 2

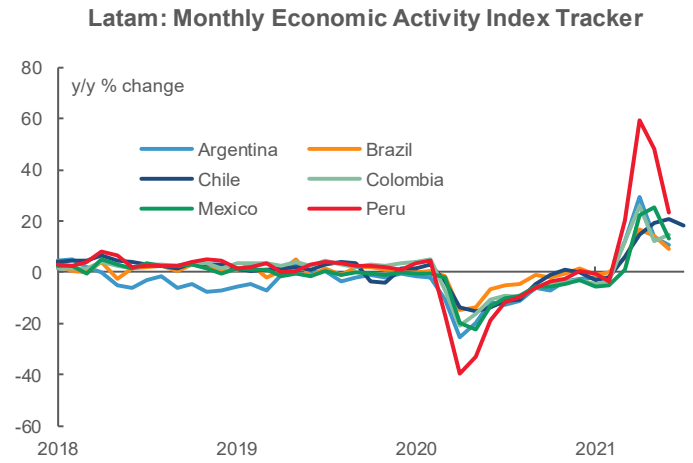


Chart 3

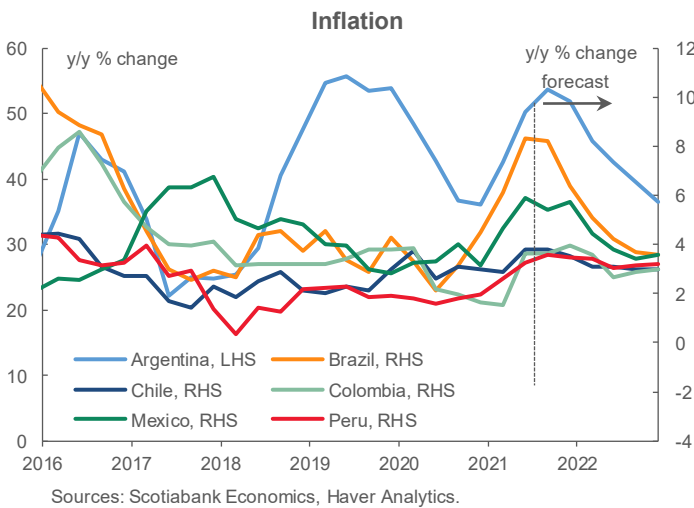


Chart 4

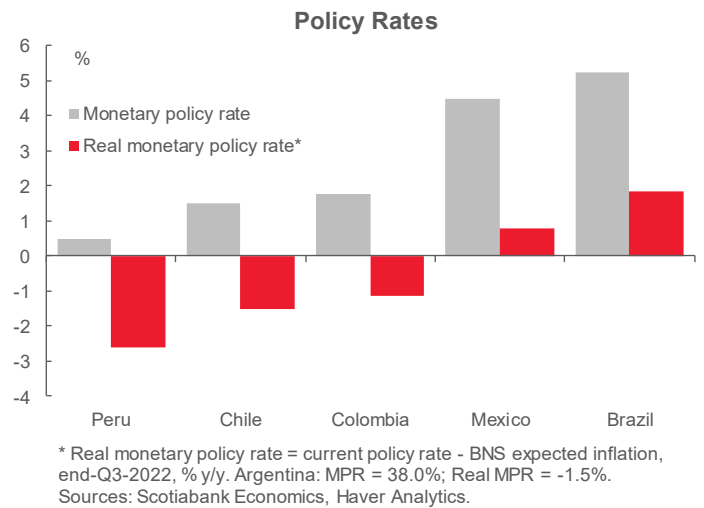


Chart 5

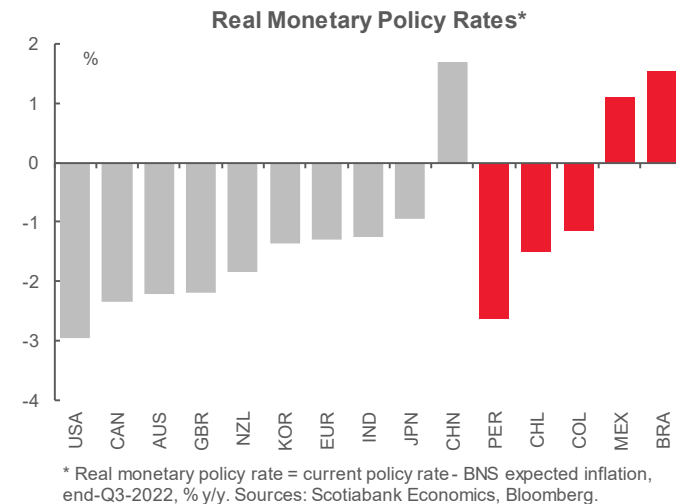
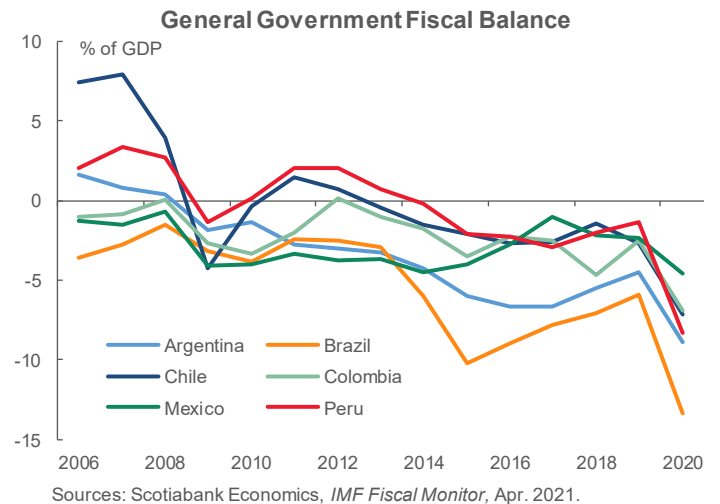


Chart 6



## Key Economic Charts

Chart 7

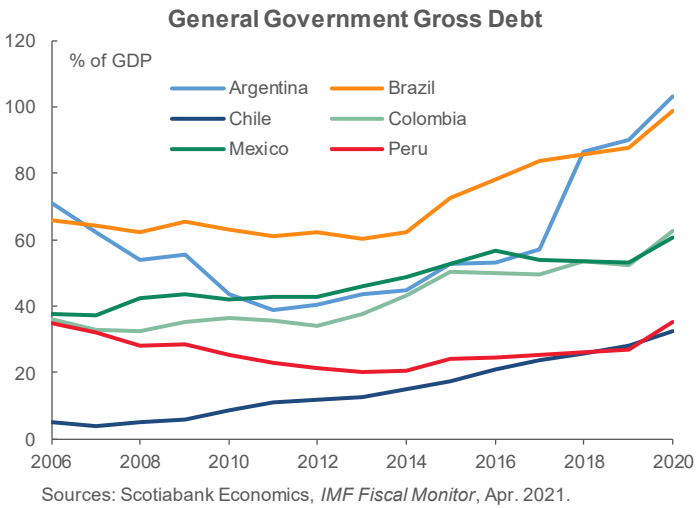


Chart 8



Chart 9

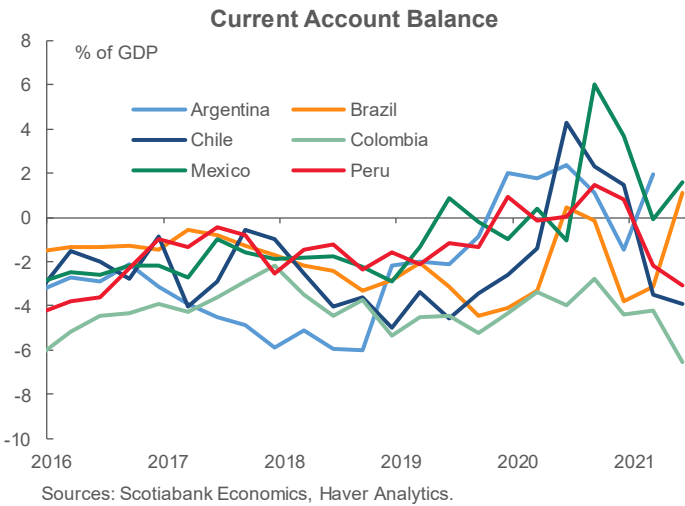
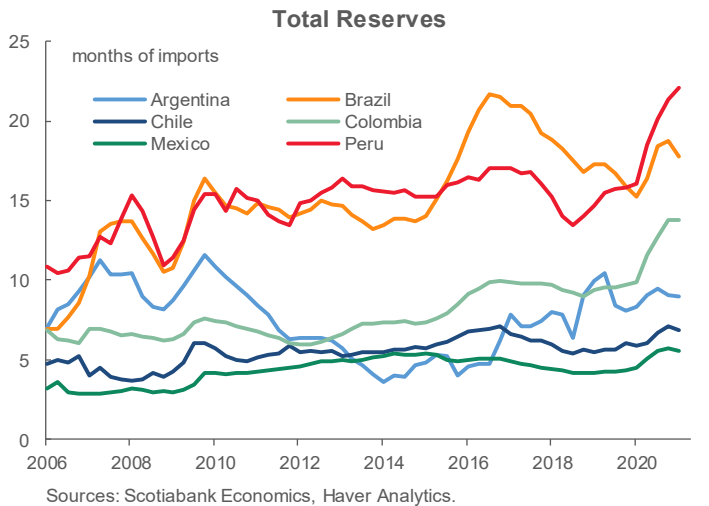


Chart 10



## Key Market Charts

Chart 1

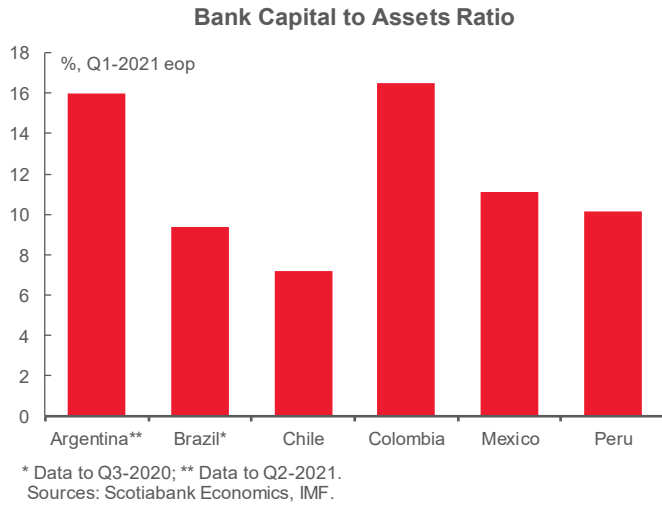


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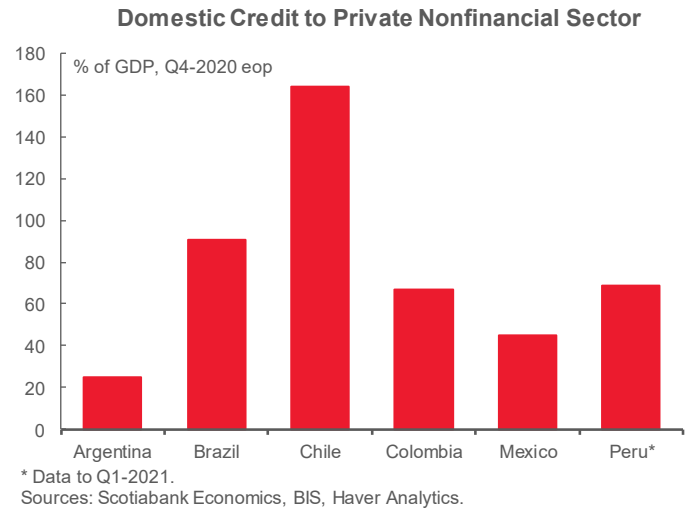


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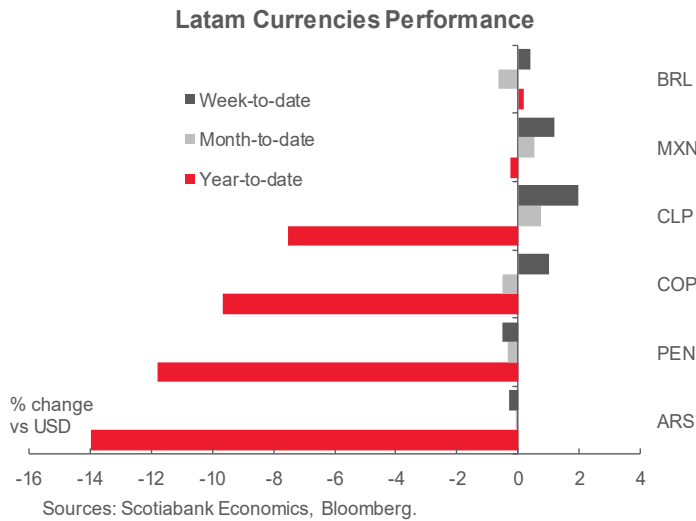


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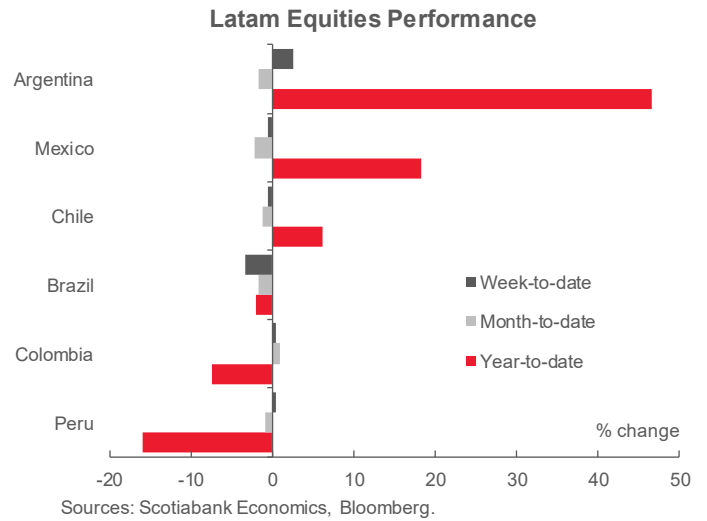


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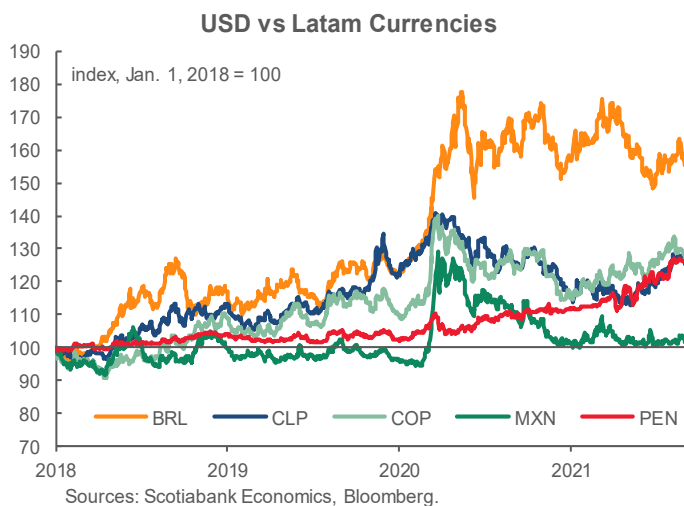
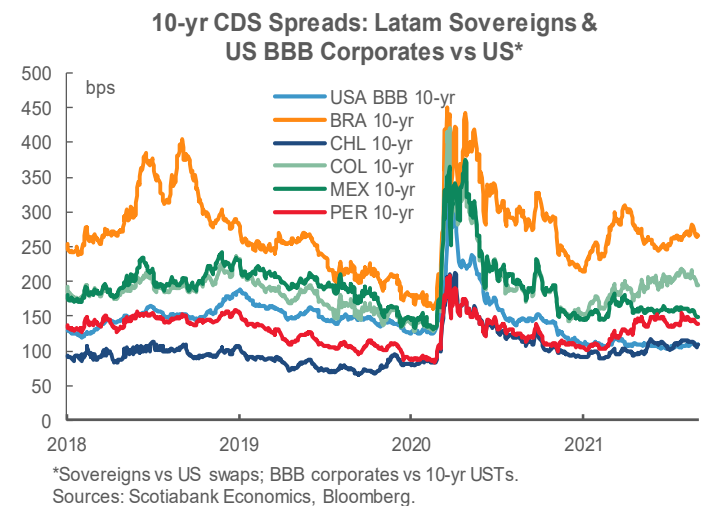
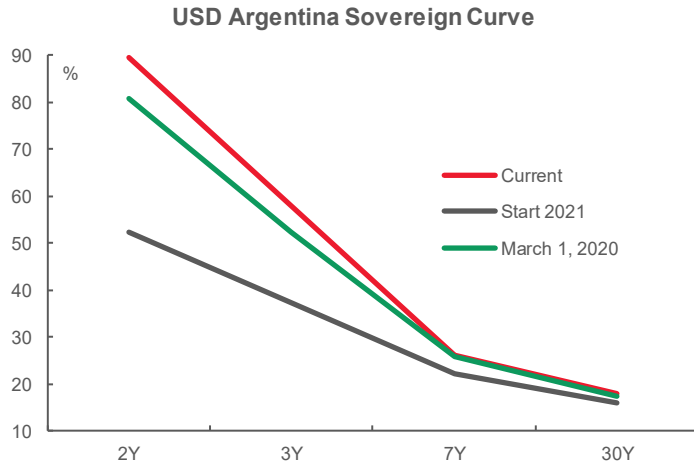


Chart 6



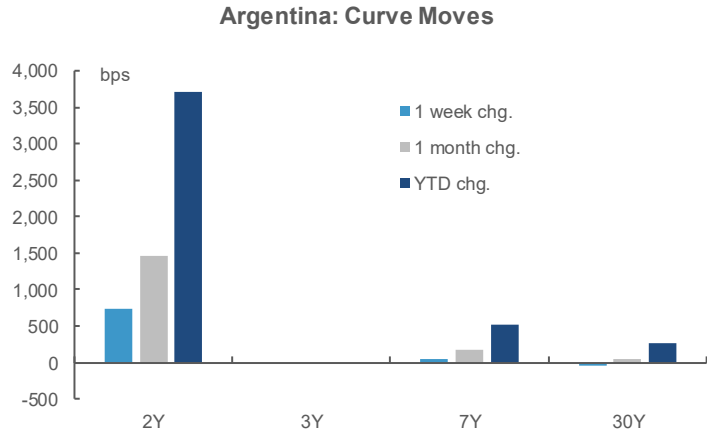
## Yield Curves

Chart 1



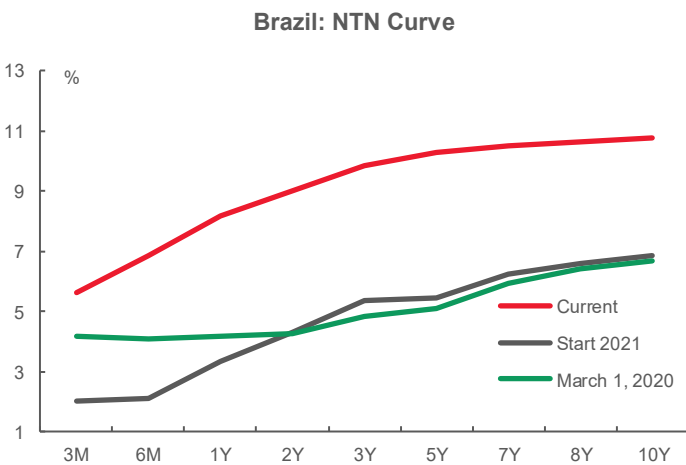
Sources: Scotiabank Economics, Bloomberg.

Chart 2



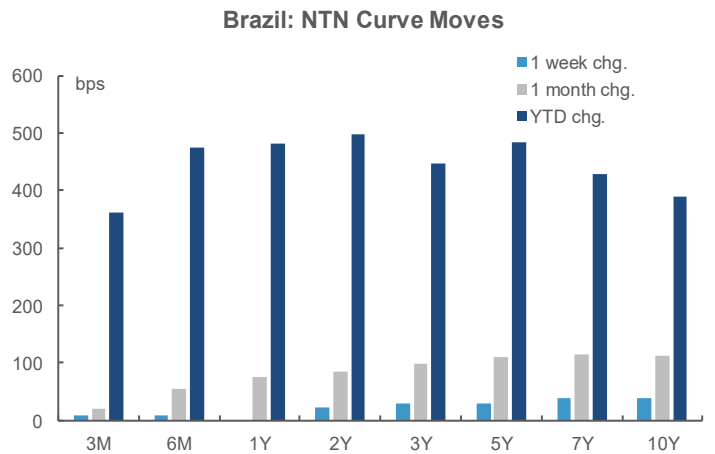
Sources: Scotiabank Economics, Bloomberg.

Chart 3



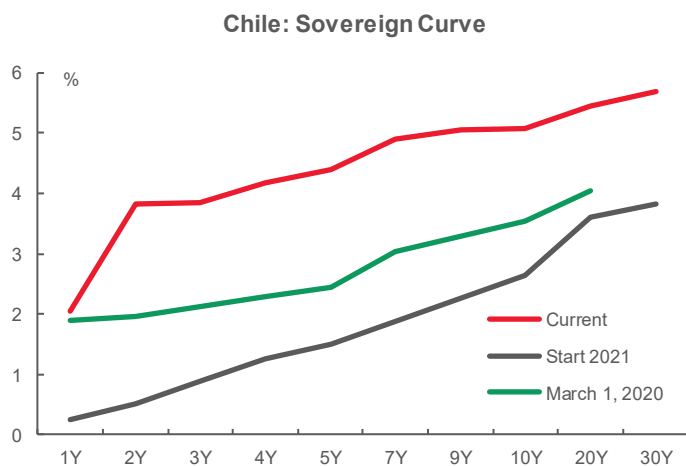
Sources: Scotiabank Economics, Bloomberg.

Chart 4



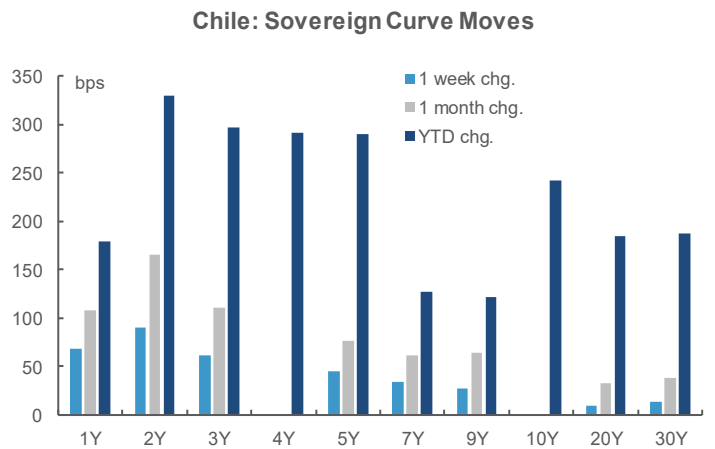
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

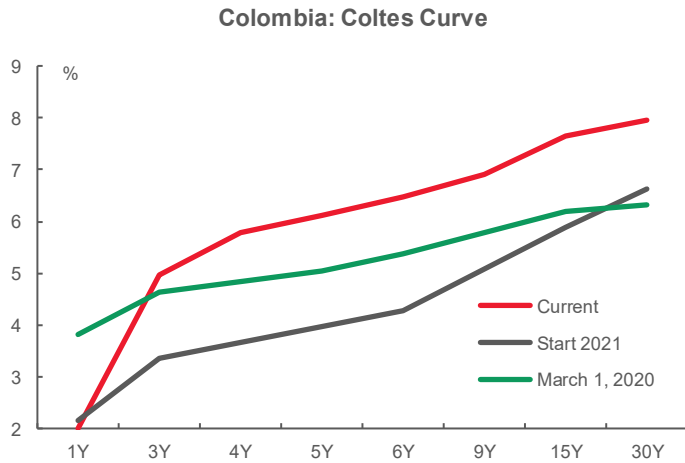
Chart 6



Sources: Scotiabank Economics, Bloomberg.

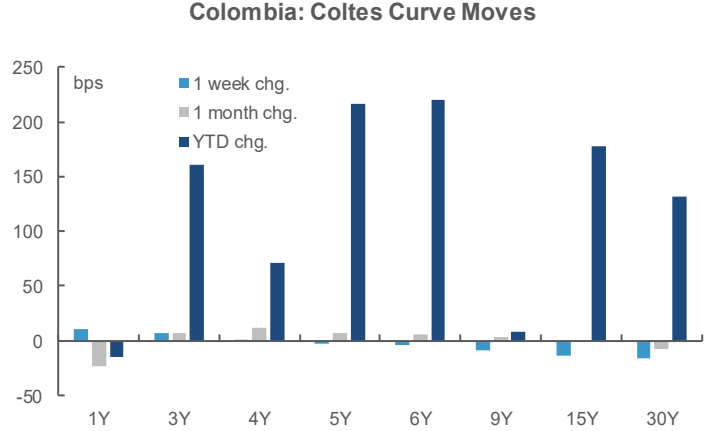
## Yield Curves

Chart 7



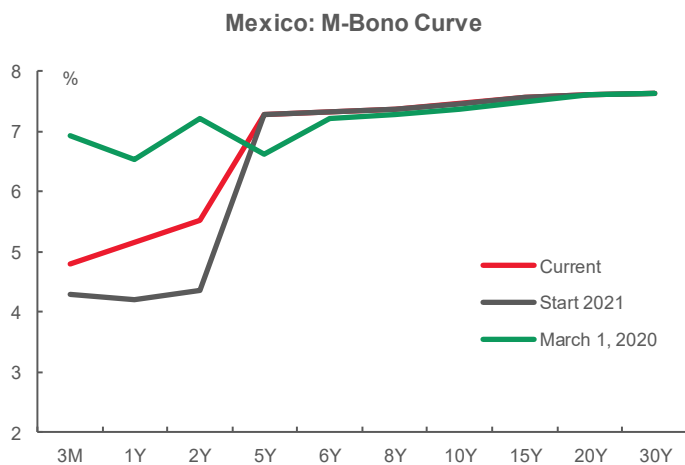
Sources: Scotiabank Economics, Bloomberg.

Chart 8



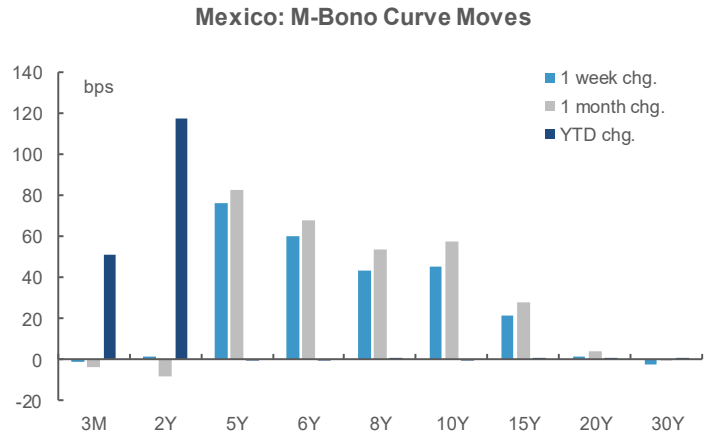
Sources: Scotiabank Economics, Bloomberg.

Chart 9



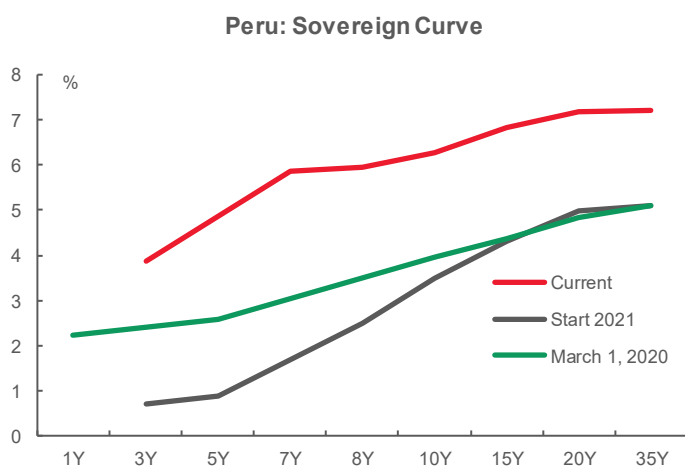
Sources: Scotiabank Economics, Bloomberg.

Chart 10



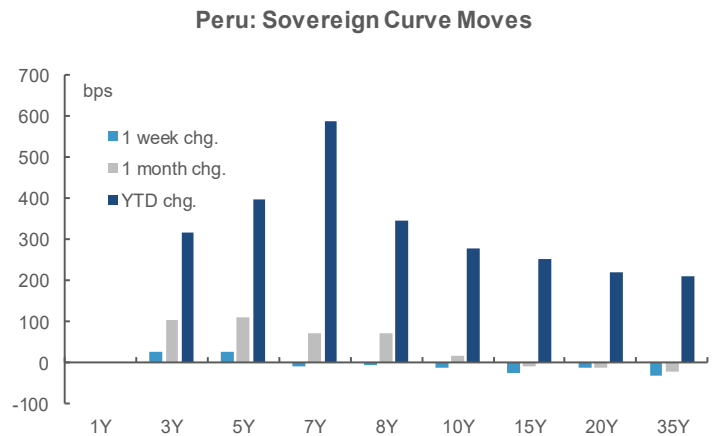
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

## Key COVID-19 Charts

Chart 1

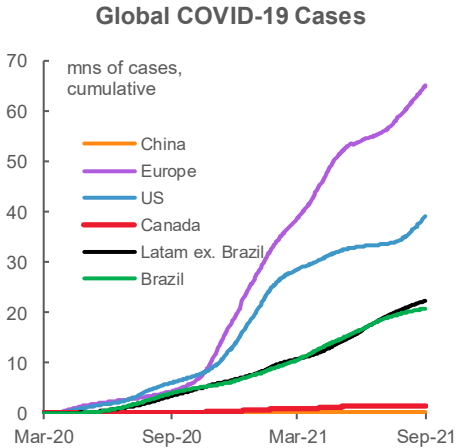


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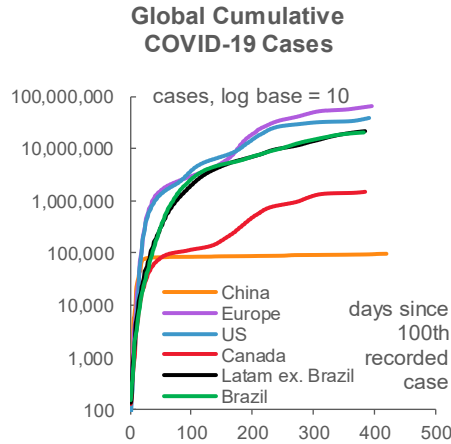


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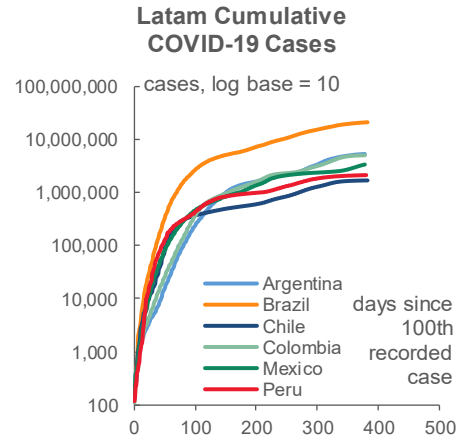


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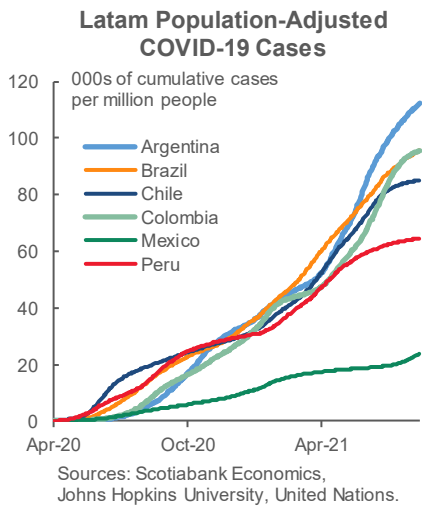


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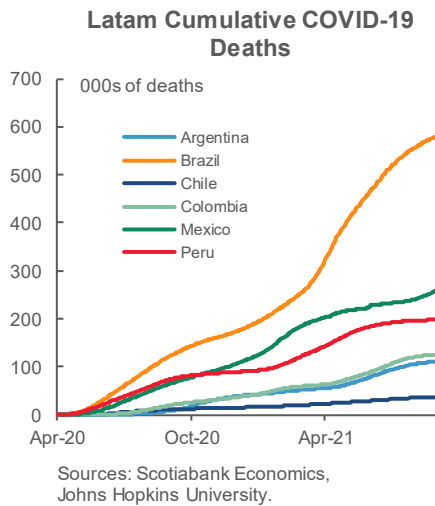


Chart 6

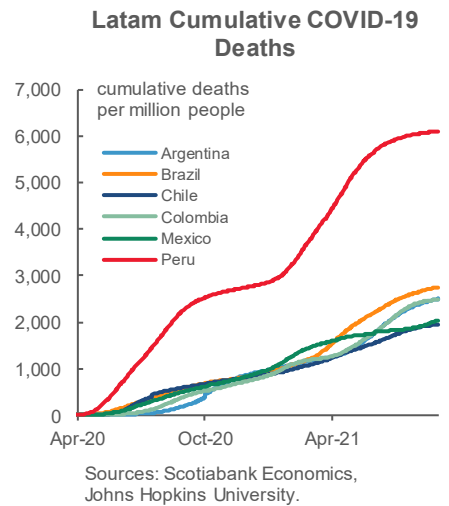


Chart 7

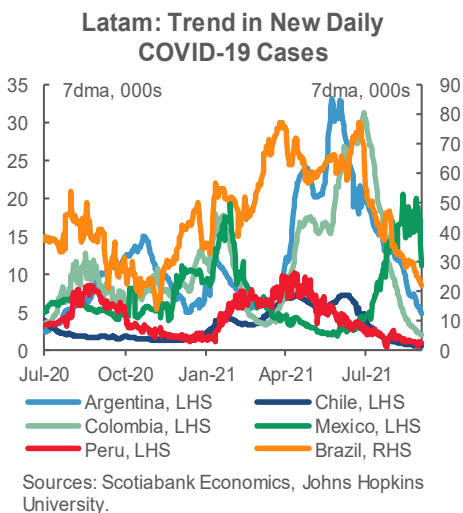


Chart 8

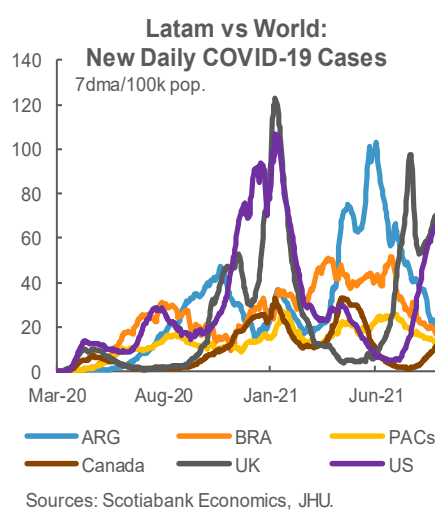
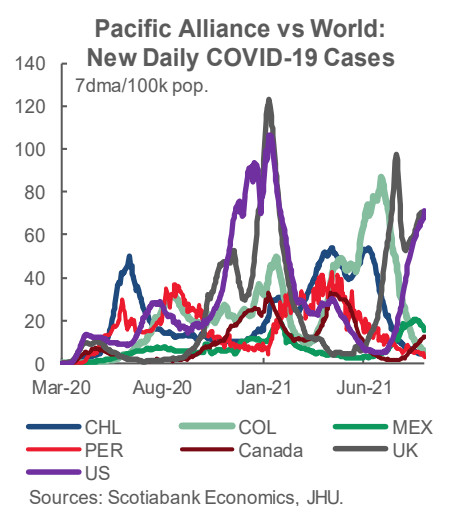


Chart 9





## Key COVID-19 Charts

Chart 10

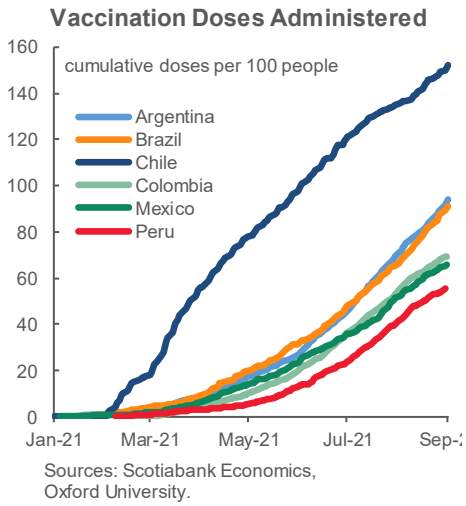


Chart 11

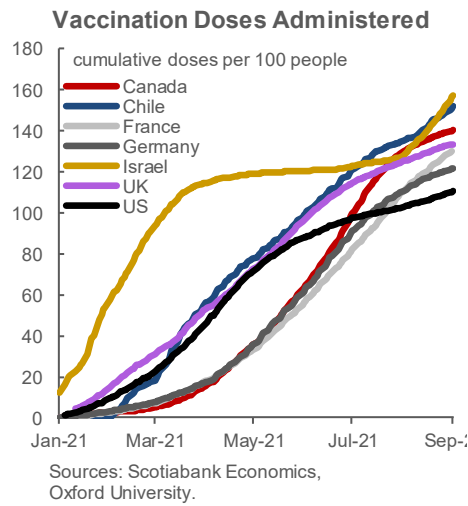
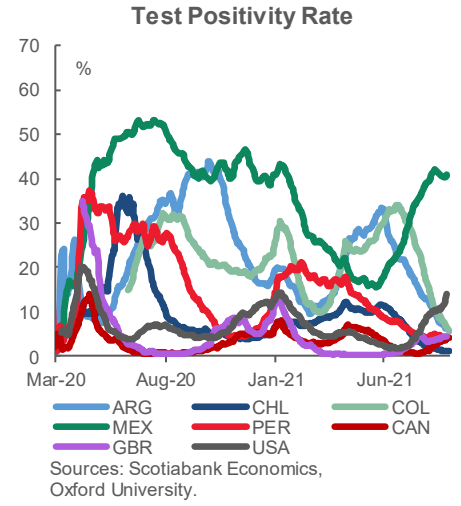


Chart 12



## Market Events & Indicators for September 4–17

### ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
09-07	15:00	Construction Activity (y/y)	Jul	--	--	28.6	
09-07	15:00	Industrial Production (y/y)	Jul	--	--	19.14	
09-14	15:00	Greater Buenos Aires CPI (y/y)	Aug	--	--	50.4	
09-14	15:00	Greater Buenos Aires CPI (m/m)	Aug	--	--	3.1	
09-14	15:00	National CPI (m/m)	Aug	--	--	3	
09-14	15:00	National CPI (y/y)	Aug	--	--	51.8	
09-15	15:00	Capacity Utilization	Jul	--	--	64.9	
09-16	15:00	Current Account Balance	2Q	--	--	690.18	

### BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
09-06	14:00	Trade Balance Weekly	05-Sep	--	--	745.73	
SEP 6-8		Vehicle Sales Anfaeva	Aug	--	--	175453	
SEP 6-8		Vehicle Production Anfaeva	Aug	--	--	163556	
SEP 6-8		Vehicle Exports Anfaeva	Aug	--	--	23766	
09-08	7:00	FGV Inflation IGP-DI (m/m)	Aug	--	--	1.45	
09-08	7:00	FGV Inflation IGP-DI (y/y)	Aug	--	--	33.35	
09-08	7:00	FGV CPI IPC-S	07-Sep	--	--	0.71	
09-09	8:00	IBGE Inflation IPCA (m/m)	Aug	--	0.7	0.96	
09-09	8:00	IBGE Inflation IPCA (y/y)	Aug	--	9.49	8.99	
09-10	4:00	FIPE CPI - Weekly	07-Sep	--	--	1.4	
09-10	8:00	Retail Sales (m/m)	Jul	--	0.5	-1.7	
09-10	8:00	Retail Sales (y/y)	Jul	--	1.1	6.3	
09-10	8:00	Retail Sales Broad (m/m)	Jul	--	--	-2.3	
09-10	8:00	Retail Sales Broad (y/y)	Jul	--	--	11.5	
09-13	14:00	Trade Balance Weekly	12-Sep	--	--	745.73	
09-14	8:00	IBGE Services Sector Volume (y/y)	Jul	--	--	21.1	
09-15	8:00	Economic Activity (y/y)	Jul	--	--	9.07	
09-15	8:00	Economic Activity (m/m)	Jul	--	--	1.14	
09-16	7:00	FGV CPI IPC-S	15-Sep	--	--	0.71	
09-16	7:00	FGV Inflation IGP-10 (m/m)	Sep	--	--	1.18	
09-17	4:00	FIPE CPI - Weekly	15-Sep	--	--	1.4	

### CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
09-07	7:30	Trade Balance	Aug	--	--	604	
09-07	7:30	Exports Total	Aug	--	--	7942.9	
09-07	7:30	Imports Total	Aug	--	--	7339	
09-07	7:30	Copper Exports	Aug	--	--	4583.7	
09-07	7:30	International Reserves	Aug	--	--	48787	
09-07	8:00	Nominal Wage (m/m)	Jul	--	--	0.3	
09-07	8:00	Nominal Wage (y/y)	Jul	--	--	5.9	
09-08	7:00	CPI (m/m)	Aug	0.2	0.3	0.8	We expect m/m increases in foods (meats, dairy) and petroleum liquid gas.
09-08	7:00	CPI (y/y)	Aug	4.6	--	4.5	Those increases will be partially offset by drops in bus transportation service and gasoline prices, thanks to the measures taken by the Ministry of Finance during August.
SEP 8-13		Vehicle Sales Total	Aug	--	--	38226	
09-10	7:30	Central Bank Economist Survey		--			

## Market Events & Indicators for September 4–17

### 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>
09-04	13:00	CPI (m/m)	Aug	--	0.21	0.32	
09-04	13:00	CPI (y/y)	Aug	--	4.2	3.97	
09-04	13:00	CPI Core (m/m)	Aug	--	--	0.31	
09-04	13:00	CPI Core (y/y)	Aug	--	--	2.86	
09-08		Consumer Confidence Index	Aug	--	--	-7.5	
09-14		Central Bank Economist Survey		--			
09-15	11:00	Manufacturing Production (y/y)	Jul	--	--	20.77	
09-15	11:00	Retail Sales (y/y)	Jul	--	--	24.7	
09-15	15:00	Industrial Production (y/y)	Jul	--	--	13.85	
09-17	11:00	Trade Balance	Jul	--	--	-1559	
09-17	11:00	Imports CIF Total	Jul	--	--	4922.9	
09-17	12:00	Economic Activity NSA (y/y)	Jul	--	--	14.5	
09-17		Industrial Confidence	Aug	--	--	16.3	
09-17		Retail Confidence	Aug	--	--	35.8	

### 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>
09-06	7:00	Gross Fixed Investment	Jun	--	--	46.5	
09-06	7:00	Vehicle Exports	Aug	--	--	202021	
09-06	7:00	Vehicle Production	Aug	--	--	221843	
09-07	10:00	International Reserves Weekly	03-Sep	--	--	205391	
09-07		Citibanamex Survey of Economists		--			
09-09	7:00	CPI (m/m)	Aug	--	0.18	0.59	
09-09	7:00	CPI Core (m/m)	Aug	--	0.41	0.48	
09-09	7:00	CPI (y/y)	Aug	--	5.58	5.81	
09-09	7:00	Bi-Weekly CPI	31-Aug	--	0.18	-0.02	
09-09	7:00	Bi-Weekly Core CPI	31-Aug	--	0.29	0.28	
09-09	7:00	Bi-Weekly CPI (y/y)	31-Aug	--	5.59	5.58	
09-10	7:00	Industrial Production SA (m/m)	Jul	--	--	-0.53	
09-10	7:00	Industrial Production NSA (y/y)	Jul	--	--	13.53	
09-10	7:00	Manuf. Production NSA (y/y)	Jul	--	--	16.34	
09-10		Nominal Wages (y/y)	Aug	--	--	5.6	
09-12	13:00	Formal Job Creation Total	Aug	--	--	116.54	
09-13		ANTAD Same-Store Sales (y/y)	Aug	--	--	15.3	
09-14	10:00	International Reserves Weekly	10-Sep	--	--	205391	

### 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>
09-09	19:00	Reference Rate (%)	09-Sep	0.75	--	0.5	Yearly inflation in August soared to 5%, putting the BCRP under pressure to react more aggressively.
09-15	11:00	Lima Unemployment Rate	Aug	9.3	--	9.4	Unemployment has continued declining, despite uncertainty.
09-15		Economic Activity (y/y)	Jul	8.5	--	23.5	Much of last year's severe lockdown was lifted by July.

## Scotiabank Economics Latam Coverage



### Local Market Coverage

#### CHILE

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