

Latam Charts: Steady as She Goes

- Economic recovery in the Latam region remains broadly on track and the outlook is positive.
- Inflation is up and central banks across the region have begun to withdraw stimulus. The direction of policy rate changes is not in doubt. The pace and aggressiveness of the tightening cycle is less clear.
- Financial markets appear to have priced in shifts in monetary policy; markets that had been affected by policy and political uncertainty earlier in the year have stabilized more recently.
- In nautical terms, the overall assessment could be "steady as she goes."

KEY ECONOMIC CHARTS

Economies of the Latam region continue to recover from the sharp collapse of economic activity early in the pandemic (chart 1). The bounce back has been particularly pronounced in Peru, which endured an especially severe contraction in 2020. While impressive, as we have consistently emphasized, high year-over-year growth rates that include base effects—the favourable comparison with 2020 levels depressed by the pandemic—will decline over time; growth is expected to converge on pre-pandemic levels in the medium term.

Evidence of eroding base effects is already emerging in high-frequency activity indicators, and this trend is likely to continue (chart 2). Nevertheless, the latest data remains encouraging and the overall outlook remains positive. For example, our team in Bogota reports that the latest data show manufacturing in Colombia is now at its highest historical level and that "pre-pandemic" is no longer the relevant benchmark. This recovery represents a remarkable turnaround from the situation earlier in the year, when nationwide protests disrupted production, and suggests good support for further growth going forward. Scotiabank's team in Peru, meanwhile, reports that GDP increased by 13% (y/y) in July, indicating that the political uncertainty that followed the second round of presidential elections in June did not have much of an impact on growth. Our experts in Lima expect that y/y monthly growth rates will gradually decline consistent with their forecast of 12.3% for the year. While their estimate is higher than that of most other analysts, they are confident that other forecasts for growth will be ratcheted up. The BCRP has already indicated that it will raise its current forecast of 10.7%. At the same time, the latest employment and unemployment rate data for Lima, which show a pause in employment growth and a slight increase in the unemployment rate, are a reminder that recovery is not necessarily a linear process.

As recent editions of the <u>Latam Weekly</u> and the <u>Latam Charts Weekly</u> have highlighted, economic recovery has been accompanied by higher inflation (chart 3). All countries in the Latam region have seen inflation spike higher, though increases in Argentina and Brazil have been especially sharp. More moderate price rises have been recorded in Pacific Alliance members. These countries (and Brazil) have well established inflation-targeting regimes that help anchor expectations, though the <u>latest inflation numbers</u> exceed the upper bounds of those frameworks.

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Higher inflation rates reflect several factors, including temporary shocks to global supply chains, and are expected to broadly return to pre-pandemic levels over the forecast horizon. Regardless, central banks in the region are grappling with the risk that higher inflation, even if transitory, could become embedded in expectations, raising the costs of bringing inflation back to targets prescribed by their inflation-targeting frameworks. To achieve this outcome, key policy rates (chart 4) will have to move higher. Central banks across the region have already acted. But with these rates in several countries negative in real—adjusted for inflation—terms, further increases are in the cards.

The direction of policy rate action is not in doubt. What is less certain is the pace at which central banks in the region recalibrate monetary policy conditions. A key consideration here is how their monetary tightening cycles align with the actions of other central banks and real policy rates in other countries (chart 5). At this point in time, Latam central banks appear to be in sync with their advanced economies counterparts in terms of real policy rates, with Brazil and Mexico seemingly ahead of the pack.

Central banks must balance long-term price stability commitments with short-run support for the economy. Moving too fast, too aggressively could withdraw support for the economy at a critical juncture; delaying too long could lead to higher inflation bleeding over into expectations. Striking the right balance is the policy challenge.

Fiscal policy, likewise, must balance continued support for individuals adversely affected by the lockdowns with long-term fiscal sustainability. Fiscal balances across the region deteriorated during the pandemic (chart 6) as governments adopted extraordinary measures to contain the economic costs of the crisis. The result has been a marked increase in gross debt as a share of GDP (chart 7). While external debt (chart 8), current account balances (chart 9) and total reserves (chart 10) are not signalling alarm, Latam governments will need to articulate clear plans to address fiscal balances and buttress their commitments to fiscal sustainability. In Colombia, President Duque <u>recently signed</u> new fiscal reforms into law that are aimed at achieving these goals.

KEY MARKET CHARTS

Fiscal reforms may account for the recent appreciation of the Colombian peso, which nevertheless remains down for the year to date against the US dollar. Currencies across the region more broadly have depreciated against the dollar since the start of the year (chart 3), with the Brazilian real bucking that trend, supported by aggressive policy tightening by the central bank. Political and policy uncertainty earlier in the year help explain currency depreciation, especially when viewed in a longer-term perspective (chart 5). The same could be said with respect to equity markets (chart 4) and 10-year CDS spreads (chart 6).

YIELD CURVE CHARTS

Latam sovereign yield curves have, for the most part, shifted up across the maturity spectrum since the start of the year (charts 1–12). Argentina, which has seen a steepening inversion, and Mexico, where the sovereign yield curve has been remarkably stable, are the two exceptions.

KEY COVID-19 CHARTS

Our narrative above on the outlook is subject to continuing uncertainty with respect to the evolution of the pandemic and related policy responses (charts 1–12). Vaccines are the pathway to sustained economic growth. In this respect, Chile continues to lead the Latam region in vaccine doses administered. The progress made there offers reassurance with respect to economic growth. In contrast, the elevated test positivity rate in Mexico is a source of concern and warrants close monitoring.



GLOBAL ECONOMICS LATAM CHARTS WEEKLY

September 17, 2021

Key Economic Charts

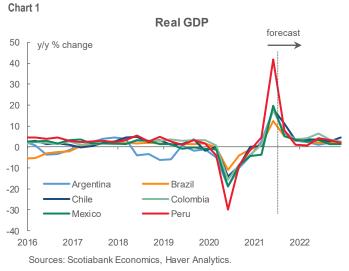


Chart 3

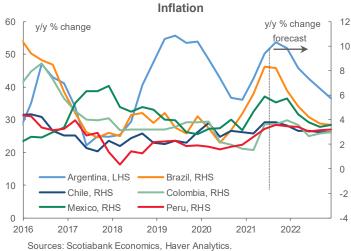


Chart 5



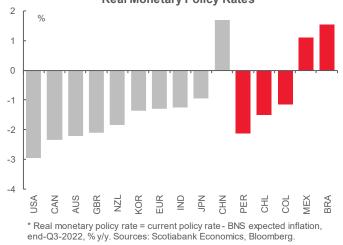


Chart 2

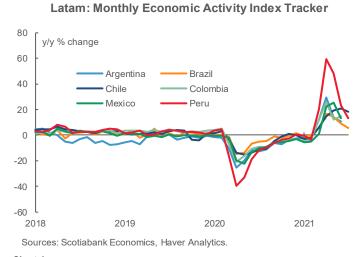
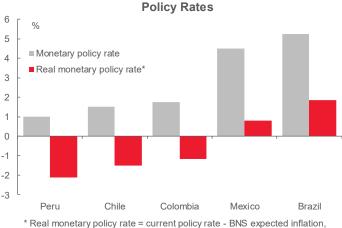
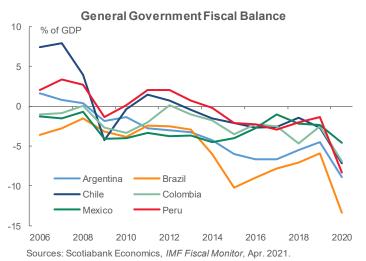


Chart 4



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2022, % y/y. Argentina: MPR = 38.0%; Real MPR = -1.5%.

Chart 6



Sources: Scotiabank Economics, Haver Analytics.



Key Economic Charts

Chart 7

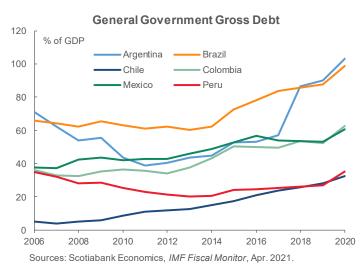


Chart 9



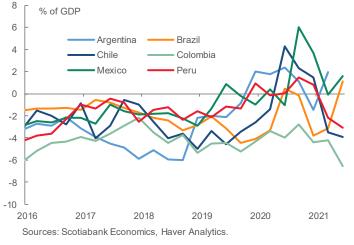


Chart 8

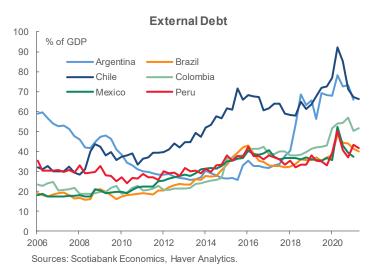
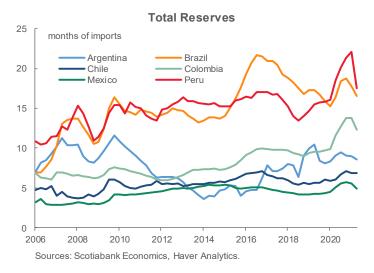


Chart 10





September 17, 2021

Key Market Charts



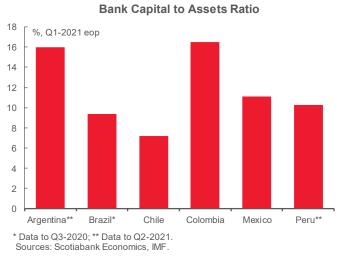


Chart 3

Latam Currencies Performance

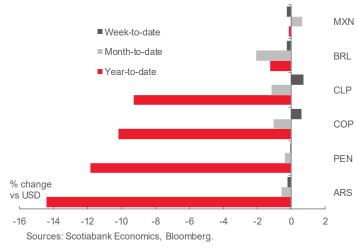


Chart 5

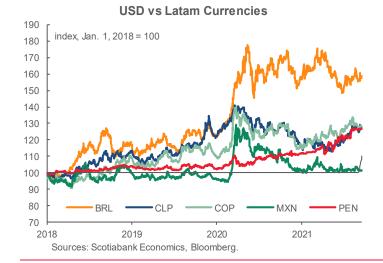
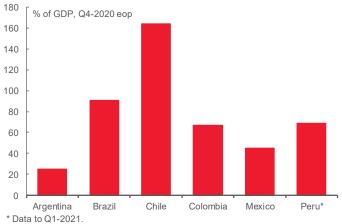


Chart 2

Domestic Credit to Private Nonfinancial Sector



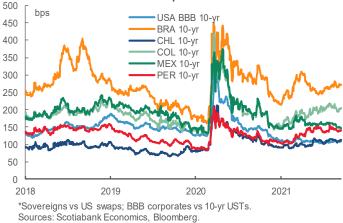
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 4

Latam Equities Performance Argentina Mexico Chile Week-to-date Brazil ■ Month-to-date Colombia Year-to-date Peru % change -20 -10 0 10 20 30 40 50 60 Sources: Scotiabank Economics, Bloomberg

Chart 6

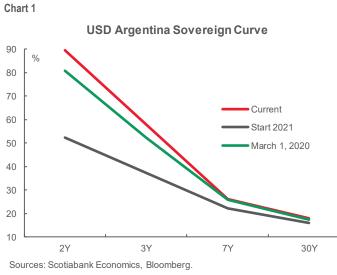
10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US*





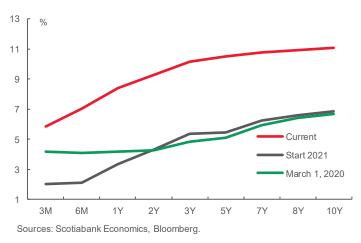
September 17, 2021

Yield Curves



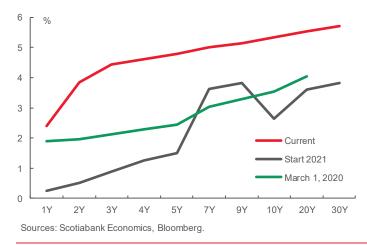


Brazil: NTN Curve











Sources: Scotiabank Economics, Bloomberg

Chart 4

Chart 2

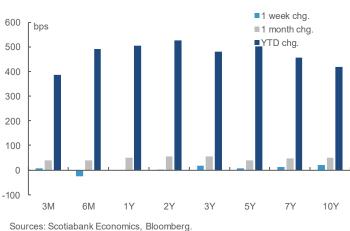


Chart 6

Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Brazil: NTN Curve Moves



GLOBAL ECONOMICS LATAM CHARTS WEEKLY

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Yield Curves



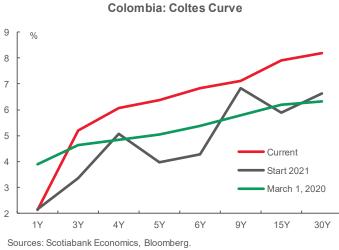


Chart 9

Mexico: M-Bono Curve

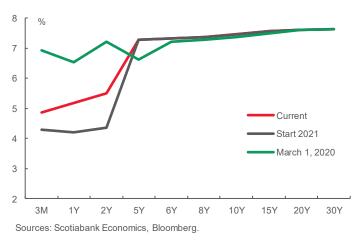
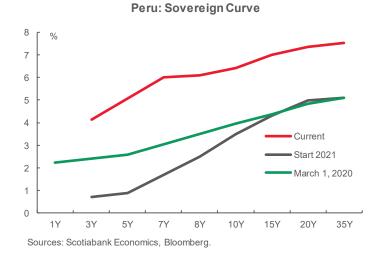


Chart 11





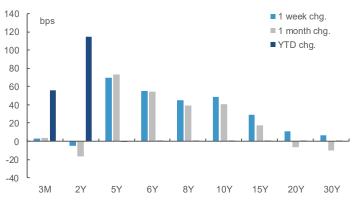
Colombia: Coltes Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 10

Mexico: M-Bono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 12

Peru: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

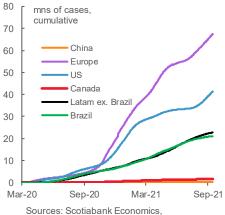


September 17, 2021

Key COVID-19 Charts

Chart 1

Global COVID-19 Cases



Johns Hopkins University, Oxford University.

Chart 4

Latam Population-Adjusted COVID-19 Cases

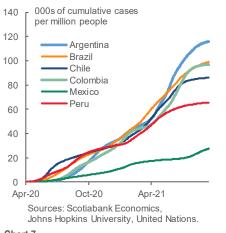
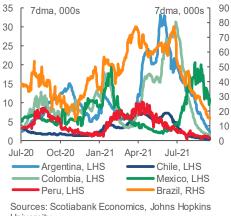


Chart 7

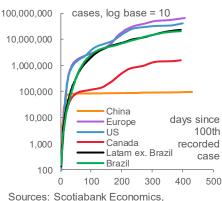
Latam: Trend in New Daily COVID-19 Cases



University.

Chart 2

Global Cumulative COVID-19 Cases



Johns Hopkins University.



Latam Cumulative COVID-19 Deaths

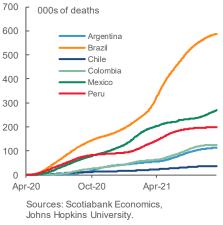
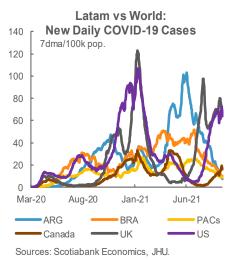
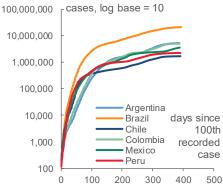


Chart 8





Latam Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

Latam Cumulative COVID-19 Deaths

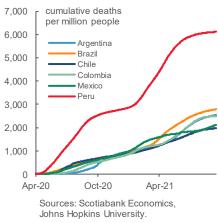


Chart 9

Pacific Alliance vs World: **New Daily COVID-19 Cases** 140 7dma/100k pop. 120 100 80 60 40 20 0 Mar-20 Jan-21 Jun-21 Aug-20 CHL COL MEX PFR Canada UK •US

Sources: Scotiabank Economics, JHU



September 17, 2021

Key COVID-19 Charts

Chart 10

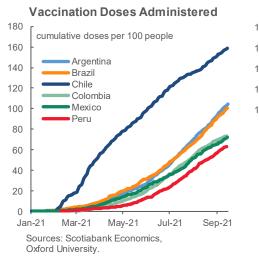
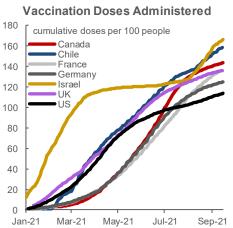
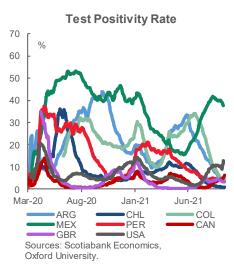


Chart 11



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Market Events & Indicators for September 18–October 1

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Market Events & Indicators for September 18–October 1

COLOME	BIA					
	<u>'ime</u>	Event	Period	BNS	Consensus	Latest BNS Comments
		National Unemployment Rate (%) Urban Unemployment Rate (%)	Aug Aug	14.5 15.1		14.29 Labour market would point to a new improvement in job creation. But 15 also people joining the labour market again (increasing participation
			0			rate). That said, unemployment rate will continue improving but at a
Sep-30 14	4:00	Overnight Lending Rate (%)	30-Sep	2		slower pace. 1.75 After a year of rate stability, the central bank is expected to start its
·			·			hiking cycle with a 25bps move. Despite recent inflation readings that have surprised to the upside, it is due to temporary shocks. In fact, recent surveys point to still anchored inflation expectations and it is a reason to expect a gradual approach from the central bank.
Oct-01 11	1:00	Davivienda Colombia PMI Mfg	Sep			53.2
Oct-01 11	1:00	Exports FOB (USD, mn)	Aug			3252.43
MEXICO)					
Date Ti	īme	Event	Period	BNS	Consensus	Latest BNS Comments
	:00	Aggregate Supply and Demand (%)	2Q			-2.9
Sep-21 10 Sep-21	0:00	International Reserves Weekly (USD, mn) Citibanamex Survey of Economists	17-Sep			198538
	:00	Bi-Weekly CPI	15-Sep			0.18
	':00 ':00	Bi-Weekly Core CPI Bi-Weekly CPI (y/y)	15-Sep 15-Sep			0.17 5.6
	:00	Retail Sales (m/m)	Jul			-0.6
	:00	Retail Sales (y/y)	Jul			17.7
		Trade Balance (USD, mn)	Aug			-4062.89
	2:00	Economic Activity IGAE (y/y) Economic Activity IGAE (m/m)	Jul Jul			13.32 -0.87
	':00	Unemployment Rate NSA (%)				-0.87
	':00 0:00	International Reserves Weekly (USD, mn)	Aug 24-Sep			4.50 198538
	0:00	Net Outstanding Loans (MXN, bn)	Aug			4633.1
	4:00	Overnight Rate (%)	30-Sep			4.5
Sep-30		Budget Balance YTD (MXN, bn)	Aug			-242.68
		Remittances Total (USD, mn) Central Bank Economist Survey	Aug			4540.3
		Markit Mexico PMI Mfg	Sep			47.1
		IMEF Manufacturing Index SA	Sep			51.29
Oct-01 13	3:00	IMEF Non-Manufacturing Index SA	Sep			50.14
PERU						
	<u>ime</u> :00	Event	<u>Period</u> Sep	BNS	Consensus 0.26	Latest BNS Comments 0.98
	:00	Lima CPI (m/m) Lima CPI (y/y)	Sep Sep		0.26	4.95
		··· · · · ·	•			

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.



Scotiabank Economics Latam Coverage





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