

Contributors

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## Latam Charts: Fighting the January “Flues”

- January can be a difficult month, particularly in a cold, dark northern hemisphere winter, as the euphoria of the holidays fades, seasonal flues circulate, and a general malaise—the January “blues”—sets in.
- This January, the Latam region, along with the rest of the world, is bracing for the possible effects of the omicron variant. These could include a sharp slowdown in economic activity as workers remain at home sick or in accordance with public health isolation protocols. Further disruption to global supply chains could also extend supply-side price pressures, complicating the rebalancing of monetary conditions now underway.
- There is reason for guarded optimism that the effects of the latest variant will be contained. But that outcome is not assured and even if the latest wave of the pandemic is short-lived, the Latam region will be preoccupied fighting the January “flues.”

### KEY ECONOMIC CHARTS

As the new year begins, the omicron variant introduces [new uncertainties](#) with respect to the economic prospects for the Latam region. There is reason to believe that the economic effects of the latest wave of the pandemic could be limited, notwithstanding the dramatic spike in cases. Economic growth is expected to moderate in 2022, coming off a rebound in output in 2021 (chart 1). And prior to the latest outbreak, Scotiabank economists anticipated year-over-year growth rates to broadly return to pre-pandemic levels across the region. For now, that remains the base case scenario.

**The case for cautious optimism is based, in part, on the seemingly short duration of omicron outbreaks observed in other countries and indications that this strain is less virulent than previous variants;** in part, on the adoption of practices that allow businesses to remain in operation despite the outbreak. Still, the omicron variant could have a significant economic impact through worker absences, which have already led to widespread airline cancellations, or the re-introduction of stricter social distancing measures or, in some jurisdictions, lockdowns.

**Such effects are likely to show up first in y/y changes in monthly economic indicators (chart 2).** Changes in the monthly activity index tracker for most countries were falling through the second half of 2021 as would be expected as the influence of base effects eroded over time. That said, signs of 2021 year-end weakness in Brazil and Mexico bear close monitoring.

**There is also uncertainty with respect to the potential impact of omicron on inflation.** Widespread labour shortages, as workers fall ill or isolate themselves in accordance with public health guidelines, could further disrupt global supply chains. Even a temporary outbreak could have long-lasting supply effects should it exacerbate existing bottlenecks, particularly if specific critical links in the global supply chain (e.g., microchips) are affected. This possibility is worrisome given the steep increase in inflation rates recorded across the region (chart 3).

**Latam central banks have responded to growing price pressures by hiking key policy rates, aggressively so in some countries.** This response reflects underlying concerns that higher inflation could become embedded in expectations, a development that could increase the output costs of bringing inflation back to target. In this respect, while headline inflation is currently well above inflation targets across the region, Scotiabank economists project a steady—albeit gradual—return to target ranges over the medium term.

**Aggressive increases in central bank policy rates have led to an increase in real (after inflation) rates in Brazil, Mexico, and Chile (chart 4).** Rates have likewise been hiked in Colombia and Peru in recent months. But rates in these two countries remain negative in real terms, despite these increases. They do not stand out against international peers in this regard (chart 5), though recent indications that the Fed and other advanced country central banks are poised to pull the trigger on rate hikes, including testimony this week by Fed Chair Powell, are likely to increase pressure on rates elsewhere.

**Fiscal balances deteriorated sharply in 2020 as lockdowns shrank output and emergency support measures were extended (chart 6).** The rebound in activity in 2021 has improved fiscal balances in the region, while governments have articulated plans to restore fiscal positions and introduced reforms to ensure long-term fiscal sustainability. Nevertheless, investors will closely watch increases in general government gross debt burdens (chart 7), along with external debt (chart 8), current account balances (chart 9), and total reserves (chart 10). While these indicators do not signal imminent problems, the decline in current account balances in Chile and Colombia reflected by the increase in external debt warrants monitoring going forward.

### KEY MARKET CHARTS

**Latam financial markets opened the year with currency appreciation and equity market gains.** Currencies across the region appreciated against the US dollar, with the Chilean and Peruvian currencies leading the way (chart 3). The Argentine currency depreciated, however, possibly on news of expected challenges ahead in the government's negotiations with the IMF.

**Equity markets also rose throughout the region (chart 4).** The strong performance in Peru may reflect the market's pricing-in of reduced uncertainty on the political front. Political factors may likewise be mirrored in currency markets (chart 5) and 10-year CDS spreads of Latam sovereigns (chart 6).

### YIELD CURVE CHARTS

**Sovereign yield curves have been largely stable in recent weeks.** Most curves shifted up in 2021 as higher inflation and the effects of expected tighter money were priced in (charts 1–16). Yield curves have generally shifted up across the maturity spectrum. The Argentina yield curve, in contrast, is highly inverted, reflecting the unique circumstances there.

### KEY COVID-19 CHARTS

**As discussed above, short-term economic prospects depend crucially on the evolving pandemic, particularly the impact of the omicron variant on economic activity and inflation.** In this respect, key monitoring charts (charts 1–12) already reveal the effects of the latest wave of the pandemic on the Latam region. Argentina has experienced the sharpest increase in cumulative cases per million people (chart 4), with smaller upticks discernible elsewhere.

**The increase in new daily COVID-19 cases measured by a seven-day moving average (chart 7) in Argentina and Brazil is especially striking.** Thus far, however, these increases are below those in advanced economies (chart 8). Similarly, while Pacific Alliance cases have ticked higher, they remain a fraction of the rates in advanced economies (chart 9).

**Meanwhile, vaccination programs continue, with Chile the clear leader in this regard both within the Latam region (chart 10) and around the globe (chart 11).**

Key Economic Charts

Chart 1

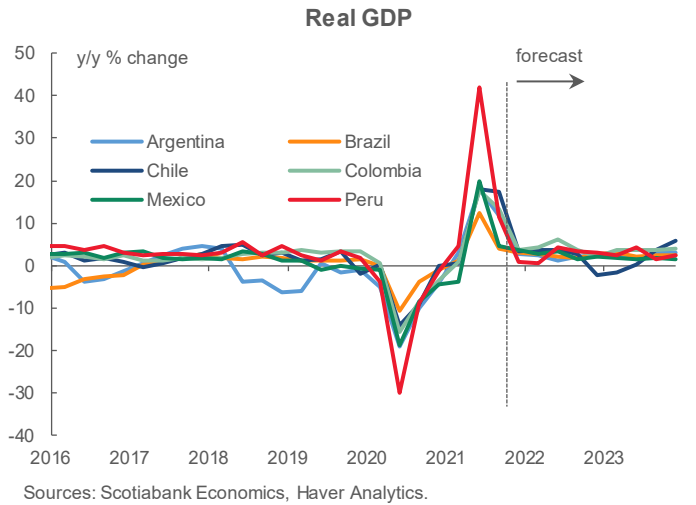


Chart 2

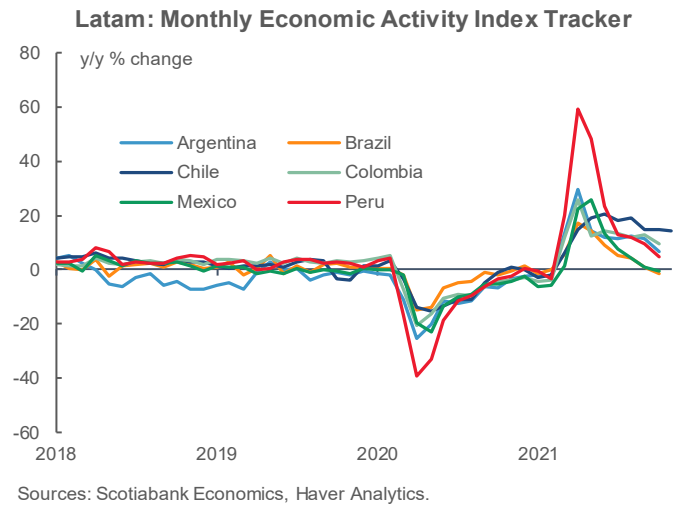


Chart 3

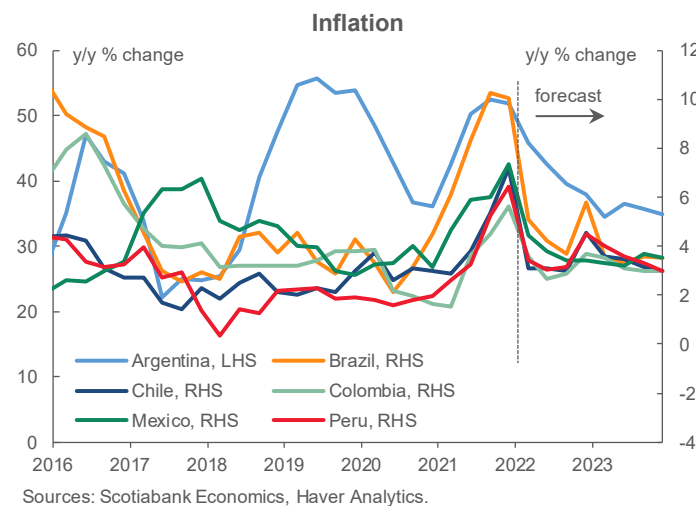


Chart 4

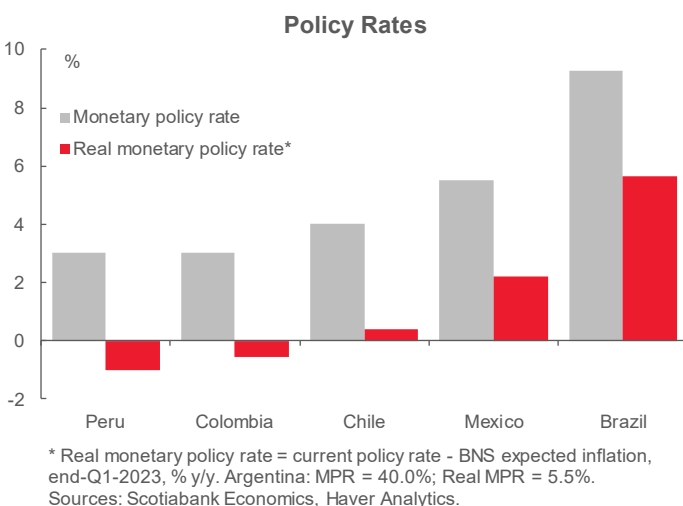


Chart 5

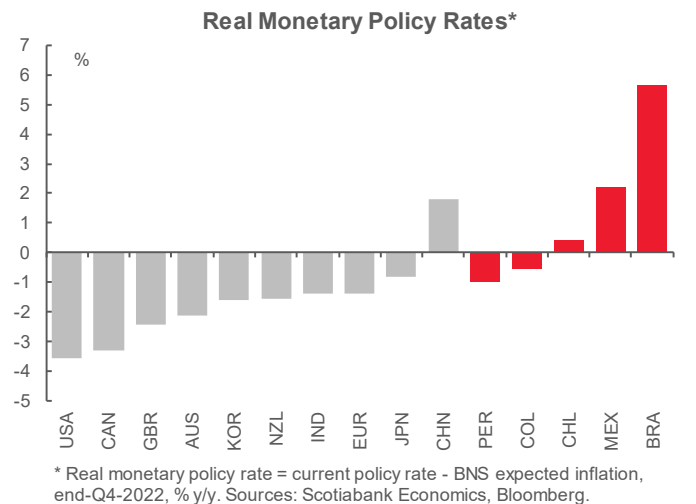
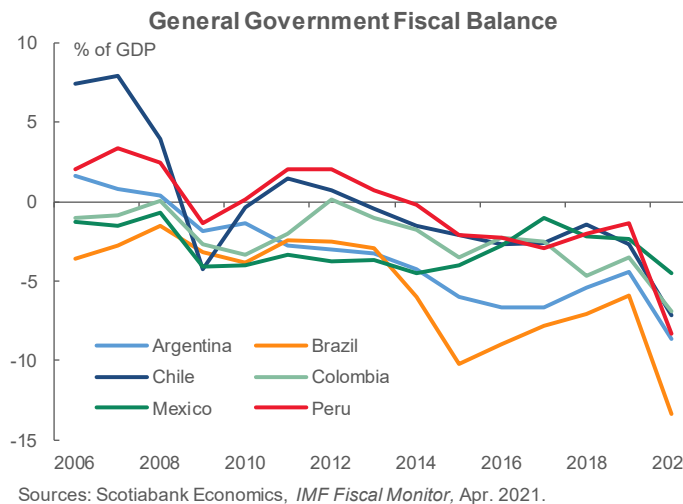


Chart 6



Key Economic Charts

Chart 7

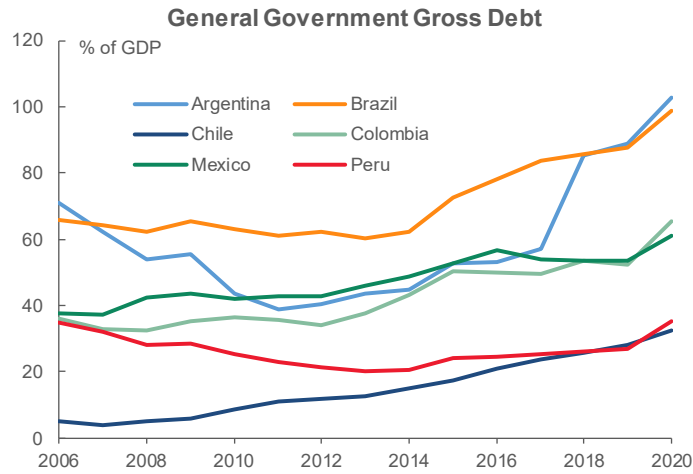


Chart 8

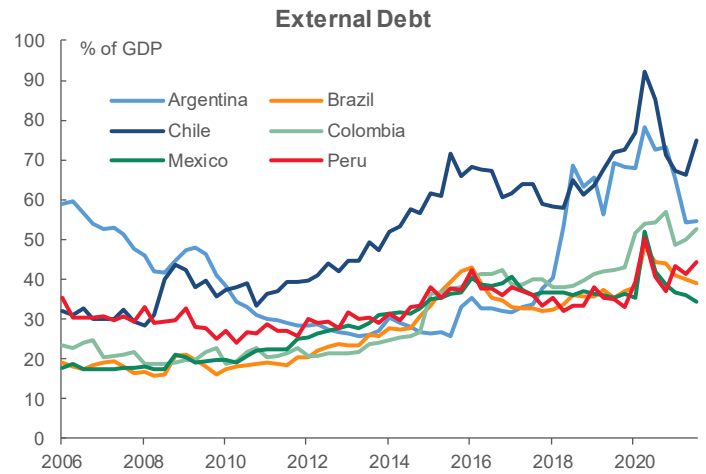
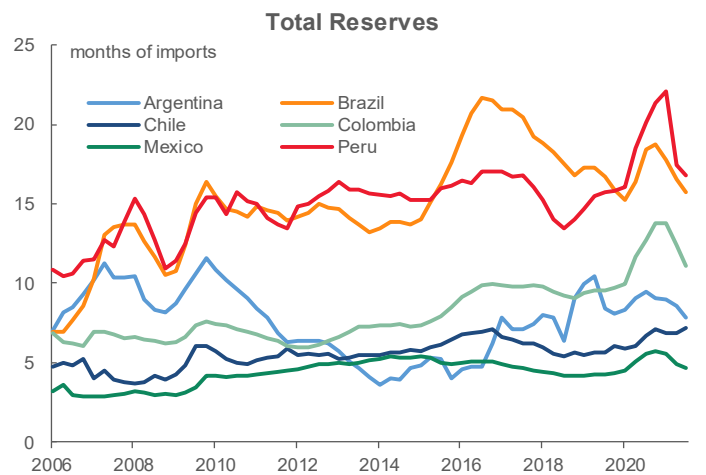


Chart 9

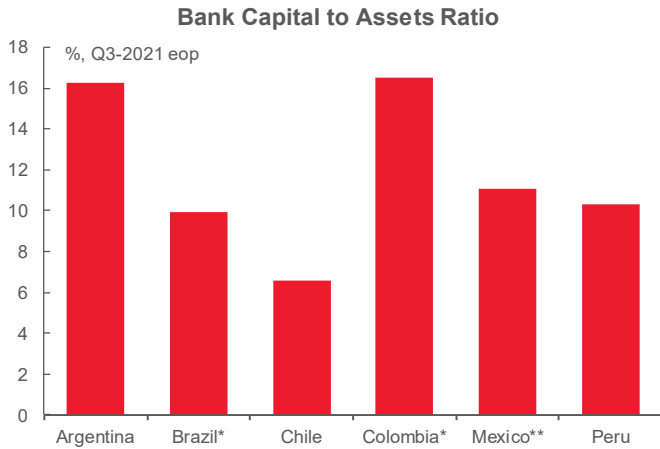


Chart 10



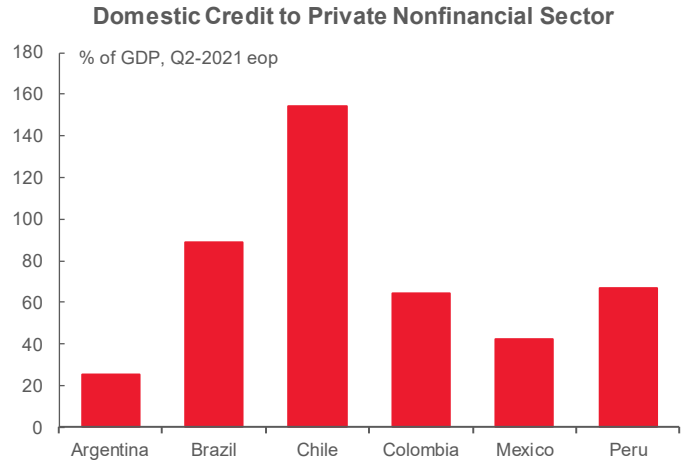
Key Market Charts

Chart 1



\* Data to Q2-2021; \*\* Data to Q1-2021.  
Sources: Scotiabank Economics, IMF.

Chart 2



Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

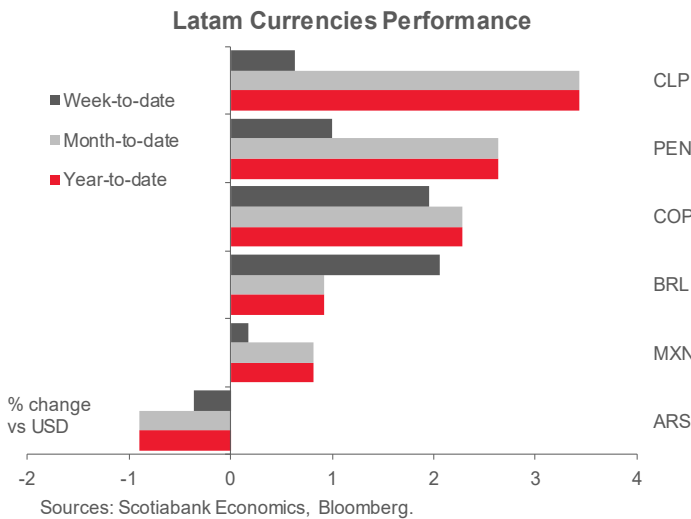


Chart 4

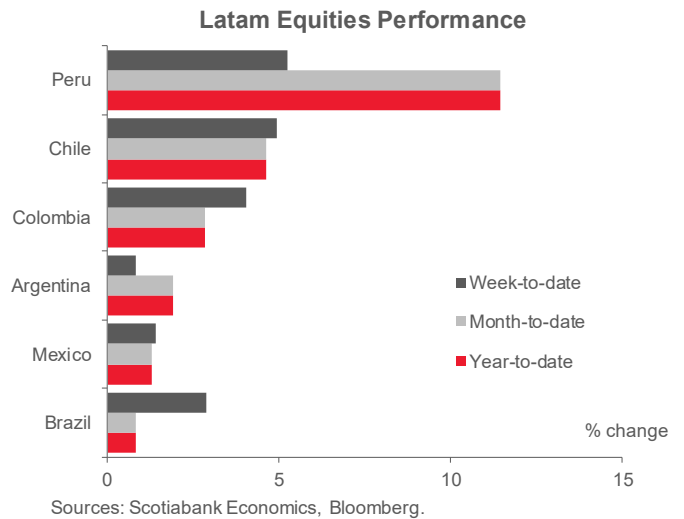


Chart 5

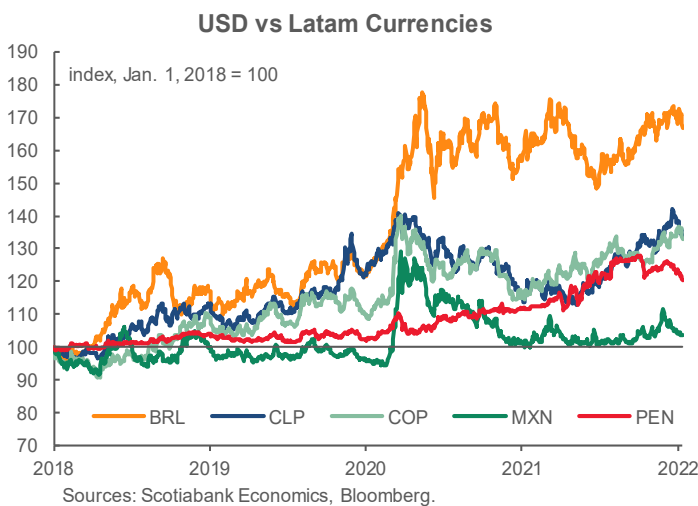
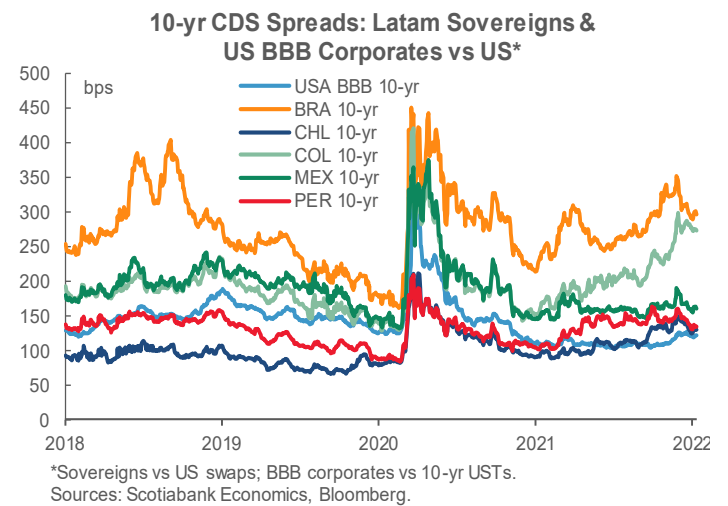
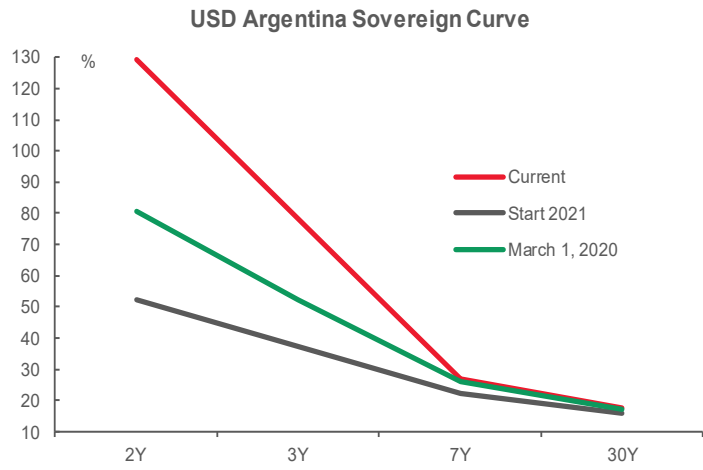


Chart 6



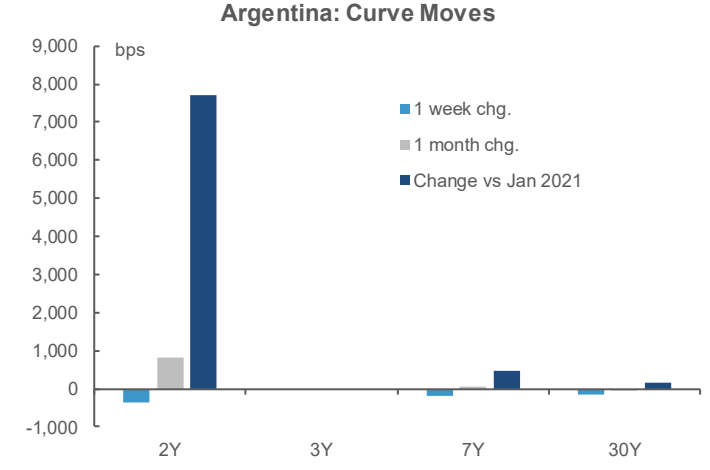
**Yield Curves**

**Chart 1**



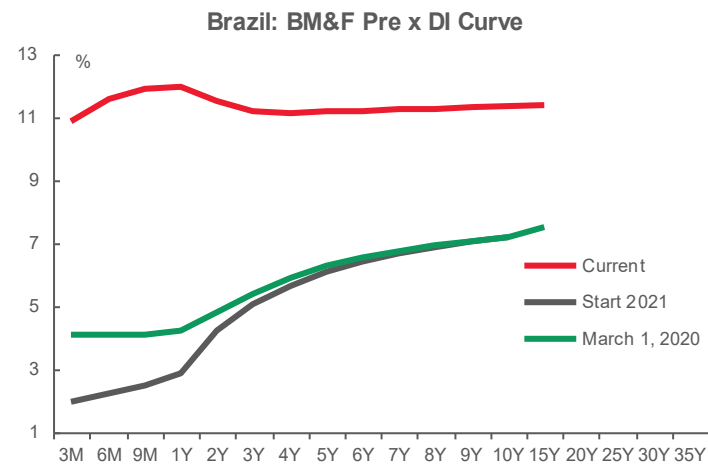
Sources: Scotiabank Economics, Bloomberg.

**Chart 2**



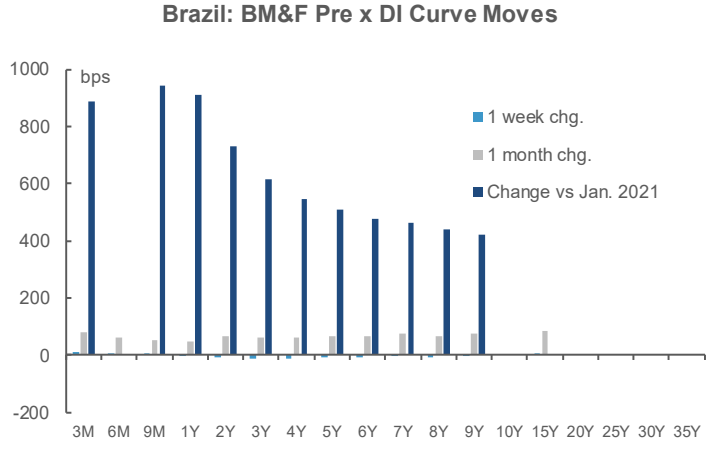
Sources: Scotiabank Economics, Bloomberg.

**Chart 3**



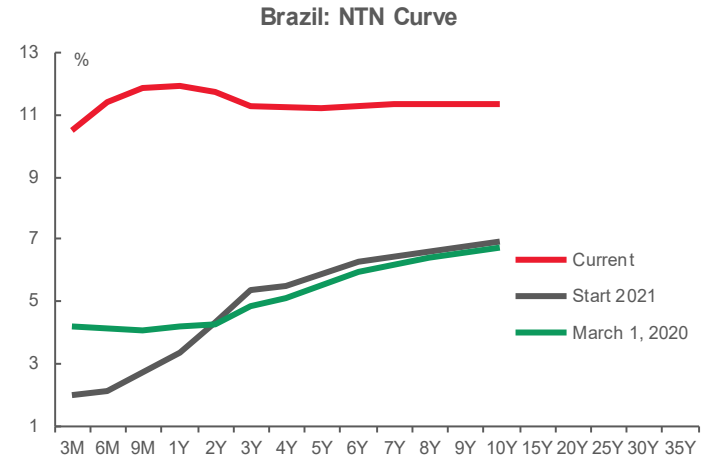
Sources: Scotiabank Economics, Bloomberg.

**Chart 4**



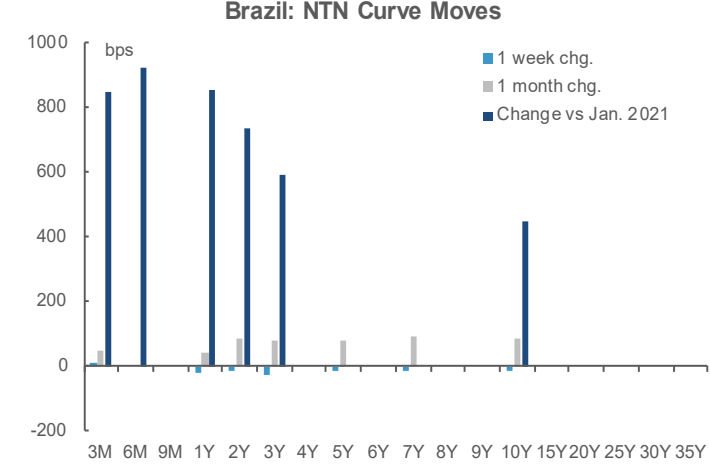
Sources: Scotiabank Economics, Bloomberg.

**Chart 5**



Sources: Scotiabank Economics, Bloomberg.

**Chart 6**

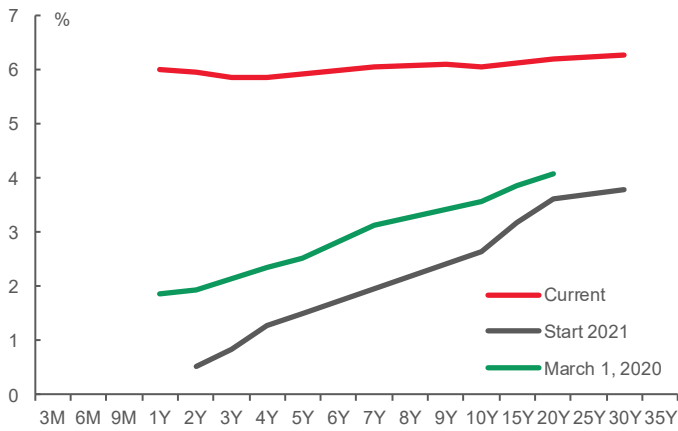


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 7

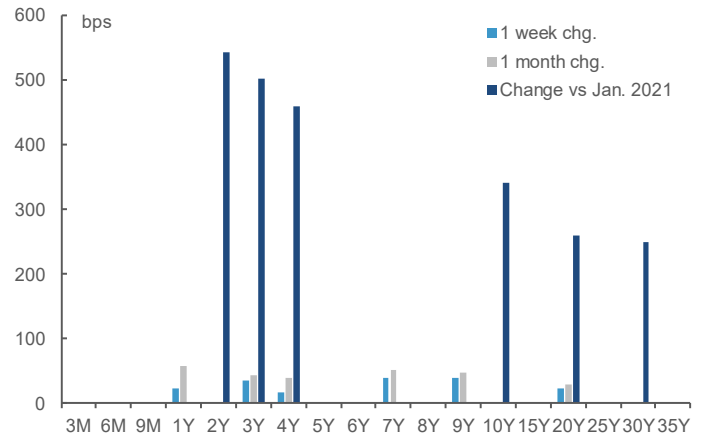
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 8

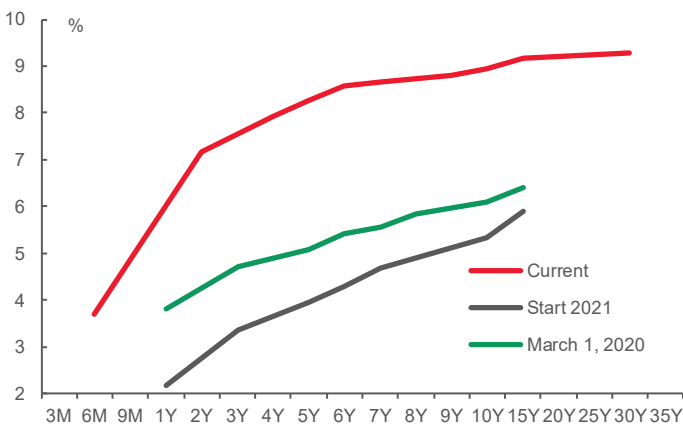
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 9

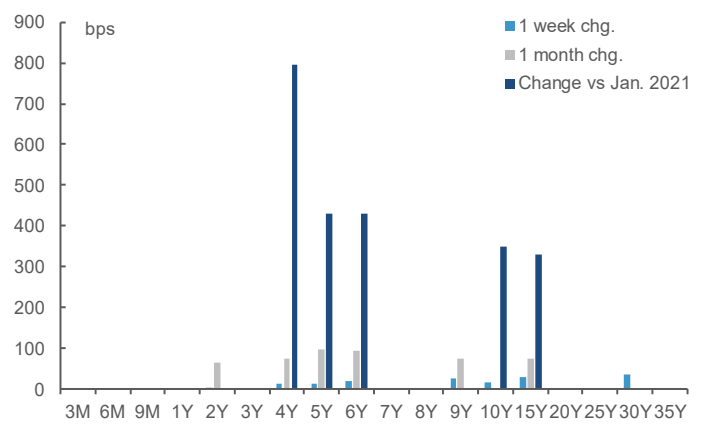
Colombia: Coltes Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 10

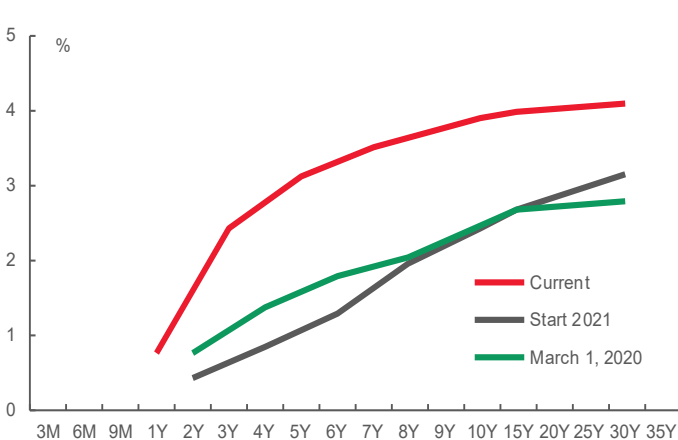
Colombia: Coltes Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 11

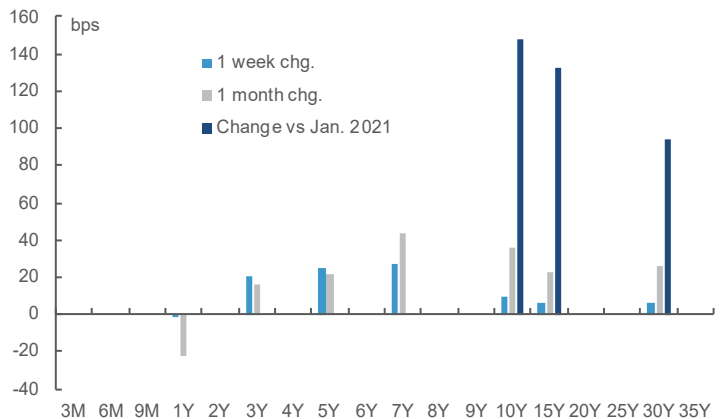
Colombia: UVR-Indexed Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 12

Colombia: UVR-Indexed Curve Moves

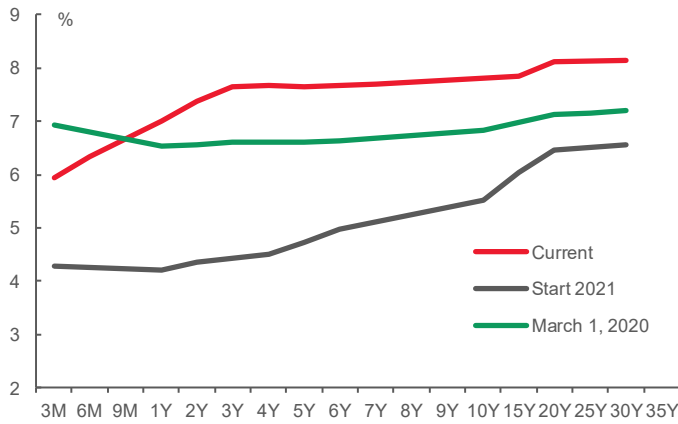


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 13

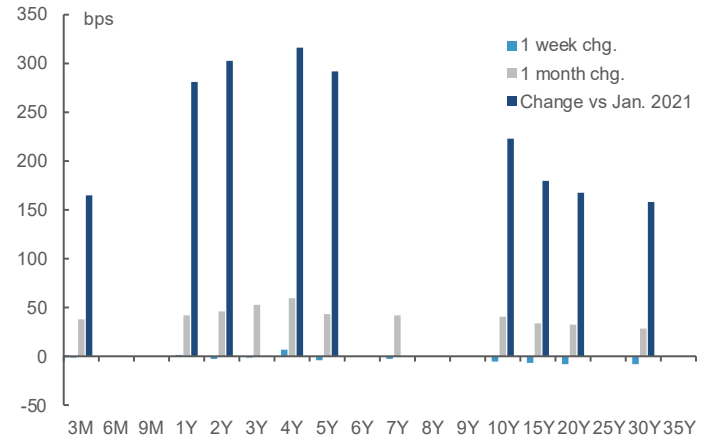
Mexico: M-Bono Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 14

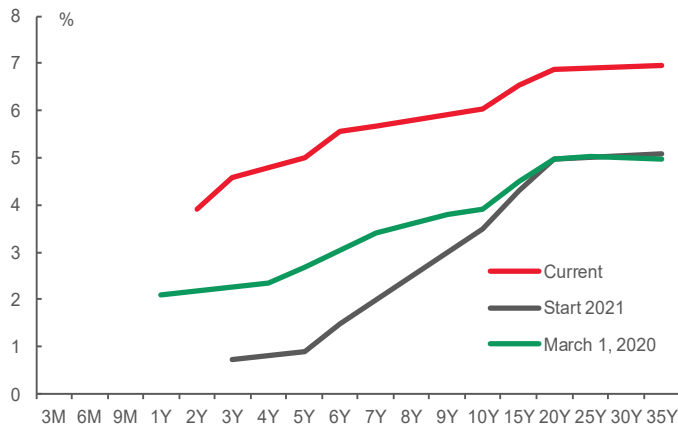
Mexico: M-Bono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 15

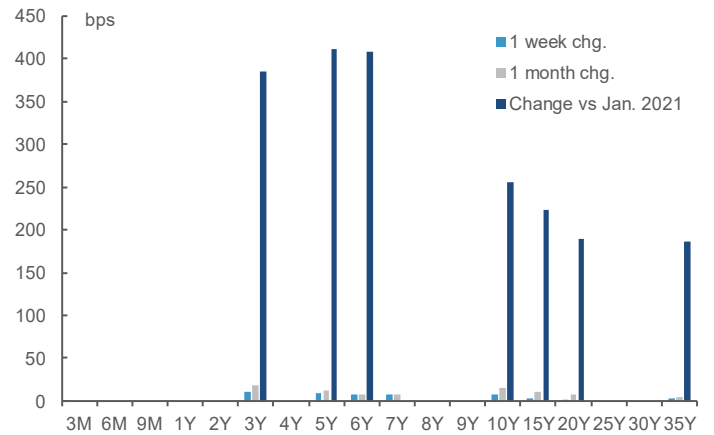
Peru: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 16

Peru: Sovereign Curve Moves

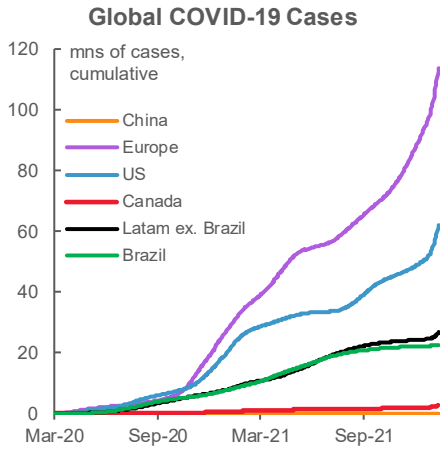


Sources: Scotiabank Economics, Bloomberg.



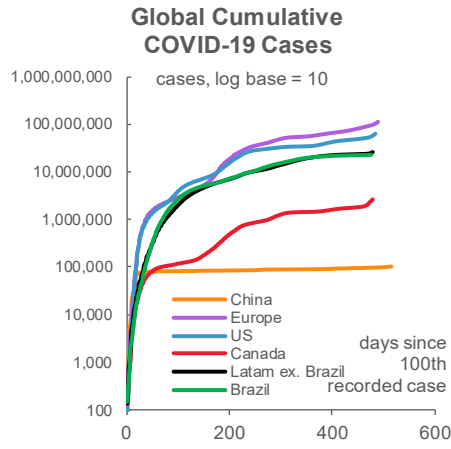
Key COVID-19 Charts

Chart 1



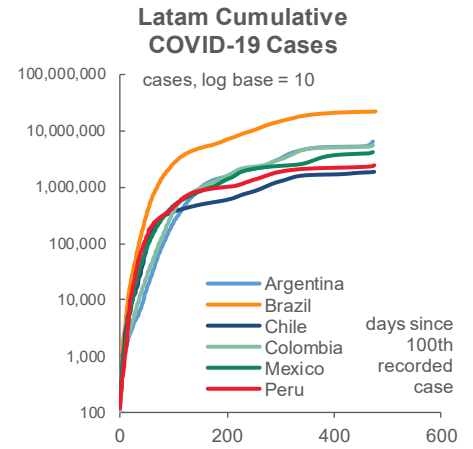
Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2



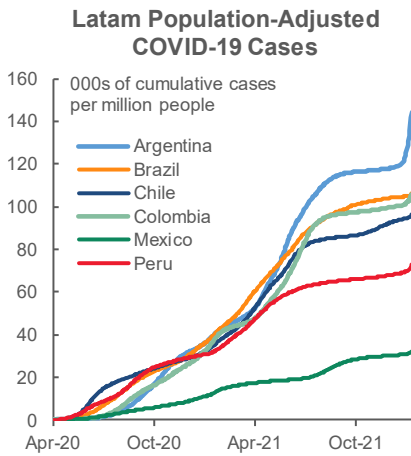
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



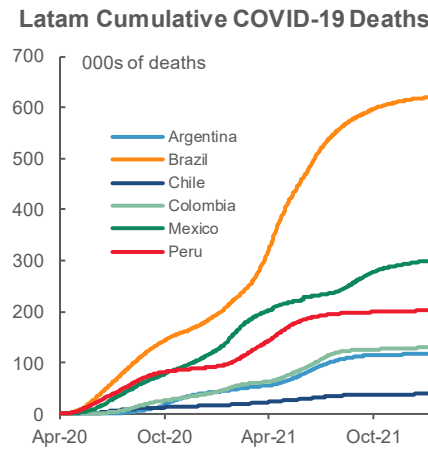
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4



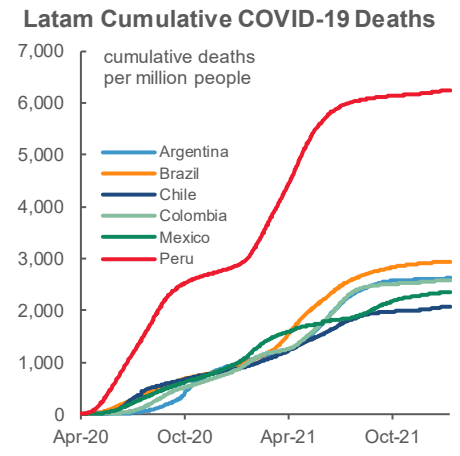
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5



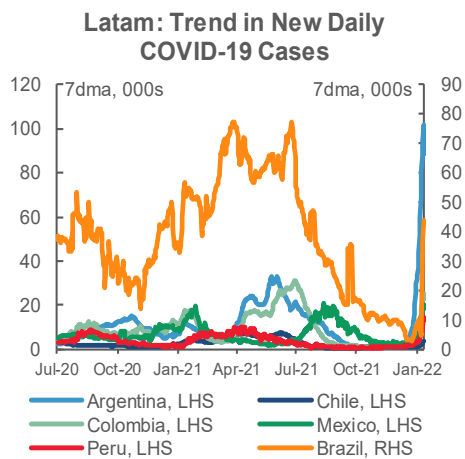
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6



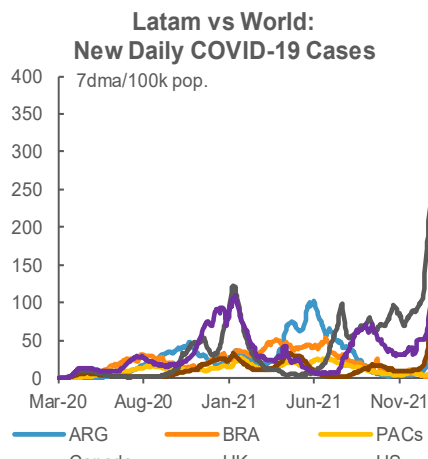
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7



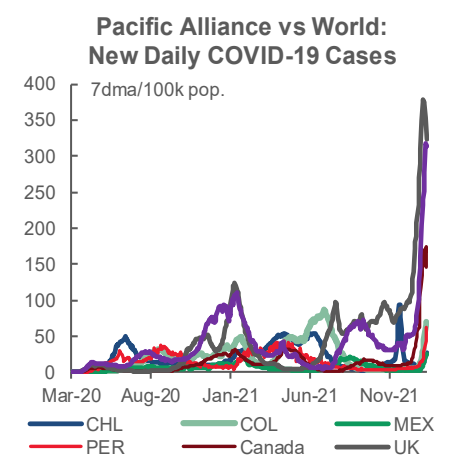
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8



Sources: Scotiabank Economics, JHU.

Chart 9



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

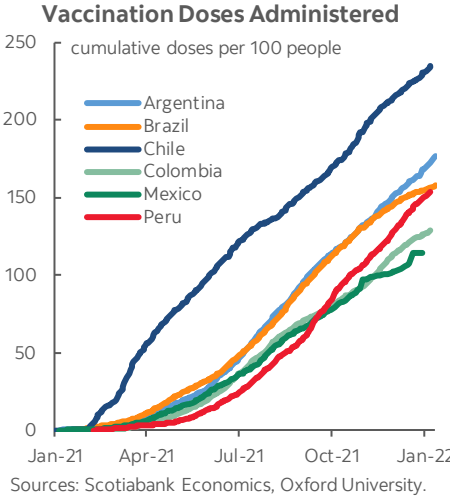


Chart 11

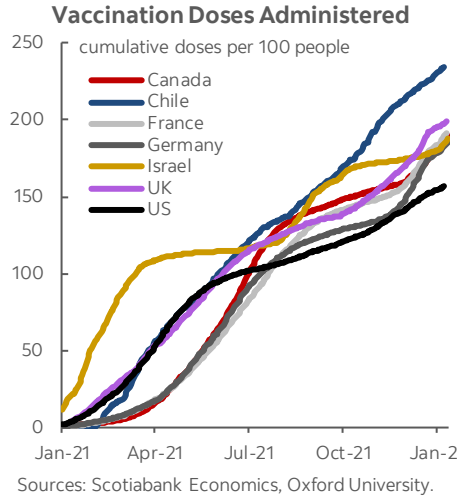
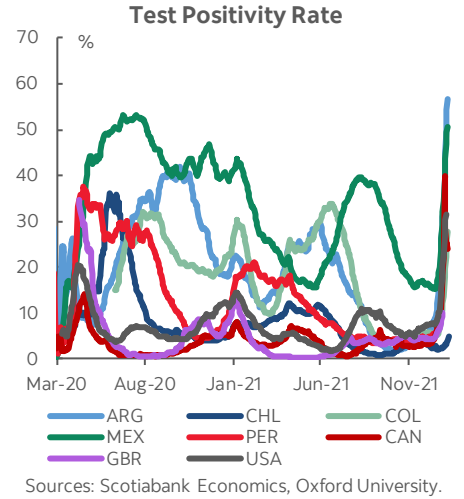


Chart 12



## Market Events &amp; Indicators for January 14–28

## ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-20	14:00	Exports Total (USD mn)	Dec	--	--	6,164.0	
Jan-20	14:00	Imports Total (USD mn)	Dec	--	--	5,767.0	
Jan-20	14:00	Trade Balance (USD mn)	Dec	--	--	397.0	
Jan 20-24		Budget Balance (ARS mn)	Dec	--	--	-134,652.9	
Jan 21-24		UTDT Leading Indicator	Dec	--	--	1.7	
Jan-25	14:00	Economic Activity Index (m/m)	Nov	-0.6	--	-0.8	Regular seasonal patterns, political uncertainty,
Jan-25	14:00	Economic Activity Index (y/y)	Nov	5.1	--	6.7	and pandemic effects dented year-end growth.
Jan-26	14:00	Shop Center Sales (y/y)	Nov	--	--	160.8	
Jan-26	14:00	Supermarket Sales (y/y)	Nov	--	--	5.2	
Jan 25-30		Consumer Confidence Index (%)	Jan	--	--	37.8	

## BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-14	7:00	Retail Sales Broad (m/m)	Nov	--	-0.4	-0.9	
Jan-14	7:00	Retail Sales Broad (y/y)	Nov	--	-4.7	-7.1	
Jan-14	7:00	Retail Sales (m/m)	Nov	--	0.0	-0.1	
Jan-14	7:00	Retail Sales (y/y)	Oct	--	-5.7	-7.1	
Jan-17	6:00	FGV CPI IPC-S (%)	14-Jan	--	--	0.5	
Jan-17	6:00	FGV Inflation IGP-10 (m/m)	Jan	--	--	-0.1	
Jan-17	6:25	Central Bank Weekly Economist Survey					
Jan-17	7:00	Economic Activity (m/m)	Nov	--	-0.2	-0.4	
Jan-17	7:00	Economic Activity (y/y)	Nov	--	-0.8	-1.5	
Jan-17	13:00	Trade Balance Weekly (USD mn)	16-Jan	--	--	1,446.0	
Jan-19	3:00	FIPE CPI - Weekly (%)	15-Jan	--	--	0.6	
Jan-24	6:00	FGV CPI IPC-S (%)	22-Jan	--	--	0.5	
Jan-24	6:25	Central Bank Weekly Economist Survey					
Jan-24	13:00	Trade Balance Weekly (USD mn)	23-Jan	--	--	1,446.0	
Jan-25	6:00	FGV Consumer Confidence	Jan	--	--	75.5	
Jan-26	3:00	FIPE CPI - Weekly (%)	23-Jan	--	--	0.6	
Jan-26	6:00	FGV Construction Costs (m/m)	Jan	--	--	0.3	
Jan-26	7:00	IBGE Inflation IPCA-15 (m/m)	Jan	--	--	0.8	
Jan-26	7:00	IBGE Inflation IPCA-15 (y/y)	Jan	--	--	10.4	
Jan-26	7:30	Current Account Balance (USD mn)	Dec	--	--	-6,522.2	
Jan-26	7:30	Foreign Direct Investment (USD mn)	Dec	--	--	4,587.9	
Jan-26	12:30	Federal Debt Total (BRL bn)	Dec	--	--	5,499.0	
Jan 20-26		Tax Collections (BRL mn)	Dec	--	--	157,340.0	
Jan-28	6:00	FGV Inflation IGPM (m/m)	Jan	--	--	0.9	
Jan-28	6:00	FGV Inflation IGPM (y/y)	Jan	--	--	17.8	
Jan-28	7:00	National Unemployment Rate (%)	Nov	--	--	12.1	
Jan-28	7:30	Outstanding Loans (m/m)	Dec	--	--	1.8	
Jan-28	7:30	Personal Loan Default Rate (%)	Dec	--	--	4.3	
Jan-28	7:30	Total Outstanding Loans (BRL bn)	Dec	--	--	4,575.1	
Jan-28		Central Govt Budget Balance (BRL bn)	Dec	--	--	3.9	
Jan 24-31		Formal Job Creation Total	Dec	--	--	324,112.0	

## CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-21	6:30	Central Bank Traders Survey					
Jan-24	7:00	PPI (m/m)	Dec	--	--	0.1	
Jan-26	16:00	Overnight Rate Target (%)	26-Jan	5.25	--	4.00	We expect the Central Bank to hike 125 bps in the January meeting, which will bring the monetary policy rate to 5.25%.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

## Market Events &amp; Indicators for January 14–28

## CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan 28-31		Commercial Activity (y/y)	Dec	--	--	13.7	
Jan 28-31		Retail Sales (y/y)	Dec	19.0	--	16.8	We forecast an expansion around 19% y/y in December, based on our high frequency indicators of credit and debit cards, which showed a strong performance in services, mainly restaurants.

## COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-14		Central Bank Economist Survey					
Jan-17	10:00	Imports CIF Total (USD mn)	Nov	--	--	5,809.9	
Jan-17	10:00	Industrial Production (y/y)	Nov	--	--	9.6	
Jan-17	10:00	Manufacturing Production (y/y)	Nov	11.3	10.6	10.1	Manufacturing could show mixed results as some sectors are rebounding due to the reopening, while others are suffering from inputs shortages.
Jan-17	10:00	Retail Sales (y/y)	Nov	11.0	10.6	14.2	Retail sales could post another positive record led by the VAT holiday.
Jan-17	10:00	Trade Balance (USD mn)	Nov	--	--	-1,519.2	
Jan-18	11:00	Economic Activity NSA (y/y)	Nov	10.5	--	9.3	Overall economy will continue gaining ground amid reopening and better dynamics in services-related sectors.
Jan-24		Industrial Confidence	Dec	--	--	15.2	
Jan-24		Retail Confidence	Dec	--	--	41.5	
Jan-28	13:00	Overnight Lending Rate (%)	28-Jan	3.75	--	3.00	Inflation surprises and stronger than usual indexation effects increase the probability of headline inflation closing 2022 above the ceiling of the central bank's target range (between 2% and 4%). That said, we expect the central bank to accelerate its hiking cycle in Q1-2022. However, the terminal rate is still estimated at 5%.

## MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-18	10:00	International Reserves Weekly (USD mn)	14-Jan	--	--	201,953.0	
Jan-18	12:00	ANTAD Same-Store Sales (y/y)	Dec	--	--	9.3	
Jan-20	7:00	Unemployment Rate NSA (%)	Dec	--	--	3.7	
Jan-24	7:00	Bi-Weekly Core CPI (%)	15-Jan	--	--	0.2	
Jan-24	7:00	Bi-Weekly CPI (%)	15-Jan	--	--	0.0	
Jan-24	7:00	Bi-Weekly CPI (y/y)	15-Jan	--	--	7.3	
Jan-25	7:00	Economic Activity IGAE (m/m)	Nov	--	--	-0.2	
Jan-25	7:00	Economic Activity IGAE (y/y)	Nov	--	--	-0.7	
Jan-25	10:00	International Reserves Weekly (USD mn)	21-Jan	--	--	201,953.0	
Jan-26	7:00	Retail Sales (m/m)	Nov	--	--	0.3	
Jan-26	7:00	Retail Sales (y/y)	Nov	--	--	5.3	
Jan-27	7:00	Trade Balance (USD mn)	Dec	--	--	-111.7	
Jan-27		Budget Balance YTD (MXN bn)	Dec	--	--	-449.7	

## PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-15		Economic Activity (y/y)	Nov	--	--	4.6	
Jan-15		Lima Unemployment Rate (%)	Dec	--	--	9.1	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage



Local Market Coverage

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