

Contributors

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Latam Charts: Charting Our Way Through the Omicron Effect

- The omicron variant introduces additional uncertainty to an already uncertain conjuncture.
- Increased caseloads or public health measures to limit transmission could disrupt economic activity, resulting in output losses. These losses would be magnified in the event of supply-side bottlenecks that curtail production.
- At the same time, omicron wave disruptions could lead to further price pressures, increasing the urgency on central banks to defend price stability commitments. For Latam countries, external financial conditions are likely to become far less benign.
- In these circumstances, charting a path through the omicron effect requires looking beyond possible near-term developments and embracing sound policy frameworks and strong institutions.

KEY ECONOMIC CHARTS

As the new year unfolds, the omicron variant has introduced additional uncertainty to the near-term economic outlook. Recent data suggests that growth in key external markets and the Latam region was strong going into 2022. If this pace is sustained going forward, downside risks to the [forecasts of Scotiabank economists](#) in the region would be limited. These projections call for a gradual moderation of GDP growth over the year, following the strong rebound in output recorded in 2021 (chart 1).

Should the omicron variant have far more disruptive effects, however, the expected return to pre-pandemic growth rates could be interrupted. For this reason, market analysts and policy makers will be closely monitoring high-frequency indicators of economic activity in the weeks ahead. For now, the monthly economic activity index tracker (chart 2) does not signal alarm, with recent declines reflecting waning base level effects. That said, as noted in previous reports, the sharp deceleration in Brazil and Mexico warrants watching.

Inflation could be one effect of the omicron variant. Over the past year, supply-side shocks have driven inflation higher and have proven to be more persistent than earlier anticipated. As a result, inflation across the Latam region exceeds central bank inflation targets, significantly so in some cases (chart 3). Additional supply bottlenecks generated by the omicron wave, or prophylactic public health measures to limit caseloads, could prolong price pressures and challenge the credibility of central bank price stability commitments. Such effects would be exacerbated by steady increases in core inflation such as those seen [in Mexico](#) that feed through to expectations.

Central banks across the region have raised policy rates to contain inflation (chart 4). In Peru, policy rate hikes, which raises the cost of credit, have been supplemented by [increases in reserve requirements](#) that restrict the quantity of credit available.

Brazil's BCB and Mexico's Banxico have moved most aggressively, resulting in positive real (adjusted for inflation) policy rates. In Chile, the BCCh has also acted decisively, including a surprise [150 bps move on January 26](#). Real policy rates remain in negative territory in Colombia and Peru, though tomorrow's meeting of Colombia's BanRep is expected to result in a further rate hike. While they lag their regional peers in this respect, the central banks in Colombia and Peru are not out of sync with central banks around the globe (chart 5). But with the Fed and the Bank of Canada signalling imminent rate increases, and the Bank of England having already moved, the breathing space that rate holds elsewhere provide is likely coming to an end.

January 27, 2022

In this respect, the external financial environment is likely to become far less benign. In that event, attention will increasingly focus on stability and resiliency indicators, including fiscal balances (chart 6). These indicators deteriorated sharply as most governments across the Latam region moved expeditiously—and appropriately—to limit the economic and financial effects of the pandemic and to protect the most vulnerable. With the rebound in output, extraordinary fiscal measures should be scaled back and steps taken to ensure long-term fiscal sustainability. The good news here is that governments across the Pacific Alliance have already taken important steps towards the goal of containing the increase in general government gross debt (chart 7) recorded in the pandemic.

Global investors will also be closely watching external indicators, including external debt burdens (chart 8), current account balances (chart 9), and reserve holdings (chart 10). These indicators do not currently point to impending challenges, though the continued widening of current account deficits in Chile and, especially, [Colombia](#) should be monitored.

KEY MARKET CHARTS

Financial markets across the Latam region have performed strongly in the early weeks of 2022. Most currencies have appreciated against the US dollar (chart 3), as central banks in the region have tightened policy and signalled further rate hikes while most advanced economy central banks have remained on hold. Regional equity markets have likewise gained ground, with Peru's stock market leading the way. As our team in Lima has previously pointed out, part of that gain reflects a diminution of political uncertainty.

Despite the appreciation of regional currencies in early 2022, a longer timeline (chart 5) reveals that, with the exception of the Mexican peso, most Latam units have some way to go before returning to pre-pandemic levels. Similarly, while 10-year CDS spreads on Latam sovereigns (chart 6) have narrowed from the highs recorded in March 2020, most remain above pre-pandemic lows. The widening in Colombia's spread observed over the course of 2021 is notable, particularly as it accelerated later in the year. Scotiabank's economists in Bogota have attributed this trend, in part, to political uncertainty surrounding the upcoming elections.

YIELD CURVE CHARTS

Latam sovereign yield curves shifted up across the maturity spectrum in 2021 as higher inflation and increases in short term interest rates were priced into term premiums (charts 1–18). Since the start of 2022, however, sovereign curves have been stable. Curves have flattened in Brazil and Chile over the past year, while Argentina's sovereign curve remains highly inverted reflecting the unique circumstances there.

KEY COVID-19 CHARTS

As noted at the outset, the omicron variant looms over the short-term outlook. And the path and progression of the latest wave of the pandemic will have important implications on economic activity, inflation and financial markets. Key monitoring charts (charts 1–12) mark the evolution of caseloads, mortality and vaccinations. They show that while cases (chart 7) and test positivity rates (chart 12) have spiked higher throughout the region, for now at least case rates in Brazil and the Pacific Alliance countries remain below those in the advanced economies that were likely overtaken by the omicron wave earlier (charts 8 and 9). The good news is that mortality rates (chart 5) have thus far not increased, while vaccinations continue to be rolled out with Chile leading the region (chart 10) and the world (chart 11).

Key Economic Charts

Chart 1

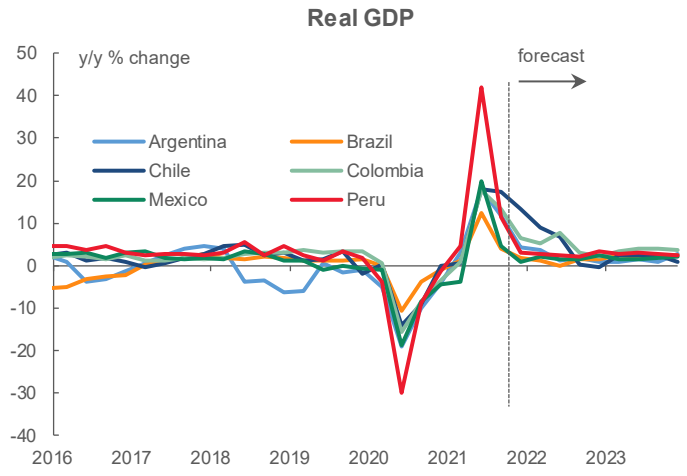


Chart 2

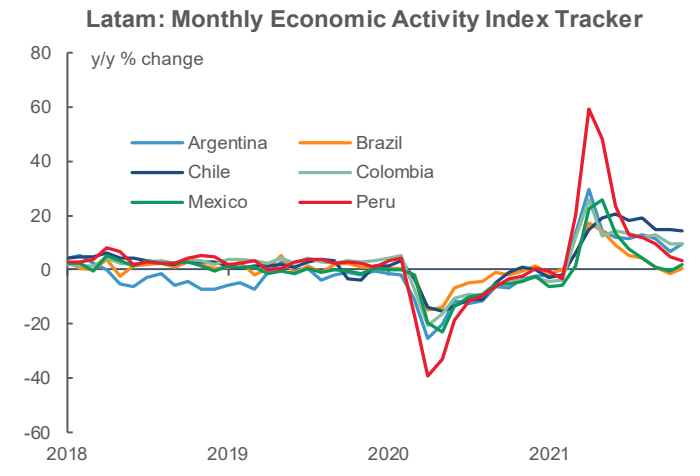


Chart 3

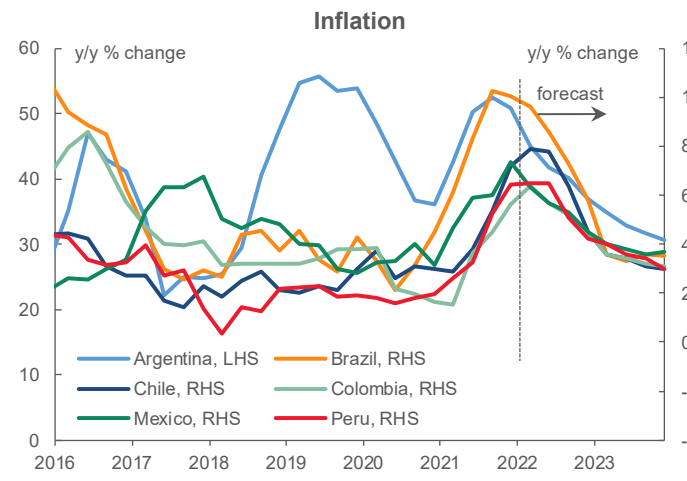


Chart 4

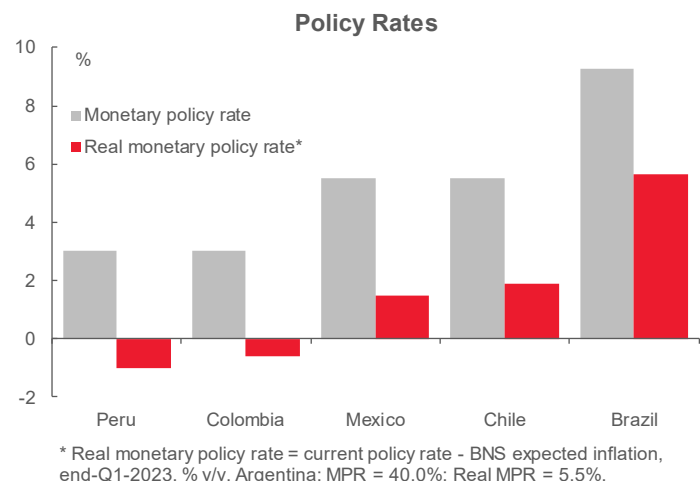


Chart 5

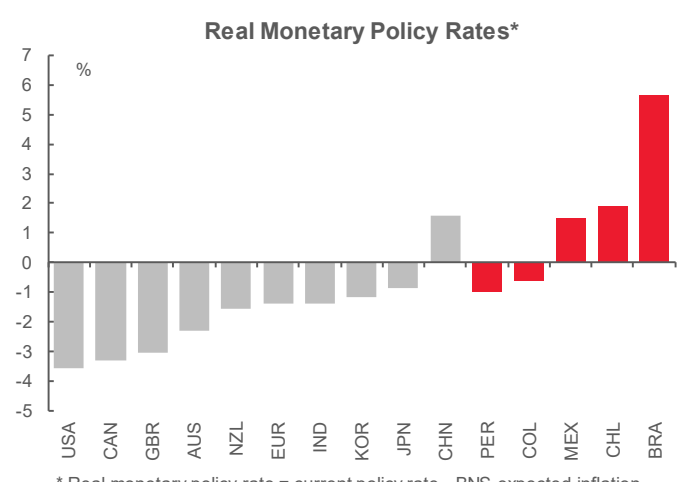
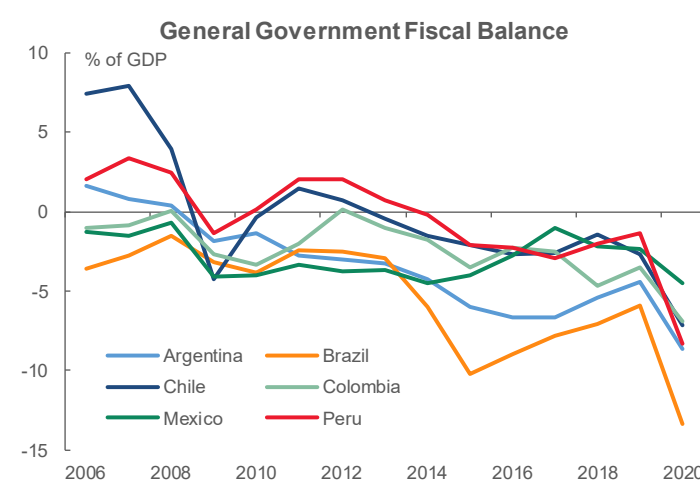


Chart 6



Key Economic Charts

Chart 7

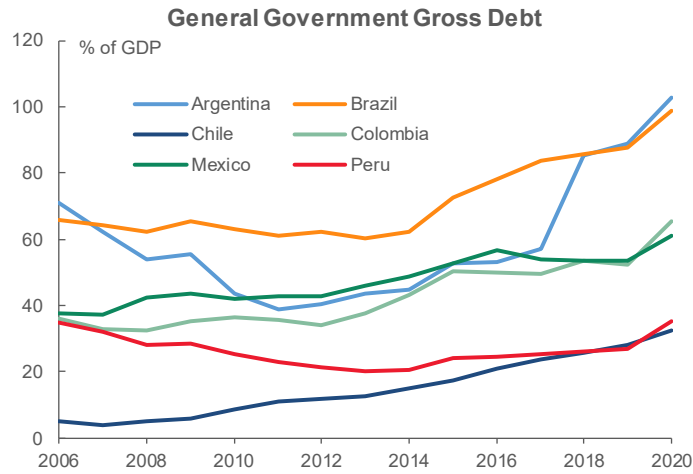


Chart 8

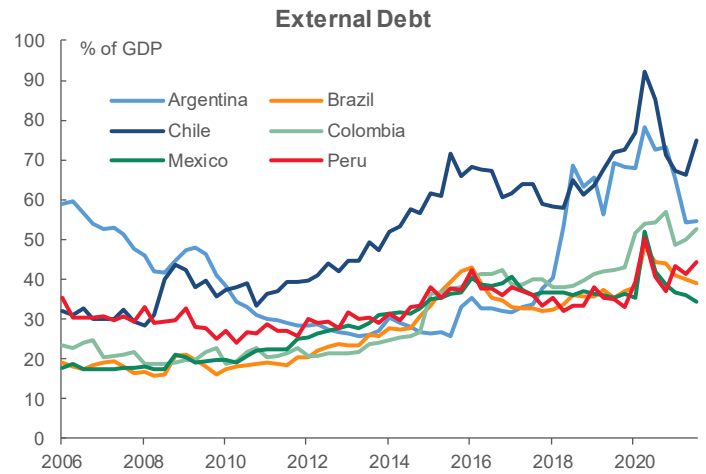
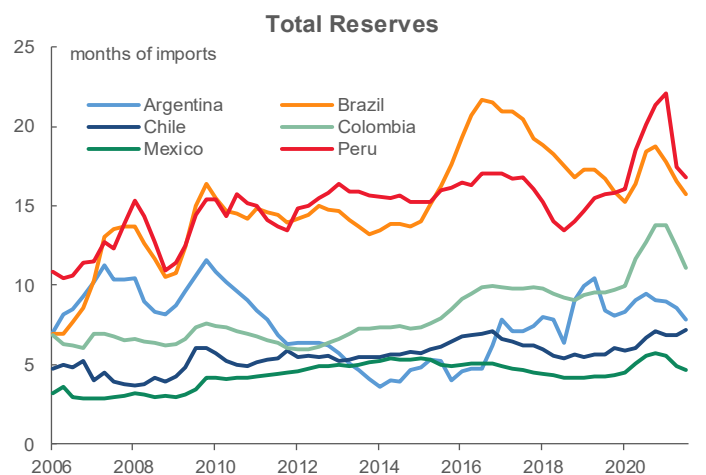


Chart 9

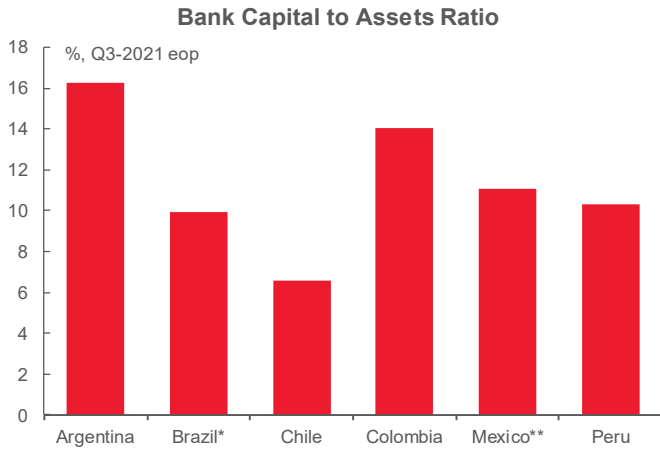


Chart 10



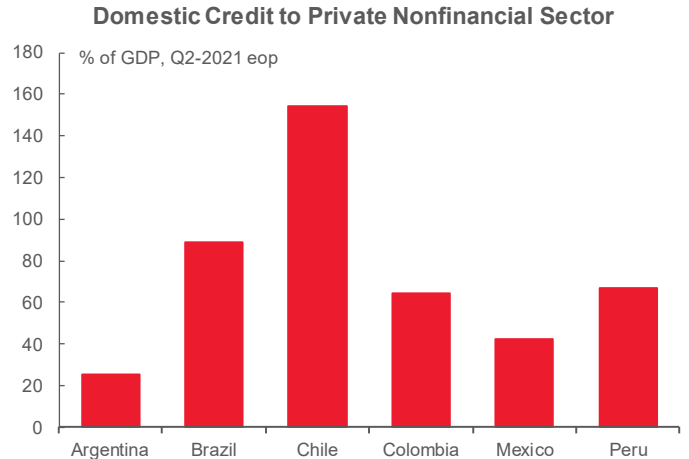
Key Market Charts

Chart 1



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

Chart 2



Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

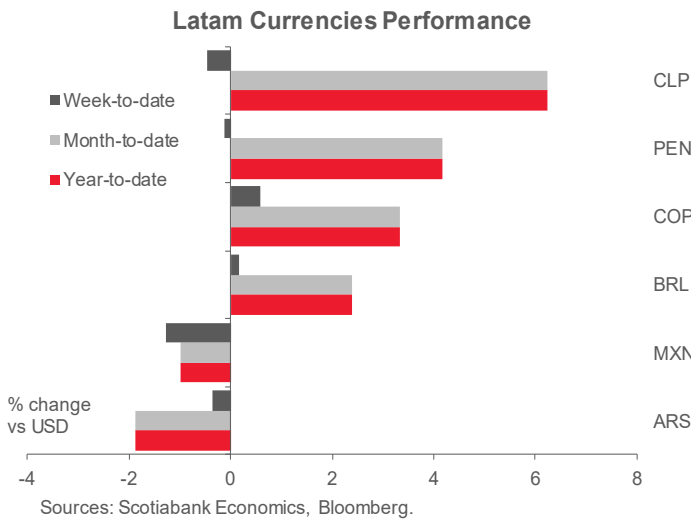


Chart 4

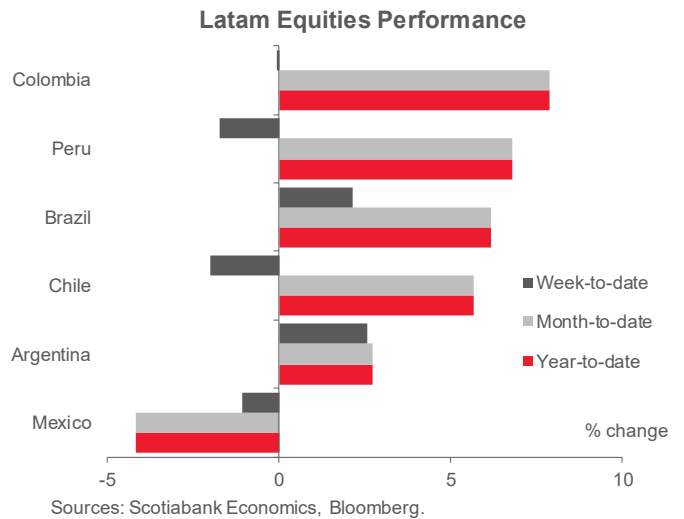


Chart 5

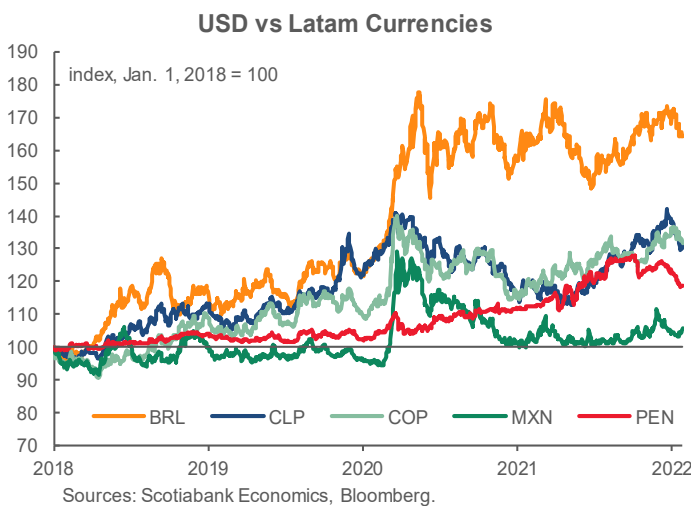
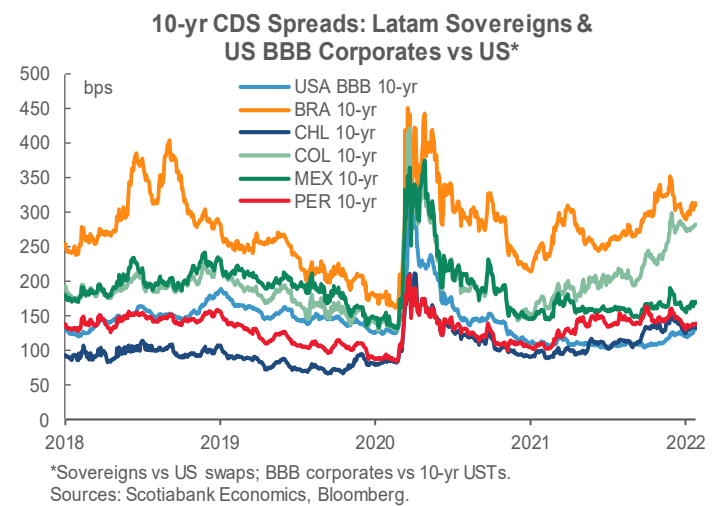
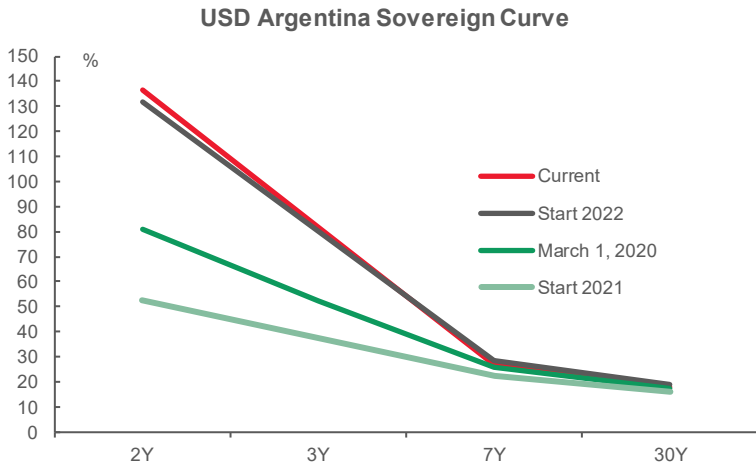


Chart 6



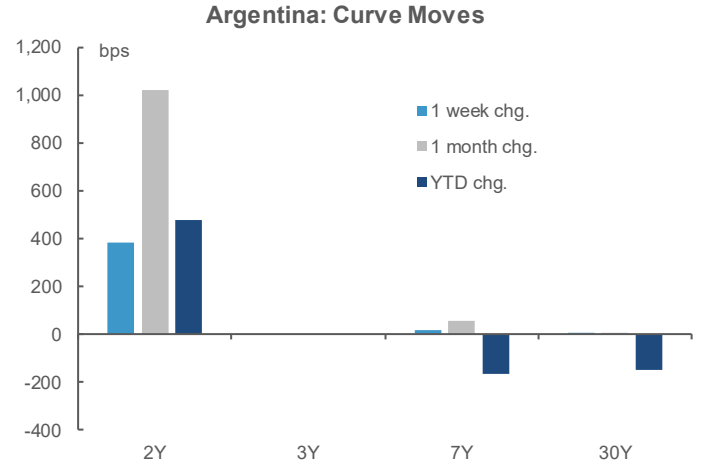
Yield Curves

Chart 1



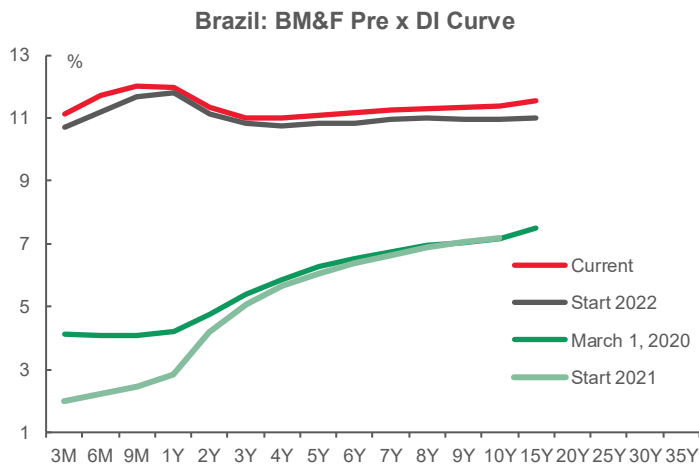
Sources: Scotiabank Economics, Bloomberg.

Chart 2



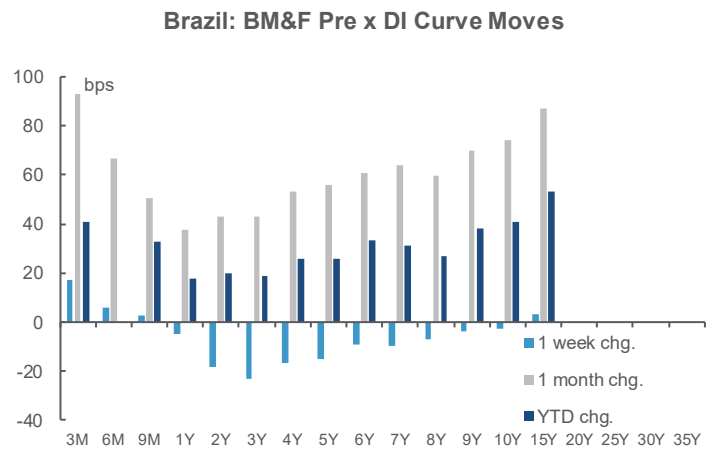
Sources: Scotiabank Economics, Bloomberg.

Chart 3



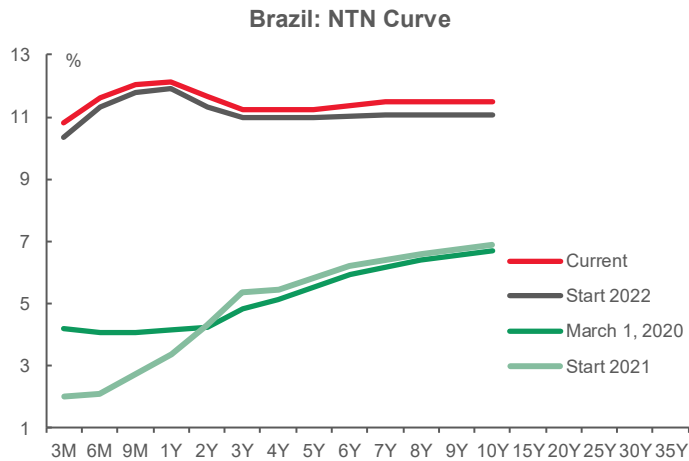
Sources: Scotiabank Economics, Bloomberg.

Chart 4



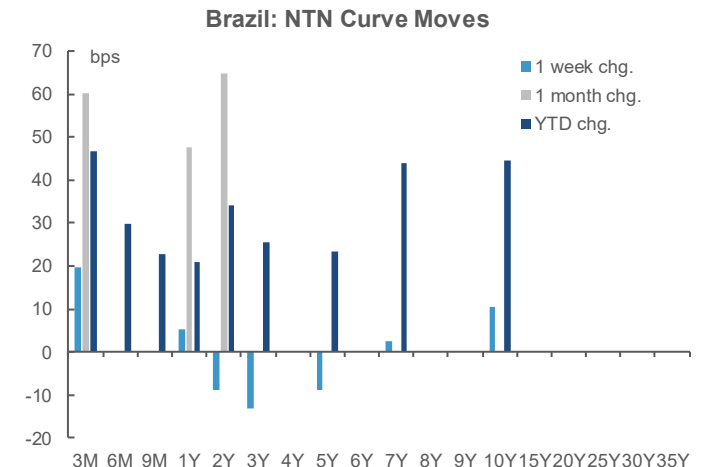
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Chart 6

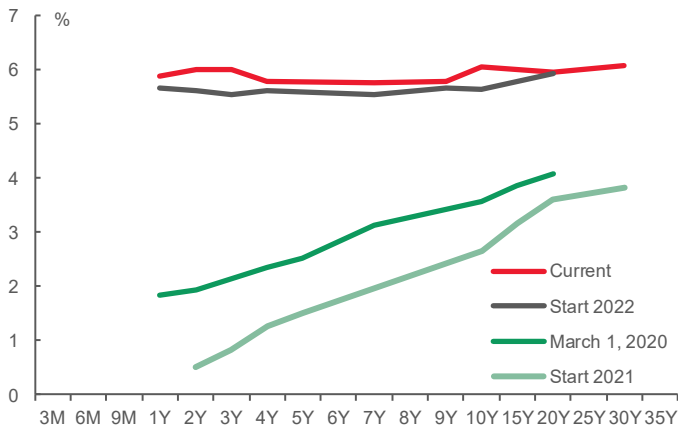


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 7

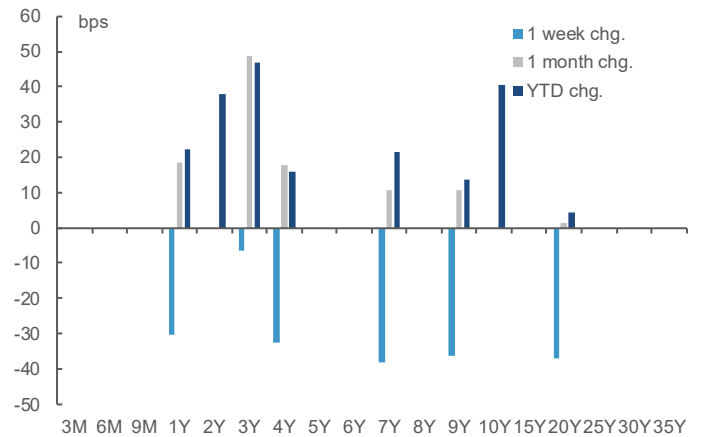
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 8

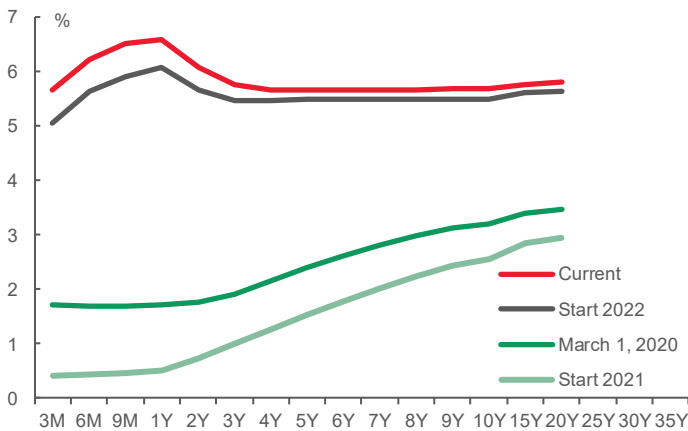
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 9

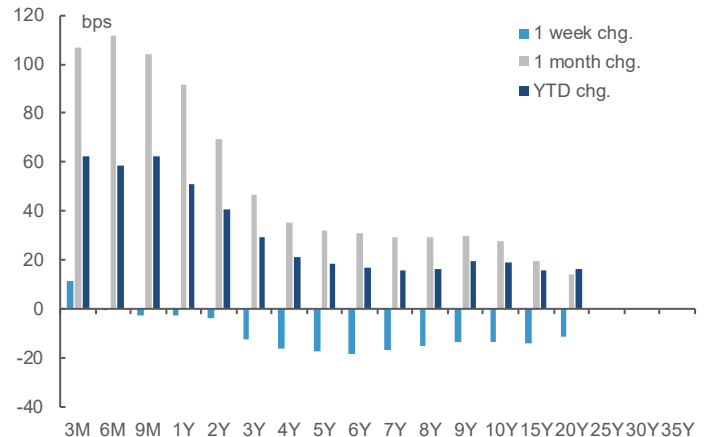
Chile: Fixed x Camara Swap Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 10

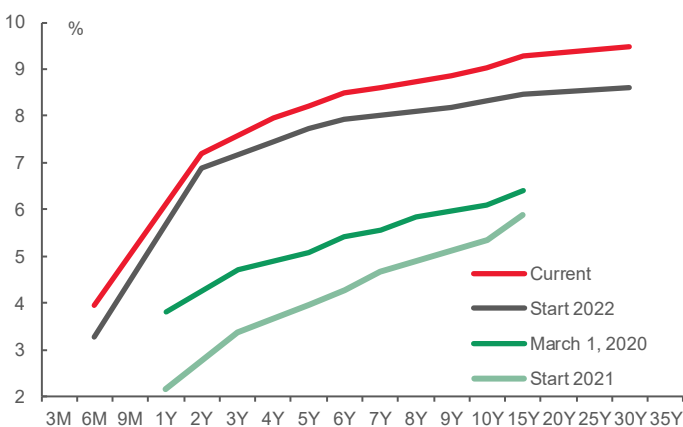
Chile: Fixed x Camara Swap Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 11

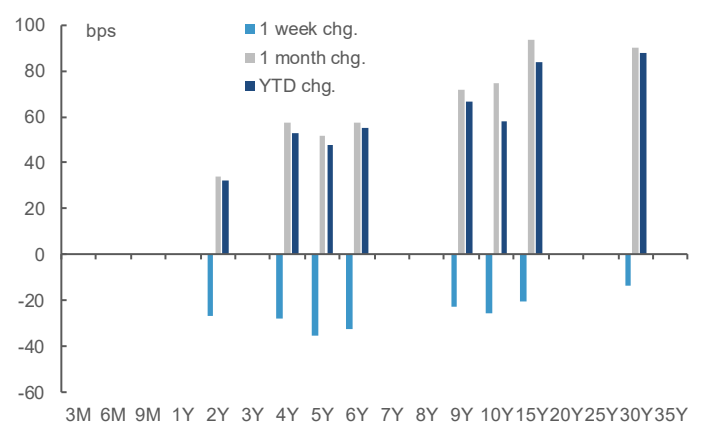
Colombia: Coltes Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 12

Colombia: Coltes Curve Moves

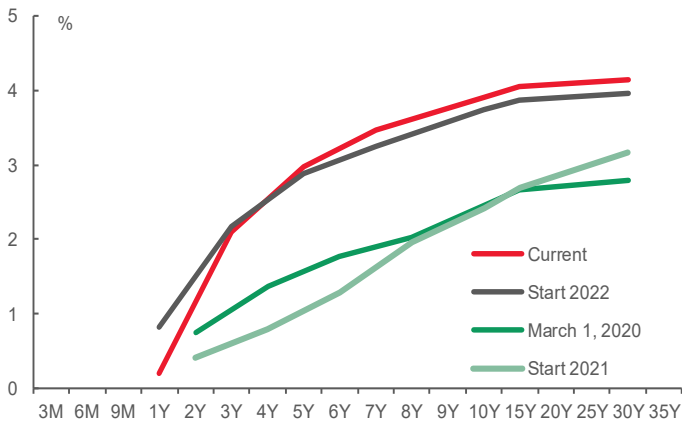


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 13

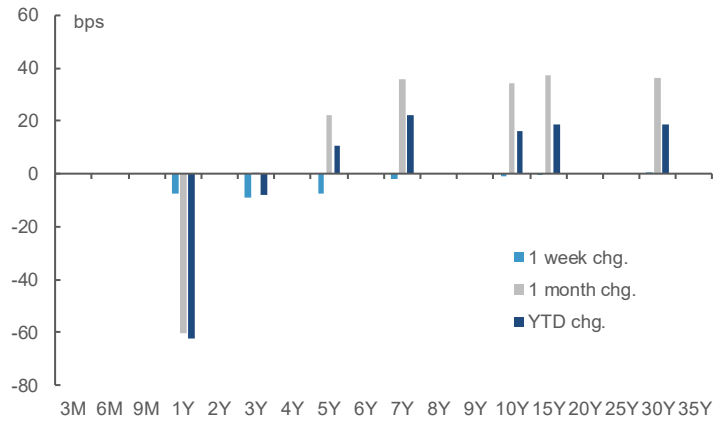
Colombia: UVR-Indexed Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 14

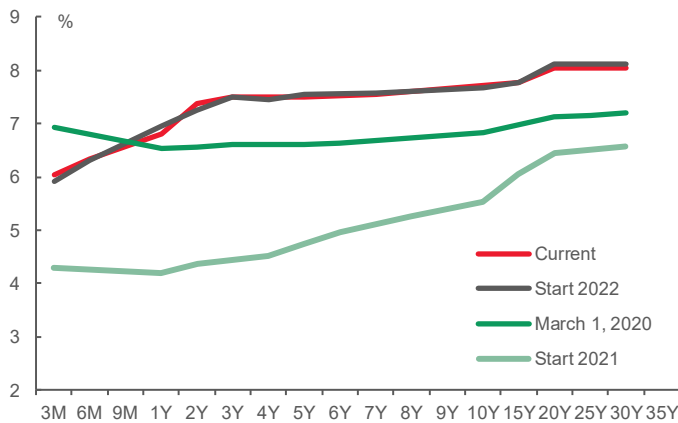
Colombia: UVR-Indexed Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 15

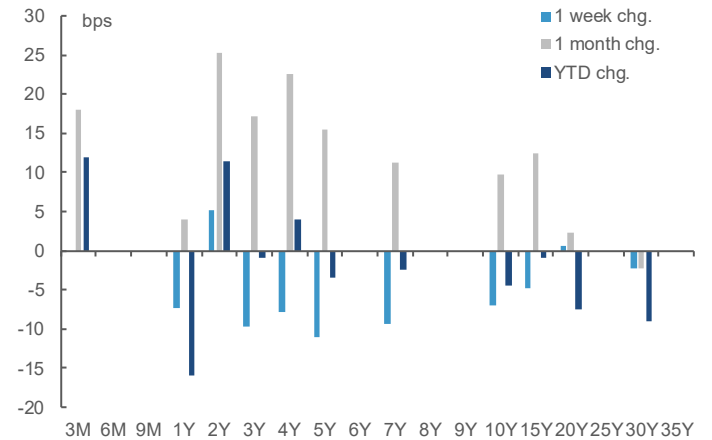
Mexico: M-Bono Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 16

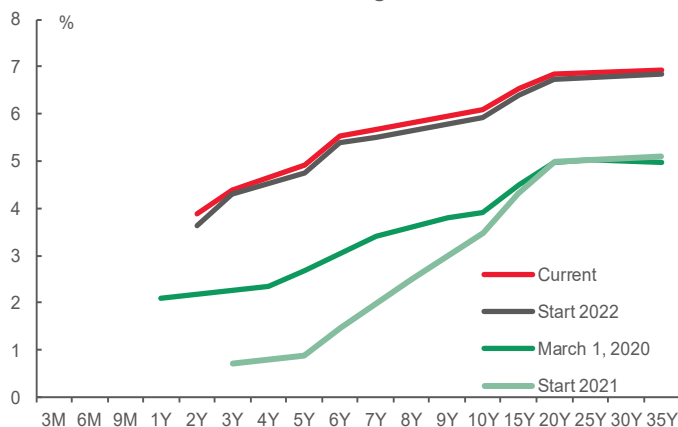
Mexico: M-Bono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 17

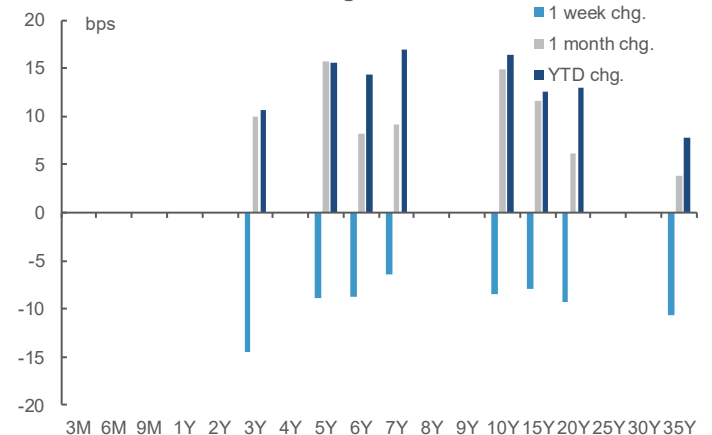
Peru: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 18

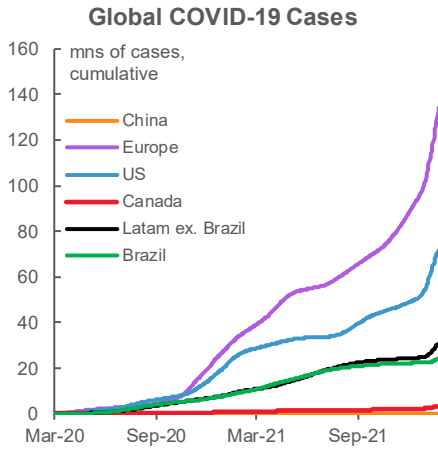
Peru: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

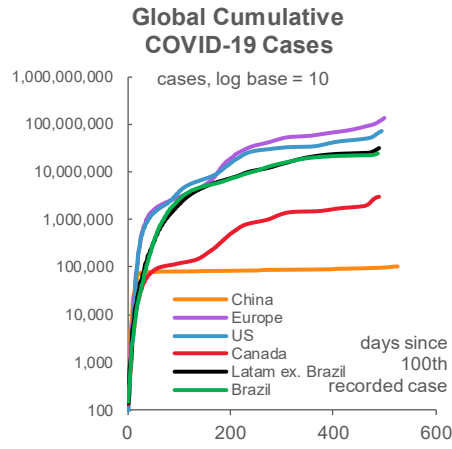
Key COVID-19 Charts

Chart 1



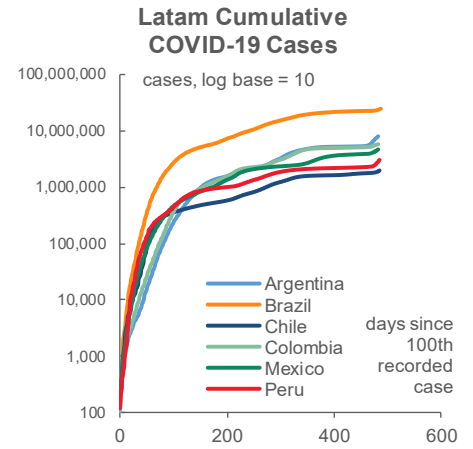
Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2



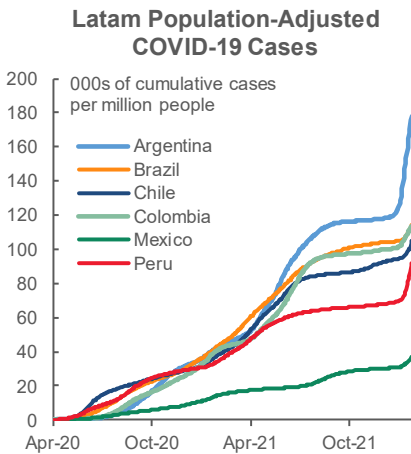
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



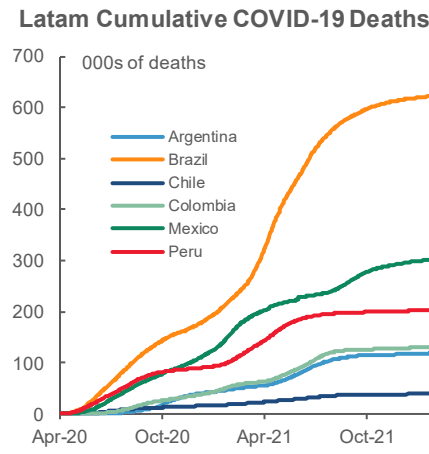
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4



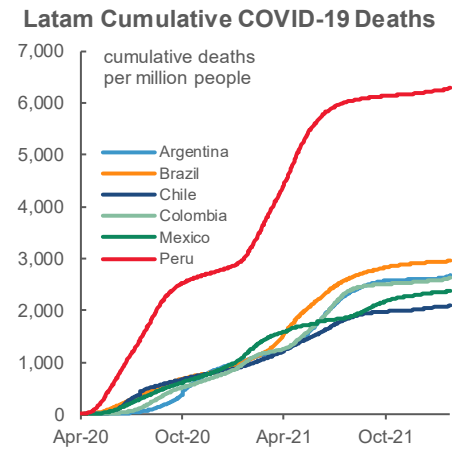
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5



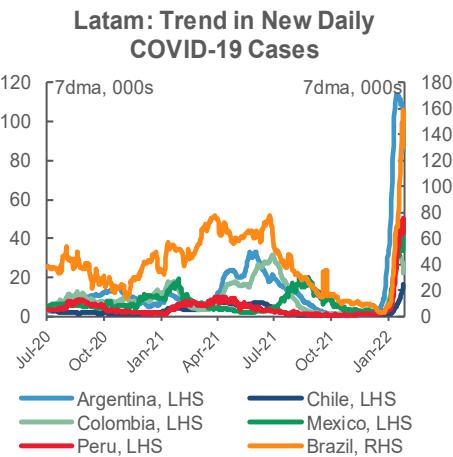
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6



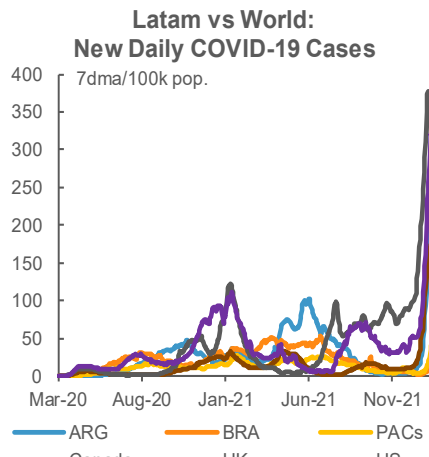
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7



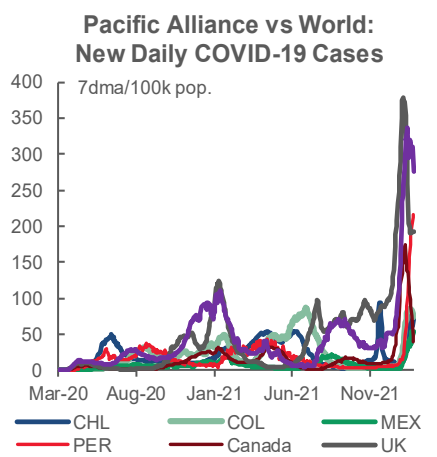
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8



Sources: Scotiabank Economics, JHU.

Chart 9



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

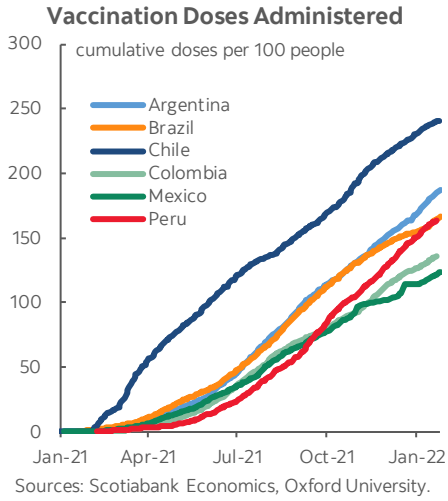


Chart 11

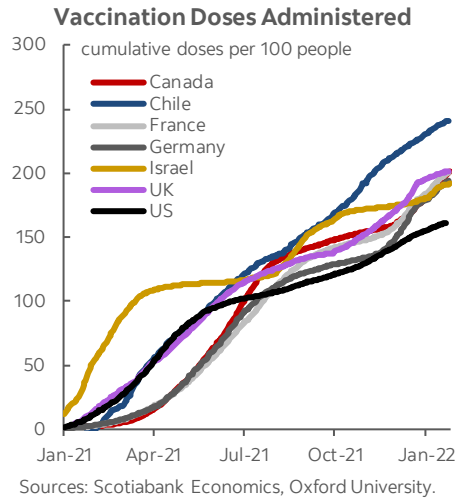
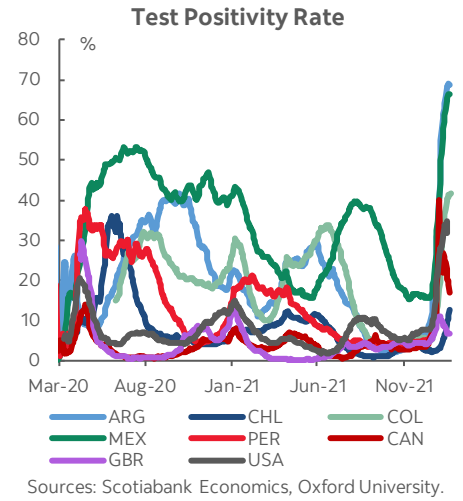


Chart 12



Market Events & Indicators for January 28–February 11

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan 25-30		Consumer Confidence Index (%)	Jan	--	--	37.8	
Jan-31	14:00	Wages (m/m)	Nov	4.0	--	4.0	Wages are keeping pace with inflation.
Feb-03		Vehicle Domestic Sales Adefa	Jan	--	--	32,723.0	
Feb-03		Vehicle Exports Adefa	Jan	--	--	19,615.0	
Feb-03		Vehicle Production Adefa	Jan	--	--	39,849.0	
Feb 1-3		Government Tax Revenue (ARS bn)	Jan	--	--	1,179.9	
Feb-04		Central Bank Survey					
Feb-08	14:00	Construction Activity (y/y)	Dec	8.0	--	8.4	Construction & industrial output continue to
Feb-08	14:00	Industrial Production (y/y)	Dec	9.0	--	10.1	stabilize.
Feb-10	14:00	Wages (m/m)	Dec	4.0	--	4.0	Wages are keeping pace with inflation.

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-28	6:00	FGV Inflation IGPM (m/m)	Jan	--		2.0	0.9
Jan-28	6:00	FGV Inflation IGPM (y/y)	Jan	--		17.1	17.8
Jan-28	7:00	National Unemployment Rate (%)	Nov	--		11.7	12.1
Jan-28	7:30	Outstanding Loans (m/m)	Dec	--		1.0	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	--		9.0	3.9
Jan-31	6:25	Central Bank Weekly Economist Survey					
Jan-31	7:30	Net Debt % GDP	Dec	--		--	57.0
Jan-31	7:30	Nominal Budget Balance (BRL bn)	Dec	--		--	-26.6
Jan-31	7:30	Primary Budget Balance (BRL bn)	Dec	--		--	15.0
Jan 24-31		Formal Job Creation Total	Dec	--	-172,500.0	324,112.0	
Feb-01	6:00	FGV CPI IPC-S (%)	31-Jan	--		--	0.4
Feb-01	8:00	Markit Brazil PMI Manufacturing	Jan	--		--	49.8
Feb-01	13:00	Exports Total (USD mn)	Jan	--		--	24,366.0
Feb-01	13:00	Imports Total (USD mn)	Jan	--		--	20,418.0
Feb-01	13:00	Trade Balance Monthly (USD mn)	Jan	--		--	3,948.0
Feb-02	3:00	FIPE CPI - Monthly (%)	Jan	--		--	0.6
Feb-02	7:00	Industrial Production (m/m)	Dec	--		--	-0.2
Feb-02	7:00	Industrial Production (y/y)	Dec	--		--	-4.4
Feb-02	16:30	Selic Rate (%)	02-Feb	10.25		10.75	9.25
Feb-03	8:00	Markit Brazil PMI Composite	Jan	--		--	52.0
Feb-03	8:00	Markit Brazil PMI Services	Jan	--		--	53.6
Feb 1-3		Vehicle Sales Fenabrave	Jan	--		--	207,079.0
Feb-07	6:00	FGV Inflation IGP-DI (m/m)	Jan	--		--	1.3
Feb-07	6:00	FGV Inflation IGP-DI (y/y)	Jan	--		--	17.7
Feb-07	13:00	Trade Balance Weekly (USD mn)	06-Feb	--		--	-877.2
Feb 4-7		Vehicle Exports Anfavea	Jan	--		--	41,581.0
Feb 4-7		Vehicle Production Anfavea	Jan	--		--	210,925.0
Feb 4-7		Vehicle Sales Anfavea	Jan	--		--	207,053.0
Feb-08	6:00	FGV CPI IPC-S (%)	07-Feb	--		--	0.4
Feb-09	3:00	FIPE CPI - Weekly (%)	07-Feb	--		--	0.7
Feb-09	7:00	IBGE Inflation IPCA (m/m)	Jan	--		--	0.7
Feb-09	7:00	IBGE Inflation IPCA (y/y)	Jan	--		--	10.1
Feb-09	7:00	Retail Sales Broad (m/m)	Dec	--		--	0.5
Feb-09	7:00	Retail Sales Broad (y/y)	Dec	--		--	-2.9
Feb-09	7:00	Retail Sales (m/m)	Dec	--		--	0.6
Feb-09	7:00	Retail Sales (y/y)	Dec	--		--	-4.2
Feb-10	7:00	IBGE Services Volume (m/m) SA	Dec	--		--	2.4
Feb-10	7:00	IBGE Services Volume (y/y) NSA	Dec	--		--	10.0
Feb-11	7:00	Economic Activity (m/m)	Dec	--		--	0.7
Feb-11	7:00	Economic Activity (y/y)	Dec	--		--	0.4

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for January 28–February 11

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-31	7:00	Commercial Activity (y/y)	Dec	--	--	13.7	
Jan-31	7:00	Copper Production Total (Tons)	Dec	--	--	485,716.0	
Jan-31	7:00	Industrial Production (y/y)	Dec	--	--	2.5	
Jan-31	7:00	Manufacturing Production (y/y)	Dec	2.2	--	5.0	
Jan-31	7:00	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.
Jan-31	7:00	Unemployment Rate (%)	Dec	7.0	--	7.5	We expect a drop in the unemployment rate to 7.0%, due to a higher increase in employment compared with the rise in the work force.
Feb-01	6:30	Economic Activity (m/m)	Dec	--	--	0.3	
Feb-01	6:30	Economic Activity (y/y)	Dec	10.5	--	14.3	We estimate that Imacec expanded 10.5% y/y in December, which is consistent with our GDP growth forecast of 12% in 2021 and 3.5% in 2022.
Feb-07	6:30	Copper Exports (USD mn)	Jan	--	--	4,914.3	
Feb-07	6:30	Exports Total (USD mn)	Jan	--	--	9,036.8	
Feb-07	6:30	Imports Total (USD mn)	Jan	--	--	8,517.0	
Feb-07	6:30	International Reserves (USD mn)	Jan	--	--	51,328.0	
Feb-07	6:30	Trade Balance (USD mn)	Jan	--	--	520.0	
Feb-07	7:00	Nominal Wage (y/y)	Dec	--	--	5.8	
Feb 1-7		IMCE Business Confidence	Jan	--	--	46.5	
Feb-08	6:00	CPI (m/m)	Jan	--	--	0.8	
Feb-08	6:00	CPI (y/y)	Jan	--	--	7.2	
Feb-10		Central Bank Economist Survey					
Feb-10		Central Bank Meeting Minutes					
Feb 7-10		Vehicle Sales Total	Jan	--	--	40,776.0	

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-28	13:00	Overnight Lending Rate (%)	28-Jan	3.75	3.75	3.00	
Jan-31	10:00	Exports FOB (USD mn)	Dec	--	--	3,987.6	
Jan-31	10:00	National Unemployment Rate (%)	Dec	--	--	10.8	
Jan-31	10:00	Urban Unemployment Rate (%)	Dec	--	--	12.2	
Feb-01	10:00	Davivienda Colombia PMI Mfg	Jan	--	--	53.1	
Feb-01	17:00	Colombia Monetary Policy Minutes					
Feb-05	12:00	CPI Core (m/m)	Jan	--	--	0.4	
Feb-05	12:00	CPI Core (y/y)	Jan	--	--	3.4	
Feb-05	12:00	CPI (m/m)	Jan	--	1.1	0.7	
Feb-05	12:00	CPI (y/y)	Jan	--	6.4	5.6	
Feb-08		Consumer Confidence Index	Jan	--	--	-7.0	

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jan-31	7:00	GDP NSA (y/y)	4Q P	--	--	4.5	
Jan-31	7:00	GDP SA (q/q)	4Q P	--	--	-0.4	
Jan-31	10:00	Net Outstanding Loans (MXN bn)	Dec	--	--	4,784.5	
Feb-01	10:00	Central Bank Economist Survey					
Feb-01	10:00	International Reserves Weekly (USD mn)	28-Jan	--	--	201,996.0	
Feb-01	10:00	Remittances Total (USD mn)	Dec	--	--	4,665.2	
Feb-01	10:30	Markit Mexico PMI Mfg	Jan	--	--	49.4	
Feb-01	13:00	IMEF Manufacturing Index SA	Jan	--	--	52.6	
Feb-01	13:00	IMEF Non-Manufacturing Index SA	Jan	--	--	52.6	
Feb-02	7:00	Leading Indicators (m/m)	Dec	--	--	-0.1	
Feb-02	7:00	Vehicle Domestic Sales	Jan	--	--	97,365.0	
Feb-03	7:00	Consumer Confidence	Jan	--	--	44.6	
Feb-04	7:00	Gross Fixed Investment (%)	Nov	--	--	6.5	
Feb-04	7:00	Vehicle Exports	Jan	--	--	227,465.0	
Feb-04	7:00	Vehicle Production	Jan	--	--	212,272.0	
Feb-04		Banamex Survey of Economists					

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for January 28–February 11

MEXICO

<u>Date</u>	<u>Time Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
Feb-09	7:00 Bi-Weekly Core CPI (%)	31-Jan	--	--	0.3	
Feb-09	7:00 Bi-Weekly CPI (%)	31-Jan	--	--	0.4	
Feb-09	7:00 Bi-Weekly CPI (y/y)	31-Jan	--	--	7.1	
Feb-09	7:00 CPI Core (m/m)	Jan	--	--	0.8	
Feb-09	7:00 CPI (m/m)	Jan	--	--	0.4	
Feb-09	7:00 CPI (y/y)	Jan	--	--	7.4	
Feb-09	10:00 International Reserves Weekly (USD mn)	04-Feb	--	--	201,996.0	
Feb-10	14:00 Overnight Rate (%)	10-Feb	5.75	--	5.50	
Feb-10	Nominal Wages (m/m)	Jan	--	--	4.7	
Feb-11	7:00 Industrial Production NSA (y/y)	Dec	--	--	1.6	
Feb-11	7:00 Industrial Production SA (m/m)	Dec	--	--	-0.1	
Feb-11	7:00 Manuf. Production NSA (y/y)	Dec	--	--	2.8	
Feb 8-14	ANTAD Same-Store Sales (y/y)	Jan	--	--	13.7	

PERU

<u>Date</u>	<u>Time Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
Feb-01	10:00 Lima CPI (m/m)	Jan	0.2	--	--	-- Inflation m/m lower, with a reversal in food and oil
Feb-01	10:00 Lima CPI (y/y)	Jan	5.8	--	--	-- prices and y/y comparison affected by base effects.
Feb-10	18:00 Reference Rate (%)	10-Feb	3.50	--	--	-- 50 bps hike by BCRP likely.

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

Scotiabank Economics Latam Coverage



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