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Latam Charts: Hawkish Fed Looms Over Latam Central Banks

- The Fed's policy decision next Wednesday will take centre stage, with a hawkish 75bps hike overshadowing a (likely) unchanged Selic rate in Brazil on the same day and projected policy rate reductions in Latam next year.
- Mexican H1-Sept CPI data is unlikely to change Banxico's mind ahead of its late-month meeting, where we forecast a 75bps hike, but it may challenge its expectation that inflation peaked in Q3.

Latam assets took a hit this week amid the sharp risk-off reaction in markets after surprisingly strong US inflation data (core, in particular). The data have prompted some economists to project a giant 100bps hike from the Federal Reserve at its policy decision next Wednesday, while our call remains a (still sizable) 75bps increase accompanied by hawkish guidance.

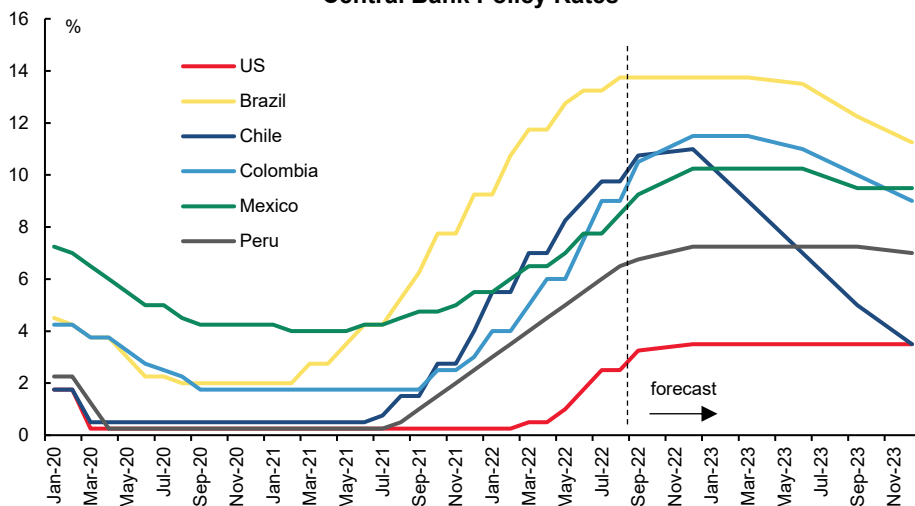
In the Pacific Alliance, domestic developments could not compete to drive attention away from the data-motivated sell-off, and next week's regional calendar may again not offer enough to take the spotlight away from the Fed.

The parallel shift upwards in expectations for Fed rates pulled regional yield curves higher, but nowhere is this clearer than in the case of Mexico, where Banxico has tied its rates policy to moves north of the border. Year-ahead Banxico policy rate expectations have climbed by around 40bps since Friday's close, roughly equivalent to the increase seen in Fed rate expectations.

Next week's release of bi-weekly Mexican CPI for H1-Sept is unlikely to result in Banxico deviating from a 75bps increase, our expectation for the September 29 policy announcement. A surprise 100bps increase from the Fed could certainly open the door for renewed hawkishness in Banxico's stance, more than a stronger than expected bi-weekly inflation print could. Having said that, September's CPI data will challenge Banxico's latest inflation projections where it sees headline and underlying inflation peaking in Q3-22. With merchandise and food prices soaring, core inflation shows no signs of receding soon.

Chart of the Week

Central Bank Policy Rates



Sources: Scotiabank Economics, Bloomberg.

Chart of the Week: Prepared by: John Fanjoy, Economic Analyst.

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September 15, 2022

The US's economic resilience with stubbornly tight labour markets and no obvious signs of cresting core inflation will keep the Fed at the forefront of hawkish monetary policy among the G10 that Latin American officials may be unable to match—risking downside for the regional currencies, or at least limiting upside.

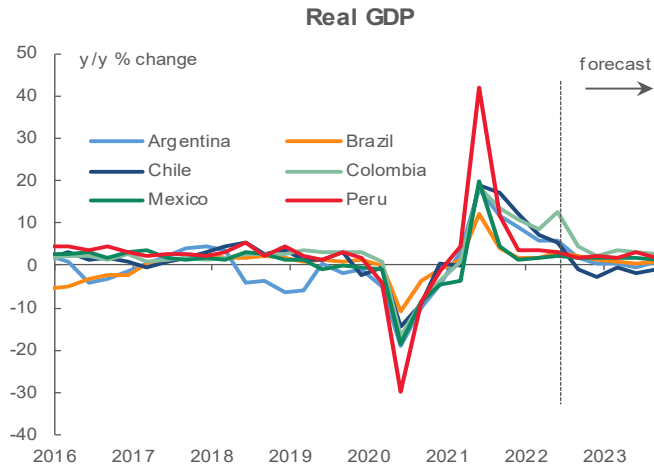
In our [latest forecast update](#) published this week, we foresee cuts by all the Pacific Alliance plus Brazil central banks through 2023 compared to steady rates in the US (and perhaps early-year hikes, see chart of the week). Continued Fed hawkishness could see officials in the Americas postpone the rate cuts leg of their policy cycles to insulate their economies from exchange-rate-related inflation and limit investor outflows towards the appeal of higher US rates.

Brazil's central bank is expected to hold its Selic policy rate unchanged at 13.75% next Wednesday, bringing its 1,175bps hiking cycle since March 2021 to an end. Petrobras's cuts to fuel prices, coupled with the government's country-wide cap on state taxes on fuel, has resulted in a slowdown in year-on-year headline inflation, with inflation expectations following it lower. Beneath declines in headline CPI, however, core price pressures remain well entrenched, which may see the BCB roll out "a residual adjustment" (as indicated in its August decision) of 25bps.

Mexican retail sales and Colombian economic activity figures for July round out the week on the data front while we continue to monitor discussions in Chile on the process of rewriting the constitution after Chileans firmly rejected the constitutional assembly's proposal in early-September. In Colombia, Congress will begin debate on tax reform that is projected to boost public coffers by COP 25 tn according to the 2023 budget approved earlier this week (see our Bogota team's first impressions [here](#)).

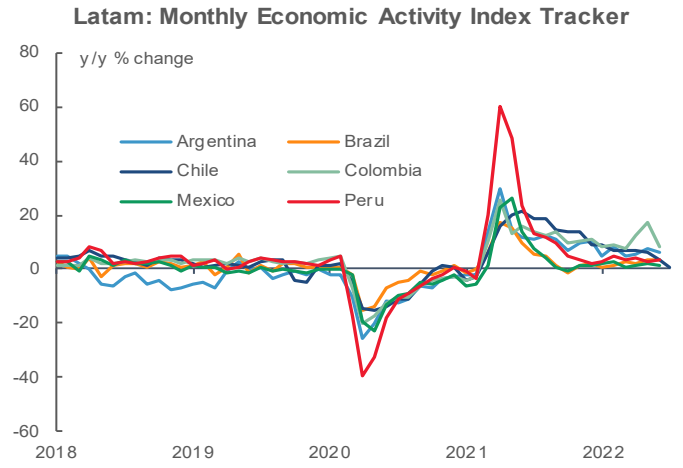
Key Economic Charts

Chart 1



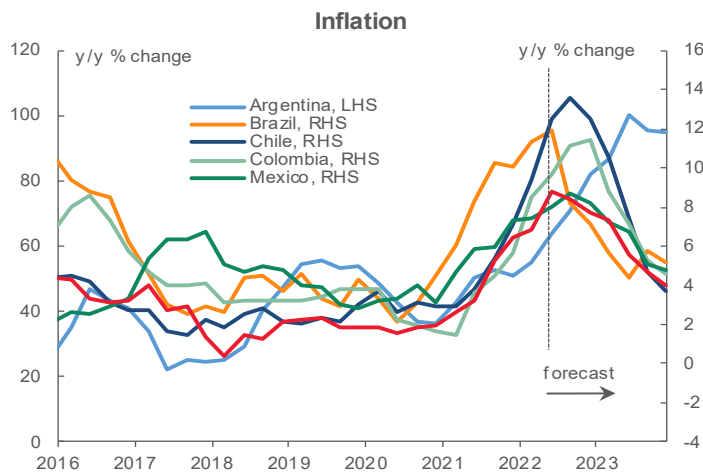
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



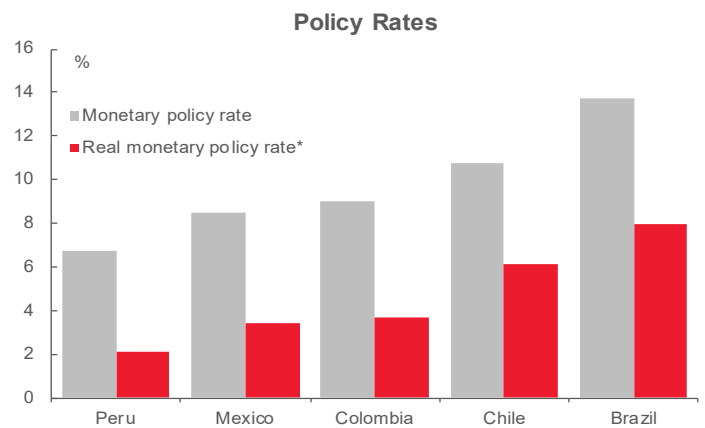
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



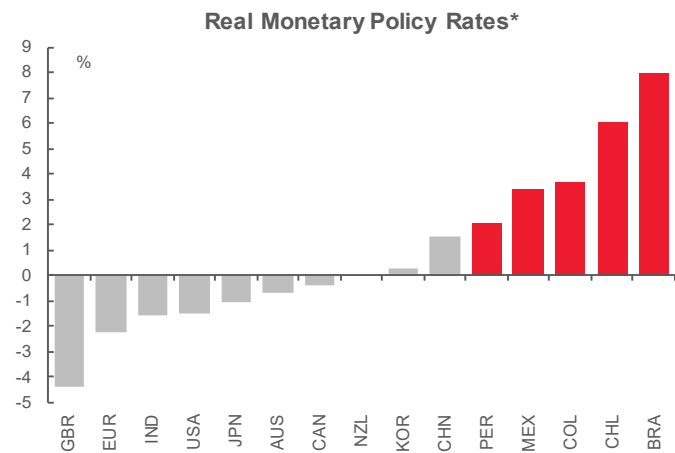
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



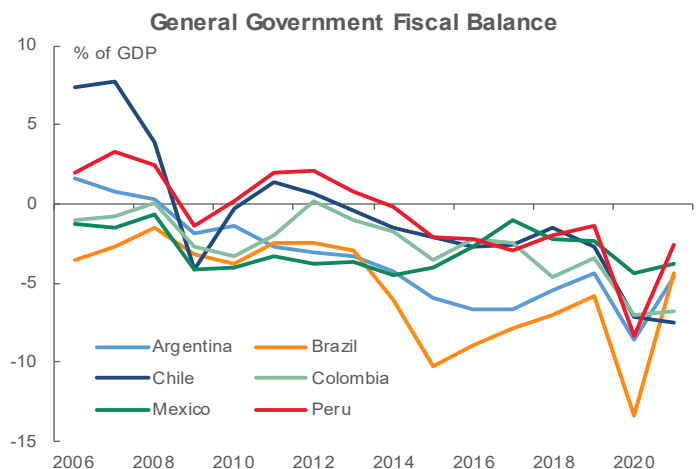
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2023, % y/y. Argentina: MPR = 69.5%; Real MPR = -25.8%. Sources: Scotiabank Economics, Haver Analytics.

Chart 5



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2023, % y/y. Sources: Scotiabank Economics, Bloomberg.

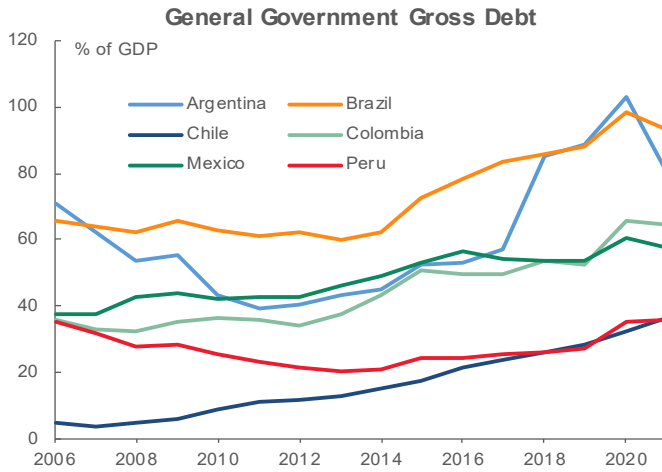
Chart 6



Sources: Scotiabank Economics, IMF Fiscal Monitor, Apr. 2021.

Key Economic Charts

Chart 7



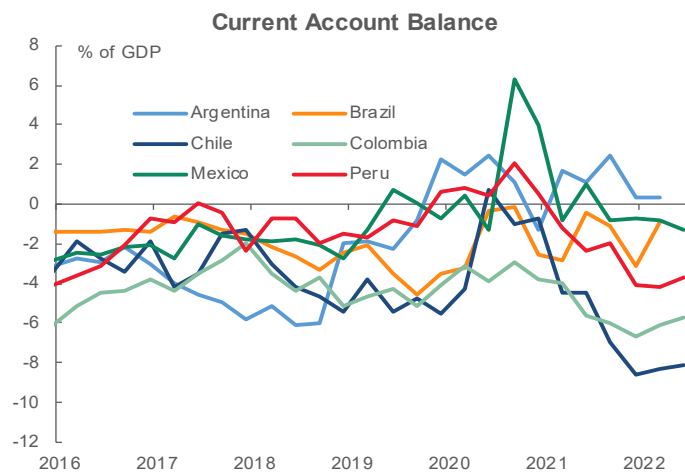
Sources: Scotiabank Economics, IMF Fiscal Monitor, Apr. 2021.

Chart 8



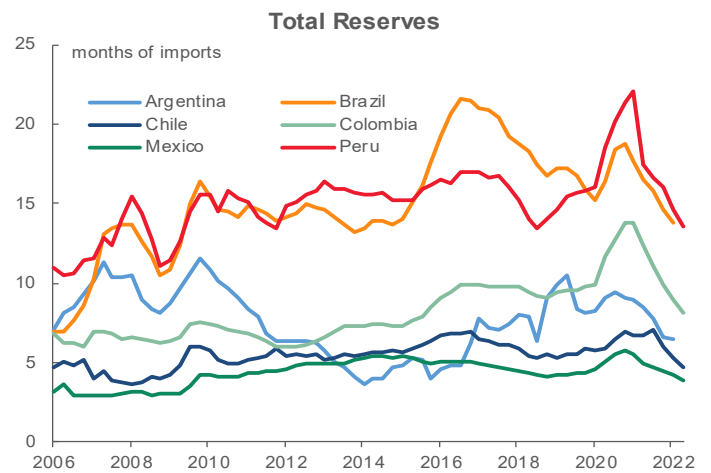
Sources: Scotiabank Economics, Haver Analytics.

Chart 9



Sources: Scotiabank Economics, Haver Analytics.

Chart 10

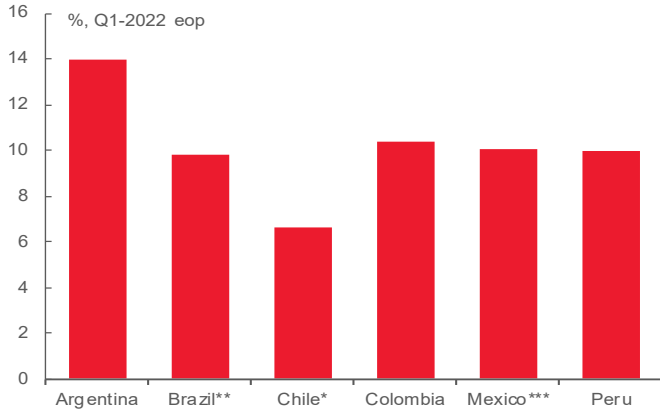


Sources: Scotiabank Economics, Haver Analytics.

Key Market Charts

Chart 1

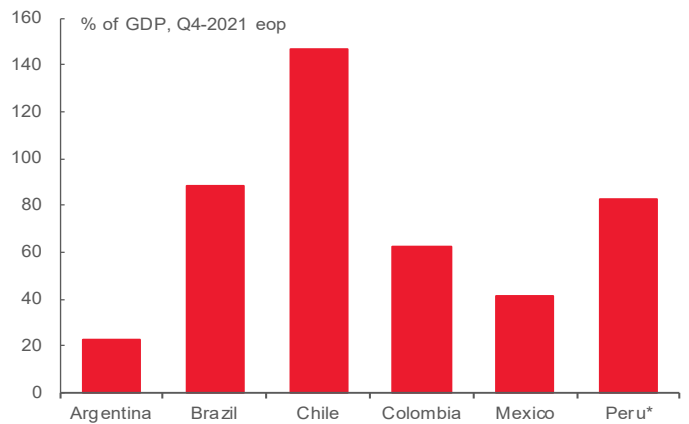
Bank Capital to Assets Ratio



* Data to Q4-2021. ** Data to Q3-2021. *** Data to Q1-2021.
Sources: Scotiabank Economics, IMF.

Chart 2

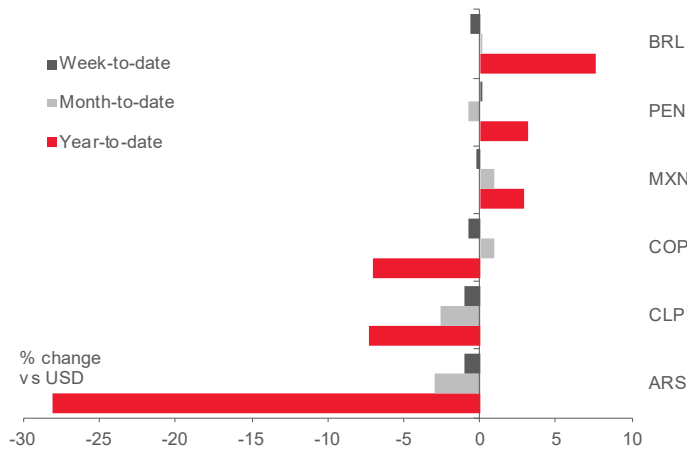
Domestic Credit to Private Nonfinancial Sector



* Data to Q1-2022.
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

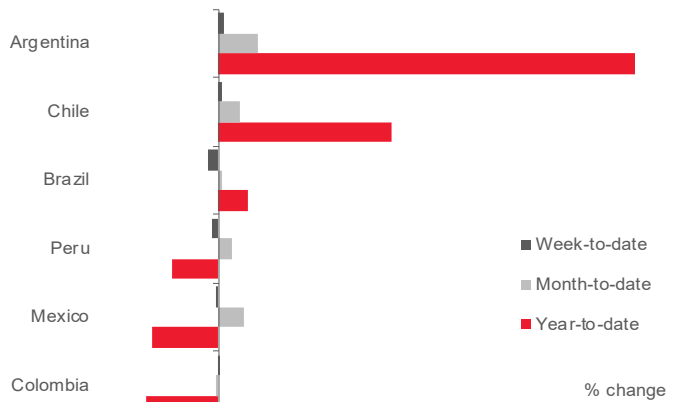
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 4

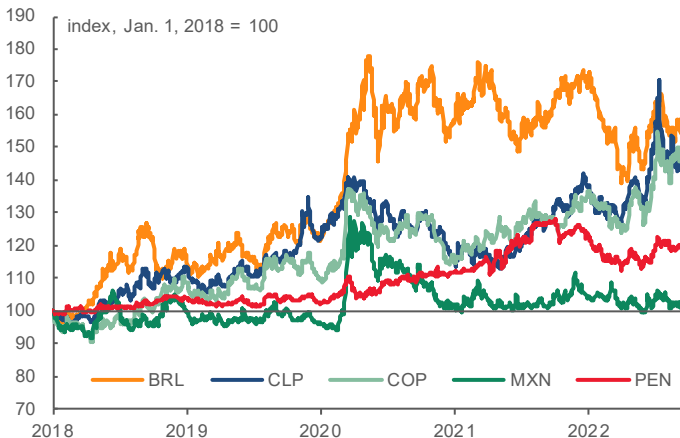
Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 5

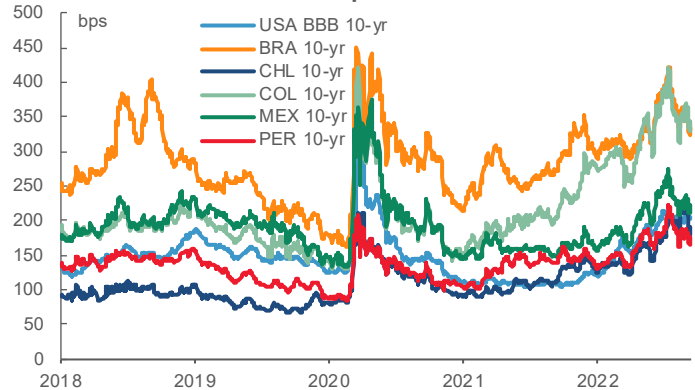
USD vs Latam Currencies



Sources: Scotiabank Economics, Bloomberg.

Chart 6

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

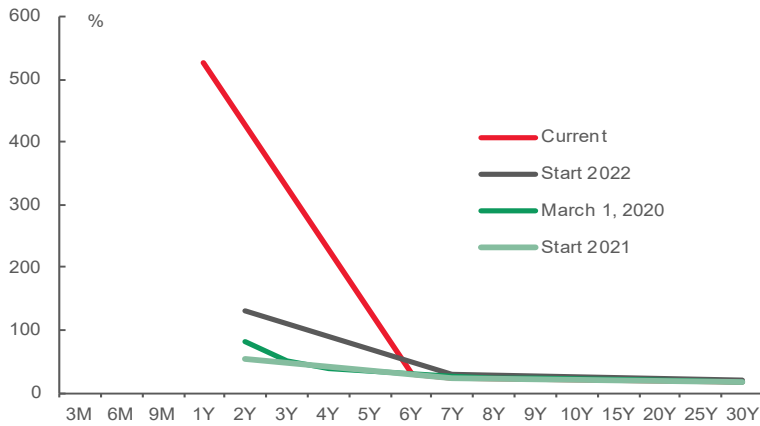


*Sovereigns vs US swaps; BBB corporates vs 10-yr USTs.
Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 1

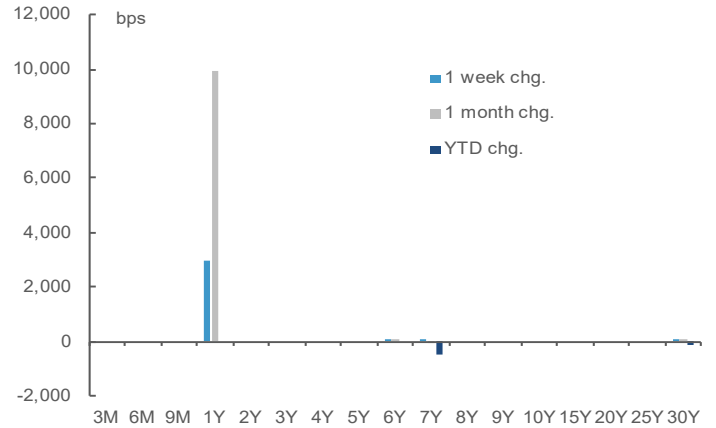
USD Argentina Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 2

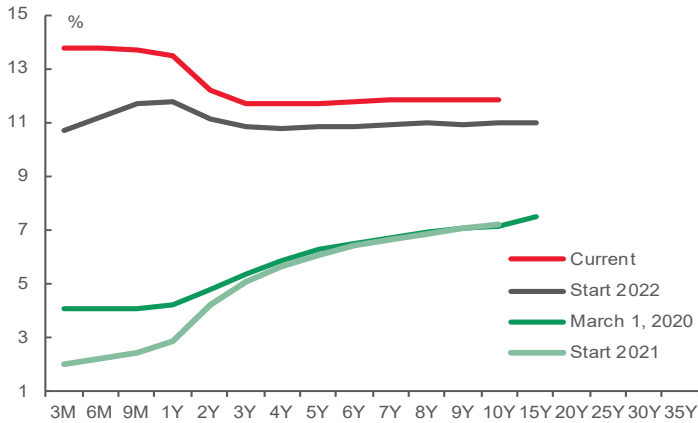
Argentina: USD Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 3

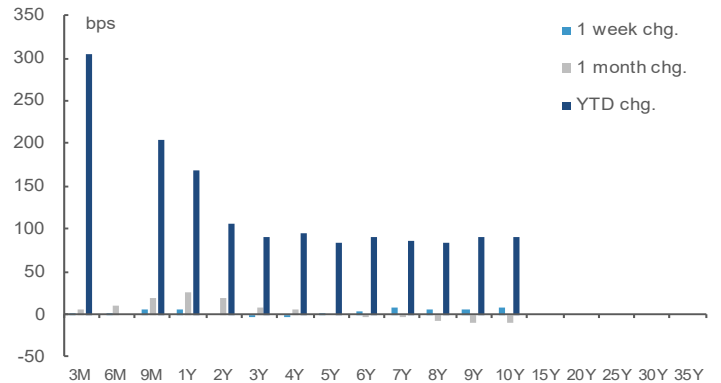
Brazil: BM&F Pre x DI Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 4

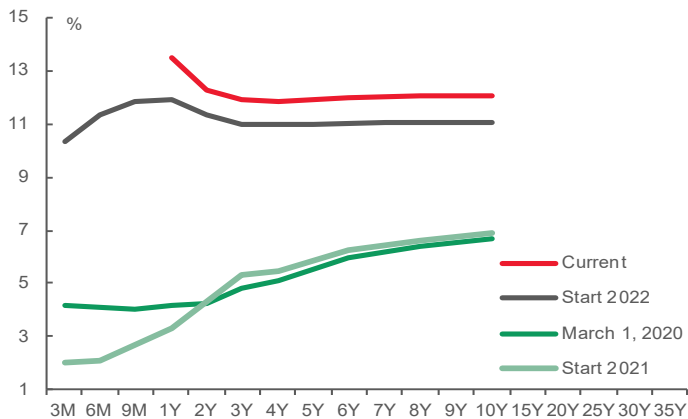
Brazil: BM&F Pre x DI Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 5

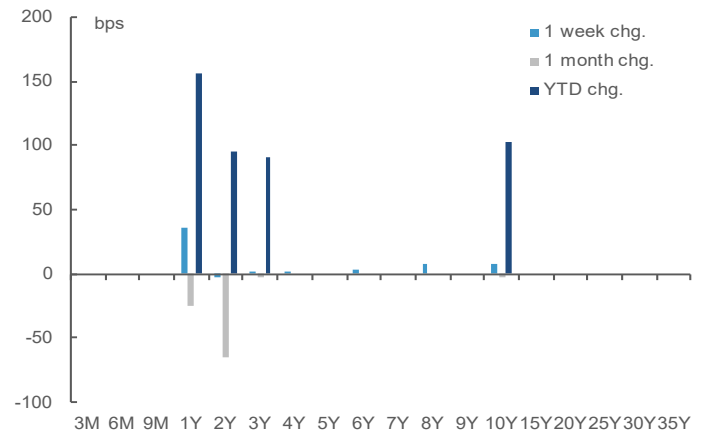
Brazil: NTN Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 6

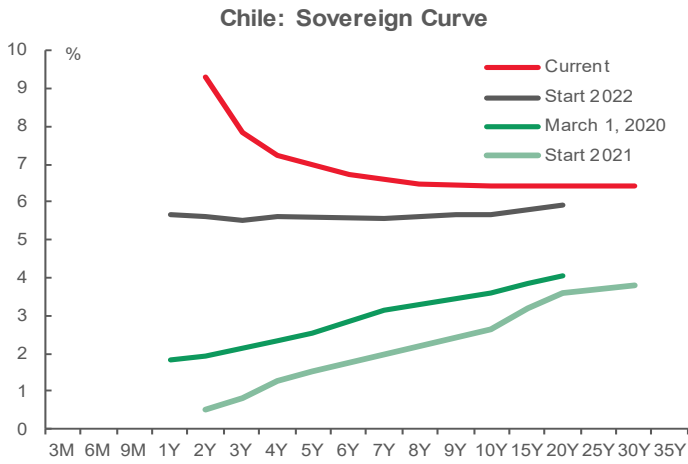
Brazil: NTN Curve Moves



Sources: Scotiabank Economics, Bloomberg.

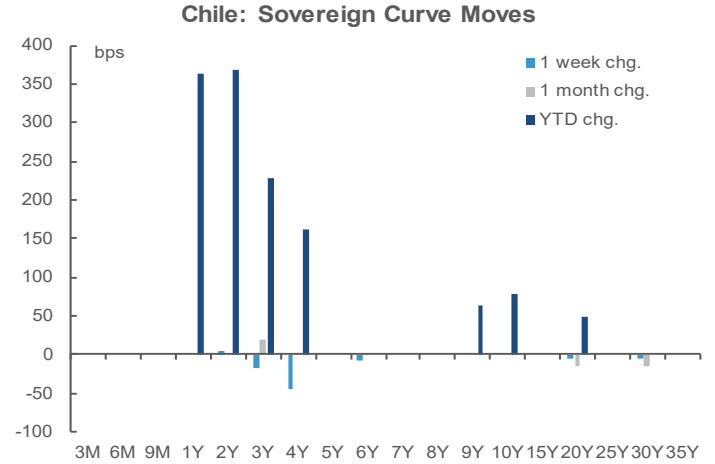
Yield Curves

Chart 7



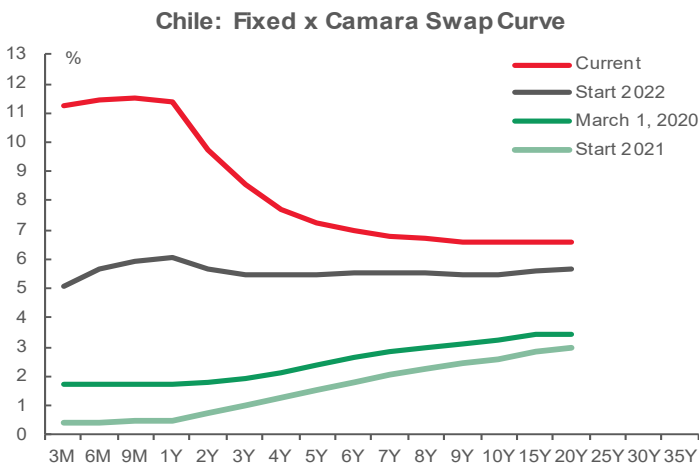
Sources: Scotiabank Economics, Bloomberg.

Chart 8



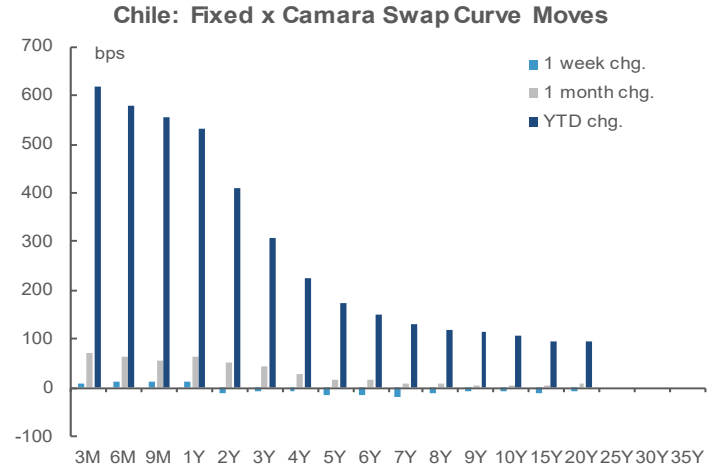
Sources: Scotiabank Economics, Bloomberg.

Chart 9



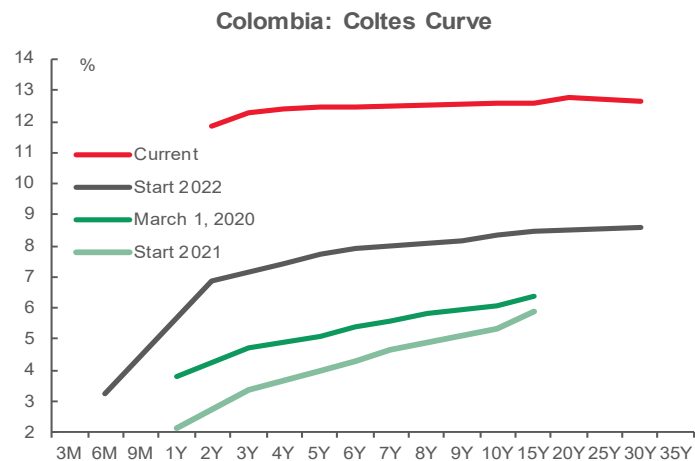
Sources: Scotiabank Economics, Bloomberg.

Chart 10



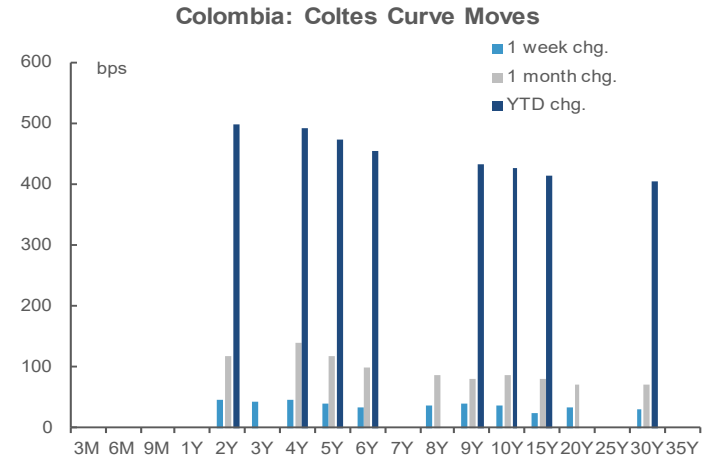
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12

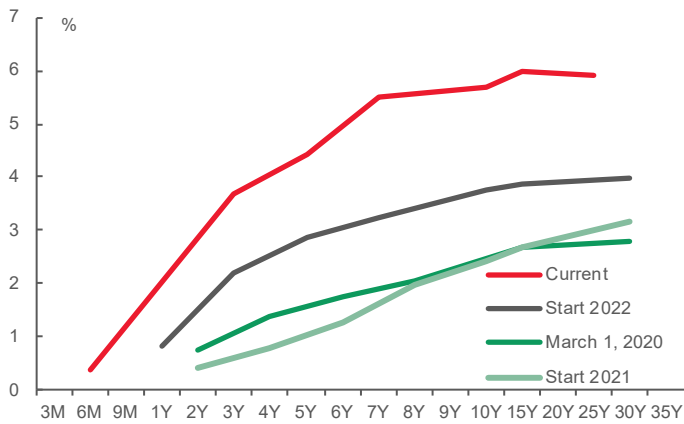


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 13

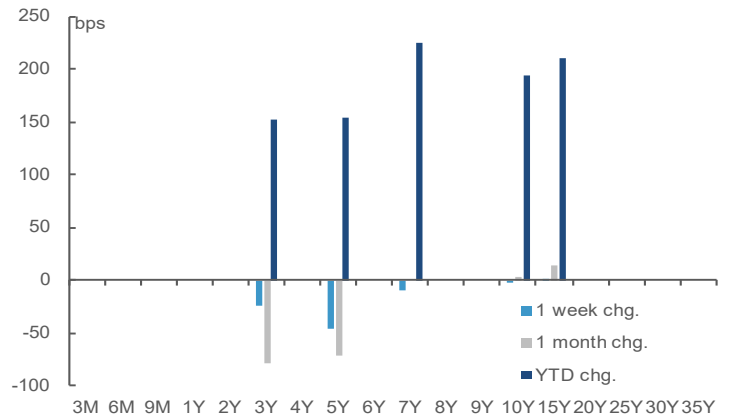
Colombia: UVR-Indexed Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 14

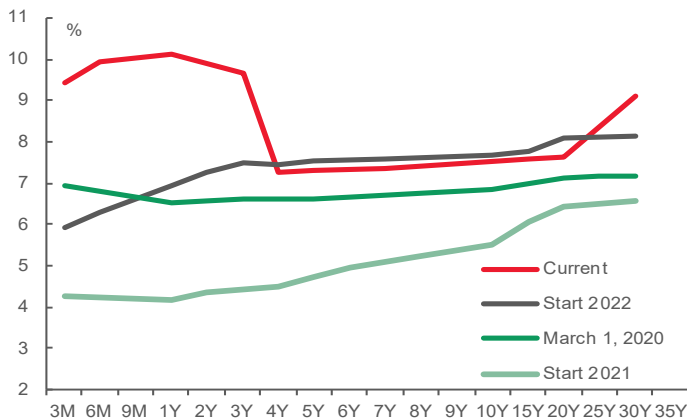
Colombia: UVR-Indexed Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 15

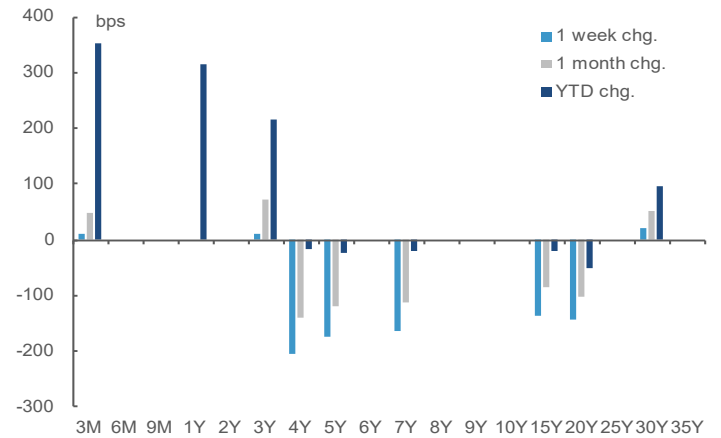
Mexico: M-Bono Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 16

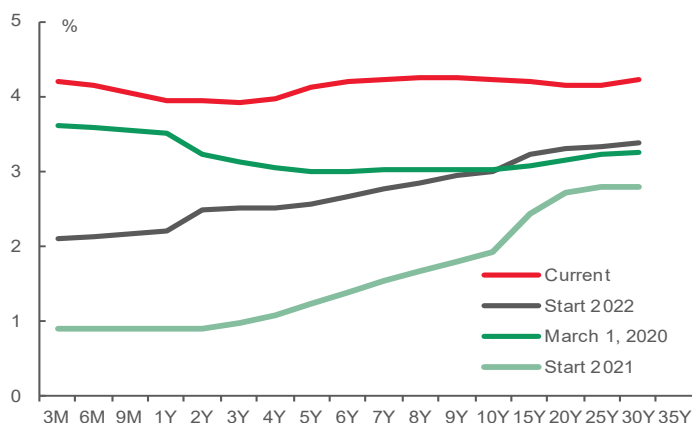
Mexico: M-Bono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 17

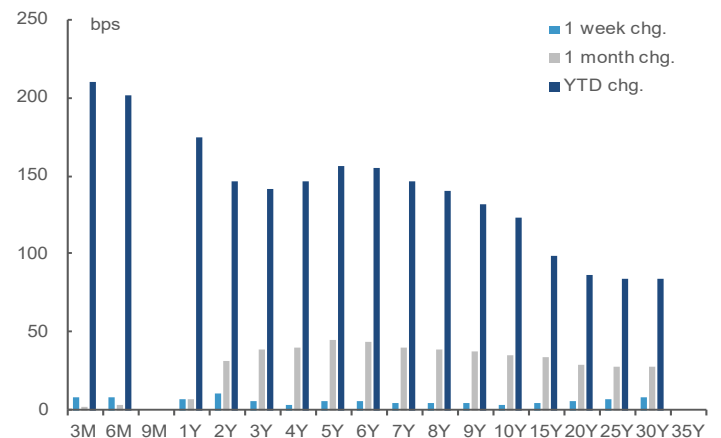
Mexico: Udibonos BVAL Yield Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 18

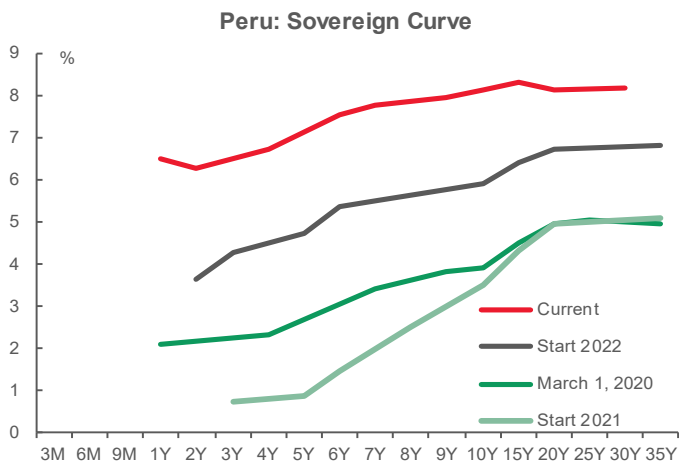
Mexico: Udibono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

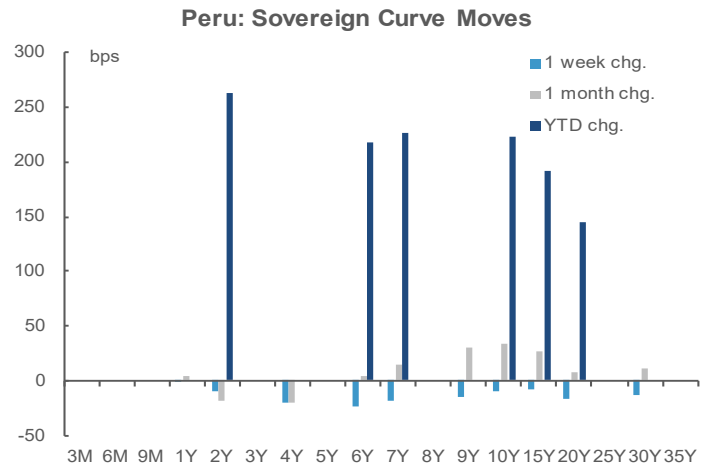
Yield Curves

Chart 19



Sources: Scotiabank Economics, Bloomberg.

Chart 20



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 16–30

ARGENTINA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-20	15:00 GDP (y/y)	2Q	--	--	6.0	
Sep-20	15:00 GDP (q/q)	2Q	--	--	0.9	
Sep-21	15:00 Unemployment Rate (%)	2Q	--	--	7.0	
Sep-21	15:00 Trade Balance (USD mn)	Aug	--	--	-437	
Sep-21	15:00 Exports Total (USD mn)	Aug	--	--	7773	
Sep-21	15:00 Imports Total (USD mn)	Aug	--	--	8210	
Sep-21	UTDT Leading Indicator	Aug	--	--	-2.4	
Sep-21	Budget Balance (ARS mn)	Aug	--	--	-321644.4	
Sep-22	15:00 Current Account Balance (USD mn)	2Q	--	--	-1130.28	
Sep-26	15:00 Economic Activity Index (m/m)	Jul	--	--	0.1	
Sep-26	15:00 Economic Activity Index (y/y)	Jul	--	--	7.6	
Sep-27	15:00 Shop Center Sales (y/y)	Jul	--	--	114.24	
Sep-27	15:00 Supermarket Sales (y/y)	Jul	--	--	1.97	
Sep-29	15:00 Wages (m/m)	Jul	--	--	4.84	
Sep-29	Consumer Confidence Index (%)	Sep	--	--	37.05	

BRAZIL

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-16	7:00 FGV CPI IPC-S (%)	15-Sep	--	0.02	-0.1	
Sep-16	7:00 FGV Inflation IGP-10 (m/m)	Sep	--	-0.48	-0.69	
Sep-19	4:00 FIPE CPI - Weekly (%)	15-Sep	--	--	0.15	
Sep-19	7:25 Central Bank Weekly Economist Survey		--	--	--	
Sep-19	14:00 Trade Balance Weekly (USD mn)	19-Sep	--	--	1323.5	
Sep-21	17:30 Selic Rate (%)	21-Sep	13.75	13.75	13.75	
Sep-23	7:00 FGV CPI IPC-S (%)	22-Sep	--	0.02	-0.1	
Sep-26	7:00 FGV Consumer Confidence	Sep	--	--	83.6	
Sep-26	7:25 Central Bank Weekly Economist Survey		--	--	--	
Sep-26	8:30 Current Account Balance (USD mn)	Aug	--	--	-3506	
Sep-26	8:30 Foreign Direct Investment (USD mn)	Aug	--	--	4483	
Sep-26	14:00 Trade Balance Weekly (USD mn)	25-Sep	--	--	1323.5	
Sep-27	4:00 FIPE CPI - Weekly (%)	22-Sep	--	--	0.15	
Sep-27	7:00 FGV Construction Costs (m/m)	Sep	--	--	0.33	
Sep-27	7:00 Central Bank Meeting Minutes		--	--	--	
Sep-27	8:00 IBGE Inflation IPCA-15 (m/m)	Sep	--	--	-0.73	
Sep-27	8:00 IBGE Inflation IPCA-15 (y/y)	Sep	--	--	9.6	
Sep 20-27	Tax Collections (BRL mn)	Aug	--	--	202588.21	
Sep-28	8:30 Total Outstanding Loans (BRL bn)	Aug	--	--	4956	
Sep-28	8:30 Outstanding Loans (m/m)	Aug	--	--	1.6	
Sep-28	8:30 Personal Loan Default Rate (%)	Aug	--	--	5.22	
Sep-28	13:30 Federal Debt Total (BRL bn)	Aug	--	--	5804	
Sep-29	7:00 FGV Inflation IGPM (m/m)	Sep	--	--	-0.7	
Sep-29	7:00 FGV Inflation IGPM (y/y)	Sep	--	--	8.59	
Sep-29	Central Govt Budget Balance (BRL bn)	Aug	--	--	19.309	
Sep-30	8:00 National Unemployment Rate (%)	Aug	--	--	9.1	
Sep-30	8:30 Net Debt % GDP	Aug	--	--	57.34	
Sep-30	8:30 Nominal Budget Balance (BRL bn)	Aug	--	--	-22.5	
Sep-30	8:30 Primary Budget Balance (BRL bn)	Aug	--	--	20.44	
Sep 23-30	Formal Job Creation Total	Aug	--	--	218902	

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-22	Central Bank Meeting Minutes		--	--	--	
Sep-23	8:00 PPI (m/m)	Aug	--	--	1.1	
Sep-26	Central Bank Traders Survey		--	--	--	
Sep-29	8:00 Unemployment Rate (%)	Aug	8.0	--	7.9	We expect a monthly increase in the unemployment rate in August due to higher growth of the labour force compared to employment.
Sep-30	8:00 Manufacturing Production (y/y)	Aug	--	--	-5.11	
Sep-30	8:00 Industrial Production (y/y)	Aug	--	--	-5.07	
Sep-30	8:00 Copper Production Total (Tons)	Aug	--	--	430028	
Sep-30	8:00 Commercial Activity (y/y)	Aug	--	--	-11.18	
Sep-30	8:00 Retail Sales (y/y)	Aug	-15.0	--	-10.93	We expect retail sales decreased 15% y/y in August based on our credit and debit card high-frequency indicators, confirming a hard-landing.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 16–30

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-16	11:00 Trade Balance (USD mn)	Jul	--	-50	-332.8	
Sep-16	11:00 Imports CIF Total (USD mn)	Jul	--	6450	6367.95	
Sep-19	12:00 Economic Activity NSA (y/y)	Jul	7.2	--	8.53	In July, all three sectors of the economy are expected to have contributed to growth. Especially the services sector, as some indicators continue to show positive consumption dynamics.
Sep-21	Retail Confidence	Aug	--	--	30.7	
Sep-21	Industrial Confidence	Aug	--	--	9.7	
Sep-30	11:00 National Unemployment Rate (%)	Aug	--	--	10.99	
Sep-30	11:00 Urban Unemployment Rate (%)	Aug	--	--	11.27	
Sep-30	14:00 Overnight Lending Rate (%)	30-Sep	10.50	--	9.00	

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-20	10:00 International Reserves Weekly (USD mn)	15-Sep	--	--	198295	
Sep-20	Banamex Survey of Economists		--	--	--	
Sep-21	7:00 Aggregate Supply and Demand (%)	2Q	--	--	2.9	
Sep-21	7:00 Retail Sales (y/y)	Jul	--	--	4	
Sep-21	7:00 Retail Sales (m/m)	Jul	--	--	-0.3	
Sep-22	7:00 Bi-Weekly CPI (%)	15-Sep	--	--	0.32	
Sep-22	7:00 Bi-Weekly Core CPI (%)	15-Sep	--	--	0.32	
Sep-22	7:00 Bi-Weekly CPI (y/y)	15-Sep	8.8	--	8.77	
Sep-22	7:00 Bi-Weekly Core CPI (y/y)	15-Sep	8.2	--	8.13	
Sep-26	7:00 Economic Activity IGAE (m/m)	Jul	--	--	-0.31	
Sep-26	7:00 Economic Activity IGAE (y/y)	Jul	--	--	1.56	
Sep-27	7:00 Unemployment Rate NSA (%)	Aug	3.5	--	3.43	
Sep-27	7:00 Trade Balance (USD mn)	Aug	--	-5000	-5959.47	
Sep-27	7:00 Exports (USD mn)	Aug	--	--	46504.5	
Sep-27	7:00 Imports (USD mn)	Aug	--	--	52463.96	
Sep-27	10:00 International Reserves Weekly (USD mn)	23-Sep	--	--	198295	
Sep-29	14:00 Overnight Rate (%)	29-Sep	9.25	--	8.50	
Sep-30	10:00 Net Outstanding Loans (MXN bn)	Aug	--	--	5171.2	
Sep-30	Budget Balance YTD (MXN bn)	Aug	--	--	-254.19	

PERU

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
No indicators.						

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

Scotiabank Economics Latam Coverage



Local Market Coverage

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