

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Latam Daily: Chile GDP, Milei Wins in Argentina; Peru Reform Bill

- **Peru: Surprise, surprise! Congress moves towards political reform**

A quiet start to a quiet holidays-shortened trading week has the dollar extending Friday losses, yields continuing their climb, and oil rising, all while US equity futures hold in a range. In Asia hours, the PBoC set a strong CNY fixing to see the yuan trade below 7.20 for the first time since August, aiding the dollar-negative mood. Friday's Moody's outlook change from negative to stable for Italy and Portugal's double-notch rating revision to A3 (stable) from Baa2 has European periphery debt outperforming in the sovereign rates space.

But, overall, none of these developments are impacting the global market mood that awaits a US 20yr auction today as the main item on the schedule alongside more central banker speeches. Weekly volumes are bound to be light with US and Japanese markets closed for holidays on Thursday. Mexican and Argentinean markets are closed today for Revolution Day and National Sovereignty Day, respectively.

USTs are slightly bear steepening after a ~5bps flattening in 2s10s on Friday and ahead of the USD16bn 20s auction at 13ET. WTI/Brent are 0.6% higher, alike the rise in copper prices, but well shy of iron ore's 2% rally as China readies more support for developers. The USD is weaker against all major currencies, where the CAD is underperforming up 0.1% despite stronger oil. Above all, the JPY is tracking another strong gain, rallying 0.8% to trade below the mid 148s, while the MXN is also in great shape up 0.4% to break below 17.20. US equity futures are marginally bid 0.1/2%.

Sunday's presidential elections in Argentina delivered a much larger win than expected for libertarian Milei over Econ Min Massa, of 56% vs 44%. International Argentinean bonds are opening stronger—e.g. the 2035 issue is up ~0.50c to a still very cheap 28c on the dollar—reflecting some optimism in markets that a radical change in government could turn around public finances.

In his victory speech, Milei struck a relatively modest tone where he did not mention his previously-floated plans of dollarization or closing the central bank. Milei faces an uphill battle to pass extreme policies, too, as his political alliance has a much smaller share of seats in the Senate and Chamber of Deputies than the other two leading parties, Juntos por el Cambio (JxC, Bullrich) and Union por la Patria (Massa); even if all JxC lawmakers followed Bullrich in supporting Milei, he would still fall short of a Senate majority.

The day ahead highlight in Latam is Chile Q3 GDP and current account data at 6.30ET. In early-November, Chile released economic activity data for September that showed no year-on-year change in output against expectations of a 0.5% contraction, but this was thanks to the performance of the mining sector against sluggish services output (see [Latam Daily](#)). Excluding mining, Chile's economy contracted 0.4% y/y in Q3-23 based on the monthly data. For today's full-quarter reading the team in Chile project a 0.2% y/y rise in GDP, roughly aligned with the average of the monthly economic activity numbers and matching the consensus median.

—Juan Manuel Herrera

PERU: SURPRISE, SURPRISE! CONGRESS MOVES TOWARDS POLITICAL REFORM

By a vote of 93 in favour, 1 against and 28 abstentions, Congress voted on Thursday, November 16th on a political reform bill that includes reestablishing congressional reelection and introducing a new Senate that would transform the current one House parliament into a two chamber affair.

November 20, 2023

Since both issues involve changes in the constitution, the November 16th vote will need to be ratified by a second vote in a separate congressional term. The next congressional term begins in March 2024. The constitutional change would need to be ratified by a two-thirds majority, or 87 votes.

Currently Peru has only one congressional House. The reform would install a second House, a 60-member Senate that would add to the current 130 member House of Representatives (Cámara de Diputados). This is a structure that is similar to what existed prior to 1992 when President Alberto Fujimori closed Congress and changed the constitution.

The issue is controversial, in part because of the history behind the elimination of the Senate, but also because of the intense unpopularity of the current Congress. For much of popular opinion, to have more members of Congress just suggests more of the same problems associated with the current Congress.

The reelection issue is equally unpopular. In December 2018, then President Martin Vizcarra (2018–2019) took advantage of the unpopularity of Congress at that moment to organize a referendum around a proposal prohibiting the reelection of members of Congress. A huge 85% voted in favour of eliminating the possibility of successive reelections. The result, however has been to weaken the whole political party system by removing an incentive to see politics as a profession.

The proposal also proposes to introduce two novelties, first that the new Senate cannot be dissolved under any circumstance, and second that new cabinets will no longer need to be approved by Congress through a confidence vote. This has the potential to increase political stability as it would become harder for Congress to bring down a cabinet through a vote of no confidence, and for the Executive to close Congress.

The intention of the current initiative is to have the constitutional change in place and active by the 2026 elections. However, a lot can happen between now and March, when a second vote could take place. Thus, there is no guarantee that the six votes majority on Thursday (93 obtained versus 87 needed) will hold over time. It's easy to vote one way when you know that you can change your mind later on.

Congress will not have popular sentiment on its side. The vote on Thursday has already triggered a sentiment in public opinion that the members of Congress who voted in favour did not have the country's well-being in mind, but, rather, their own reelection.

There is, no doubt, truth in this criticism. At the same time, however, the changes are sensible structurally, and should eventually help improve political stability in the country.

—Guillermo Arbe

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