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**Latam Weekly: Peru and Colombia GDP; US CPI**

**ECONOMIC OVERVIEW**

- After a busy inflation and central banks week in Latam, next week will only have a few bits and pieces to drive local markets that will likely pay closer attention to developments abroad. US and UK CPI data, possible policy easing by the PBoC, and Friday's US government funding deadline, among other data/events, will drive global market sentiment. Colombian and Canadian markets are closed on Monday.
- Colombia and Peru Q3/Sep GDP data are next week's Latam highlight. In Colombia's case, our economists expect a partial reversal of a sharp quarter-on-quarter drop in Q2 while still showing only about a half percentage point year-on-year rise in GDP. Peru's situation is even worse, however, with our team forecasting a 0.8% y/y contraction in output in September—which would be its seventh decline in nine months.
- Elsewhere, Brazilian services and economic activity readings should improve after a very weak August but remain relatively sluggish. The BCCh's meeting minutes may be somewhat stale as the bank's decision pre-dated an October inflation 'miss' which has raised the odds of a 75bps cut next month. Mexico's schedule has nothing of note to follow, but markets remain on political headlines watch.

**PACIFIC ALLIANCE COUNTRY UPDATES**

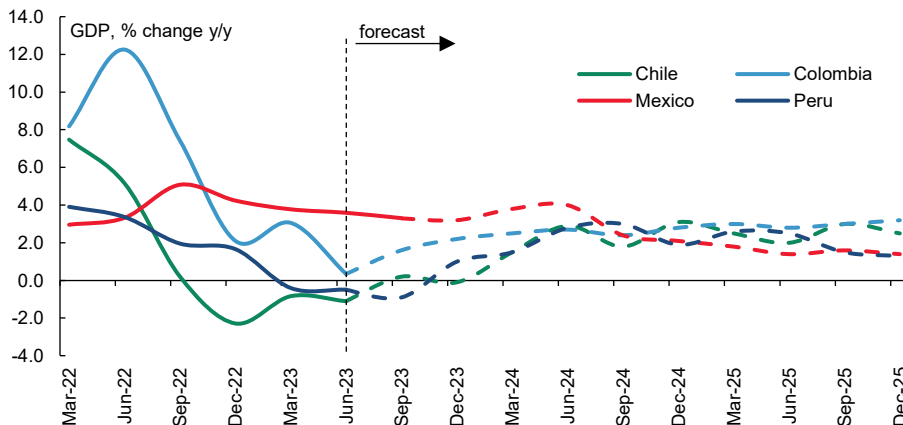
- We assess key insights from the last week, with highlights on the main issues to watch over the coming fortnight in Peru.

**MARKET EVENTS & INDICATORS**

- A comprehensive risk calendar with selected highlights for the period November 11–24 across the Pacific Alliance countries and Brazil.

**Chart of the Week**

**The End of The Roller Coaster (Hopefully)**



Sources: Scotiabank Economics, BCCh, DANE, INEGI, BanRep.

Chart of the Week: Prepared by: Anthony Bambokian, Senior Economic Analyst.

## Economic Overview: Peru and Colombia GDP; US CPI

- **After a busy inflation and central banks week in Latam, next week will only have a few bits and pieces to drive local markets that will likely pay closer attention to developments abroad. US and UK CPI data, possible policy easing by the PBoC, and Friday's US government funding deadline, among other data/events, will drive global market sentiment. Colombian and Canadian markets are closed on Monday.**
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- **Elsewhere, Brazilian services and economic activity readings should improve after a very weak August but remain relatively sluggish. The BCCh's meeting minutes may be somewhat stale as the bank's decision pre-dated an October inflation 'miss' which has raised the odds of a 75bps cut next month. Mexico's schedule has nothing of note to follow, but markets remain on political headlines watch.**

After a week in which a busy Latam calendar, full of inflation figures with a couple of central bank decisions, contrasted with a relatively quiet G10 schedule, where the focus were central bank speakers and issuance, the upcoming week has an opposite feel to it. The Pacific Alliance's key data releases, Peruvian and Colombian GDP, are both scheduled for publication on Wednesday while the rest of the week will have some things to monitor, but which are unlikely to move local markets significantly. Note that Colombian and Canadian markets are closed on Monday, and Brazil's are shut on Wednesday.

Regional assets look set to take their cue from the global risk mood that will be driven by US CPI, PPI, and retail sales data—and to some degree by UK CPI, jobs/wages, and retail figures. The November 17<sup>th</sup> deadline of the short-term US government funding measure signed in late-September may also have markets trading anxiously on the risk of a government shutdown. Another procession of central bank speeches also awaits, as does a collection of Chinese data and the PBoC's rate announcement where a small rate or RRR reduction may be unveiled.

The busy global calendar will be a worthy challenger to the strong late-October/early-November rally in global stock, bond, and currency markets, which has maybe already begun to fizzle out these past couple of days. In some cases, the weakness was self-inflicted, like the MXN's ~2% decline this week that owes to a great degree to Banxico's surprising less-hawkish guidance change. Among the Latam countries that we follow, Mexico's calendar is the barest of them all so local risk moves will need to come from unexpected headlines (likely political in nature).

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November 10, 2023

Coming off a 1.0% q/q GDP contraction in Q2, our team in Bogota estimates that the Colombian economy expanded by a relatively soft 0.4% q/q in Q3. This small rise would leave real output still around flat for over the past four quarters on a seasonally-adjusted basis. We also forecast a 0.4% y/y increase in GDP (NSA) that would be explained by sharp contractions in manufacturing and construction—with the latter below pre-pandemic levels—against a better performance in the primary sector (oil and coal) and the services sector.

Industrial/manufacturing production and retail sales figures out a day before, on Tuesday, will give economists and markets a final chance to refine forecasts for the GDP data. BanRep's economists survey is of interest for the split between those penciling in a first rate cut in December and those not seeing this until Q1.

Peru's economy is certainly not in good shape as various factors from social unrest to adverse weather to high interest rates have taken a toll on the economy, contracting in year-on-year terms for seven out of nine months this year. Economic growth is negative, but at least inflation is on a downtrend and our economists in Peru believe it could print a sub-4% reading in November (from 4.5% in October) based on preliminary tracking. In today's weekly, the team discuss El Niño challenges to growth and inflation and go over their expectations for September GDP (forecast -0.8% y/y) due for release alongside October unemployment rate data on Wednesday.

Brazil's schedule has services volume and economic activity data on tap on Tuesday and Thursday, respectively. Neither release should paint a very positive picture of the Brazilian economy and the small m/m increases expected in both services and overall economic activity are mainly a reversal of large declines in August (-0.9% m/m and -0.8% m/m, respectively). Green light to the BCB to continue at its 50bps pace of rate cuts. We'll watch how the country's tax reform process advances after the latest proposal made it through Senate earlier this week and will now go to the Chamber of Deputies for possible changes and then back to the Senate; and of course Fin Min Haddad is still trying to convince markets that a zero deficit fiscal target for 2024 will be reached.

The BCCh's meeting minutes out on Tuesday are the next most relevant item in the Latam calendar. However, these may now look somewhat stale as, since the 50bps decision, the October inflation miss and BCCh Pres Costa saying the bank will continue to act with flexibility rebuilt expectations that the bank could cut 75bps in December. This was evident in the results of the BCCh's economists survey published today. Just over half of those polled think officials will favour a cut larger than 50bps; of those, close to a fifth even think a 100bps cut is in store (aligned with [our view](#) of at least a 75bps reduction). The BCCh's traders survey, out on Thursday should show something similar—though maybe less dovish.

## Pacific Alliance Country Updates

### Peru's Double Downward Trends: Inflation and Growth

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Everything seems to be weakening in Peru, for both good and bad. Shall we start with the good? Inflation. Based on the key prices we follow, monthly inflation in November is tracking at 0.1%. It's still early in the month, but it seems to be a good bet to say that inflation this November will be well below the 0.5% monthly inflation of November 2022 (chart 1). This means that yearly inflation, currently at 4.3% (to October), is likely to approach 4.0% this month, and may even dip into three percent territory at the close of 2023. This is a much better result than our full-year forecast of 4.6%, which we must now put under revision. More importantly, lower-than-expected inflation gives the BCRP (which is, of course, aware of the November trend) additional motivation to reduce the reference rate more quickly, ratifying our expectation of a further cut in December.

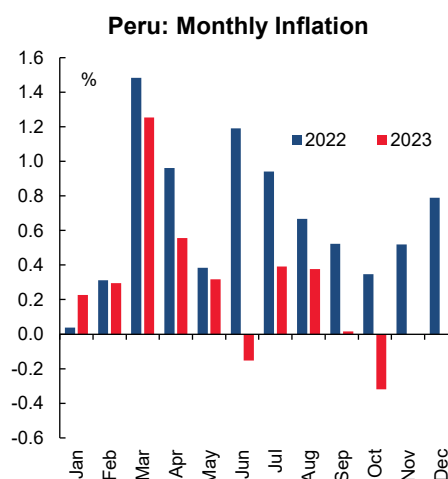
Ah! But, what about El Niño? Yes, we still expect it to cause a temporary upsurge in food prices in Q1-24. And yet the same degree of upsurge that we expect, if it's off a lower inflationary base, contractionary monetary policy.

Still, before we make any major changes in our reference rate forecasts, it might be wise to wait to see what December brings in terms of rain. After all, the local weather monitoring agency (ENFEN- Estudio Nacional del Fenómeno del Niño) has upped the likelihood of El Niño being a strong event from 33% to 49% (chart 2). It is now more likely that El Niño will be strong (49%) than that it will be moderate (48%). Two years of El Niño wrought havoc on agriculture cannot be good for domestic prices.

The good thing that 2023 teaches, however, is that once El Niño is over (or pauses, as is currently the case in 2023), prices correct downward quite quickly. It's only the first semester that we need to worry about in 2024; by the end of the year inflation should once again be under control.

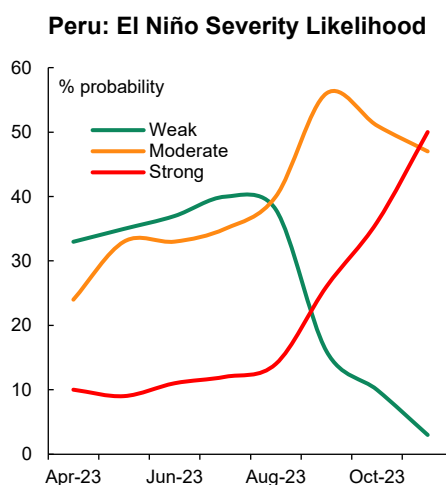
Meanwhile, authorities must deal with a floundering economy. On November 15<sup>th</sup> the figures for September GDP will be published. Early indicators are not very hopeful. The most recent figure was September agriculture GDP, which was down a huge 13.9%, y/y, the second sharpest monthly decline since severe El Niño weather has been lashing out this year. Agriculture & livestock, which together represent 6% of GDP, fell 8.8%. This alone will knock off half a percentage point from aggregate GDP growth in September. This suggests, but does not ensure, that September GDP growth will be negative, as mining output was strong. Mining and oil & gas GDP rose (coincidentally) 8.8%, a mirror image of agriculture. Except that its weight is much greater, 14% of GDP. The balance depends on domestic demand linked sectors, some of which, such as manufacturing and construction, have been significantly underwater for some time, a situation that is not likely to change quickly. All in all, we would be happy to see positive GDP growth in September, but fully expect to be disappointed. Our models, given the trends of domestic demand sectors, point to a figure half a point south of nil. So, a positive growth figure is likely to be postponed to October. Maybe.

Chart 1



Sources: Scotiabank Economics, BCRP.

Chart 2



Sources: Scotiabank Economics, ENFEN.

Forecast Updates: Central Bank Policy Rates and Outlook

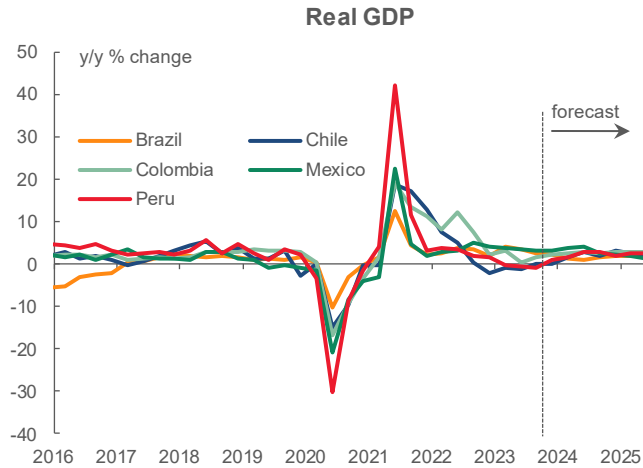
Latam Central Banks: Policy Rates and Outlook

|                              | Next Scheduled Meeting |        |        |        | Market Pricing |        | BNS Forecast |          | BNS guidance for next monetary policy meeting  |
|------------------------------|------------------------|--------|--------|--------|----------------|--------|--------------|----------|--|
|                              | Current                | Date   | Market | BNS    | 12 mos         | 24 mos | End-2023     | End-2024 |  |
| <b>Brazil, BCB, Selic</b>    | 12.25%                 | Dec-13 | n.a.   | 11.75% | n.a.           | n.a.   | 11.75%       | 9.00%    |  |
| <b>Chile, BCCCh, TPM</b>     | 9.00%                  | Dec-19 | n.a.   | -      | n.a.           | n.a.   | 8.50%        | 4.25%    | Our official forecast sees a 50bps cut to 8.50%, but we see high chances of a rate cut of at least 75bps at the BCCCh's December meeting.  |
| <b>Colombia, BanRep, TII</b> | 13.25%                 | Dec-19 | n.a.   | 12.75% | n.a.           | n.a.   | 12.75%       | 6.75%    | BanRep decided to keep the interest rate stable at 13.25%. Again, the decision was divided with 5 members in favor of keeping the rate stable and 2 in favor of a 25bps cut. Following the decision, the Bank emphasized that the main objective continues to be the convergence of inflation, and that the current outlook does not generate enough confidence to initiate a rate cut. There is a possibility that the Bank will start with the easing cycle in December after headline and core inflation came in lower than expected in October, showing split trends between services and goods inflation. However, it is worth noting that before this meeting, the committee will have one more inflation reading, the GDP figure for Q3-2023, and some economic indicators for Q4-2023. The minimum wage is also an important piece of information, as it defines a large part of the indexation effects. However, we are not sure if the final decision will be taken before the BanRep meeting. |
| <b>Mexico, Banxico, TO</b>   | 11.25%                 | Dec-14 | n.a.   | 11.25% | n.a.           | n.a.   | 11.25%       | 9.50%    | Banxico left its monetary policy rate unchanged in a unanimous decision at 11.25%, as widely expected. In addition, the Board revised downward its average headline inflation forecast for 2023-Q4 and 2024-Q1, to 4.4% y/y and 4.3% y/y, respectively. They showed that the board will decide to keep rates high for longer, the consensus of analysts foresee the cutting cycle beginning in 2024-Q2, ending that year at 9.25%, although some analysts expect the first cut to occur even earlier, in 2024-Q1.  |
| <b>Peru, BCRP, TIR</b>       | 7.00%                  | Dec-14 | n.a.   | 6.75%  | n.a.           | n.a.   | 6.75%        | 5.00%    | We expect a new interest rate cut of 25bps in December because it is possible that inflation continues surprising downwards. Weak economic performance is also an influence.   |

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

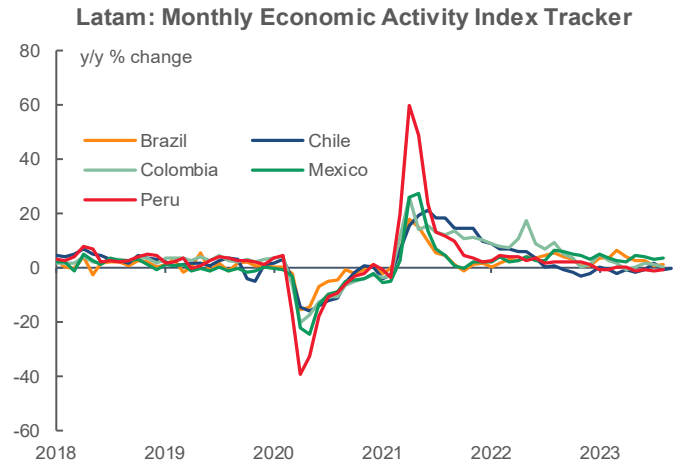
Key Economic Charts

Chart 1



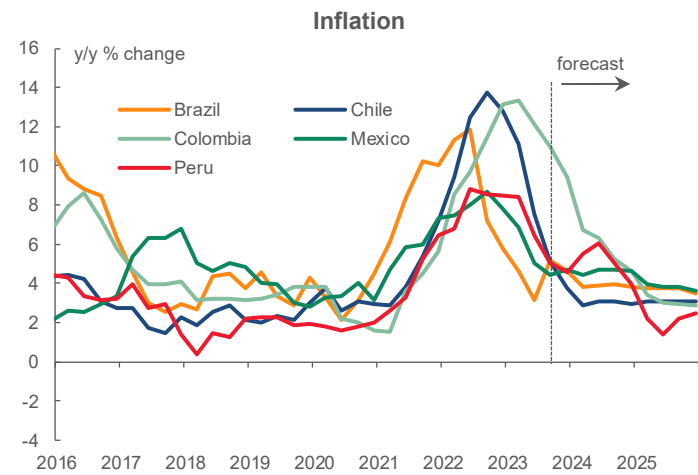
Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

Chart 2



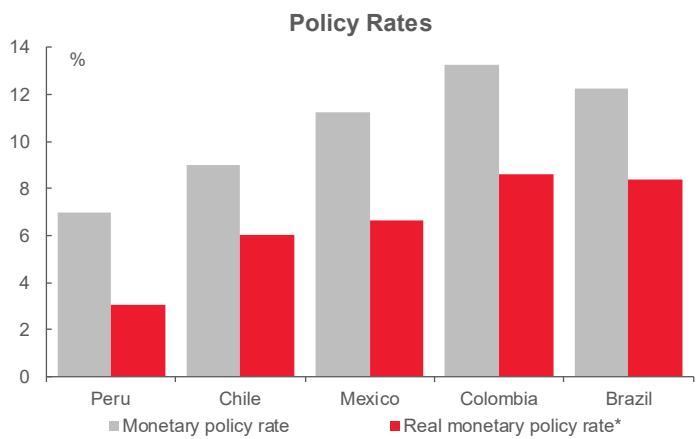
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



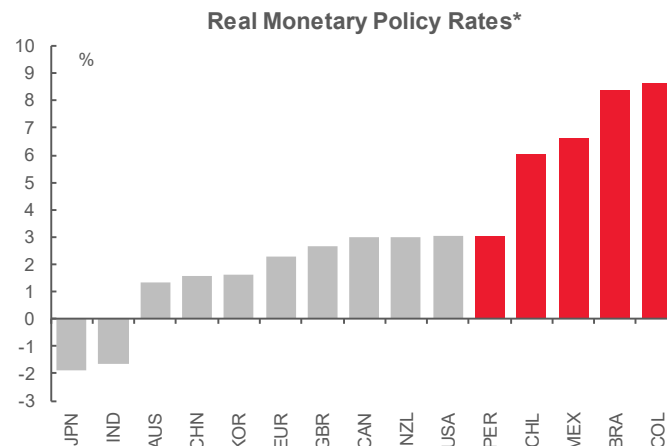
Sources: Scotiabank Economics, Focus Economics, Haver Analytics.

Chart 4



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2024, % y/y.  
Sources: Scotiabank Economics, Focus Economics, Haver Analytics.

Chart 5



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2024, % y/y. Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 1

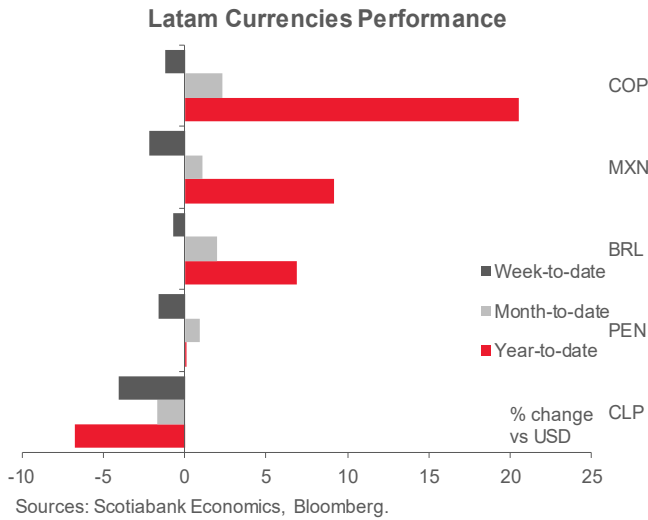


Chart 2

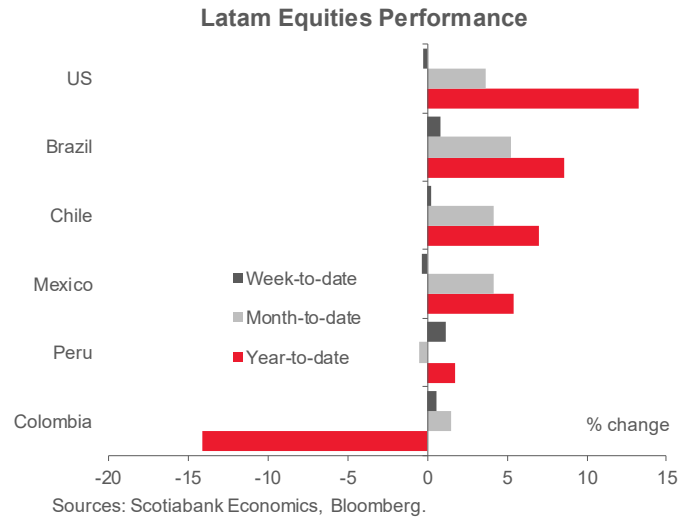


Chart 3

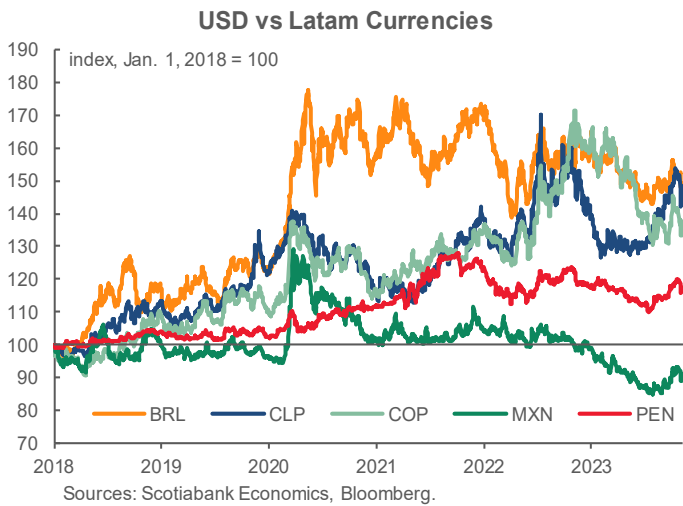
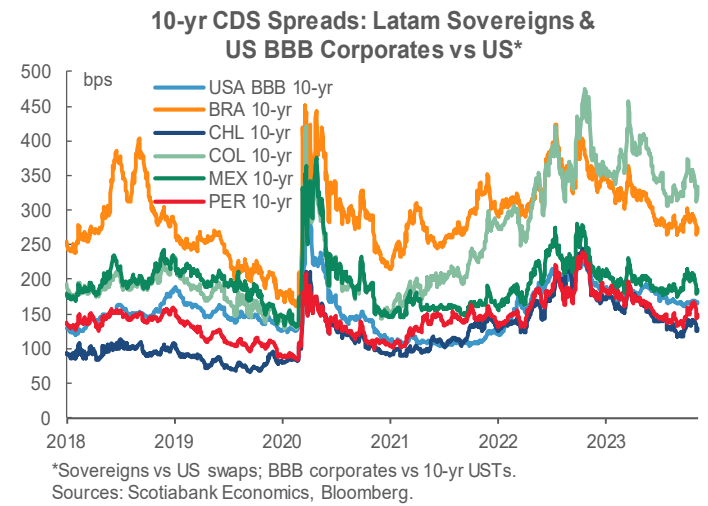
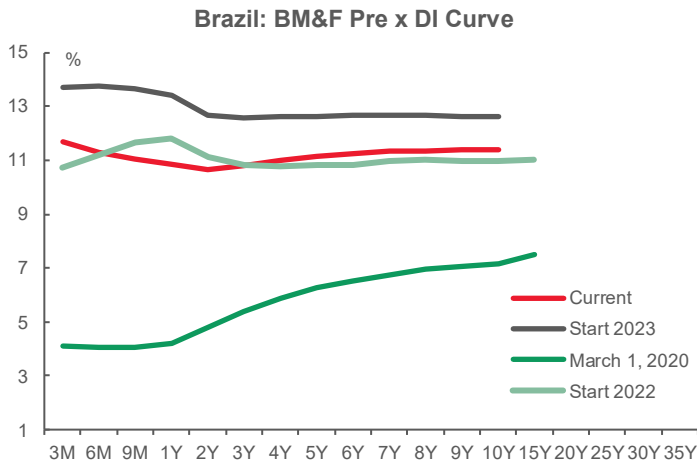


Chart 4



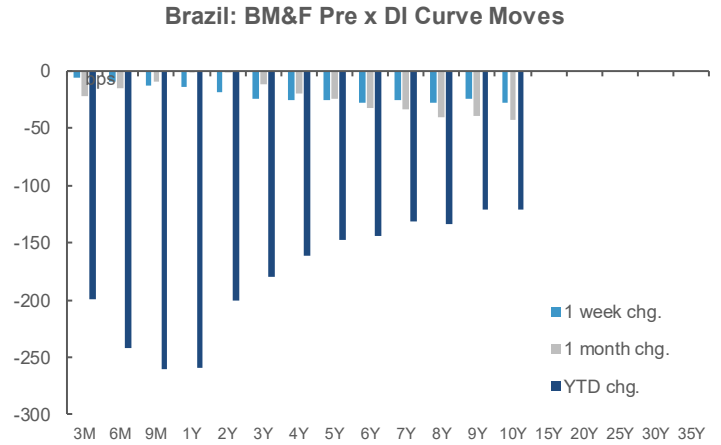
Yield Curves

Chart 1



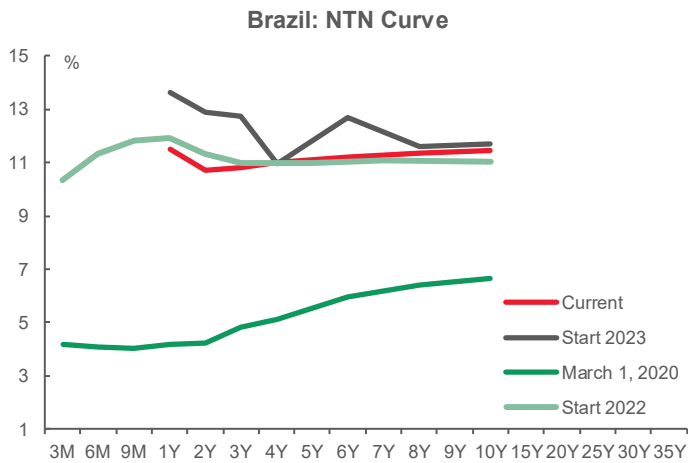
Sources: Scotiabank Economics, Bloomberg.

Chart 2



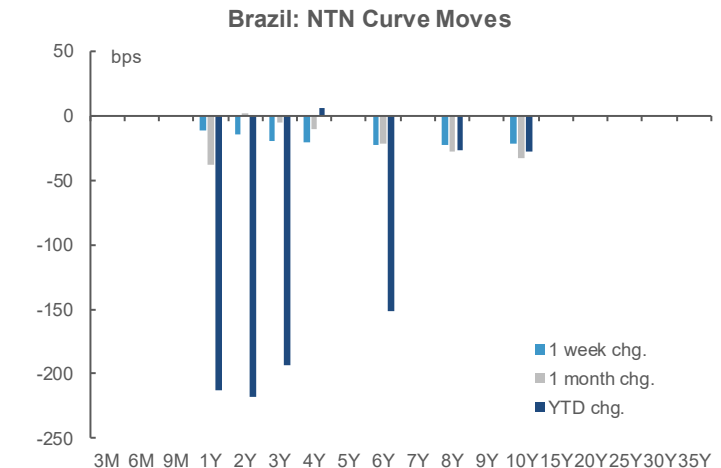
Sources: Scotiabank Economics, Bloomberg.

Chart 3



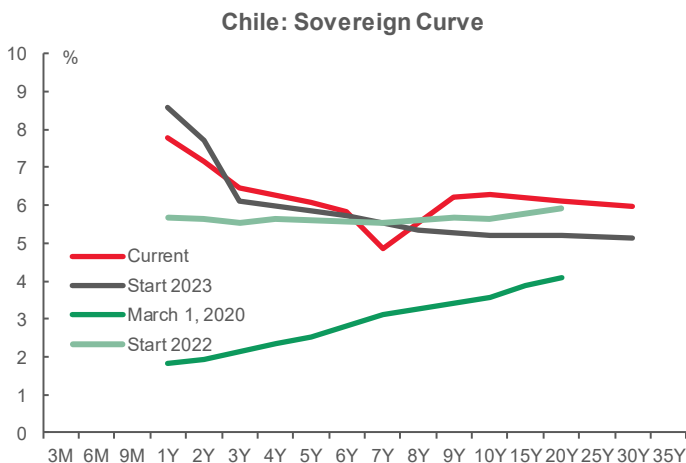
Sources: Scotiabank Economics, Bloomberg.

Chart 4



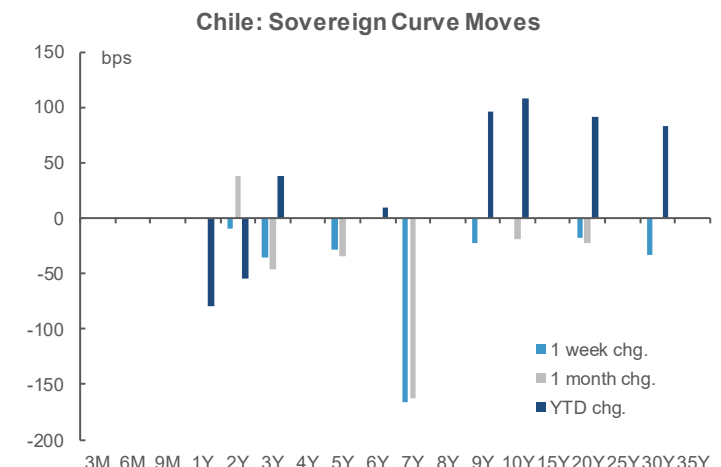
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Chart 6

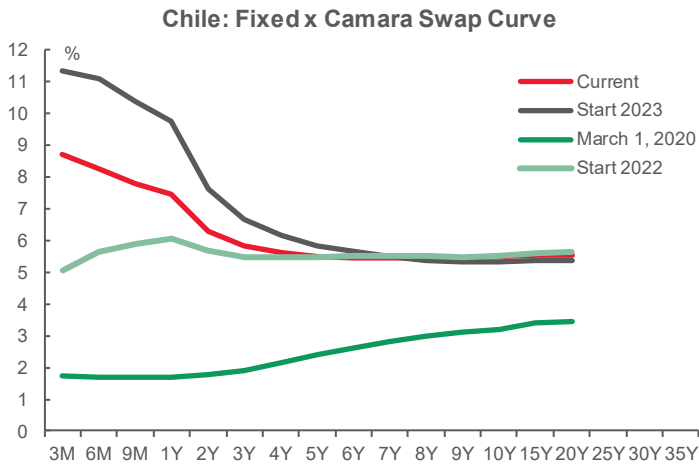


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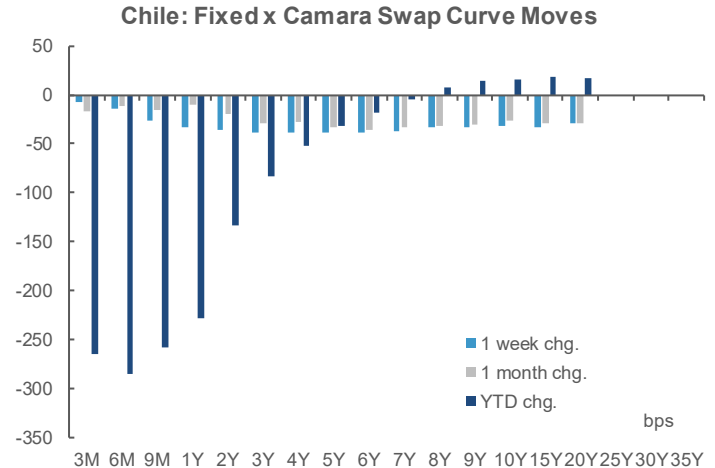
Yield Curves

Chart 7



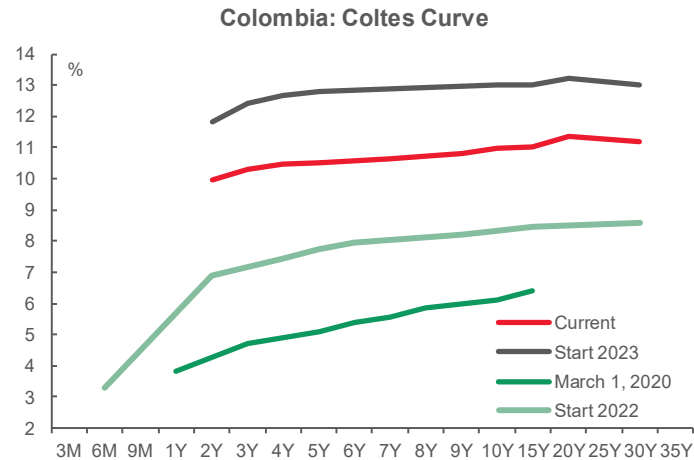
Sources: Scotiabank Economics, Bloomberg.

Chart 8



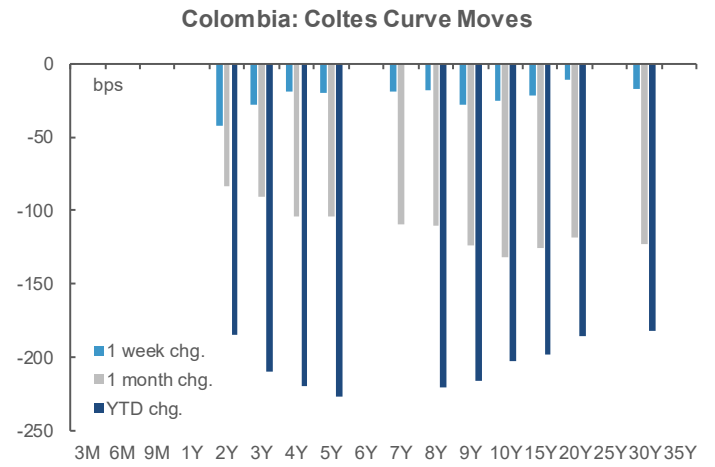
Sources: Scotiabank Economics, Bloomberg.

Chart 9



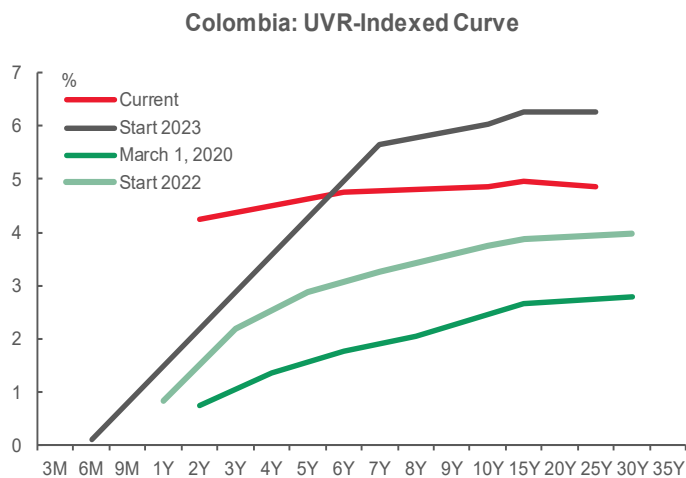
Sources: Scotiabank Economics, Bloomberg.

Chart 10



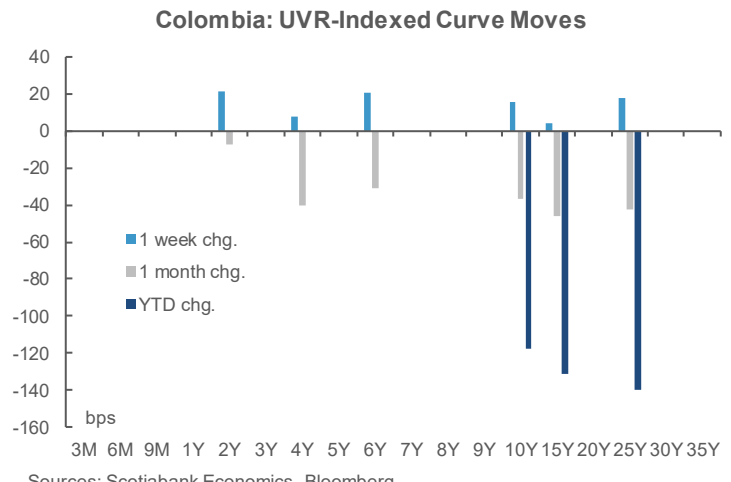
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

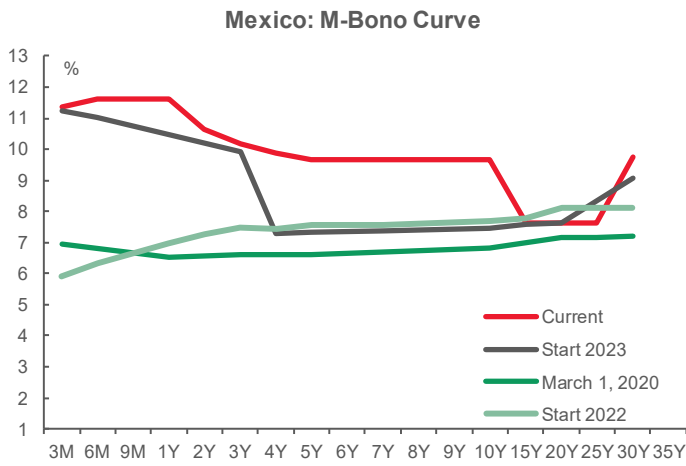
Chart 12



Sources: Scotiabank Economics, Bloomberg.

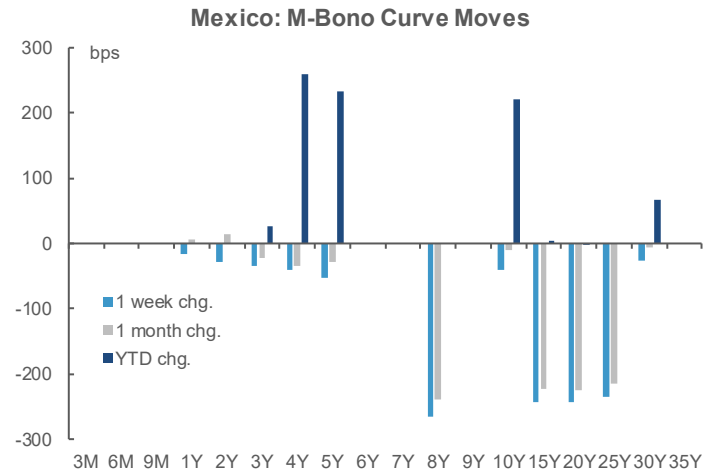
Yield Curves

Chart 13



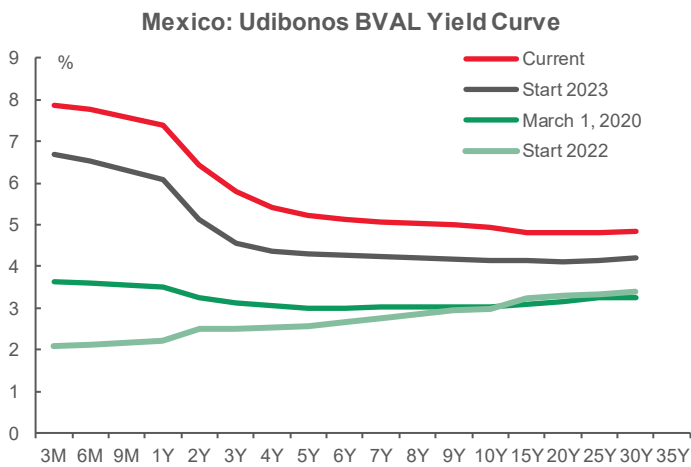
Sources: Scotiabank Economics, Bloomberg.

Chart 14



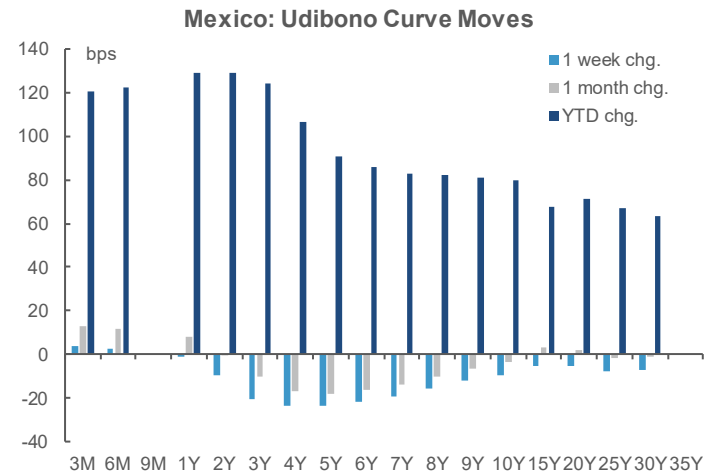
Sources: Scotiabank Economics, Bloomberg.

Chart 15



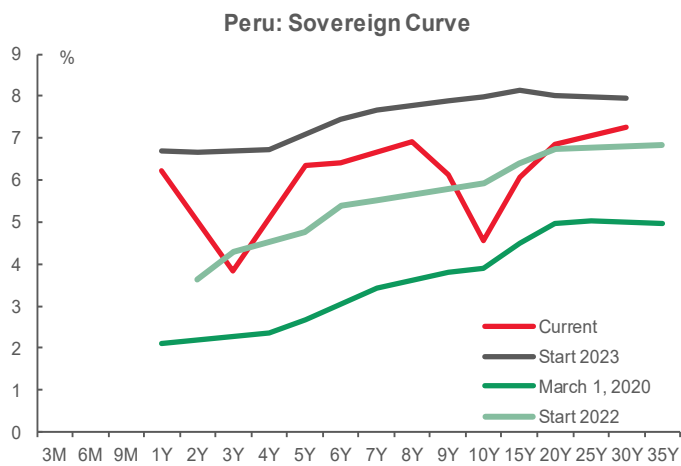
Sources: Scotiabank Economics, Bloomberg.

Chart 16



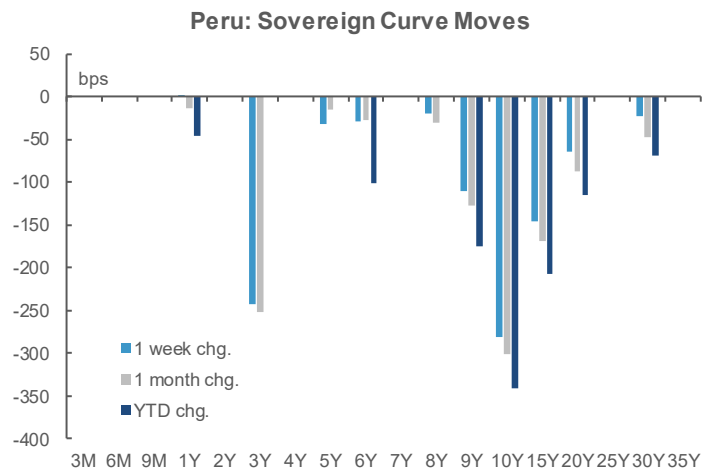
Sources: Scotiabank Economics, Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for November 11–24

**BRAZIL**

| Date      | Time Event                                | Period | BNS | Consensus | Latest | BNS Comments |
|-----------|---|--------|-----|-----------|--------|--------------|
| Nov-13    | 6:25 Central Bank Weekly Economist Survey |        | --  |           |        |              |
| Nov-13    | 13:00 Trade Balance Weekly (USD mn)       | 12-Nov | --  | --        | 2403   |              |
| Nov-14    | 7:00 IBGE Services Volume m/m SA          | Sep    | --  | 0.4       | -0.9   |              |
| Nov-14    | 7:00 IBGE Services Volume y/y NSA         | Sep    | --  | 0.5       | 0.9    |              |
| Nov-16    | 6:00 FGV CPI IPC-S (%)                    | 15-Nov | --  | --        | 0.53   |              |
| Nov-16    | 7:00 Economic Activity y/y                | Sep    | --  | 0.8       | 1.28   |              |
| Nov-16    | 7:00 Economic Activity m/m                | Sep    | --  | 0.1       | -0.8   |              |
| Nov-17    | 3:00 FIPE CPI - Weekly (%)                | 15-Nov | --  | --        | 0.23   |              |
| Nov-17    | 6:00 FGV Inflation IGP-10 m/m             | Nov    | --  | --        | 0.52   |              |
| Nov-20    | 6:25 Central Bank Weekly Economist Survey |        | --  |           |        |              |
| Nov-20    | 13:00 Trade Balance Weekly (USD mn)       | 19-Nov | --  | --        | 2403   |              |
| Nov-23    | 6:00 FGV CPI IPC-S (%)                    | 22-Nov | --  | --        | 0.53   |              |
| Nov-24    | 6:00 FGV Consumer Confidence              | Nov    | --  | --        | 93.2   |              |
| Nov 20-27 | Tax Collections (BRL mn)                  | Oct    | --  | --        | 174316 |              |

**CHILE**

| Date   | Time Event                            | Period | BNS | Consensus | Latest | BNS Comments  |
|--------|---------------------------------------|--------|-----|-----------|--------|---|
| Nov-14 | 6:30 Central Bank Meeting Minutes     |        | --  |           |        |   |
| Nov-16 | 6:30 Central Bank Traders Survey      |        | --  |           |        |   |
| Nov-20 | 6:30 Current Account Balance (USD mn) | 3Q     | --  | --        | -2754  |   |
| Nov-20 | 6:30 GDP y/y                          | 3Q     | 0.2 | --        | -1.1   | We continue to project a GDP contraction of 0.5% in 2023. |
| Nov-20 | 6:30 GDP q/q                          | 3Q     | 0.3 | --        | -0.3   |   |
| Nov-24 | 7:00 PPI m/m                          | Oct    | --  | --        | 1.9    |   |

**COLOMBIA**

| Date   | Time Event                         | Period | BNS  | Consensus | Latest | BNS Comments  |
|--------|------------------------------------|--------|------|-----------|--------|---|
| Nov-14 | 10:00 Manufacturing Production y/y | Sep    | -7.8 | --        | -8.6   | The Colombian economy registered low annual growth in the third quarter. On the supply side, the secondary sectors have presented the weakest performance. In particular, the manufacturing sector accumulated declines for several months until August, and the construction sector also presented annual declines, registering levels lower than those of the pre-pandemic period. In contrast, the latest information suggests positive annual growth in the primary and tertiary sectors. This would have been mainly due to the reported increases in oil and coal production, a recovery in the performance of agricultural activities, as well as the impetus provided by the high levels reached by the public administration, health, and arts and entertainment sectors, in addition to the financial and real estate sectors. These dynamics offset the declines in the trade, repair, transport, and accommodation sectors. |
| Nov-14 | 10:00 Industrial Production y/y    | Sep    | --   | --        | -4.6   |   |
| Nov-14 | 10:00 Retail Sales y/y             | Sep    | -8.0 | --        | -10.0  |   |
| Nov-14 | Consumer Confidence Index          | Oct    | --   | --        | -17.9  |   |
| Nov-15 | 11:00 GDP q/q                      | 3Q     | 0.4  | --        | -1.0   |   |
| Nov-15 | 11:00 GDP NSA y/y                  | 3Q     | 0.4  | 0.5       | 0.3    |   |
| Nov-15 | 11:00 Economic Activity NSA y/y    | Sep    | 0.4  | --        | 0.2    |   |
| Nov-16 | 10:00 Imports CIF Total (USD mn)   | Sep    | --   | --        | 5288   |   |
| Nov-16 | 10:00 Trade Balance (USD mn)       | Sep    | --   | -390      | -1061  |   |
| Nov-16 | Central Bank's Economists Survey   |        | --   |           |        |   |
| Nov-21 | Industrial Confidence              | Oct    | --   | --        | 0.8    |   |
| Nov-21 | Retail Confidence                  | Oct    | --   | --        | 15.1   |   |

**MEXICO**

| Date      | Time Event                                   | Period | BNS | Consensus | Latest | BNS Comments |
|-----------|--|--------|-----|-----------|--------|--------------|
| Nov-13    | ANTAD Same-Store Sales y/y                   | Oct    | --  | --        | 4.8    |              |
| Nov-14    | 10:00 International Reserves Weekly (USD mn) | 10-Nov | --  | --        | 204984 |              |
| Nov 10-15 | Nominal Wages                                | Oct    | --  | --        | 5.12   |              |
| Nov-21    | Banamex Survey of Economists                 |        | --  |           |        |              |
| Nov-22    | 7:00 Retail Sales y/y                        | Sep    | --  | --        | 3.2    |              |
| Nov-22    | 7:00 Retail Sales m/m                        | Sep    | --  | --        | -0.4   |              |
| Nov-22    | 10:00 International Reserves Weekly (USD mn) | 17-Nov | --  | --        | 204984 |              |
| Nov-23    | 7:00 Bi-Weekly CPI (%)                       | 15-Nov | --  | 0.15      | 0.13   |              |
| Nov-23    | 7:00 Bi-Weekly Core CPI (%)                  | 15-Nov | --  | 0.16      | 0.18   |              |
| Nov-23    | 7:00 Bi-Weekly CPI y/y                       | 15-Nov | --  | 4.26      | 4.25   |              |
| Nov-23    | 7:00 Bi-Weekly Core CPI y/y                  | 15-Nov | --  | 5.44      | 5.46   |              |
| Nov-23    | 10:00 Central Bank Monetary Policy Minutes   |        | --  |           |        |              |
| Nov-24    | 7:00 Economic Activity IGAE m/m              | Sep    | --  | --        | 0.4    |              |
| Nov-24    | 7:00 Economic Activity IGAE y/y              | Sep    | --  | --        | 3.7    |              |
| Nov-24    | 7:00 GDP NSA y/y                             | 3Q F   | --  | --        | 3.3    |              |
| Nov-24    | 7:00 GDP SA q/q                              | 3Q F   | --  | --        | 0.91   |              |
| Nov-24    | 7:00 GDP Nominal y/y                         | 3Q     | --  | --        | 6.91   |              |
| Nov-24    | 10:00 Current Account Balance (USD mn)       | 3Q     | --  | --        | 6247   |              |

**PERU**

| Date   | Time Event                       | Period | BNS  | Consensus | Latest | BNS Comments   |
|--------|----------------------------------|--------|------|-----------|--------|--|
| Nov-15 | 10:00 Lima Unemployment Rate (%) | Oct    | 6.7  | --        | 6.7    | Would remain stable because a recovery in private investment has not yet been observed.          |
| Nov-15 | 10:00 Economic Activity y/y      | Sep    | -0.8 | -0.5      | -0.6   | Affected by sectors linked to domestic demand and agricultural sector affected by El Niño.       |
| Nov-23 | GDP y/y                          | 3Q     | -0.9 | --        | -0.5   | Third consecutive quarter of decline, led by fishing and agriculture sectors affected by El Niño |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

## Scotiabank Economics Latam Coverage

## Local Market Coverage

## CHILE

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