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Latam Weekly: Triple-Threat Inflation Thursday

ECONOMIC OVERVIEW

- The final month of the year begins with a packed data and central banks schedule in Latam and the G10. Thursday's triple threat of Chile, Colombia, and Mexico inflation releases is the main event in Latam next week, with important implications for how much and/or when to cut rates. The BoC and RBA are on track to hold while a flood of US data may shake up markets that won't have Fed speakers to guide them during the comms blackout.
- We forecast Chilean inflation to continue its steep decline, to print roughly 10ppts lower than its peak last summer. On the other hand, Colombian inflation will slow only marginally and remain in double digits, thus teeing up another large increase in minimum wages that heightens inflation stickiness. Mexican inflation is expected to make little progress, which should at least not add fuel to the less-hawkish fire that Banxico lit at the November announcement.
- In today's report, our team in Peru talks about the encouraging decline in odds of a severe El Niño event and outline the political imbroglio currently taking place in the country. Our economists in Colombia attempt to decompose structural versus temporary changes in Colombian assets as the country attempts a return to normality after a series of economic, fiscal, and political shocks.

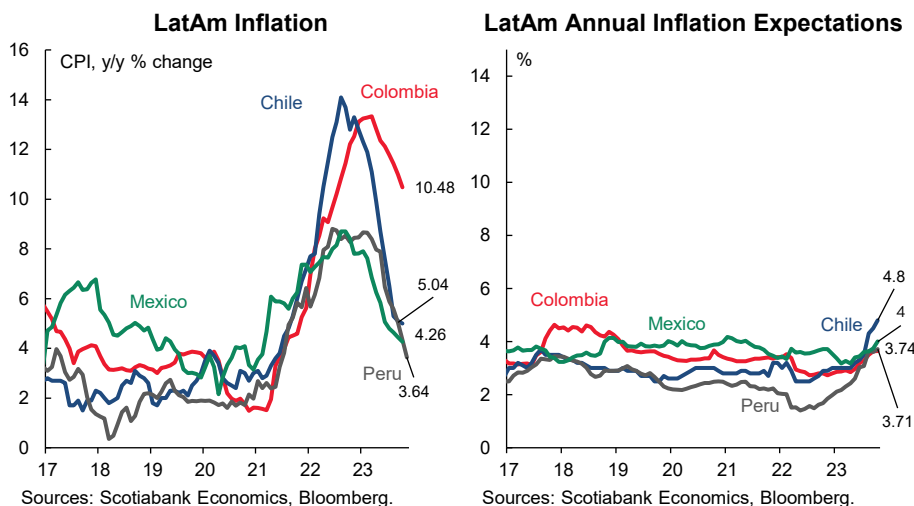
PACIFIC ALLIANCE COUNTRY UPDATES

- We assess key insights from the last week, with highlights on the main issues to watch over the coming fortnight in the Pacific Alliance countries: Colombia and Peru.

MARKET EVENTS & INDICATORS

- A comprehensive risk calendar with selected highlights for the period December 2-15 across the Pacific Alliance countries and Brazil.

Charts of the Week



Charts of the Week: Prepared by: Cesar Amador, Economic Analyst.

Economic Overview: Triple-Threat Inflation Thursday

- **The final month of the year begins with a packed data and central banks schedule in Latam and the G10. Thursday's triple threat of Chile, Colombia, and Mexico inflation releases is the main event in Latam next week, with important implications for how much and/or when to cut rates. The BoC and RBA are on track to hold while a flood of US data may shake up markets that won't have Fed speakers to guide them during the comms blackout.**
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And away we go into the final month of the year, with an absolutely packed data and central banks schedule in Latam and the G10 kicking things off in style next week. Other industries may be going quietly into the holiday season but these markets will go to eleven from now until the 19th, when the last of the key central banks decide on policy. We just closed a very strong risk-on nearly-everywhere rally in November that may need good news to continue, or risk having the rug pulled under it by data that crush hopes that we're only a few months away from a first Fed or ECB cut.

Thursday's triple threat of Chile, Colombia, and Mexico inflation releases is the main event in Latam next week. The data are bound to shift markets that remain unsure about the size (BCCCh and BanRep) and/or timing of rate cuts (BanRep and Banxico). That is clearly not the case of Brazil—for which we get Q3 GDP data next week seen falling slightly q/q—as the BCB is in self-driving mode with 50bps cuts due at the December and February decisions.

Next week's inflation readings come on the heels of today's Peruvian CPI print that keeps in play the 50bps cut bets by some in markets for the BCRP's decision on the 14th. Our economists in Lima have lowered their forecasts for Peruvian inflation for this year and next, giving the BCRP room to cut at each of the December and January decisions (pending El Niño risks).

In today's report, our team in Peru talks about the encouraging decline in odds of a severe El Niño event that would mean lessened damage to infrastructure and agricultural output. At the same time as strong El Niño odds fall, political risks are flaring up again in Peru as the team describes the events of the past few days where the Attorney General and the Executive clash and accuse each other of crimes. How this develops next week will be key.

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December 1, 2023

How much to cut? Our team projects that Chilean inflation slowed in November to 4.2% from 5.0% (see Chile section), equivalent to practically a full 10 percentage points decline from the cycle peak of 14.10% in August 2022. Ok, but that's headline, what about core? We project a large drop here as well, penciling in a 5.6% y/y print, from the 6.50% recorded in October, that would represent the lowest year-on-year increase in ex-volatile prices since late-2021.

There's clear inflation progress being made in Chile and the economy is clearly in a slump—essentially flat-lining since mid-2022. The BCCh chose a smaller 50bps rate cut in October, but the less dovish decision was driven by an adverse international environment of higher commodity prices, global yields, and a weak CLP. Since the bank's decision on October 26 (when it also suspended its reserves replenishment programme), US 10-yr yields have fallen 55–60bps, the Bloomberg energy prices index has fallen 8–10% (agricultural index little changed), and the CLP has rallied 7–8% as the best performing key global currency over the period. Chile also publishes international trade and nominal wage growth figures.

It's worth highlighting that we'll get no more public opinion polls for the December 17th referendum on the new constitution text as the law stipulates a 15-day blackout period. Unfortunately, that means we'll go blindly into voting day as some of the latest polls show a statistical tie between the 'for' and 'against' options; at least there's a large consensus that the matter should be considered closed if this latest text is rejected.

When and/or how much to cut? We don't think Colombian inflation will fall to single digits in November, with our forecast of 10.1% (in line with the economist median) showing only a modest decline from the 10.5% recorded in October. The slowdown from 10.5% to 10.4% y/y that we project for core inflation is even smaller and clearly highlights the stickiness in Colombian inflation that owes to a multitude of factors, namely indexation practices. And these pressures are here to stay, as the November print is the base of negotiation for next year's minimum wage increase, so here comes another double-digit min-wage increase that raises firm's costs and that will be passed on (at least partly) to higher consumer prices. Nevertheless, economic activity remains relatively depressed, with GDP less than 2% larger than end-2021 as of September 2023, so there's a case to be made for BanRep reductions to begin in December which is our call with 25bps—but it's close against a pause, and certainly deviates from some economists that think a 50bps cut is on the horizon (about 20% in the latest Citi survey). In today's weekly, our economists in Colombia attempt to decompose structural versus temporary changes in Colombian assets.

When to cut? This is the case of Banxico, who we thought was eyeing either a March or April start to the easing cycle, but their recent dovishness that started with the guidance change at the November 9th decision (still well in hawkish territory, however) has clearly shifted the timing of the first cut to one of the February or March meetings. From public comments and Banxico's meeting minutes, it is fairly obvious that Banxico Gov Rodriguez Ceja will push for a lower overnight rate in February. She'll be looking at next week's CPI data to support her view.

We project November headline and core inflation prints to be in line with that seen in the H1-Nov data. That is, headline holding at 4.3% y/y and core going from 5.5% to 5.3% y/y; the 0.3% m/m rise that we forecast in core inflation is slightly above the pre-pandemic average for November months but shows progress from 0.4% and 0.5% m/m increases in November 2021 and 2022, respectively. Earlier in the week, we'll watch fixed investment data for insights into the pace of public construction outlays in infrastructure and whether some nearshoring investments begin to show up more clearly in hard data. On a related note, the Mexican economy is clearly showing some unexpected strength and resilience, even after one subtracts public projects contributions, but at some point Banxico's 7%+ real rate (using 12-m ahead inflation expectations) is massively restrictive—especially on private investment—and would require rate cuts that Banxico doves are pushing for. Public consumption figures on Monday and the bi-weekly Citibanamex economists survey are also on tap.

Outside of Latam, there will be a huge amount of data and events to watch that will drive global markets. In the G10, the BoC and RBA decide on policy (with holds expected from both, with very slight odds the RBA hikes), the US publishes a flood of data (ISM services, JOLTS job openings, nonfarm payrolls and unemployment, and the U Michigan survey), and Tokyo CPI figures stand as a risk (in either direction) for rates markets given their implications for the BoJ outlook. China releases international trade and private sector services/composite PMIs, and ECB members will be around to shake things up while Fed speakers are on blackout ahead of the December 13th announcement.

Pacific Alliance Country Updates

Colombia—Risk Premiums in Colombia. What is Structural and What is Temporary?

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After the pandemic, Colombian markets have had several shocks that changed pricing formation and volatility, however, it's not clear what shocks were permanent and which of them were temporary and are vanishing over time. This piece is a first attempt to try to identify structural changes for Colombian assets and temporary ones that have vanished or are vanishing while the new normality kicks in.

First, we think there were five shocks in Colombia that are worth mentioning:

- **Economic activity product chain:** After the pandemic, we observed a worldwide disruption in the production chain. In fact, as it is well known, the pandemic produced a disruption in worldwide trade and significant delays in the input distribution chain. Additionally, the world has re-evaluated the globalization of production as we knew it before 2019, and it is starting to think in clusters of production with better geographic, economic, and political relations. In fact, one good example of this is the nearshoring. Additionally, in Colombia the production distribution chain suffered another significant shock due to the 2021 protests that intensified the effect on the already broken lines in the distribution. We are currently wondering whether the previous shocks represent a structural loss of capacity in the economy.
- **In 2021 Colombia lost its investment grade:** After the 2021 unrest in Colombia, Fitch decided to cut Colombia's rating to BB+ with stable outlook, becoming the second rating agency that cut Colombia below investment rate after S&P downgraded Colombia in May 2021. Becoming a non-investment grade proved that not only the COP and TES deteriorated but also increased volatility. In fact, according to our models, losing investment grade increased the COP by COP200 and increased risk premium in TES rates of 150 bps, while intraday FX volatility increased to COP80–100 from COP20–30 before. Main rating agencies maintain a "stable" outlook in Colombia and recently Fitch Ratings said that it will be difficult for Colombia to recover the investment grade before 2026. With that being said, we think this shock is permanent.
- **Faster and stronger economic activity recovery produced a current account deficit and caused inflation to soar:** After a fall of 7.3% in 2020 GDP due to the pandemic lockdown, the Colombian economy was able to recover much faster and stronger than expected. In fact, GDP returned to pre-pandemic levels by 3Q-2021 while consensus expected at least another year below that level. Colombian GDP grew 11.3% in 2021 and a strong 7.5% in 2022. Although the faster recovery showed that the Colombian economy is highly resilient, it produced stronger household demand that ended up boosting imports that increased the current account deficit to more than 6% of GDP in 2022, more than double of historical average, while the stronger demand also boosted the increment in prices that was initially produced by the issues with the supply chain. In fact, inflation peaked in the Q1-2023 at 13.3%, the highest since the inflation targeting era. The previous shock is vanishing, economic activity is closing the positive output gap, the current account deficit is also falling, and inflation is going down at a moderate pace. That said, despite previous shocks looking temporary, it could take a little more to be fully normalized.
- **Former shocks produced a strong reaction from monetary policy authorities:** Higher inflation, domestically and abroad, made BanRep start a hiking cycle that tried to catch up inflation dynamics by increasing the policy rate from 1.75% to 13.75% in around 1.5 years. As the economy is normalizing and inflation is moderating, there is no doubt that the next appropriate step is an easing cycle, however the main question is whether it will start in Dec 2023 or the first quarter of 2024. Another question is what the terminal rate could be. About the first question, we think BanRep is in a dilemma. A rate cut in December or Q1-2024 is a close call, but if they start the easing cycle in December, the cut should be modest, while if they cut in Q1-2024, the cut could be more aggressive. The terminal rate, we think will point to a higher-level vs pre-pandemic. Our projection is at 7% by the end of 2024.
- **Last but not least, the presidential election was really noisy** since new president Petro started the presidency by sending strong messages to markets talking about structural changes to the Colombian economy, such as capital controls, an accelerated energy transition that eliminated oil exploration in Colombia, breaking in BanRep's law, among others. The government's comments produced around COP 800 depreciation and 300bps new premium in COLTES price action last year. Although concerns around politics haven't ended, during 2023 Colombia proved to have a strong institutional framework, and the political risk premium almost disappeared in mid-2023. However, we estimate that the FX is pricing 50 pesos precautionary premium in the FX that arises when some noise from

government's communication arise. Either way, we can conclude that the political risk premium is now lower than one year ago, however, prices reflect some caution.

All in all, the economic context continues to involve a combination of shocks that pose a complex landscape for decision-making processes. The economy is slowing down, but it is probably not reflecting a deep negative output gap. On the other hand, inflation will continue to fall slowly due to the indexation effect, while the external deficit could stabilize. FX and fixed income prices, for now, do not incorporate significant premiums to political events and only incorporate the fact that Colombia will not be able to regain investment grade anytime soon. On the other hand, the positive context in international markets is also a good environment for assets and, in some cases, contributes to the fading of premiums due to idiosyncratic risks.

Peru—Coming In From The Cold

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It's been a cold week in Lima. The cold has brought both hope and despair. With El Niño approaching—rains could begin within two or three weeks—we're all eager to see just how severe the event will be. That's where today's coldish weather brings hope. Over the past few weeks, Peru's official El Niño monitoring entity, ENFEN, has reduced the likelihood that the coastal Niño will be severe or worse from 49% to 39%. It has also reduced the likelihood of a moderate Niño from 47% to 37%. What has increased is the probability that the coming Niño will be weak, rising from 1% to 23% (chart 1). The numbers are still uncomfortable, but the trend is quite hopeful. The unseasonably cool weather in Lima and much of the coast ratifies that sea temperatures are also continuing to fall, as they have been for weeks.

Of course, categories such as severe, moderate, or weak are very broad. The hope lies in that, whereas until recently it seemed like Peru could face a raging global and coastal Niño, the recent trends now at least suggest that the coastal Niño may be less dramatic.

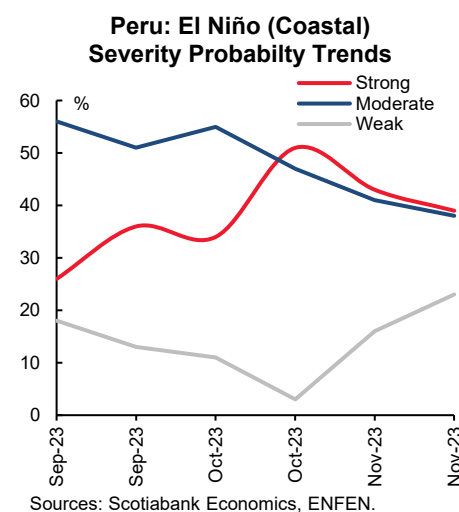
A note on terminology: a global Niño event means steaming waters in the central Pacific Ocean, whereas a coastal Niño means the hot waters will run along the coast of Peru (pushing the cold Humboldt current south). For Peru, a coastal Niño implies 1) hot weather which drives cold-water fish south and deeper in the ocean and affects crop growth; 2) a drought in the southern highlands; 3) rains that, if they occur in summer, are strong enough to destroy infrastructure. Meanwhile, a global Niño without the coastal component only brings drought to the southern highlands.

So, our wishful thinking is that the coastal Niño, which brought heat and drought in 2023, will be weak enough in 2024 to avoid too much damage to infrastructure and to crops. Even if this turns out to be the case, the global Niño is likely to be strong enough for the drought in the south to endure. Even so, perhaps, just perhaps, El Niño will, atypically, have had a greater impact in its first year (2023) than its second (2024). For that to happen, the current probability trends would need to continue.

The other cold front is politics. Trying to make heads or tails of the current internecine fighting within the Attorney General's office, here called *fiscalía*, is near impossible. The near-term issue that was created by the mess was the decision by the Attorney General herself, Patricia Benavides, to formally accuse President Boluarte and the head of the cabinet Alberto Otárola with homicide for the deaths of protesters during the riots that occurred last December and January. This decision has been widely viewed domestically as a survival maneuver on the part of Benavides, as it occurred on the day in which she herself, as well as a number of people of her entourage, were being linked to illicit acts such as negotiating with members of congress to stop investigations.

It's telling that nothing further has come of the homicide accusation since. However, given how weak the Boluarte regime is, and the unpredictable nature of politics in Peru, there is no assurance that they will not resurface. Our current view is that the homicide accusation does increase the risk of early elections, but at the same time, it is only a risk. Given that the procedure to determine early elections involves a very reluctant Congress, it continues to be more likely than not that the presidential elections will be held on the currently legal date of approximately April 2026.

Chart 1



December 1, 2023

Here is a quick overview of the occurrences at the fiscalía. The events, in which different groups have exchanged accusations and initiated cross-investigations, as well as ousting key figures, represent inner struggles between different groups, reflecting in part power plays, in part personal survival strategies, and in part, at least in some possible cases, links to special political interests. But the context is one of a general deterioration in the fiscalía as an institution, as part of the political mêlée that began in 2016, and has accelerated since 2021. Thus, the different groups within the fiscalía reflect political tampering, including politically-motivated appointments. One could say that the institutional weakening over the past few years has finally caught up with the fiscalía. At this point, it is not evident how things will settle down, or how critical things may become. Next week is likely to be key.

Just to finish on a more economic note. We recently lowered our forecasts for inflation to 3.6% for 2023 and 3.5% for 2024. This makes it even more likely that the BCRP will lower its policy rate to 6.75% on December 14th. Whether or not it will continue to lower its rate in January 2024 will depend on how strongly El Niño is shaping up at the end of December and early January. Having said that, the BCRP does seem to have room for another 25bps cut in January.

Forecast Updates

	2022	2023				2024				2025							
	Q4	Q1	Q2	Q3e	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
Brazil																	
Real GDP (y/y % change)	1.9	4.0	3.4	2.4	2.1	1.3	1.1	1.6	2.0	1.9	1.9	1.8	1.8	2.9	2.9	1.5	1.9
CPI (y/y % eop)	5.8	4.7	3.2	5.2	4.6	3.8	3.9	3.9	3.9	3.7	3.7	3.7	3.5	5.8	4.6	3.9	3.5
Unemployment rate (% avg)	7.9	8.8	8.0	7.7	7.8	8.5	8.4	8.3	8.2	8.6	8.4	8.4	8.3	7.9	8.2	8.3	8.5
Central bank policy rate (% eop)	13.75	13.75	13.75	12.75	11.75	10.75	9.75	9.25	9.00	9.00	8.75	8.50	8.50	13.75	11.75	9.00	8.50
Foreign exchange (USDBRL, eop)	5.28	5.06	4.79	5.03	4.98	4.97	4.97	4.98	4.99	5.00	5.02	5.03	5.05	5.28	4.98	4.99	5.05
Chile																	
Real GDP (y/y % change)	-2.3	-0.7	-0.8	0.6	0.2	1.3	2.5	1.3	2.9	2.6	2.0	3.0	2.6	2.4	-0.2	2.0	2.5
CPI (y/y % eop)	12.8	11.1	7.6	5.1	3.7	2.9	3.1	3.1	3.0	3.0	3.0	3.0	3.0	12.8	3.7	3.0	3.0
Unemployment rate (% avg)	7.9	8.8	8.5	8.9	8.6	8.4	8.5	8.4	8.0	8.4	8.4	8.0	7.1	7.9	8.7	8.3	8.0
Central bank policy rate (% eop)	11.25	11.25	11.25	9.50	8.50	7.50	5.75	4.75	4.25	4.25	4.25	4.25	4.25	11.25	8.50	4.25	4.25
Foreign exchange (USDCLP, eop)	851	795	802	892	870	870	870	870	870	850	850	850	850	851	870	870	850
Colombia																	
Real GDP (y/y % change)	2.1	3.0	0.4	-0.3	1.3	1.7	1.8	1.7	2.2	2.4	2.3	2.5	2.4	7.3	1.1	1.8	2.4
CPI (y/y % eop)	13.1	13.3	12.1	11.0	9.3	6.6	6.1	5.1	4.5	3.3	2.9	2.8	2.8	13.1	9.3	4.5	2.8
Unemployment rate (% avg)	9.8	11.7	10.2	9.4	9.1	11.4	9.8	10.2	9.3	11.2	9.7	10.0	9.1	11.2	9.7	9.1	9.0
Central bank policy rate (% eop)	12.00	13.00	13.25	13.25	13.00	11.50	9.50	8.00	7.00	6.25	5.75	5.50	5.50	12.00	13.00	7.00	5.50
Foreign exchange (USDCOP, eop)	4,853	4,623	4,172	4,068	4,250	4,249	4,278	4,302	4,316	4,320	4,325	4,340	4,350	4,853	4,250	4,316	4,350
Mexico																	
Real GDP (y/y % change)	4.5	3.5	3.4	3.3	3.5	3.8	4.0	2.4	2.1	1.8	1.4	1.6	1.4	3.9	3.4	3.1	1.6
CPI (y/y % eop)	7.8	6.8	5.1	4.5	4.4	4.5	4.7	4.7	4.6	4.0	3.8	3.8	3.6	7.8	4.4	4.6	3.6
Unemployment rate (% avg)	3.0	2.7	2.8	3.0	3.1	3.0	3.1	3.2	3.2	3.3	3.3	3.4	3.5	3.3	2.9	3.1	3.4
Central bank policy rate (% eop)	10.50	11.25	11.25	11.25	11.25	11.00	10.50	10.00	9.50	9.00	8.50	8.00	7.50	10.50	11.25	9.50	7.50
Foreign exchange (USDMXN, eop)	19.50	18.05	17.12	17.42	17.50	17.70	17.80	18.10	18.40	18.70	18.90	19.25	19.50	19.50	17.50	18.40	19.50
Peru																	
Real GDP (y/y % change)	1.8	-0.4	-0.5	-1.0	1.0	1.5	2.8	3.0	1.9	2.6	2.5	1.5	1.3	2.7	-0.2	2.3	2.0
CPI (y/y % eop)	8.5	8.4	6.5	5.0	3.6	4.0	4.4	3.6	3.5	2.2	1.5	2.1	2.5	8.5	3.6	3.5	2.5
Unemployment rate (% avg)	7.1	7.5	6.6	6.7	6.8	7.2	6.5	6.6	6.4	7.0	6.5	6.4	6.2	7.7	6.9	6.7	6.5
Central bank policy rate (% eop)	7.50	7.75	7.75	7.50	6.75	6.50	6.00	5.25	4.75	4.50	4.50	4.50	4.50	7.50	6.75	4.75	4.50
Foreign exchange (USDPEN, eop)	3.81	3.76	3.63	3.78	3.78	3.88	3.80	3.80	3.75	3.75	3.75	3.80	3.75	3.81	3.78	3.75	3.75
Canada																	
Real GDP (y/y % change)	2.2	1.8	1.2	0.5	0.9	0.4	0.6	0.7	1.1	1.5	2.2	2.5	2.6	3.8	1.2	0.7	2.2
CPI (y/y % eop)	6.7	5.1	3.5	3.7	3.4	3.0	2.9	2.5	2.0	2.2	2.1	1.7	1.9	6.7	3.4	2.0	1.9
Unemployment rate (% avg)	5.1	5.0	5.2	5.5	5.6	5.8	6.0	6.2	6.3	6.3	6.3	6.2	6.1	5.3	5.3	6.1	6.2
Central bank policy rate (% eop)	4.25	4.50	4.75	5.00	5.00	5.00	4.75	4.25	4.00	3.50	3.25	3.25	3.25	4.25	5.00	4.00	3.25
Foreign exchange (USDCAD, eop)	1.36	1.35	1.32	1.36	1.35	1.33	1.33	1.28	1.28	1.25	1.25	1.25	1.25	1.36	1.35	1.28	1.25
United States																	
Real GDP (y/y % change)	0.7	1.7	2.4	3.0	2.1	1.5	1.0	0.3	0.6	0.9	1.2	1.4	1.6	1.9	2.2	0.8	1.3
CPI (y/y % eop)	7.1	5.8	4.1	3.6	3.8	3.4	3.2	3.0	2.5	2.5	2.5	2.2	2.2	7.1	3.8	2.5	2.2
Unemployment rate (% avg)	3.6	3.5	3.6	3.7	3.9	3.9	4.0	4.1	4.1	4.2	4.3	4.4	4.4	3.6	3.7	4.0	4.3
Central bank policy rate (% eop)	4.50	5.00	5.25	5.50	5.50	5.50	5.25	4.75	4.00	3.50	3.25	3.25	3.25	4.50	5.50	4.00	3.25
Foreign exchange (EURUSD, eop)	1.07	1.08	1.09	1.06	1.05	1.10	1.10	1.12	1.12	1.18	1.18	1.18	1.18	1.07	1.05	1.12	1.18

Sources: Scotiabank Economics, Bloomberg, BCB, Haver Analytics, Focus Economics, Consensus Economics.
 Red indicates changes in estimates and forecasts since previous *Latam Weekly* on November 3, 2023.

Forecast Updates—Changes Compared To Previous Latam Weekly

	2022	2023				2024				2025							
	Q4	Q1	Q2	Q3e	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2022	2023f	2024f	2025f
Brazil																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDBRL, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chile																	
Real GDP (y/y % change)	-	0.1	0.3	0.4	0.3	-0.2	-0.4	-0.5	-0.2	0.1	-	-	0.1	-	0.3	-0.3	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDCLP, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Colombia																	
Real GDP (y/y % change)	-	-	-	-1.9	-0.9	-0.8	-0.9	-0.7	-0.6	-0.6	-0.5	-0.5	-0.8	-	-0.7	-0.8	-0.6
CPI (y/y %, eop)	-	-	-	-	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-	-0.1	-0.1	-0.1
Unemployment rate (% avg)	-	-	-	-	-0.6	0.7	0.3	0.4	0.3	0.6	0.5	0.7	0.1	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	0.25	0.25	0.25	0.25	0.25	0.50	0.25	-	-	-	0.25	0.25	-
Foreign exchange (USDCOP, eop)	-	-	-	-	-	-	-	-	-	-10	-15	-5	-	-	-	-	-
Mexico																	
Real GDP (y/y % change)	0.3	-0.3	-0.2	-	0.3	-	-	-	-	-	-	-	-	-	-0.1	-	-
CPI (y/y %, eop)	-	-	-	-	-0.3	-	-	-	-	-	-	-	-	-	-0.3	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDMXN, eop)	-	-	-	-	-0.40	-	-	-	-	-0.01	-0.04	-	0.04	-	-0.40	-	0.04
Peru																	
Real GDP (y/y % change)	0.1	-	-	-0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-1.0	-1.5	-1.6	-1.5	-0.5	-	0.1	-0.1	-	-	-1.0	-0.5	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-0.25	-0.25	-0.25	-0.25	-	-	-	-	-	-	-0.25	-
Foreign exchange (USDPEN, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Canada																	
Real GDP (y/y % change)	0.1	-0.3	0.1	-0.2	-	-	-	-	-	-	-	-	-	0.4	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDCAD, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States																	
Real GDP (y/y % change)	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (EURUSD, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Scotiabank Economics, Bloomberg, BCB, Haver Analytics, Focus Economics, Consensus Economics. Changes in estimates and forecasts since previous *Latam Weekly* on November 3, 2023.

Forecast Updates: Central Bank Policy Rates and Outlook

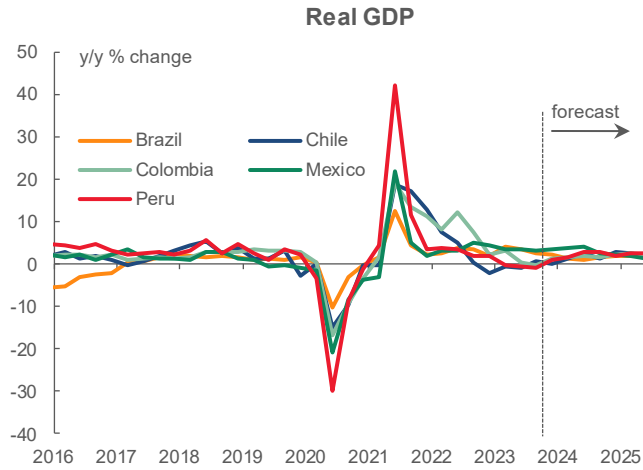
Latam Central Banks: Policy Rates and Outlook

	Current	Next Scheduled Meeting			Market Pricing		BNS Forecast		BNS guidance for next monetary policy meeting
		Date	Market	BNS	12 mos	24 mos	End-2023	End-2024	
Brazil, BCB, Selic	12.25%	Dec-13	n.a.	11.75%	n.a.	n.a.	11.75%	9.00%	
Chile, BCCCh, TPM	9.00%	Dec-19	n.a.	8.50%	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.
Colombia, BanRep, TII	13.25%	Dec-19	n.a.	13.00%	n.a.	n.a.	13.00%	7.00%	Colombia is providing mixed signals. Economic activity contracted in the third quarter, but employment apparently is robust, and inflation remains high. Before BanRep's committee meeting in December, there will be one more inflation reading 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. It is a close call whether the easing cycle will start in December or Q1-2024.
Mexico, Banxico, TO	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.
Peru, BCRP, TIR	7.00%	Dec-14	n.a.	6.75%	n.a.	n.a.	6.75%	4.75%	We expect a new interest rate cut of 25bps in December because it is possible that inflation will continue to surprise us by falling further. Weak economic performance is also an influencing factor.

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

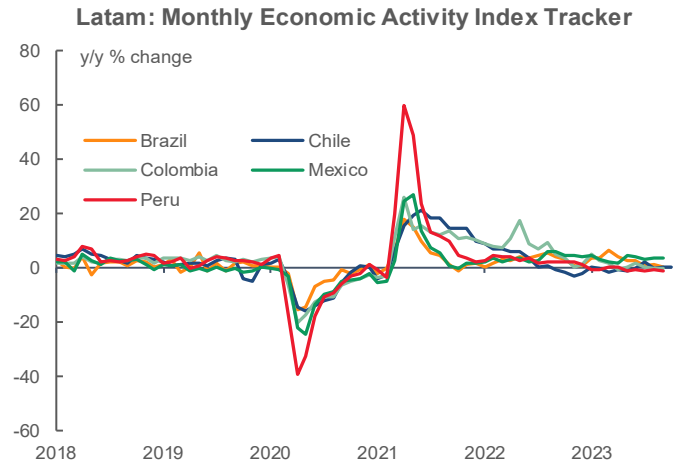
Key Economic Charts

Chart 1



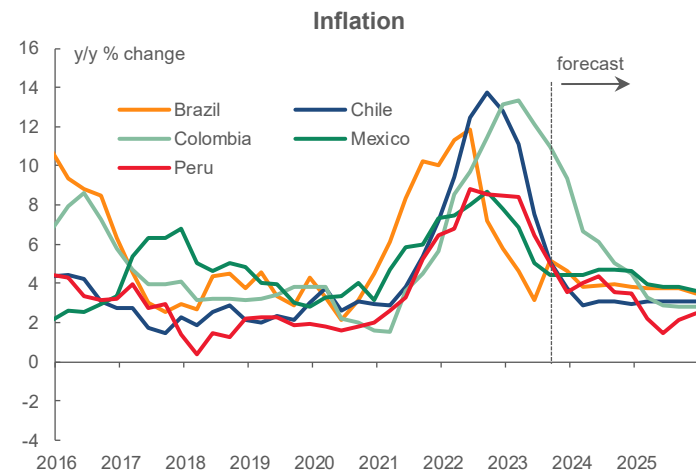
Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

Chart 2



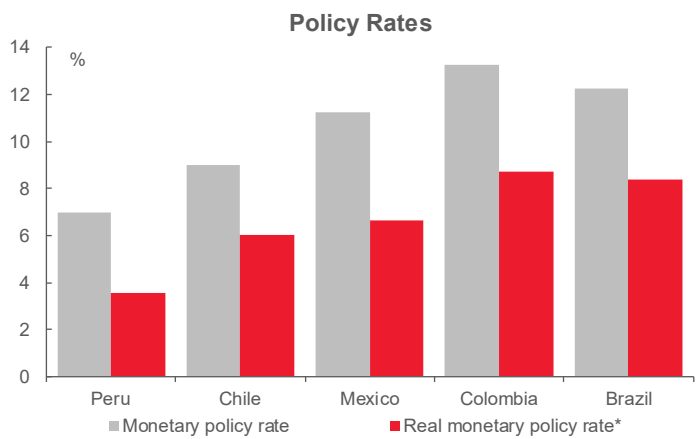
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



Sources: Scotiabank Economics, Focus Economics, Haver Analytics.

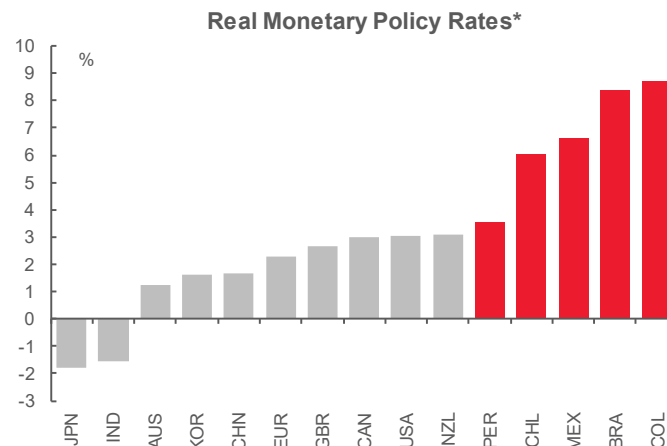
Chart 4



* 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

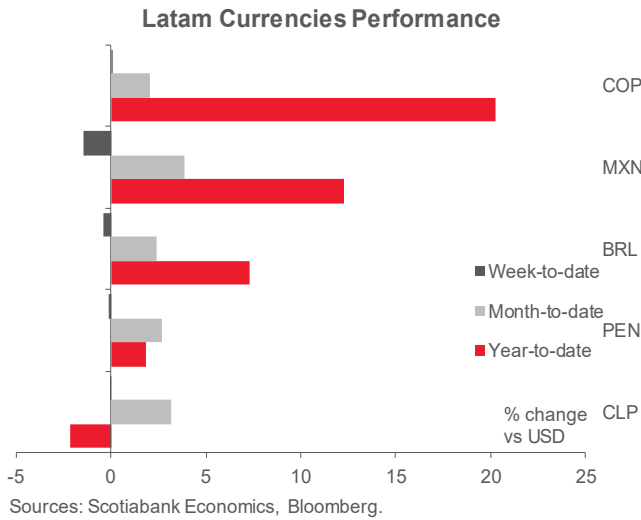


Chart 2

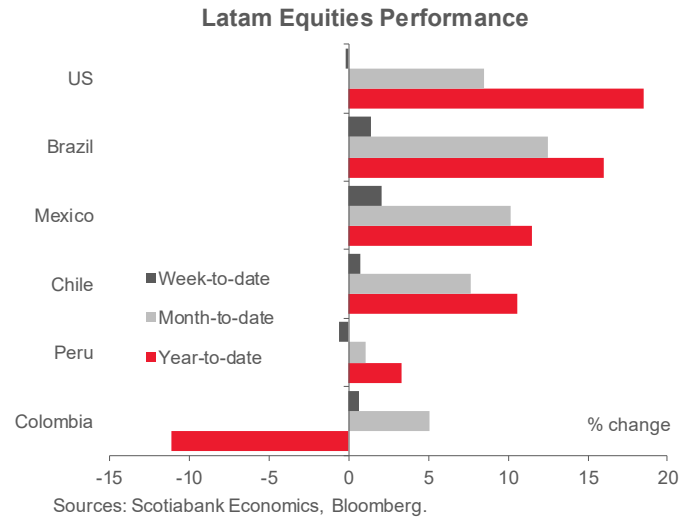


Chart 3

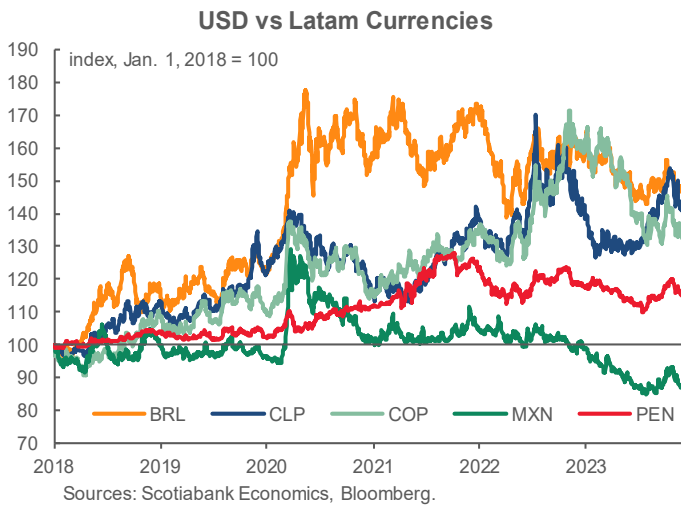
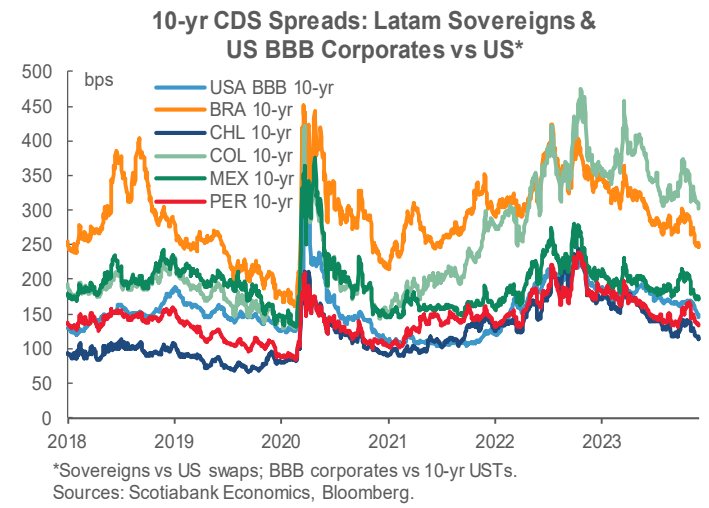
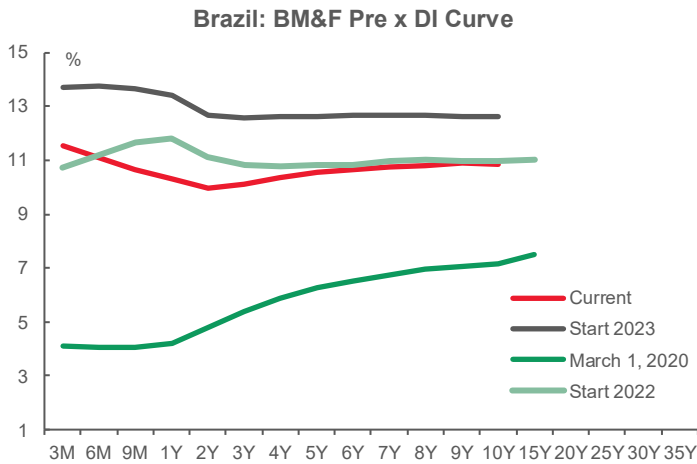


Chart 4



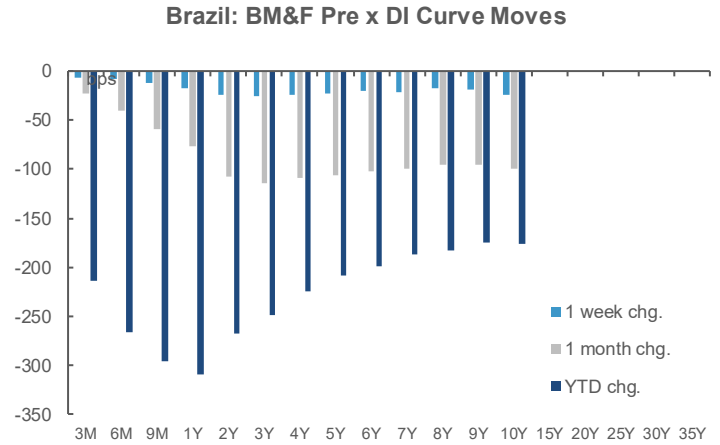
Yield Curves

Chart 1



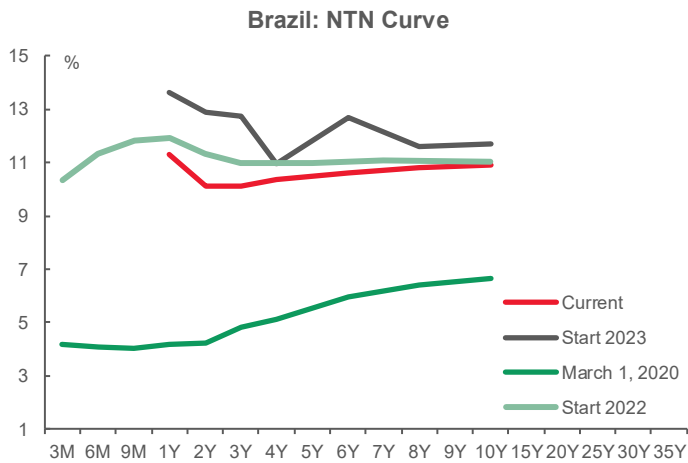
Sources: Scotiabank Economics, Bloomberg.

Chart 2



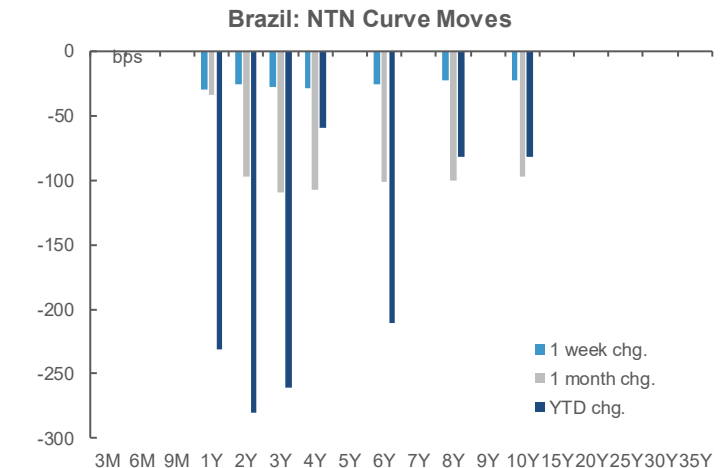
Sources: Scotiabank Economics, Bloomberg.

Chart 3



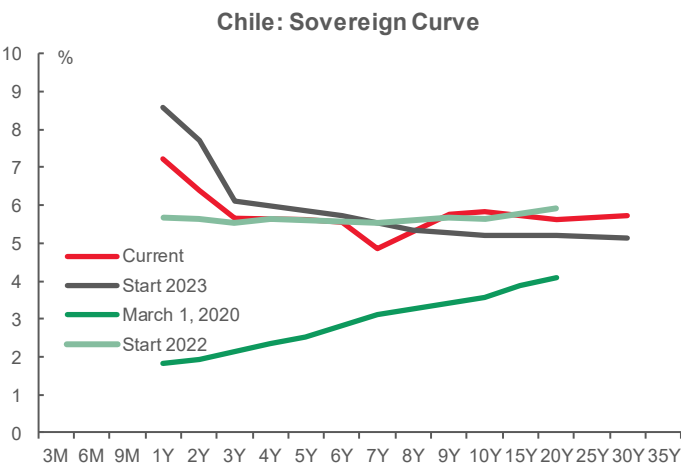
Sources: Scotiabank Economics, Bloomberg.

Chart 4



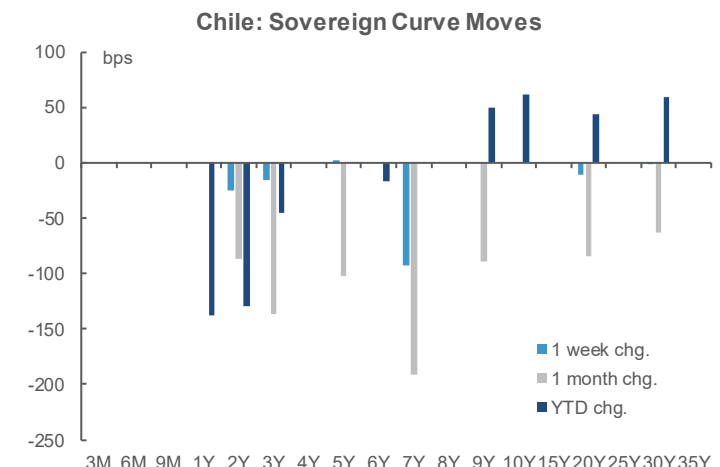
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

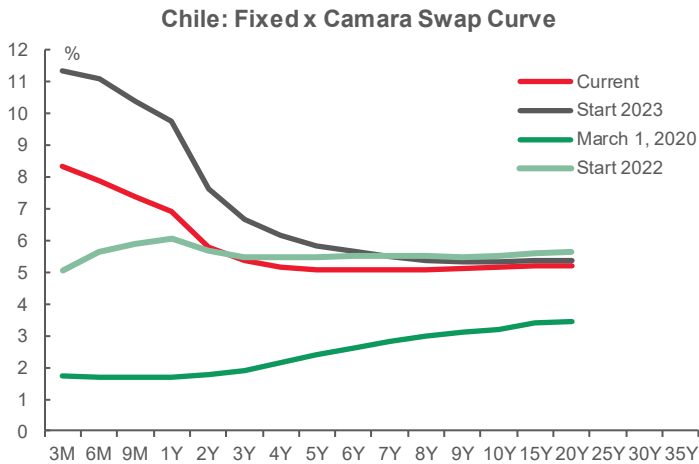
Chart 6



Sources: Scotiabank Economics, Bloomberg.

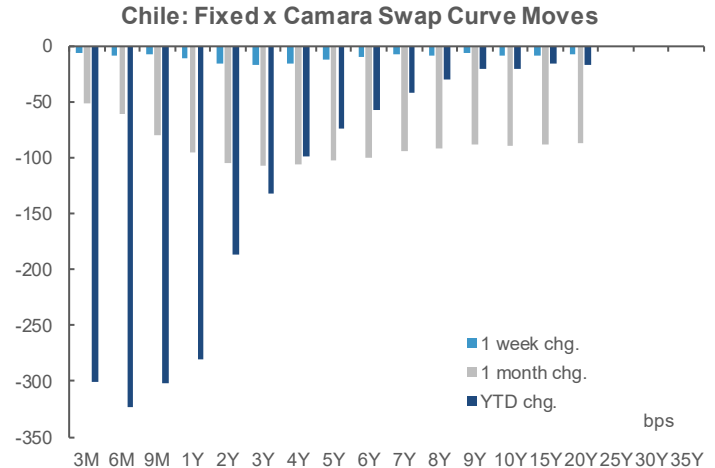
Yield Curves

Chart 7



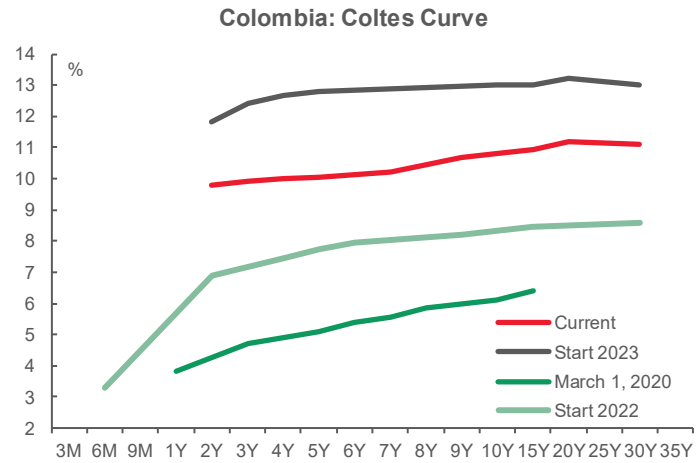
Sources: Scotiabank Economics, Bloomberg.

Chart 8



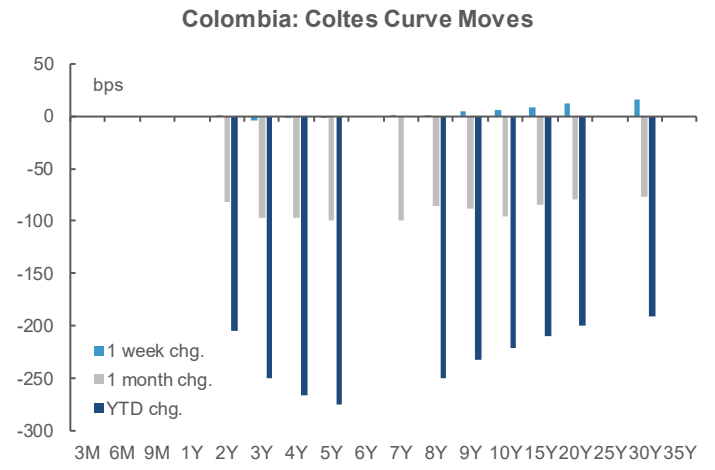
Sources: Scotiabank Economics, Bloomberg.

Chart 9



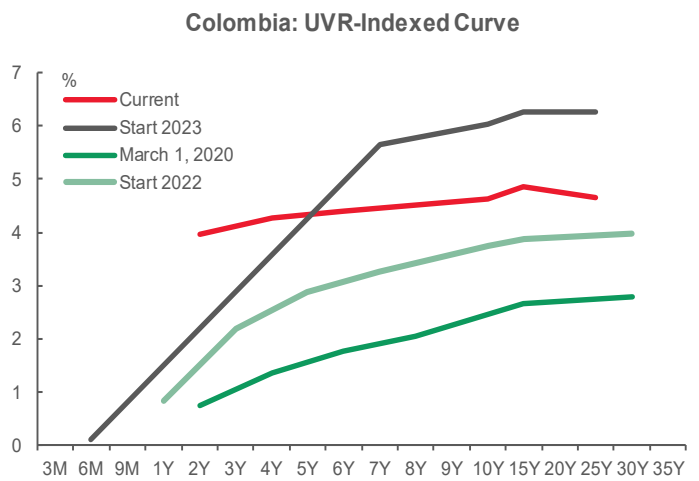
Sources: Scotiabank Economics, Bloomberg.

Chart 10



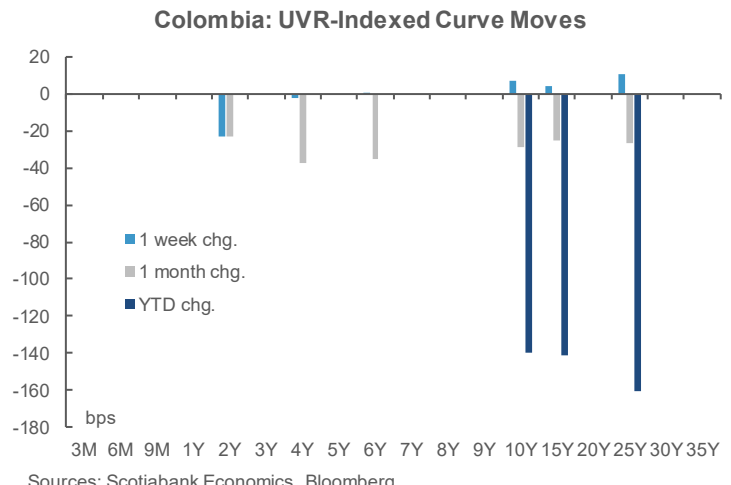
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

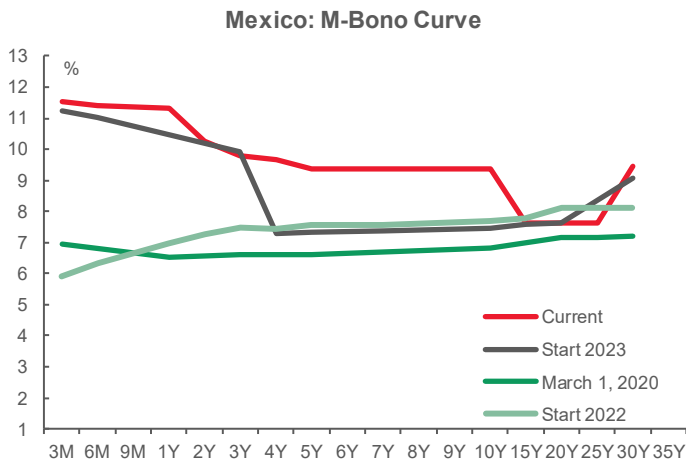
Chart 12



Sources: Scotiabank Economics, Bloomberg.

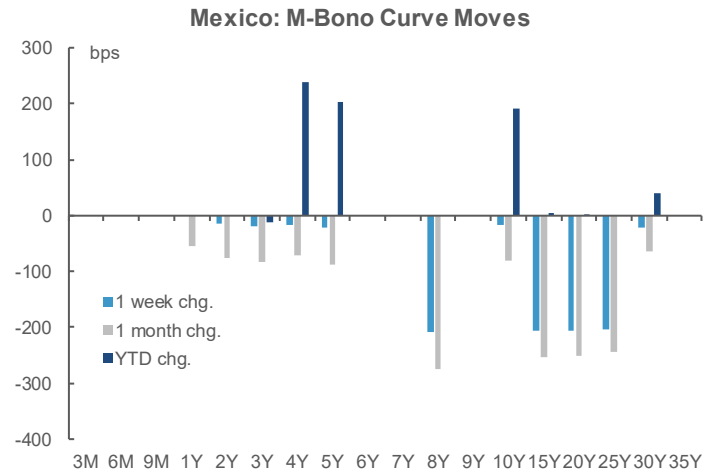
Yield Curves

Chart 13



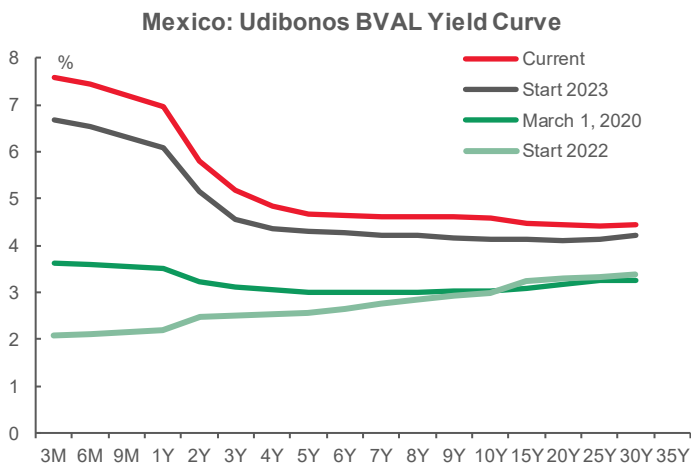
Sources: Scotiabank Economics, Bloomberg.

Chart 14



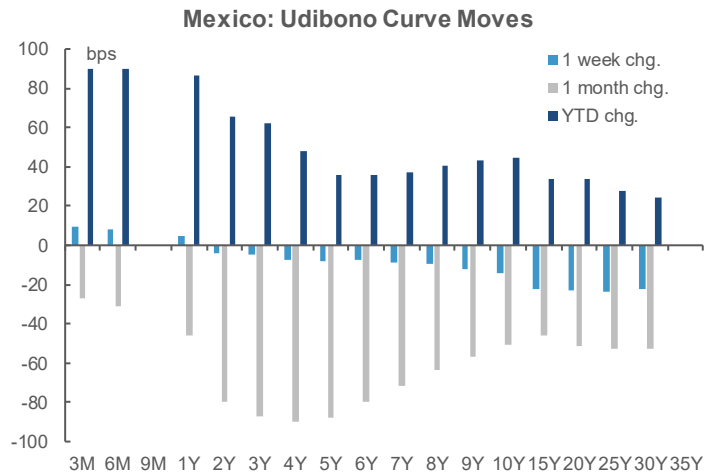
Sources: Scotiabank Economics, Bloomberg.

Chart 15



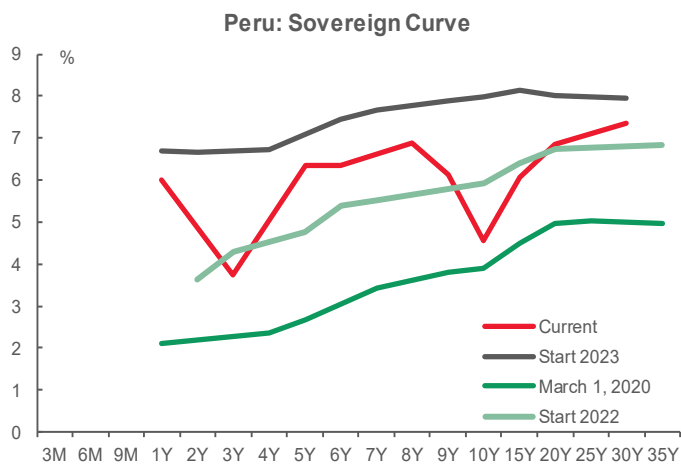
Sources: Scotiabank Economics, Bloomberg.

Chart 16



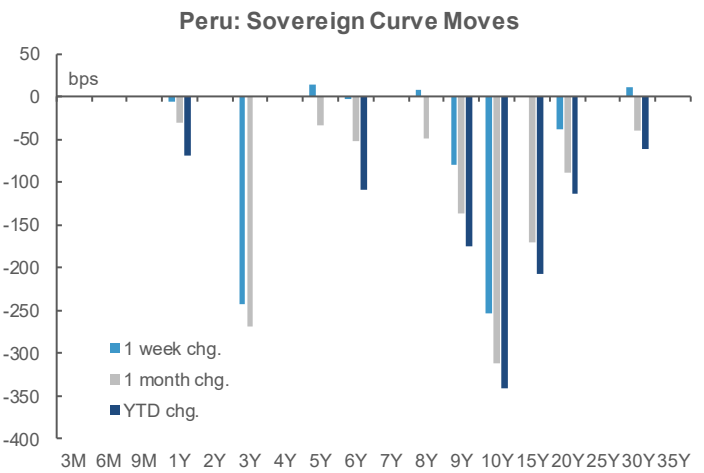
Sources: Scotiabank Economics, Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for December 2–15

BRAZIL

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Dec-04	3:00 FIPE CPI - Monthly (%)	Nov	--	--	0.3
Dec-04	6:25 Central Bank Weekly Economist Survey		--	--	
Dec-04	6:30 Current Account Balance (USD mn)	Oct	--	--	-1374.6
Dec-04	6:30 Foreign Direct Investment (USD mn)	Oct	--	--	3751.7
Dec-05	6:30 Total Outstanding Loans (BRL bn)	Oct	--	--	5575.924
Dec-05	6:30 Outstanding Loans m/m	Oct	--	--	0.8
Dec-05	6:30 Personal Loan Default Rate (%)	Oct	--	--	5.96
Dec-05	7:00 GDP y/y	3Q	--	1.7	3.4
Dec-05	7:00 GDP 4Qtrs Accumulated	3Q	--	--	
Dec-05	7:00 GDP q/q	3Q	--	-0.1	0.9
Dec-05	8:00 S&P Global Brazil Composite PMI	Nov	--	--	50.3
Dec-05	8:00 S&P Global Brazil Services PMI	Nov	--	--	51
Dec-06	6:00 FGV Inflation IGP-DI m/m	Nov	--	--	-4.27
Dec-06	6:00 FGV Inflation IGP-DI y/y	Nov	--	--	-99.785
Dec-06	6:30 Nominal Budget Balance (BRL bn)	Oct	--	--	-18.071
Dec-06	6:30 Primary Budget Balance (BRL bn)	Oct	--	--	59.96
Dec-06	6:30 Net Debt % GDP	Oct	--	--	217848
Dec 06-07	Vehicle Sales Anfavea	Nov	--	--	31276
Dec 06-07	Vehicle Exports Anfavea	Nov	--	--	199758
Dec 06-07	Vehicle Production Anfavea	Nov	--	--	
Dec-08	6:00 FGV CPI IPC-S	01-Dec	--	--	
Dec 01-08	Vehicle Sales Fenabrave	Nov	--	--	217745
Dec-11	3:00 FIPE CPI - Weekly (%)	07-Dec	--	--	0.43
Dec-11	6:25 Central Bank Weekly Economist Survey		--	--	
Dec-11	13:00 Trade Balance Weekly (USD mn)	10-Dec	--	--	1962.9
Dec-12	7:00 IBGE Inflation IPCA m/m	Nov	--	--	0.24
Dec-12	7:00 IBGE Inflation IPCA y/y	Nov	--	--	4.82
Dec-13	7:00 IBGE Services Volume m/m SA	Oct	--	--	-0.3
Dec-13	7:00 IBGE Services Volume y/y NSA	Oct	--	--	-1.2
Dec-13	16:30 Selic Rate (%)	13-Dec	11.75	--	12.25
Dec-14	7:00 Retail Sales Broad m/m	Oct	--	--	
Dec-14	7:00 Retail Sales Broad y/y	Oct	--	--	2.9
Dec-14	7:00 Retail Sales y/y	Oct	--	--	3.3
Dec-14	7:00 Retail Sales m/m	Oct	--	--	0.6
Dec-15	6:00 FGV Inflation IGP-10 m/m	Dec	--	--	
Dec-15	7:00 Economic Activity y/y	Oct	--	--	0.32
Dec-15	7:00 Economic Activity m/m	Oct	--	--	-0.06

CHILE

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Dec-06	7:00 Nominal Wage y/y	Oct	--	--	8.9
Dec-07	6:00 CPI m/m	Nov	0.1	--	0.4 We project a CPI increase of 0.1% m/m, mainly due to foods and clothing. This is consistent with our 5.0 forecast of 3.7% y/y for December 2023.
Dec-07	6:00 CPI y/y	Nov	4.2	--	
Dec-07	6:00 CPI Ex Volatile Items m/m	Nov	0.1	--	
Dec-07	6:00 CPI Ex Volatile Items y/y	Nov	5.6	--	6.5
Dec-07	6:30 Trade Balance (USD mn)	Nov	--	--	945.82
Dec-07	6:30 Exports Total (USD mn)	Nov	--	--	7725.72
Dec-07	6:30 Imports Total (USD mn)	Nov	--	--	6779.9
Dec-07	6:30 Copper Exports	Nov	--	--	
Dec-07	6:30 International Reserves (USD mn)	Nov	--	--	42527
Dec 01-07	IMCE Business Confidence	Nov	--	--	42.66
Dec-12	6:30 Central Bank Economist Survey		--	--	
Dec 07-13	Vehicle Sales Total	Nov	--	--	25053
Dec-14	6:30 Central Bank Traders Survey		--	--	--

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Dec-04	10:00 Exports FOB (USD mn)	Oct	--	--	4127.67
Dec-07	18:00 CPI y/y	Nov	10.08	--	Inflation will continue to go down at a moderate pace; however, reaching the single-digit figure is still a challenge. In November, fuel and regulated prices are expected to contribute to the upside, while food inflation could post a downside surprise. On the other hand, tradable goods could still provide some relief. November's CPI inflation is key since it kicks off the minimum wage negotiation for 2024.
Dec-07	18:00 CPI Core y/y	Nov	10.37	--	10.51
Dec-07	18:00 CPI m/m	Nov	0.41	0.42	0.25
Dec-07	18:00 CPI Core m/m	Nov	0.47	--	0.26
Dec-12	Consumer Confidence Index	Nov	--	--	
Dec-15	10:00 Manufacturing Production y/y	Oct	-6.6	--	-6.93
Dec-15	10:00 Industrial Production y/y	Oct	--	--	-2.83
Dec-15	10:00 Retail Sales y/y	Oct	-5.0	--	-9.3
Dec-15	Central Bank's Economists Survey		--	--	--

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

Market Events & Indicators for December 2–15

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Dec-04	7:00 Vehicle Domestic Sales	Nov	--	--	112261
Dec-04	7:00 Leading Indicators m/m	Oct	--	--	
Dec-04	7:00 Private Consumption y/y	Sep	--	--	4.07
Dec-04	7:00 Gross Fixed Investment SA m/m	Sep	--	--	3.1
Dec-04	7:00 Gross Fixed Investment NSA y/y	Sep	--	--	32
Dec-05	10:00 International Reserves Weekly	01-Dec	--	--	
Dec-05	Banamex Survey of Economists		--	--	
Dec-06	7:00 Consumer Confidence	Nov	--	--	46.04
Dec-06	7:00 Vehicle Production	Nov	--	--	378129
Dec-06	7:00 Vehicle Exports	Nov	--	--	
Dec-07	7:00 CPI m/m	Nov	0.67	--	0.38
Dec-07	7:00 CPI Core m/m	Nov	0.26	--	0.39
Dec-07	7:00 CPI y/y	Nov	4.35	--	4.26
Dec-07	7:00 CPI Core y/y	Nov	5.3	--	
Dec-07	7:00 Bi-Weekly CPI (%)	30-Nov	--	--	0.63
Dec-07	7:00 Bi-Weekly Core CPI (%)	30-Nov	--	--	0.2
Dec-07	7:00 Bi-Weekly CPI y/y	30-Nov	--	--	4.32
Dec-07	7:00 Bi-Weekly Core CPI y/y	30-Nov	--	--	5.31
Dec 01-07	Formal Job Creation Total	Nov	--	--	173.26
Dec-11	ANTAD Same-Store Sales y/y	Nov	--	--	2.9
Dec-12	7:00 Manuf. Production NSA y/y	Oct	--	--	
Dec-12	7:00 Industrial Production NSA y/y	Oct	--	--	3.92
Dec-12	7:00 Industrial Production SA m/m	Oct	--	--	0.15
Dec-13	10:00 International Reserves Weekly (USD mn)	08-Dec	--	--	206278
Dec-14	14:00 Overnight Rate (%)	14-Dec	11.25	--	11.25
Dec-15	10:00 Central Bank Economist Survey		--	--	--
Dec 11-15	Nominal Wages	Nov	--	--	--

PERU

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Dec-14	18:00 Reference Rate (%)	14-Dec	6.75	--	7.00 BCRP would cut its key rate in 25bps taking advantage of lower than expected inflation.
Dec-15	10:00 Lima Unemployment Rate (%)	Nov	6.6	--	6.6 Labour market with some signs of weakening, due to lower private investment levels.
Dec-15	10:00 Economic Activity y/y	Oct	-0.2	--	-1.29 The economy contracted due to the fall of the industry and construction sector, which were affected by weak domestic demand. However, this was offset by the beginning of the second fish campaign, which helped the fishing industry.

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

Scotiabank Economics Latam Coverage

Local Market Coverage

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