

## Latam Charts: #DYK—Did You Know?

- Peru came into the pandemic with one of the flatter sovereign curves amongst the Latam-5 inflation-targetters when measured against their respective five-year average 2s10s spreads. Curves steepened in response to the pandemic, but Peru's has made the most proportional progress in returning to its trend.
- We look at whether Chile's curve could follow Peru's lead.
- Latam's per capita new COVID-19 numbers are generally better than those in the US, UK, & Canada—and have been for some time.

### PERU'S YIELD CURVE FLATTENING

The 2s10s spreads in our Key Market Charts section on p. 8 continue to tell some divergent stories on sovereign yields across the Latam-5 inflation targetters. Argentina, which remains in the midst of sovereign and sub-national debt restructurings and continues to practice monetary policy that is anything but inflation targeting, remains an entirely different kettle of fish, so we'll leave it to one side for this discussion.

Compared with the pre-pandemic period (Key Market charts 13 through 17, p. 8), sovereign curves remain substantially steeper across all of the Latam-5 inflation targetters. After quick moves toward monetary easing and the massive outflows from emerging markets that we saw at the outset of the pandemic, capital is heading back into EM assets as global risk sentiment improves. The sovereign yield curves in Brazil, Colombia, and Mexico have flattened a bit as result, but they remain substantially steeper than at any other time in the last few years and Chile's has even resumed its steepening.

Peru's curve (Key Market chart 17, p. 8 and chart 1 to the right) is interesting on two fronts: its current 2s10s spread, at 281 bps, has come in proportionately more (down -40%) than those of the other Latam-5 save Brazil (-48%); but in contrast with Brazil's curve, Peru's 2s10s spread is now only 16% wider than its five-year average, whereas Brazil's spread is nearly twice as wide (+94%) as its own long-term mean. Given that Peru's BCRP cut its benchmark policy rate by -200 bps at the onset of the pandemic during March–April and has held it at 0.25% since then, its flat curve points to a consistent bid for Peru's longer-dated bonds that began at the start of 2019 and has continued through 2020's public health and political tumult.

Peru's sovereign curve isn't any more impervious to idiosyncratic risk than those of its peers: it bear steepened during this year's political turmoil in Lima (chart 1, again), but, as we noted in our December 2 [Latam Charts Weekly](#), once the impeachment saga had concluded, the net impact on Peruvian yields was small. Consistent with what appears to be an ongoing appetite for Peruvian risk, the sovereign was able to issue on Monday, November 23, less than a week after the appointment of its new finance minister, about USD 4 bn of global bonds that were 3.8x over-subscribed (see our November 24 [Latam Daily](#))—Peru's largest-ever issue. Confidence in Peru's economic and financial institutions appeared to trump concerns about its political noise.

### CONTACTS

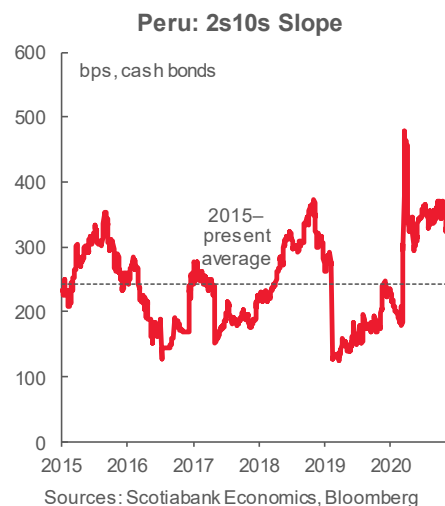
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Chart 1



## Peru's outlier status might be attributable to a few basic things.

- **First, Peru came into 2020 with a relatively low gross public-debt ratio at 27.1% of GDP**, just below Chile's 27.9 (chart 2). Even after massive public spending in both countries in response to COVID-19—worth 12% of GDP in Peru and 11.5% of GDP in Chile, exclusive of pension withdrawals and deposit relief measures—the two countries are set to end 2020 with the lowest public-debt ratios amongst the Latam-6, though Peru's debt ratio would have increased by 12.4 ppts versus only a 4.9 ppts rise in Chile.
- **Second, Lima's big COVID-19 fiscal support package** is one of the reasons we're expecting Peru's -11.5% y/y economic contraction in 2020 to be followed by the region's strongest rebound in real GDP growth in 2021 at 8.7% y/y (chart 3).

## CHILE'S CURVE COULD FOLLOW PERU'S LEAD

This focus on Peru begs a question: **why haven't Chile's yields fared similarly?** Instead, Chile's current 2s10s spread at 183 bps is down only -41 bps from its steepest level of 224 bps at the outset of the crisis—leaving it 62% wider than its five-year average (Key Markets chart 14, p. 8 and chart 4 to the right). In recent weeks, Chile's curve has steepened while Peru's has flattened (charts 1 and 4, again). Both Peru and Chile have seen the approval of two rounds of withdrawals from their respective pension systems and the resulting liquidation of holdings to finance these draw downs. Even with a possible third round of withdrawals being mooted in Santiago, these liquidity measures are a source of more similarities than differences in the two economies' recent experiences.

Owing to the outbreak of social unrest in October 2019, Chile is, however, exceptional in its own right: with Brazil, it was one of only two of the Latam-5 inflation-targeters that came into the lockdowns with its sovereign curve already steeper than its five-year average (chart 4, again). The pandemic-induced flight of capital then drove the curve even steeper as longer-end yields widened, but Chile started the pandemic in a different place than Peru did.

## Still, there's reason to think Chile's curve could flatten from here:

- **Chile's five-year CDS spread remains the narrowest in the region**, underscoring ongoing faith in Chilean markets and institutions (Key Markets chart 18, p. 8);
- **Even after Santiago's massive fiscal response to the pandemic, Chile is set to close 2020 with the lowest gross public debt ratio in the region (chart 2, again).** In fact, end-2020 gross government debt-GDP ratios projected for Chile and Peru compare favourably with those expected for the G7 group of economies, especially against countries in the Eurozone that, like Chile and Peru, don't have control over the currency in which they issue much of their foreign debt (chart 5).
- **After what is projected to be the second-smallest real GDP contraction in 2020 amongst the Latam-5 at -6.0% y/y, Chile is forecast to see the region's second strongest rebound in 2021 with a gain of 6.0% y/y, second only to Peru's 8.7% y/y (chart 3, again).** But because Chile's downturn in 2020 was so much shallower than Peru's, level effects imply that Chile is set to be the first of the Latam-5 countries to get back to its pre-pandemic 2019 levels of annual economic activity, possibly by Q3-2021—some five quarters ahead of our projection for Peru regaining its 2019 real GDP in Q4-2022;

Chart 2

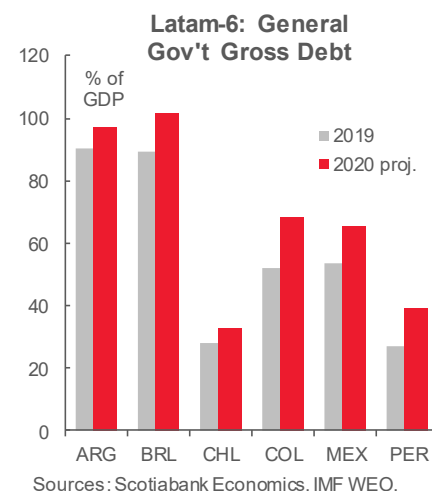


Chart 3

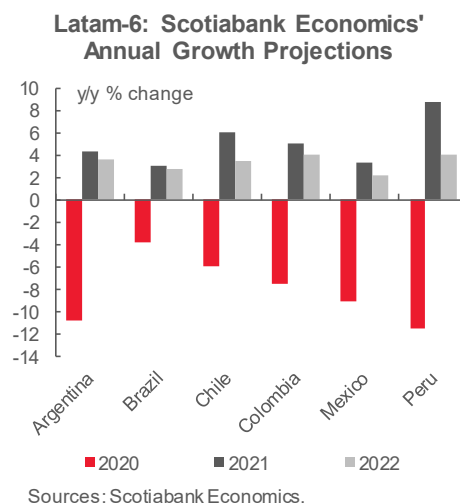
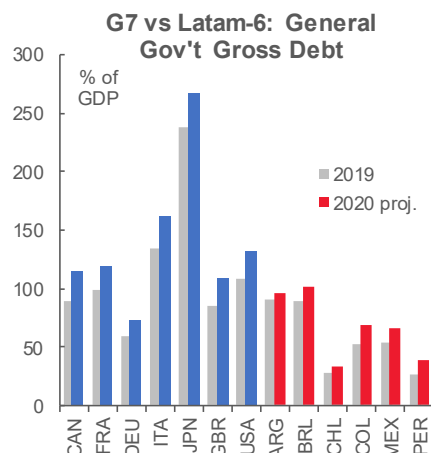


Chart 4

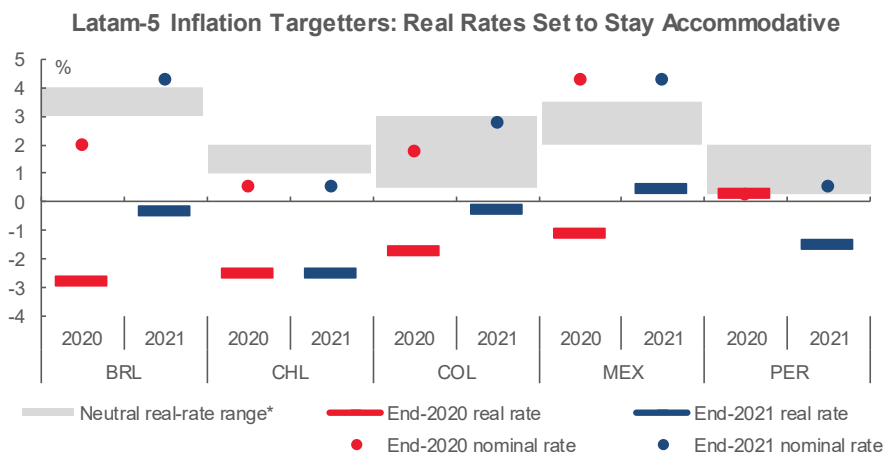


Chart 5



Sources: Scotiabank Economics, IMF WEO.

Chart 6



\* October 2020 IMF Estimates.

Sources: Scotiabank Economics, IMF Regional Economic Outlook.

- **Confidence in Chile's projected rebound is enhanced by the region's lowest real rates for the combination of 2020 and 2021 (chart 6).** With a 3% y/y inflation target in Chile versus a 2% y/y target in Peru, Chile has a little more breathing room to let its economy run hotter to ensure the recovery is felt in all of its corners; and
- **While Chile faces a year of constitutional wrangling in 2021, our team in Santiago remains constructive on what to expect from the process:** the public bark may be worse than any bite that might result. As outlined in the Chile Country Update in our December 13 [Latam Weekly](#), we expect the composition of the coming Constitutional Assembly to be similar to the make-up of Congress. This, combined with the requirement that any new constitutional articles proposed by the Assembly would have to be approved by a two-thirds majority, mitigates against extreme positions being taken. Public discussions on the constitution will certainly raise a wide range of issues during 2021, but we don't see these discussions, despite the volatility that may accompany them, as likely to result in substantive changes, even with elections due in November 2021.

All of this leaves room for Chile's yields to follow, at least partially, Peru's lead.

## LATAM HAS BETTER PER CAPITA NEW COVID-19 NUMBERS THAN US, UK, & CANADA

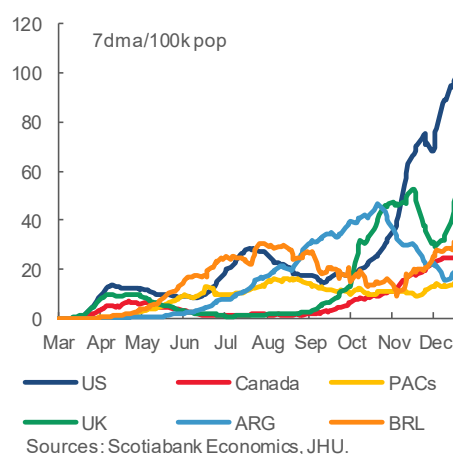
After a year of taking a great deal of heat as a COVID-19 hot spot, the leading edge of Latam's new case numbers are generally trending below those of the US, UK, and Canada on a per capita basis (chart 7). Only Brazil's recent rise has taken its new per capita COVID-19 numbers higher than those of Canada, but they still lie well below those of the US and UK, albeit with different testing programs.

Looking at some additional dimensions of Latam's current pandemic numbers against the rest of the world's present experience, we would note that:

- Latam's new COVID-19 incidence curves look decidedly flat these days compared with those for the US and Europe (Key COVID-19 charts 1 and 2, p. 10);
- Within Latam, Argentina's mid-year surge in new cases means that it now has, in per capita terms, the highest cumulative number of cases, having moved above Brazil, Chile, and Peru, which all had tougher times in the early onset of the pandemic (Key COVID-19 chart 4, p. 10); and
- Similarly, Argentina is now second only to Peru within Latam in terms of COVID-19-related deaths per capita (Key COVID-19 chart 6, p. 10).

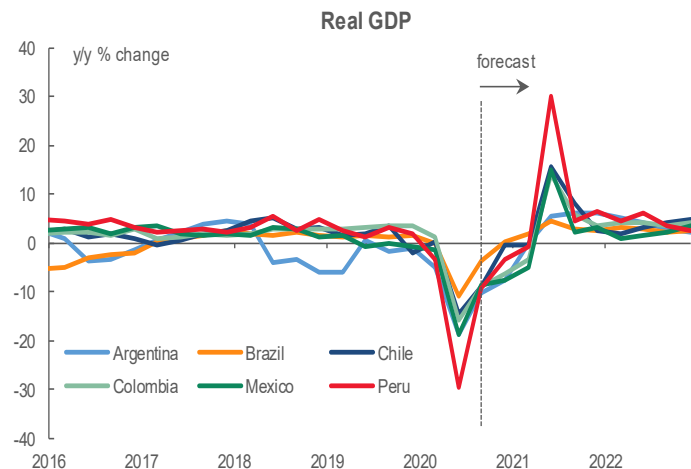
Chart 7

### New Daily COVID-19 Cases, 2020



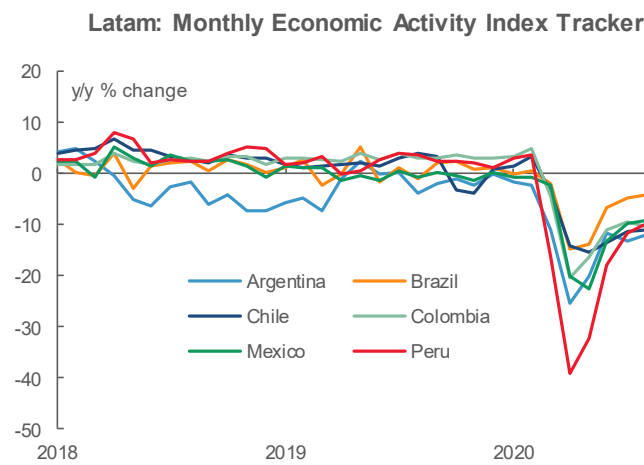
## Key Economic Charts

Chart 1



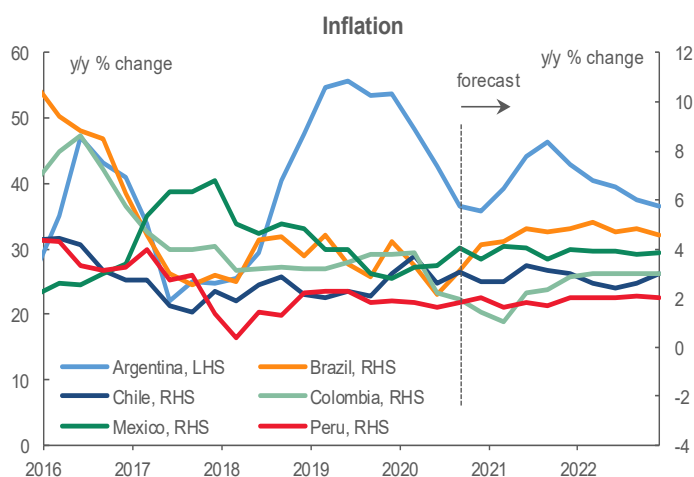
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



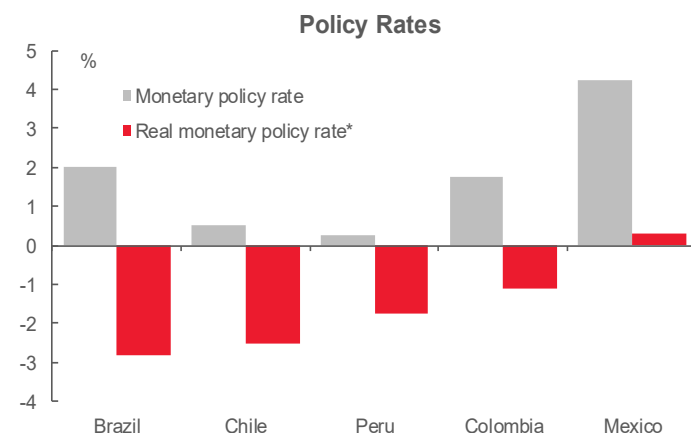
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



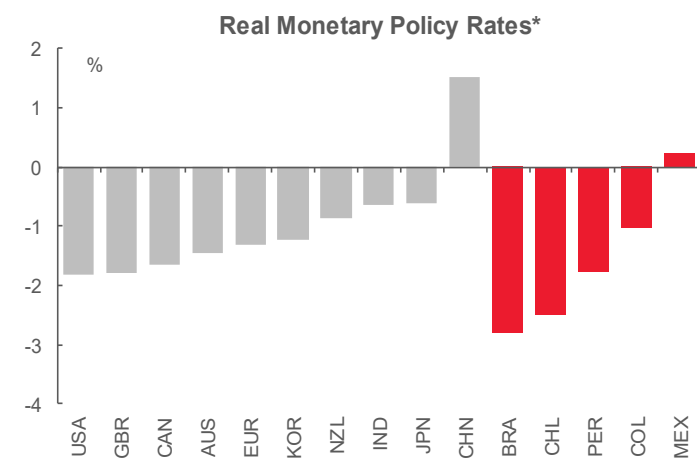
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



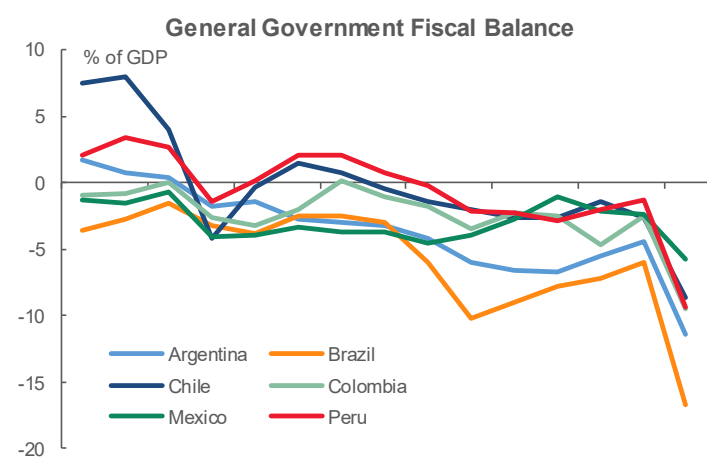
\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2021, % y/y. Argentina: MPR = 38.0%; Real MPR = -4.9%.  
Sources: Scotiabank Economics, Haver Analytics.

Chart 5



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2021, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 6



Sources: Scotiabank Economics, IMF Fiscal Monitor Oct. 2020.

## Key Economic Charts

Chart 7

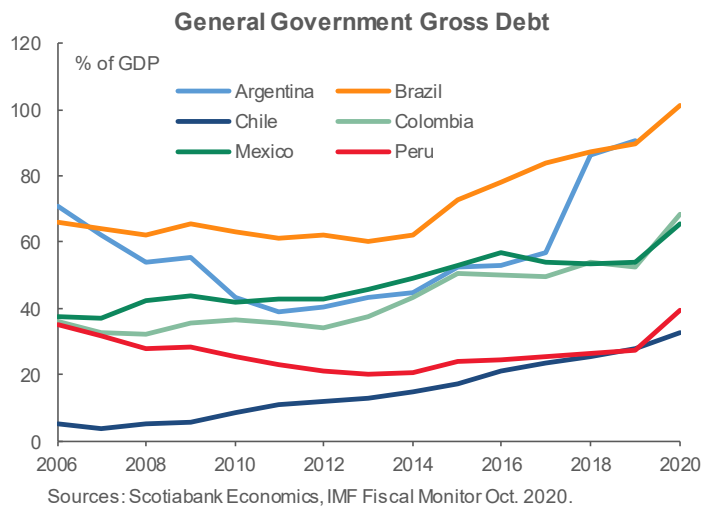


Chart 8

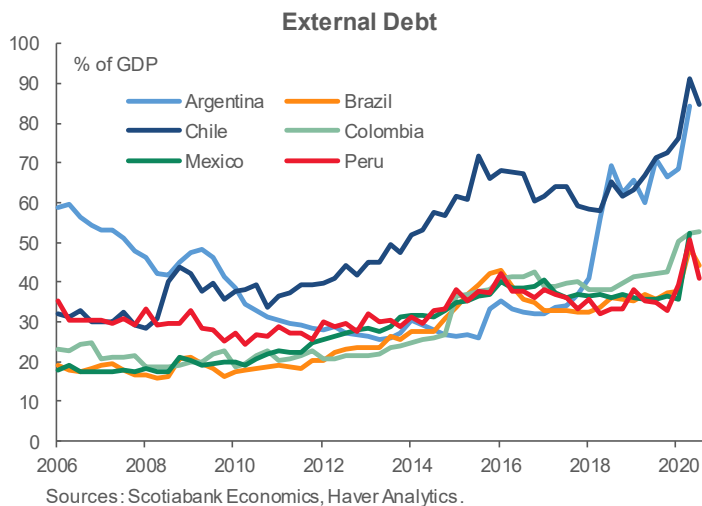
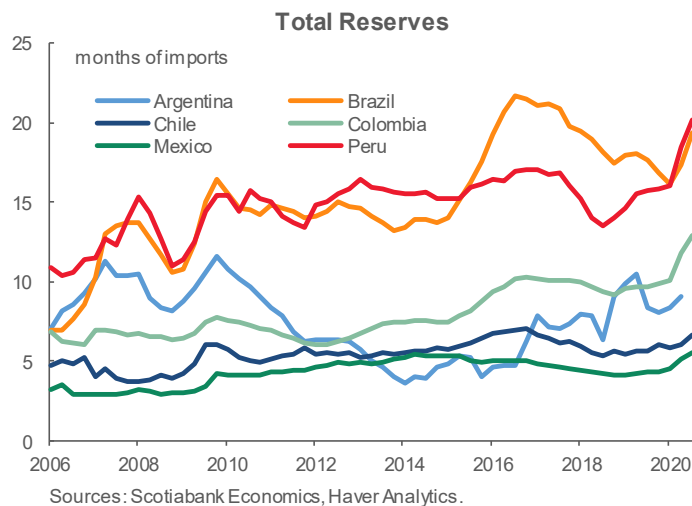


Chart 9

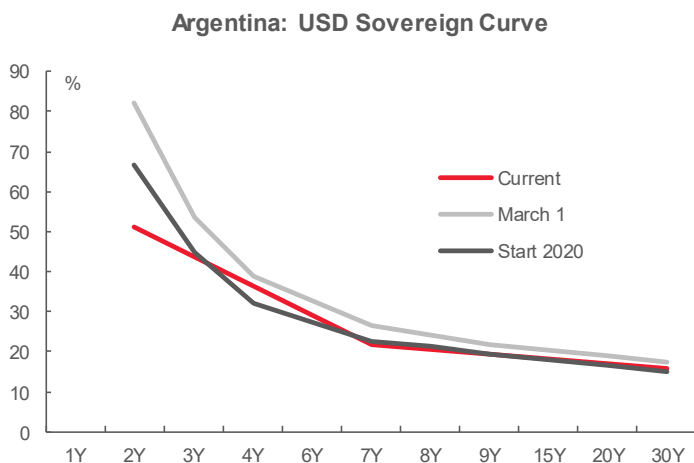


Chart 10



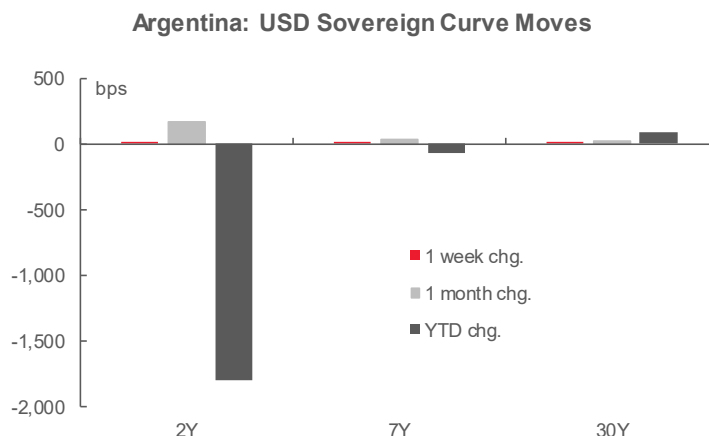
## Key Market Charts

Chart 1



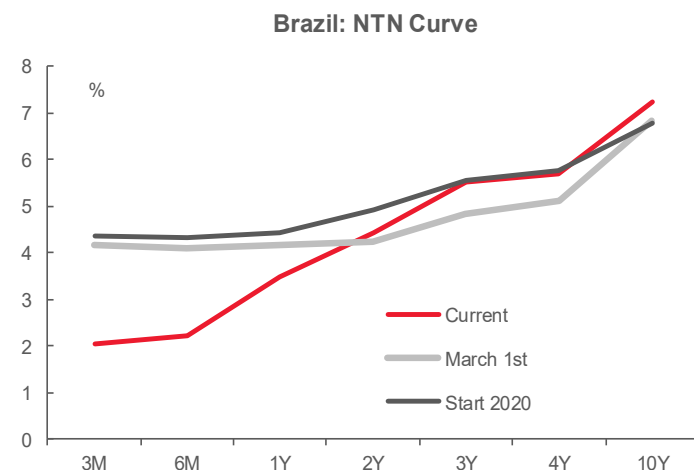
Sources: Scotiabank Economics, Bloomberg.

Chart 2



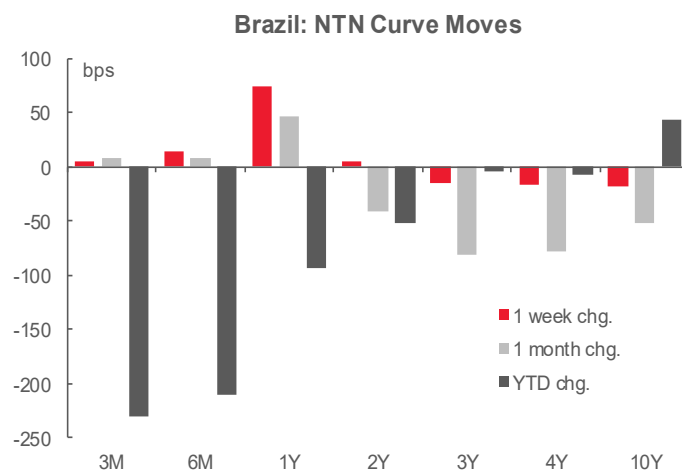
Sources: Scotiabank Economics, Bloomberg.

Chart 3



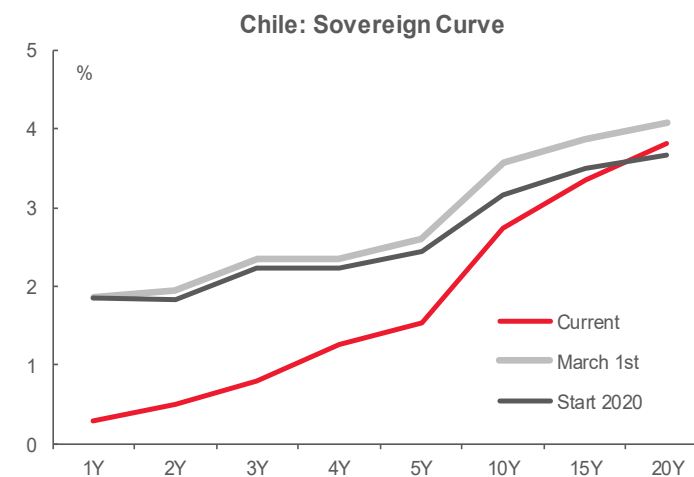
Sources: Scotiabank Economics, Bloomberg.

Chart 4



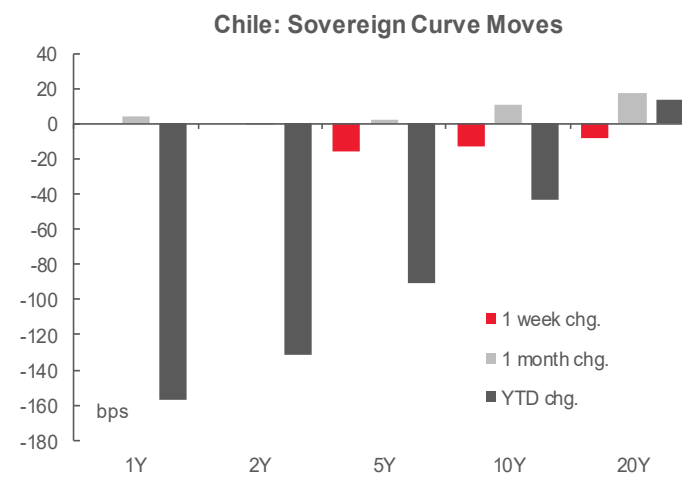
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

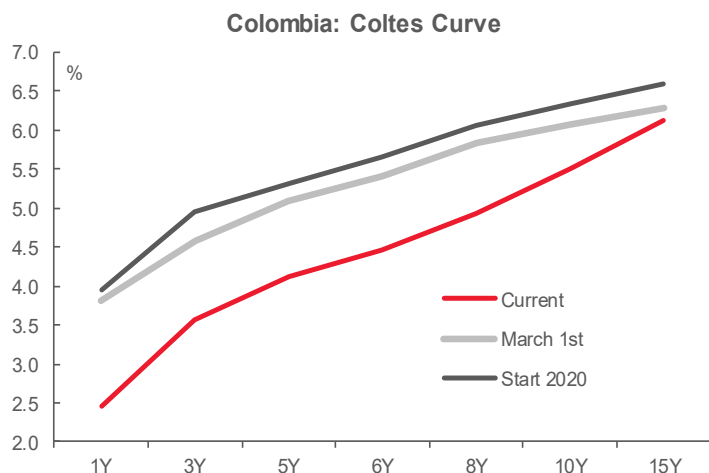
Chart 6



Sources: Scotiabank Economics, Bloomberg.

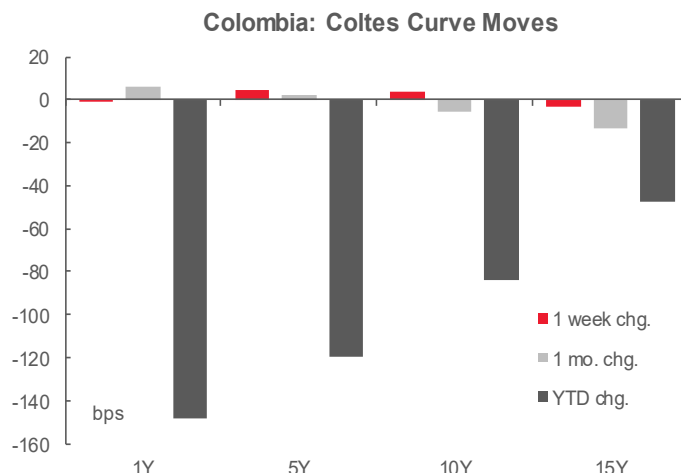
## Key Market Charts

Chart 7



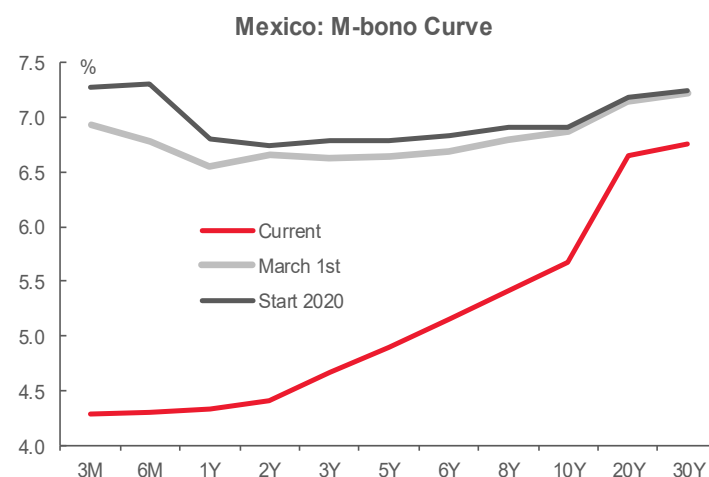
Sources: Scotiabank Economics, Bloomberg.

Chart 8



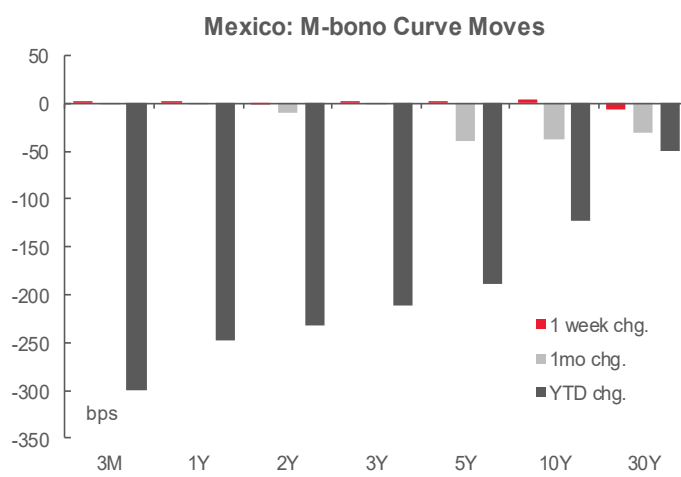
Sources: Scotiabank Economics, Bloomberg.

Chart 9



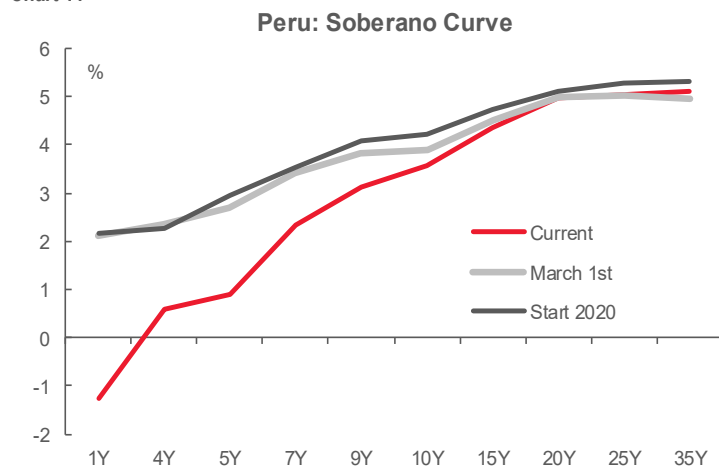
Sources: Scotiabank Economics, Bloomberg.

Chart 10



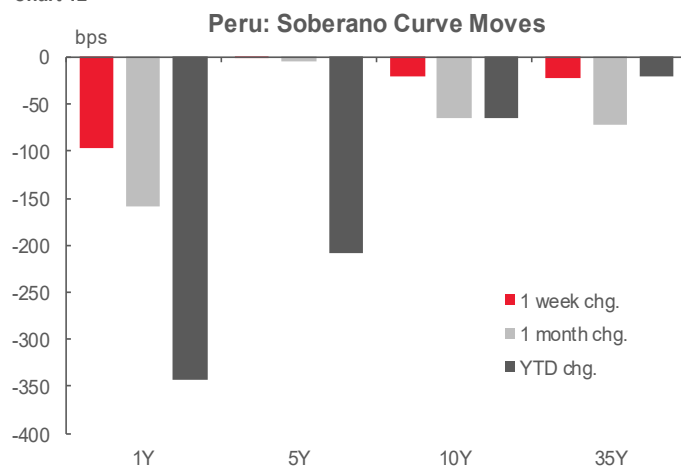
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.



## Key Market Charts

Chart 13

**Brazil 2s10s Slope**



Chart 14

**Chile 2s10s Slope**

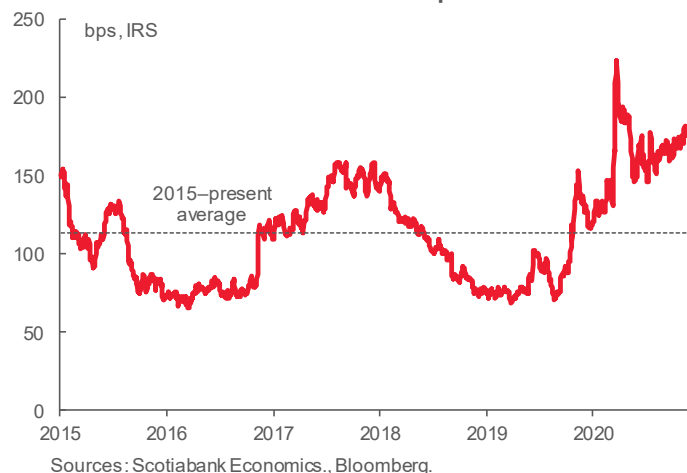


Chart 15

**Colombia 2s10s Slope**



Chart 16

**Mexican Swaps 2s10s Slope**



Chart 17

**Peru 2s10s Slope**

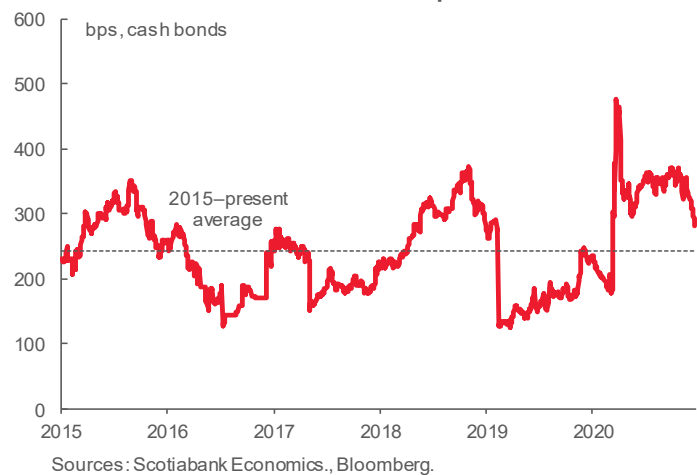
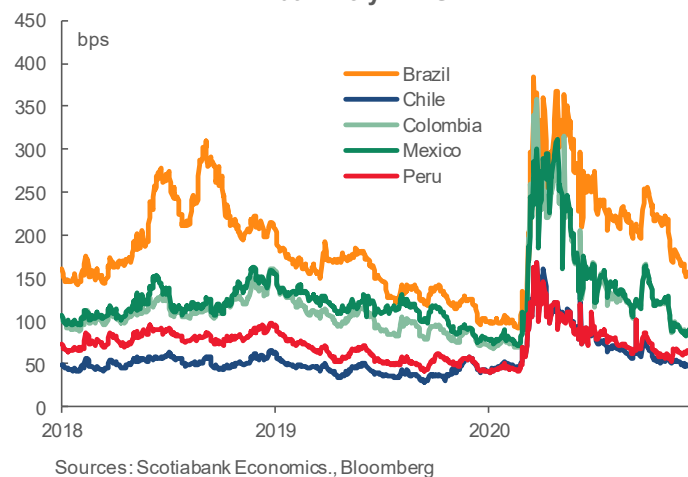


Chart 18

**LatAm 5-yr CDS**





## Key Market Charts

Chart 19

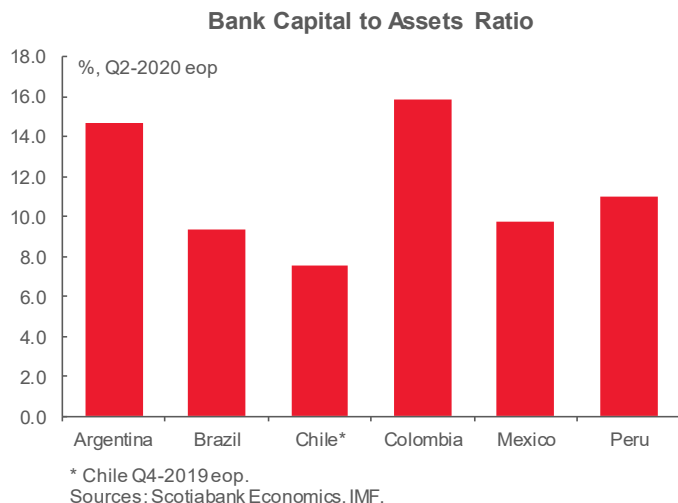


Chart 20

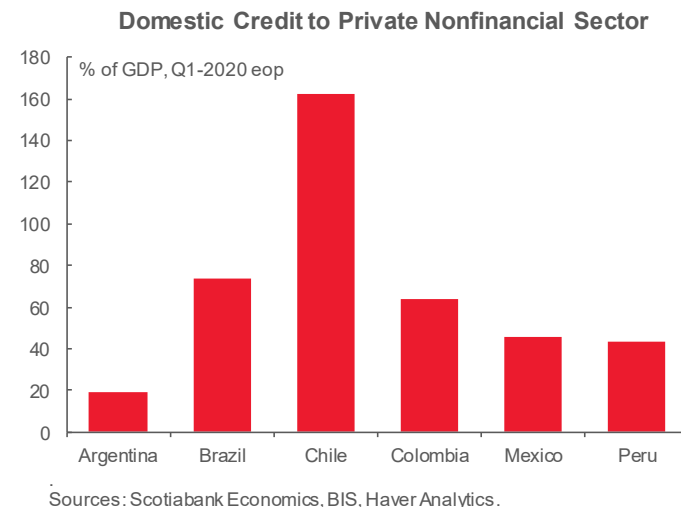


Chart 21

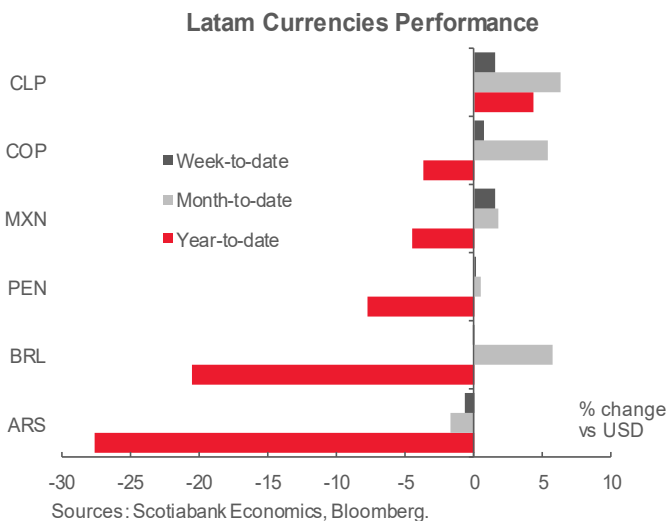


Chart 22

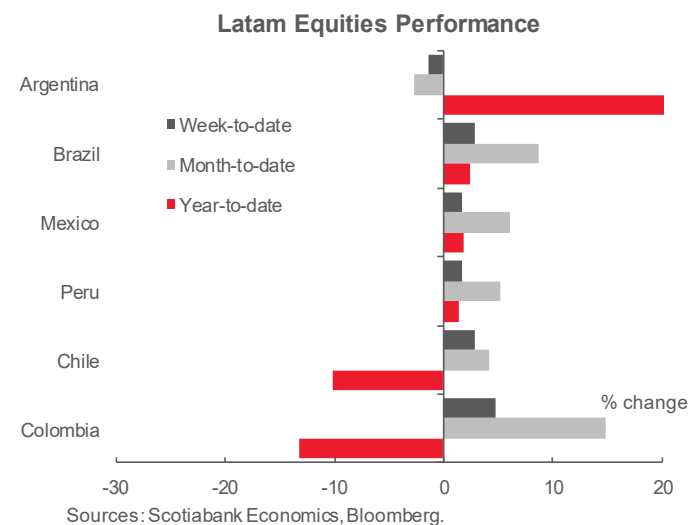


Chart 23

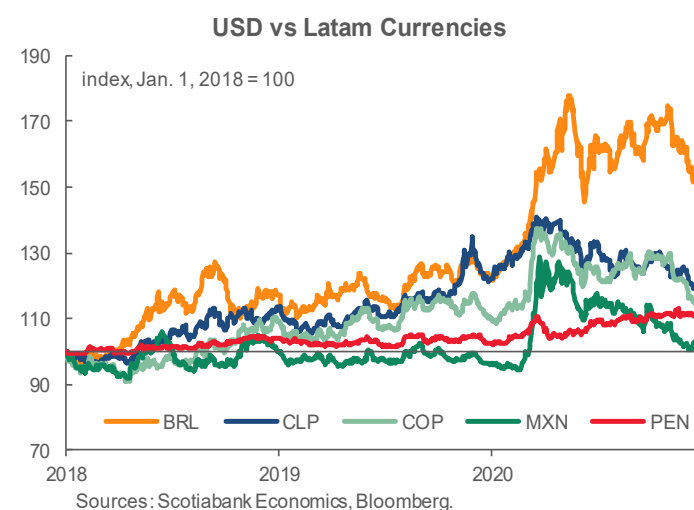
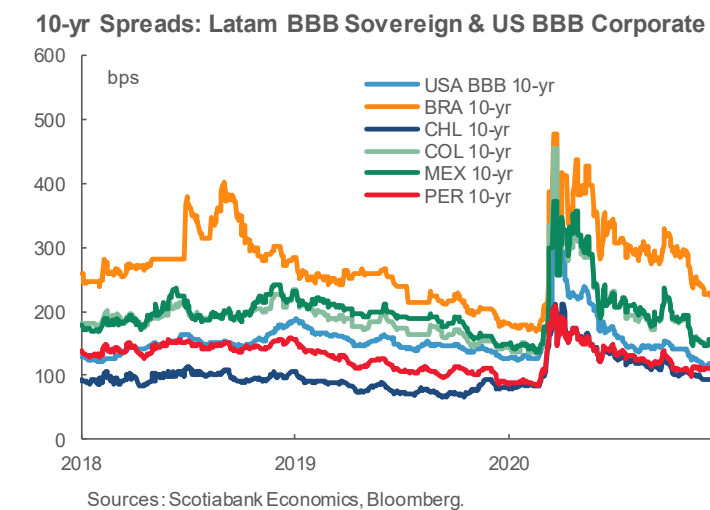


Chart 24



## Key COVID-19 Charts

Chart 1

**Global COVID-19 Cases, Johns Hopkins Data**

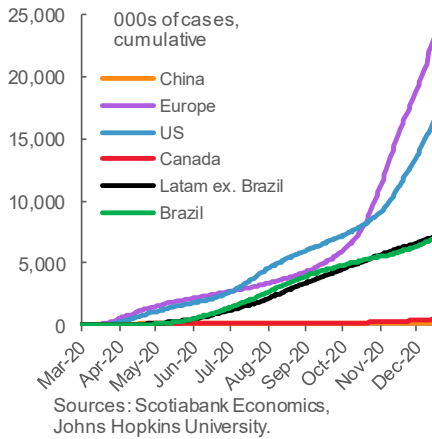


Chart 2

**Cumulative COVID-19 Cases: Brazil and Latam in Tandem**

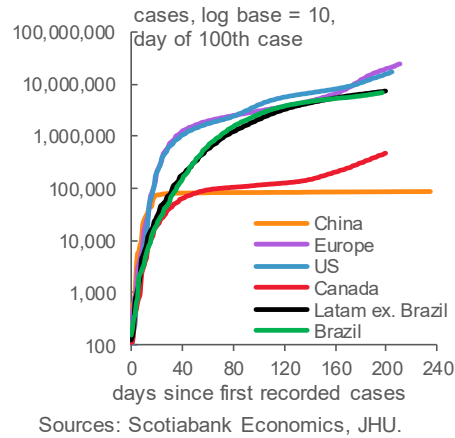


Chart 3

**Cumulative COVID-19 Cases: Latam's Divergent Curves**

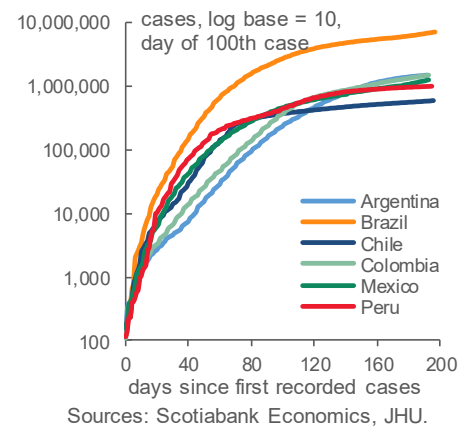


Chart 4

**Latam Population-Adjusted COVID-19 Cases, Johns Hopkins Data**

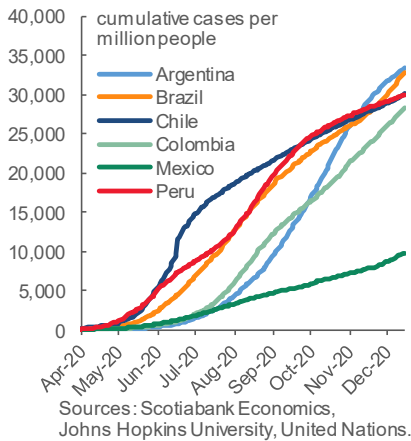


Chart 5

**Latam Cumulative COVID-19 Deaths, Johns Hopkins Data**

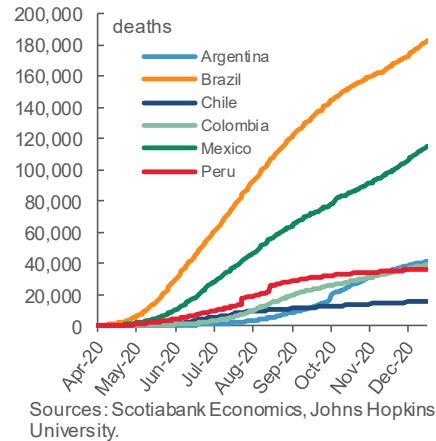


Chart 6

**Latam Cumulative COVID-19 Deaths, Johns Hopkins Data**

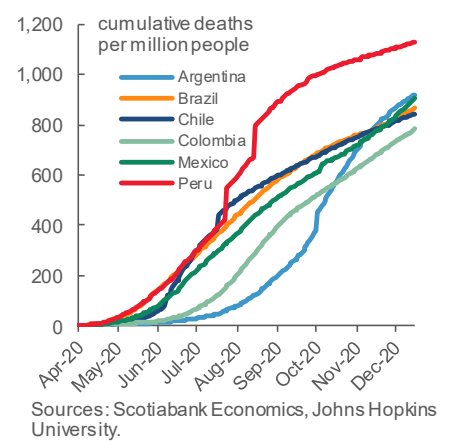
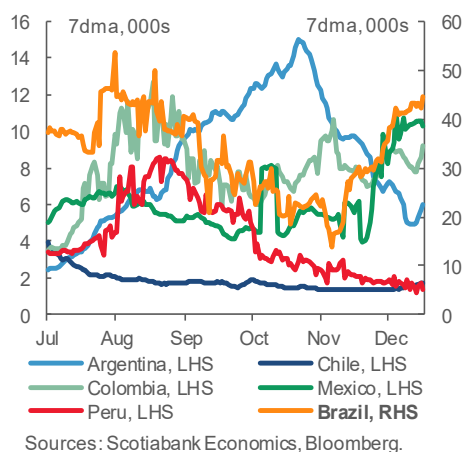


Chart 7

**Latam-6: Trend in New Daily COVID-19 Cases**



## Scotiabank Economics Latam Coverage



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