

Latam Charts: Activity Rebounding and so is Inflation, Putting Central Bankers on Watch

- Data continues to signal economic recovery, although uncertainties remain.
- Inflation has increased along with growth; central bankers watching for signs of sustained inflationary pressures.

KEY ECONOMIC CHARTS

The latest data continue to point to a recovery of real GDP across the Latam region (chart 1). Peru is expected to stage an especially robust recovery this year following a severe contraction in early 2020. The Economic Activity Index Tracker (chart 2) is likewise affected by pandemic-related base effects, as current levels of activity are compared with those under stringent lockdowns early in the pandemic. These effects will diminish over time.

As economies have bounced back from the economic effects of widespread lockdowns, inflation has risen significantly (chart 3). In part, this reflects supply-side bottlenecks and shortages of critical components (microprocessors). Such effects are thought to be transitory, however, and inflation in Pacific Alliance countries is widely expected to gradually return to central banks' target ranges. June inflation data for Chile support this interpretation. Our team in Santiago note that [inflation was essentially zero last month once fuel price increases are excluded](#).

While recent inflationary impulses are not widely viewed as permanent shocks, they could pose challenges to monetary policy should they feed through into inflationary expectations. Central banks are therefore monitoring developments closely, particularly in the wake of a more hawkish dot plot of the interest rate expectations of US Federal Reserve governors. In Mexico, the central bank raised rates in a surprise move on July 7th as analyzed by our team in Mexico City. With that move pushing the central bank policy rate higher (chart 4), Mexico now carries the highest policy rate in real terms (adjusted for inflation) across the Pacific Alliance and Brazil. In fact, real rates in most other countries remain negative, indicative of the strong support monetary policy has provided to the recovery around the globe (chart 5).

Fiscal policy has also provided strong counter-cyclical support to the economy in the pandemic. However beneficial such support has been, it has led to a deterioration in general government fiscal balances across the region (chart 6). Gross debt as a percentage share of GDP has increased as a result (chart 7). For most countries in the region, these increases appear to be limited (and would be moderated by strong recoveries that grow the denominator). However, increases in debt-to-GDP ratios in Argentina and Brazil are more pronounced, while concerns about longer term issues of debt sustainability contributed to [the recent downgrade of Colombia's sovereign debt](#).

Debt sustainability concerns can also stem from the external side. External debt as a share of GDP for most countries of the Pacific Alliance is well contained (chart 8). Chile's external debt ratio, which spiked higher in early 2020, has since trended

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down. Argentina's ratio is also elevated; while broadly comparable to that of Chile, it may warrant closer monitoring given institutional weaknesses and past financial history in Argentina. In Colombia, an increase of external debt may have also been a factor in the recent downgrade.

Sharp deteriorations in current account balances and total reserves in months of imports are other indicators of possible sustainability issues. In this respect, recent declines in current account positions (chart 9), which generally improved over 2020, likely reflect the quickened pace of economic activity that draws in higher imports. Certainly, reserve coverage ratios (chart 10) are not signalling impending difficulties.

KEY MARKET CHARTS

Apart from foreign exchange markets, regional financial markets have been largely quiet over the past couple of weeks. Currencies across the Pacific Alliance, Argentina and Brazil have depreciated against the US dollar since the start of 2021; that trend continued over the last week (chart 3). In Mexico, downward pressure on the currency and possible exchange rate pass-through effects on inflation likely influenced the central bank rate decision to hike rates.

Equity markets have generally performed well since the start of year (chart 4). More recent losses in Chile may reflect the reimposition of COVID-19 lockdowns in the Santiago metropolitan region and the potential effects they may have on economic activity. Peru and Colombia stand out as exceptions; uncertainties related to the presidential elections in Peru and nationwide protests that created bottlenecks and disrupted production in Colombia likely had negative effects on market sentiment in those countries.

These uncertainties are also reflected in the 10-year credit default swap spreads (chart 6). Spreads on Colombian and Peruvian sovereigns have trended up through early 2021, while other sovereign spreads remained relatively flat.

YIELD CURVE CHARTS

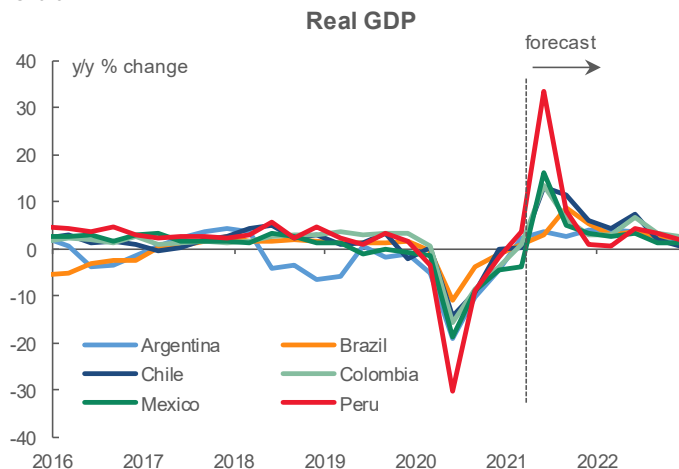
Sovereign bond markets were largely quiet over the past week, with sovereign yield curves (charts 1–12) for the most part remaining stable. Most curves have shifted up across the maturity spectrum since March 1, 2021. Mexico stands out in both respects: yields increased significantly over medium-term maturities over the past week such that its yield curve remains firmly anchored where it started the year. Argentina's yield curve, meanwhile, remains deeply inverted, reflecting a progressive increase in short rates over the first half of 2021. The Colombian sovereign curve was largely unaffected by last week's downgrade, consistent with the view that a downgrade had already been priced in.

KEY COVID-19 CHARTS

Despite encouraging progress in restoring economic activity, the outlook remains clouded by COVID-19. Charts 1-12 provide key monitoring of cases, deaths and vaccine rollout. A vigorous vaccination campaign is the key to dispelling uncertainties; Chile continues to lead the way among Latam countries (chart 10) and around the globe (chart 11). Meanwhile, the situation in Colombia and Mexico, both of which have high test positivity rates (chart 12) warrants careful monitoring.

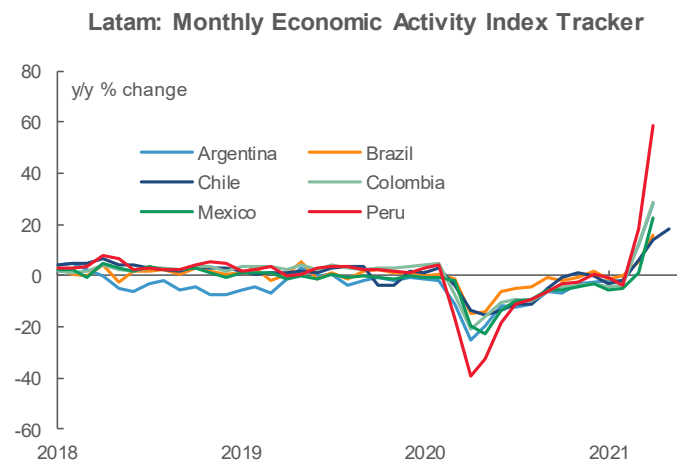
Key Economic Charts

Chart 1



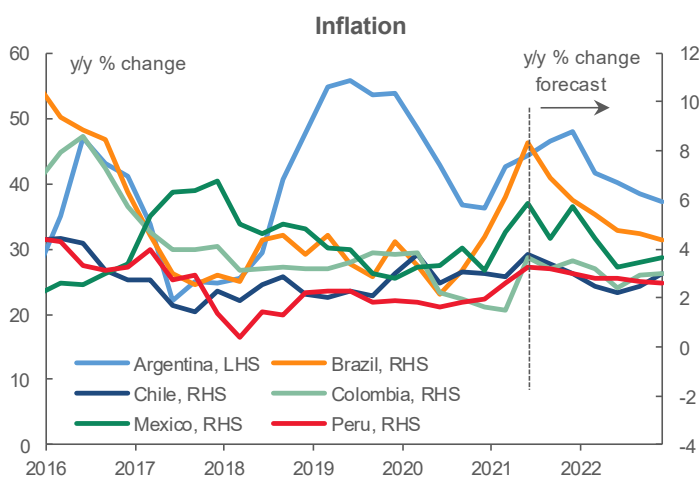
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



Sources: Scotiabank Economics, Haver Analytics.

Chart 3



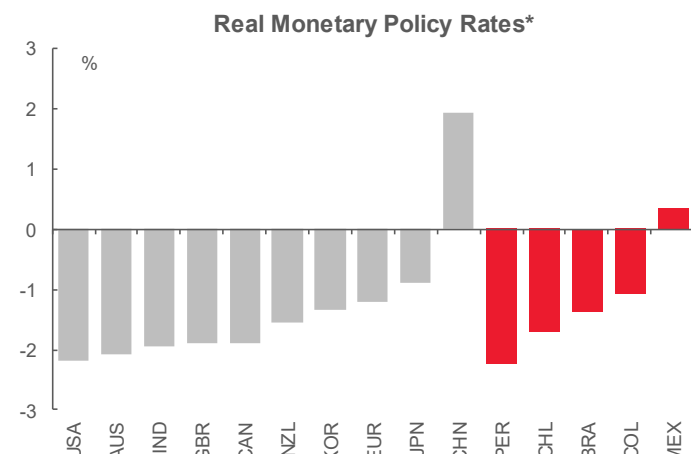
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



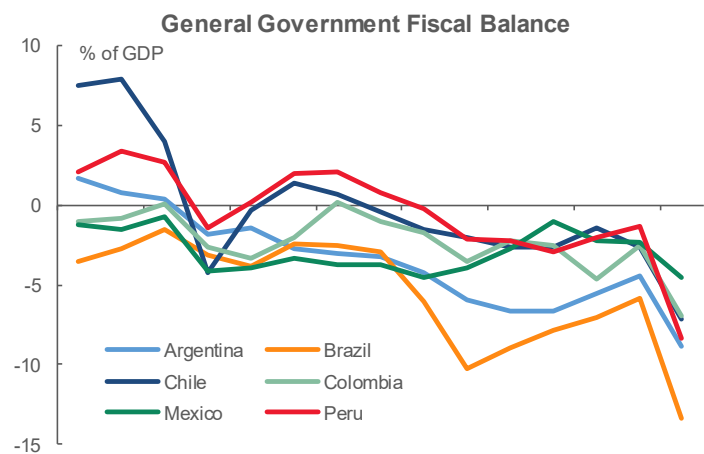
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2022, % y/y. Argentina: MPR = 38.0%; Real MPR = -0.5%. Sources: Scotiabank Economics, Haver Analytics.

Chart 5



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2022, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 6



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

Key Economic Charts

Chart 7

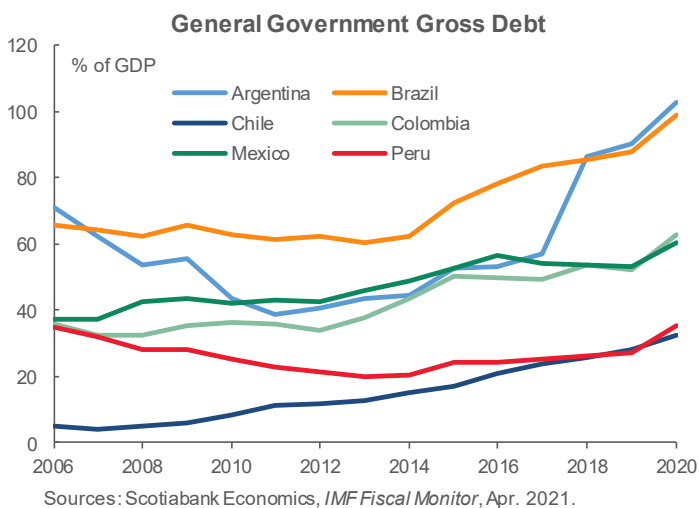


Chart 8



Chart 9

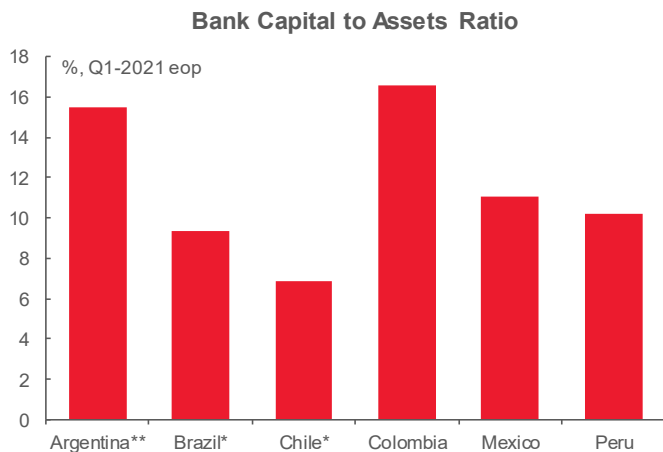


Chart 10



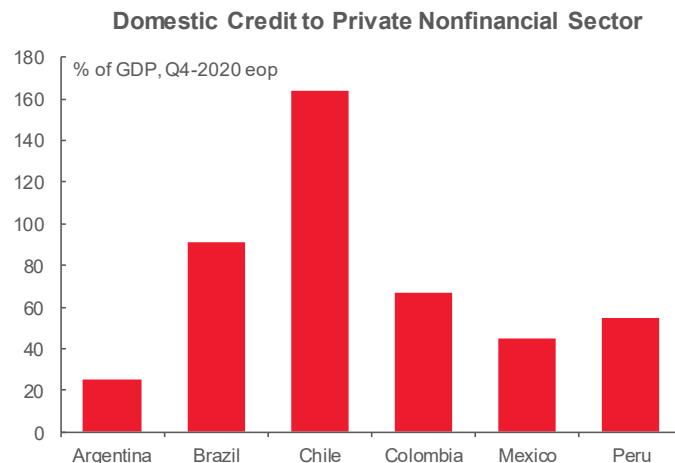
Key Market Charts

Chart 1



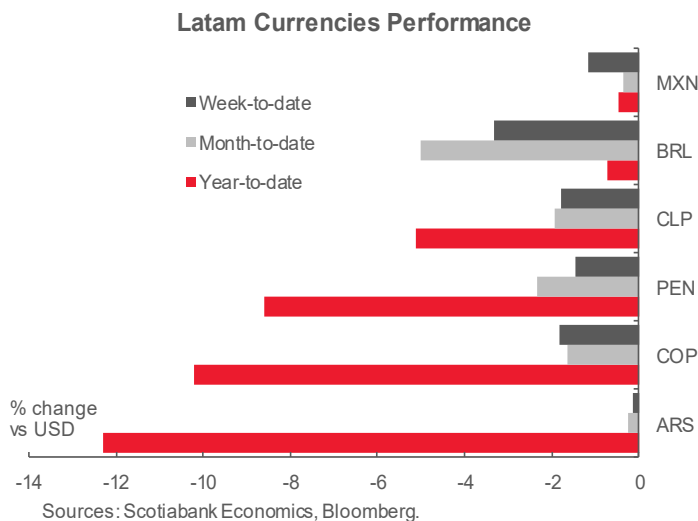
* Data to Q3-2020; ** Data to Q4-2020.
Sources: Scotiabank Economics, IMF.

Chart 2



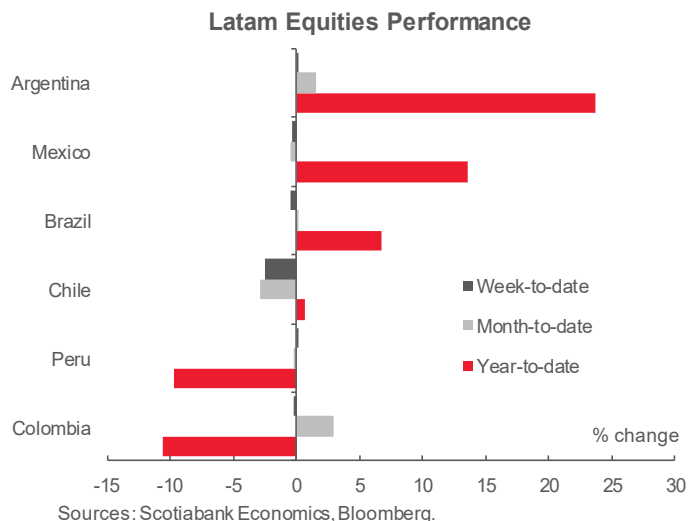
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3



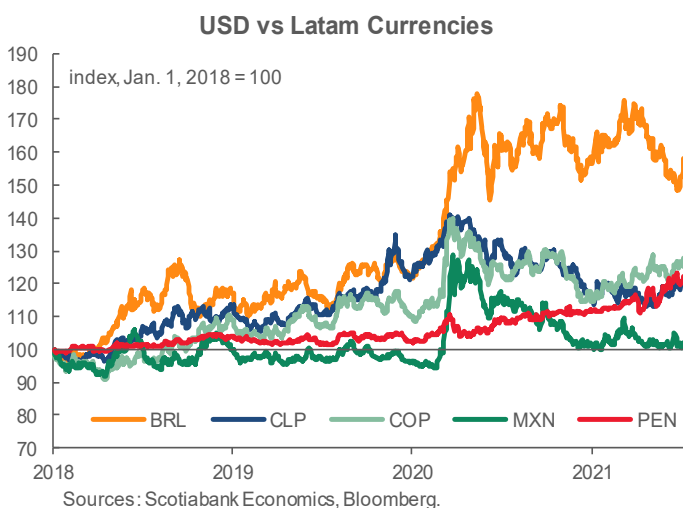
Sources: Scotiabank Economics, Bloomberg.

Chart 4



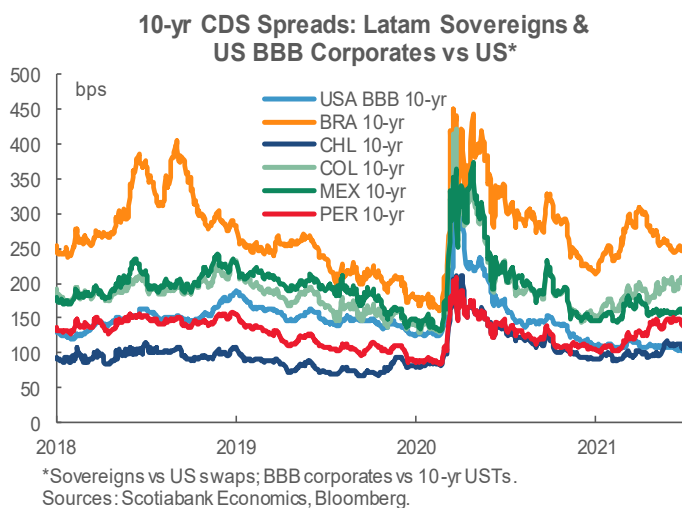
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

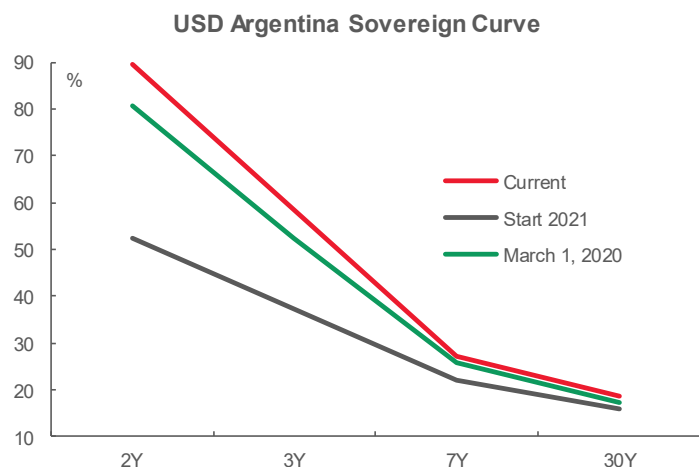
Chart 6



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

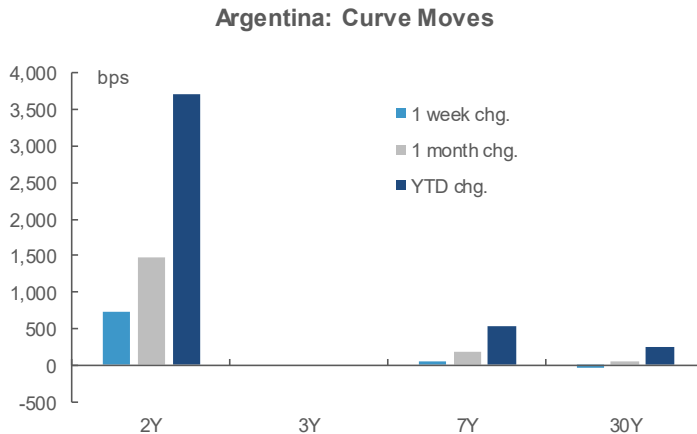
Yield Curves

Chart 1



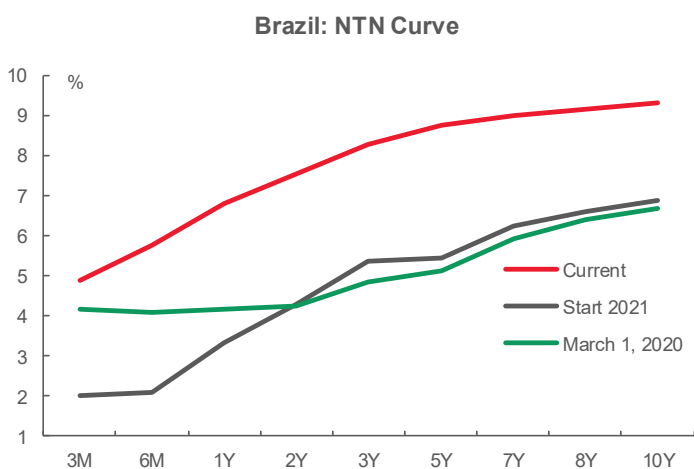
Sources: Scotiabank Economics, Bloomberg.

Chart 2



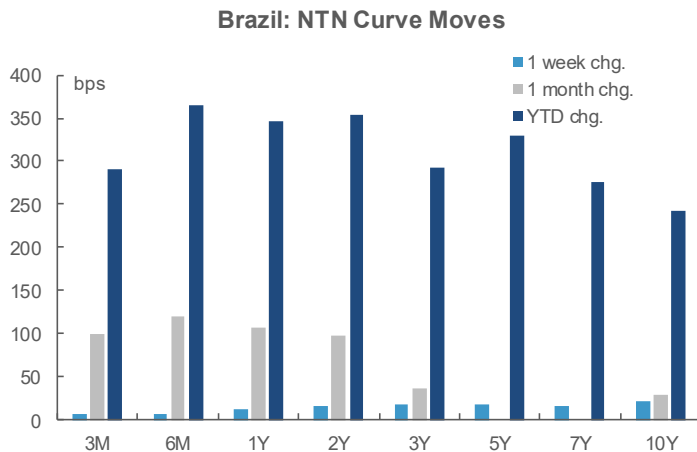
Sources: Scotiabank Economics, Bloomberg.

Chart 3



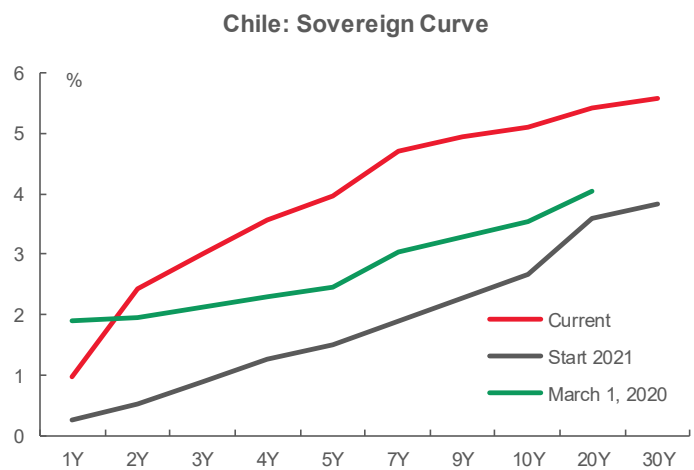
Sources: Scotiabank Economics, Bloomberg.

Chart 4



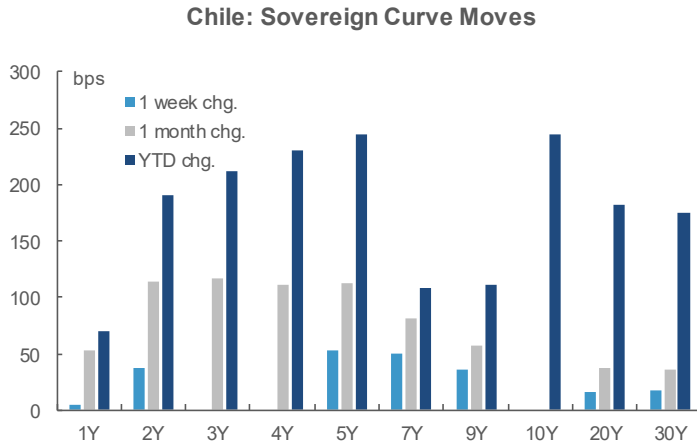
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Chart 6



Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 7

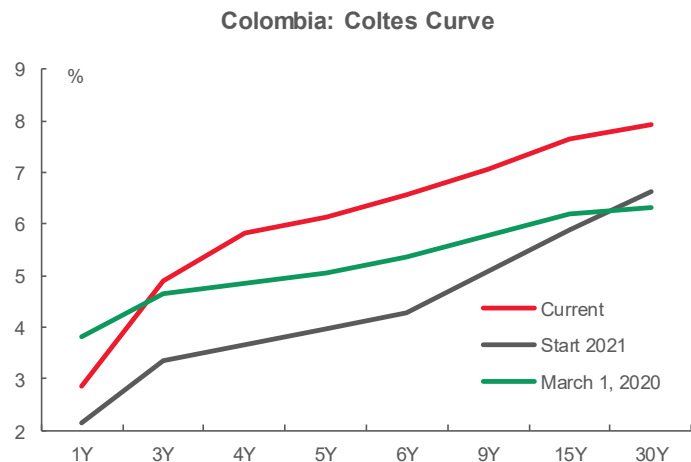


Chart 8

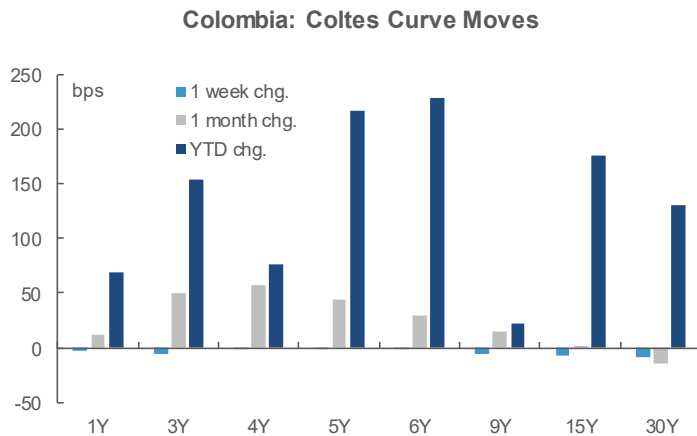


Chart 9

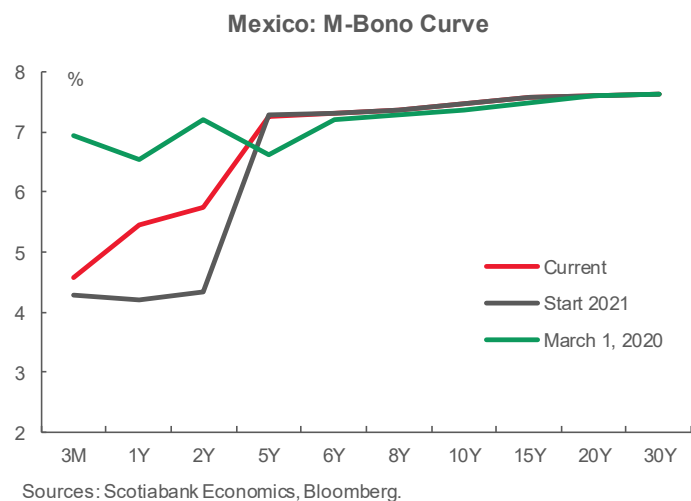


Chart 10

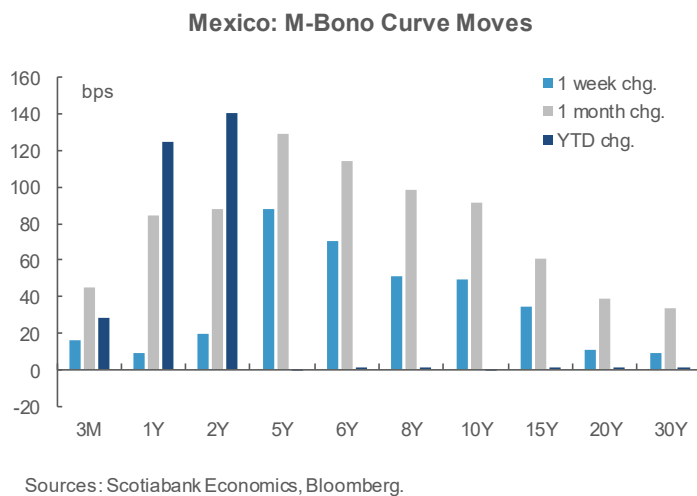


Chart 11

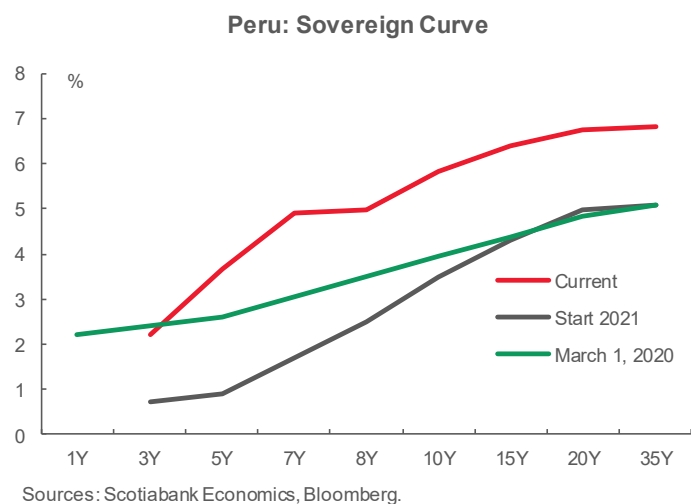


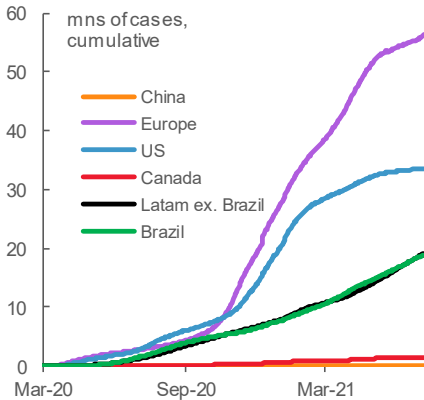
Chart 12



Key COVID-19 Charts

Chart 1

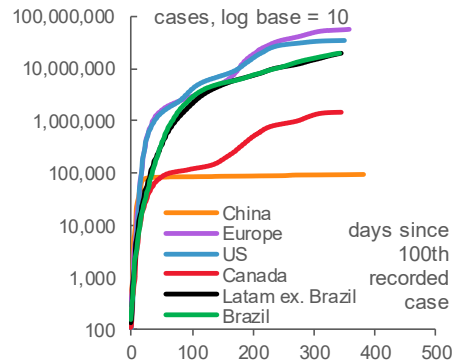
Global COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2

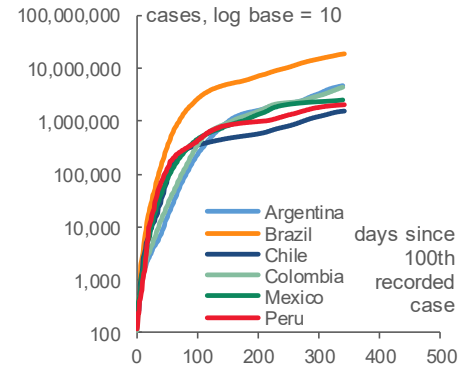
Global Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

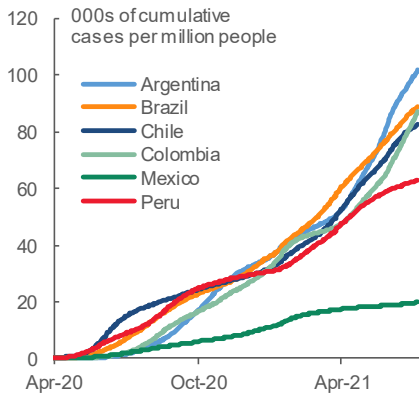
Latam Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

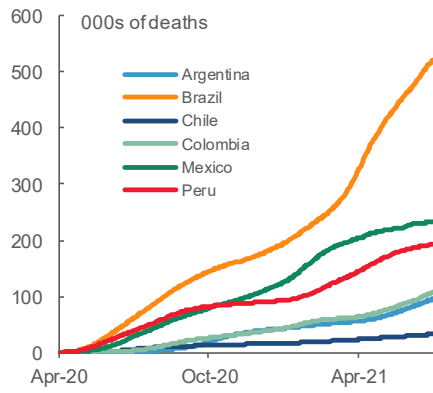
Latam Population-Adjusted COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5

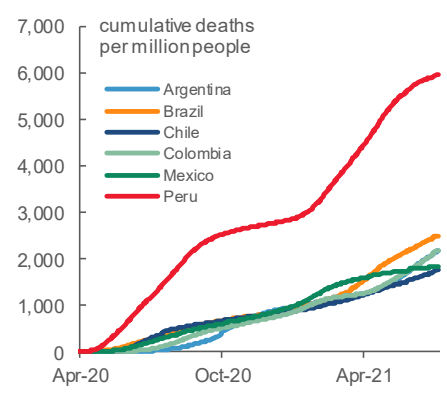
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

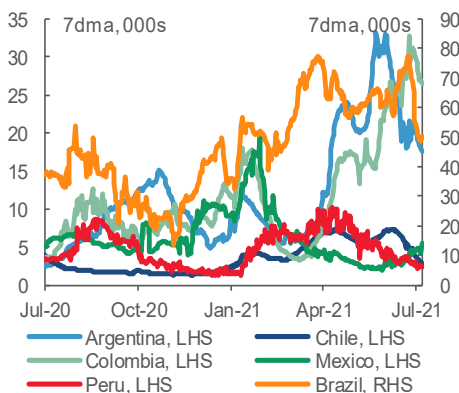
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

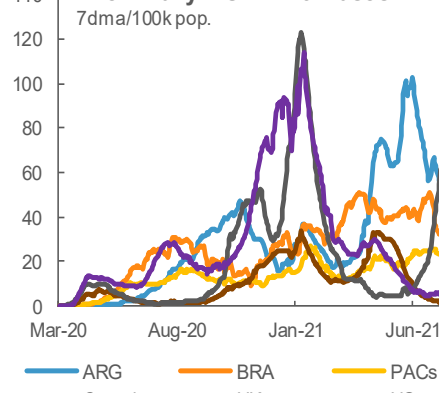
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

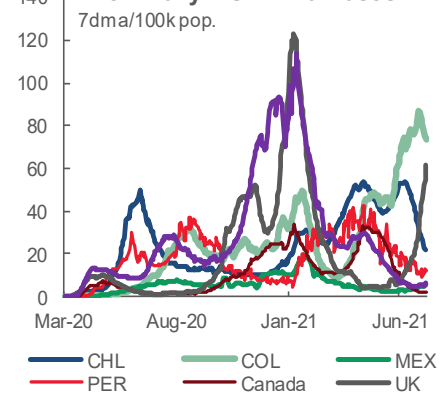
Latam vs World: New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Chart 9

Pacific Alliance vs World: New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

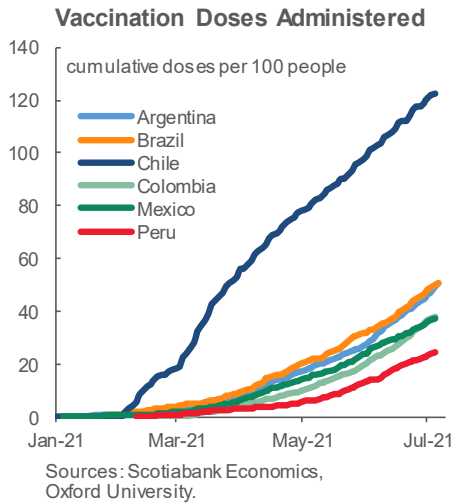


Chart 11

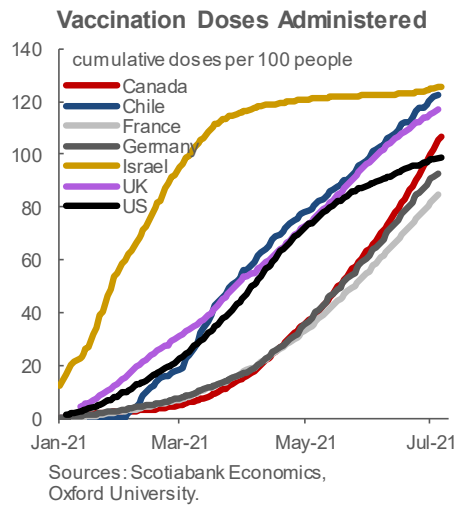
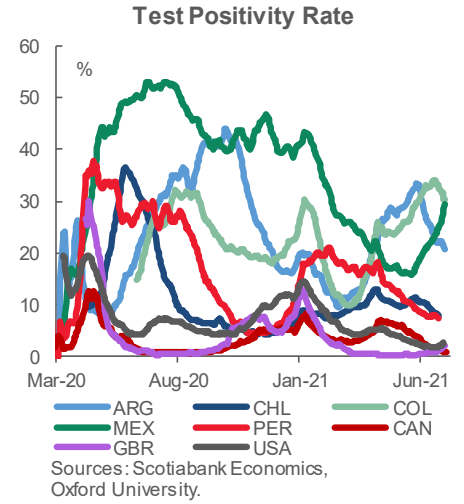


Chart 12



Market Events & Indicators for July 9–16

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07/14	15:00	Capacity Utilization Rate (%)	May	--	--	63.5	
07/15	15:00	Greater Buenos Aires CPI (y/y)	Jun	--	--	46.8	
07/15	15:00	Greater Buenos Aires CPI (m/m)	Jun	--	--	3.4	
07/15	15:00	National CPI (m/m)	Jun	--	--	3.3	
07/15	15:00	National CPI (y/y)	Jun	--	--	48.8	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07/12	4:00	FIPE CPI - Weekly (m/m)	07-Jul	--	--	0.8	
07/12	14:00	Trade Balance Weekly (USD mn)	11-Jul	--	--	347.6	
07/13	8:00	IBGE Services Sector Volume (y/y)	May	--	21.0	19.8	
07/14	8:00	Economic Activity (y/y)	May	--	16.9	15.9	
07/14	8:00	Economic Activity (m/m)	May	--	1.4	0.4	
JUL 15-26		Formal Job Creation Total	Jun	--	--	280,666	
07/16	7:00	FGV CPI IPC-S (m/m)	15-Jul	--	--	0.8	
07/16	7:00	FGV Inflation IGP-10 (m/m)	Jul	--	--	2.3	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07/09	8:30	Central Bank Traders Survey					
07/12	8:30	Central Bank Economist Survey					
07/14	18:00	Overnight Rate (%) Target	14-Jul	0.50	--	0.50	We continue to expect a monetary policy rate of 1.00% towards Dec. 2021.

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07/15	11:00	Manufacturing Production (y/y)	May	33.2	--	63.7	In May, macro indicators will be impacted by the nationwide strike, although to different degrees. While retail sales would improve vs. April numbers since main
07/15	11:00	Retail Sales (y/y)	May	40.5	--	75.0	cities lifted restrictions on commerce, industrial production will be negatively
07/15	15:00	Industrial Production (y/y)	May	--	--	39.6	impacted; we expect a 5% contraction versus April. However, annual variation will
07/15		Central Bank Economist Survey					still be positive due to the low statistical base.

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07/09		Nominal Wages (y/y)	Jun	--	--	4.4	
07/12	7:00	Industrial Production SA (m/m)	May	--	--	-0.2	
07/12	7:00	Industrial Production NSA (y/y)	May	--	--	36.6	
07/12	7:00	Manufacturing Production NSA (y/y)	May	--	--	52.0	
07/12	13:00	Formal Job Creation Total (000s)	Jun	--	--	39.0	
07/12		ANTAD Same-Store Sales (y/y)	Jun	--	--	33.9	
07/13	10:00	International Reserves Weekly (USD mn)	09-Jul	--	--	193,020	

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07/15	11:00	Lima Unemployment Rate (%)	Jun	--	--	12.0	
07/15		Economic Activity (y/y)	May	42.1	--	58.5	GDP rebound led by sectors linked to domestic demand such as Construction, Commerce and Services that were affected in May 2020 by the lockdown, but also the increase in the Fishing sector due to the positive evolution of the first season of anchovy fishing.

Scotiabank Economics Latam Coverage



Local Market Coverage

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