Latam Charts: Recovery and Rebalancing

• Economic recoveries remain on track across the Latam region.
• Higher inflation that could become embedded in expectations puts monetary policy in the spotlight, with central banks looking to get the timing right on rebalancing monetary conditions.
• Bond yields pricing in higher inflation and short-term rates.
• COVID-19 strains that could derail recoveries remain a source of uncertainty; vaccine rollouts and case positivity numbers merit close monitoring.

KEY ECONOMIC CHARTS

Economic recoveries across the Latam region remain on track, with projected GDP returning to pre-COVID growth paths over the medium-term (chart 1). Changes in economic activity indices remain at elevated levels on a year-over-year basis (chart 2), reflecting the sharp contraction in activity as public health lockdowns took effect in the first half of 2020. These base effects will diminish over time.

The rebound in economic activity, together with widespread supply bottlenecks, has led to a sharp increase in inflation in Latam countries (chart 3). Inflation is expected to decline over time, however, as transitory effects fade.

Nevertheless, the possibility that temporary surges in inflation become embedded in inflationary expectations, generating ongoing price pressures, has put central bankers across the region on high alert. Central banks are closely monitoring the speed at which output gaps are closing, parsing the data for shifts in inflation expectations, and carefully weighing the likely path of global interest rates.

Although real policy rates in most countries remain negative (chart 4), central banks in Brazil, Chile and Mexico have already raised policy rates; others are likely to follow in coming weeks and months. Brazil and Mexico have been the most aggressive in terms of having positive policy rates, and are clear outliers both within the Latam region and around the globe (chart 5).

Extraordinary monetary policy responses to the pandemic have help fuel the recovery, while an equally robust fiscal response supported individuals and mitigated the effects of widespread economic lockdowns. That fiscal response is reflected in the marked deterioration in fiscal balances for Latam countries (chart 6) and rising gross debt as a share of GDP (chart 7).

Notwithstanding pandemic-induced increases in external debt as a percent of GDP (chart 8), external debt burdens remain at moderate levels. Similarly, current account balances (chart 9), which strengthened in 2020, as economic activity and demand fell reducing imports, have deteriorated more recently with the economic rebound. Total reserves in months of imports have generally risen across the Latam region (chart 10).
KEY MARKET CHARTS

Regional currencies have depreciated against the US dollar, with the Argentine, Chilean, Colombian and Peruvian currencies recording the biggest declines (chart 3). Over a longer time horizon, the Brazilian Real has experienced a steady decline. The Mexican peso, in contrast, has been broadly stable (chart 5). Other Pacific Alliance currencies lie between these two paths.

Equity markets have, on the whole, performed better (chart 4). Market sell offs in Colombia and Peru likely reflect nationwide protests (Colombia) and political uncertainties surrounding the presidential elections (Peru).

After spiking early in the pandemic, 10-years CDS spreads on Latam sovereigns have fallen to near pre-pandemic levels (chart 6). Spreads on Colombia and Peru have widened slightly relative to earlier in the year, reflecting the idiosyncratic uncertainties noted above.

YIELD CURVE CHARTS

For the most part, yield curves on Latam sovereigns have shifted up since the spring as inflation has picked up and in anticipation of a higher interest rate environment (charts 1–12). Mexico stands out in this regard (chart 9), with the M-Bono curve firmly anchored on its position at the start of 2021.

KEY COVID-19 CHARTS

Uncertainty concerning the pandemic, particularly the risk of additional “waves” linked to new variants of the COVID-19 virus, remains a critical factor in evaluating the economic outlook. Charts 1–12 provide key monitoring insights. Of especial importance is the pace of vaccination. Chile’s record in this regard is particularly impressive as it not only leads the Latam region (chart 10), but advanced countries (chart 11). The test positivity rate (chart 12) is also critical to gauging likely economic effects. While the decline of this metric in most Latam countries is clearly welcome, the steep rise in Mexico is worrisome and warrants close monitoring.
Key Economic Charts

**Chart 1**

Real GDP

- **y/y % change**
- **forecast**

Sources: Scotiabank Economics, Haver Analytics.

**Chart 2**

Latam: Monthly Economic Activity Index Tracker

- **y/y % change**

Sources: Scotiabank Economics, Haver Analytics.

**Chart 3**

Inflation

- **y/y % change**
- **forecast**

Sources: Scotiabank Economics, Haver Analytics.

**Chart 4**

Policy Rates

- **%**
- **Monetary policy rate**
- **Real monetary policy rate**

Peru: 0; Chile: 2.5; Colombia: 2; Brazil: 0; Mexico: -0.5

Sources: Scotiabank Economics, Bloomberg.

**Chart 5**

Real Monetary Policy Rates*

- **%**

USA: 0; CAN: 0; AUS: 0; GBR: 0; NZL: 0; KOR: 0; EUR: 0; IND: 0; JPN: 0; PER: 0; CHL: 0; COL: 0; MEX: 0; BRA: 0

* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2022, % y/y. Sources: Scotiabank Economics, Bloomberg.

**Chart 6**

General Government Fiscal Balance

- **% of GDP**

Key Economic Charts

Chart 7
General Government Gross Debt


Chart 8
External Debt

Sources: Scotiabank Economics, Haver Analytics.

Chart 9
Current Account Balance

Sources: Scotiabank Economics, Haver Analytics.

Chart 10
Total Reserves

Sources: Scotiabank Economics, Haver Analytics.

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Key Market Charts

Chart 1
Bank Capital to Assets Ratio

% of Q1-2021 end

Argentina** Brazil* Chile* Colombia Mexico Peru

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

Chart 2
Domestic Credit to Private Nonfinancial Sector

% of GDP, Q4-2020 end

Argentina Brazil Chile Colombia Mexico Peru*

* Data to Q1-2021.
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3
Latam Currencies Performance

Week-to-date
Month-to-date
Year-to-date

% change vs USD

Sources: Scotiabank Economics, Bloomberg.

Chart 4
Latam Equities Performance

Week-to-date
Month-to-date
Year-to-date

% change

Sources: Scotiabank Economics, Bloomberg.

Chart 5
USD vs Latam Currencies

Index, Jan. 1, 2018 = 100

Sources: Scotiabank Economics, Bloomberg.

Chart 6
10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US*

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

Chart 1

USD Argentina Sovereign Curve

Sources: Scotiabank Economics, Bloomberg.

Chart 2

Argentina: Curve Moves

Sources: Scotiabank Economics, Bloomberg.

Chart 3

Brazil: NTN Curve

Sources: Scotiabank Economics, Bloomberg.

Chart 4

Brazil: NTN Curve Moves

Sources: Scotiabank Economics, Bloomberg.

Chart 5

Chile: Sovereign Curve

Sources: Scotiabank Economics, Bloomberg.

Chart 6

Chile: Sovereign Curve Moves

Sources: Scotiabank Economics, Bloomberg.
Yield Curves

Chart 7

Colombia: Coltes Curve

Chart 8

Colombia: Coltes Curve Moves

Chart 9

Mexico: M-Bono Curve

Chart 10

Mexico: M-Bono Curve Moves

Chart 11

Peru: Sovereign Curve

Chart 12

Peru: Sovereign Curve Moves

Sources: Scotiabank Economics, Bloomberg.
Key COVID-19 Charts

Chart 1: Global COVID-19 Cases
- Shows cumulative cases for countries such as China, Europe, US, Canada, Brazil, and Latam ex. Brazil.
- Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 2: Global Cumulative COVID-19 Cases
- Displays cases on a log scale since the 100th recorded case.
- Countries like China, Europe, US, Canada, Brazil, and Latam ex. Brazil are highlighted.
- Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3: Latam Cumulative COVID-19 Cases
- Shows cumulative cases for countries such as Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
- Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4: Latam Population-Adjusted COVID-19 Cases
- Graphs cumulative cases per million people for various countries across different months.
- Countries included: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
- Sources: Scotiabank Economics, Johns Hopkins University.

Chart 5: Latam Cumulative COVID-19 Deaths
- Illustrates deaths on a log scale.
- Countries represented: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
- Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6: Latam Cumulative COVID-19 Deaths
- Shows cumulative deaths per million people.
- Countries included: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
- Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7: Latam: Trend in New Daily COVID-19 Cases
- Tracks new daily cases in Latam countries over a period from July 2020 to July 2021.
- Countries covered include Argentina, Brazil, Colombia, Mexico, and Peru.
- Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8: Latam vs World: New Daily COVID-19 Cases
- Compares new daily cases in Latam countries with those in other regions globally.
- Countries represented include ARG, BRA, PACs, CHL, COL, MEX, Canada, UK, and US.
- Sources: Scotiabank Economics, JHU.

Chart 9: Pacific Alliance vs World: New Daily COVID-19 Cases
- Compares new daily cases in the Pacific Alliance countries against global figures.
- Countries included: CHL, COL, MEX, Canada, UK, and US.
- Sources: Scotiabank Economics, JHU.

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Key COVID-19 Charts

Chart 10
Vaccination Doses Administered
cumulative doses per 100 people

Argentina
Brazil
Chile
Colombia
Mexico
Peru

Jan-21 Mar-21 May-21 Jul-21
Sources: Scotiabank Economics, Oxford University.

Chart 11
Vaccination Doses Administered
cumulative doses per 100 people

Canada
Chile
France
Germany
Israel
UK
US

Jan-21 Mar-21 May-21 Jul-21
Sources: Scotiabank Economics, Oxford University.

Chart 12
Test Positivity Rate
%

ARG
CHL
COL
MEX
PER
CAN
GBR
USA

Mar-20 Aug-20 Jan-21 Jun-21
Sources: Scotiabank Economics, Oxford University.
### Market Events & Indicators for August 7–13

#### ARGENTINA

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Event</th>
<th>Period</th>
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<th>Consensus</th>
<th>Latest</th>
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<td>Wages (m/m)</td>
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<td>Capacity Utilization</td>
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<td>Greater Buenos Aires CPI (y/y)</td>
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<td>3.06</td>
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<td>08-12</td>
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<td>National CPI (m/m)</td>
<td>Jul</td>
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<td>3.2</td>
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<td>08-12</td>
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<td>National CPI (y/y)</td>
<td>Jul</td>
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<td>50.2</td>
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<td>FGV Inflation IGP-DI (m/m)</td>
<td>Jul</td>
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<td>0.97</td>
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<td>FGV Inflation IGP-DI (y/y)</td>
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<td>32.74</td>
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<td>FGV CPI IPC-S</td>
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<td>0.92</td>
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<td>08-09</td>
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<td>Trade Balance Weekly</td>
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<td>08-10</td>
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<td>FIPE CPI - Weekly</td>
<td>07-Aug</td>
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<td>0.9</td>
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<td>08-10</td>
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<td>Central Bank Meeting Minutes</td>
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<td>IBGE Inflation IPCA (m/m)</td>
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<td>IBGE Inflation IPCA (y/y)</td>
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<td>8.94</td>
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<td>08-11</td>
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<td>Retail Sales (m/m)</td>
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<td>0.2</td>
<td>1.4</td>
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<td>08-11</td>
<td>8:00</td>
<td>Retail Sales (y/y)</td>
<td>Jun</td>
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<td>7.3</td>
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<td>08-11</td>
<td>8:00</td>
<td>Retail Sales Broad (m/m)</td>
<td>Jun</td>
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<td>-1.25</td>
<td>3.8</td>
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<td>08-11</td>
<td>8:00</td>
<td>Retail Sales Broad (y/y)</td>
<td>Jun</td>
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<td>11.15</td>
<td>26.2</td>
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<tr>
<td>08-12</td>
<td>8:00</td>
<td>IBGE Services Sector Volume (y/y)</td>
<td>Jun</td>
<td>--</td>
<td>17.9</td>
<td>23</td>
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<tr>
<td>08-13</td>
<td>8:00</td>
<td>Economic Activity (m/m)</td>
<td>Jun</td>
<td>--</td>
<td>0.7</td>
<td>-0.43</td>
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<tr>
<td>08-13</td>
<td>8:00</td>
<td>Economic Activity (y/y)</td>
<td>Jun</td>
<td>--</td>
<td>8.9</td>
<td>14.21</td>
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#### CHILE

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<td>8:30</td>
<td>Trade Balance</td>
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<td>1095.3</td>
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<td>8:30</td>
<td>Exports Total</td>
<td>Jul</td>
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<td>08-09</td>
<td>8:30</td>
<td>Imports Total</td>
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<td>--</td>
<td>--</td>
<td>6350</td>
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<td>08-09</td>
<td>8:30</td>
<td>Copper Exports</td>
<td>Jul</td>
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<td>4366.6</td>
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<td>08-09</td>
<td>8:30</td>
<td>International Reserves</td>
<td>Jul</td>
<td>--</td>
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<td>44952</td>
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<td>08-10</td>
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<td>Central Bank Economist Survey</td>
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#### COLOMBIA

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<tr>
<td>08-09</td>
<td>11:00</td>
<td>Consumer Confidence Index</td>
<td>Jul</td>
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<td>-15.3</td>
<td>-22.3</td>
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<tr>
<td>08-12</td>
<td>11:00</td>
<td>Manufacturing Production (y/y)</td>
<td>Jun</td>
<td>14.0</td>
<td>17</td>
<td>8.57</td>
<td>Activity indicators should rebound in June as main cities lifted substantial restrictions and nationwide strikes eased.</td>
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<tr>
<td>08-12</td>
<td>11:00</td>
<td>Retail Sales (y/y)</td>
<td>Jun</td>
<td>19.4</td>
<td>25.1</td>
<td>22.8</td>
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<tr>
<td>08-12</td>
<td>15:00</td>
<td>Industrial Production (y/y)</td>
<td>Jun</td>
<td>--</td>
<td>--</td>
<td>39.57</td>
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<tr>
<td>08-13</td>
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<td>Trade Balance</td>
<td>Jun</td>
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<tr>
<td>08-13</td>
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<td>Imports CIF Total</td>
<td>Jun</td>
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<td>--</td>
<td>4372.2</td>
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Activity indicators should rebound in June as main cities lifted substantial restrictions and nationwide strikes eased.
## Market Events & Indicators for August 7–13

### MEXICO

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<th>Date</th>
<th>Time</th>
<th>Event</th>
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<th>Latest</th>
<th>BNS Comments</th>
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<tr>
<td>08-09</td>
<td>7:00</td>
<td>CPI Core (m/m)</td>
<td>Jul</td>
<td>0.44</td>
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<td>08-09</td>
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<td>CPI (m/m)</td>
<td>Jul</td>
<td>0.49</td>
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<td>CPI (y/y)</td>
<td>Jul</td>
<td>5.7</td>
<td>5.76</td>
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<td>08-09</td>
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<td>Bi-Weekly CPI</td>
<td>31-Jul</td>
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<td>0.12</td>
<td>0.37</td>
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<td>08-09</td>
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<td>Bi-Weekly Core CPI</td>
<td>31-Jul</td>
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<td>0.15</td>
<td>0.31</td>
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<td>08-09</td>
<td>7:00</td>
<td>Bi-Weekly CPI (y/y)</td>
<td>31-Jul</td>
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<td>5.74</td>
<td>5.75</td>
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<td>08-10</td>
<td>10:00</td>
<td>International Reserves Weekly</td>
<td>08-Aug</td>
<td>--</td>
<td>--</td>
<td>193424</td>
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<tr>
<td>08-10</td>
<td></td>
<td>ANIAD Same-Store Sales (y/y)</td>
<td>Jul</td>
<td>--</td>
<td>--</td>
<td>21.1</td>
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<td>08-10</td>
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<td>Nominal Wages (y/y)</td>
<td>Jul</td>
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<tr>
<td>08-11</td>
<td>7:00</td>
<td>Industrial Production SA (m/m)</td>
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<td>0.14</td>
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<td>08-11</td>
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<td>Industrial Production NSA (y/y)</td>
<td>Jun</td>
<td>--</td>
<td>--</td>
<td>36.38</td>
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<td>08-11</td>
<td>7:00</td>
<td>Manuf. Production NSA (y/y)</td>
<td>Jun</td>
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<td>48.03</td>
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<tr>
<td>08-12</td>
<td>13:00</td>
<td>Formal Job Creation Total</td>
<td>Jul</td>
<td>--</td>
<td>--</td>
<td>65.94</td>
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<tr>
<td>08-12</td>
<td>14:00</td>
<td>Overnight Rate (%)</td>
<td>12-Aug</td>
<td>4.50</td>
<td>4.50</td>
<td>4.25</td>
<td>We expect to see a front-loaded tightening cycle where the Board will make increases of 25 bps at every meeting scheduled for the rest of this year (i.e., August, September, November and December). This would leave the reference rate at 5.25% at the end of 2021.</td>
</tr>
</tbody>
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### PERU

<table>
<thead>
<tr>
<th>Date</th>
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<th>Event</th>
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<td>Reference Rate (%)</td>
<td>12-Aug</td>
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Forecasts at time of publication.
Sources: Scotiabank Economics, Bloomberg.

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