

Latam Charts: The Focus Shifts?

- **Economic recovery continues. Growth forecasts continue to improve**, though the pace at which output returns to pre-pandemic levels differs across the region.
- **Inflation is higher—everywhere.** Recent Fed signalling of a possible tapering of bond purchases and future rate increases highlights the [challenges](#) that Latam central banks face in their monetary policy rebalancing act. Meanwhile, financial uncertainties in China associated with Evergrande could trigger a “risk off” in global investor risk appetite.
- These developments underscore the potential effects of less benign global financial conditions. For Latam countries, large currency depreciations stemming from unexpected increases in global interest rates or capital outflows could unleash pass-through effects on inflation, further complicating central bank policy making.
- With growth on track and monetary policy targeting price stability, attention could shift to global factors and their effects on regional financial markets.

KEY ECONOMIC CHARTS

Economies across the Latam region continue to recover in the wake of the COVID-19 shock. GDP has bounced back following a sharp contraction in early 2020 as public health lockdowns around the globe took effect; growth rates are projected to gradually converge on longer-term levels over the near term (chart 1). Monthly activity indices highlight the sharp rebound in 2021, though high year-over-year growth rates are moderating as base level effects dissipate (chart 2).

Consistent with that narrative, private sector growth forecasts in Colombia have been revised up, with GDP growth expected to hit 8.26% in 2021, up from the [previous consensus](#) of 7.54%. In Mexico, meanwhile, the monthly GDP proxy showed a continued rebound from the COVID-19 shock in July, but the strength of recovery was below [consensus](#). Our team in Mexico City does not see a return to pre-pandemic levels in real terms until early 2023, well behind regional standards.

Inflation has risen steeply (chart 3), mirroring the economic recovery. Higher inflation poses a challenge to Latam central banks balancing the need to anchor inflation expectations consistent with price stability commitments and the importance of monetary conditions supportive of [sustained recovery](#). Central banks across the region have raised key policy rates, which nevertheless remain negative in real (inflation-adjusted) terms in several countries (chart 4). Brazil and Mexico have moved most aggressively, with policy rates positive in real terms. In this respect, they are well ahead of the tightening cycles of most central banks in the region and around the world (chart 5). [Twin rate hikes](#) of 25 bps by BanRep in Colombia and Banxico in Mexico on September 30 are just the latest developments in the Latam monetary tightening cycle. They won't be the last.

CONTACTS

James Haley
416.607.0058
Scotiabank Economics
jim.haley@scotiabank.com

TABLE OF CONTENTS

Commentary	1–2
Key Economic Charts	3–4
Key Market Charts	5
Yield Curves	6–7
Key COVID-19 Charts	8–9
Market Events & Indicators	10–11

Fiscal balances deteriorated significantly in the pandemic as governments adopted a range of measures to attenuate the effects of the pandemic and support the most vulnerable (chart 6). Accordingly, general government gross debt as a percentage of GDP rose across the Latam region (chart 7). Sustained increases in public debt burdens could animate concerns with respect to sustainability. Latam governments have therefore introduced fiscal reforms or announced plans to ensure long-term debt sustainability. External indicators, including external debt (chart 8), current account balances (chart 9) and total reserves (chart 10), which likewise reflect the effects of the pandemic, remain within comfortable margins.

KEY MARKET CHARTS

Financial markets in the Latam region have responded to two developments in recent weeks. The first is the Fed's signalling that it could begin tapering its bond purchases as early as this month and dot plots of Fed governors' expectations showing that interest rates may go higher, sooner. The second piece of "news" is the financial difficulties of the Chinese developer Evergrande. These developments underscore the potential challenges facing Latam central banks targeting price stability should external financial conditions turn less benign. Unexpected increases in global interest rates or a "risk off" shift in investor risk appetite could trigger currency depreciations with pass-through effects on domestic inflation. While regional markets have smoothly priced-in these developments, the possibility of such effects underscores the need to eschew policy or political actions that could erode investor confidence going forward.

Latam currencies have depreciated against the US dollar since the start of the year (chart 3). The Mexican peso and Brazilian real have depreciated by less than other currencies, reflecting the proactive monetary tightening cycles of their central banks. Elsewhere in the region, currencies have depreciated between 10–15 percent. The Peruvian sol has been under sustained pressure, which is evident in a longer-term perspective (chart 5).

Likewise, the equity market in Peru has shown the worst performance in the region (chart 4), reflecting protracted uncertainty surrounding the outcome of the presidential election and the interregnum that followed. Recent potential expropriation threats with respect to the Camisea gas project are unlikely to assuage investor concerns. Argentine and Mexican equity markets, in contrast, have performed strongly in the year to date.

Bond markets reacted strongly to the onset of the pandemic but have slowly recovered. 10-year CDS spreads, which spiked higher in March 2020, have gradually fallen over the past 18 months. However, they remain above the compressed levels prevailing prior to the pandemic. Increases in spreads on Brazilian, Colombian and Peruvian assets since the start of the year reflect a range of considerations, including political uncertainties.

YIELD CURVE CHARTS

Sovereign yield curves have shifted up more or less uniformly across the maturity spectrum in most Latam countries since the start of the year (charts 1–12). Argentina, which has seen a marked steepening at the short end of the curve, and Mexico, which has a yield curve firmly anchored over the medium- and long-end, are exceptions.

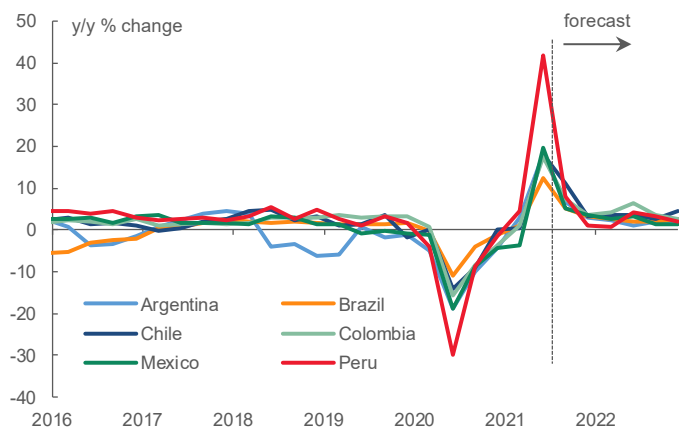
KEY COVID-19 CHARTS

Economic recovery remains dependent on the course of the pandemic (charts 1–12). Chile's high vaccination rate should provide effective protection against additional pandemic shocks, while the recent decline in the test positivity rate in Mexico is a much welcome development.

Key Economic Charts

Chart 1

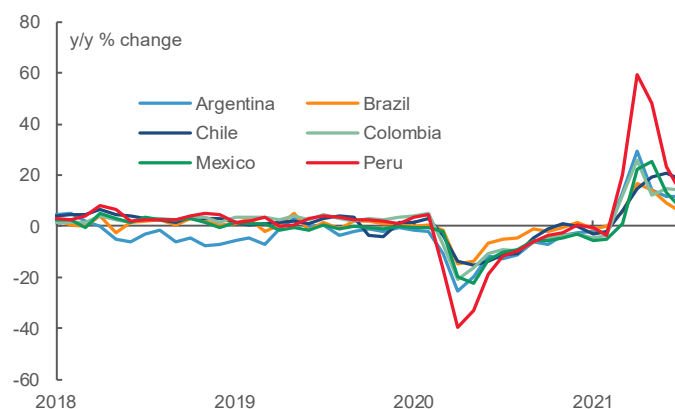
Real GDP



Sources: Scotiabank Economics, Haver Analytics.

Chart 2

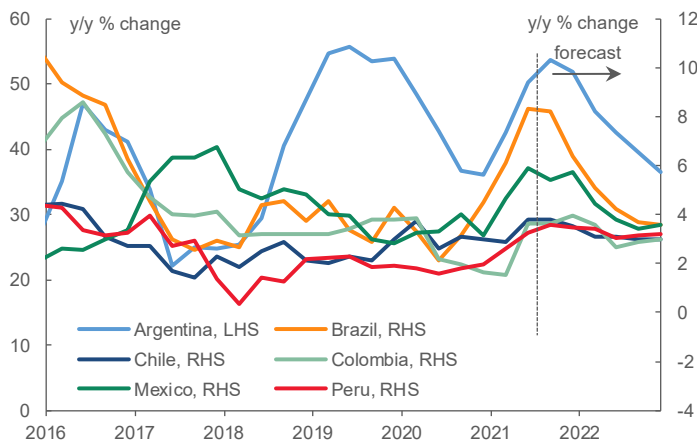
Latam: Monthly Economic Activity Index Tracker



Sources: Scotiabank Economics, Haver Analytics.

Chart 3

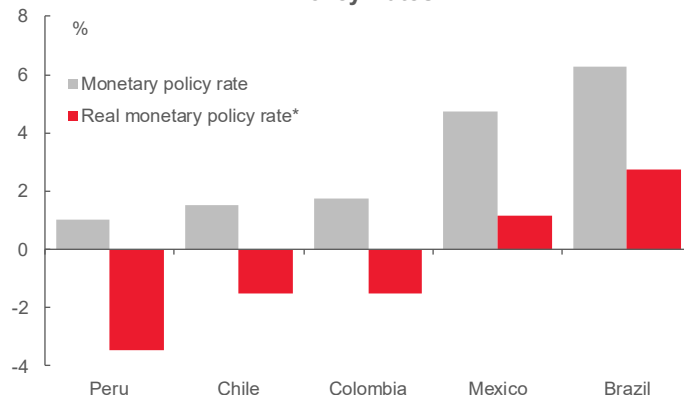
Inflation



Sources: Scotiabank Economics, Haver Analytics.

Chart 4

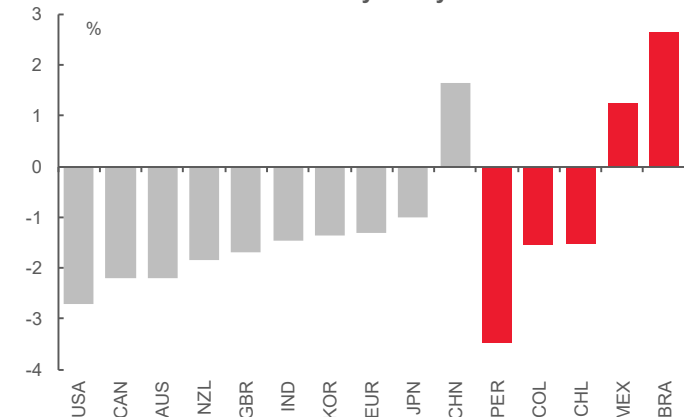
Policy Rates



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2022, % y/y. Argentina: MPR = 38.0%; Real MPR = 1.5%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 5

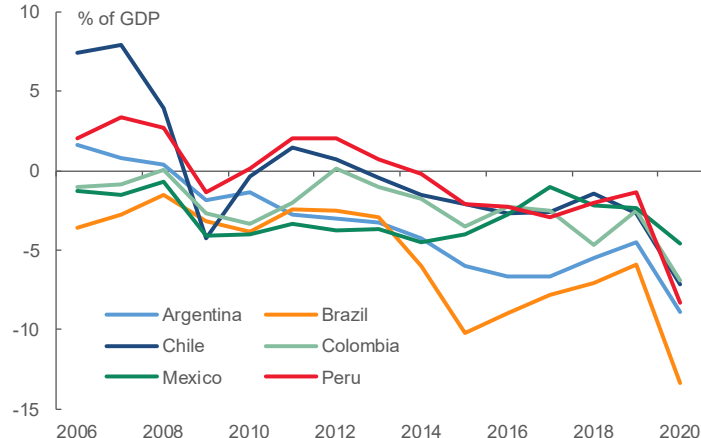
Real Monetary Policy Rates*



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2022, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 6

General Government Fiscal Balance



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

Key Economic Charts

Chart 7

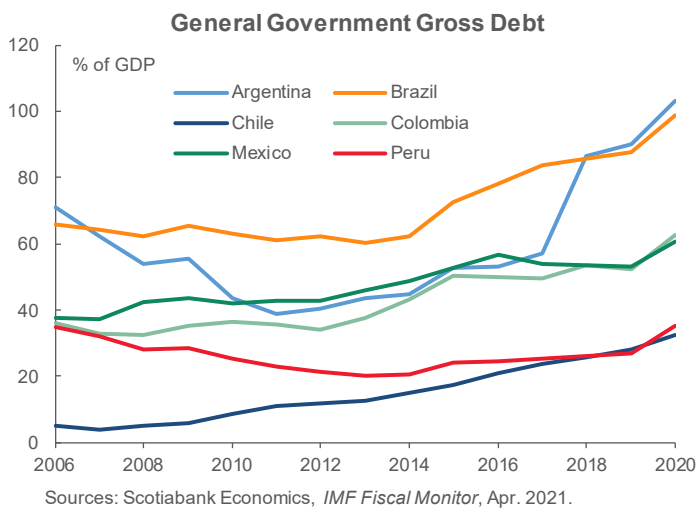


Chart 8



Chart 9

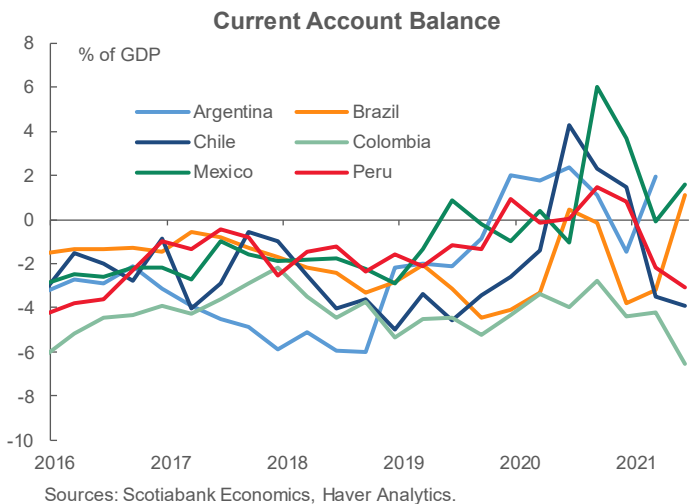
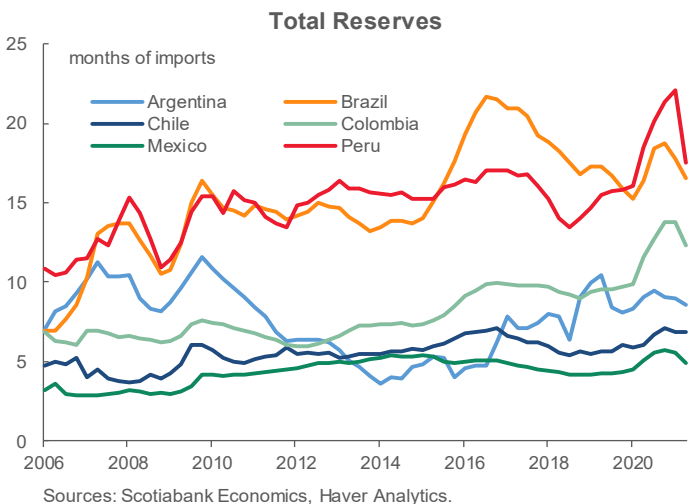
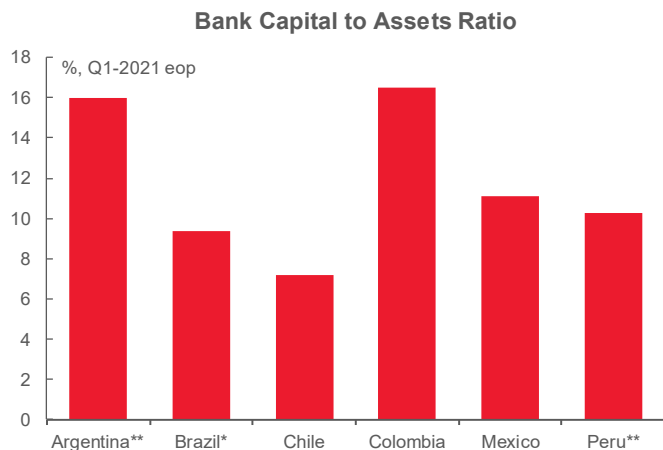


Chart 10



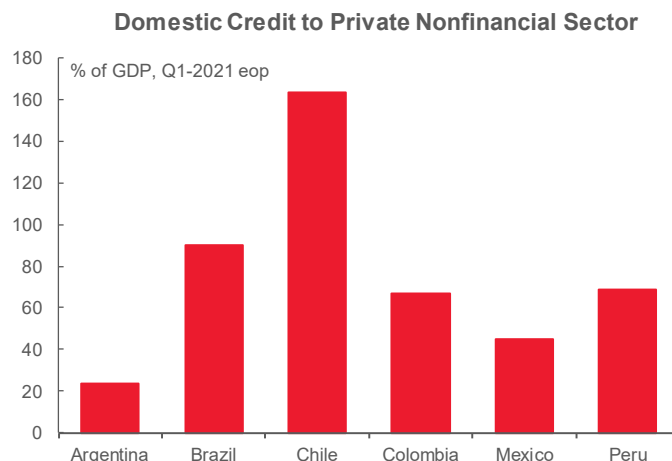
Key Market Charts

Chart 1



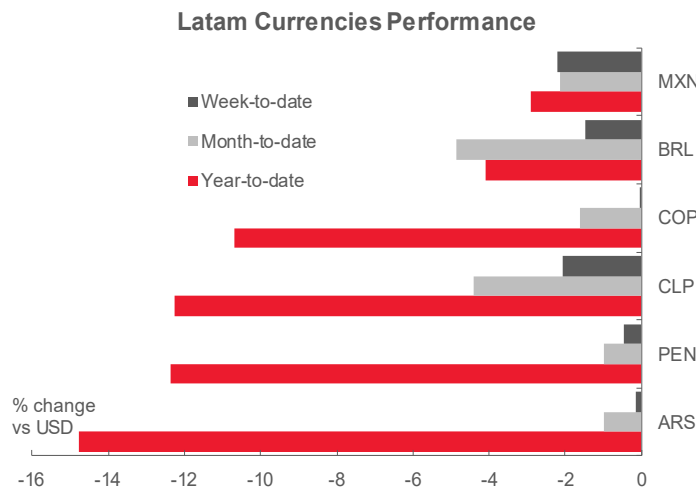
* Data to Q3-2020; ** Data to Q2-2021.
Sources: Scotiabank Economics, IMF.

Chart 2



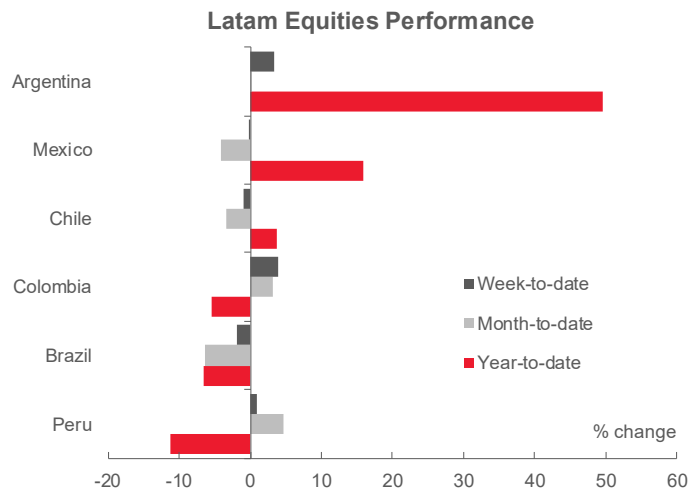
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3



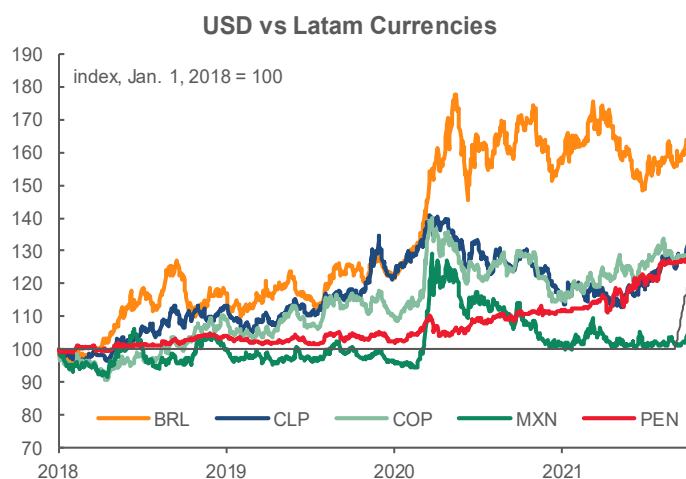
Sources: Scotiabank Economics, Bloomberg.

Chart 4



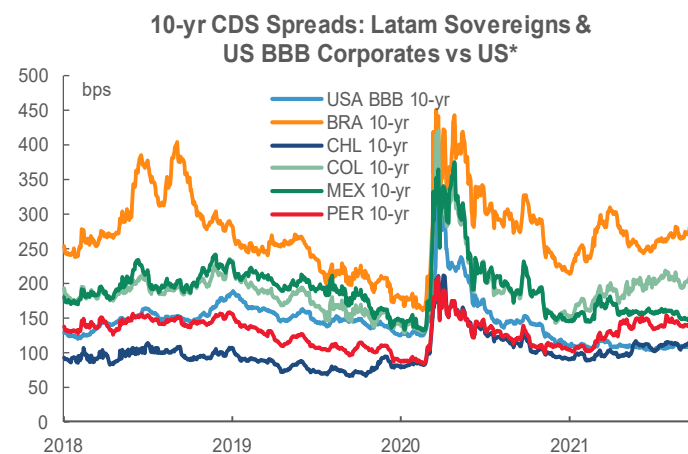
Sources: Scotiabank Economics, Bloomberg.

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

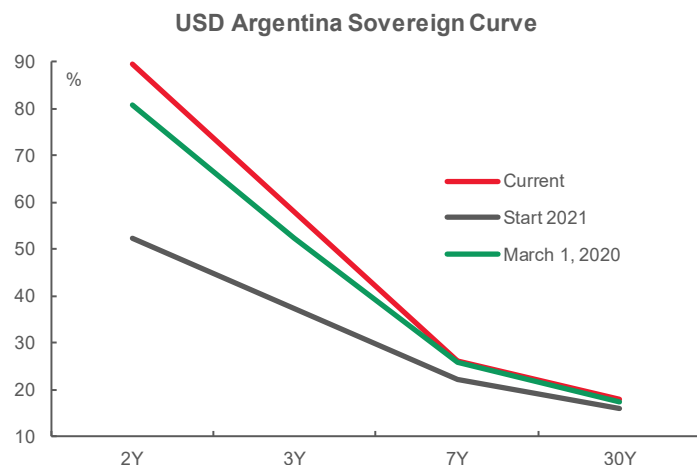


Chart 2

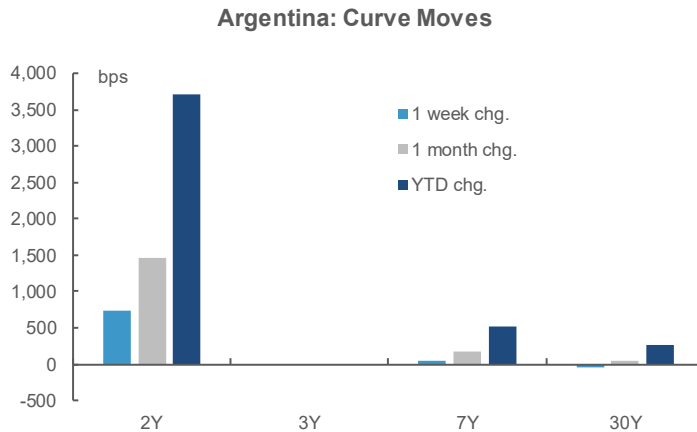


Chart 3

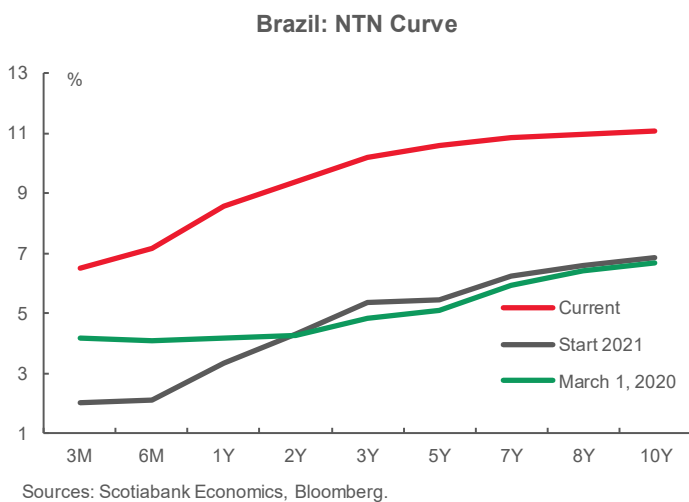


Chart 4

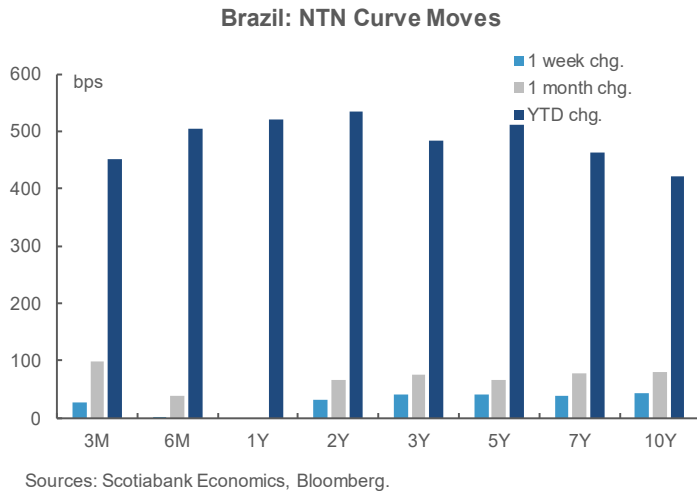


Chart 5

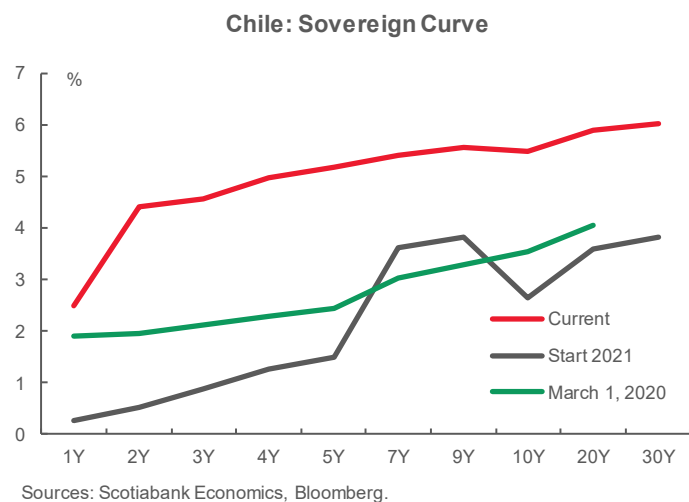
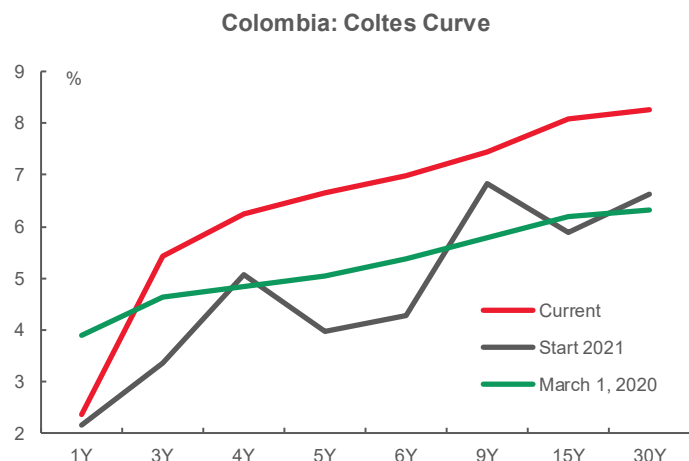


Chart 6



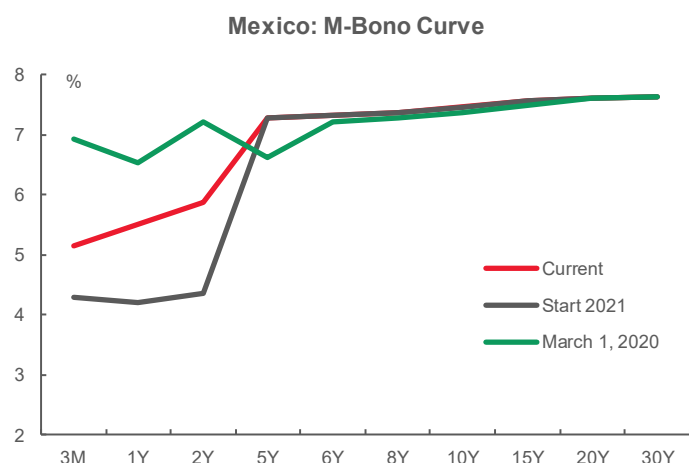
Yield Curves

Chart 7



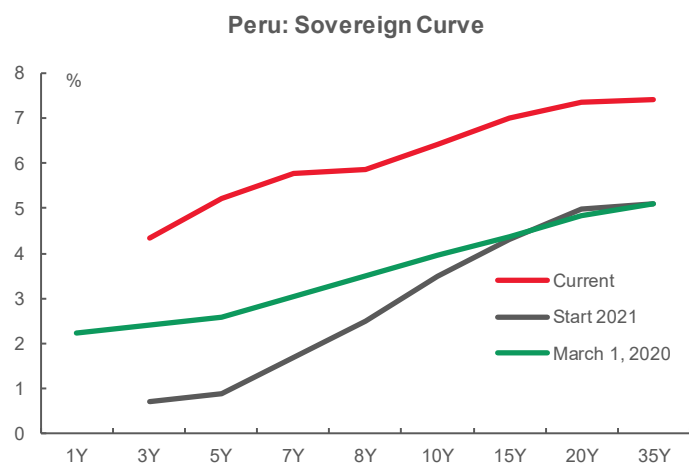
Sources: Scotiabank Economics, Bloomberg.

Chart 9



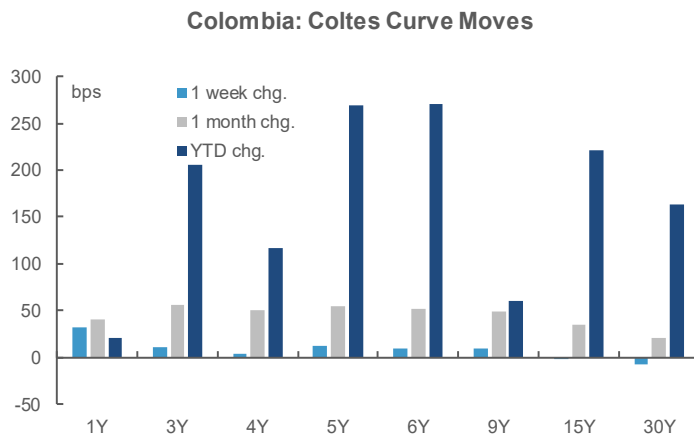
Sources: Scotiabank Economics, Bloomberg.

Chart 11



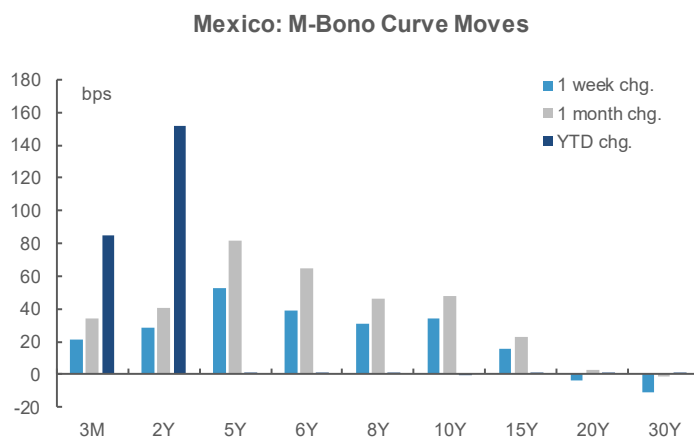
Sources: Scotiabank Economics, Bloomberg.

Chart 8



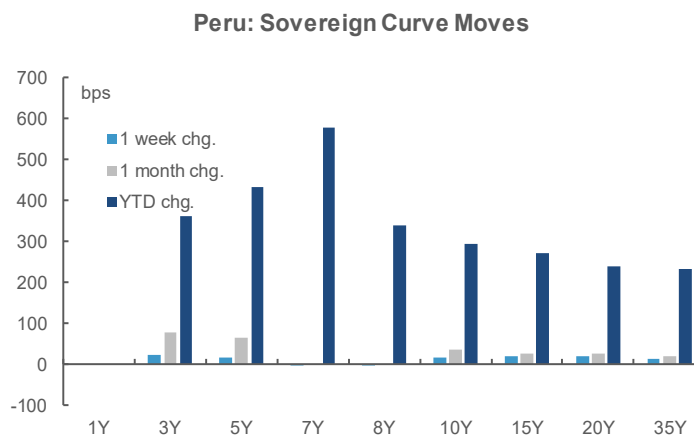
Sources: Scotiabank Economics, Bloomberg.

Chart 10



Sources: Scotiabank Economics, Bloomberg.

Chart 12

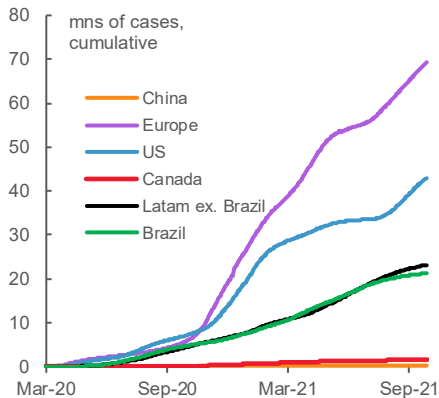


Sources: Scotiabank Economics, Bloomberg.

Key COVID-19 Charts

Chart 1

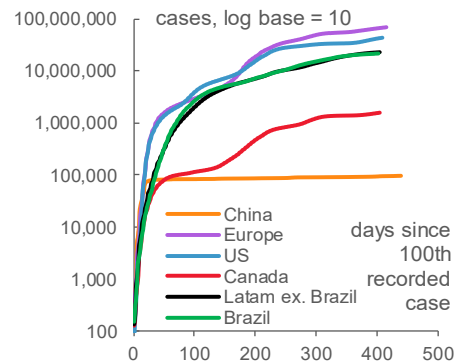
Global COVID-19 Cases



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

Chart 2

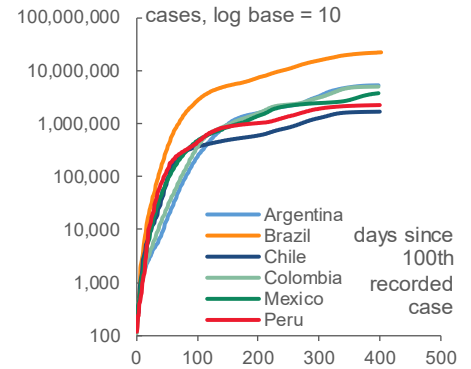
Global Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

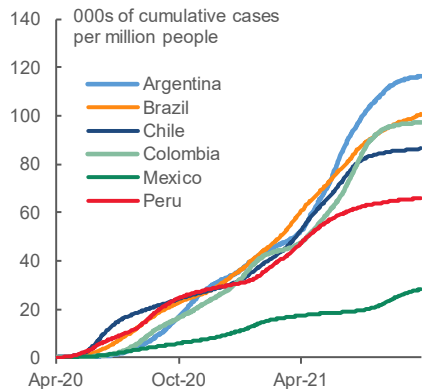
Latam Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

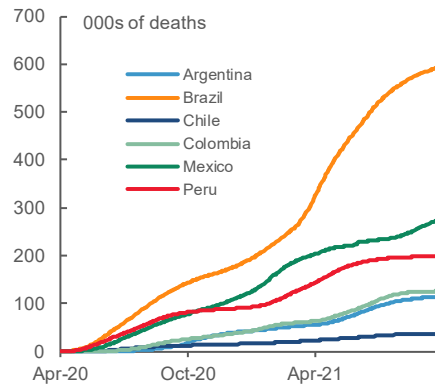
Latam Population-Adjusted COVID-19 Cases



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

Chart 5

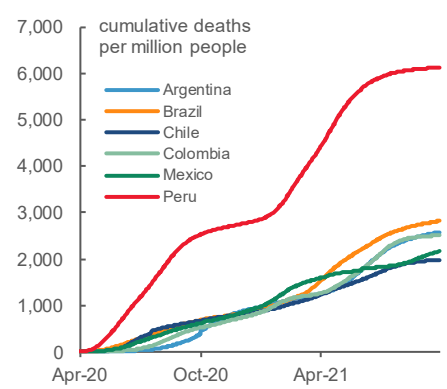
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

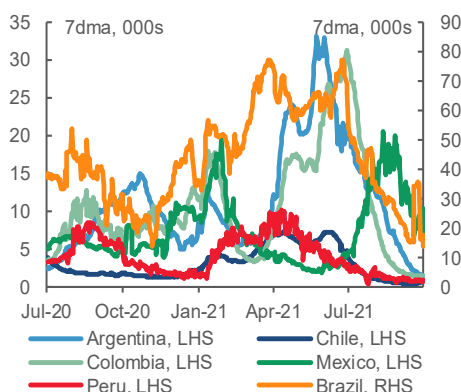
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

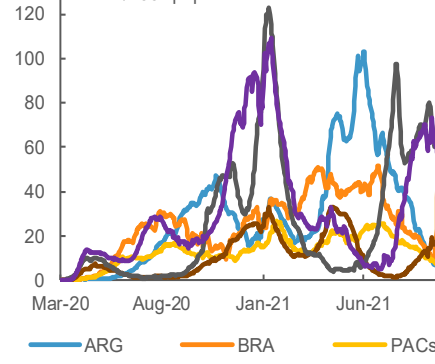
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

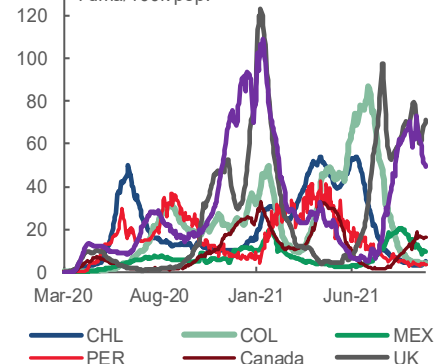
Latam vs World: New Daily COVID-19 Cases



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

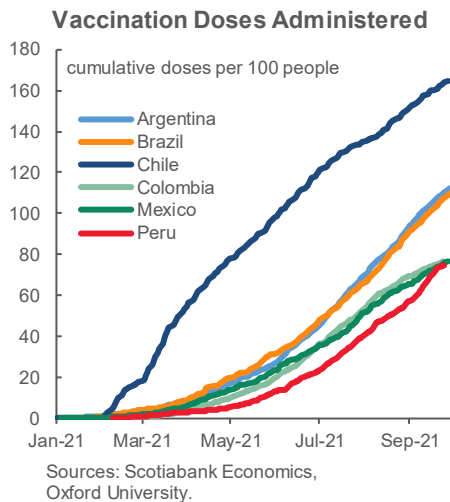


Chart 11

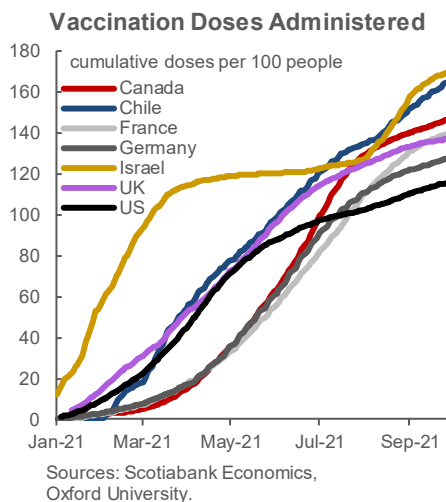
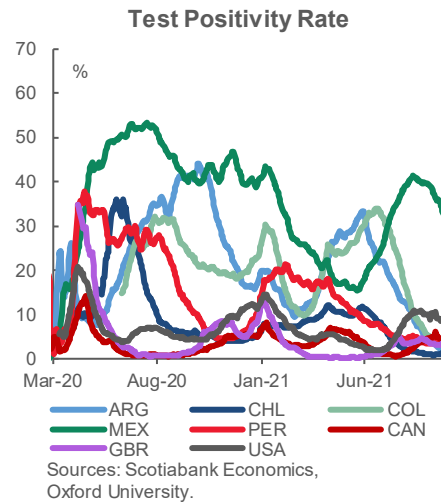


Chart 12



Market Events & Indicators for October 2–15

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-05		Vehicle Exports Adefa	Sep	--	--	24937	
Oct-05		Vehicle Production Adefa	Sep	--	--	38362	
Oct-05		Vehicle Domestic Sales Adefa	Sep	--	--	26069	
Oct-07	15:00	Construction Activity (y/y)	Aug	--	--	19.8	
Oct-07	15:00	Industrial Production (y/y)	Aug	--	--	13	
Oct-07		Central Bank Survey					
Oct-14	15:00	Greater Buenos Aires CPI (y/y)	Sep	--	--	50.12	
Oct-14	15:00	Greater Buenos Aires CPI (m/m)	Sep	--	--	2.6	
Oct-14	15:00	National CPI (y/y)	Sep	--	--	51.4	
Oct-14	17:00	National CPI (m/m)	Sep	--	--	2.5	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct 1-5		Vehicle Sales Fenabrave	Sep	--	--	172796	
Oct-04	4:00	FIPE CPI - Monthly (%)	Sep	--	1.06	1.44	
Oct-04	7:25	Central Bank Weekly Economist Survey					
Oct-05	8:00	Industrial Production (m/m)	Aug	--	--	-1.3	
Oct-05	8:00	Industrial Production (y/y)	Aug	--	--	1.2	
Oct-05	9:00	Markit Brazil PMI Composite	Sep	--	--	54.6	
Oct-05	9:00	Markit Brazil PMI Services	Sep	--	--	55.1	
Oct-06	7:00	FGV Inflation IGP-DI (m/m)	Sep	--	--	-0.14	
Oct-06	7:00	FGV Inflation IGP-DI (y/y)	Sep	--	--	28.21	
Oct-06	8:00	Retail Sales (m/m)	Aug	--	--	1.2	
Oct-06	8:00	Retail Sales (y/y)	Aug	--	--	5.7	
Oct-06	8:00	Retail Sales Broad (m/m)	Aug	--	--	1.1	
Oct-06	8:00	Retail Sales Broad (y/y)	Aug	--	--	7.1	
Oct 6-7		Vehicle Sales Anfavea	Sep	--	--	172784	
Oct 6-7		Vehicle Production Anfavea	Sep	--	--	164027	
Oct 6-7		Vehicle Exports Anfavea	Sep	--	--	29443	
Oct-08	7:00	FGV CPI IPC-S (%)	07-Oct	--	1.29	1.43	
Oct-08	8:00	IBGE Inflation IPCA (m/m)	Sep	--	1.12	0.87	
Oct-08	8:00	IBGE Inflation IPCA (y/y)	Sep	--	10.2	9.68	
Oct-11	4:00	FIPE CPI - Weekly (%)	07-Oct	--	--	1.16	
Oct-11	7:25	Central Bank Weekly Economist Survey					
Oct-11	14:00	Trade Balance Weekly (USD mn)	10-Oct	--	--	376.21	
Oct-14	8:00	IBGE Services Sector Volume (y/y)	Aug	--	--	17.8	
Oct-15	7:00	FGV Inflation IGP-10 (m/m)	Oct	--	--	-0.37	
Oct-15	8:00	Economic Activity (y/y)	Aug	--	--	5.53	
Oct-15	8:00	Economic Activity (m/m)	Aug	--	--	0.6	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct 1-4		Vehicle Sales Total	Sep	--	--	38226	
Oct 1-7		IMCE Business Confidence	Sep	--	--	60.68	
Oct-07	7:30	Central Bank Traders Survey					
Oct-07	7:30	Trade Balance (USD mn)	Sep	--	--	6	
Oct-07	7:30	Exports Total (USD mn)	Sep	--	--	7821.81	
Oct-07	7:30	Imports Total (USD mn)	Sep	--	--	7816.21	
Oct-07	7:30	Copper Exports (USD mn)	Sep	--	--	4383.17	
Oct-07	7:30	International Reserves (USD mn)	Sep	--	--	52022	
Oct-07	8:00	Nominal Wage (m/m)	Aug	--	--	1.3	
Oct-07	8:00	Nominal Wage (y/y)	Aug	--	--	6.5	
Oct-08	7:00	CPI (m/m)	Sep	0.6	--	0.4	We expect an increase of 0.6% m/m in the CPI, mainly
Oct-08	7:00	CPI (y/y)	Sep	4.7	--	4.8	explained by positives contributions from food, transport and recreation and culture divisions. The CPI will be driven by seasonal increases in beef, interurban transportation and some services.
Oct-13	7:30	Central Bank Economist Survey					
Oct-13	17:00	Overnight Rate Target (%)	13-Oct	2.0	--	1.5	The hike is compatible with the BCCh's baseline scenario, which considers a Monetary Policy Rate that will increase rapidly to its neutral level towards the first quarter of 2022 (3.5%), rising above this level towards the second quarter of next year.

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

Market Events & Indicators for October 2–15

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-04	18:00	Colombia Monetary Policy Minutes					
Oct-04	20:00	CPI (m/m)	Sep	0.32	0.26	0.45	Inflation will continue to show upside pressures from the
Oct-04	20:00	CPI (y/y)	Sep	4.44	4.43	4.44	foodstuff group. Education will be an inflationary item, and
Oct-04	20:00	CPI Core (m/m)	Sep	0.29	--	0.32	normalization will continue revealing the cleanest prices for
Oct-04	20:00	CPI Core (y/y)	Sep	3.01	--	3.11	some services closed in previous quarantines. Annual inflation will continue above the ceiling of the target range for the rest of 2021.
Oct-07		Consumer Confidence Index	Sep	--	--	-8.2	
Oct-15	11:00	Manufacturing Production (y/y)	Aug	24	--	20.13	Coincident indicators should continue pointing to a better
Oct-15	11:00	Retail Sales (y/y)	Aug	27.5	--	26.9	economic recovery as pre-covid levels were already surpassed. In manufacturing, the gains would be more gradual, while retail sales would continue to strengthen amid free mobility.
Oct-15	15:00	Industrial Production (y/y)	Aug	--	--	13.51	
Oct-15		Central Bank Economist Survey					

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-04	7:00	Vehicle Domestic Sales	Sep	--	--	78235	
Oct-04	7:00	Leading Indicators (m/m)	Aug	--	--	0.12	
Oct-04	7:00	Consumer Confidence	Sep	--	--	42.74	
Oct-05	10:00	International Reserves Weekly (USD mn)	01-Oct	--	--	198216	
Oct-05		Citibanamex Survey of Economists		--	--		
Oct-06	7:00	Gross Fixed Investment (%)	Jul	--	--	17.1	
Oct-06	7:00	Vehicle Exports	Sep	--	--	212687	
Oct-06	7:00	Vehicle Production	Sep	--	--	237040	
Oct-07	7:00	CPI (m/m)	Sep	--	--	0.19	
Oct-07	7:00	CPI Core (m/m)	Sep	--	--	0.43	
Oct-07	7:00	CPI (y/y)	Sep	--	--	5.59	
Oct-07	7:00	Bi-Weekly CPI (%)	30-Sep	--	--	0.42	
Oct-07	7:00	Bi-Weekly Core CPI (%)	30-Sep	--	--	0.31	
Oct-07	7:00	Bi-Weekly CPI (y/y)	30-Sep	--	--	5.87	
Oct-08		Nominal Wages (m/m)	Sep	--	--	5.7	
Oct-11		ANTAD Same-Store Sales (y/y)	Sep	--	--	4.5	
Oct-12	7:00	Industrial Production SA (m/m)	Aug	--	--	1.05	
Oct-12	7:00	Industrial Production NSA (y/y)	Aug	--	--	7.28	
Oct-12	7:00	Manuf. Production NSA (y/y)	Aug	--	--	6.19	
Oct-12	10:00	International Reserves Weekly (USD mn)	08-Oct	--	--	198216	
Oct-12	13:00	Formal Job Creation Total	Sep	--	--	128.9	
Oct-14	10:00	Central Bank Monetary Policy Minutes		--	--		

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-07	19:00	Reference Rate (%)	07-Oct	1.25	--	1.00	Recent developments in FX and local prices give upside risk to our forecast.
Oct-15	11:00	Lima Unemployment Rate (%)	Sep	9.1	--	9.5	
Oct-15		Economic Activity (y/y)	Aug	8	--	12.94	The low base effect is winding down, but is still the main reason for high y/y growth.

Scotiabank Economics Latam Coverage



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.