

Latam Charts: Inflation Drives Decisions

- Higher inflation numbers continue to influence monetary policy decisions across the Latam region.
- In Chile, a spike in September inflation prompted an aggressive 125 bps rate hike by the BCCh, which also indicated that it would be revising its inflation forecast upwards.
- Central banks across the region have likewise begun rebalancing monetary conditions. But with inflation ticking higher, further increases in nominal policy rates will be required to bring real rates to a more neutral level.
- Meanwhile, a dialing back of political uncertainty in Peru is the trigger for a relief rally of the PEN, which had suffered a protracted depreciation through much of the year.

KEY ECONOMIC CHARTS

The economic recovery that is reflected in the projected path of real GDP (chart 1) and higher-frequency indicators of economic activity (chart 2) has raised employment and brightened prospects across the Latam region. But the pace of recovery, measured in year over year increases of monthly indicators, has slowed as base year effects wane. [Mexico's industrial production numbers for August](#), which increased 5.5% y/y as compared to 7.3% y/y in July, are the latest indication of that trend.

The rebound in economic activity has been accompanied by an unwelcome increase in inflation throughout the region and globally (chart 3). And while the steep rise in inflation is projected to be temporary, with price pressures abating to pre-pandemic levels over the near term, Latam central banks are grappling with the critical question of whether current inflation rates could prove to be more persistent (see [Latam Weekly, October 8th](#)). They are not waiting for a definitive answer to that question, however, as policy rates have been raised across the region (chart 4). In Chile, [the BCCh surprised markets with a 125 bps increase on October 13th](#) in the wake of September's inflation report showing inflation rising by a blistering 1.2% m/m. With that increase, Chile's real policy rate (adjusted for inflation) remains slightly negative, but far less so than only a few weeks ago. Real policy rates in Colombia and Peru remain further in negative territory; additional increases are needed to rebalance monetary conditions in the face of inflationary pressures. In this respect, they are joined by central banks around the globe (chart 5). Further increases by Latam central banks are coming, as Latam central banks move proactively to contain inflation consistent with their price stability commitments.

The prospect of less favourable external financial conditions is also a consideration in central bank decisions. And with the Fed signalling a tapering of bond purchases, and unexpected rate hikes a possible risk, the region's central bankers must weigh the spillover effects of Fed and other advanced economy central bank policy actions. In addition to high inflation, fiscal imbalances (chart 6) and general

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government debt burdens (chart 7) are key sources of vulnerability to foreign financial shocks. External debt (chart 8), current account balances (chart 9), and reserves (chart 10) are other vulnerabilities. None of these indicators are signalling imminent alarm, but all warrant monitoring.

KEY MARKET CHARTS

Exchange rate depreciation fuelling higher domestic inflation via pass-through effects is a further constraint with which central banks must contend. Regional currencies have depreciated since the start of the year (chart 3), animating such concerns. For the most part, Latam currencies have been broadly stable in recent weeks. The Peruvian PEN is the exception.

The currency suffered a pronounced depreciation leading up to and in the weeks following the presidential election as investors reacted to pervasive political uncertainty (chart 5). However, President Castillo's recent manoeuvring to strike a moderate tone, including changes to critical cabinet posts, has led to a strong rally. That re-pricing effect spilled over to the equity market (chart 4), paring some of the earlier losses, and sovereign bonds (chart 6).

Elsewhere in the region, markets were relatively quiet in recent weeks, though equity markets in Chile have retreated in October as much higher inflation presaged an acceleration of monetary tightening. Meanwhile, 10-year CDS spreads on sovereign bonds has gradually widened in Brazil, Colombia, and Peru over the year; more recently, the spread on Chile's bonds has ticked higher. In contrast, the spread on Mexican bonds has been stable.

YIELD CURVE CHARTS

Sovereign bond yield curves across the Latam region (charts 1–12) have incorporated higher expected inflation and short-term rates. Curves have generally shifted up across the maturity spectrum since earlier in the year. Argentina's curve, which has become progressively more inverted, is an exception (chart 1). Mexico's M-Bono curve is another exception: it has remained firmly anchored at the long end of the curve since the beginning of the year (chart 9).

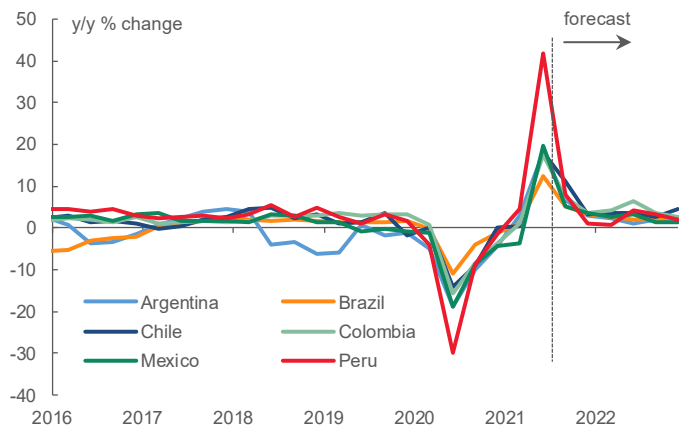
KEY COVID-19 CHARTS

Key pandemic indicators are provided in charts 1–12. The decline in trend in new daily cases since the summer (chart 7) is encouraging. So too is the progress made towards vaccinating the population (chart 10) and the decline in test positivity rates (chart 12).

Key Economic Charts

Chart 1

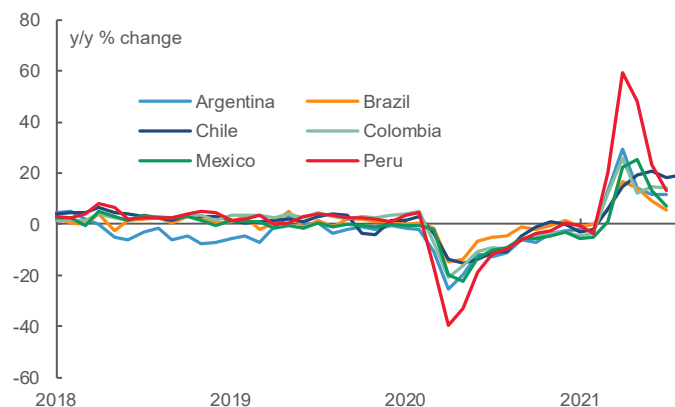
Real GDP



Sources: Scotiabank Economics, Haver Analytics.

Chart 2

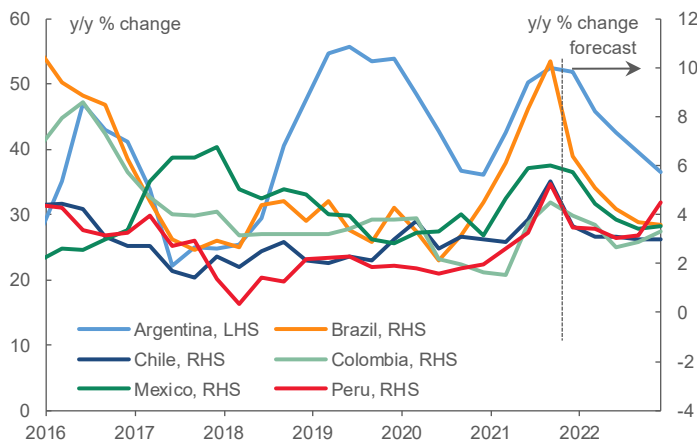
Latam: Monthly Economic Activity Index Tracker



Sources: Scotiabank Economics, Haver Analytics.

Chart 3

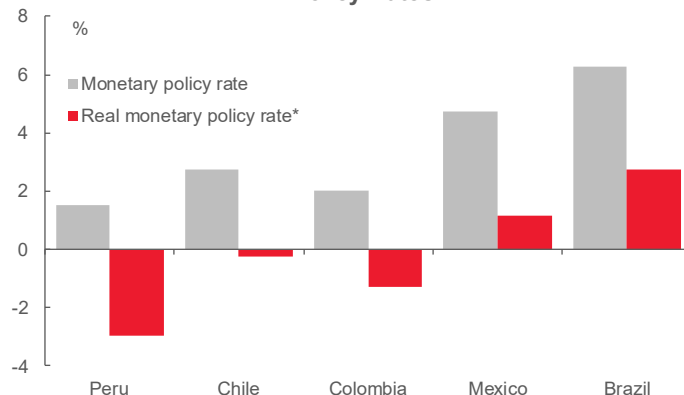
Inflation



Sources: Scotiabank Economics, Haver Analytics.

Chart 4

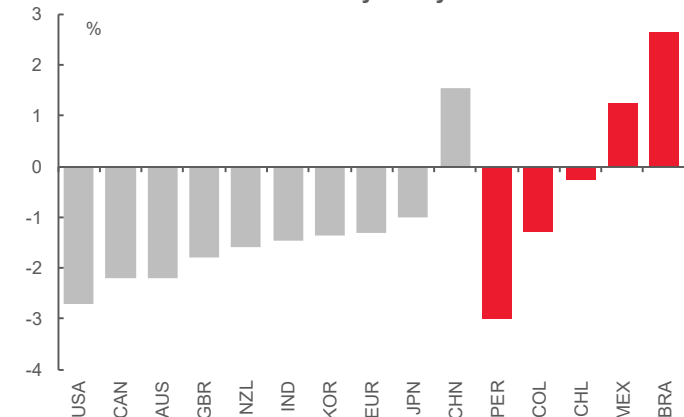
Policy Rates



* 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

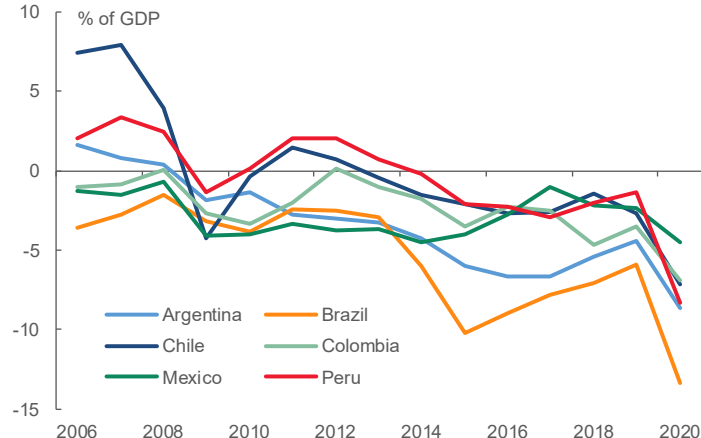
Real Monetary Policy Rates*



* 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

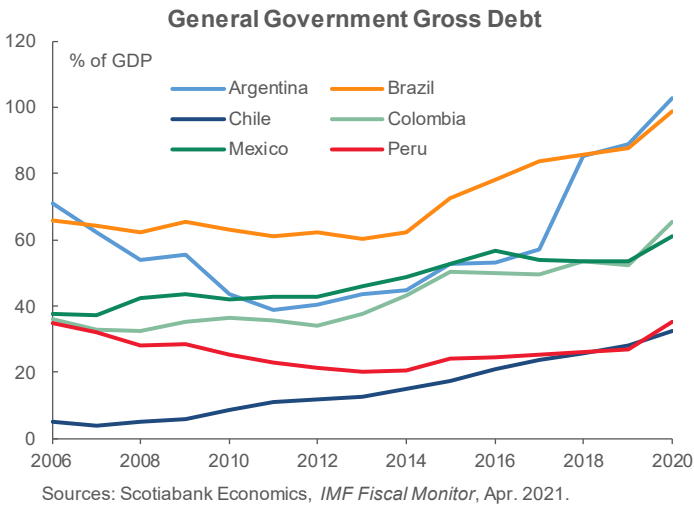


Chart 8



Chart 9

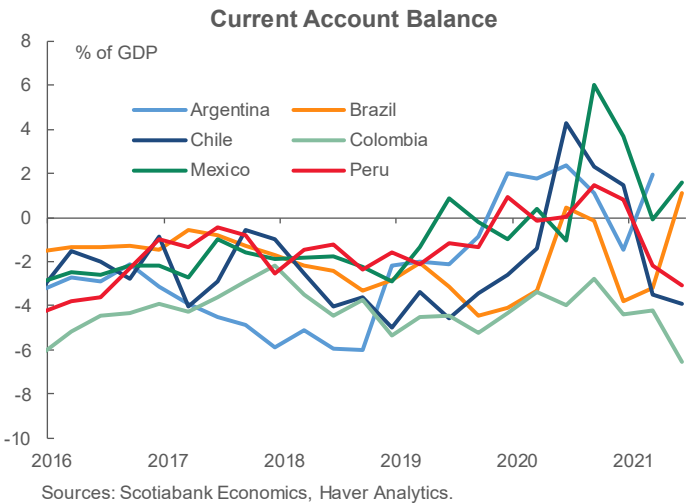
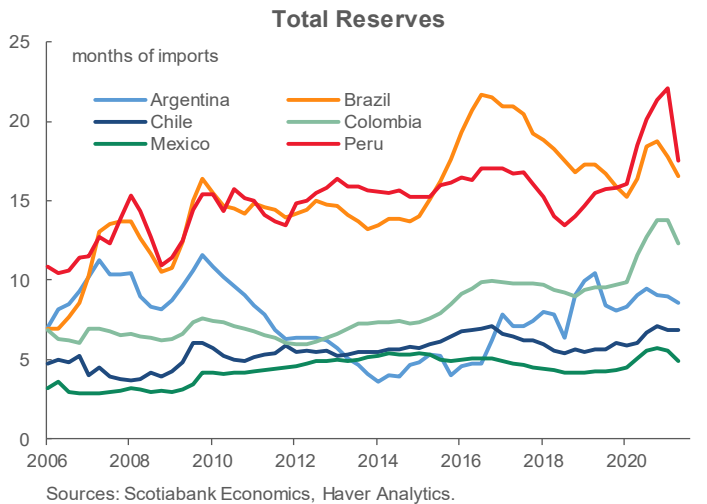
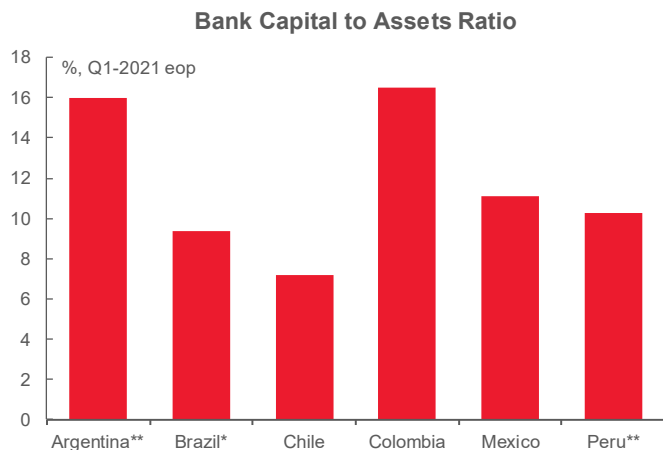


Chart 10



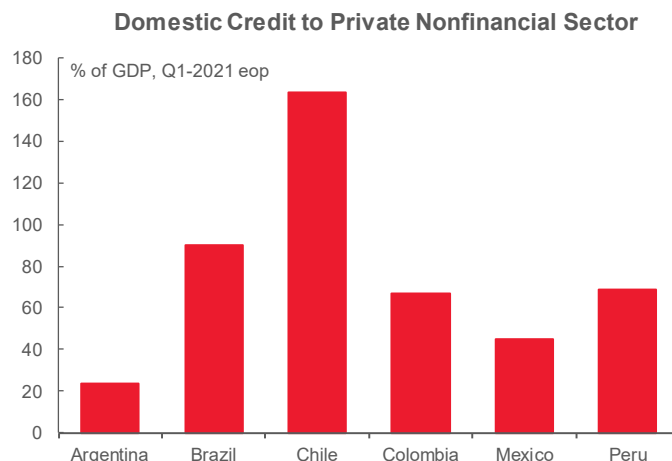
Key Market Charts

Chart 1



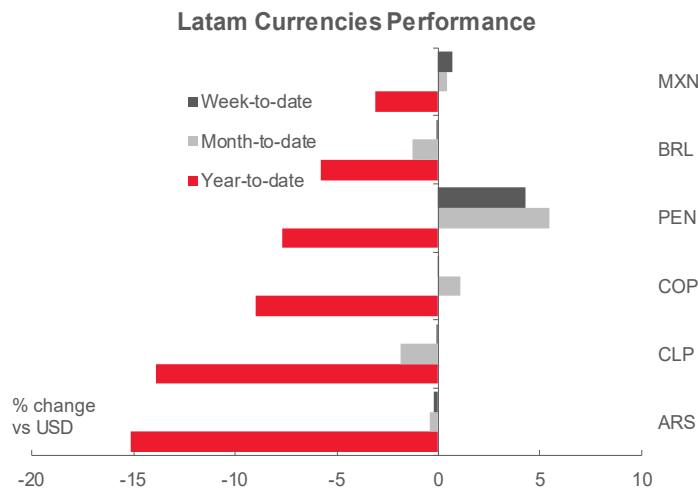
* Data to Q3-2020; ** Data to Q2-2021.
Sources: Scotiabank Economics, IMF.

Chart 2



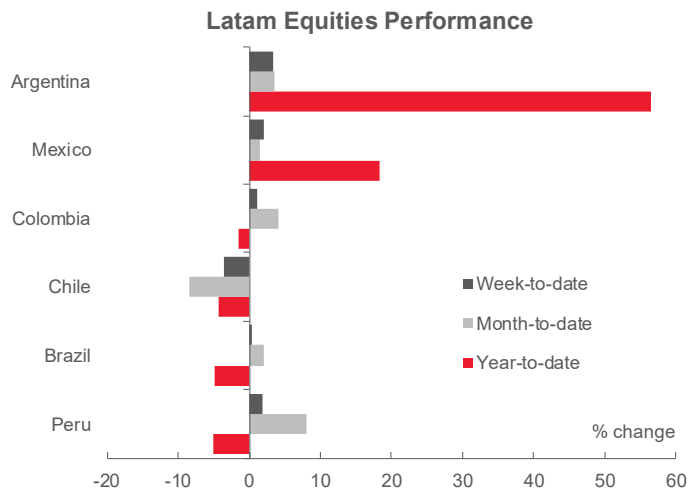
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3



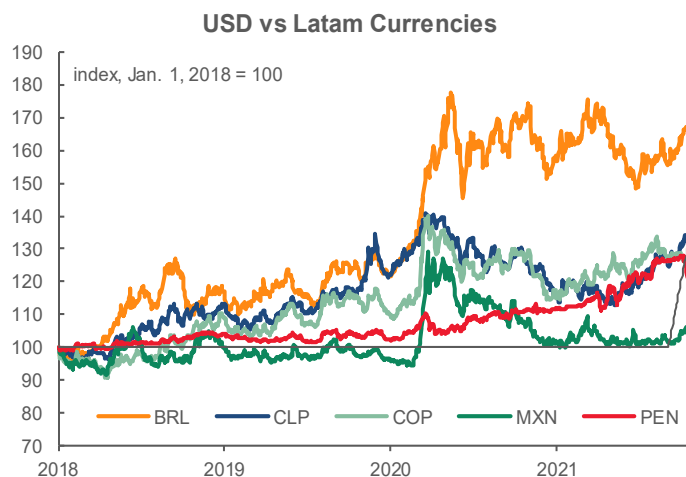
Sources: Scotiabank Economics, Bloomberg.

Chart 4



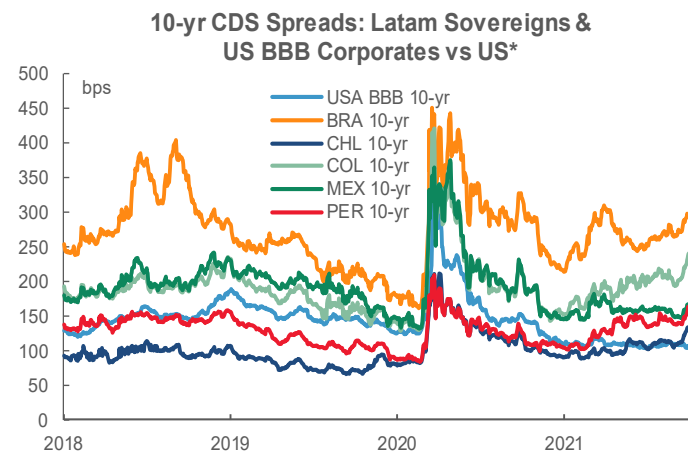
Sources: Scotiabank Economics, Bloomberg.

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

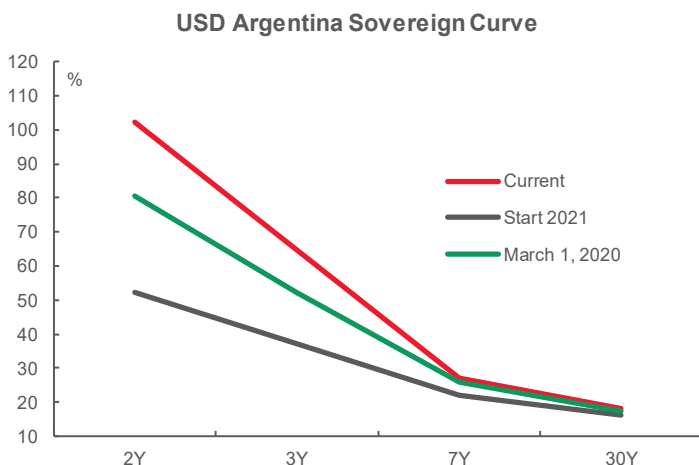


Chart 2

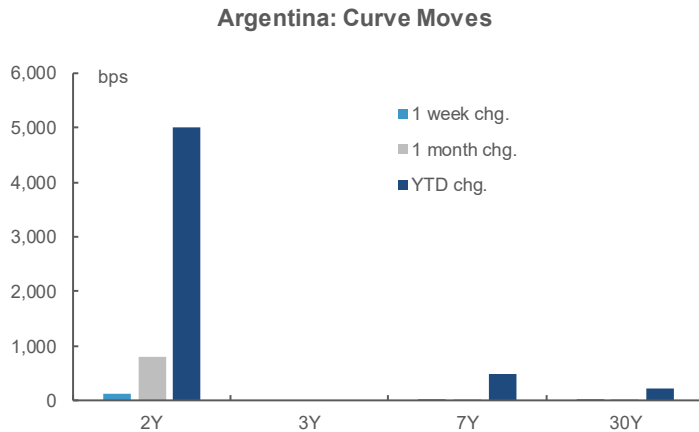


Chart 3

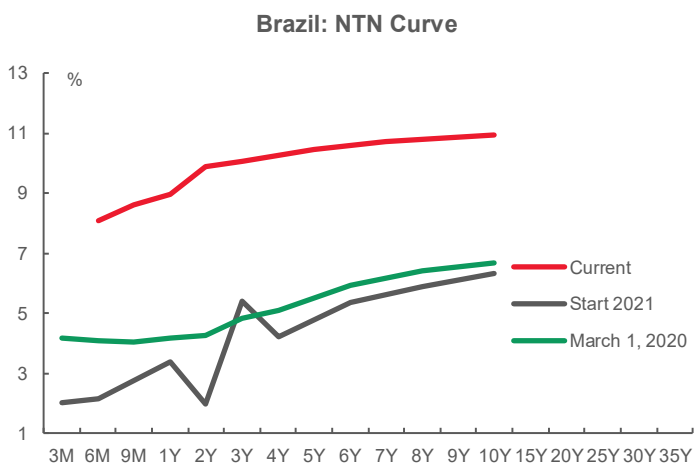


Chart 4

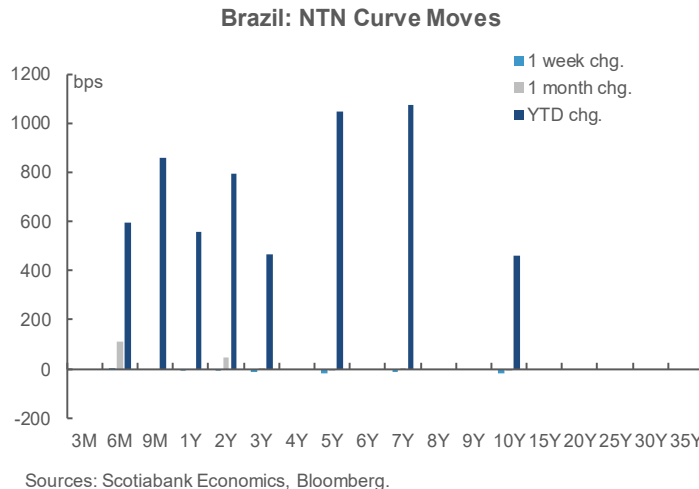


Chart 5

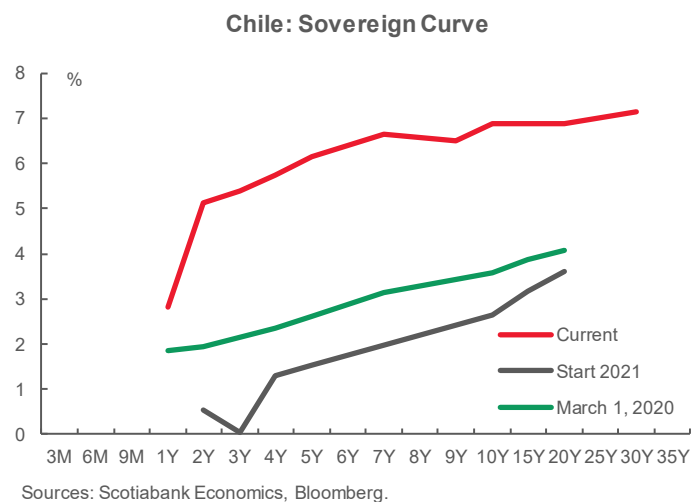
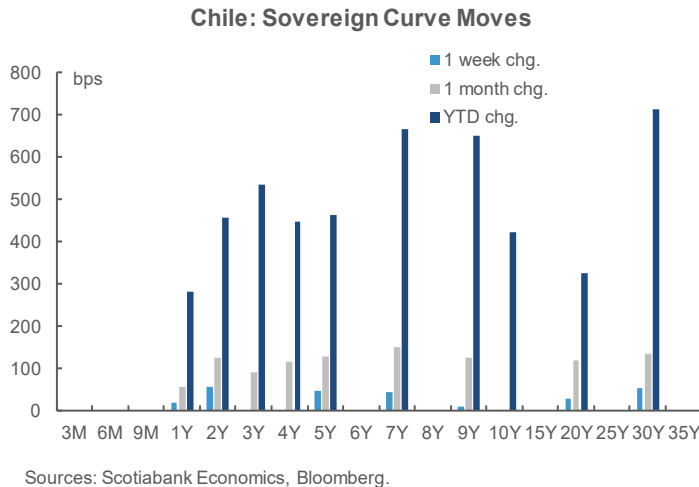


Chart 6



Yield Curves

Chart 7

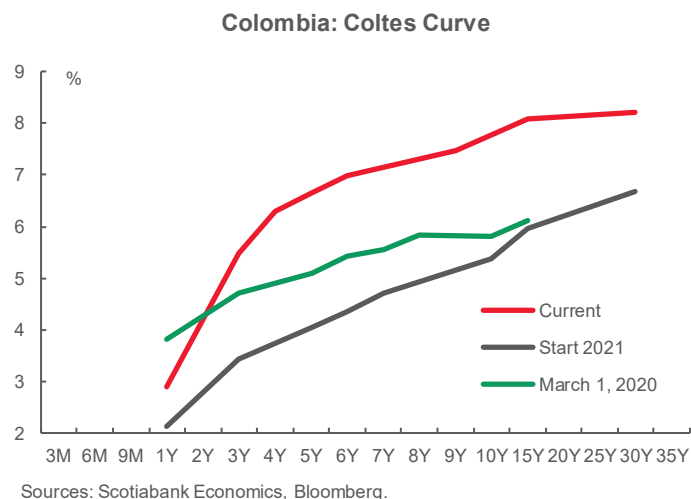


Chart 8

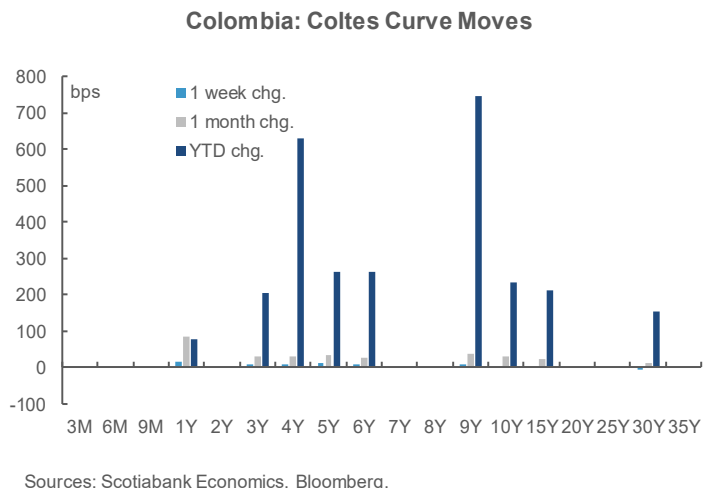


Chart 9

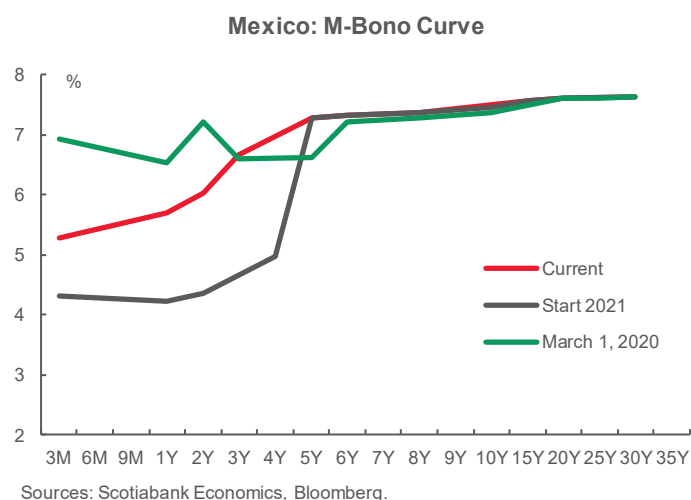


Chart 10



Chart 11

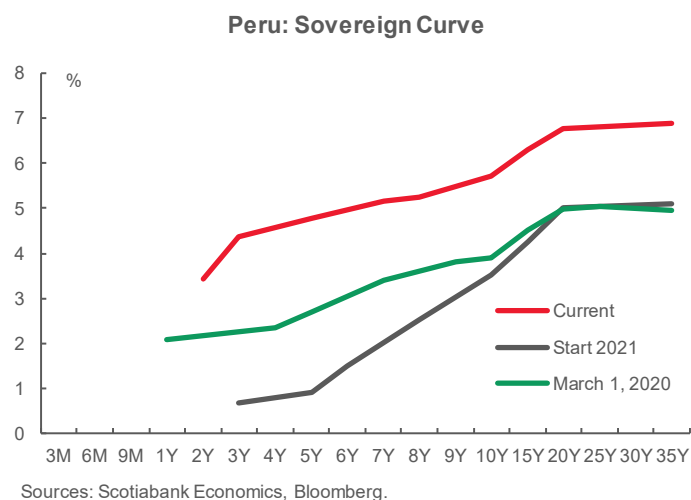
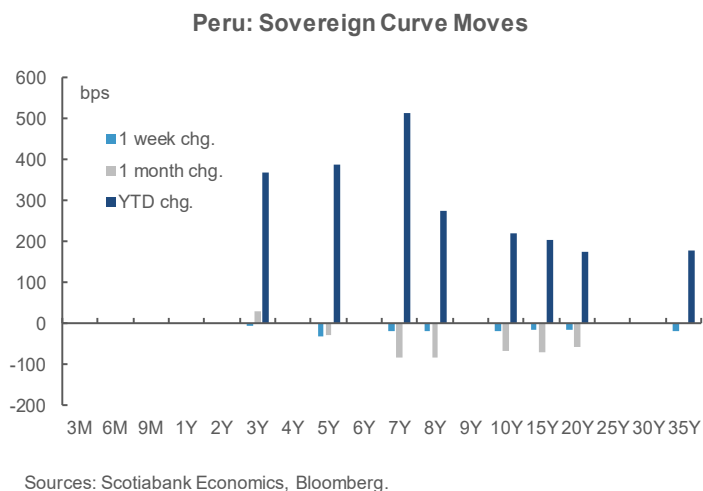


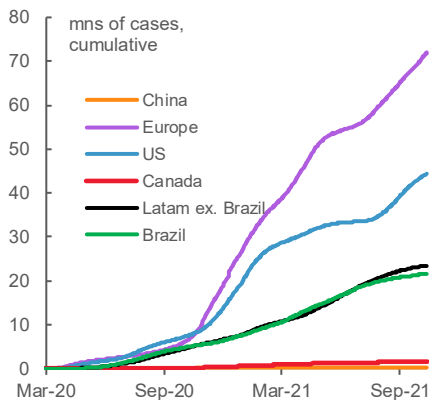
Chart 12



Key COVID-19 Charts

Chart 1

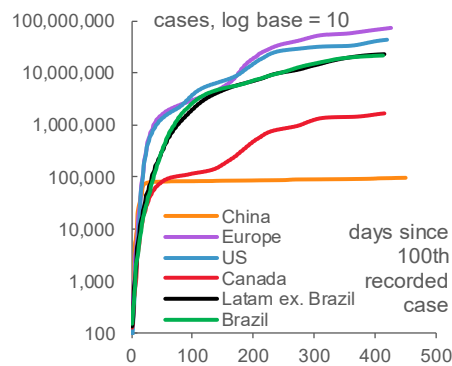
Global COVID-19 Cases



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

Chart 2

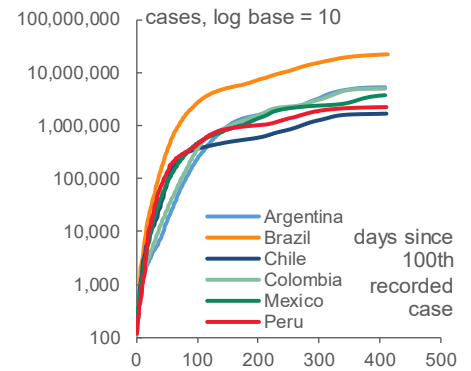
Global Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

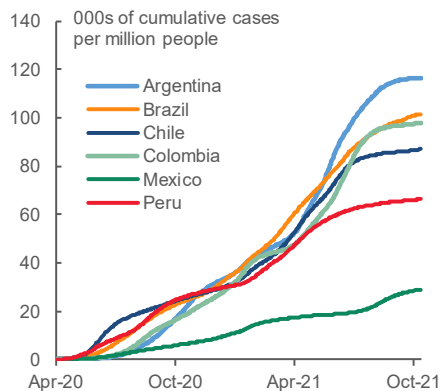
Latam Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

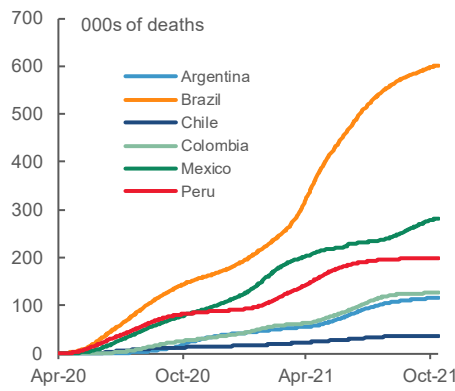
Latam Population-Adjusted COVID-19 Cases



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

Chart 5

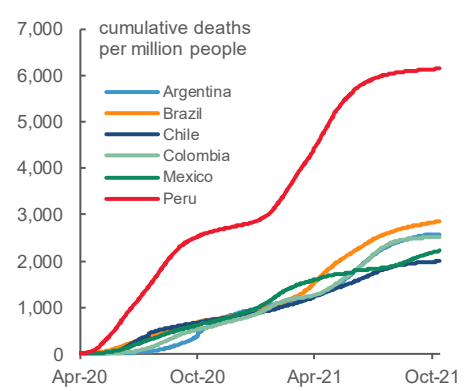
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

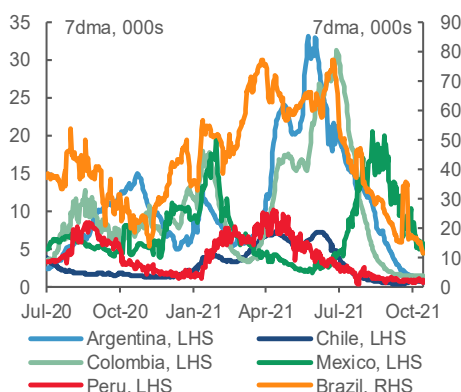
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

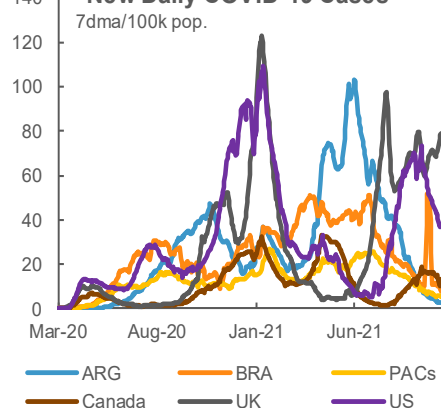
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

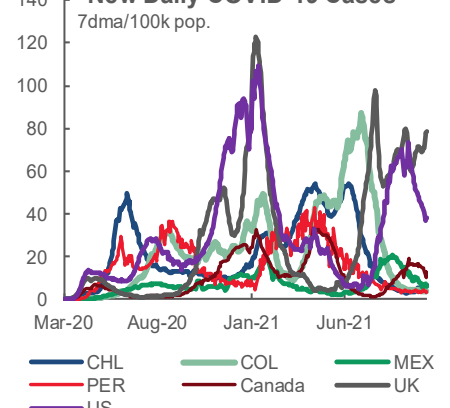
Latam vs World: New Daily COVID-19 Cases



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

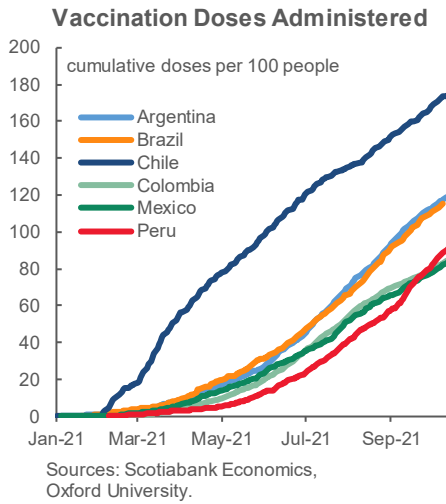


Chart 11

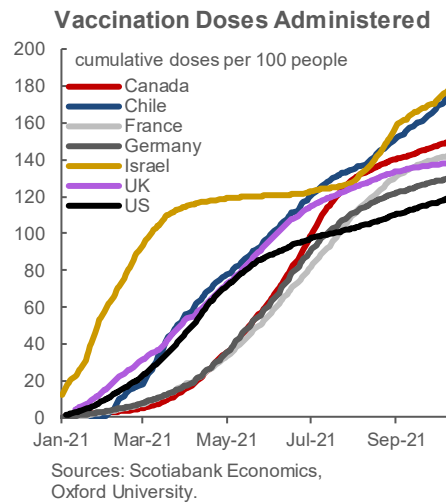
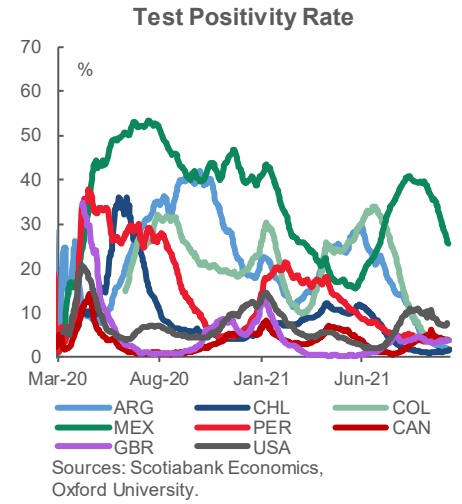


Chart 12



Market Events & Indicators for October 16–29

ARGENTINA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-18	15:00 Capacity Utilization (%)	Aug	--	--	64.1	
Oct-20	Budget Balance (ARS mn)	Sep	--	--	-124835.5	
Oct-20	UTDT Leading Indicator	Sep	--	--	-0.69	
Oct-21	15:00 Trade Balance (USD mn)	Sep	--	--	2339	
Oct-21	15:00 Exports Total (USD mn)	Sep	--	--	8093	
Oct-21	15:00 Imports Total (USD mn)	Sep	--	--	5754	
Oct-21	15:00 Economic Activity Index (y/y)	Aug	--	--	11.7	
Oct-21	15:00 Economic Activity Index (m/m)	Aug	--	--	0.8	
Oct-26	15:00 Shop Center Sales (y/y)	Aug	--	--	285.72	
Oct-26	15:00 Supermarket Sales (y/y)	Aug	--	--	4.16	
Oct-28	Consumer Confidence Index	Oct	--	--	40.52	
Oct-29	15:00 Wages (m/m)	Aug	--	--	4.91	

BRAZIL

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-18	7:00 FGV CPI IPC-S (%)	15-Oct	--	--	1.43	
Oct-18	7:25 Central Bank Weekly Economist Survey		--			
Oct-18	14:00 Trade Balance Weekly (USD mn)	17-Oct	--	--	1102.5	
Oct-19	4:00 FIPE CPI - Weekly (%)	15-Oct	--	1.07	1.09	
Oct-22	8:30 Current Account Balance (USD mn)	Sep	--	1400	1683.7	
Oct-22	8:30 Foreign Direct Investment (USD mn)	Sep	--	4179.7	4450.5	
Oct-25	7:00 FGV CPI IPC-S (%)	22-Oct	--	--	1.43	
Oct-25	7:00 FGV Consumer Confidence	Oct	--	--	75.3	
Oct-25	7:25 Central Bank Weekly Economist Survey		--			
Oct-25	8:30 Outstanding Loans (m/m)	Sep	--	--	1.5	
Oct-25	8:30 Total Outstanding Loans (BRL bn)	Sep	--	--	4335.4	
Oct-25	8:30 Personal Loan Default Rate (%)	Sep	--	--	4.15	
Oct-25	14:00 Trade Balance Weekly (USD mn)	24-Oct	--	--	1102.5	
Oct 20-25	Tax Collections (BRL mn)	Sep	--	--	146463	
Oct-26	4:00 FIPE CPI - Weekly (%)	23-Oct	--	1.07	1.09	
Oct-26	7:00 FGV Construction Costs (m/m)	Oct	--	--	0.56	
Oct-26	8:00 IBGE Inflation IPCA-15 (m/m)	Oct	--	--	1.14	
Oct-26	8:00 IBGE Inflation IPCA-15 (y/y)	Oct	--	--	10.05	
Oct-26	Formal Job Creation Total	Sep	--	--	372265	
Oct-27	8:00 National Unemployment Rate (%)	Aug	--	--	13.7	
Oct-27	17:30 Selic Rate (%)	27-Oct	--	--	6.25	
Oct-28	7:00 FGV Inflation IGPM (m/m)	Oct	--	--	-0.64	
Oct-28	7:00 FGV Inflation IGPM (y/y)	Oct	--	--	24.86	
Oct-29	8:30 Primary Budget Balance (BRL bn)	Sep	--	--	16.729	
Oct-29	8:30 Nominal Budget Balance (BRL bn)	Sep	--	--	-29.739	
Oct-29	8:30 Net Debt % GDP	Sep	--	--	59.34	
Oct-29	13:30 Central Govt Budget Balance (BRL bn)	Sep	--	--	-9.88	
Oct 25-29	Federal Debt Total (BRL bn)	Sep	--	--	5481	

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-22	8:00 PPI (m/m)	Sep	--	--	2.7	
Oct-29	8:00 Unemployment Rate (%)	Sep	--	--	8.5	
Oct-29	8:00 Retail Sales (y/y)	Sep	14	--	25.07	We forecast an increase in Retail Sales around 14% y/y in September. New upturn in purchases with credit and debit cards in September, evidence that the liquidity coming from fiscal aid and withdrawals of pension funds is being consumed intensely.
Oct-29	8:00 Commercial Activity (y/y)	Sep	--	--	22.17	
Oct-29	8:00 Manufacturing Production (y/y)	Sep	--	--	10.56	
Oct-29	8:00 Industrial Production (y/y)	Sep	--	--	4.24	
Oct-29	8:00 Copper Production Total (tons)	Sep	--	--	466928	

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

Market Events & Indicators for October 16–29

COLOMBIA

<u>Date</u>	<u>Time Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest BNS Comments</u>
Oct-19	11:00 Trade Balance (USD mn)	Aug	--	--	-1209.2
Oct-19	11:00 Imports CIF Total (USD mn)	Aug	--	--	4801.4
Oct-19	12:00 Economic Activity NSA (y/y)	Aug	17.6	--	14.31 Economic recovery will continue consolidating gains in August as main cities continued reducing restrictions for some services.
Oct-22	Industrial Confidence	Sep	--	--	15.6
Oct-22	Retail Confidence	Sep	--	--	43.5
Oct-29	11:00 National Unemployment Rate (%)	Sep	12	--	12.33 Jobs will continue increasing, however as
Oct-29	11:00 Urban Unemployment Rate (%)	Sep	13.8	--	14.19 more people return to the labor market, the unemployment rate will improve slowly.
Oct-29	14:00 Overnight Lending Rate (%)	29-Oct	2.25	--	2.00 Split decision will remain in the next central bank meeting. Some board members remain cautious, while the most hawkish side is closely watching core inflation expectations. We expect a 25 bps hike as in current environment gradualism would prevail, however we know 50 bps hike is possible.

MEXICO

<u>Date</u>	<u>Time Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest BNS Comments</u>
Oct-19	10:00 International Reserves Weekly (USD mn)	15-Oct	--	--	198482
Oct-20	Citibanamex Survey of Economists		--		
Oct-21	7:00 Retail Sales (m/m)	Aug	--	--	-0.4
Oct-21	7:00 Retail Sales (y/y)	Aug	--	--	9.9
Oct-22	7:00 Bi-Weekly CPI (%)	15-Oct	--	--	0.21
Oct-22	7:00 Bi-Weekly Core CPI (%)	15-Oct	--	--	0.13
Oct-22	7:00 Bi-Weekly CPI (y/y)	15-Oct	--	--	6.13
Oct-25	7:00 Economic Activity IGAE (y/y)	Aug	--	--	7.09
Oct-25	7:00 Economic Activity IGAE (m/m)	Aug	--	--	0.54
Oct-25	7:00 Unemployment Rate NSA (%)	Sep	--	--	4.33
Oct-26	10:00 International Reserves Weekly (USD mn)	22-Oct	--	--	198482
Oct-27	7:00 Trade Balance (USD mn)	Sep	--	--	-3902.21
Oct-29	7:00 GDP NSA (y/y)	3Q P	--	--	19.56
Oct-29	7:00 GDP SA (q/q)	3Q P	--	--	1.47
Oct-29	10:00 Net Outstanding Loans (MXN bn)	Sep	--	--	4639.5
Oct-29	Budget Balance YTD (MXN bn)	Sep	--	--	-262.44

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