

Contributors

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

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Latam Charts: Searching for the Sweet Spot

- **High US inflation increases the odds that the Fed has fallen behind the tightening curve, possibly requiring rate hikes that come faster and are larger than previously expected. That scenario could entail an abrupt slowing of the US economy.**
- **Higher US rates and lower external demand would weigh heavily on Latam growth prospects. And central banks in the region that are dealing with their own inflation problems will have to find the sweet spot in their monetary tightening, calibrating the pace and size of their response to meet their price stability commitments.**

KEY ECONOMIC CHARTS

Fresh inflation data in the US point to heightened external risks to the Latam region. As Scotiabank's Derek Holt [argues](#), January's inflation numbers released February 10 increase the odds that the Fed has fallen behind the tightening curve. And with that possibility comes the potential for faster, higher US rate hikes that could lead to an abrupt slowing of the economy.

Lower external demand and higher US interest rates would weigh heavily on Latam growth prospects. Central banks in the region have been actively tightening monetary conditions to contain their own inflation problem, attempting to find the “sweet spot” in terms of a glide path for growth, which rebounded strongly in 2021 and is expected to return to pre-pandemic levels (chart 1).

Recent monthly economic activity indicators (chart 2) are broadly consistent with that profile. In [Chile](#), for example, the December Imacec indicator showed a year-over-year increase of 10.1%, but weakness on a month-over-month basis. Meanwhile, the Ministry of Finance in Lima raised its forecast of 2022 growth to 3.5%, up from 2.5%. Similarly, in [Peru](#), while activity slowed in December, strong growth is assured for 2021. The outlook is less certain in [Mexico](#), which is teetering on the edge of a technical recession with two consecutive quarters of negative q/q growth. Recent activity indicators there have sent a mixed message. The situation in Brazil also warrants close monitoring as activity has fallen sharply.

Central banks' search for the sweet spot has taken on added urgency and importance in recent weeks as additional inflation data has come in. Inflation increased significantly over the course of 2021 (chart 3), and now exceeds central bank targets. Price pressures have proven stubbornly persistent, contrary to the expectation just a few months ago. In [Colombia](#), inflation surged higher in January to 1.67% m/m (6.94% y/y). And even where headline inflation has moderated slightly, as in [Mexico](#), core inflation has pushed higher.

This increase in inflation across the Latam region has occurred despite higher policy rates (chart 4), which have been on an upward trajectory for the past six months or more. In this respect, while Latam central banks have moved earlier than their advanced country counterparts, they are nevertheless grappling with the question of whether they have been sufficiently aggressive in their rate hikes. Banxico in Mexico and the BCRP in Peru both raised their policy rates 50 basis points on [February 10](#); across the region, higher rates are coming, with decisions dependent on new data as it becomes available. For example, our team in Santiago expects that the BCh will have to [raise](#) the policy rate by 100–150 bps in its March meeting given the 1.2% m/m inflation recorded in January.

Because Latam central banks have moved earlier than their advanced country peers, real policy rates (adjusted for inflation) are now positive, with the exception of Peru (where rates remain slightly negative), in contrast to international experience (chart 5). But with US rates headed higher, that gap is likely to narrow. Going forward, therefore, external financial conditions will become more challenging.

In this environment, global investors will become more attuned to, and capital flows more sensitive to, a wide range of indicators. Fiscal balances, which deteriorated in the pandemic as governments in the region provided extraordinary supports to the economy and vulnerable populations, are one such indicator (chart 6). General government gross debt as a share of GDP (chart 7) is another indicator. Latam governments have been proactive on the fiscal front, reaffirming commitments to medium-term fiscal plans and identifying fiscal reforms to ensure long-term sustainability. Meanwhile, in [Colombia](#) strong growth in 2021 has led to better-than-expected fiscal outcomes in 2021 and lower expected borrowing requirements for 2022. Strong growth in 2021 also improved tax collections in [Peru](#), and led to a lower projected structural fiscal deficit in [Chile](#).

Global investors and domestic residents will also be looking at external debt burdens (chart 8), current account balances (chart 9), and international reserves (chart 10). As we have repeatedly observed in recent editions of the *Latam Charts Weekly*, none of these are signalling immediate concerns. However, the persistent widening of current account deficits in Chile and Colombia may garner more attention in the months ahead, particularly if that trend accelerates.

KEY MARKET CHARTS

Latam financial markets have generally performed well since the start of 2022. Most regional currencies have appreciated against the US dollar, despite the increasing likelihood of larger Fed rate hikes. In contrast to their regional neighbours, Argentina and Mexico have seen their currencies depreciate.

Similarly, equity markets across the Latam region have seen strong gains over the past six weeks, led by Colombia. Mexico's market has lost ground, likely in response to the deterioration in the economic outlook and prospects of higher rates needed to contain price pressures. Renewed political uncertainty in Peru, stemming from a revolving door on the Cabinet room, may be reflected in market losses over the past week or so.

Over a longer-term perspective, Latam currencies depreciated against the US dollar over much of 2021 (chart 5). In Peru, the PEN staged an impressive appreciation in the second half of the year, notwithstanding persistent political uncertainty, driven by strong global metals prices. For the most part, 10-year CDS spreads have been broadly stable since the start of 2022, though at levels above pre-pandemic levels in Chile and Peru; the widening spreads on the 10-year sovereigns of Brazil and Colombia in the second half of 2021 (well above pre-pandemic levels) continues to warrant attention.

YIELD CURVE CHARTS

Sovereign yield curves across the Latam region have been remarkably stable since the start of the new year (charts 1–20). Most shifted up more or less uniformly across the maturity spectrum, though there has been a marked flattening in Brazil's and Chile's curves relative to a year ago, while Argentina's yield curve remains highly inverted.

KEY COVID-19 CHARTS

While the Fed's potential response to sustained US inflation point to heightened risks to Latam growth prospects, the omicron variant poses a more immediate threat. Key COVID-19 monitoring charts (charts 1–12) provide useful guideposts for tracking the latest developments. As has been observed in other countries, cumulative cases (chart 4) and new daily cases (chart 7), and test positivity rates have all shot higher. However, to this point at least, higher caseloads have not been reflected in the data on cumulative mortality rates (chart 6). This effect is explained, in part, by the lag between infection and subsequent severe illness, and in part by the protection provided by vaccination. In this regard, progress has been made in getting populations inoculated with at least one dose (chart 10), with Chile leading the way both in the region and on a global basis (chart 11).

Key Economic Charts

Chart 1

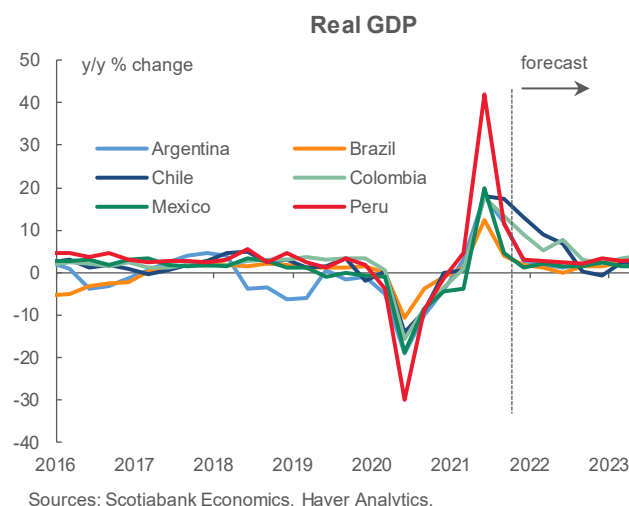


Chart 2

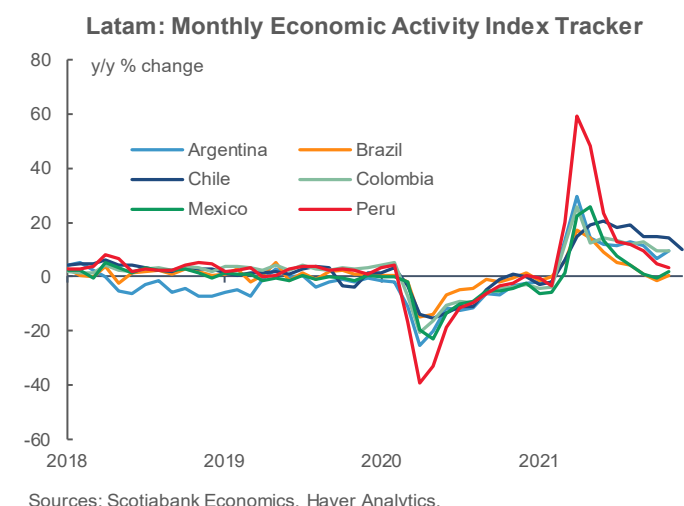


Chart 3

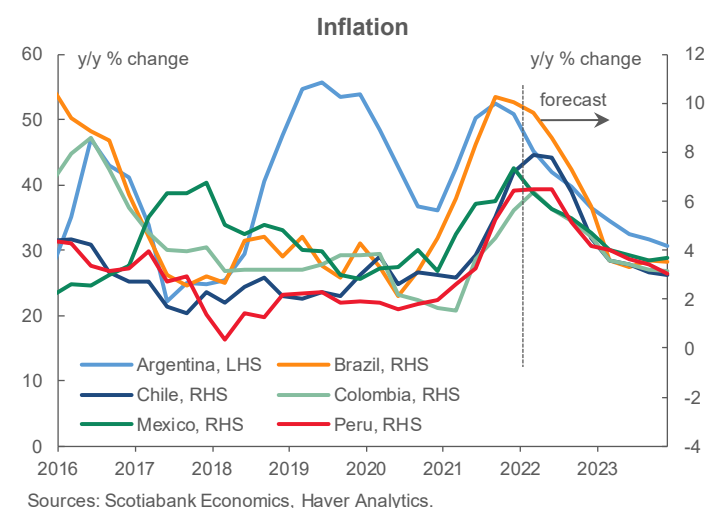


Chart 4

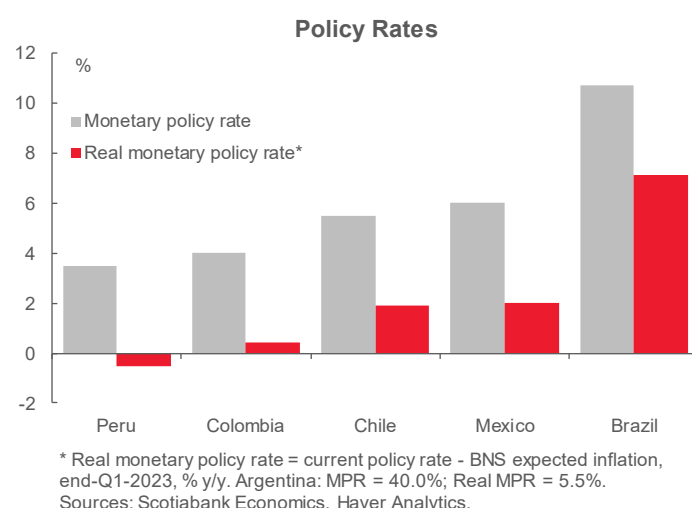


Chart 5

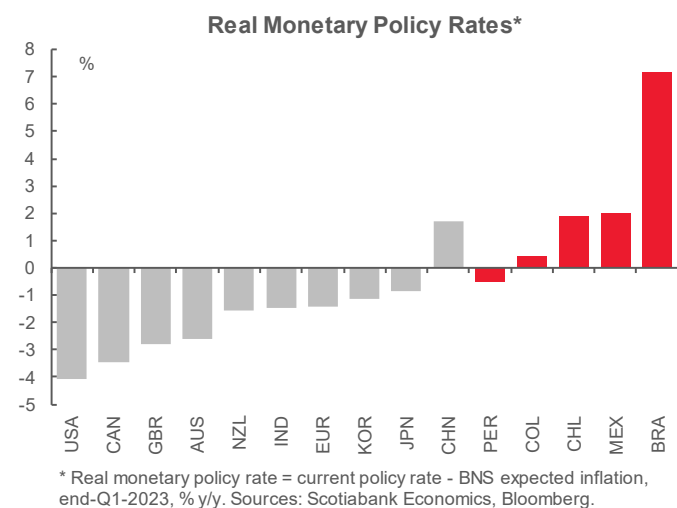
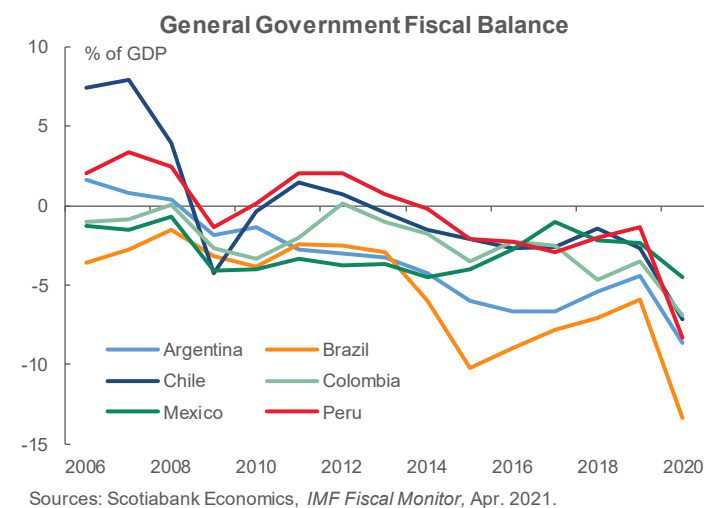


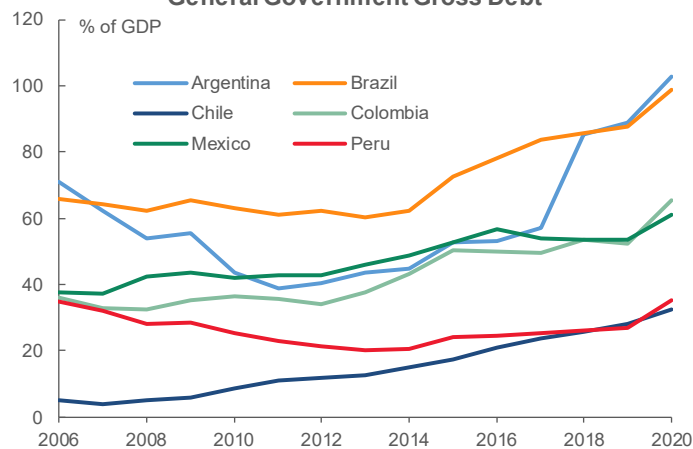
Chart 6



Key Economic Charts

Chart 7

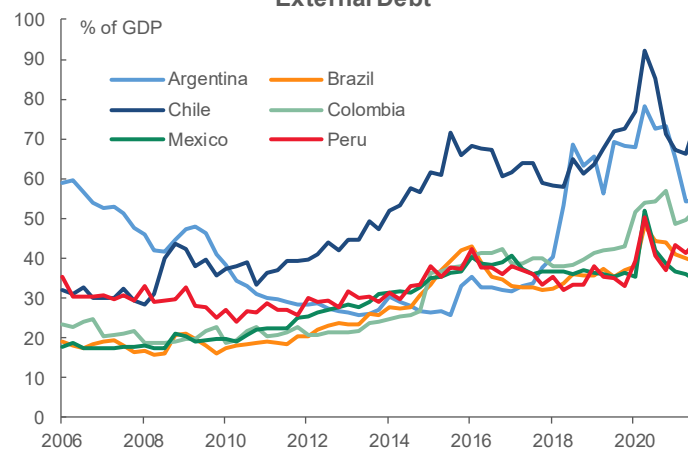
General Government Gross Debt



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

Chart 8

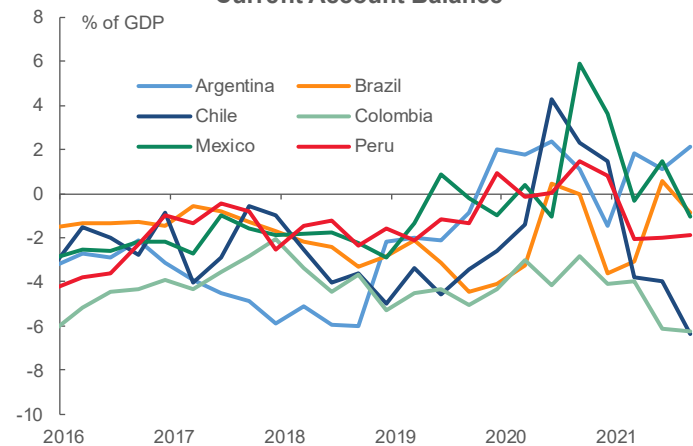
External Debt



Sources: Scotiabank Economics, Haver Analytics.

Chart 9

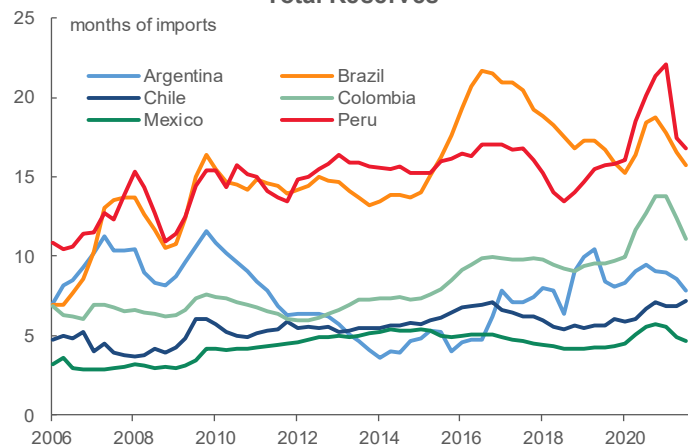
Current Account Balance



Sources: Scotiabank Economics, Haver Analytics.

Chart 10

Total Reserves

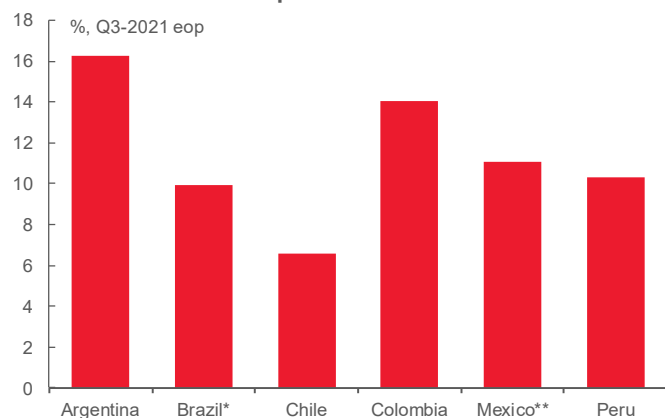


Sources: Scotiabank Economics, Haver Analytics.

Key Market Charts

Chart 1

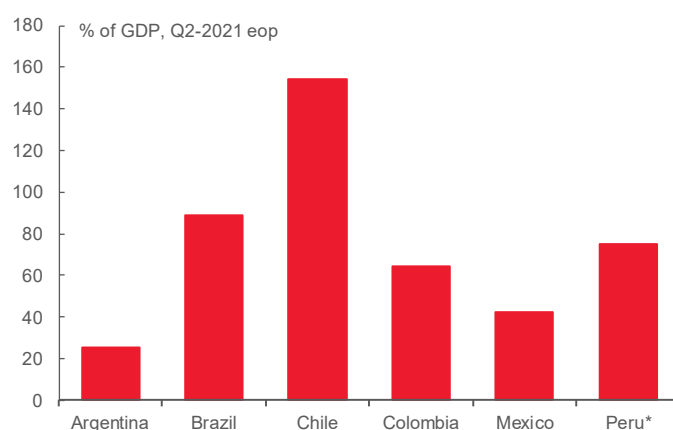
Bank Capital to Assets Ratio



* Data to Q2-2021; ** Data to Q1-2021.
Sources: Scotiabank Economics, IMF.

Chart 2

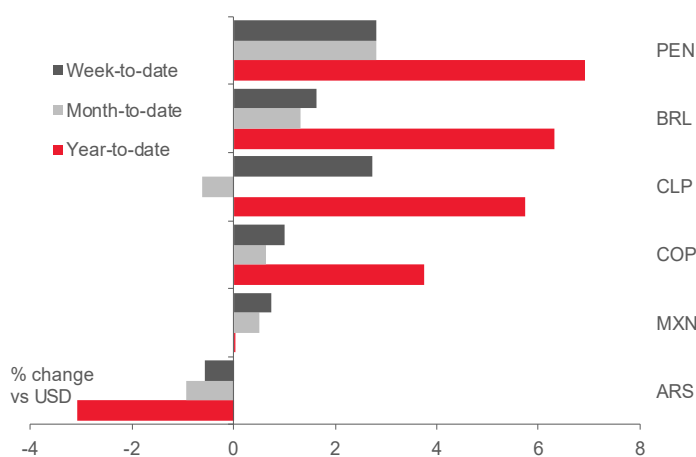
Domestic Credit to Private Nonfinancial Sector



* Data to Q3-2021.
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

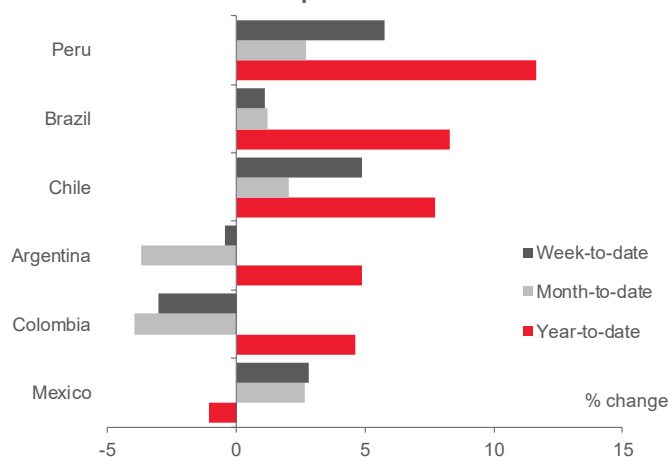
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 4

Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 5

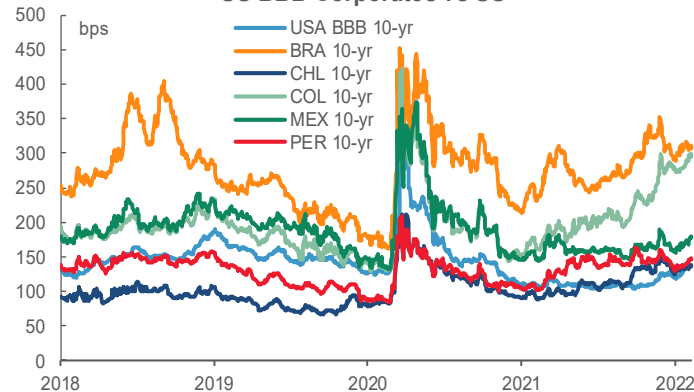
USD vs Latam Currencies



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

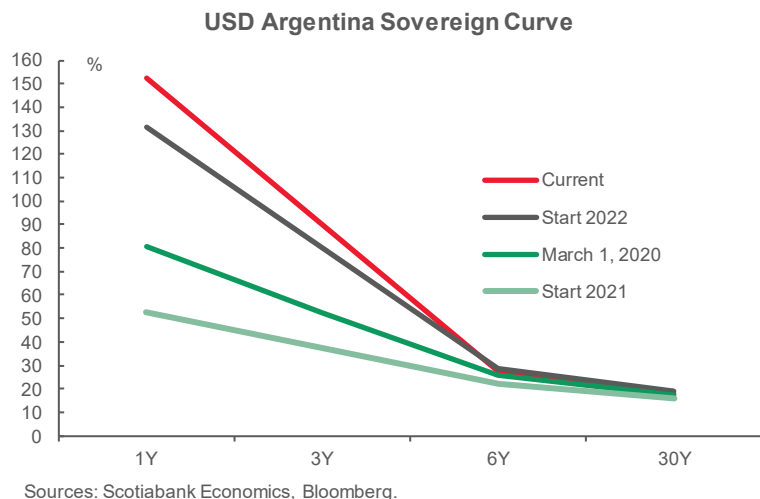


Chart 2



Chart 3

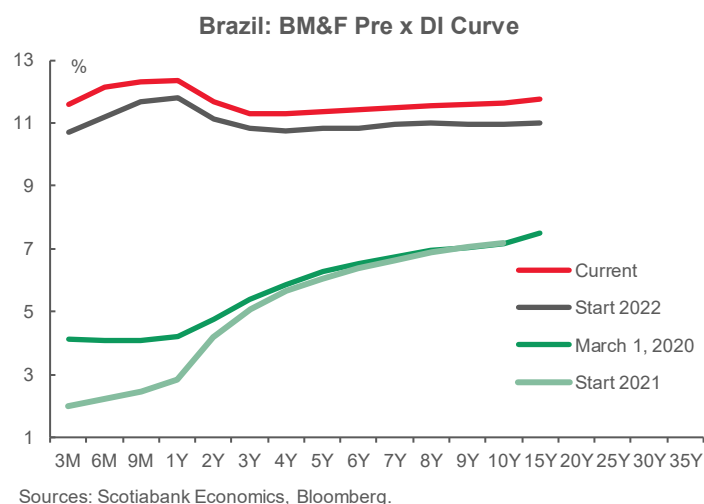


Chart 4

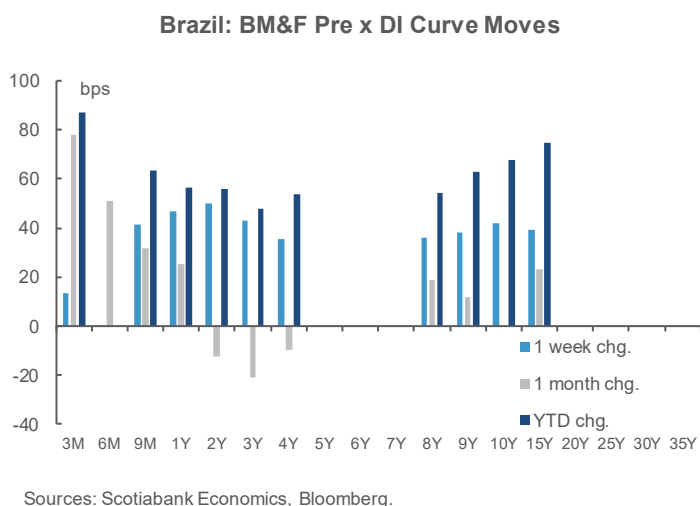


Chart 5

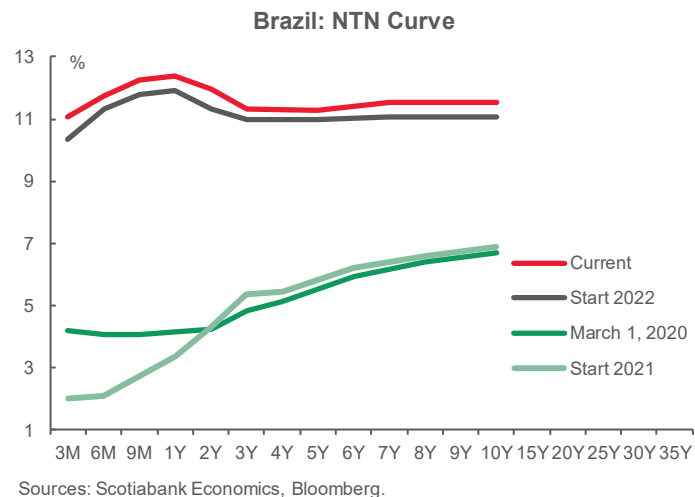
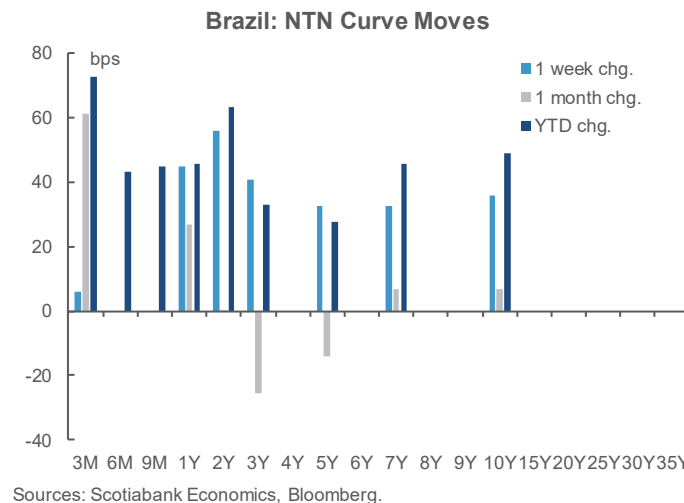


Chart 6



Yield Curves

Chart 7

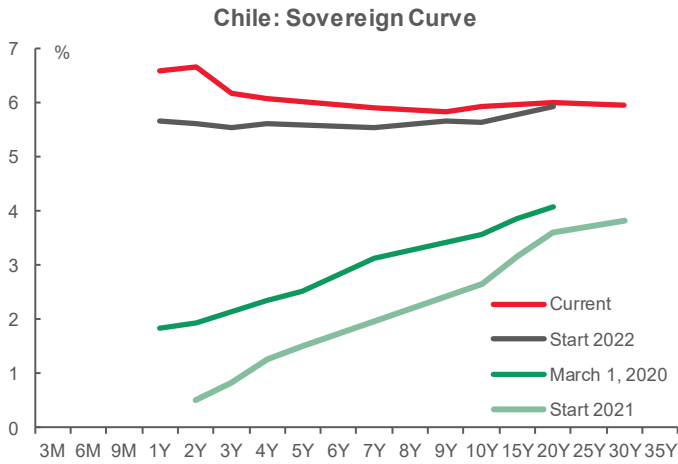


Chart 8

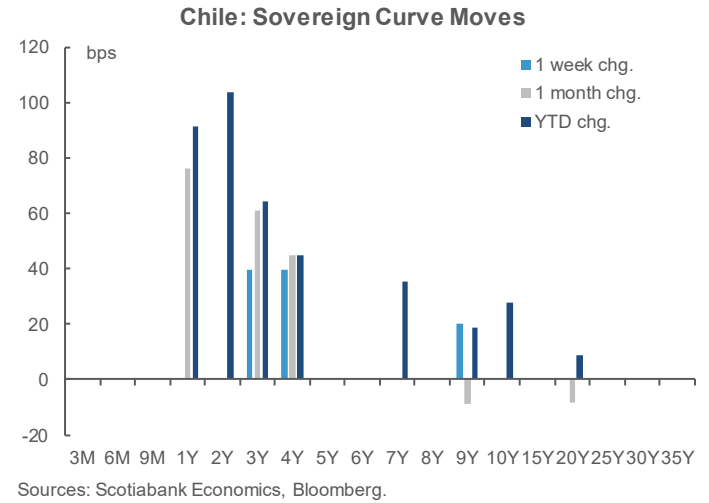


Chart 9

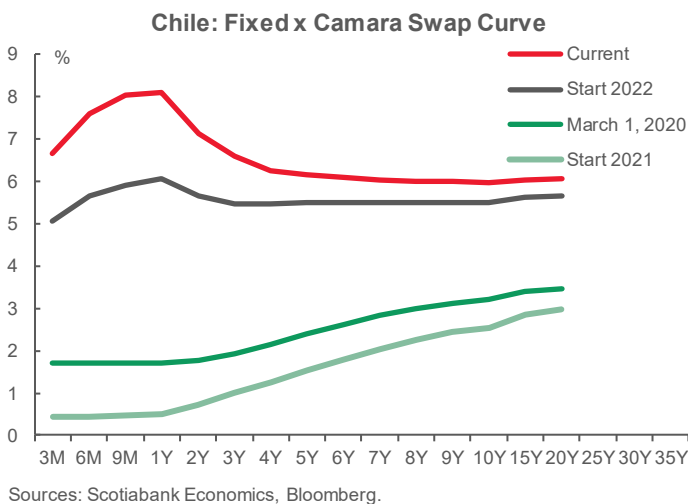


Chart 10

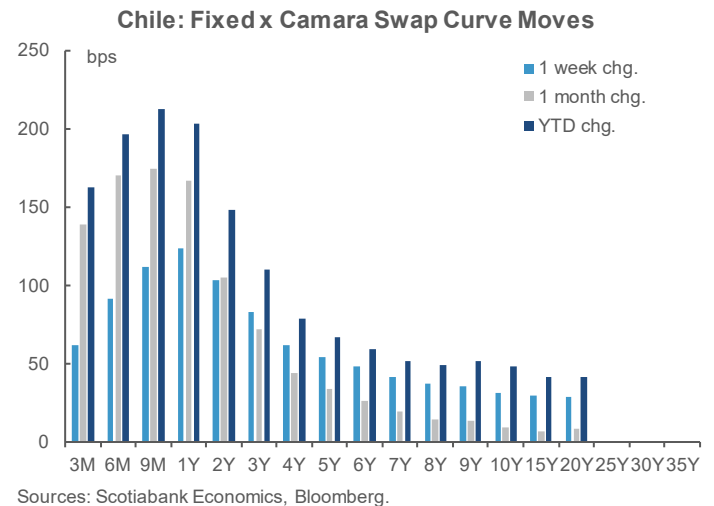


Chart 11

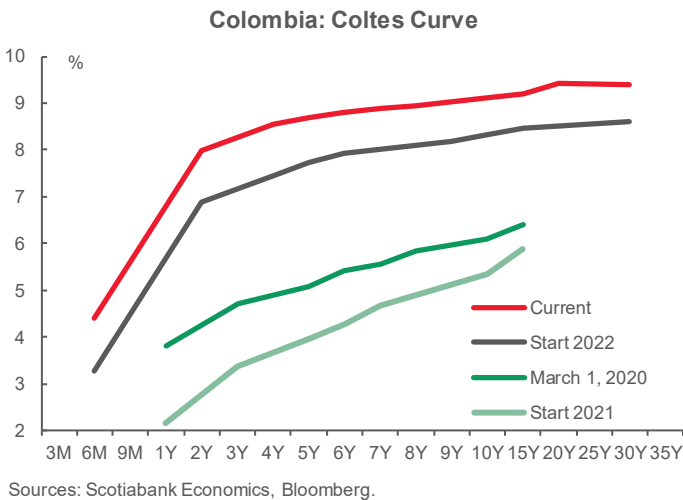
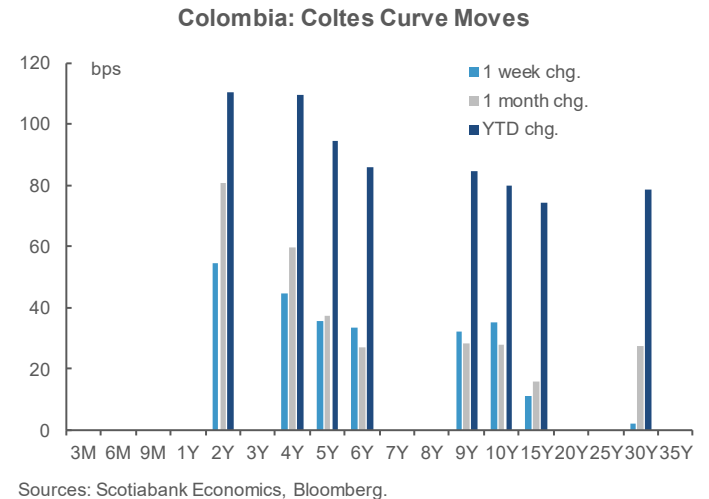


Chart 12



Yield Curves

Chart 13

Colombia: UVR-Indexed Curve

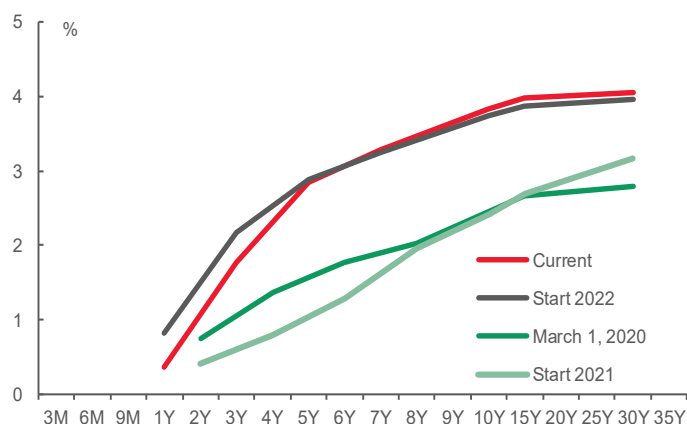


Chart 14

Colombia: UVR-Indexed Curve Moves

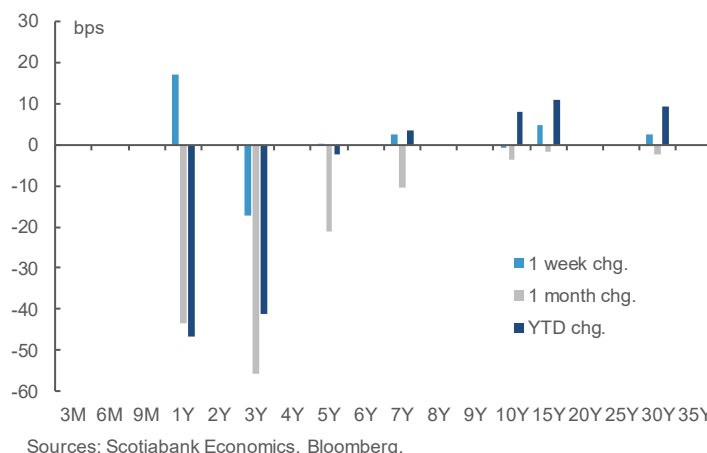


Chart 15

Mexico: M-Bono Curve

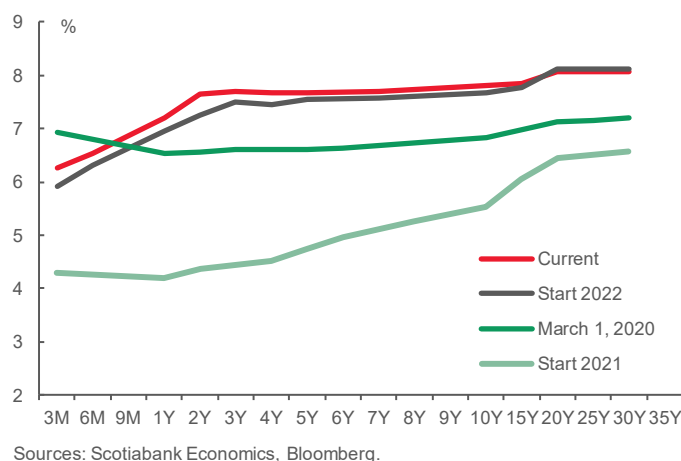


Chart 16

Mexico: M-Bono Curve Moves

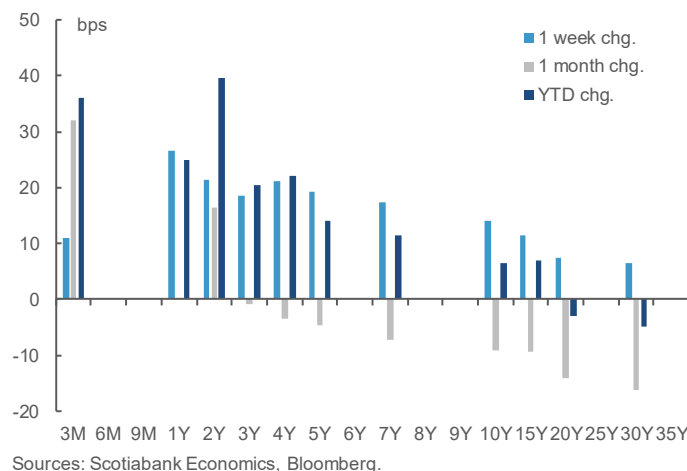


Chart 17

Mexico: Udibonos BVAL Yield Curve

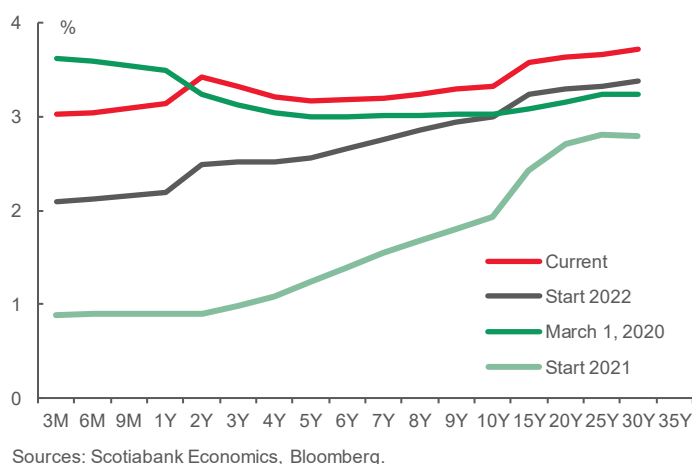
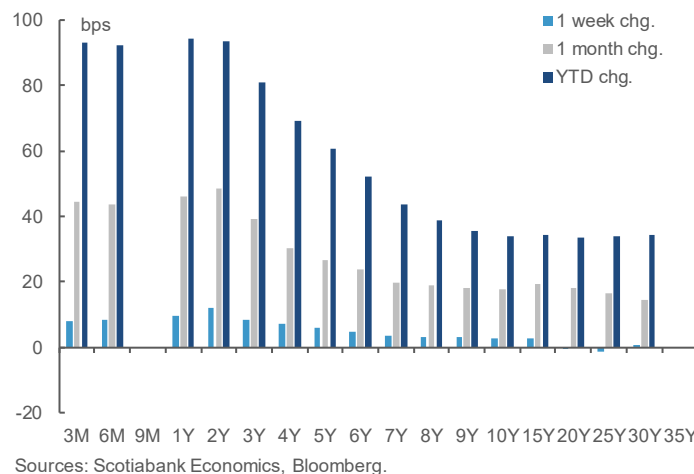


Chart 18

Mexico: Udibono Curve Moves



Yield Curves

Chart 19

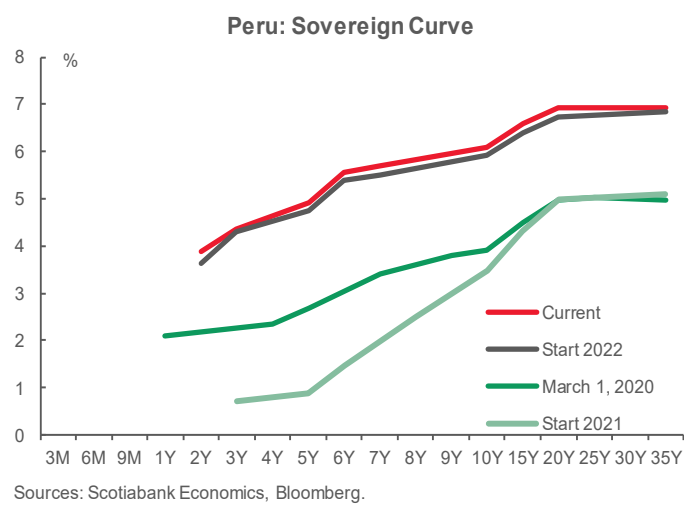
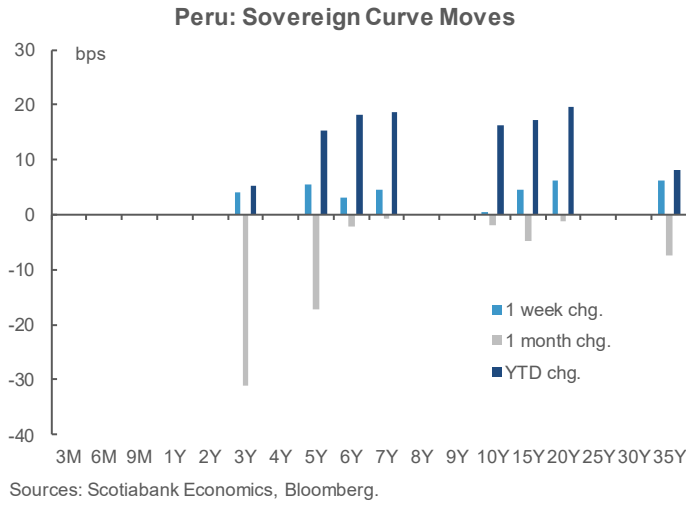


Chart 20



Key COVID-19 Charts

Chart 1

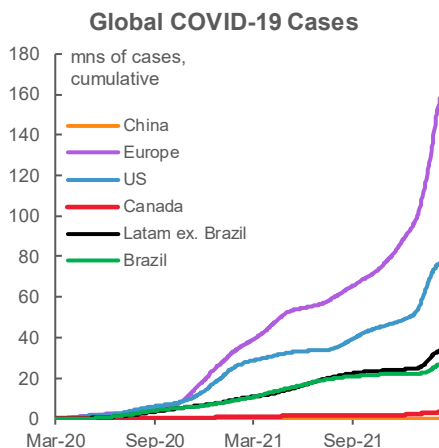


Chart 2

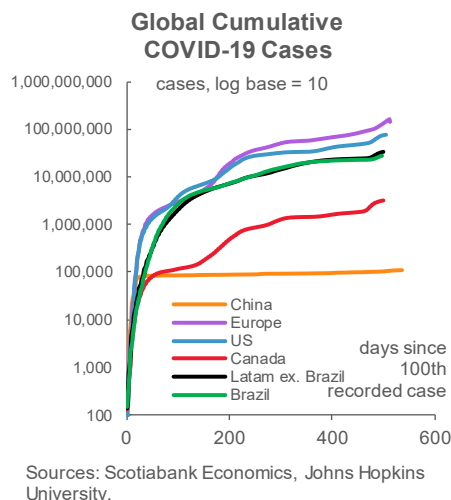


Chart 3

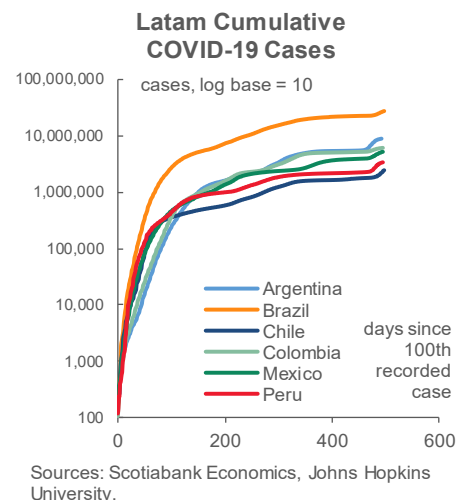


Chart 4

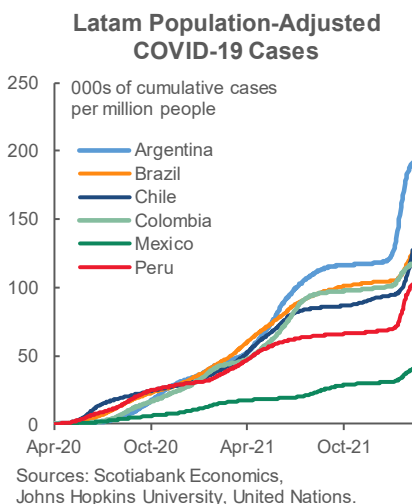


Chart 5

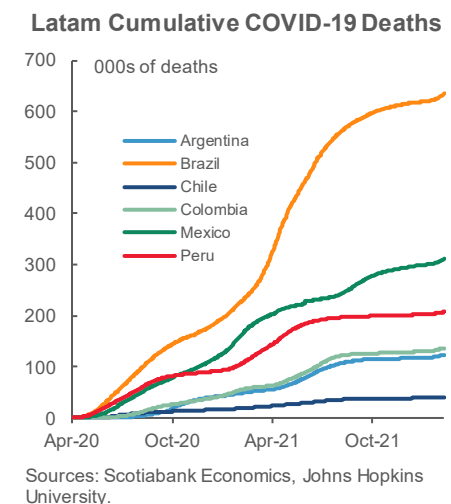


Chart 6

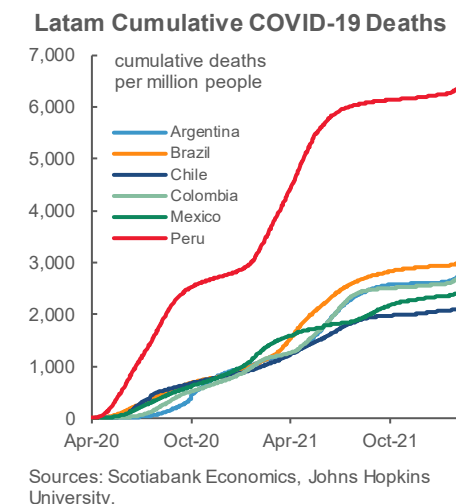


Chart 7

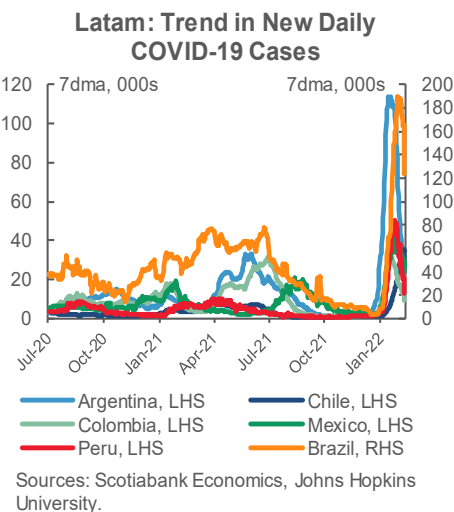


Chart 8

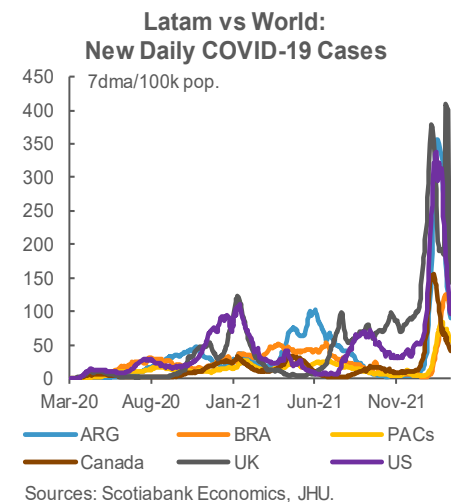
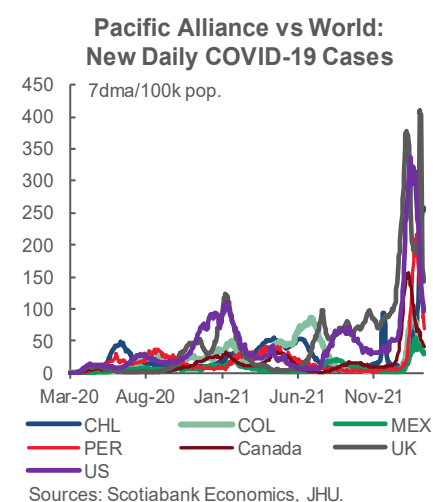


Chart 9



Key COVID-19 Charts

Chart 10

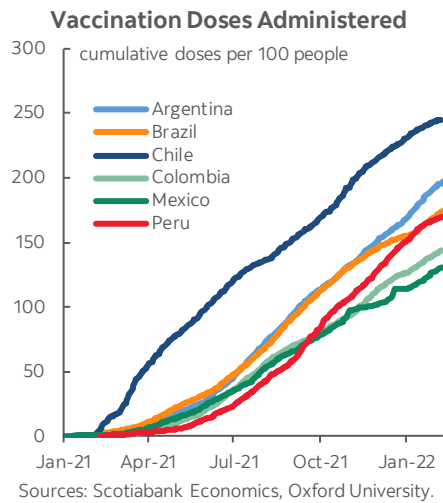


Chart 11

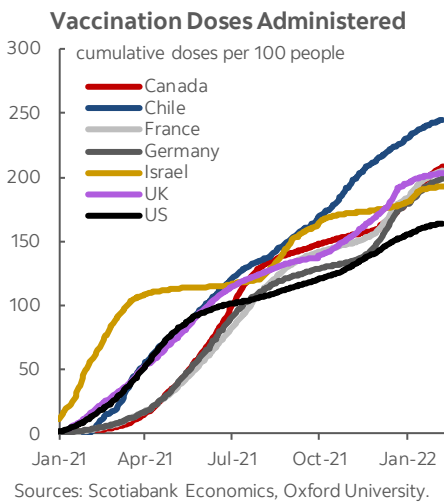
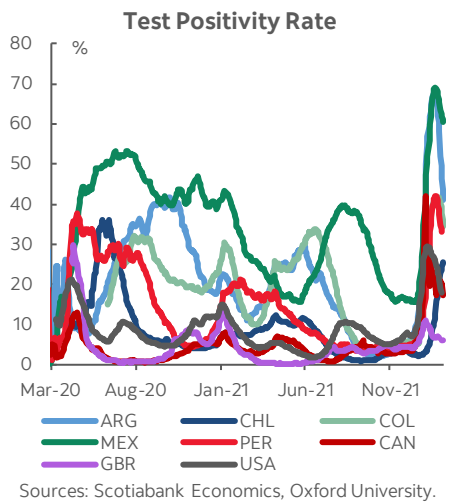


Chart 12



Market Events & Indicators for February 12–25

ARGENTINA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-15	14:00 Greater Buenos Aires CPI (m/m)	Jan	--	--	4.1	
Feb-15	14:00 Greater Buenos Aires CPI (y/y)	Jan	--	--	51.4	
Feb-15	14:00 National CPI (m/m)	Jan	2.8	--	3.8	Risks are to the upside after 3.8% m/m in December and an avg. of 3.2% m/m in H2-21.
Feb-15	14:00 National CPI (y/y)	Jan	49.1	--	50.9	
Feb-16	14:00 Capacity Utilization (%)	Dec	--	--	68.8	
Feb-21	Budget Balance (ARS mn)	Jan	--	--	-496,343.6	
Feb-22	14:00 Exports Total (USD mn)	Jan	--	--	6,587.0	
Feb-22	14:00 Imports Total (USD mn)	Jan	--	--	6,216.0	
Feb-22	14:00 Trade Balance (USD mn)	Jan	--	--	371.0	
Feb-23	14:00 Economic Activity Index (m/m)	Dec	-7.2	--	1.7	Though December reflects a seasonal slowing, end-2021 activity was stronger than expected.
Feb-23	14:00 Economic Activity Index (y/y)	Dec	1.2	--	9.3	
Feb-23	UTDT Leading Indicator	Jan	--	--	0.1	
Feb-24	14:00 Shop Center Sales (y/y)	Dec	--	--	57.9	
Feb-24	14:00 Supermarket Sales (y/y)	Dec	--	--	4.3	
Feb-24	Consumer Confidence Index (%)	Feb	--	--	40.1	

BRAZIL

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-14	6:25 Central Bank Weekly Economist Survey		--			
Feb-14	13:00 Trade Balance Weekly (USD mn)	13-Feb	--	--	754.5	
Feb-15	6:00 FGV Inflation IGP-10 (m/m)	Feb	--	--	1.8	
Feb-16	3:00 FIPE CPI - Weekly (%)	14-Feb	--	--	0.8	
Feb-16	6:00 FGV CPI IPC-S (%)	15-Feb	--	--	0.5	
Feb-21	6:25 Central Bank Weekly Economist Survey		--			
Feb-21	13:00 Trade Balance Weekly (USD mn)	20-Feb	--	--	754.5	
Feb-22	6:00 FGV Consumer Confidence	Feb	--	--	74.1	
Feb-23	3:00 FIPE CPI - Weekly (%)	21-Feb	--	--	0.8	
Feb-23	6:00 FGV Construction Costs (m/m)	Feb	--	--	0.6	
Feb-23	6:00 FGV CPI IPC-S (%)	22-Feb	--	--	0.5	
Feb-23	7:00 IBGE Inflation IPCA-15 (m/m)	Feb	--	--	0.6	
Feb-23	7:00 IBGE Inflation IPCA-15 (y/y)	Feb	--	--	10.2	
Feb-23	7:30 Current Account Balance (USD mn)	Jan	--	--	-5,890.7	
Feb-23	7:30 Foreign Direct Investment (USD mn)	Jan	--	--	-3,935.2	
Feb-23	12:30 Federal Debt Total (BRL bn)	Jan	--	--	5,614.0	
Feb-24	7:00 National Unemployment Rate (%)	Dec	--	--	11.6	
Feb-24	7:30 Outstanding Loans (m/m)	Jan	--	--	1.9	
Feb-24	7:30 Personal Loan Default Rate (%)	Jan	--	--	4.4	
Feb-24	7:30 Total Outstanding Loans (BRL bn)	Jan	--	--	4,684.2	
Feb-24	Central Govt Budget Balance (BRL bn)	Jan	--	--	13.8	
Feb-25	6:00 FGV Inflation IGPM (m/m)	Feb	--	--	1.8	
Feb-25	6:00 FGV Inflation IGPM (y/y)	Feb	--	--	16.9	
Feb-25	7:30 Net Debt % GDP	Jan	--	--	57.3	
Feb-25	7:30 Nominal Budget Balance (BRL bn)	Jan	--	--	-54.2	
Feb-25	7:30 Primary Budget Balance (BRL bn)	Jan	--	--	0.1	
Feb 21-25	Formal Job Creation Total	Jan	--	--	-265,811.0	
Feb 22-26	Tax Collections (BRL mn)	Jan	--	--	193,902.2	

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-14	6:30 Central Bank Traders Survey		--			
Feb-24	7:00 PPI (m/m)	Jan	--	--	3.0	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for February 12–25

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-14	10:00	Imports CIF Total (USD mn)	Dec	--	--	6,545.3	
Feb-14	10:00	Industrial Production (y/y)	Dec	--	--	12.5	
Feb-14	10:00	Manufacturing Production (y/y)	Dec	--	--	13.9	
Feb-14	10:00	Retail Sales (y/y)	Dec	--	--	7.4	
Feb-14	10:00	Trade Balance (USD mn)	Dec	--	--	-2,010.2	
Feb-15	11:00	Economic Activity NSA (y/y)	Dec	9.4	--	9.6	Colombia could close 2021 with a strong activity level, mainly led by services-related sectors. The reduction of significant restrictions is activating sectors that were lagging the recovery in the past.
Feb-15	11:00	GDP Full Year (y/y)	2021	10.2	--	-6.8	
Feb-15	11:00	GDP NSA (y/y)	4Q	9.0	9.3	13.2	
Feb-15	11:00	GDP (q/q)	4Q	3.4	--	5.7	
Feb-15		Central Bank Economist Survey		--			
Feb-23		Industrial Confidence	Jan	--	--	11.6	
Feb-23		Retail Confidence	Jan	--	--	41.3	
Feb-25		Central Bank Board Meeting		--			

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-12	13:00	Formal Job Creation Total	Jan	--	--	142.3	
Feb 8-14		ANTAD Same-Store Sales (y/y)	Jan	--	--	20.6	
Feb-15	10:00	International Reserves Weekly (USD mn)	11-Feb	--	--	201,698.0	
Feb-22	10:00	International Reserves Weekly (USD mn)	18-Feb	--	--	201,698.0	
Feb-22		Banamex Survey of Economists		--			
Feb-24	7:00	Bi-Weekly Core CPI (%)	15-Feb	--	--	0.4	
Feb-24	7:00	Bi-Weekly CPI (%)	15-Feb	--	--	0.4	
Feb-24	7:00	Bi-Weekly CPI (y/y)	15-Feb	--	--	7.0	
Feb-24	7:00	Retail Sales (m/m)	Dec	--	--	0.9	
Feb-24	7:00	Retail Sales (y/y)	Dec	--	--	5.4	
Feb-24	10:00	Central Bank Monetary Policy Minutes		--			
Feb-25	7:00	Economic Activity IGAE (m/m)	Dec	--	--	0.4	
Feb-25	7:00	Economic Activity IGAE (y/y)	Dec	--	--	1.7	
Feb-25	7:00	GDP Full Year (y/y)	2021	--	--	-8.2	
Feb-25	7:00	GDP Nominal (y/y)	4Q	--	--	11.3	
Feb-25	7:00	GDP NSA (y/y)	4Q F	--	--	1.0	
Feb-25	7:00	GDP SA (q/q)	4Q F	--	--	-0.1	
Feb-25	7:00	Trade Balance (USD mn)	Jan	--	--	590.4	
Feb-25	10:00	Current Account Balance (USD mn)	4Q	--	--	-4,070.4	

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-15		Economic Activity (y/y)	Dec	2.0	--	3.5	Economic activity keeps slowing down.
Feb-15		Lima Unemployment Rate (%)	Jan	7.8	--	7.8	There is progressive improvement in the unemployment rate, albeit at a slow rate.
Feb-23		GDP (y/y)	4Q	3.0	--	11.4	Positive evolution led by sectors linked to consumption, such as commerce and services, thanks to the progressive increase in capacity in commercial stores prior to the arrival of the third wave of COVID-19.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage



Local Market Coverage

CHILE

Website: [Click here to be redirected](#)
 Subscribe: anibal.alarcon@scotiabank.cl
 Coverage: Spanish and English

COLOMBIA

Website: Forthcoming
 Subscribe: jackeline.pirajan@scotiabankcolpatria.com
 Coverage: Spanish and English

MEXICO

Website: [Click here to be redirected](#)
 Subscribe: estudeco@scotiabank.com.mx
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PERU

Website: [Click here to be redirected](#)
 Subscribe: siee@scotiabank.com.pe
 Coverage: Spanish

COSTA RICA

Website: [Click here to be redirected](#)
 Subscribe: estudios.economicos@scotiabank.com
 Coverage: Spanish

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