

Contributors

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Latam Charts: Things that Could Go Wrong

- **Russia's invasion of Ukraine brings geopolitical risks to the fore. As would be expected, markets are in risk-off mode, with sharp declines in equity prices around the globe.**
- **Looking ahead, “knock-on” effects on near-term economic prospects in the Latam region will depend on the extent to which shifts in investor risk appetite generate safe haven capital flows that trigger large currency gyrations and add to inflationary pressures via higher energy prices.**
- **In the days and weeks ahead, close attention will be paid to high-frequency indicators for possible inflection points signalling a potential shift in the growth profile currently incorporated into the forecasts. For now, investors are likely joining policymakers in asking “what more could go wrong?”.**

KEY ECONOMIC CHARTS

Pity the policymakers. In just over a decade, they have had to deal with a global financial crisis followed by a global pandemic. And in the past year inflation has once again reared its ugly head, rising to levels not seen since the [Great Inflation](#) of the 1970s. Against that background, they could be forgiven for asking “what more could go wrong?”.

There is no shortage of possible insomnia-inducing stressors. Banks with large bond portfolios face potential revaluation effects as interest rates rise. Or non-financial firms may be subject to possible financial distress as borrowing costs rise, currency mismatches bind, and pandemic support policies are scaled back and removed. Those risks are largely hypothetical. But this week, one stressor—geopolitical risk—moved from the hypothetical to the “all-too-clear-and-present” category.

As Mao purportedly opined (but evidently did not) with respect to the French Revolution, it is too early to say what the consequences of Russia's invasion of Ukraine will be. Markets have responded as would be expected, in [“risk-off” mode](#), with equity markets selling off sharply in trading on February 24. Looking ahead, the knock-on effects on economic prospects will depend on the extent to which shifts in investor risk appetite generate sustained safe haven capital flows, which could trigger large currency movements, along with higher energy prices with corresponding terms of trade effects. Sharp exchange depreciations and higher energy prices would exacerbate inflationary pressures already vexing central bankers in the Latam region and around the globe.

In short, confidence bounds around short-term economic projections have undoubtedly widened. For now, however, the forecasts of Scotiabank economists in the Latam region continue to show growth converging from the “dead-cat bounce” pace in 2021 to pre-pandemic levels over the medium-term (chart 1). And while it is premature to expect the latest geopolitical effects to be reflected in economic activity indices (chart 2), these indicators will be closely monitored in the weeks ahead for potential signs of inflection points.

The same close monitoring of monthly inflation data can, likewise, be expected. Inflation, which has been running above central banks' targets across the Latam region, is nevertheless expected to gradually return to target over time, consistent with price stability commitments (chart 3). That said, additional supply-side shocks, whether emanating from geopolitical developments or unrelated bottlenecks in global supply chains, would further test the credibility of those commitments.

Key policy interest rates have risen as Latam central banks have acted to prevent price pressures bleeding over into expectations (chart 4). While short-term expectations may

be moving higher in line with headline inflation, to this point at least expectations over the medium-term seem to remain reasonably well anchored. Going forward, rates will likely have to move higher as the Fed and other advanced country central banks tighten policy, particularly if shifts in investor risk appetite lead to currency depreciation. For now, Latam central banks are clearly ahead of advanced country and other international peers in terms of real (after inflation) monetary policy rates (chart 5).

Less favourable external financial conditions would put a premium on strong institutions and sound policy frameworks. Fiscal probity is key. Fiscal balances deteriorated significantly in the pandemic as governments across the region responded quickly and appropriately to cushion the blow from economic and financial shocks (chart 6). However, good progress has been made in bringing deficits down and, looking ahead, governments have reiterated commitments to fiscal sustainability. Progress on this front will also contain debt burdens as measured by general government gross debt as a share of GDP (chart 7).

At the same time, global investors will be closely watching other indicators, including external debt (chart 8), current account balances (chart 9), and international reserves (chart 10). None point to impending concerns, though widening current account deficits in Chile and Colombia warrant monitoring.

KEY MARKET CHARTS

Despite rising inflation and increased geopolitical tensions, Latam financial markets have performed surprisingly well since the start of the year. Higher policy rates have supported regional currencies (chart 3), which, apart from Argentina's peso, have all appreciated, with Peru's PEN leading the way. Equity markets in Peru have likewise led the region (chart 4), shaking off serial Cabinet shuffles to post impressive year-to-date gains. Mexico's equity market is down modestly on the year, though recent increases have pared losses.

In a longer-term perspective, Mexico has demonstrated considerable financial resilience. The peso has been remarkably stable, depreciating against the US dollar in March 2020, consistent with the shock absorber role of flexible exchange rates, but gradually returning to pre-pandemic trading levels (chart 5). In contrast, other regional currencies depreciated significantly against the US dollar at the outset of the pandemic and, while they have appreciated recently, continue to trade at a discount to pre-2020 levels.

A similar pattern holds for 10-year Latam sovereign CDS spreads versus US Treasuries. Mexican spreads spiked in March 2020, but quickly narrowed over the balance of the year and remained flat at, or below, pre-pandemic levels throughout 2021. CDS spreads on other Latam 10-year sovereigns, meanwhile, which also declined in the second half of 2020, trended somewhat higher in 2021 (more so in the case of Colombia), possibly reflecting political uncertainties.

YIELD CURVE CHARTS

Rising geopolitical risks have also thus far not shown up in Latam sovereign yield curves (charts 1–20). Sovereign curves across the Latam region have been stable since the start of 2022. Yield curves shifted up from year-ago levels over the course of 2021, consistent with higher inflation and expectations of higher short-term rates. Argentina's sovereign yield curve remains highly inverted; Chile's curve less so. In Brazil, yield curves have flattened.

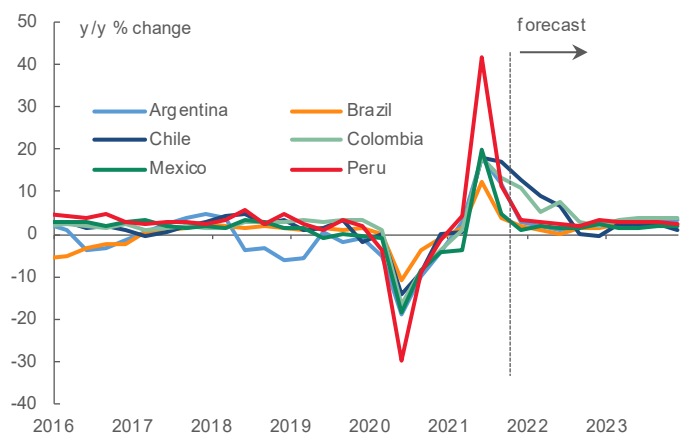
KEY COVID-19 CHARTS

With geopolitical risks coming to the fore, attention will inevitably shift from COVID-19 risks. This shift coincides with a sharp decline in new cases both in the Latam region (chart 7) and more broadly (chart 8). Meanwhile, vaccine doses administered continues to rise, with Chile leading the Latam region (chart 10) and the world (chart 11).

Key Economic Charts

Chart 1

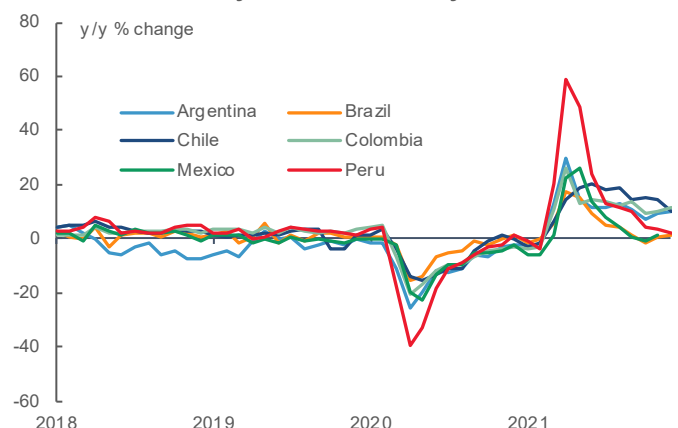
Real GDP



Sources: Scotiabank Economics, Haver Analytics.

Chart 2

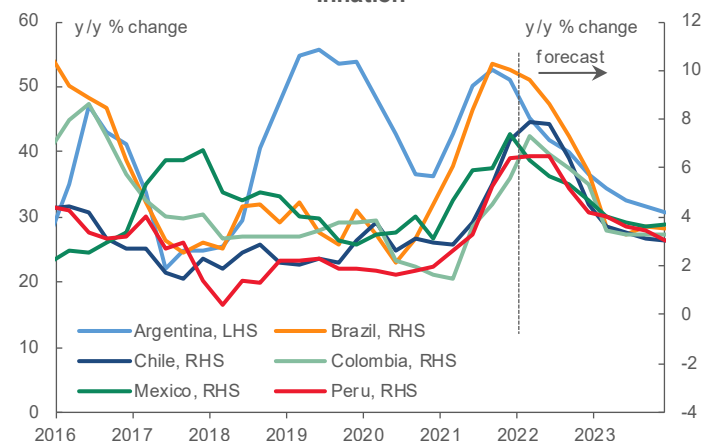
Latam: Monthly Economic Activity Index Tracker



Sources: Scotiabank Economics, Haver Analytics.

Chart 3

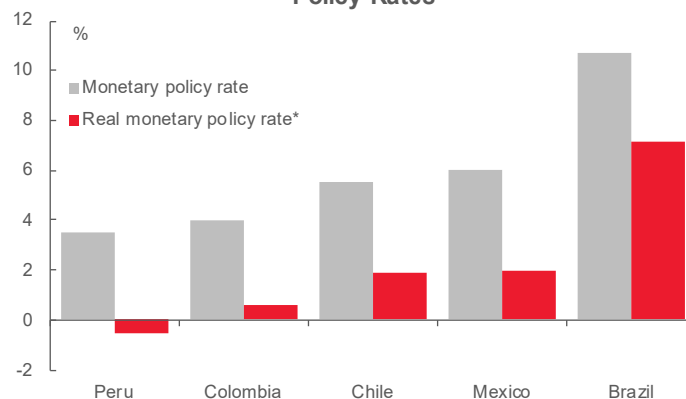
Inflation



Sources: Scotiabank Economics, Haver Analytics.

Chart 4

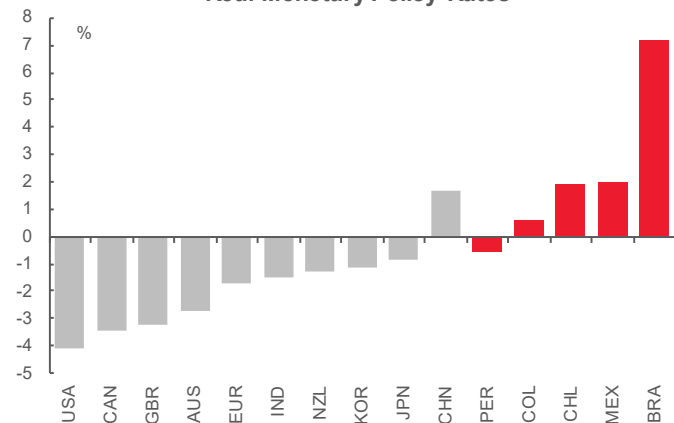
Policy Rates



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q1-2023, % y/y. Argentina: MPR = 40.0%; Real MPR = 5.5%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 5

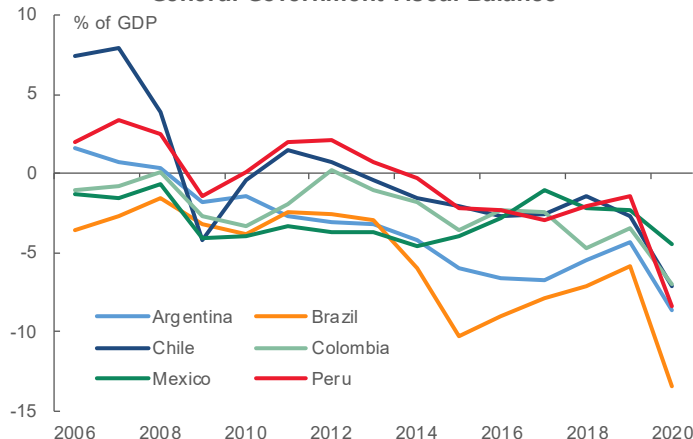
Real Monetary Policy Rates*



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q1-2023, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 6

General Government Fiscal Balance

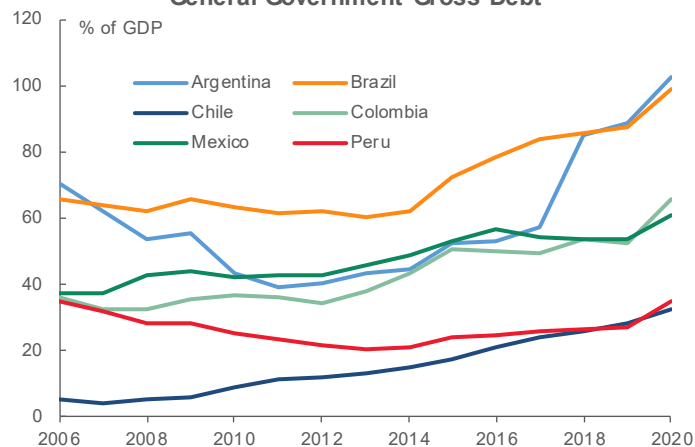


Sources: Scotiabank Economics, IMF Fiscal Monitor, Apr. 2021.

Key Economic Charts

Chart 7

General Government Gross Debt



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

Chart 8

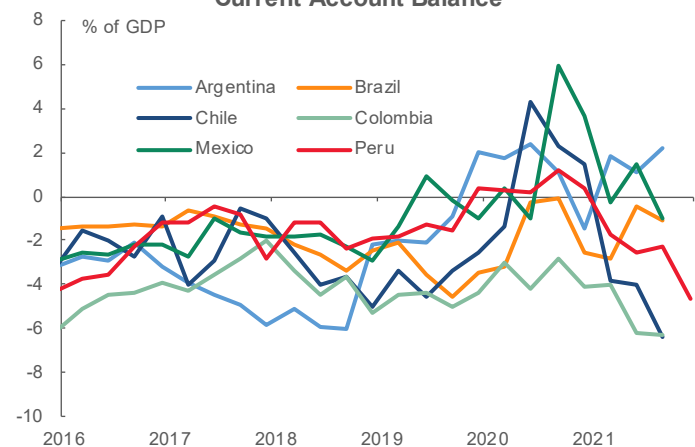
External Debt



Sources: Scotiabank Economics, Haver Analytics.

Chart 9

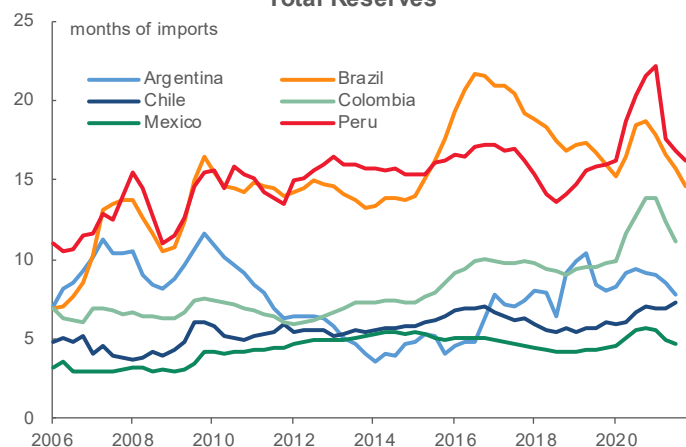
Current Account Balance



Sources: Scotiabank Economics, Haver Analytics.

Chart 10

Total Reserves

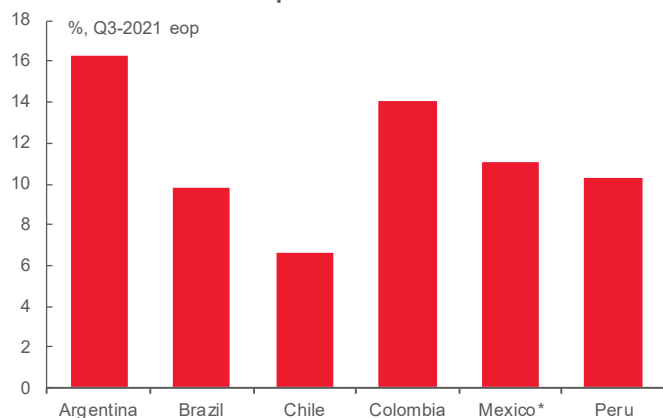


Sources: Scotiabank Economics, Haver Analytics.

Key Market Charts

Chart 1

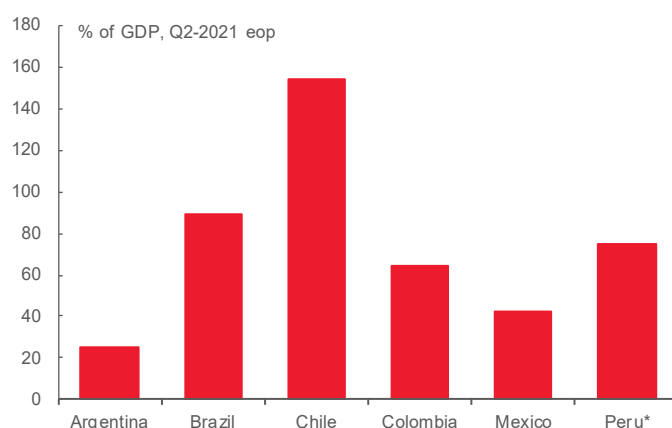
Bank Capital to Assets Ratio



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

Chart 2

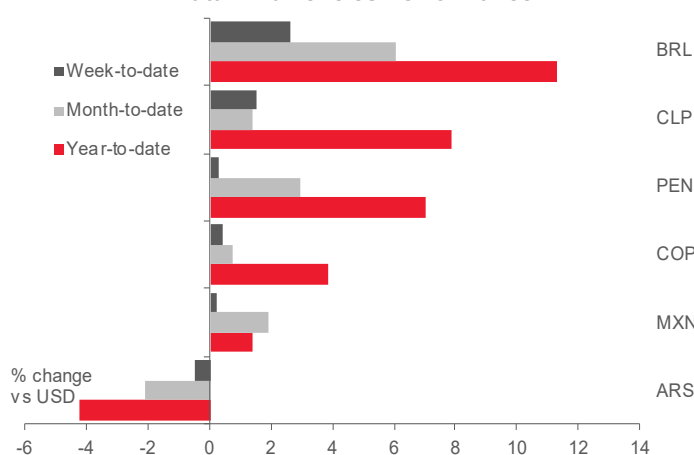
Domestic Credit to Private Nonfinancial Sector



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

Chart 3

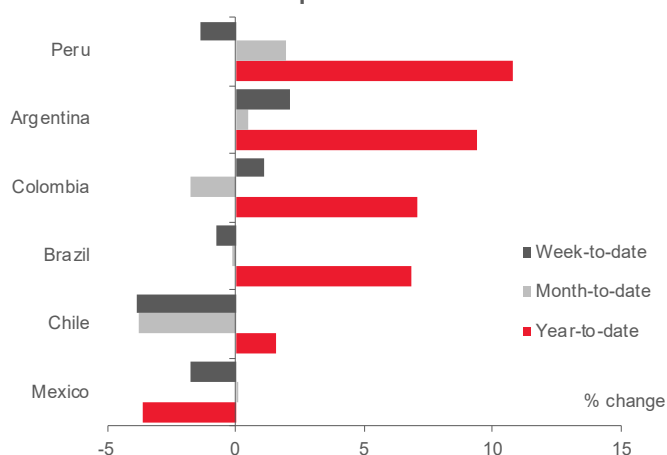
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 4

Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 5

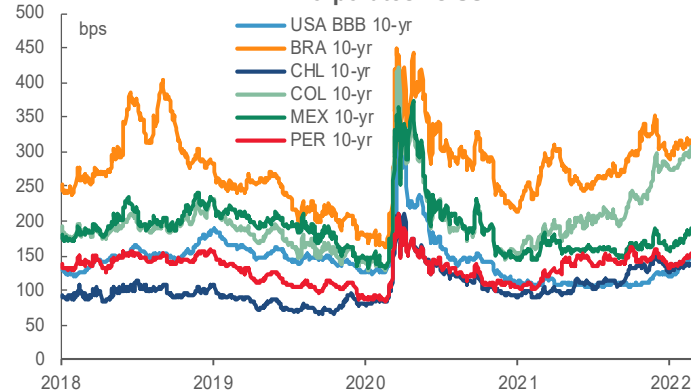
USD vs Latam Currencies



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

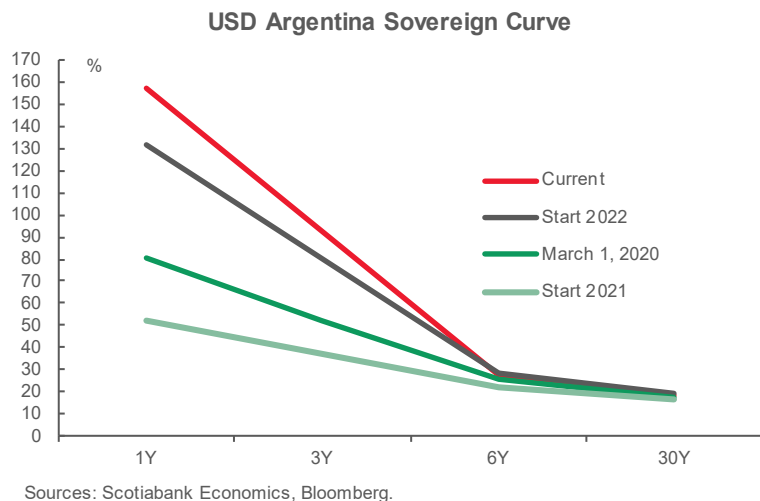


Chart 2



Chart 3

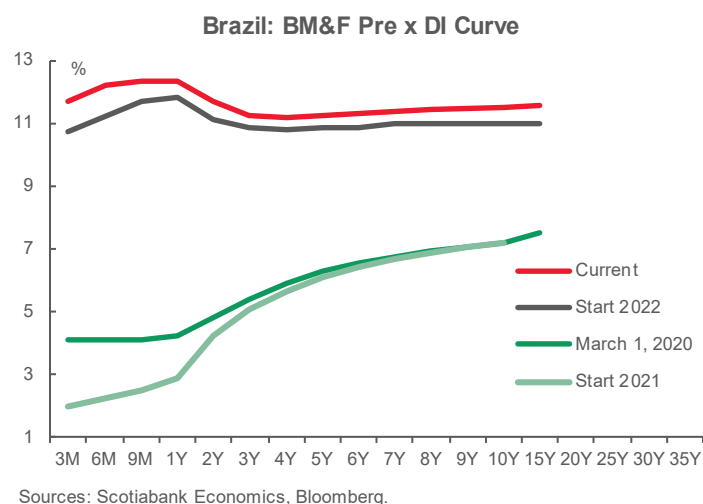


Chart 4

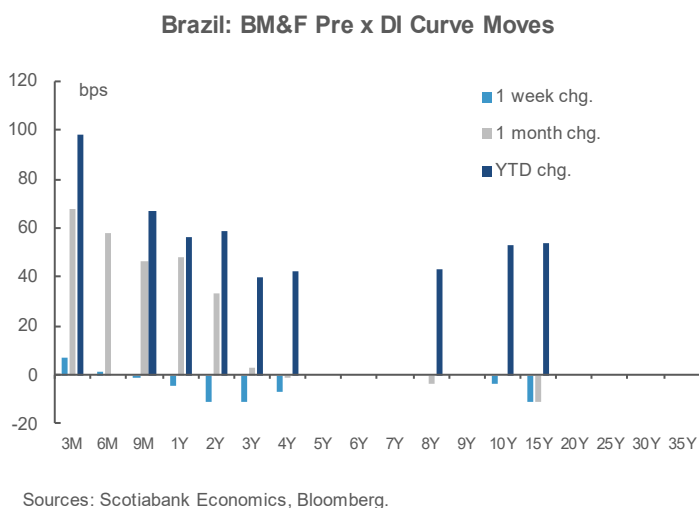


Chart 5

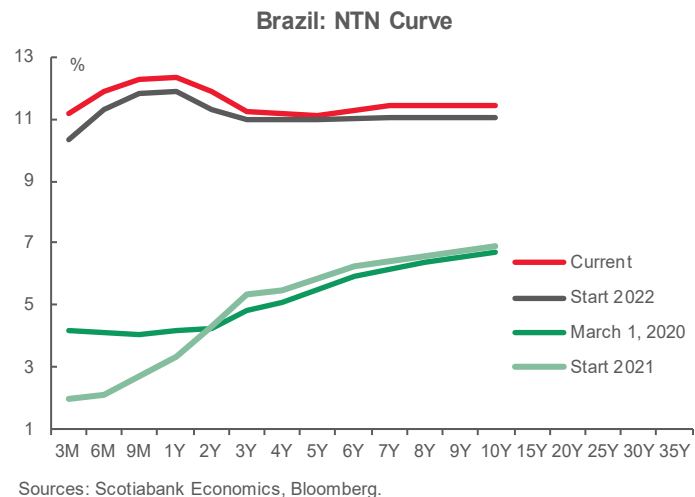
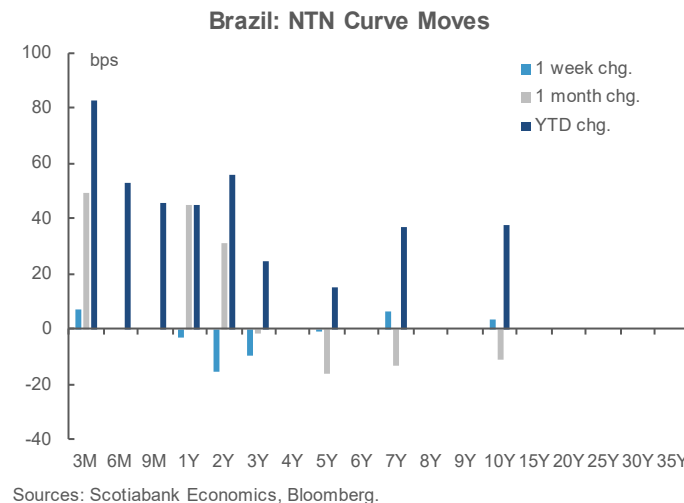


Chart 6



Yield Curves

Chart 7

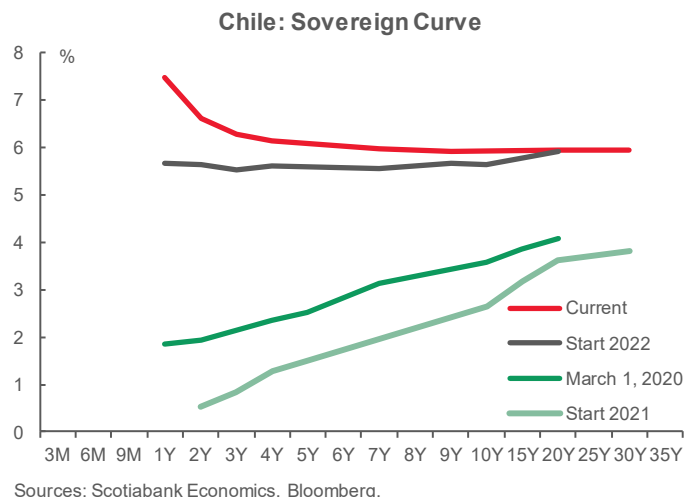


Chart 8

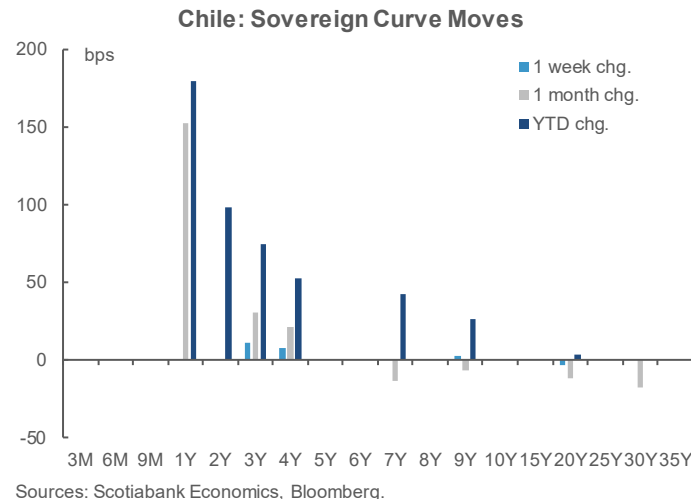


Chart 9

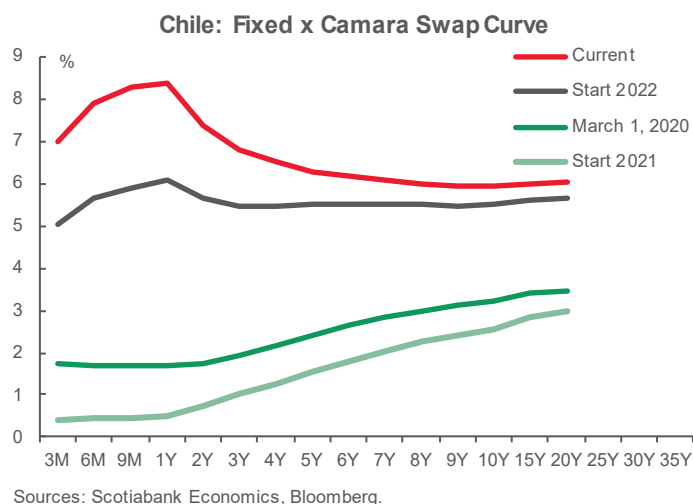


Chart 10

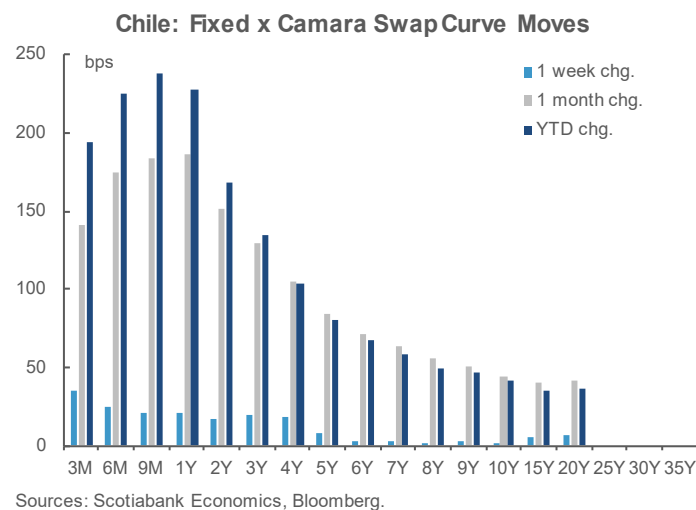


Chart 11

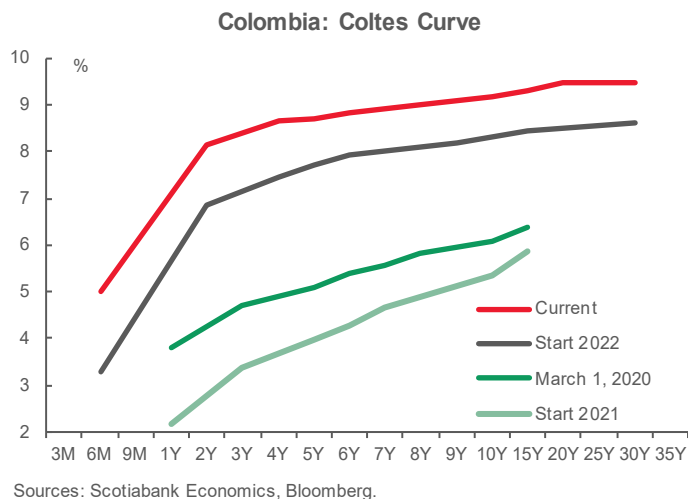
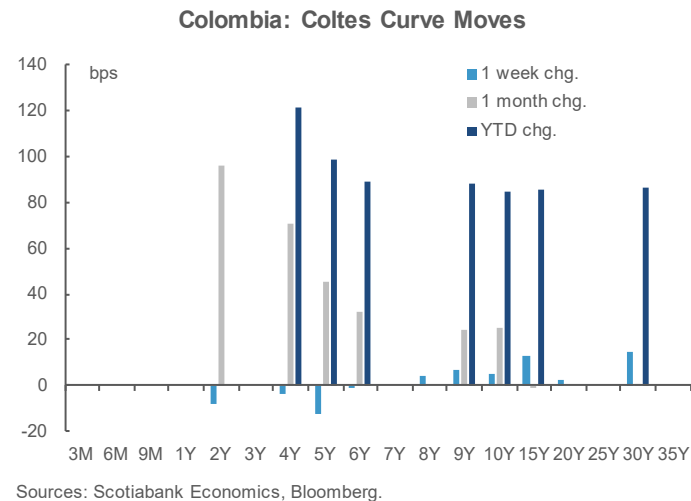


Chart 12



Yield Curves

Chart 13

Colombia: UVR-Indexed Curve

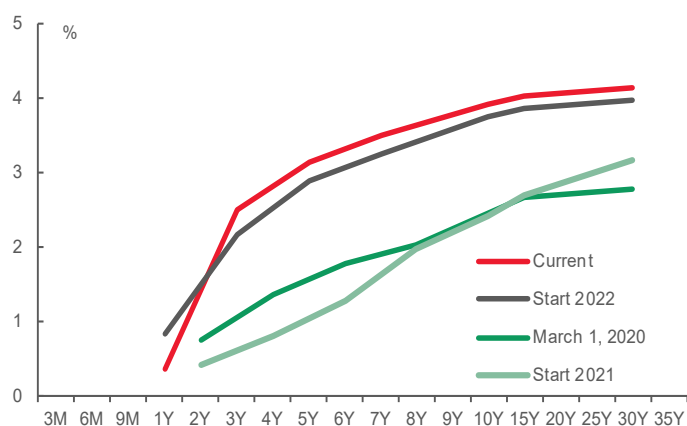


Chart 14

Colombia: UVR-Indexed Curve Moves

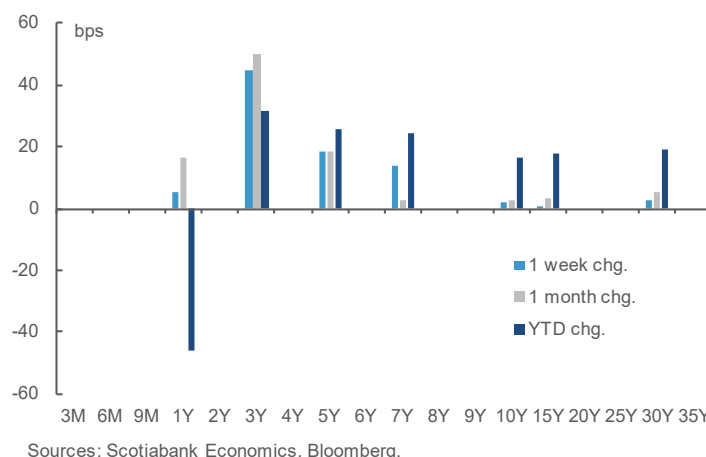


Chart 15

Mexico: M-Bono Curve

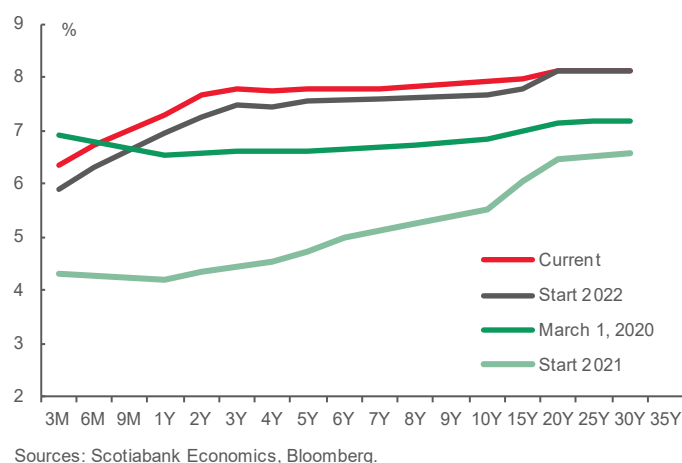


Chart 16

Mexico: M-Bono Curve Moves

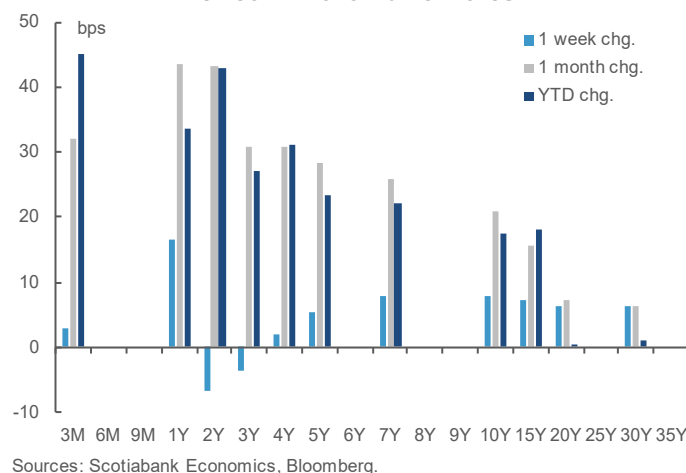


Chart 17

Mexico: Udibonos BVAL Yield Curve

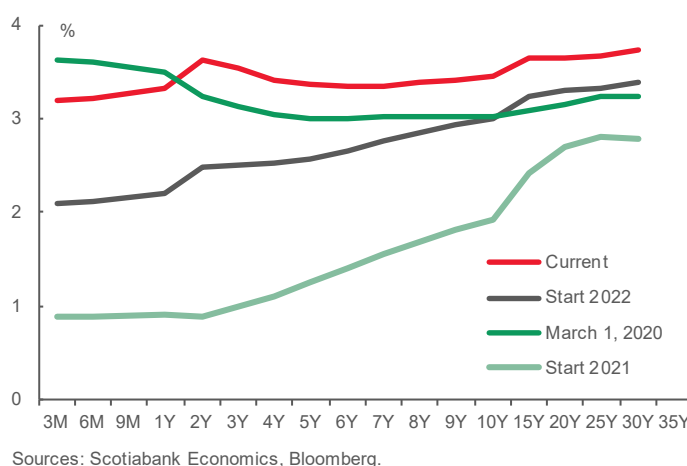
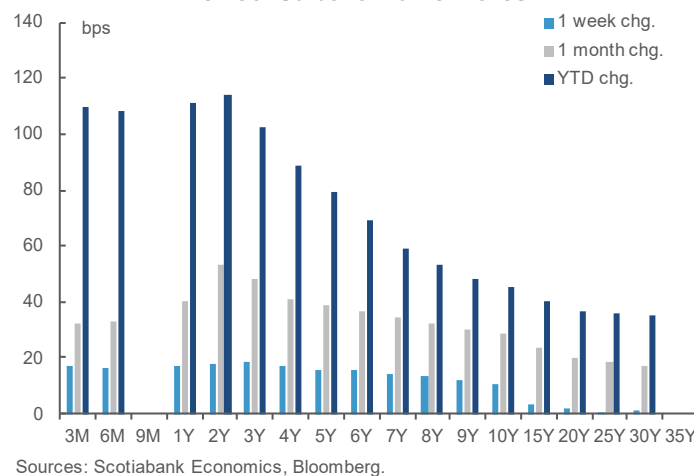


Chart 18

Mexico: Udibono Curve Moves



Yield Curves

Chart 19

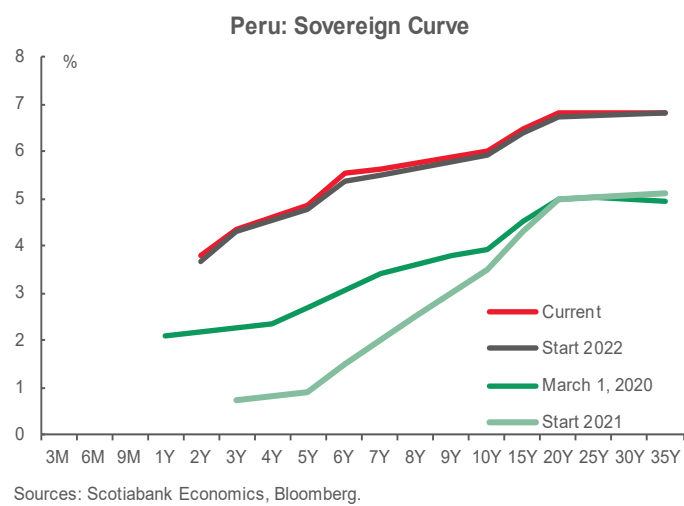
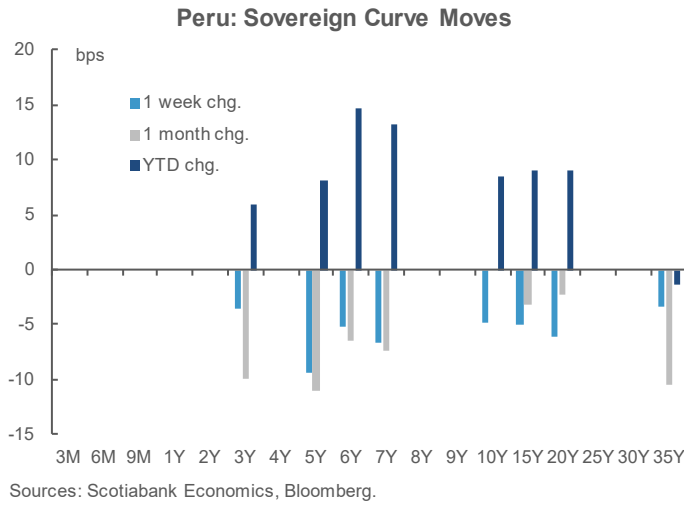
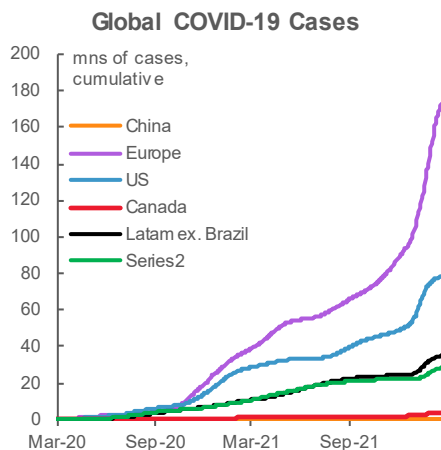


Chart 20



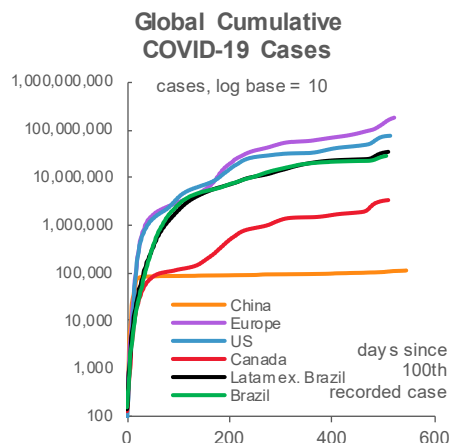
Key COVID-19 Charts

Chart 1



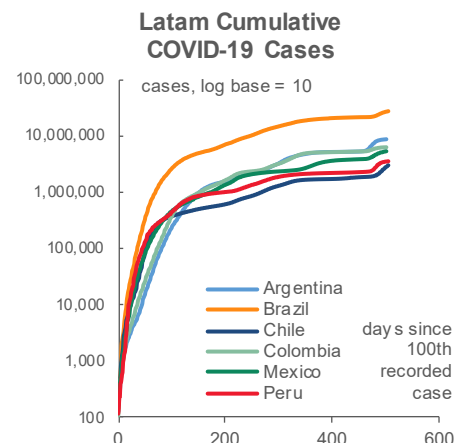
Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2



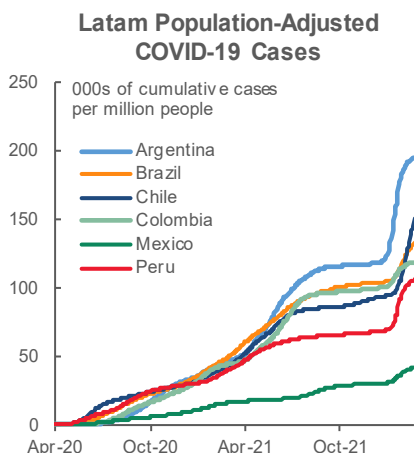
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



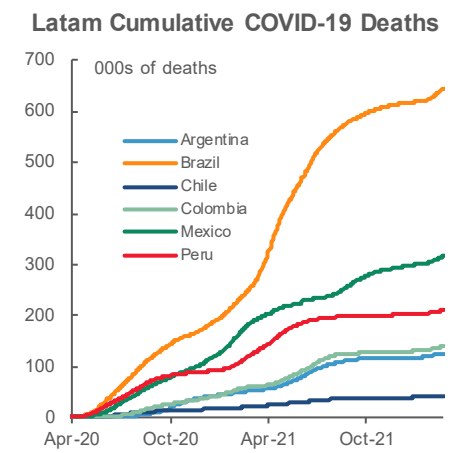
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4



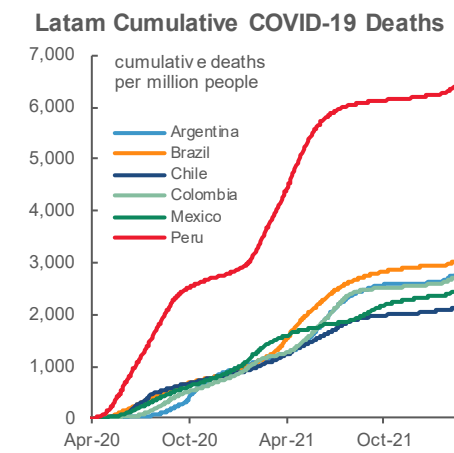
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5



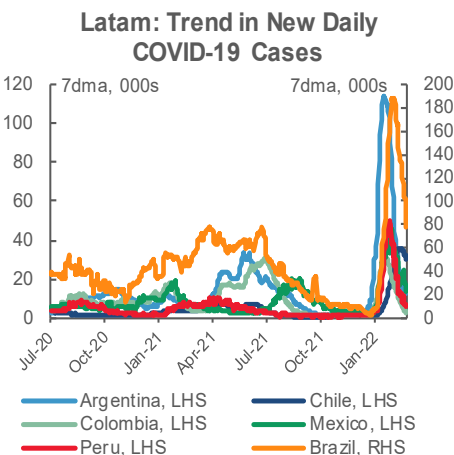
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6



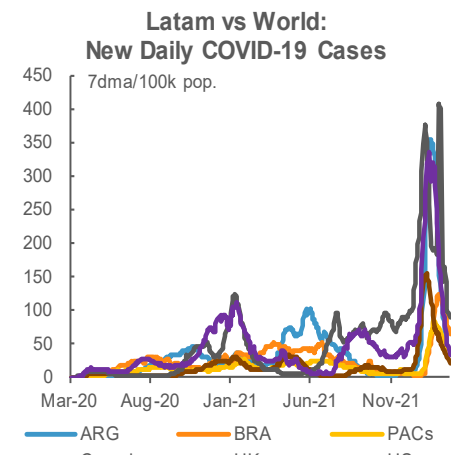
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7



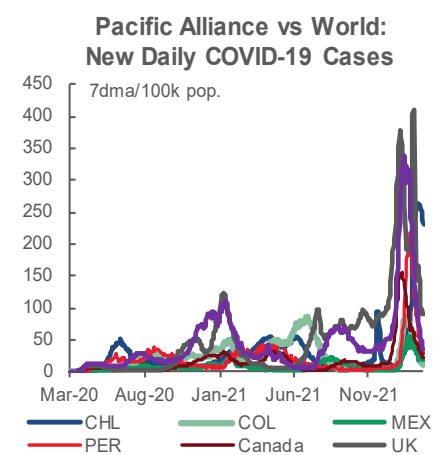
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8



Sources: Scotiabank Economics, JHU.

Chart 9



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

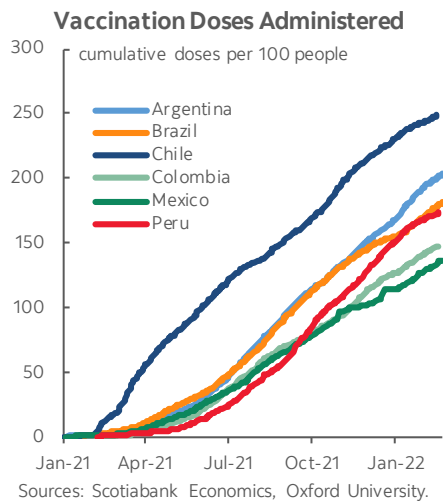


Chart 11

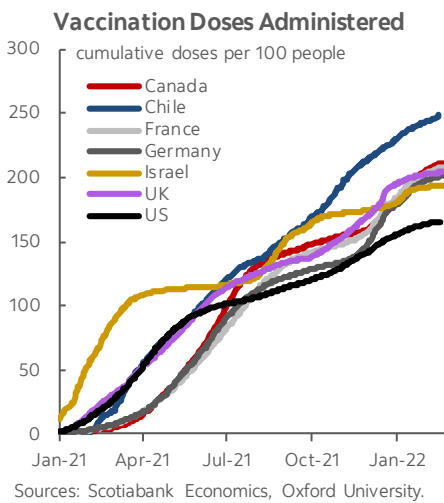
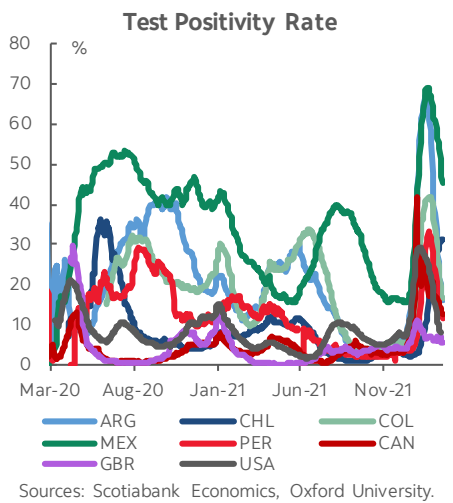


Chart 12



Market Events & Indicators for February 25–March 11

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Mar-04		Central Bank Survey					
Mar-04		Vehicle Domestic Sales Adefa	Feb	--	--	20,147.0	
Mar-04		Vehicle Exports Adefa	Feb	--	--	9,298.0	
Mar-04		Vehicle Production Adefa	Feb	--	--	18,651.0	
Mar 1-4		Government Tax Revenue (ARS bn)	Feb	--	--	1,171.9	
Mar-09	14:00	Construction Activity (y/y)	Jan	--	--	7.8	
Mar-09	14:00	Industrial Production (y/y)	Jan	--	--	10.1	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-25	6:00	FGV Inflation IGPM (m/m)	Feb	--	1.9	1.8	
Feb-25	6:00	FGV Inflation IGPM (y/y)	Feb	--	16.2	16.9	
Feb-25	7:30	Net Debt % GDP	Jan	--	57.2	57.3	
Feb-25	7:30	Nominal Budget Balance (BRL bn)	Jan	--	55.8	-54.2	
Feb-25	7:30	Primary Budget Balance (BRL bn)	Jan	--	80.0	0.1	
Feb 22-25		Formal Job Creation Total	Jan	--	160,000.0	-265,811.0	
Feb 22-26		Tax Collections (BRL mn)	Jan	--	--	235,321.0	
Mar-02	13:00	Exports Total (USD mn)	Feb	--	--	19,635.0	
Mar-02	13:00	Imports Total (USD mn)	Feb	--	--	19,849.4	
Mar-02	13:00	Trade Balance Monthly (USD mn)	Feb	--	--	-214.4	
Mar-02		Central Bank Weekly Economist Survey					
Mar-03	6:00	FGV CPI IPC-S (%)	28-Feb	--	--	0.3	
Mar-03	8:00	Markit Brazil PMI Manufacturing	Feb	--	--	47.8	
Mar-04	3:00	FIPE CPI - Monthly (%)	Feb	--	--	0.7	
Mar-04	7:00	GDP 4Qtrs Accumulated (%)	4Q	--	4.5	3.9	
Mar-04	7:00	GDP (q/q)	4Q	--	0.1	-0.1	
Mar-04	7:00	GDP (y/y)	4Q	1.8	1.0	4.0	
Mar 2-4		Vehicle Sales Fenabrave	Feb	--	--	126,486.0	
Mar-07	6:25	Central Bank Weekly Economist Survey					
Mar-07	8:00	Markit Brazil PMI Composite	Feb	--	--	50.9	
Mar-07	8:00	Markit Brazil PMI Services	Feb	--	--	52.8	
Mar-07	13:00	Trade Balance Weekly (USD mn)	06-Mar	--	--	837.1	
Mar-08	6:00	FGV Inflation IGP-DI (m/m)	Feb	--	--	2.0	
Mar-08	6:00	FGV Inflation IGP-DI (y/y)	Feb	--	--	16.7	
Mar 7-8		Vehicle Exports Anfavea	Feb	--	--	27,638.0	
Mar 7-8		Vehicle Production Anfavea	Feb	--	--	145,417.0	
Mar 7-8		Vehicle Sales Anfavea	Feb	--	--	126,518.0	
Mar-09	7:00	Industrial Production (m/m)	Jan	--	--	2.9	
Mar-09	7:00	Industrial Production (y/y)	Jan	--	--	-5.0	
Mar-10	3:00	FIPE CPI - Weekly (%)	07-Mar	--	--	0.8	
Mar-10	7:00	Retail Sales Broad (m/m)	Jan	--	--	0.3	
Mar-10	7:00	Retail Sales Broad (y/y)	Jan	--	--	-2.7	
Mar-10	7:00	Retail Sales (m/m)	Jan	--	--	-0.1	
Mar-10	7:00	Retail Sales (y/y)	Jan	--	--	-2.9	
Mar-11	7:00	IBGE Inflation IPCA (m/m)	Feb	--	--	0.5	
Mar-11	7:00	IBGE Inflation IPCA (y/y)	Feb	--	--	10.4	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for February 25–March 11

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-28	7:00 Commercial Activity (y/y)	Jan	--	--	12.9	
Feb-28	7:00 Copper Production Total (Tons)	Jan	--	--	503,605.0	
Feb-28	7:00 Industrial Production (y/y)	Jan	--	--	1.7	
Feb-28	7:00 Manufacturing Production (y/y)	Jan	5.5	--	2.4	
Feb-28	7:00 Retail Sales (y/y)	Jan	20.0	--	15.3	We forecast a two-digit growth for retail sales in January, based on our high frequency indicators of purchases with debit and credit cards, which showed a superb dynamism last month.
Feb-28	7:00 Unemployment Rate (%)	Jan	7.2	--	7.2	We expect that the unemployment rate will keep at 7.2%, due to similar m/m dynamism in both employment and work force.
Mar-01	6:30 Economic Activity (m/m)	Jan	--	--	-0.4	
Mar-01	6:30 Economic Activity (y/y)	Jan	12.0	--	10.1	We project economic activity expansion of 12% y/y, consistent with our GDP forecast of 3.5% for 2022.
Mar-07	6:30 Copper Exports (USD mn)	Feb	--	--	3,870.4	
Mar-07	6:30 Exports Total (USD mn)	Feb	--	--	8,368.0	
Mar-07	6:30 Imports Total (USD mn)	Feb	--	--	7,569.3	
Mar-07	6:30 International Reserves (USD mn)	Feb	--	--	50,670.0	
Mar-07	6:30 Trade Balance (USD mn)	Feb	--	--	798.6	
Mar-07	7:00 Nominal Wage (y/y)	Jan	--	--	6.8	
Mar 1-7	IMCE Business Confidence	Feb	--	--	53.4	
Mar-08	6:00 CPI (m/m)	Feb	--	--	1.2	
Mar-08	6:00 CPI (y/y)	Feb	--	--	7.7	
Mar-10	Central Bank Economist Survey					
Mar 7-10	Vehicle Sales Total	Feb	--	--	37,281.0	

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-25	Central Bank Board Meeting					
Feb-28	10:00 National Unemployment Rate (%)	Jan	12.1	--	11.0	It has been challenging for employment to recover to pre-pandemic levels. We expect in-person activities to lead to better results in job creation at the beginning of the year, supporting employment to recover pre-pandemic levels.
Feb-28	10:00 Urban Unemployment Rate (%)	Jan	13.0	--	11.6	
Mar-01	10:00 Davivienda Colombia PMI Mfg (%)	Feb	--	--	52.6	
Mar-01	Current Account Balance (USD mn)	4Q	6,350.0	--	-5,119.7	The current account deficit could widen in 2021Q4 as higher prices remained, increasing the gap between imports and exports. On the other side, we expect FDI to continue to recover and become the most important source of the current account deficit financing.
Mar-03	10:00 Exports FOB (USD mn)	Jan	--	--	4,381.3	
Mar-05	12:00 CPI Core (m/m)	Feb	--	--	1.2	
Mar-05	12:00 CPI Core (y/y)	Feb	--	--	4.5	
Mar-05	12:00 CPI (m/m)	Feb	--	1.2	1.7	
Mar-05	12:00 CPI (y/y)	Feb	--	7.5	6.9	
Mar-08	Consumer Confidence Index	Feb	--	--	-13.5	

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Feb-25	7:00 Economic Activity IGAE (m/m)	Dec	--	1.0	0.4	
Feb-25	7:00 Economic Activity IGAE (y/y)	Dec	--	1.3	1.7	
Feb-25	7:00 GDP Full Year (y/y)	2021	5.0	--	-8.2	
Feb-25	7:00 GDP Nominal (y/y)	4Q	--	8.7	11.3	
Feb-25	7:00 GDP NSA (y/y)	4Q F	1.0	1.0	1.0	
Feb-25	7:00 GDP SA (q/q)	4Q F	-0.1	0.0	-0.1	
Feb-25	7:00 Trade Balance (USD mn)	Jan	--	-3,834.4	590.4	
Feb-25	10:00 Current Account Balance (USD mn)	4Q	--	1,900.0	-4,070.4	
Feb-28	7:00 Unemployment Rate NSA (%)	Jan	--	--	3.5	
Feb-28	10:00 Net Outstanding Loans (MXN bn)	Jan	--	--	4,806.7	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for February 25–March 11

MEXICO

<u>Date</u>	<u>Time</u> <u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
Mar-01	10:00 International Reserves Weekly (USD mn)	25-Feb	--	--	201,501.0	
Mar-01	10:00 Remittances Total (USD mn)	Jan	--	--	4,760.4	
Mar-01	10:30 Markit Mexico PMI Mfg	Feb	--	--	46.1	
Mar-01	13:00 IMEF Manufacturing Index SA	Feb	--	--	48.8	
Mar-01	13:00 IMEF Non-Manufacturing Index SA	Feb	--	--	49.0	
Mar-02	7:00 Leading Indicators (MoM)	Jan	--	--	-0.2	
Mar-02	7:00 Vehicle Domestic Sales	Feb	--	--	78,585.0	
Mar-02	13:30 Mexican Central Bank Releases Inflation Report					
Mar-02	Budget Balance YTD (MXN bn)	Jan	--	--	-757.8	
Mar-03	10:00 Central Bank Economist Survey					
Mar-04	7:00 Gross Fixed Investment (%)	Dec	--	--	5.9	
Mar-04	7:00 Vehicle Exports	Feb	--	--	216,630.0	
Mar-04	7:00 Vehicle Production	Feb	--	--	253,366.0	
Mar-07	7:00 Consumer Confidence	Feb	--	--	43.4	
Mar-07	Banamex Survey of Economists					
Mar-08	10:00 International Reserves Weekly (USD mn)	04-Mar	--	--	201,501.0	
Mar-09	7:00 Bi-Weekly Core CPI (%)	28-Feb	--	0.3	0.4	
Mar-09	7:00 Bi-Weekly Core CPI (y/y)	28-Feb	--	6.4	6.5	
Mar-09	7:00 Bi-Weekly CPI (%)	28-Feb	--	0.4	0.4	
Mar-09	7:00 Bi-Weekly CPI (y/y)	28-Feb	--	7.2	7.2	
Mar-09	7:00 CPI Core (m/m)	Feb	0.35	--	0.6	
Mar-09	7:00 CPI Core (y/y)	Feb	--	--	6.2	
Mar-09	7:00 CPI (m/m)	Feb	0.39	--	0.6	
Mar-09	7:00 CPI (y/y)	Feb	--	--	7.1	
Mar-10	ANTAD Same-Store Sales (y/y)	Feb	--	--	20.6	
Mar-10	Nominal Wages (m/m)	Feb	--	--	5.6	
Mar-11	7:00 Industrial Production NSA (y/y)	Jan	--	--	3.0	
Mar-11	7:00 Industrial Production SA (m/m)	Jan	--	--	1.2	
Mar-11	7:00 Manuf. Production NSA (y/y)	Jan	--	--	3.8	

PERU

<u>Date</u>	<u>Time</u> <u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
Mar-01	10:00 Lima CPI (m/m)	Feb	0.5	--	0.0	We expect a rise in fuel and food prices mainly.
Mar-01	10:00 Lima CPI (y/y)	Feb	6.4	--	5.7	Upward trend again, due to rising prices and comparison base effect.
Mar-10	18:00 Reference Rate (%)	10-Mar	4.00	--	3.50	We expect a hike of 50bps, in line with the BCRP's hawkish stance and with the upward trend of inflation.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

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