

Contributors

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Table of Contents

Commentary	1–2
Key Economic Charts	3–4
Key Market Charts	5
Yield Curves	6–9
Key COVID-19 Charts	10–11
Market Events & Indicators	12–13

Latam Charts: Growth in a Time of Uncertainty

- War in Ukraine, higher inflation resulting from supply-side and commodity price shocks, and fears of a possible escalation in geopolitical tensions increase uncertainty with respect to the global outlook.
- Despite these concerns, however, there may be reason for optimism that growth is possible in a time of uncertainty.
- That felicitous outcome may be the case for the Latam region, where early action by central banks to safeguard their price stability commitments could be paying a growth dividend.

Russia's ill-conceived and poorly executed invasion of Ukraine, now in its fourth month, continues to impart uncertainty to the global economy. Higher inflation, resulting from a spike in energy prices, concerns that advanced country central banks were behind the tightening curve—requiring more aggressive interest rate hikes that could possibly lead to recession—and fears of an escalation in the fighting beyond the two principal combatants cloud the economic outlook. Yet, despite the miasma of doubt that masks near-term prospects, and which accounts for the selloff in markets in April and May, there are reasons for modest optimism.

Growth, it seems, is possible in a time of uncertainty. The case for optimism stems in part from the market's muted reaction to clear indications that the major central banks "get it," that they are prepared to move as needed to protect price stability commitments. In this respect, higher short-term inflation should not become entrenched in expectations, preventing a possible wage-price spiral that could impair long-term growth. In the US, for example, expectations appear to remain well anchored even with the sharp increase in inflation observed over the past six months or so. While markets expect inflation to remain high over the short-term, inflation is expected to ease back over the medium-term. Meanwhile, absent *additional* supply-side shocks to global supply chains or *further* commodity price hikes, base effects should begin to exert an influence on inflation. There is even reason to hope that pressure from the White House, coupled with the enlightened self-interest of key oil producers, may provide some relief from high world oil prices. OPEC is not served by a global recession that quashes energy demand.

KEY ECONOMIC CHARTS

For Latam countries, recent data releases support the contention that growth is possible in a time of uncertainty. Scotiabank economists in the region continue to expect growth to gradually slow from the high rates recorded in 2021 following the severe contraction of 2020 (chart 1). For the most part, they anticipate growth to converge on pre-pandemic rates over the next year or so. While the risk of recession remains a possibility, it is judged to be modest, with high-frequency activity indicators suggesting continued growth (chart 2). Indeed, recent surprises have, if anything, been on the positive side.

High inflation (chart 3) remains a challenge—albeit one that Latam central banks began tackling well before their advanced country counterparts. That early action signaled a credible commitment to their inflation targets. And with central banks intent on price stability, Scotiabank teams anticipate inflation rates across the region to gradually return to their respective target ranges over time.

Talk of price stability without the requisite tightening actions would provide little reassurance. Latam central banks have backed up tough talk with concrete policy actions, however, progressively raising key policy rates over the past year. Policy rates are now positive in real (after-inflation) terms across the region (chart 4), significantly so in the

case of Brazil and Mexico. In this respect, they are ahead of most of their international peers (chart 5), reflecting their proactive approach to price stability. Scotiabank economists are quick to note that further rate rises are likely before the end of the current tightening cycle. In the case of Peru, policy rate hikes have been combined with increases in reserve requirements.

Sustained growth together with the winding down of pandemic supports has helped bring down fiscal deficits across the region (chart 6). As the last edition of the [Latam Weekly](#) highlighted, government fiscal support to the most vulnerable and measures that protected household and corporate balance sheets likely provided a solid foundation for robust recovery. But with recovery transitioning into expansion, such supports should be withdrawn consistent with fiscal rules designed to ensure the sustainability of public finances over the medium-term.

Fiscal rules that constrain debt as a share of GDP (chart 7) can also help to limit external debt as a share of GDP (chart 8). Both indicators are closely watched by investors; in a time of uncertainty, they become even more important metrics. In the context of shifts in investor risk appetite and portfolio rebalancing animated by higher advanced country interest rates, as has been the case over the past month or so, current account deficits (chart 9) and the level of international reserves (chart 10) are also closely monitored as indicators of financing needs and liquidity, respectively. While Colombia's current deficit is large, our team in [Bogota](#) notes that it is expected to narrow over the year as a share of GDP given strong growth, and large FDI flows financing the current account deficit reflect inflows that add to productive capacity.

KEY MARKETS CHARTS

Latam financial markets have performed well in an uncertain global economy. Currencies across the region except for the Argentine peso have appreciated against the US dollar since the start of the year (chart 3). In some respects, this performance is a surprise given that past episodes of Fed tightening have generally been accompanied by steep depreciations (which can fuel price pressures through exchange rate pass-through effects). But as noted above, early, and clearly communicated, policy moves by central banks likely anchored expectations with respect to inflation, supporting currencies, while higher rates provided positive interest rate differentials. Equity markets have likewise risen in most of the region since the start of the year (chart 4), with Chile's market leading the region and the markets in Mexico and Peru down, possibly reflecting heightened levels of political uncertainty that cloud the investment climate. The effects of political uncertainty may also be visible in a longer-term perspective on currencies (chart 5) as well as sovereign debt CDS spreads (chart 6), which shows a marked widening in Colombia likely reflecting uncertainties surrounding the presidential elections. With that uncertainty now likely to dissipate following the results of the first round of voting on May 29, that spread may narrow.

YIELD CURVE CHARTS

Yield curves across most of the Latam region are inverted or flat, with Colombia and Peru exceptions. While the former configuration is thought to provide early warning of a possible recession in advanced economies, that statistical regularity has not been investigated as thoroughly with respect to emerging markets; in any event, there are yet no signs of impending recession.

COVID-19 CHARTS

War in Ukraine and the threat of higher inflation have largely pushed the pandemic from the headlines. Rising cases in several parts of the world and China's determined implementation of its "zero-COVID-19" policy show that COVID-19 remains a public health concern, one that can still have economic repercussions. Key monitoring charts are provided below.

Key Economic Charts

Chart 1

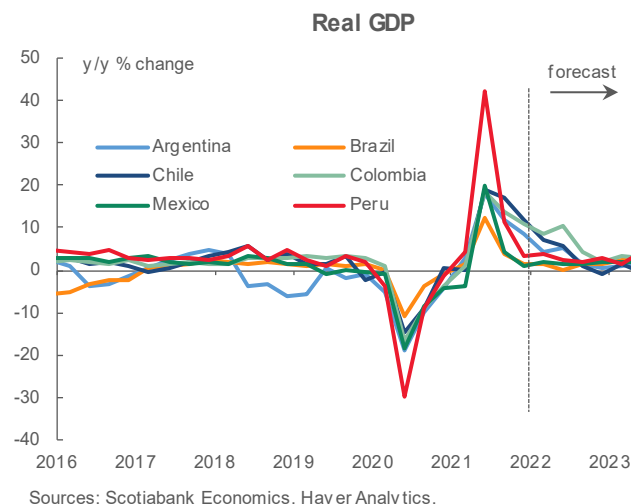


Chart 2

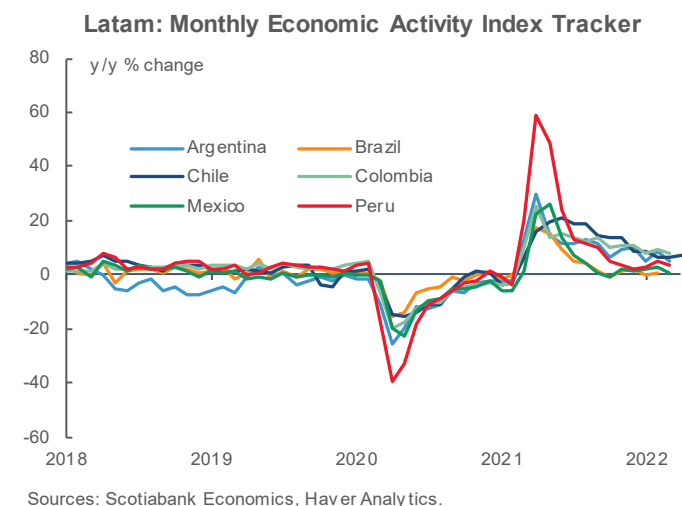


Chart 3

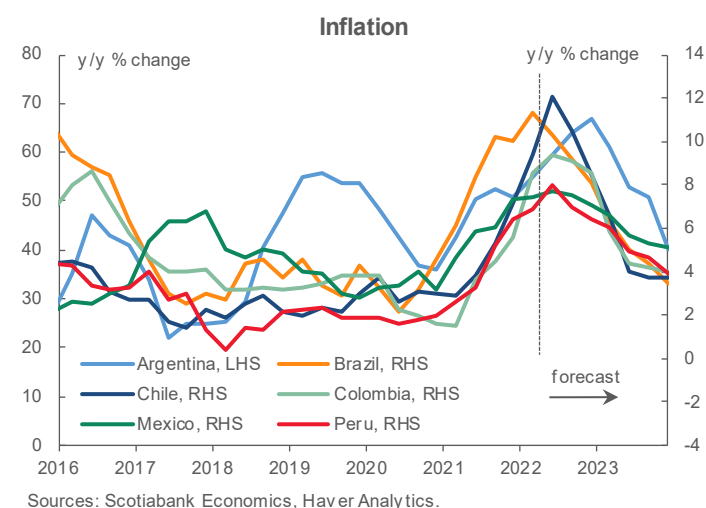


Chart 4

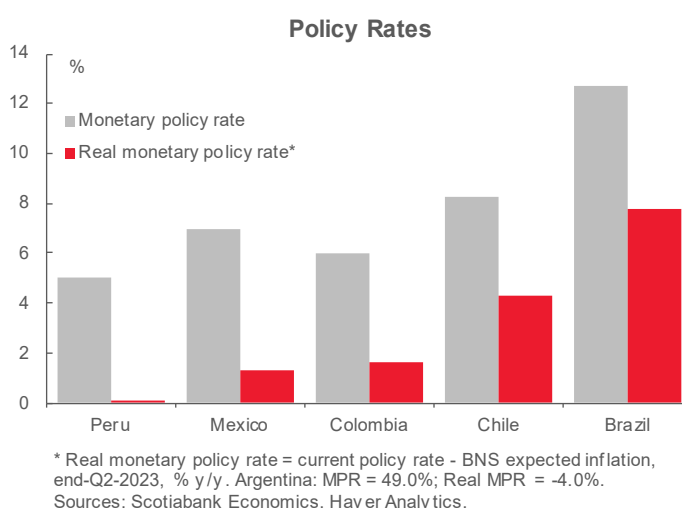


Chart 5

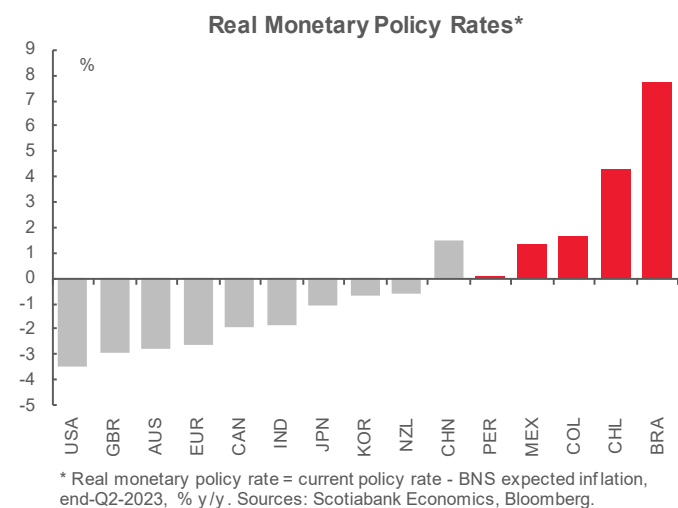
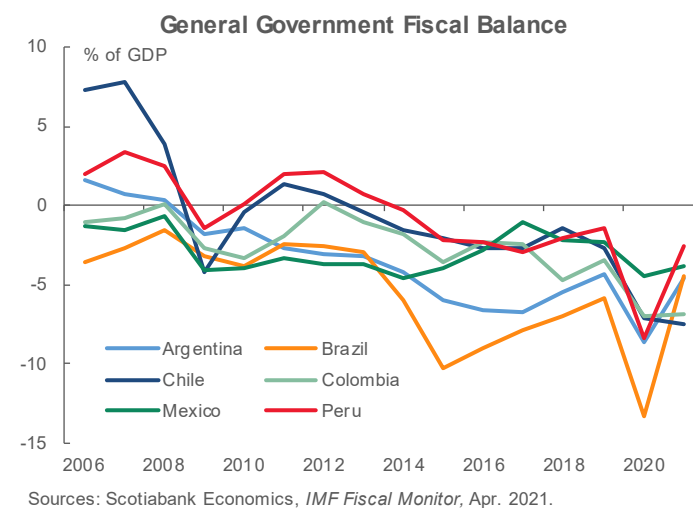


Chart 6



Key Economic Charts

Chart 7

General Government Gross Debt

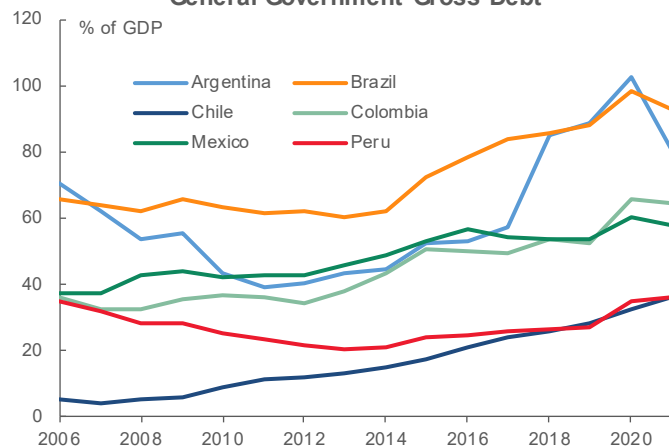


Chart 8

External Debt

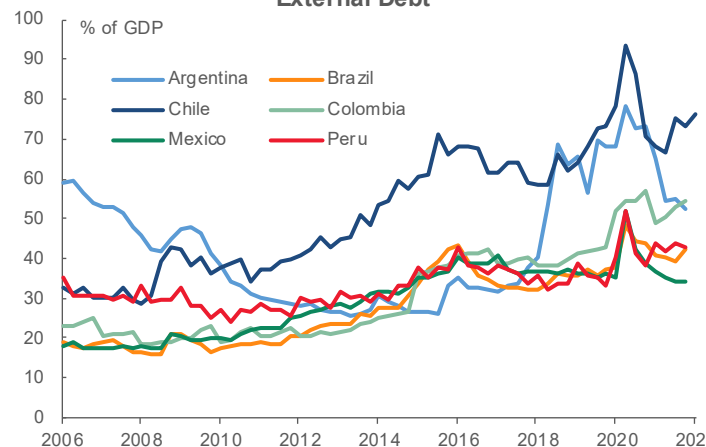


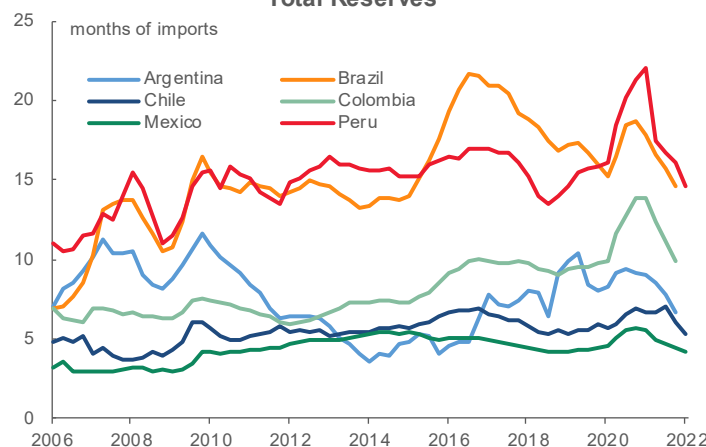
Chart 9

Current Account Balance



Chart 10

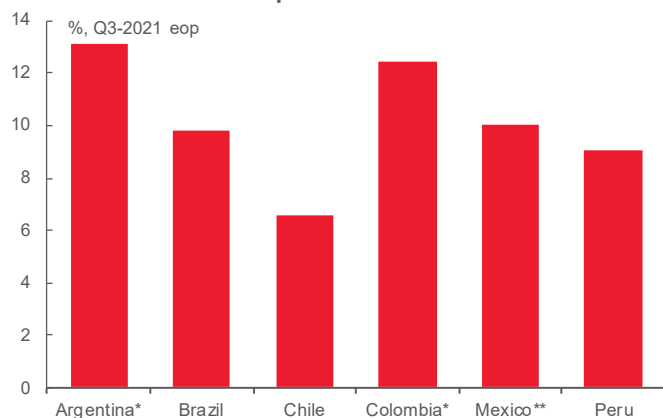
Total Reserves



Key Market Charts

Chart 1

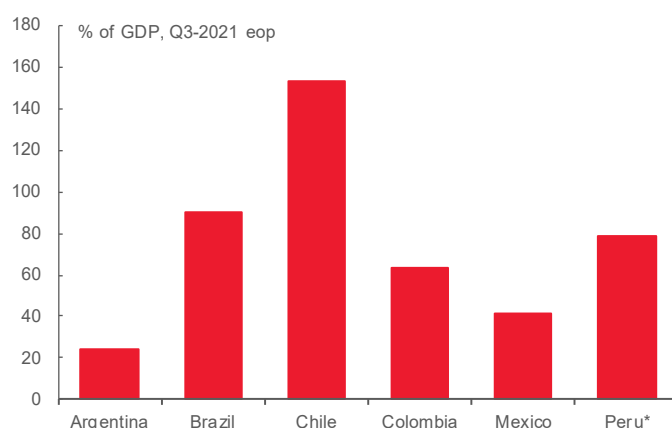
Bank Capital to Assets Ratio



* Data to Q4-2021. ** Data to Q1-2021.
Sources: Scotiabank Economics, IMF.

Chart 2

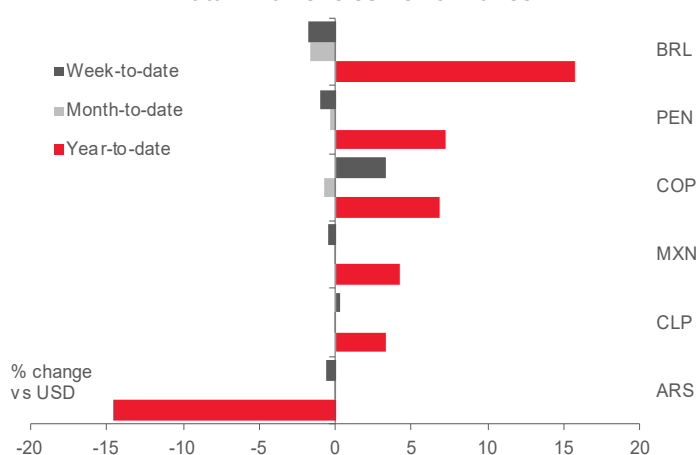
Domestic Credit to Private Nonfinancial Sector



* Data to Q4-2021.
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

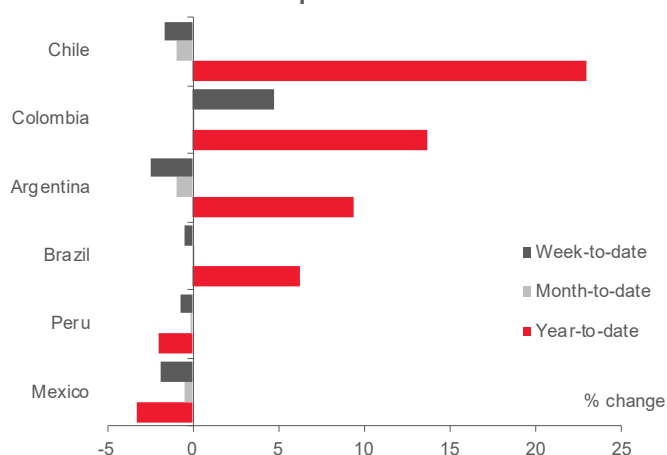
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 4

Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 5

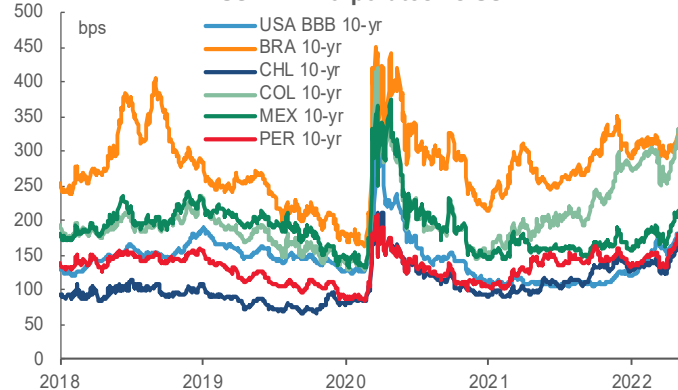
USD vs Latam Currencies



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

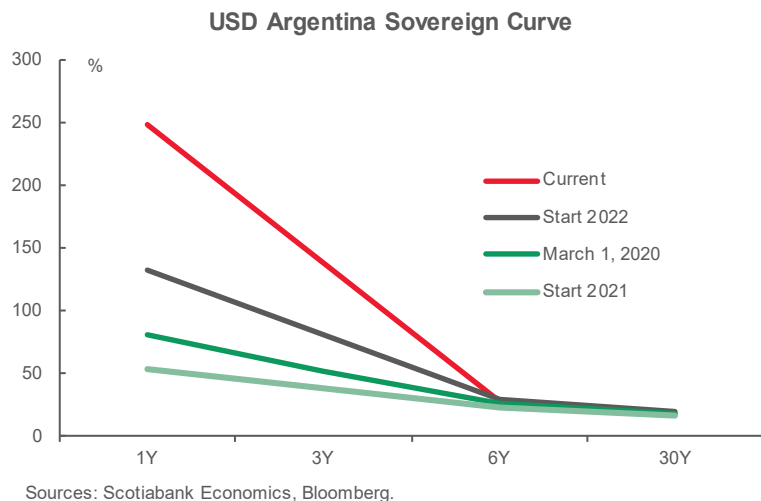


Chart 2



Chart 3

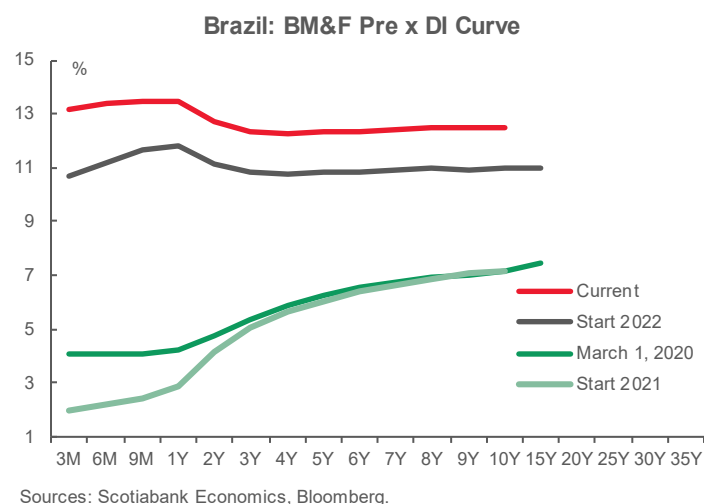


Chart 4

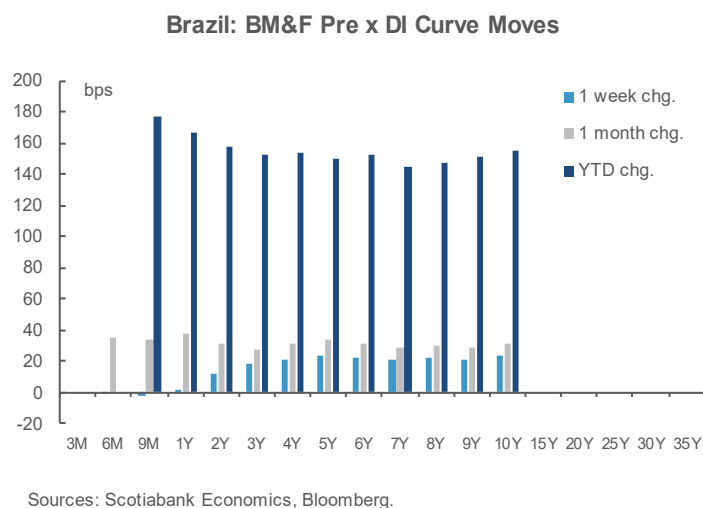


Chart 5

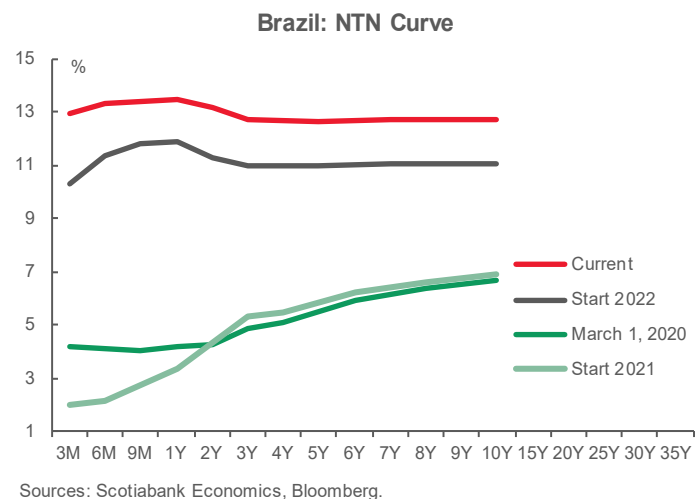
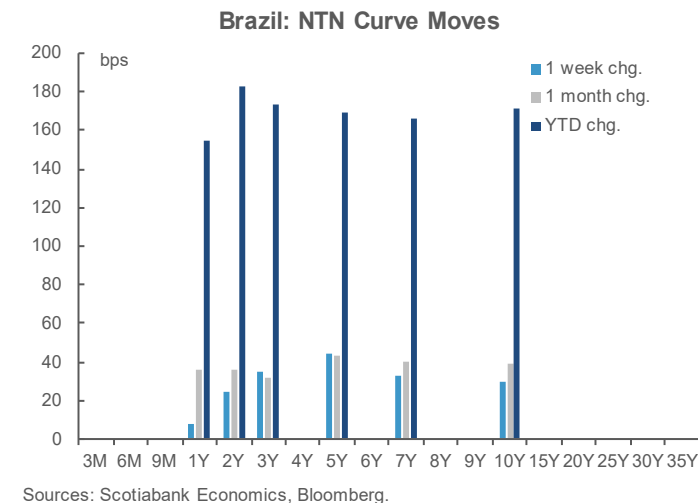
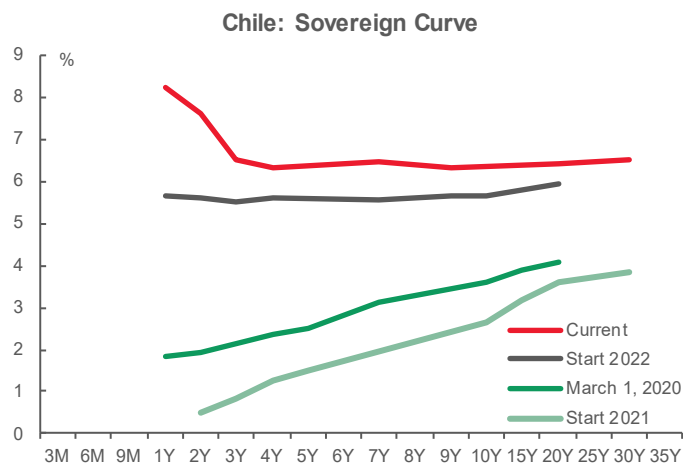


Chart 6



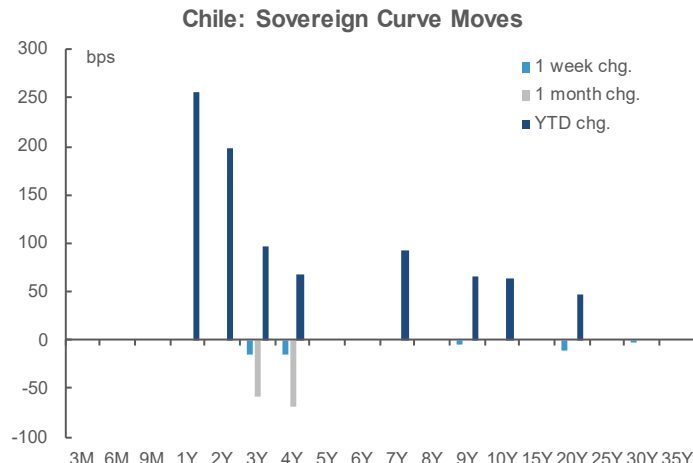
Yield Curves

Chart 7



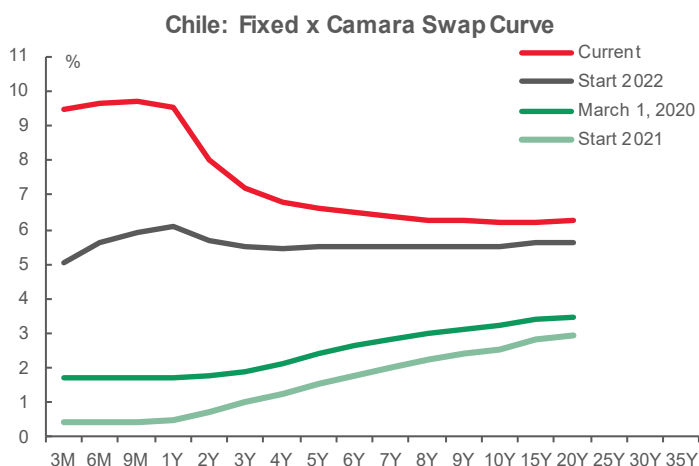
Sources: Scotiabank Economics, Bloomberg.

Chart 8



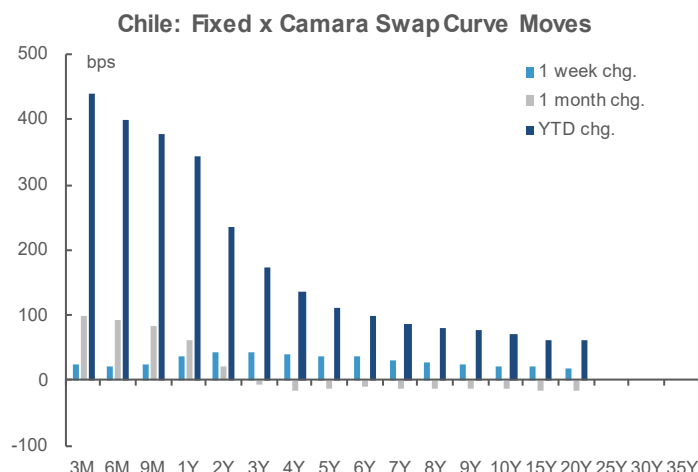
Sources: Scotiabank Economics, Bloomberg.

Chart 9



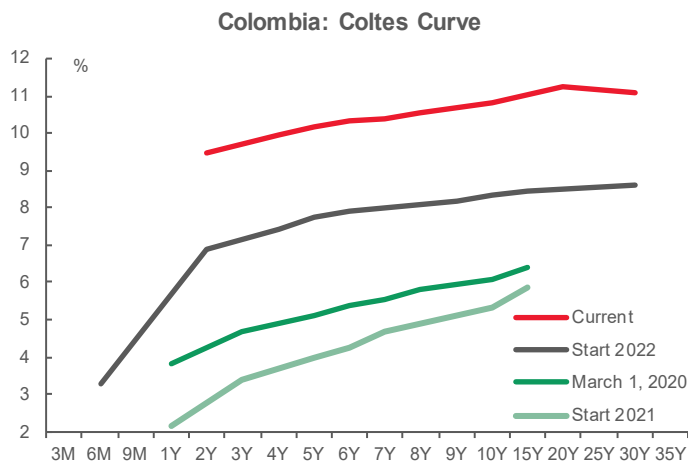
Sources: Scotiabank Economics, Bloomberg.

Chart 10



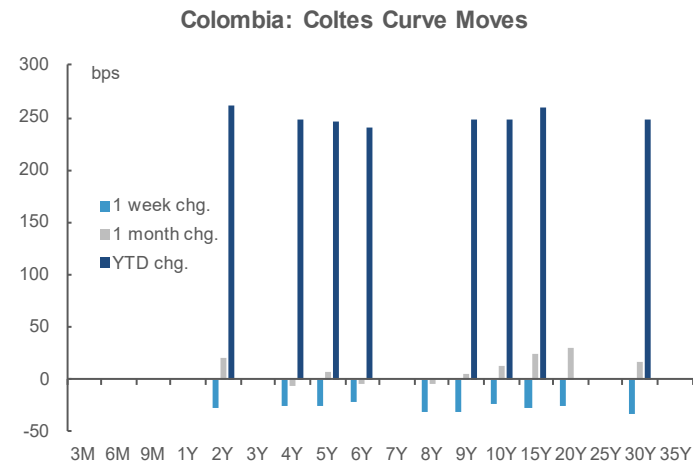
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 13

Colombia: UVR-Indexed Curve

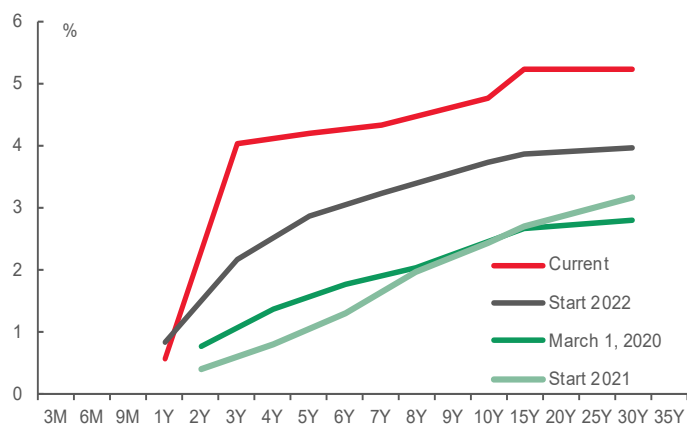


Chart 14

Colombia: UVR-Indexed Curve Moves

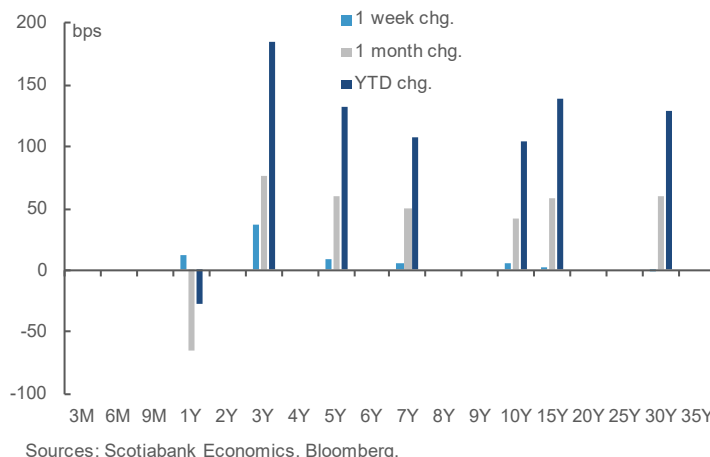


Chart 15

Mexico: M-Bono Curve

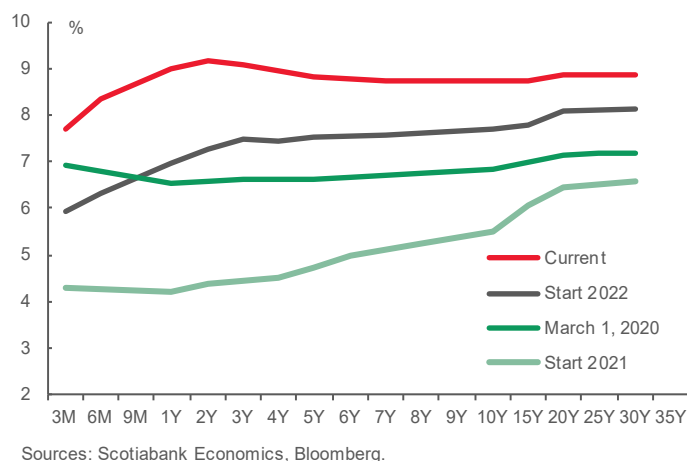


Chart 16

Mexico: M-Bono Curve Moves

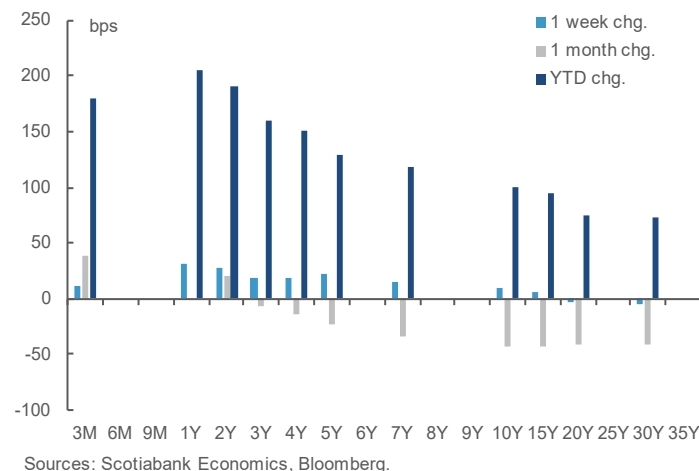


Chart 17

Mexico: Udibonos BVAL Yield Curve

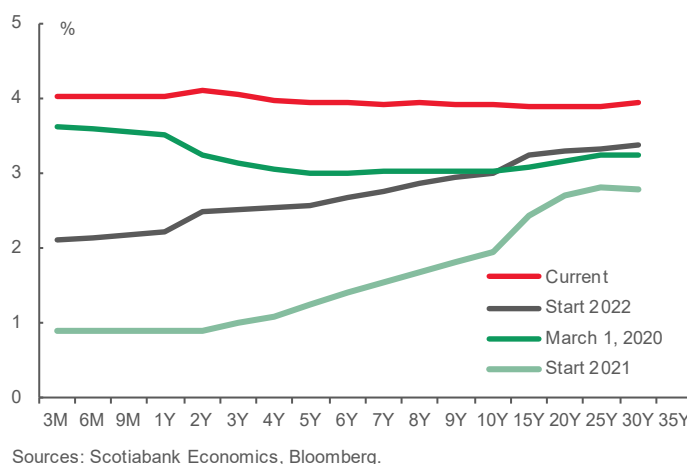
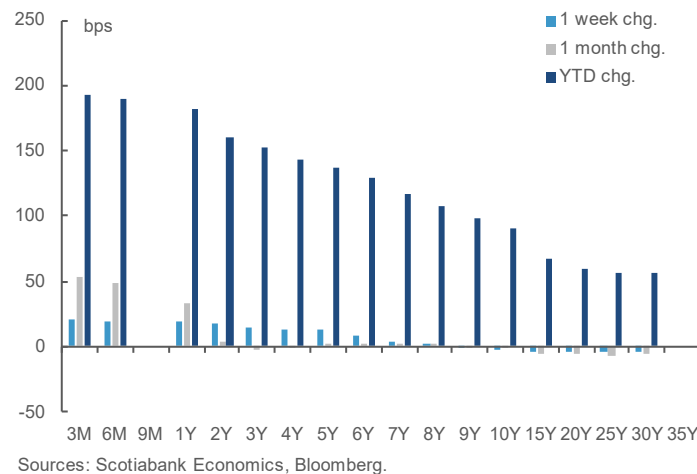


Chart 18

Mexico: Udibono Curve Moves



Yield Curves

Chart 19

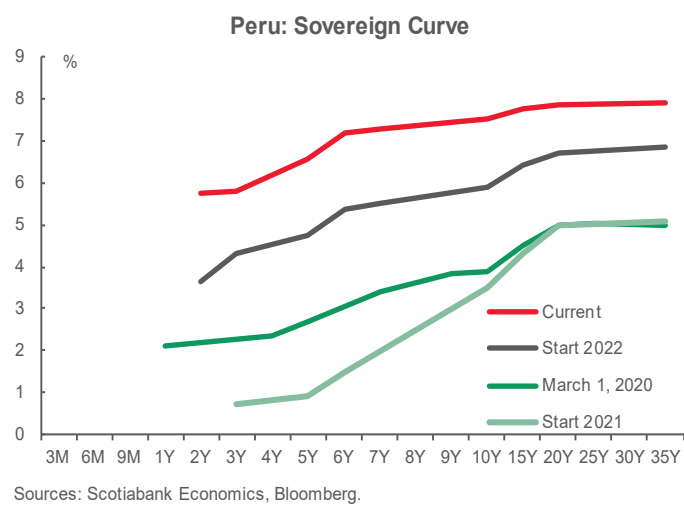
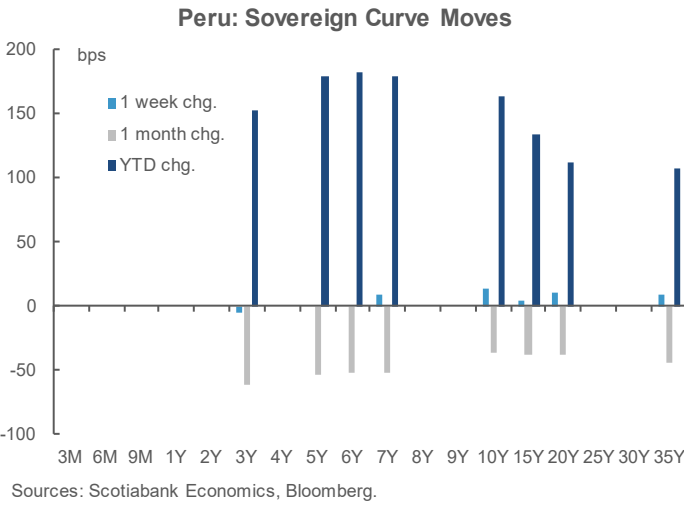
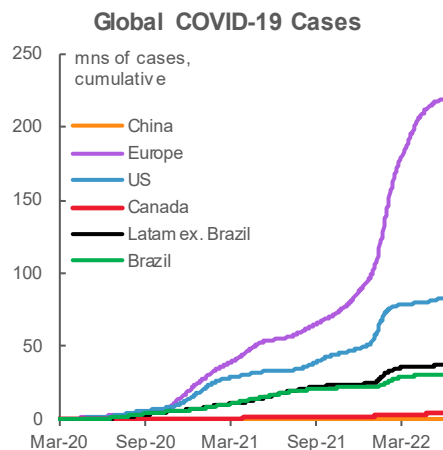


Chart 20



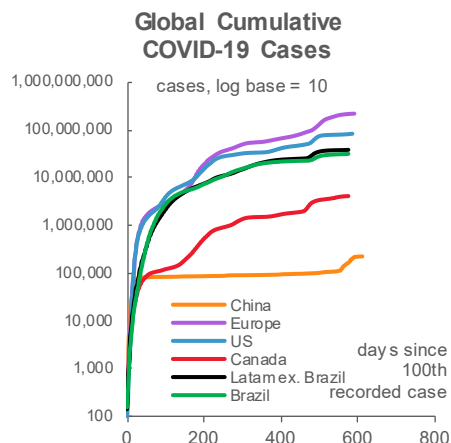
Key COVID-19 Charts

Chart 1



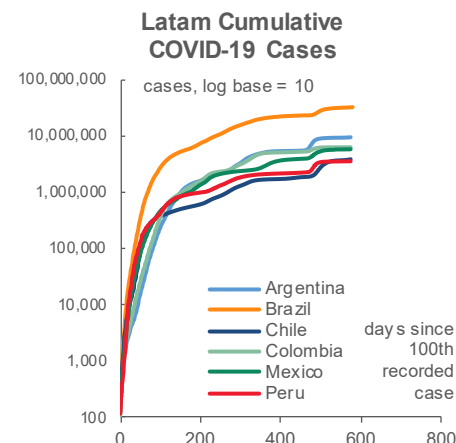
Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2



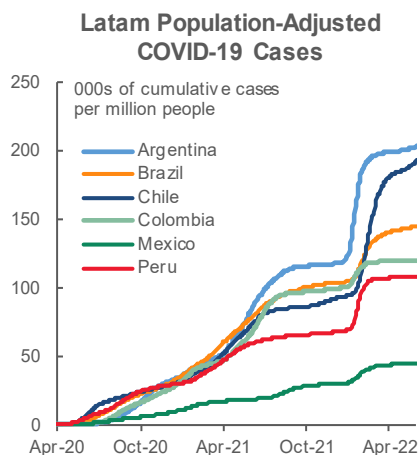
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



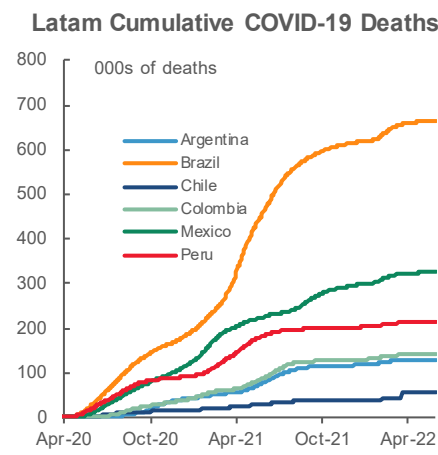
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4



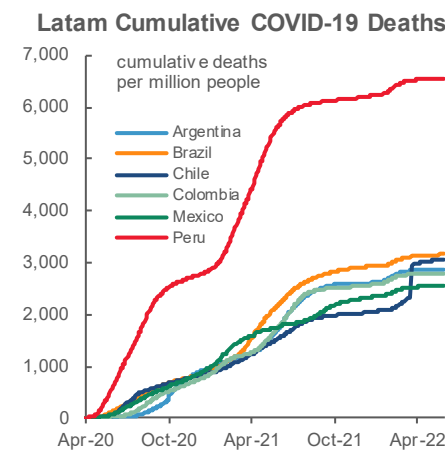
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5



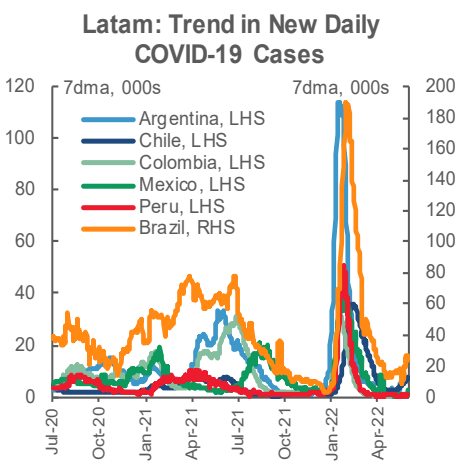
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6



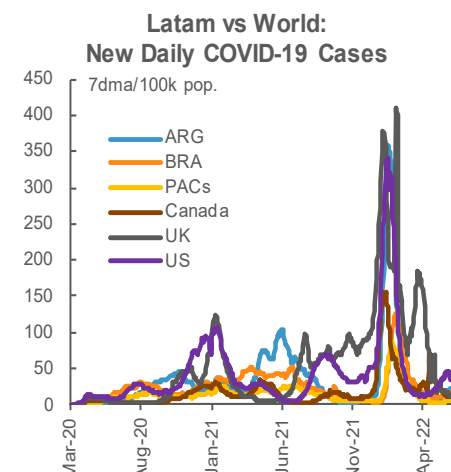
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7



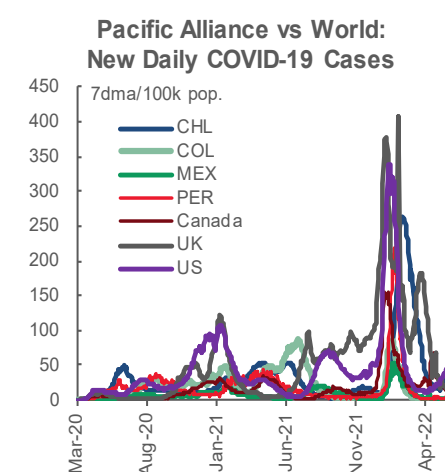
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8



Sources: Scotiabank Economics, JHU.

Chart 9



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

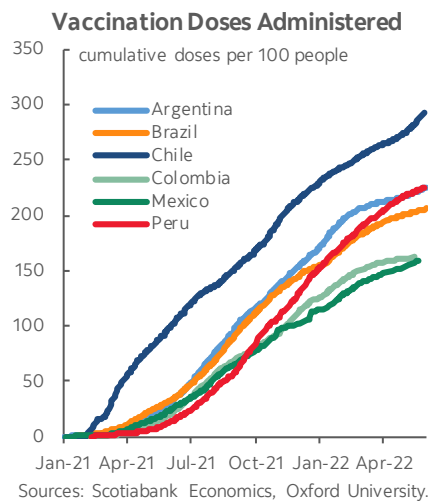


Chart 11

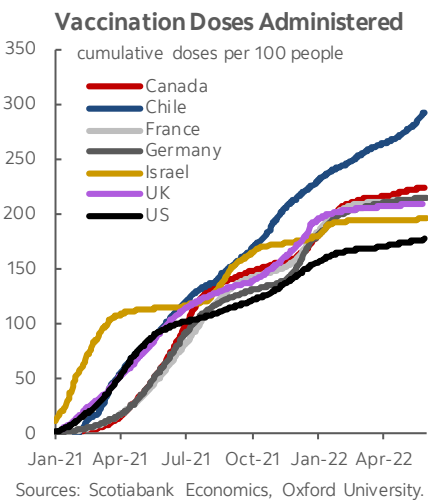
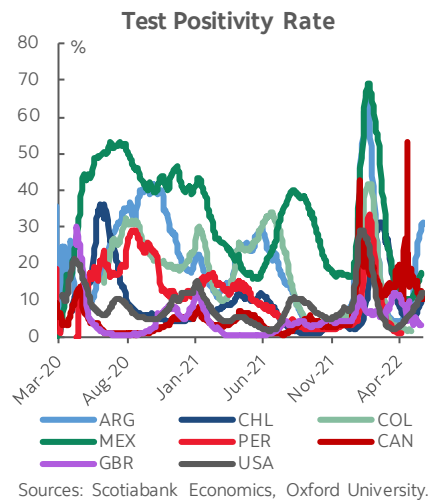


Chart 12



Market Events & Indicators for June 3–17

ARGENTINA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jun-03	Vehicle Exports Adefa	May	--	--	27431	
Jun-03	Vehicle Production Adefa	May	--	--	43826	
Jun-03	Vehicle Domestic Sales Adefa	May	--	--	30861	
Jun-03	Central Bank Survey		--	--	--	
June 1-5	Government Tax Revenue (ARS bn)	May	--	--	1551.37	
Jun-09	15:00 Construction Activity (y/y)	Apr	--	--	99.8	
Jun-09	15:00 Industrial Production (y/y)	Apr	--	--	3.6	
Jun-14	15:00 Greater Buenos Aires CPI (m/m)	May	--	--	6.2	
Jun-14	15:00 Greater Buenos Aires CPI (y/y)	May	--	--	59.05	
Jun-14	15:00 National CPI (m/m)	May	--	--	6	
Jun-14	15:00 National CPI (y/y)	May	--	--	58	
Jun-16	15:00 Capacity Utilization (%)	Apr	--	--	67.1	

BRAZIL

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jun-03	8:00 Industrial Production (m/m)	Apr	--	0.15	0.3	
Jun-03	8:00 Industrial Production (y/y)	Apr	--	-0.8	-7.3	
Jun-03	9:00 S&P Global Brazil Composite PMI	May	--	--	58.5	
Jun-03	9:00 S&P Global Brazil Services PMI	May	--	--	60.6	
May 31-June 3	Formal Job Creation Total	Apr	--	170655	328507	
June 1-3	Vehicle Sales Fenabrave	May	--	--	187069	
Jun-06	7:25 Central Bank Weekly Economist Survey		--	--	--	
Jun-06	14:00 Trade Balance Weekly (USD mn)	05-Jun	--	--	523.8	
June 6-7	Vehicle Sales Anfavea	May	--	--	147242	
June 6-7	Vehicle Production Anfavea	May	--	--	185449	
June 6-7	Vehicle Exports Anfavea	May	--	--	44819	
Jun-08	7:00 FGV CPI IPC-S (%)	07-Jun	--	--	0.5	
Jun-08	7:00 FGV Inflation IGP-DI (y/y)	May	--	--	13.53	
Jun-08	7:00 FGV Inflation IGP-DI (m/m)	May	--	--	0.41	
Jun-09	4:00 FIPE CPI - Weekly (%)	07-Jun	--	--	0.76	
Jun-09	8:00 IBGE Inflation IPCA (m/m)	May	--	0.6	1.06	
Jun-09	8:00 IBGE Inflation IPCA (y/y)	May	--	11.9	12.13	
Jun-10	8:00 Retail Sales (m/m)	Apr	--	--	1.0	
Jun-10	8:00 Retail Sales (y/y)	Apr	--	--	4.0	
Jun-10	8:00 Retail Sales Broad (m/m)	Apr	--	--	0.7	
Jun-10	8:00 Retail Sales Broad (y/y)	Apr	--	--	4.5	
June 6-10	Central Govt Budget Balance (BRL bn)	Apr	--	28.517	-6.304	
June 6-10	Federal Debt Total (BRL bn)	Apr	--	--	5565	
June 6-10	Economic Activity (m/m)	Mar	--	1	0.34	
June 6-10	Economic Activity (y/y)	Mar	--	2.03	0.66	
June 6-10	Personal Loan Default Rate (%)	Mar	--	--	4.71	
June 6-10	Outstanding Loans (m/m)	Mar	--	1.2	0.8	
June 6-10	Total Outstanding Loans (BRL bn)	Mar	--	4767.49	4710.96	
June 6-10	Current Account Balance (USD mn)	Mar	--	300	-2414	
June 6-10	Foreign Direct Investment (USD mn)	Mar	--	6076.3	11842.6	
Jun-13	7:25 Central Bank Weekly Economist Survey		--	--	--	
Jun-13	14:00 Trade Balance Weekly (USD mn)	12-Jun	--	--	523.8	
Jun-14	8:00 IBGE Services Volume (y/y) NSA	Apr	--	--	11.4	
Jun-14	8:00 IBGE Services Volume (m/m) SA	Apr	--	--	-11.2	
Jun-15	7:00 FGV Inflation IGP-10 (m/m)	Jun	--	--	0.1	
Jun-15	8:00 Economic Activity (m/m)	Apr	--	1	0.34	
Jun-15	8:00 Economic Activity (y/y)	Apr	--	2.03	0.66	
Jun-15	17:30 Selic Rate (%)	15-Jun	13.50	--	12.75	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for June 3–17

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jun-07	8:30 International Reserves (USD mn)	May	--	--	48608	
Jun-07	8:30 Trade Balance (USD mn)	May	--	--	1071.38	
Jun-07	8:30 Exports Total (USD mn)	May	--	--	8427	
Jun-07	8:30 Imports Total (USD mn)	May	--	--	7356.02	
Jun-07	8:30 Copper Exports (USD mn)	May	--	--	4036.51	
Jun-07	9:00 Nominal Wage (y/y)	Apr	--	--	7.4	
Jun-07	18:00 Overnight Rate Target (%)	07-Jun	9.00	--	8.25	
June 1-7	IMCE Business Confidence	May	--	--	46.48	
Jun-08	8:00 CPI (m/m)	May	1.0	1.1	1.4	The m/m increase could be explained by rises in volatile
Jun-08	8:00 CPI (y/y)	May	11.3	--	10.5	items, mainly food and transport.
Jun-10	Central Bank Economist Survey		--	--	--	
June 7-10	Vehicle Sales Total	May	--	--	37867	

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jun-04	13:00 CPI (m/m)	May	--	0.88	1.25	
Jun-04	13:00 CPI (y/y)	May	--	9.1	9.23	
Jun-04	13:00 CPI Core (m/m)	May	--	--	0.9	
Jun-04	13:00 CPI Core (y/y)	May	--	--	5.94	
Jun-07	Consumer Confidence Index	May	--	--	-17.5	
Jun-15	11:00 Manufacturing Production (y/y)	Apr	--	--	12.3	
Jun-15	11:00 Retail Sales (y/y)	Apr	--	--	12	
Jun-15	11:00 Industrial Production (y/y)	Apr	--	--	8.3	
Jun-15	Central Bank Economist Survey		--	--	--	
Jun-17	11:00 Trade Balance (USD mn)	Apr	--	--	-1520.7	
Jun-17	11:00 Imports CIF Total (USD mn)	Apr	--	--	7063.39	
Jun-17	12:00 Economic Activity NSA (y/y)	Apr	--	--	7.6	

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jun-06	7:00 Gross Fixed Investment (%)	Mar	--	--	1.7	
Jun-06	7:00 Vehicle Production	May	--	--	251547	
Jun-06	7:00 Vehicle Exports	May	--	--	241286	
Jun-07	10:00 International Reserves Weekly (USD mn)	03-Jun	--	--	199558	
Jun-07	Banamex Survey of Economists		--	--	--	
Jun-09	7:00 CPI (m/m)	May	--	0.11	0.54	
Jun-09	7:00 CPI Core (m/m)	May	--	0.54	0.78	
Jun-09	7:00 CPI (y/y)	May	--	7.58	7.68	
Jun-09	7:00 CPI Core (y/y)	May	--	7.23	7.22	
Jun-09	7:00 Bi-Weekly CPI (%)	31-May	--	0.18	-0.06	
Jun-09	7:00 Bi-Weekly CPI (y/y)	31-May	--	7.59	7.58	
Jun-09	7:00 Bi-Weekly Core CPI (%)	31-May	--	0.2	0.31	
Jun-09	7:00 Bi-Weekly Core CPI (y/y)	31-May	--	7.23	7.24	
Jun-10	7:00 Manuf. Production NSA (y/y)	Apr	--	--	3.58	
Jun-10	7:00 Industrial Production NSA (y/y)	Apr	--	--	2.61	
Jun-10	7:00 Industrial Production SA (m/m)	Apr	--	--	0.36	
Jun-10	Nominal Wages (m/m)	May	--	--	5.4	
Jun-12	13:00 Formal Job Creation Total	May	--	--	5.49	
Jun-13	ANTAD Same-Store Sales (y/y)	May	--	--	14.2	
Jun-14	10:00 International Reserves Weekly (USD mn)	10-Jun	--	--	199558	

PERU

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jun-09	19:00 Reference Rate (%)	09-Jun	5.50	--	5.00	We expect the BCRP to hike 50 bps at the June meeting due to higher inflation expectations.
Jun-15	Economic Activity (y/y)	Apr	--	--	3.79	
Jun-15	Lima Unemployment Rate (%)	May	8.1	--	8.3	We expect the unemployment rate to continue downward due to the elimination of COVID-19 mobility restrictions.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage



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