

Contributors

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Latam Charts: The Shocks Just Keep Coming

- Inflation, and more aggressive policy responses to persistent price pressures, continue to impart shocks to the global economy. Latam countries are not immune to these effects.
- Yet, despite the increase in risks, economic recoveries in the region remain on track. Scotiabank economists see growth moderating to broadly pre-pandemic levels and inflation gradually returning to target.

Things aren't getting any easier for Latam policymakers. Two weeks ago, [financial markets were rocked](#) by aggressive policy actions by major central banks (and the promise of more to come, if necessary) to contain inflation. A week ago, Colombia elected the leftist candidate, Gustavo Petro, in a result that repudiated traditional politics and especially the long tradition of electing conservative candidates. The election completes a Quadfecta of populist presidents in the Pacific Alliance countries and focuses attention on the [new populist macroeconomics](#) in the region. And now come reports that advanced economy central bankers are warning that the era of low inflation, low interest rates is over. The shocks just keep coming.

That latest piece of news is somewhat disconcerting if for no other reason than central banks are not entirely impotent when it comes to inflation. They can do something about it, after all. Of course, achieving inflation targets is more challenging in the face of supply-side shocks, which is exactly what central banks in the Latam region and around the world have confronted over the past year.

So, on the one hand, are the central bankers signalling that they expect a continuing string of supply shocks from the realization of geopolitical (and other) risks, or that the output costs of returning inflation to target in the short run are too high? Neither option is particularly encouraging; for Latam policy makers, the challenges mount.

On the other hand, however, these are the same central bankers who insisted not that long ago that the uptick in inflation was transitory. This is not intended as a criticism. At the time, the case for a *temporary* upsurge of inflation coming out of the pandemic was strong. They can't be blamed for not anticipating the extent and duration of shocks to global supply chains, though in hindsight some disruptions should have been expected. Regardless, central bankers certainly can't be blamed for not guessing the Kremlin's intentions. As noted, the shocks just keep coming. It is not surprising, then, that inflation has become a lot more *persistent*.

KEY ECONOMIC CHARTS

Despite the uncertain environment these shocks create, and the increased risk of recession that more aggressive monetary policy responses to higher inflation elicit, the economic recovery remains on track across the Latam region. Scotiabank teams expect real GDP growth to moderate to pre-pandemic levels (chart 1), as output and employment levels return to where they were before the pandemic struck. New information coming in from monthly indicators is consistent with this outlook, with [Colombia activity indicators](#) signalling continued recovery and a range of indicators pointing to robust [monthly GDP growth in May in Chile](#). That said, with [unemployment rates rising in Chile and Mexico](#), and heightened risks, there is no grounds for complacency. In this context, high-frequency monthly activity indicators (chart 2) should be closely monitored for nascent signs of a stalling economy.

With headline inflation running above central banks' inflation targets (chart 3), this remains the number one policy priority across the region. Nevertheless, central bank commitments to price stability remain strong, and the actions taken to keep inflation

expectations firmly moored lead our country teams to anticipate a gradual return of inflation to target over the coming year. Mexico's [Banxico recently raised rates](#), hiking its key policy rate 75 basis points, while Colombia's BanRep raised its policy rate 150 bps on June 30th. Meanwhile, minutes of the last meeting of Chile's BCCCh show that it considered a more aggressive 100 bps hike, but likewise opted for an increase of 75 bps. With the higher rates Latam central banks have put in place, policy rates are now positive in real (after inflation) terms (chart 4). In this regard, the proactive response by the region's central bankers stands out in comparison to their global peers (chart 5).

Strong economic growth in 2021 and 2022 has reduced large pandemic-related deficits (chart 6). As noted previously, fiscal consolidation in Peru has been especially impressive, though this may be a reflection of an inability of the government to execute spending plans rather than a well thought fiscal strategy. Colombia's public finances have likewise improved significantly. The election of a new president with ambitious spending plans increases uncertainty, though our team in Bogota [view the announcement](#) of a steady pair of hands to fill the Finance Minister portfolio as market friendly much faster than anticipated.

Improved fiscal outlooks are critical to insulating the region from additional external shocks transmitted via global financial markets. Lowering debt-to-GDP ratios (chart 7) and reducing external debt burdens (chart 8) would likewise provide a confidence boost to investors anxiously watching external financial conditions. Moreover, sound public finances would also rein in large current account deficits (chart 9) and bolster international reserves that serve as a buffer to external shocks.

KEY MARKET CHARTS

Regional financial markets, which largely outperformed other emerging markets through the first half of 2022 have come under increased stress more recently as the US dollar has appreciated against most currencies. While some remain up against the US dollar since the start of year (chart 3), others have seen steep depreciations more recently. In Chile, the depreciation of the peso and the potential pass-through effects on higher inflation led our team in Santiago to predict policy action—foreign exchange sales and/or moves by BCCCh. It was a prescient and timely call. As it turned out, the threshold was crossed, [triggering FX sales](#). Many regional equities markets are down on the year, as the global (and domestic) shocks have weighed on markets. These movements should be viewed in the context of volatile global markets (chart 4). Such uncertainty may be reflected in exchange rates (chart 5) and CDS spreads on Latam sovereign bonds (chart 6), which have waxed and waned in response to indications of greater or lesser uncertainty.

YIELD CURVES

Most yield curves across the region are now inverted or flat (charts 1–20). As noted in previous editions of the Latam Charts, this could be an early indicator of recession, albeit one that should not be given inordinate weight. Colombia and Peru are the exceptions here, as they have been through the yield curve inversion in regional partners.

KEY COVID-19 CHARTS

Jurisdictions around the world are easing masking and vaccine requirements as the COVID-19 virus fades from public consciousness, if not public health concerns. Key monitoring charts for what remains a potential threat to public health and economic health are provided below.

Key Economic Charts

Chart 1

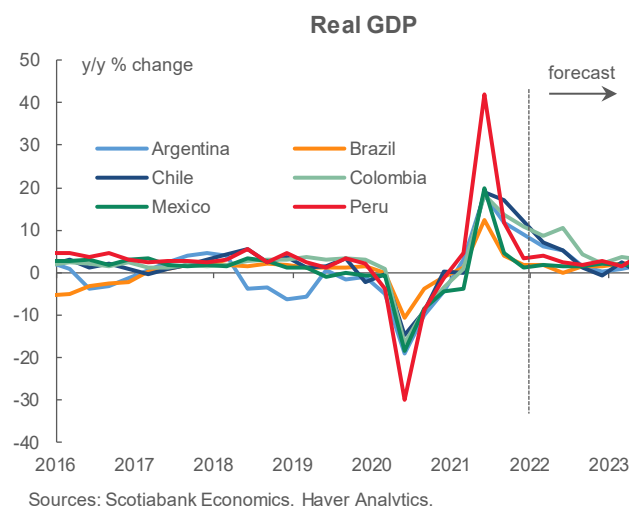


Chart 2

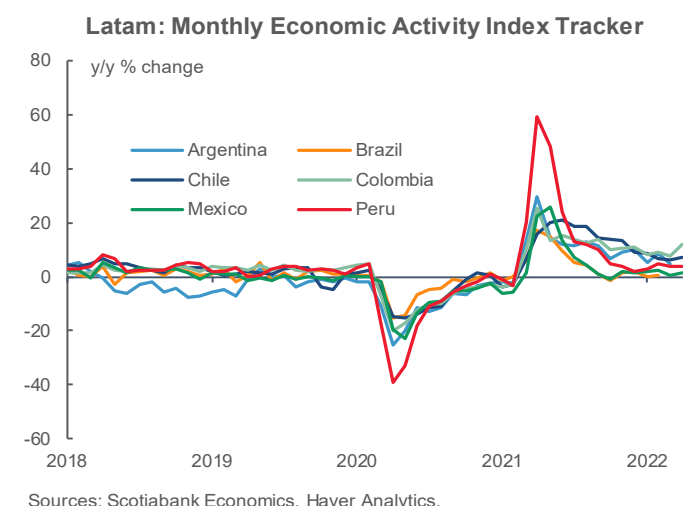


Chart 3

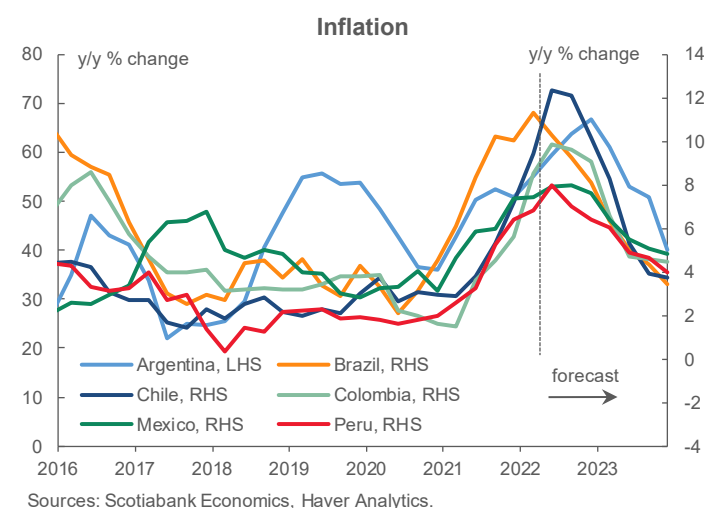


Chart 4

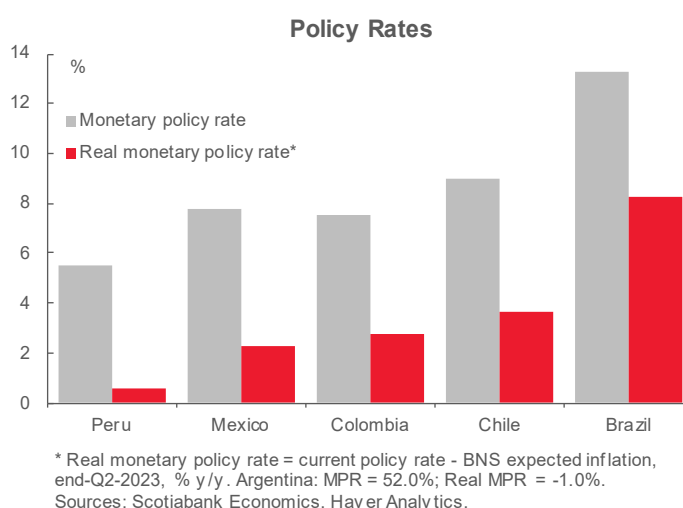


Chart 5

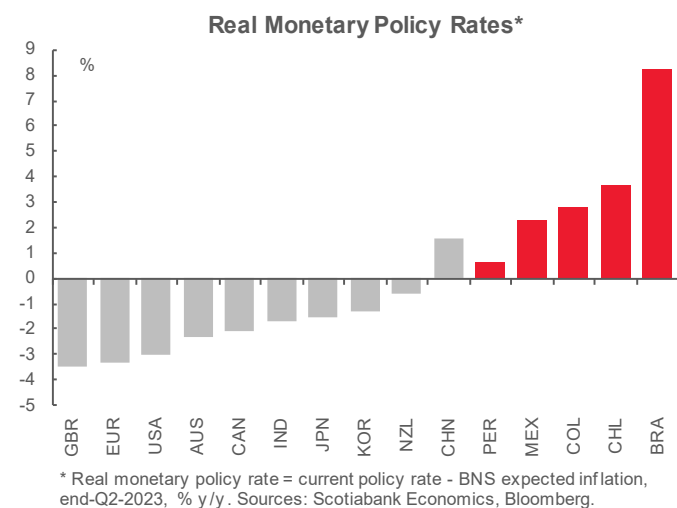
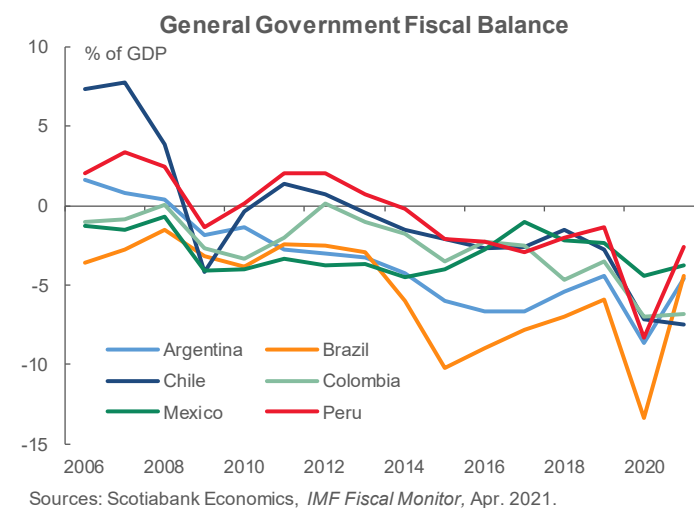


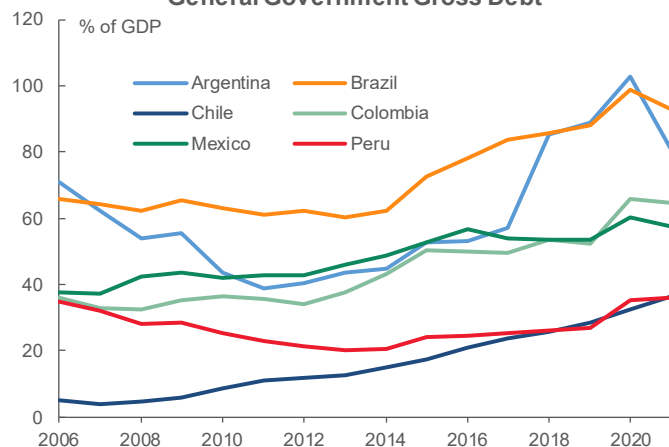
Chart 6



Key Economic Charts

Chart 7

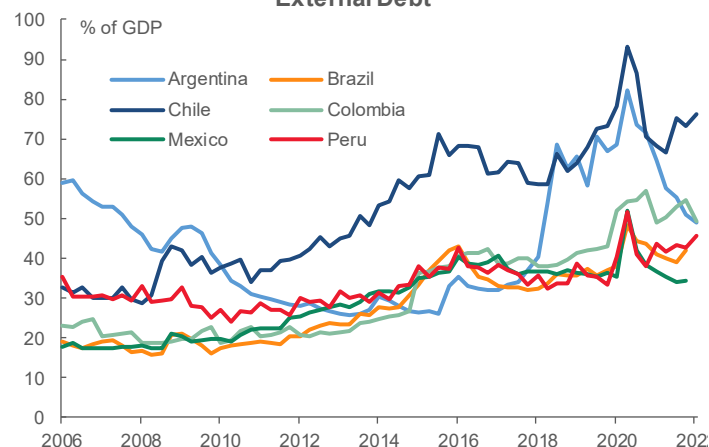
General Government Gross Debt



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

Chart 8

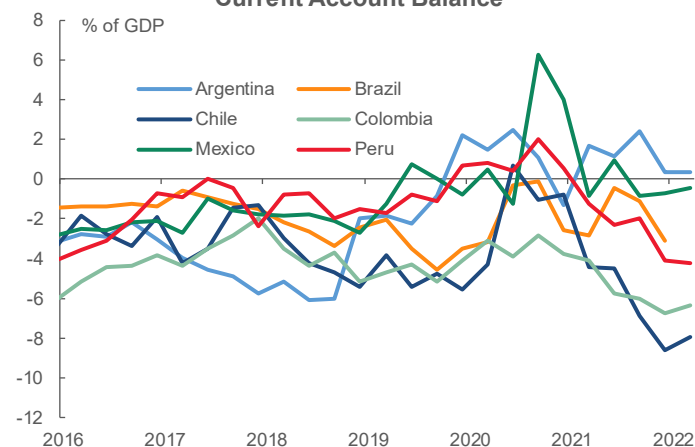
External Debt



Sources: Scotiabank Economics, Haver Analytics.

Chart 9

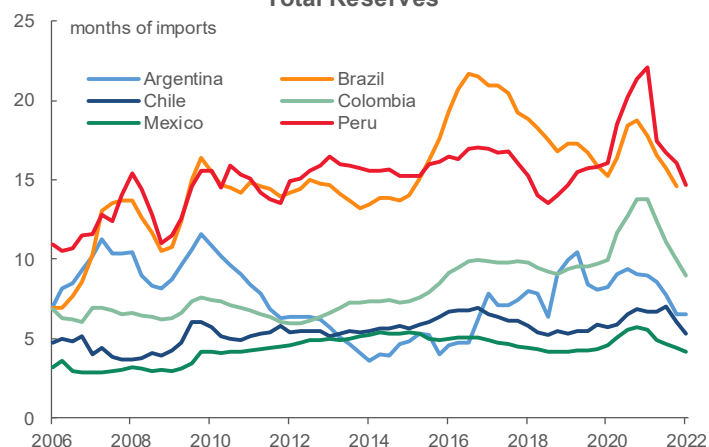
Current Account Balance



Sources: Scotiabank Economics, Haver Analytics.

Chart 10

Total Reserves

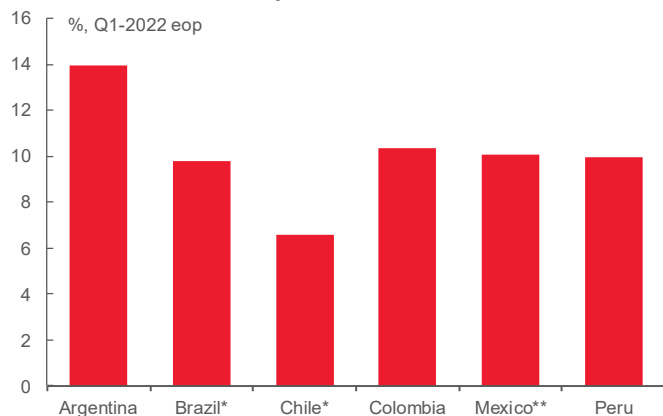


Sources: Scotiabank Economics, Haver Analytics.

Key Market Charts

Chart 1

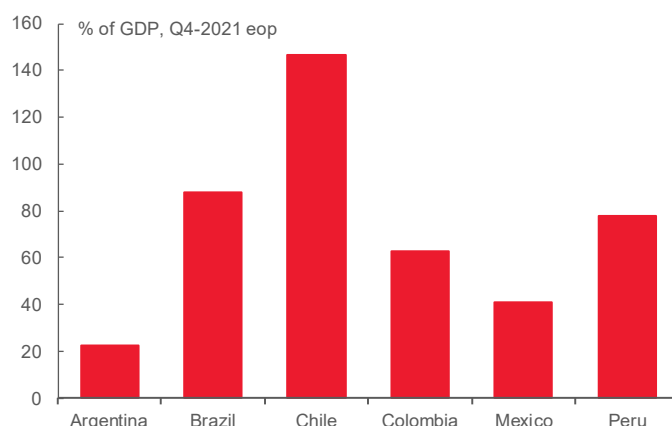
Bank Capital to Assets Ratio



* Data to Q3-2021. ** Data to Q1-2021.
Sources: Scotiabank Economics, IMF.

Chart 2

Domestic Credit to Private Nonfinancial Sector



Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

Latam Currencies Performance

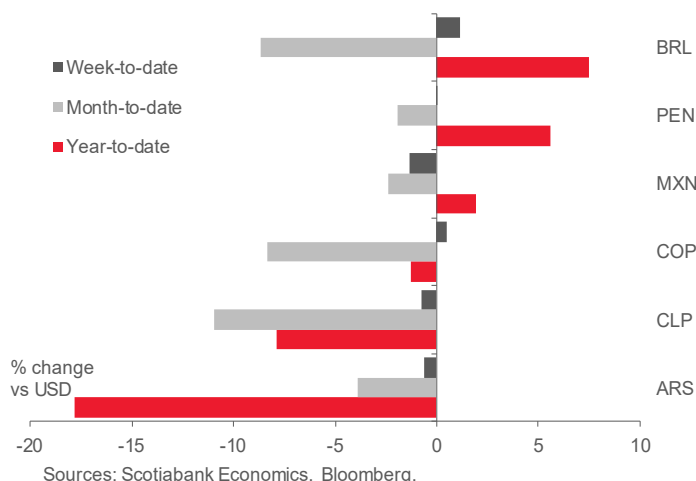


Chart 4

Latam Equities Performance

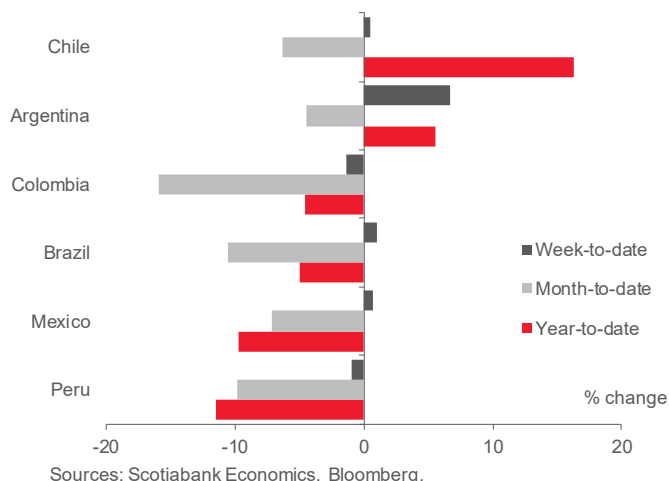


Chart 5

USD vs Latam Currencies

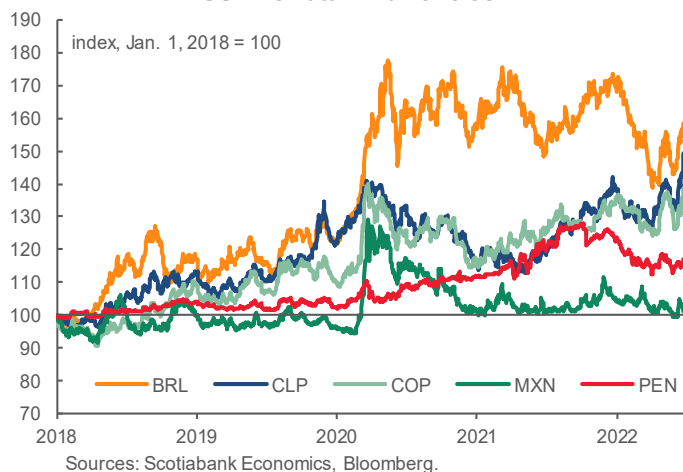
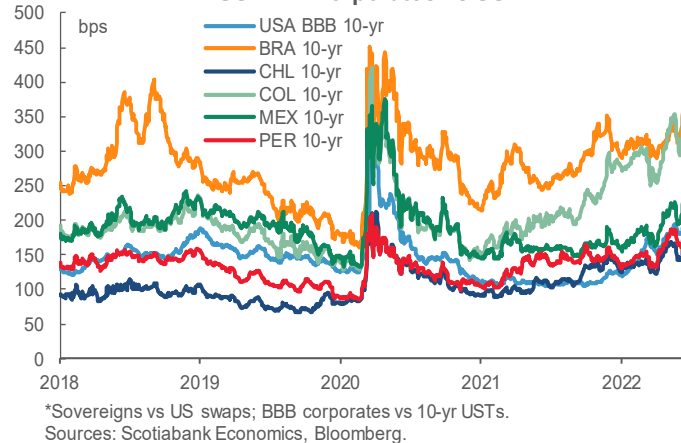


Chart 6

10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US*



Yield Curves

Chart 1

USD Argentina Sovereign Curve

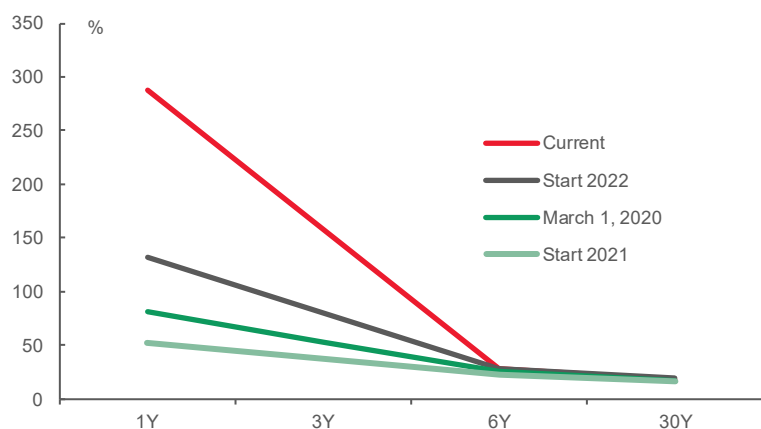


Chart 2

Argentina: USD Sovereign Curve Moves

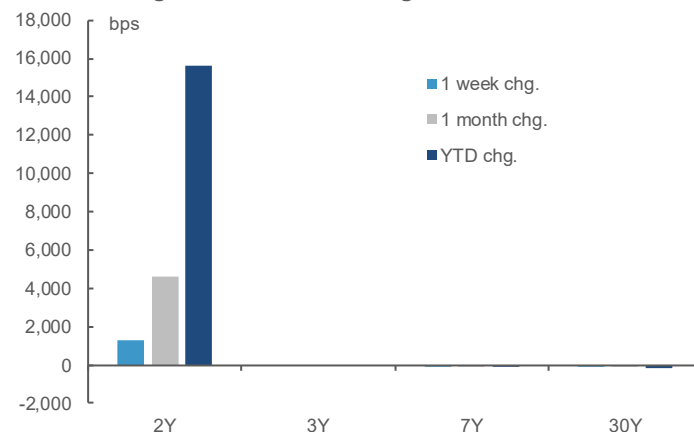


Chart 3

Brazil: BM&F Pre x DI Curve

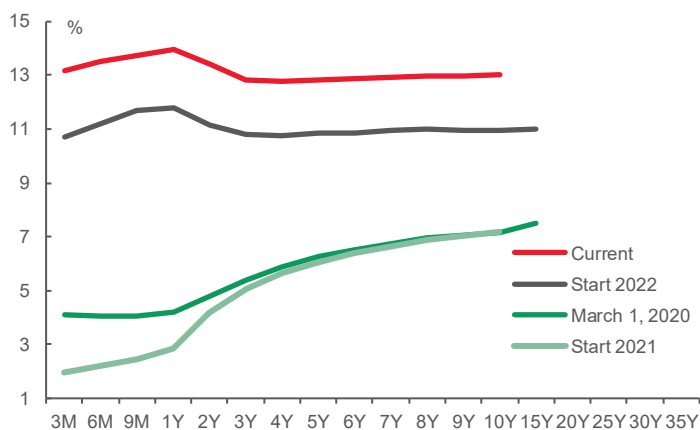


Chart 4

Brazil: BM&F Pre x DI Curve Moves

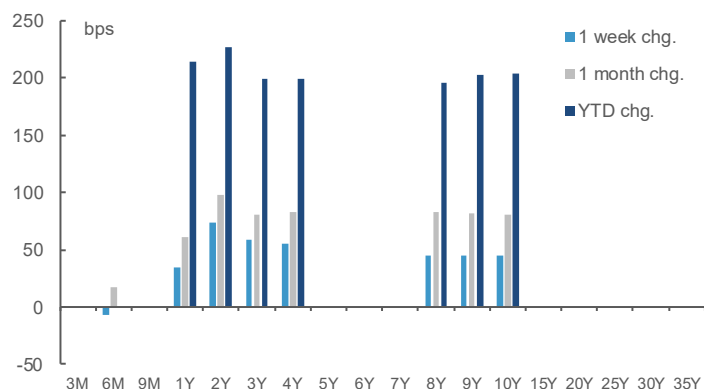


Chart 5

Brazil: NTN Curve

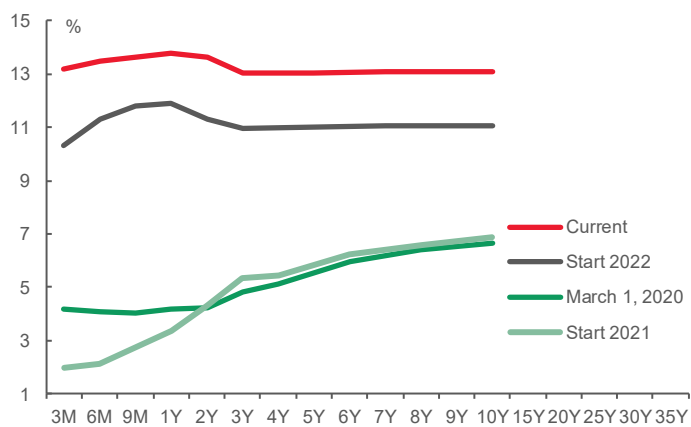
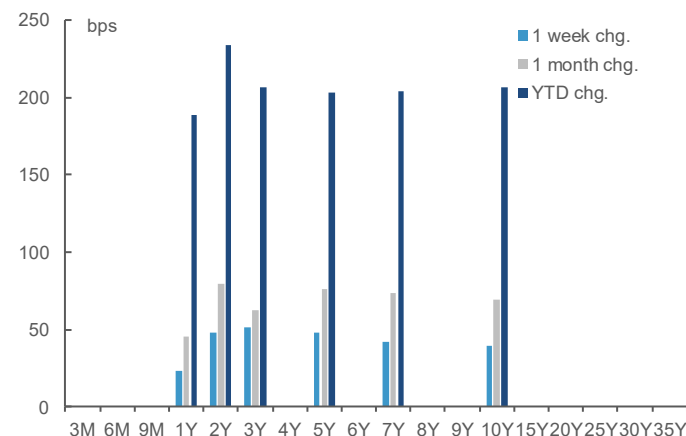


Chart 6

Brazil: NTN Curve Moves



Yield Curves

Chart 7

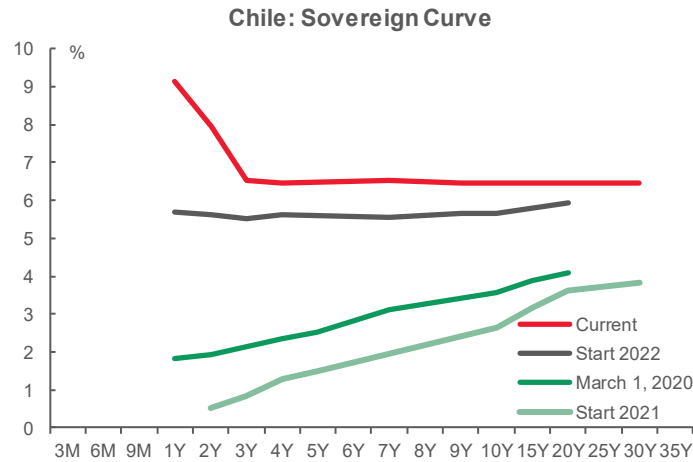


Chart 8

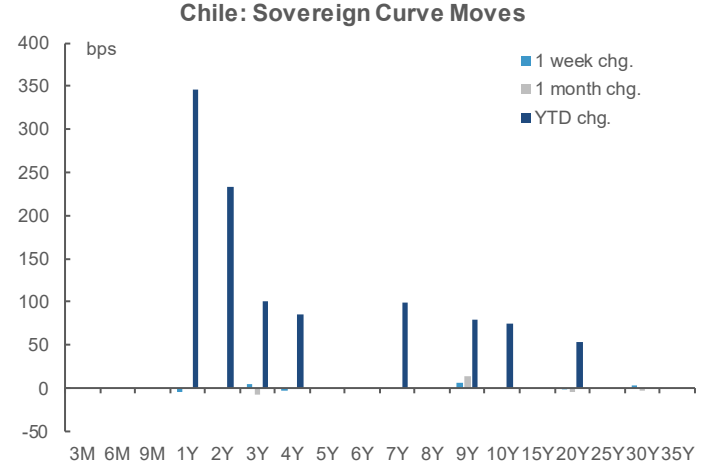


Chart 9

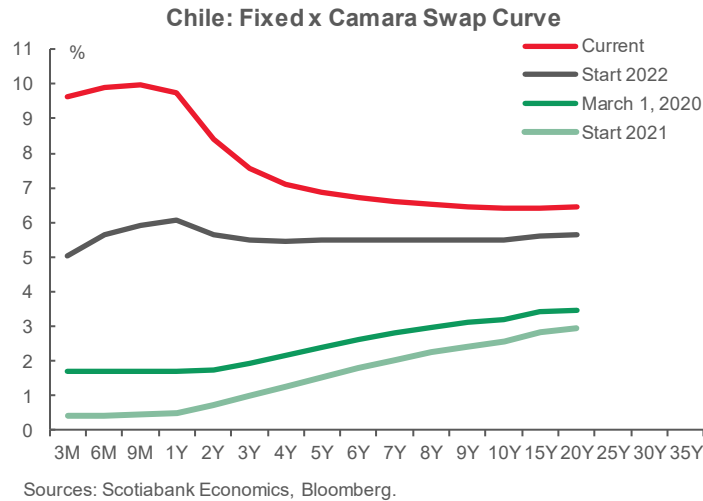


Chart 10

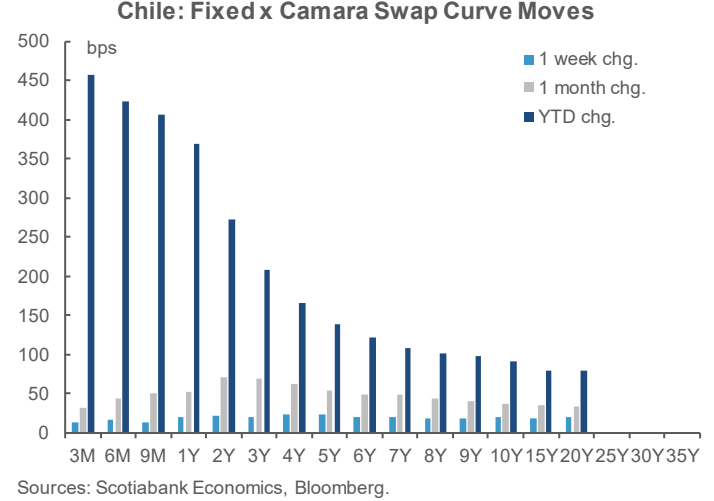


Chart 11

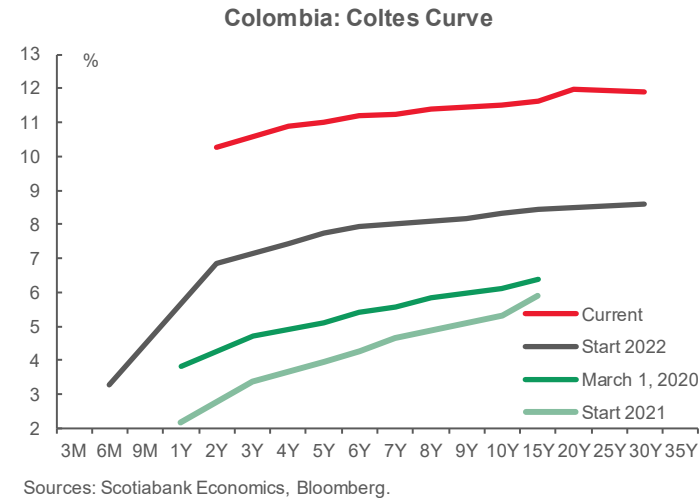
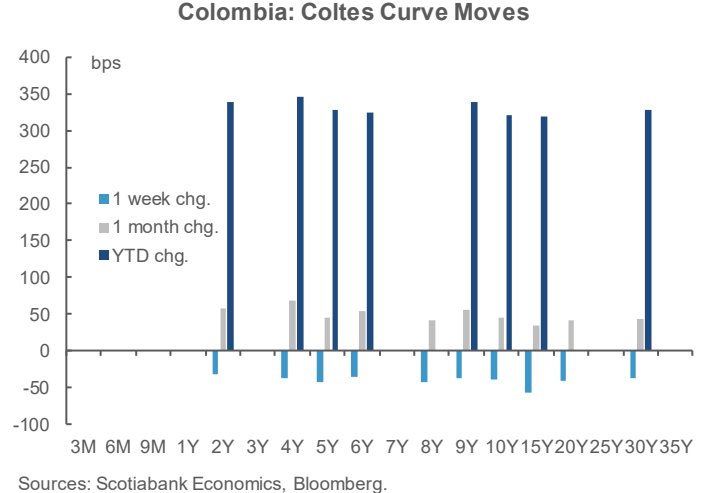


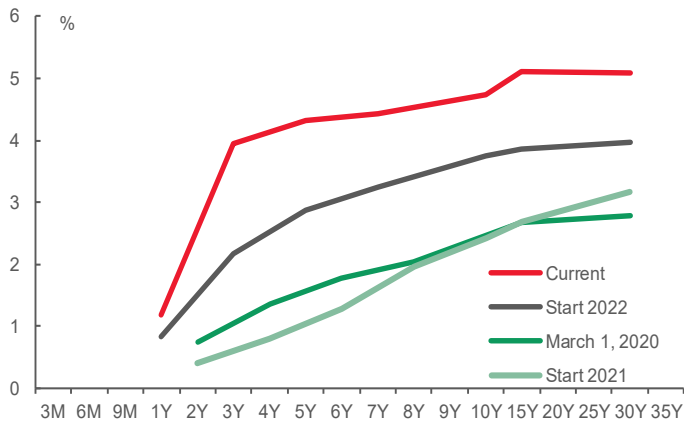
Chart 12



Yield Curves

Chart 13

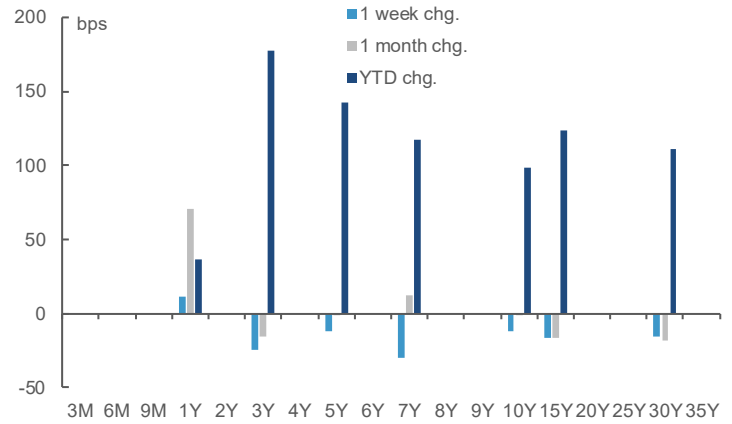
Colombia: UVR-Indexed Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 14

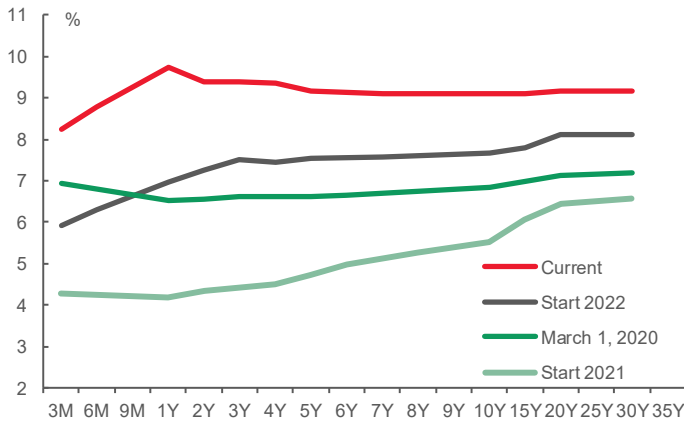
Colombia: UVR-Indexed Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 15

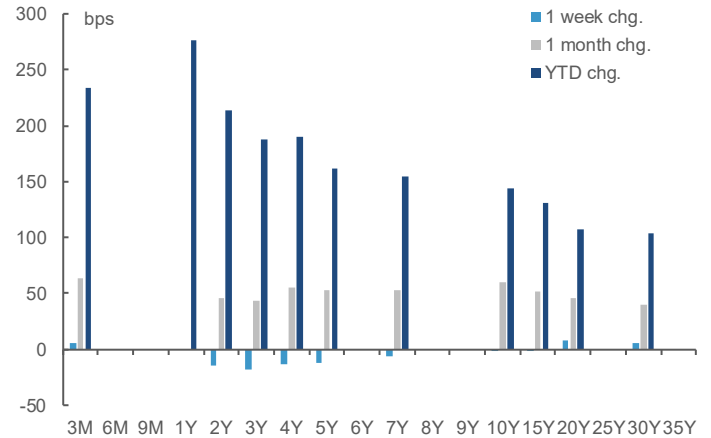
Mexico: M-Bono Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 16

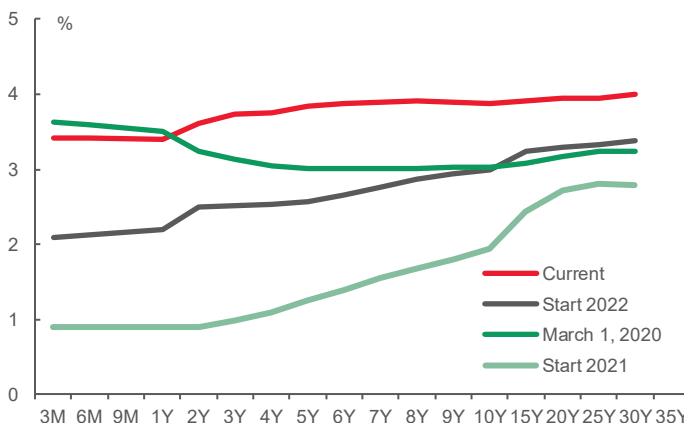
Mexico: M-Bono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 17

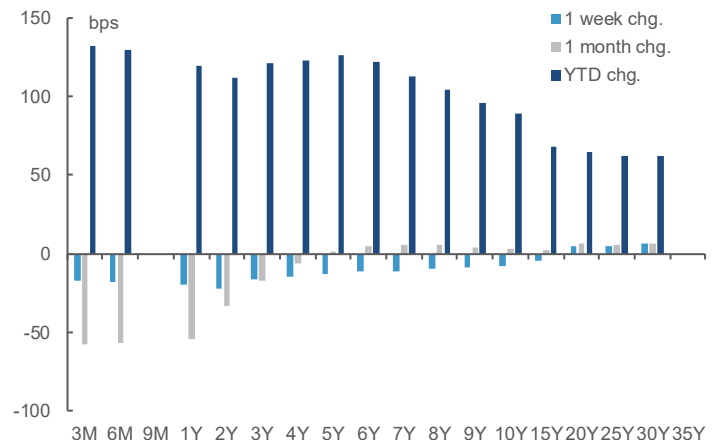
Mexico: Udibonos BVAL Yield Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 18

Mexico: Udibono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 19

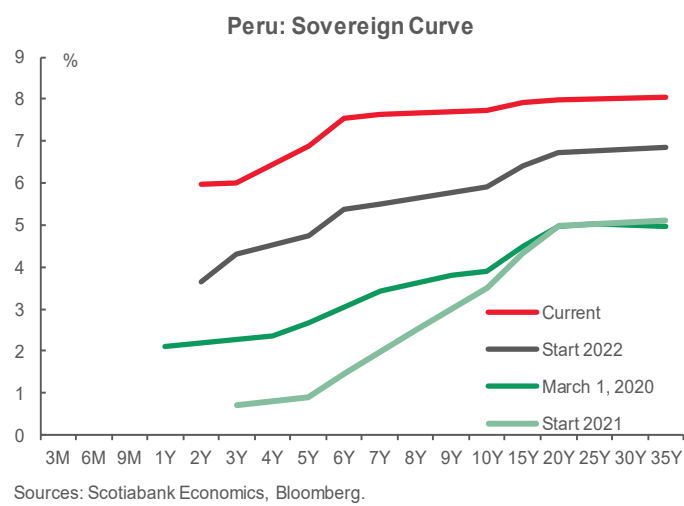
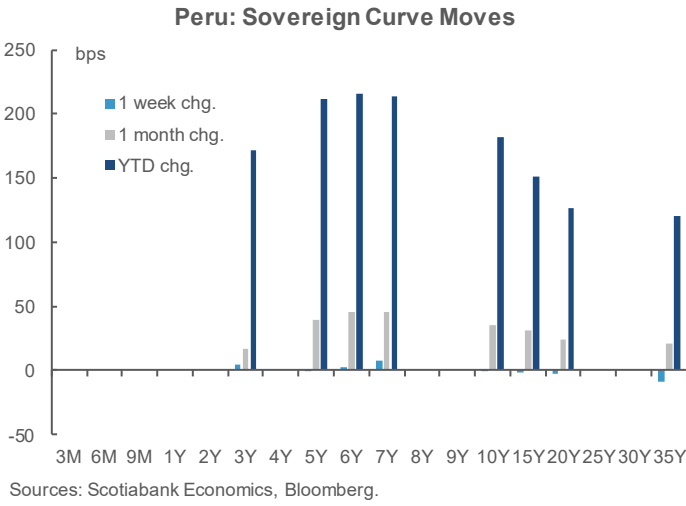


Chart 20



Key COVID-19 Charts

Chart 1

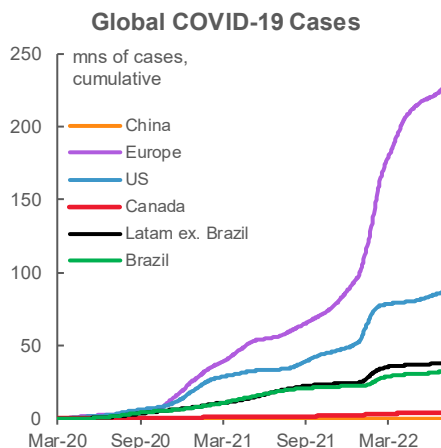


Chart 2

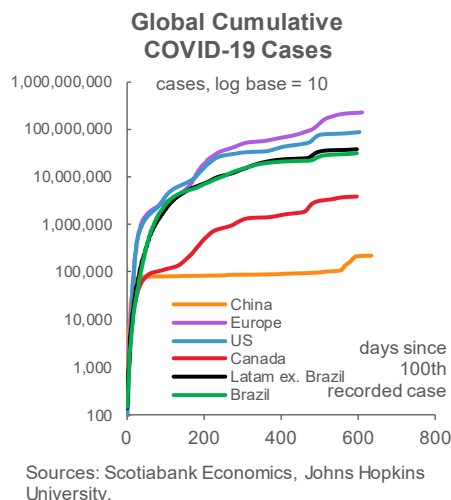


Chart 3

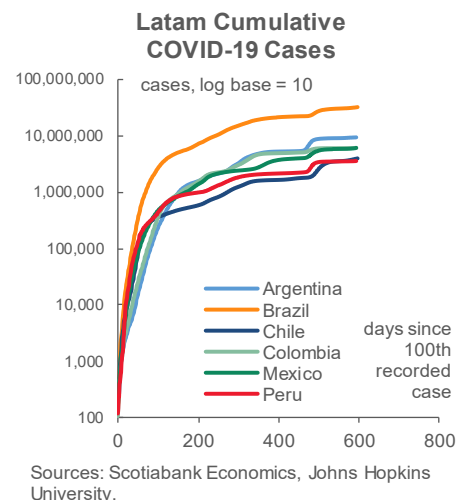


Chart 4

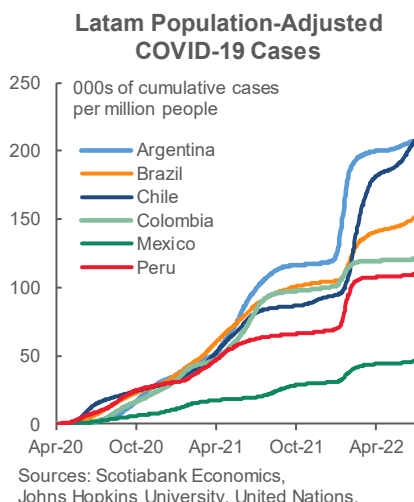


Chart 5

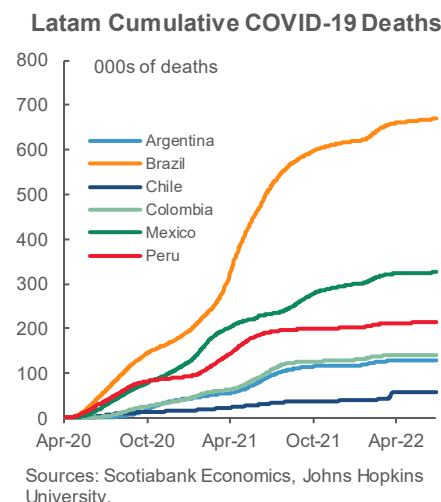


Chart 6

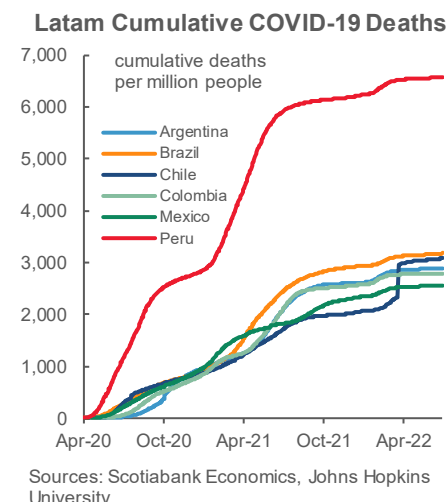


Chart 7

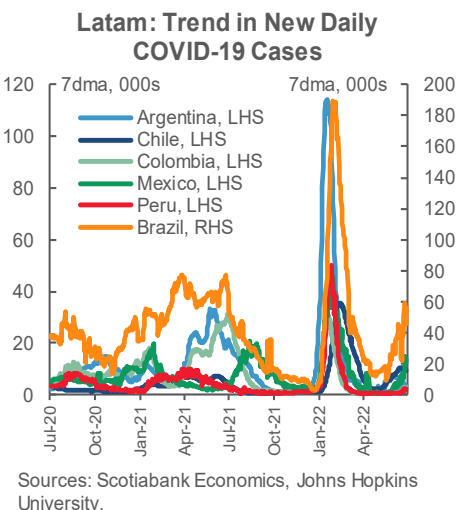


Chart 8

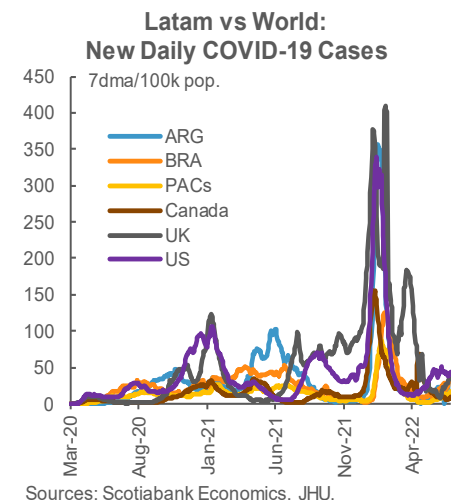
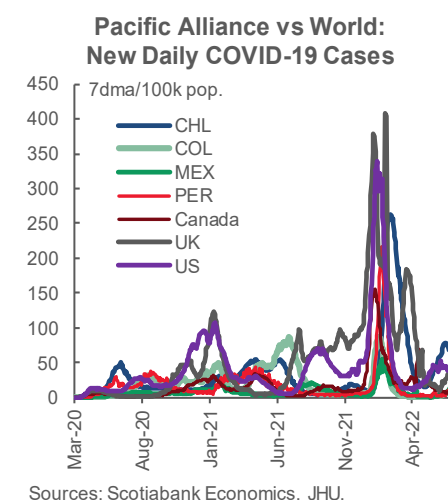


Chart 9



Key COVID-19 Charts

Chart 10

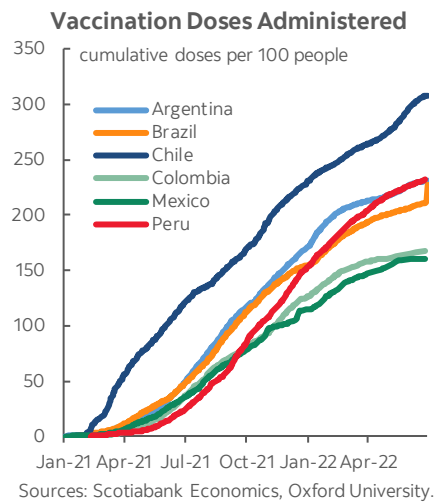


Chart 11

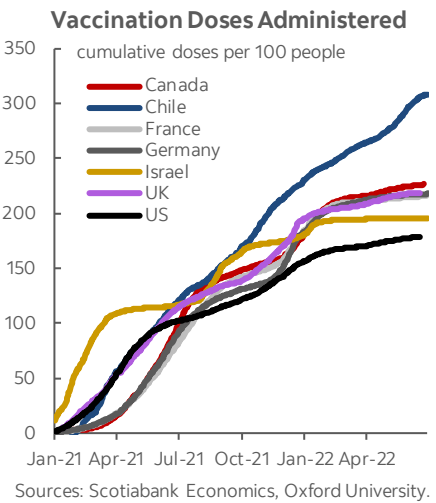
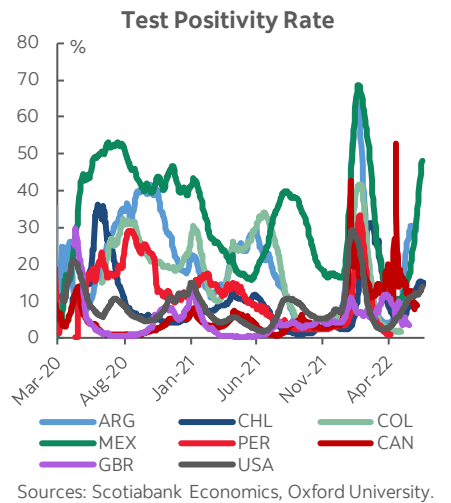


Chart 12



Market Events & Indicators for July 1–15

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jul-05		Vehicle Exports Adefa	Jun	--	--	26781	
Jul-05		Vehicle Production Adefa	Jun	--	--	46422	
Jul-05		Vehicle Domestic Sales Adefa	Jun	--	--	33730	
Jul-1-5		Government Tax Revenue (ARS bn)	Jun	--	--	1551.37	
Jul-07	15:00	Construction Activity (y/y)	May	--	--	8.8	
Jul-07	15:00	Industrial Production (y/y)	May	--	--	4.69	
Jul-08		Central Bank Survey		--	--	--	
Jul-13	15:00	Capacity Utilization (%)	May	--	--	67.5	
Jul-14	15:00	Greater Buenos Aires CPI (m/m)	Jun	--	--	4.8	
Jul-14	15:00	Greater Buenos Aires CPI (y/y)	Jun	--	--	61.21	
Jul-14	15:00	National CPI (m/m)	Jun	--	--	5.1	
Jul-14	15:00	National CPI (y/y)	Jun	--	--	60.7	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Jul-01	7:00	FGV CPI IPC-S (%)	30-Jun	--	0.72	0.76	
Jul-01	9:00	S&P Global Brazil Manufacturing PMI	Jun	--	--	54.2	
Jul-01	14:00	Trade Balance Monthly (USD mn)	Jun	--	9943.5	4944	
Jul-01	14:00	Exports Total (USD mn)	Jun	--	33000	29648	
Jul-01	14:00	Imports Total (USD mn)	Jun	--	23100	24704	
Jul-04	4:00	FIPE CPI - Monthly (%)	Jun	--	--	0.42	
Jul-04	7:25	Central Bank Weekly Economist Survey		--	--	--	
Jul-05	8:00	Industrial Production (m/m)	May	--	0.36	0.1	
Jul-05	8:00	Industrial Production (y/y)	May	--	-0.02	-0.5	
Jul-05	9:00	S&P Global Brazil Composite PMI	Jun	--	--	58	
Jul-05	9:00	S&P Global Brazil Services PMI	Jun	--	--	58.6	
Jul-1-5		Vehicle Sales Fenabrave	Jun	--	--	187069	
Jul-07	7:00	FGV Inflation IGP-DI (y/y)	Jun	--	10.98	10.56	
Jul-07	7:00	FGV Inflation IGP-DI (m/m)	Jun	--	0.5	0.69	
Jul-08	7:00	FGV CPI IPC-S (%)	07-Jul	--	0.72	0.76	
Jul-08	8:00	IBGE Inflation IPCA (m/m)	Jun	--	0.65	0.47	
Jul-08	8:00	IBGE Inflation IPCA (y/y)	Jun	--	11.94	11.73	
Jul-08	9:00	Vehicle Sales Anfavea	Jun	--	--	187064	
Jul-08	9:00	Vehicle Production Anfavea	Jun	--	--	205916	
Jul-08	9:00	Vehicle Exports Anfavea	Jun	--	--	46069	
Jul-4-8		Economic Activity (m/m)	Mar	--	1	0.34	
Jul-4-8		Economic Activity (y/y)	Mar	--	2.05	0.66	
Jul-4-8		Personal Loan Default Rate (%)	Mar	--	--	4.71	
Jul-4-8		Outstanding Loans (m/m)	Mar	--	1.2	0.8	
Jul-4-8		Total Outstanding Loans (BRL bn)	Mar	--	4767.49	4710.96	
Jul-4-8		Current Account Balance (USD mn)	Mar	--	300	-2414	
Jul-4-8		Foreign Direct Investment (USD mn)	Mar	--	6076.3	11842.6	
Jul-11	14:00	Trade Balance Weekly (USD mn)	10-Jul	--	--	3338.72	
Jul-12	8:00	IBGE Services Volume (y/y) NSA	May	--	--	11.6	
Jul-12	8:00	IBGE Services Volume (m/m) SA	May	--	--	-0.1	
Jul-13	8:00	Retail Sales (m/m)	May	--	--	0.9	
Jul-13	8:00	Retail Sales (y/y)	May	--	--	4.5	
Jul-13	8:00	Retail Sales Broad (m/m)	May	--	--	0.7	
Jul-13	8:00	Retail Sales Broad (y/y)	May	--	--	1.5	
Jul-14	8:00	Economic Activity (m/m)	May	--	1	0.34	
Jul-14	8:00	Economic Activity (y/y)	May	--	2.05	0.66	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for July 1–15

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jul-01	8:30 Economic Activity (y/y)	May	5.3	5.0	6.9	For May, we expect GDP growth of around 5.3% y/y with
Jul-01	8:30 Economic Activity (m/m)	May	--	--	-0.3	relevant support from personal services (health), which is consistent with our 2022 GDP growth forecast of 3%.
Jul-07	8:30 International Reserves (USD mn)	Jun	--	--	46431	
Jul-07	8:30 Trade Balance (USD mn)	Jun	--	--	851.24	
Jul-07	8:30 Exports Total (USD mn)	Jun	--	--	9288.69	
Jul-07	8:30 Imports Total (USD mn)	Jun	--	--	8437	
Jul-07	8:30 Copper Exports (USD mn)	Jun	--	--	3756.51	
Jul-07	9:00 Nominal Wage (y/y)	May	--	--	8	
Jul 1-7	IMCE Business Confidence	Jun	--	--	46.48	
Jul-08	8:00 CPI (m/m)	Jun	--	--	1.2	
Jul-08	8:00 CPI (y/y)	Jun	--	--	11.5	
Jul-08	8:30 Central Bank Traders Survey		--	--	--	
Jul-12	Central Bank Economist Survey		--	--	--	
Jul 7-12	Vehicle Sales Total	Jun	--	--	37887	
Jul-13	18:00 Overnight Rate Target (%)	13-Jul	9.50	--	9.00	We expect the benchmark rate will not exceed 9.75% in this tightening cycle, with rate cuts beginning in Q4-2022.

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jul-01	11:00 Davivienda Colombia PMI Mfg	Jun	--	--	53.9	
Jul-05	18:00 Colombia Monetary Policy Minutes		--	--	--	
Jul-05	20:00 CPI (m/m)	Jun	0.71	0.54	0.84	In June we expect inflation to continue showing an upside skew,
Jul-05	20:00 CPI (y/y)	Jun	9.89	9.74	9.07	although a little more moderate since we have a low statistical
Jul-05	20:00 CPI Core (m/m)	Jun	0.5	--	0.68	base and the effect of the second holiday VAT.
Jul-05	20:00 CPI Core (y/y)	Jun	6.87	--	6.5	
Jul-06	11:00 Exports FOB (USD mn)	May	--	--	5421.61	
Jul-11	Consumer Confidence Index	Jun	--	--	-14.7	
Jul-15	11:00 Manufacturing Production (y/y)	May	--	--	13.51	
Jul-15	11:00 Retail Sales (y/y)	May	27	--	23.3	Although indicators will still show strong annual growth, we
Jul-15	11:00 Industrial Production (y/y)	May	35.5	--	9.1	expect some moderation in monthly terms. Retail sales could slow down since April's figure was elevated due to Easter. For industrial production, the effects of international logistics and persistent input price pressures could affect the performance of some industries, while the statistical base is affected by the national strike one year ago.
Jul-15	Central Bank Economist Survey		--	--	--	

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Jul-01	10:00 Remittances Total (USD mn)	May	--	4927.5	4718.1	
Jul-01	10:00 Central Bank Economist Survey		--	--	--	
Jul-01	10:30 S&P Global Mexico Manufacturing PMI	Jun	--	--	50.6	
Jul-01	13:00 IMEF Non-Manufacturing Index SA	Jun	--	--	52.5	
Jul-01	13:00 IMEF Manufacturing Index SA	Jun	--	--	50.85	
Jul-04	7:00 Leading Indicators (m/m)	May	--	--	-0.14	
Jul-04	7:00 Vehicle Domestic Sales	Jun	--	--	91215	
Jul-05	7:00 Consumer Confidence	Jun	--	--	44.24	
Jul-05	10:00 International Reserves Weekly (USD mn)	01-Jul	--	--	198507	
Jul-05	Banamex Survey of Economists		--	--	--	
Jul-06	7:00 Gross Fixed Investment (%)	Apr	--	--	5.9	
Jul-07	7:00 CPI Core (y/y)	Jun	--	--	7.28	
Jul-07	7:00 Vehicle Exports	Jun	--	--	244643	
Jul-07	7:00 Vehicle Production	Jun	--	--	275436	
Jul-07	7:00 CPI (m/m)	Jun	--	--	0.18	
Jul-07	7:00 CPI (y/y)	Jun	--	--	7.65	
Jul-07	7:00 CPI Core (m/m)	Jun	--	--	0.59	
Jul-07	7:00 Bi-Weekly CPI (%)	30-Jun	--	--	0.49	
Jul-07	7:00 Bi-Weekly CPI (y/y)	30-Jun	--	--	7.88	
Jul-07	7:00 Bi-Weekly Core CPI (%)	30-Jun	--	--	0.5	
Jul-07	7:00 Bi-Weekly Core CPI (y/y)	30-Jun	--	--	7.47	
Jul-07	10:00 Central Bank Monetary Policy Minutes		--	--	--	
Jul-08	Nominal Wages (m/m)	Jun	--	--	8.2	
Jul-12	7:00 Manuf. Production NSA (y/y)	May	--	--	3.87	
Jul-12	7:00 Industrial Production NSA (y/y)	May	--	--	2.7	
Jul-12	7:00 Industrial Production SA (m/m)	May	--	--	0.55	
Jul-12	10:00 International Reserves Weekly (USD mn)	08-Jul	--	--	198507	
Jul-12	13:00 Formal Job Creation Total	Jun	--	--	-2.86	
Jul-12	ANTAD Same-Store Sales (y/y)	Jun	--	--	11.3	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for July 1–15

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>
Jul-01	11:00 Lima CPI (m/m)	Jun	1.0	0.4		0.4 We expect annual inflation to peak in June as gasoline and food
Jul-01	11:00 Lima CPI (y/y)	Jun	8.7	8.1		8.1 prices rise.
Jul-07	19:00 Reference Rate (%)	07-Jul	6.00	--		5.50 We expect the BCRP to hike by 50 bps, driven by a higher rise in inflation expectations.
Jul-15	Economic Activity (y/y)	May	3.0	--		3.69 Domestic demand sectors are driving economic activity.
Jul-15	Lima Unemployment Rate (%)	Jun	6.8	--		7.2 We expect the labour market to recover gradually.

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