

Contributors

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Latam Charts: Back to School

- Recent speeches by central bankers have reviewed the lessons learned in dealing with inflation. Most important is the risk of easing restrictive stances in response to early signs of lower inflation, which can lead to a higher cost in terms of output and unemployment.
- Most Latam central bankers appear to have heeded this lesson, raising real (inflation-adjusted) policy rates to contain inflationary pressures, thereby anchoring longer-term inflation expectations and reducing one source of uncertainty for local financial markets.

In the Northern Hemisphere, the start of September marks the end of summer holidays and the return to school. **At the recent annual Jackson Hole conference of central bankers, Fed chair, Jerome Powell, adopted a professorial tone, lecturing on the lessons learned from past inflationary episodes.** His message: central banks that temporize with inflation, relaxing their restrictive stance at the first signs of abating pressures, ultimately pay a higher price in terms of inflation-output trade-offs. Other central bankers, notably from the ECB, followed Powell's lesson plan.

Central bankers' schooling of markets in the dangers of relaxing vigilance in the fight against inflation should disabuse those anticipating early rate cuts on lower inflation numbers. The Fed and other central banks are now clearly concerned that expectations of higher inflation are at risk of becoming embedded in decision-making. If that scenario were to unfold, the costs of bringing inflation down, measured in terms of output losses and higher unemployment, would increase. And that is what Powell and his colleagues want to avoid.

There are two corollaries to this thesis. The first is that nobody should expect cuts to monetary policy rates anytime soon. Central banks will not ease until price pressures have been purged from the economy and inflation expectations firmly returned to target on a durable basis. The second corollary is that recession risks have likely increased, albeit more so for Europe, which is faced with severe supply side shocks from higher energy prices. In that event, however, negative output gaps should accelerate the moderation of inflation expectations, bringing forward a shift in the stance of monetary policy.

Both of these effects have been priced into markets in recent days, with equity prices selling off sharply. And for the Latam region, global financial conditions remain challenging. Nevertheless, with the US dollar appreciating against most currencies around the globe, stoking inflationary pressures through exchange rate pass-through effects, several of the region's currencies have held their own. (Argentina's peso, in contrast, has depreciated sharply, reflecting the pervasive uncertainty there with respect to macroeconomic policy management and the risk of financial instability.)

For the most part, despite recent financial turbulence, economic recoveries in the region remain on track as growth adjusts from the post-pandemic rebound to more sustainable longer-term rates. This process could be uneven, and Scotiabank's experts in Santiago point out that [*the Chilean economy is likely to contract over the next several quarters*](#). Continued growth, meanwhile, would sustain job creation, which has begun to flag, and close remaining gaps with pre-pandemic employment levels.

Slower growth should relieve some price pressures where unsustainably strong consumer demand has exacerbated supply-side shocks. Scotiabank's Latam economists anticipate inflation will decline over time, with inflation-targeting central banks in the region focused on returning inflation to target ranges over the medium term. Central banks across the region now lead their global peers in terms of raising their real, or inflation-adjusted, policy rates. At the same time, the transition to more sustainable levels of consumer demand would also help reduce large current account deficits, notably in Chile and Colombia.

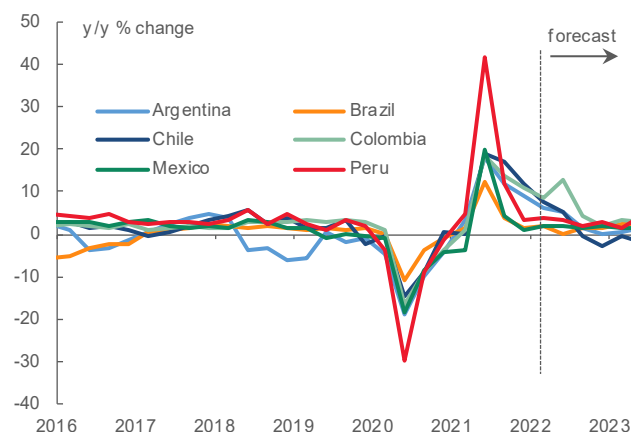
Longer-term inflation anchored by credible, independent central banks reduces one source of uncertainty for financial markets and supports growth and asset valuations. That said, in the current conjuncture, considerable uncertainty remains, including that coming from the political sphere. Markets will continue to closely watch the new presidential administration in Colombia, which has thus far adopted a cautious and conciliatory approach. And there are also encouraging signs that [*Peru's new Finance Minister is seeking to impose some order on what has been a chaotic policy-making environment*](#). In addition, the results of Chile's plebiscite on the draft new constitution Sunday, which recent polls suggest will be rejected, could likewise be a source of political uncertainty depending on how the government responds. [*As our team in Santiago point out*](#), while the prospect of rejection has boosted local asset valuations, the durability of those gains may depend on the government laying out a clear roadmap on next steps and how to address outstanding contentious issues.

The key lesson from all this is that, while governments may be unable to control or prevent external shocks, they should do their homework to ensure that their economies are insulated from them. And while it is too early to give Latam governments a final grade on their performance in the current cycle, it would appear that most have absorbed that lesson from their own past experiences with high inflation.

Key Economic Charts

Chart 1

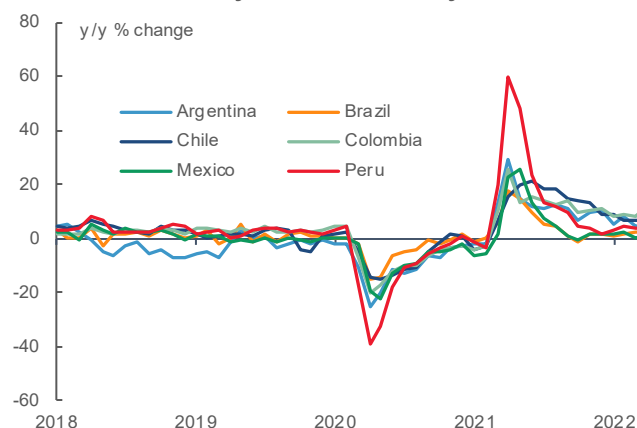
Real GDP



Sources: Scotiabank Economics, Haver Analytics.

Chart 2

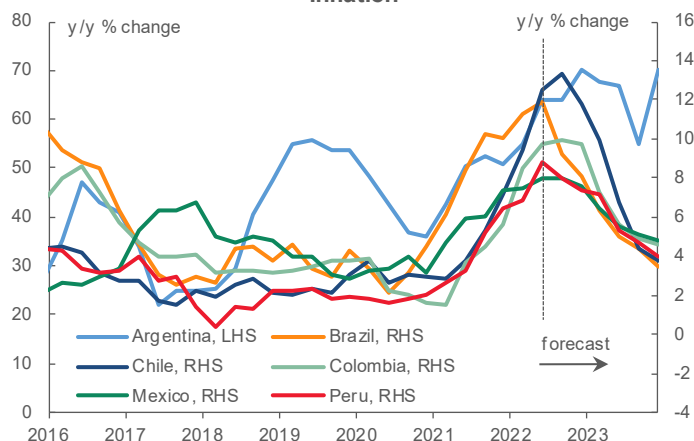
Latam: Monthly Economic Activity Index Tracker



Sources: Scotiabank Economics, Haver Analytics.

Chart 3

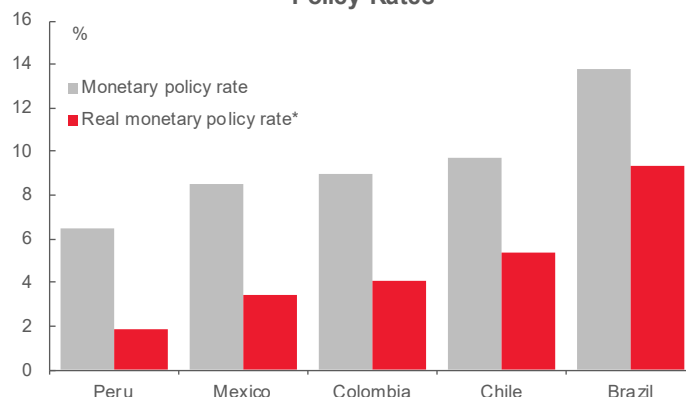
Inflation



Sources: Scotiabank Economics, Haver Analytics.

Chart 4

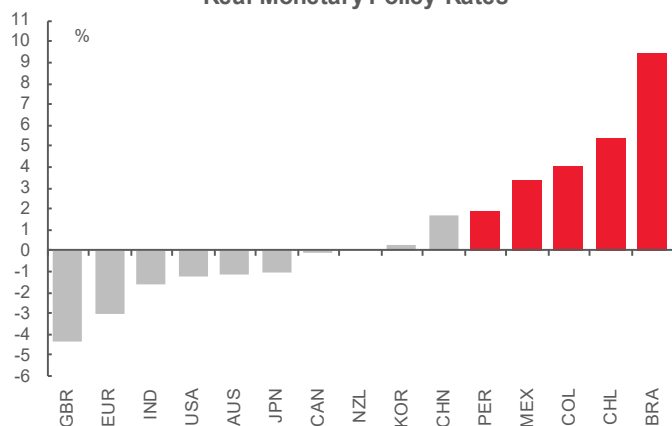
Policy Rates



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2023, % y/y. Argentina: MPR = 69.5%; Real MPR = 14.7%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 5

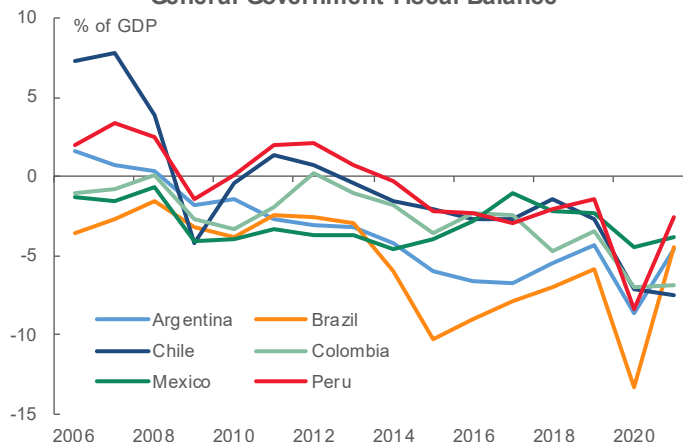
Real Monetary Policy Rates*



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2023, % 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

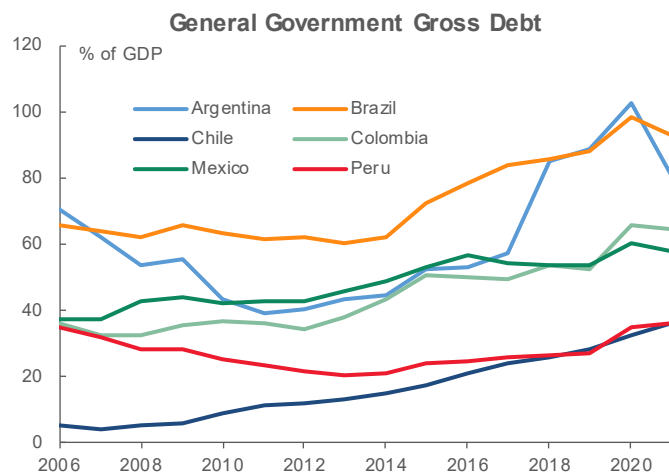


Chart 8



Chart 9

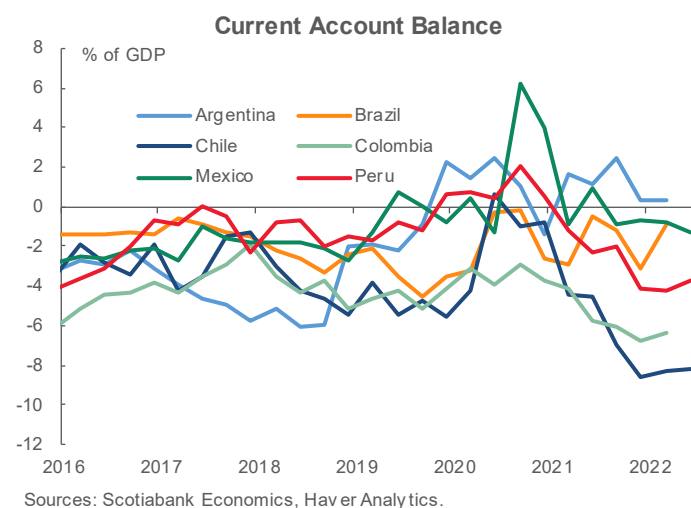
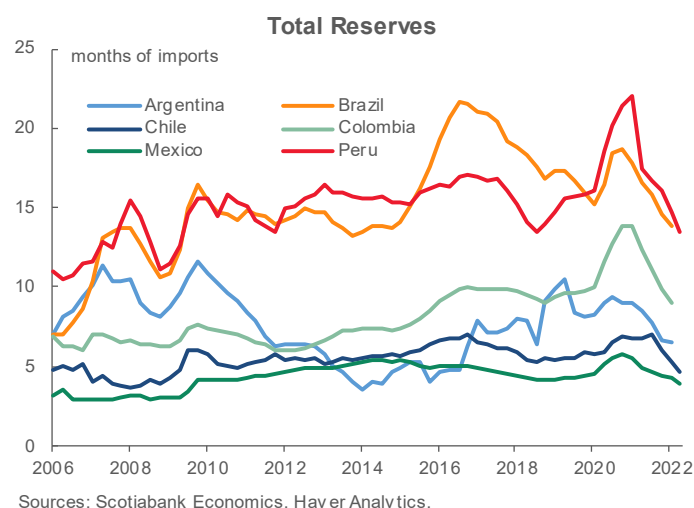


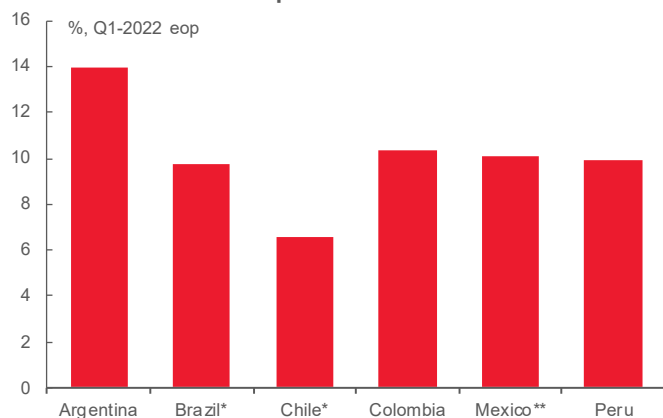
Chart 10



Key Market Charts

Chart 1

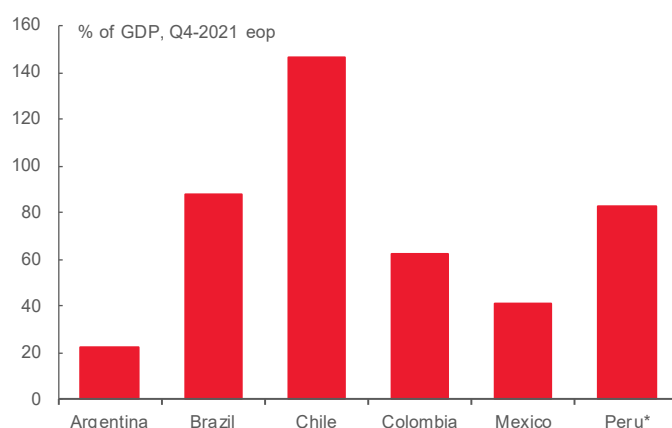
Bank Capital to Assets Ratio



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

Chart 2

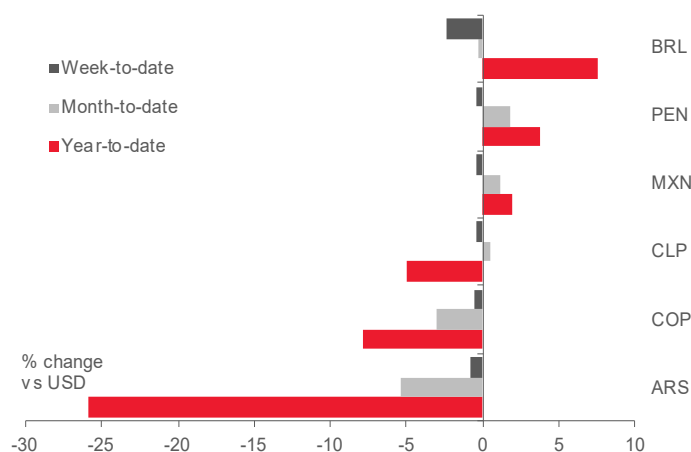
Domestic Credit to Private Nonfinancial Sector



* Data to Q1-2022.
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

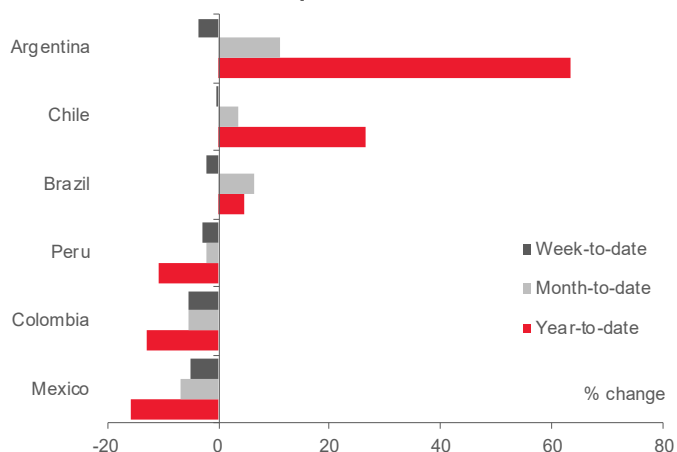
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 4

Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 5

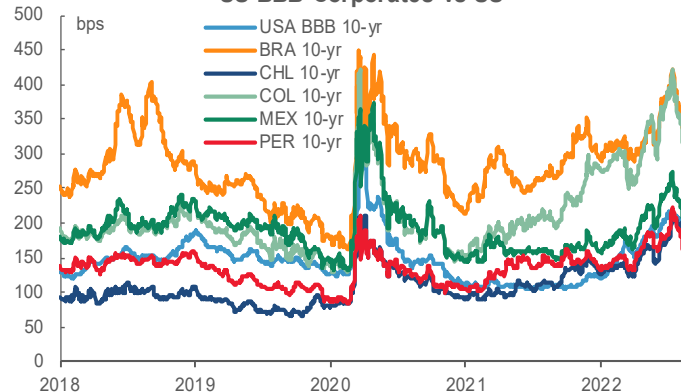
USD vs Latam Currencies



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

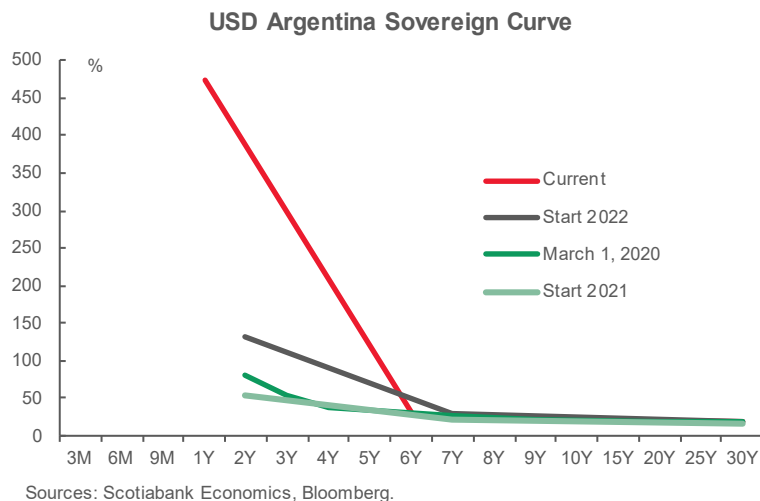


Chart 2

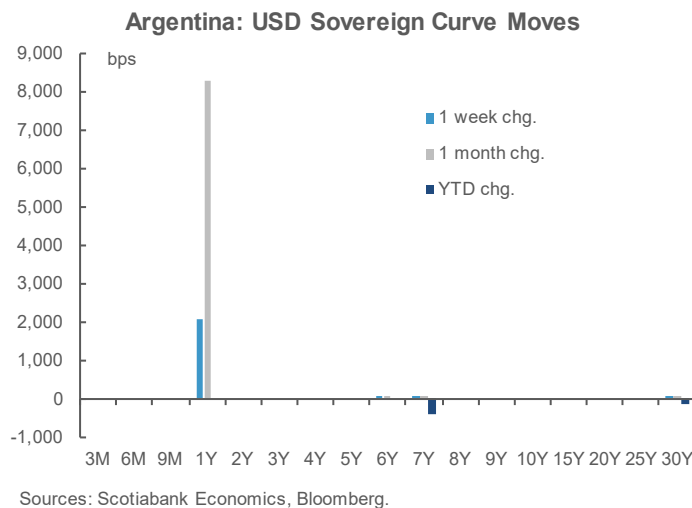


Chart 3

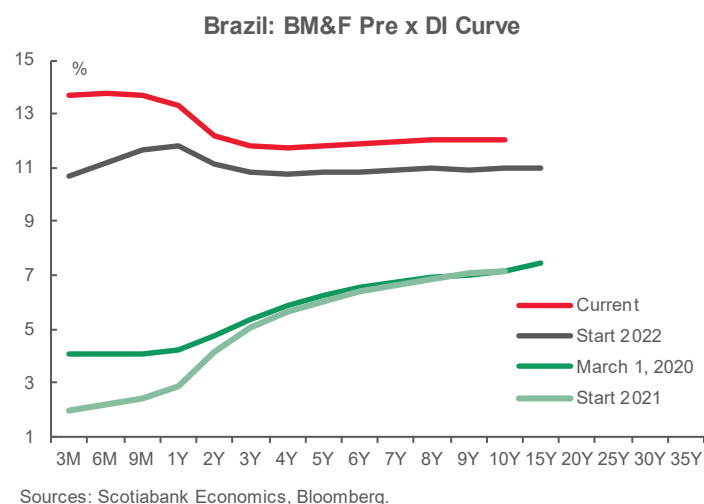


Chart 4

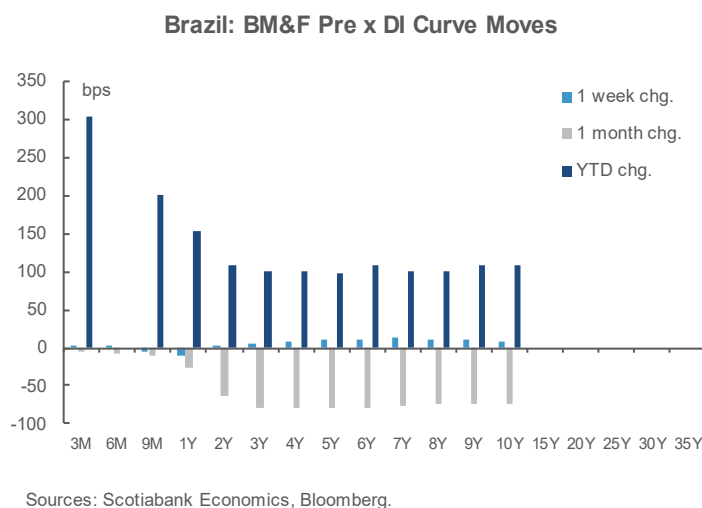


Chart 5

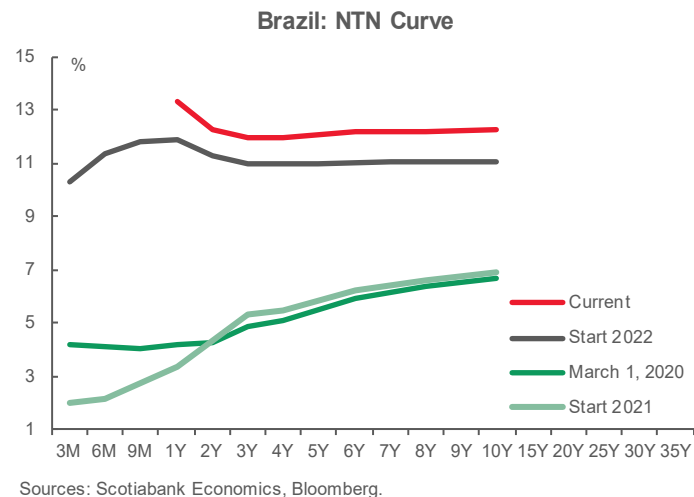
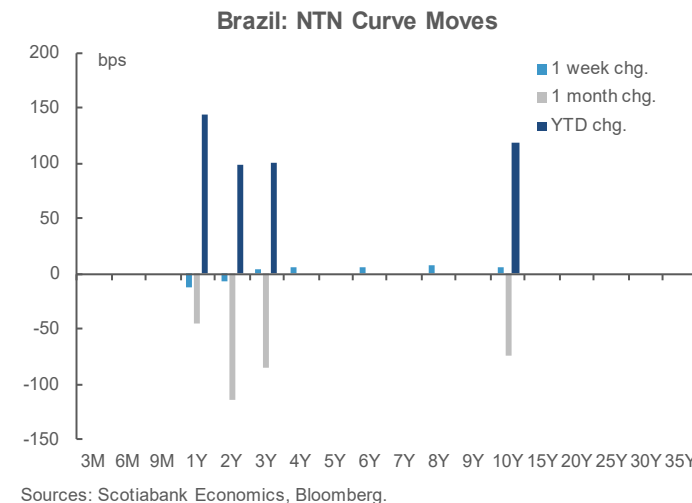


Chart 6



Yield Curves

Chart 7

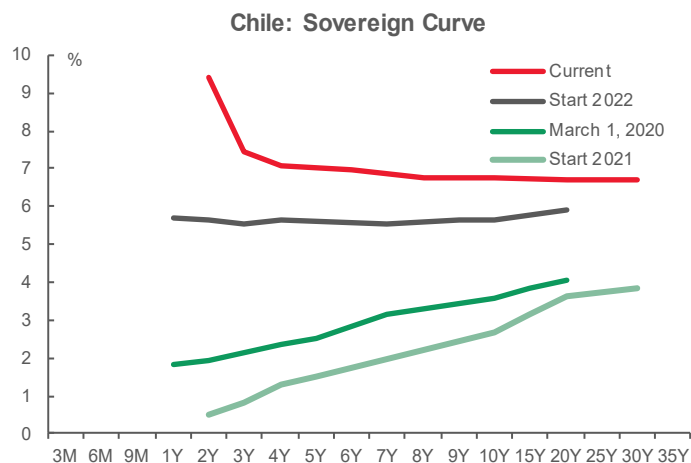


Chart 8



Chart 9

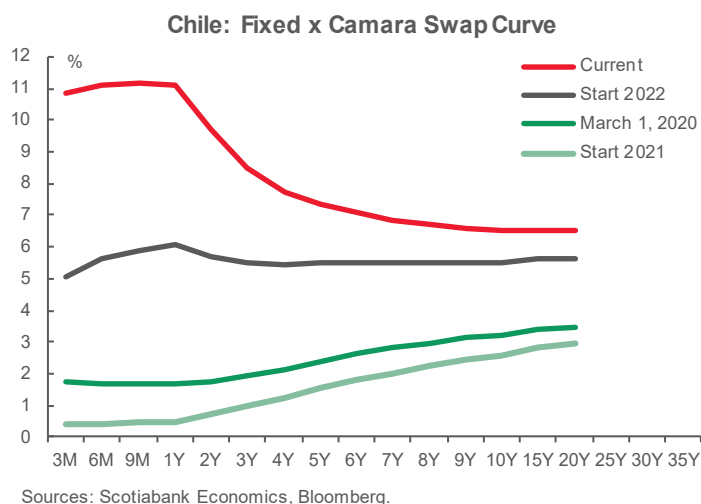


Chart 10

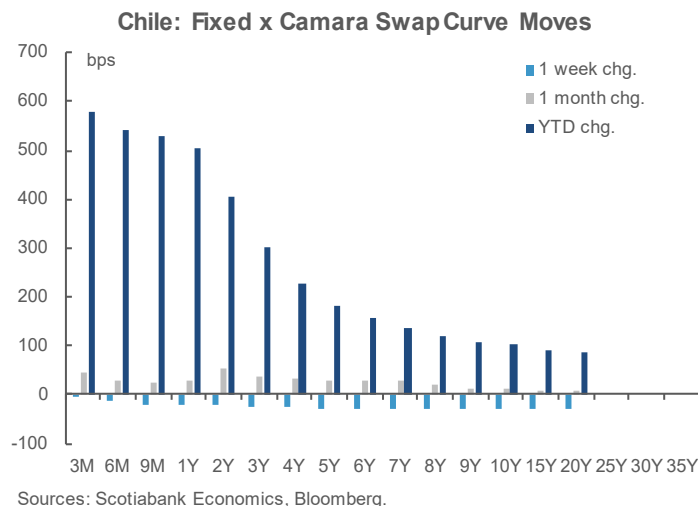


Chart 11

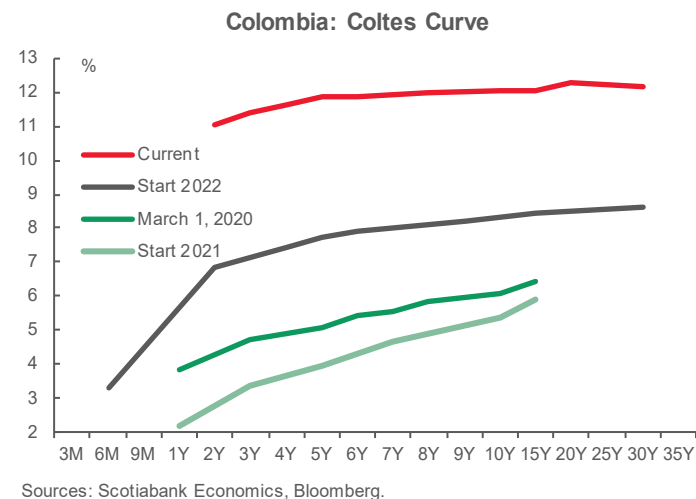
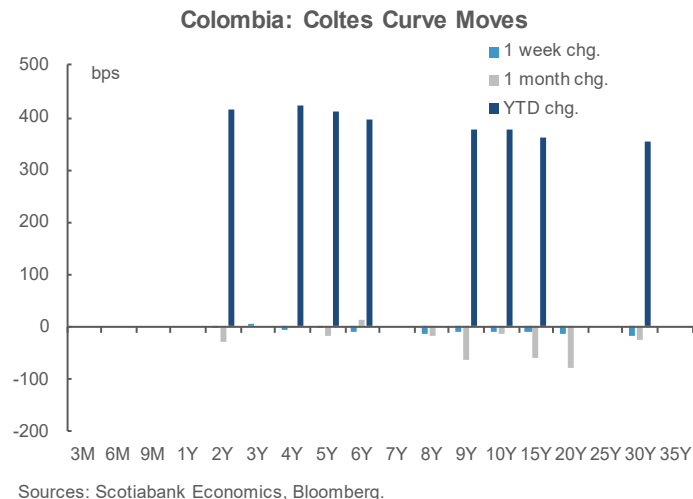


Chart 12



Yield Curves

Chart 13

Colombia: UVR-Indexed Curve

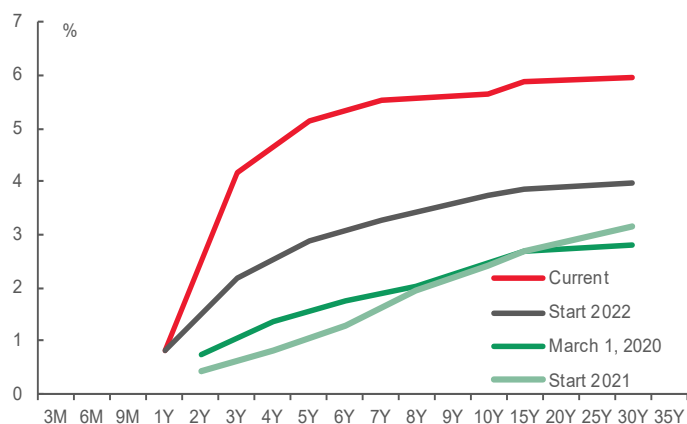


Chart 14

Colombia: UVR-Indexed Curve Moves

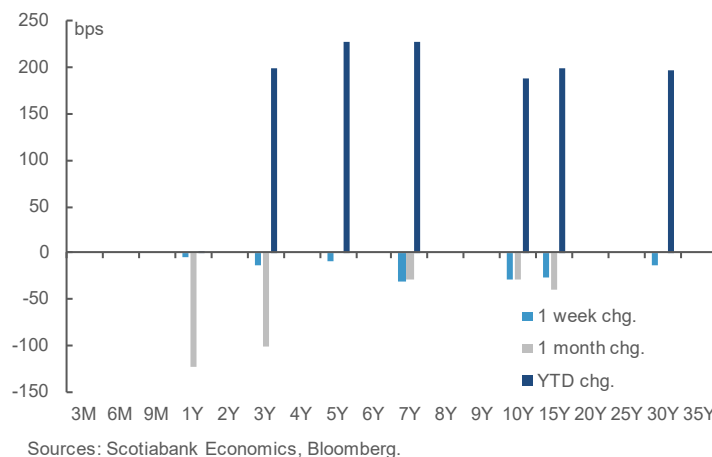


Chart 15

Mexico: M-Bono Curve

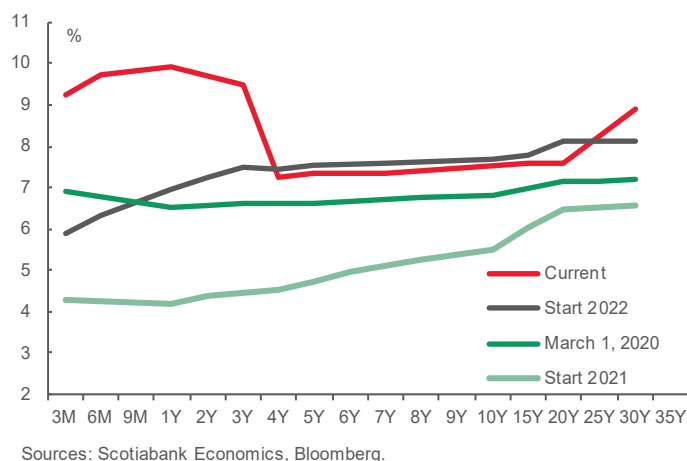


Chart 16

Mexico: M-Bono Curve Moves

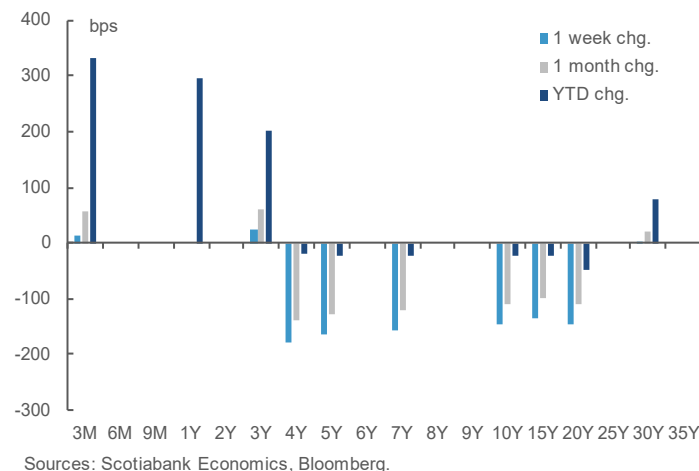


Chart 17

Mexico: Udibonos BVAL Yield Curve

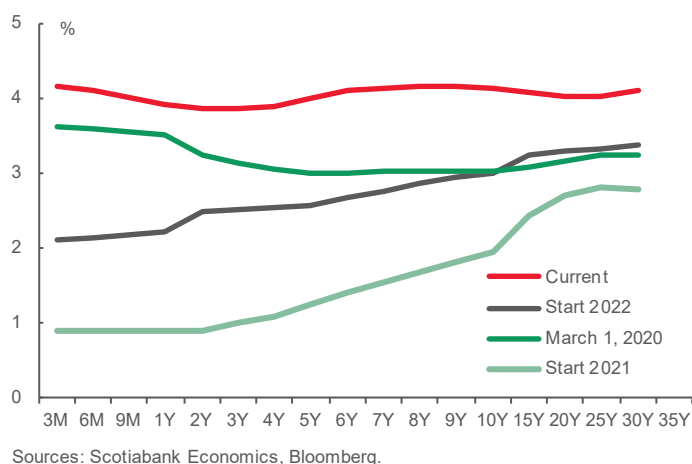
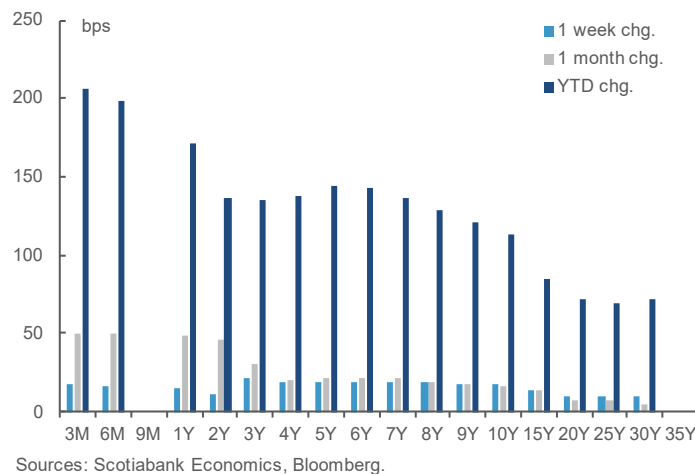


Chart 18

Mexico: Udibono Curve Moves



Yield Curves

Chart 19

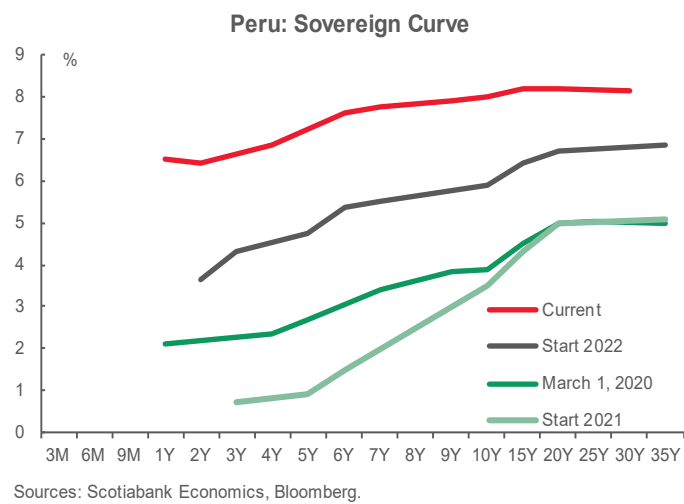
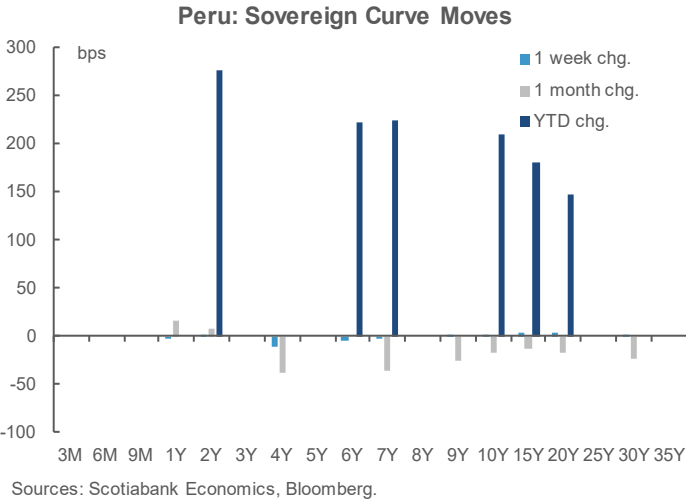


Chart 20



Key COVID-19 Charts

Chart 1

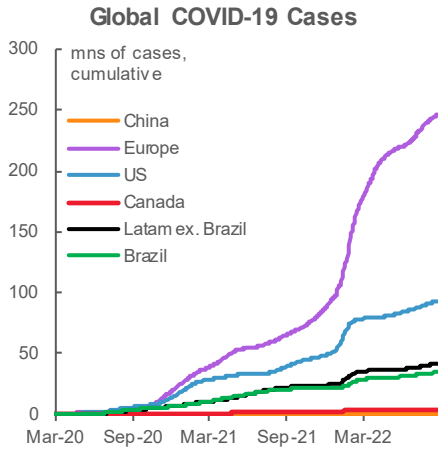


Chart 2

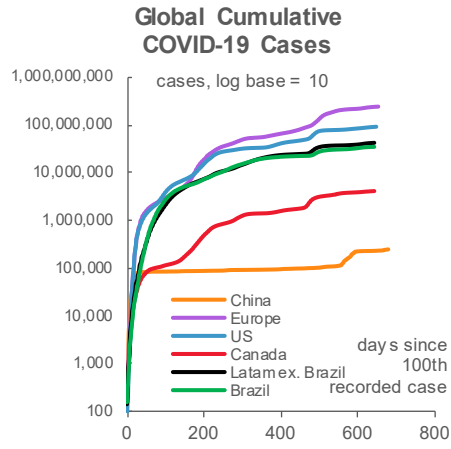


Chart 3

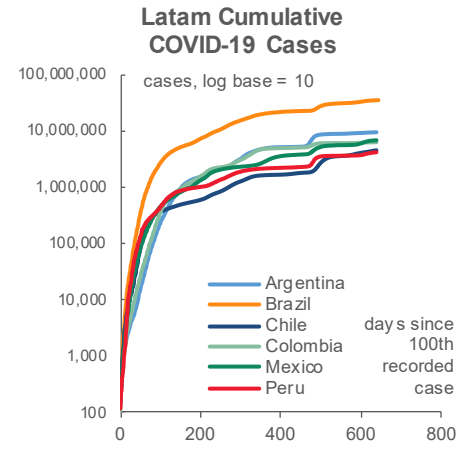


Chart 4

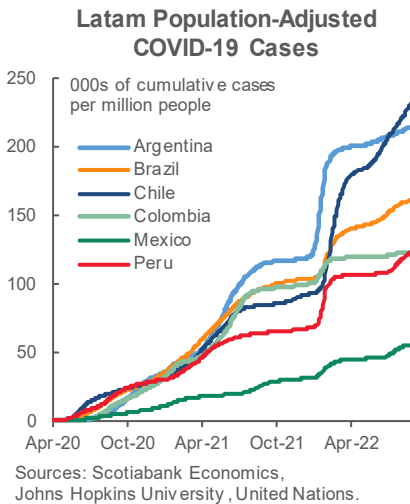


Chart 5

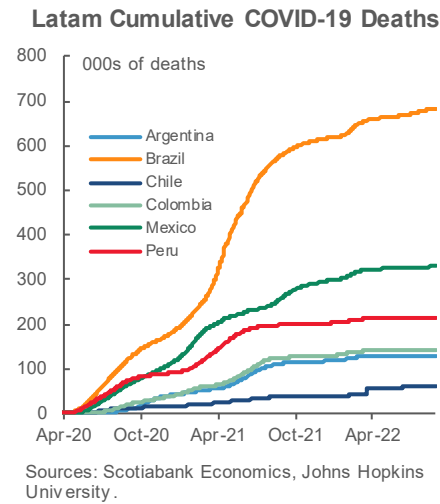


Chart 6

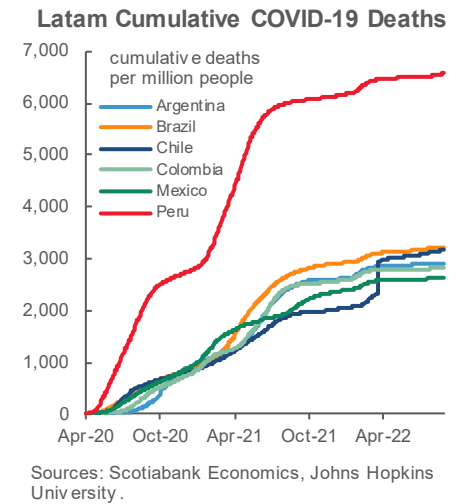


Chart 7

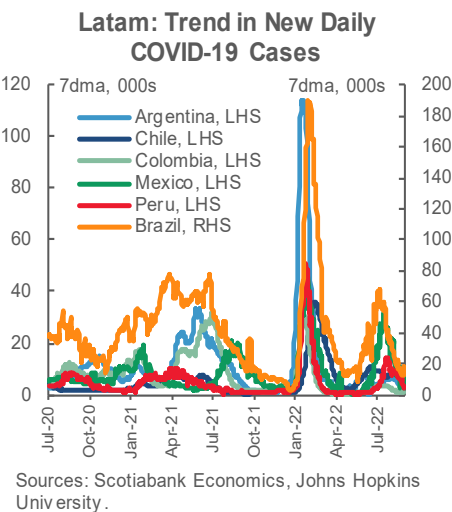


Chart 8

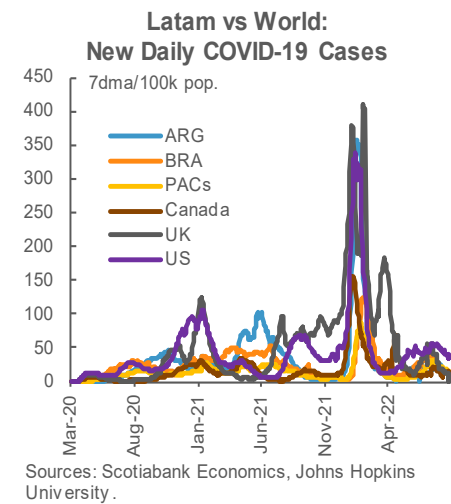
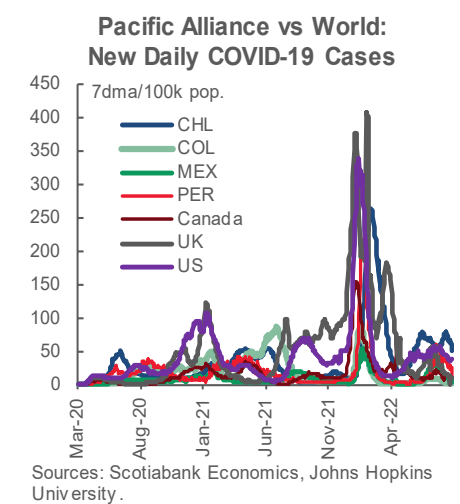


Chart 9



Key COVID-19 Charts

Chart 10

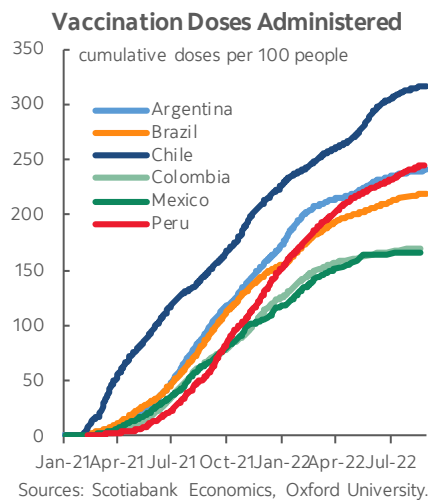


Chart 11

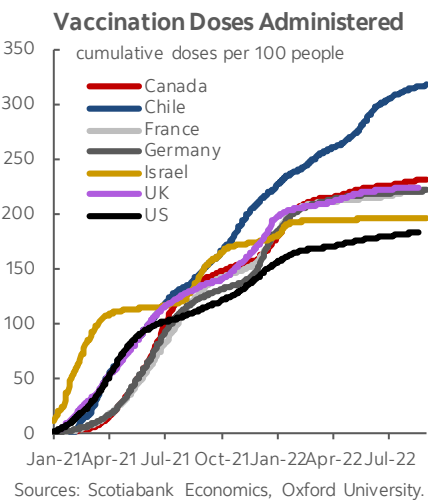
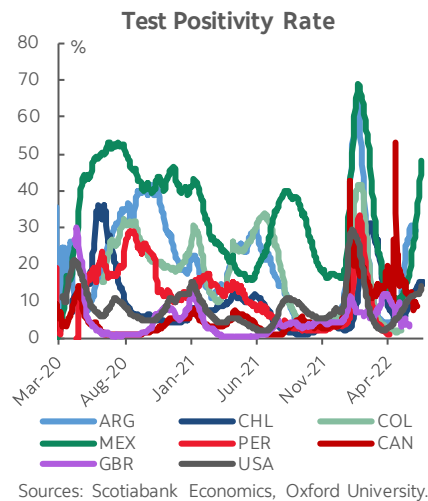


Chart 12



Market Events & Indicators for September 2–16

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-05		Vehicle Exports Adefa	Aug	--	--	22937.0	
Sep-05		Vehicle Production Adefa	Aug	--	--	44033.0	
Sep-05		Vehicle Domestic Sales Adefa	Aug	--	--	29432.0	
Sep 1-5		Government Tax Revenue (ARS bn)	Aug	--	--	1745.2	
Sep-07	15:00	Construction Activity (y/y)	Jul	--	--	7.2	
Sep-07	15:00	Industrial Production (y/y)	Jul	--	--	6.9	
Sep-09		Central Bank Survey		--	--	--	
Sep-13	15:00	Capacity Utilization (%)	Jul	--	--	69.1	
Sep-14	15:00	Greater Buenos Aires CPI (m/m)	Aug	--	--	7.4	
Sep-14	15:00	Greater Buenos Aires CPI (y/y)	Aug	--	--	71.8	
Sep-14	15:00	National CPI (m/m)	Aug	--	--	7.4	
Sep-14	15:00	National CPI (y/y)	Aug	--	--	71	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-02	4:00	FIPE CPI - Monthly (%)	Aug	--	0.11	0.16	
Sep-02	8:00	Industrial Production (m/m)	Jul	--	0.5	-0.4	
Sep-02	8:00	Industrial Production (y/y)	Jul	--	-0.5	-0.5	
Sep-05	7:25	Central Bank Weekly Economist Survey		--	--	--	
Sep-05	9:00	S&P Global Brazil Composite PMI	Aug	--	--	55.3	
Sep-05	9:00	S&P Global Brazil Services PMI	Aug	--	--	55.8	
Sep 1-5		Vehicle Sales Fenabrave	Aug	--	--	175426	
Sep-08	7:00	FGV CPI IPC-S (%)	07-Sep	--	-0.57	-0.57	
Sep-08	7:00	FGV Inflation IGP-DI (y/y)	Aug	--	--	9.13	
Sep-08	7:00	FGV Inflation IGP-DI (m/m)	Aug	--	--	-0.38	
Sep 6-8		Vehicle Sales Anfavea	Aug	--	--	181994	
Sep 6-8		Vehicle Production Anfavea	Aug	--	--	218950	
Sep 6-8		Vehicle Exports Anfavea	Aug	--	--	41906	
Sep-09	8:00	IBGE Inflation IPCA (m/m)	Aug	--	--	-0.68	
Sep-09	8:00	IBGE Inflation IPCA (y/y)	Aug	--	--	10.07	
Sep-12	4:00	FIPE CPI - Weekly (%)	07-Sep	--	--	0.05	
Sep-12	7:25	Central Bank Weekly Economist Survey		--	--	--	
Sep-12	14:00	Trade Balance Weekly (USD mn)	11-Sep	--	--	358.08	
Sep-13	8:00	IBGE Services Volume (y/y) NSA	Jul	--	--	6.3	
Sep-13	8:00	IBGE Services Volume (m/m) SA	Jul	--	--	0.7	
Sep-14	8:00	Retail Sales (m/m)	Jul	--	--	0.6	
Sep-14	8:00	Retail Sales (y/y)	Jul	--	--	-0.3	
Sep-14	8:00	Retail Sales Broad (m/m)	Jul	--	--	-1.1	
Sep-14	8:00	Retail Sales Broad (y/y)	Jul	--	--	-3.1	
Sep-15	8:00	Economic Activity (m/m)	Jul	--	--	0.69	
Sep-15	8:00	Economic Activity (y/y)	Jul	--	--	3.09	
Sep-16	7:00	FGV CPI IPC-S (%)	15-Sep	--	-0.57	-0.57	
Sep-16	7:00	FGV Inflation IGP-10 (m/m)	Sep	--	--	-0.69	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-06	17:00	Overnight Rate Target (%)	06-Sep	10.25	10.25	9.75	We think the BCCh will recognize the deterioration in economic activity and labour market conditions, signalling a corridor for the MPR of between 10.50% and 11.00%.
Sep-07	7:30	International Reserves (USD mn)	Aug	--	--	44688.53	
Sep-07	7:30	Trade Balance (USD mn)	Aug	--	--	75.59	
Sep-07	7:30	Exports Total (USD mn)	Aug	--	--	7957.29	
Sep-07	7:30	Imports Total (USD mn)	Aug	--	--	8694.22	
Sep-07	7:30	Copper Exports (USD mn)	Aug	--	--	3415.5	
Sep-07	8:00	Nominal Wage (y/y)	Jul	--	--	10	
Sep 1-7		IMCE Business Confidence	Aug	--	--	40.49	
Sep-08	7:00	CPI (m/m)	Aug	--	0.9	1.4	
Sep-08	7:00	CPI (y/y)	Aug	--	13.8	13.1	
Sep-12		Central Bank Economist Survey		--	--	--	
Sep 7-12		Vehicle Sales Total	Aug	--	--	38306	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 2–16

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-02	11:00	Exports FOB (USD mn)	Jul	--	5725.0	5547.1	
Sep-05	7:00	CPI (m/m)	Aug	0.54	0.58	0.81	Inflation is expected to remain high in August. We estimate
Sep-05	7:00	CPI (y/y)	Aug	10.31	10.35	10.21	inflation will be around 6 times the average inflation in a regular
Sep-05	7:00	CPI Core (m/m)	Aug	0.45	--	0.73	August. Food prices could continue to be under pressure, while
Sep-05	7:00	CPI Core (y/y)	Aug	7.43	--	7.29	utility fees could increase less than in previous months.
Sep-08		Consumer Confidence Index	Aug	--	--	-10.4	
Sep-15	11:00	Manufacturing Production (y/y)	Jul		--	12.32	
Sep-15	11:00	Retail Sales (y/y)	Jul	8.5	--	17.2	Manufacturing activity likely moderated in July in annual terms,
Sep-15	11:00	Industrial Production (y/y)	Jul	6.0	--	8.8	as production costs remain high, business confidence has shown
							a downward trend, and base effects continue to fade. For retail
							sales, we expect a moderation as the effect of the VAT holiday in
							June vanished and as household spending and credit is
							moderating.
Sep-15		Central Bank Economist Survey		--	--	--	
Sep-16	11:00	Trade Balance (USD mn)	Jul	--	--	-332.8	
Sep-16	11:00	Imports CIF Total (USD mn)	Jul	--	--	6367.95	

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-02	7:00	Leading Indicators (m/m)	Jul	--	--	-0.24	
Sep-02	7:00	Vehicle Domestic Sales	Aug	--	--	83137	
Sep-05	7:00	Consumer Confidence	Aug	--	--	41.33	
Sep-06	7:00	Gross Fixed Investment (%)	Jun	--	--	6.2	
Sep-06	10:00	International Reserves Weekly (USD mn)	02-Sep	--	--	198761	
Sep-06		Banamex Survey of Economists		--	--	--	
Sep-07	7:00	Vehicle Exports	Aug	--	--	210170	
Sep-07	7:00	Vehicle Production	Aug	--	--	259994	
Sep-08	7:00	CPI (m/m)	Aug	0.50	0.69	0.74	
Sep-08	7:00	CPI Core (m/m)	Aug	0.48	0.82	0.62	
Sep-08	7:00	CPI (y/y)	Aug	8.48	8.69	8.15	
Sep-08	7:00	CPI Core (y/y)	Aug	7.85	8.08	7.65	
Sep-08	7:00	Bi-Weekly CPI (%)	31-Aug	--	0.31	0.42	
Sep-08	7:00	Bi-Weekly Core CPI (%)	31-Aug	--	0.37	0.49	
Sep-08	7:00	Bi-Weekly CPI (y/y)	31-Aug	--	8.76	8.62	
Sep-08	7:00	Bi-Weekly Core CPI (y/y)	31-Aug	--	8.19	7.97	
Sep-09	7:00	Manuf. Production NSA (y/y)	Jul	--	--	5.12	
Sep-09	7:00	Industrial Production NSA (y/y)	Jul	--	--	3.8	
Sep-09	7:00	Industrial Production SA (m/m)	Jul	--	--	0.06	
Sep-12	13:00	Formal Job Creation Total	Aug	--	--	10.7	
Sep-12		ANTAD Same-Store Sales (y/y)	Aug	--	--	11.7	
Sep-13	10:00	International Reserves Weekly (USD mn)	09-Sep	--	--	198761	
Sep 12-14		Nominal Wages (m/m)	Aug	--	--	9.5	

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Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-08	19:00	Reference Rate (%)	08-Sep	6.50	7.00	6.50	We expect the BCRP to keep the reference rate at 6.50% at the
							September 8 policy rate meeting. However, a further hike of 25
							bps is likely, depending on August's inflation data.
Sep-15	11:00	Economic Activity (y/y)	Jul	2.5	--	3.4	Economic activity is largely driven by primary sectors, mainly
							fishing. Sectors linked to domestic demand, such as commerce
							and services, continue recovery.
Sep-15	11:00	Lima Unemployment Rate (%)	Aug	6.7	--	6.8	Gradual recovery in the labour market, mainly commerce and
							services.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

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