LATAM Market Update

- **Peru: State of Emergency extended another 13 days**
- **Mexico: Downgraded by S&P from BBB+ to BBB; Economic activity decreases in January as outlook deteriorates; unemployment at 3.57% in February**
- **Colombia: In an unexpected announcement S&P revised to negative Colombia's Outlook. Rating affirmed at BBB-**

PERU: STATE OF EMERGENCY EXTENDED ANOTHER 13 DAYS

The number of COVID-19 cases rose on March 26th by 100 to 580. The curve is not exponential, but it is also not really flattening quite yet. In view of this, President Vizcarra announced that the State of Emergency would be extended another 13 days, until April 12. That would make for 28 days total since the COVID-19 emergency was declared on March 16. Crucially, the extension includes the Easter holidays, so it only involves eight full working days.

The State of Emergency includes the requirement to stay at home except to purchase necessities. The only businesses that are allowed to operate are those that produce, distribute and/or sell essential items (e.g., health, food, finance). Private vehicles cannot circulate; borders remain closed; schools, restaurants, entertainment, and, in general, anything that involves social gatherings, are prohibited; and there is a curfew from 8pm to 5am. The government has threatened to increase the curfew hours in the locations that are not complying with stay-at-home requirements. President Vizcarra has also called on the army reserve to help impose compliance of stay-at-home measures.

Thankfully, the measures were not extended a full month, and, although it is possible that they will be if COVID-19 is not contained, it seems evident that the government would prefer not to.

Vizcarra also announced that the Central Bank and the Ministry of Finance were working to put together a package, such that "businesses can continue working on economic recovery". It's not clear whether this means assisting businesses to weather the storm, or whether what is involved is a stimulus package, or a combination of both.

A number of additional measures were announced, including:

- A State payroll subsidy for companies with workers earning S/ 1,500 or less, for S/ 600 million.
- Worker access to S/ 2,400 out of their individual worker compensation fund (a forced savings scheme).
- The suspension of pension fund deductions during April. This would make S/ 1,100m (nearly US$300m) available during April–May.

CONTACTS

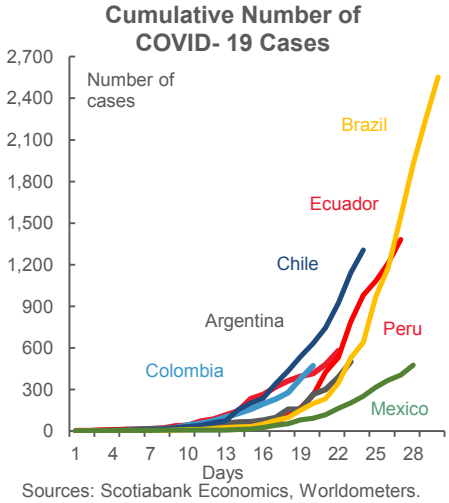
Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl



Sources: Scotiabank Economics, Worldometers.

- Transfer S/ 200m to local governments for the purchase of essential goods to be donated to vulnerable populations.
- Expand the one-time S/ 380 stipend, earmarked for 2.7 million low-income families, to include another 800,000 families of independent workers.

These measures would presumably be part of the S/ 16 billion in additional resources that the government intends to provide to contain COVID-19 and stimulate a quick recovery.

The government has also requested special legislative powers from Congress for a 60-day period, in order to expedite legislation to deal with COVID-19. The special powers cover health, fiscal and tax policy, public investment, domestic order, labor, and social issues, among others.

Government sources estimate a loss of over one million small business jobs. The official GDP growth forecast for 2020 has been lowered from 4% to a still optimistic 2%, although this latter should be viewed more as a target than a forecast.

—Guillermo Arbe

MEXICO: DOWNGRADED BY S&P FROM BBB+ TO BBB

Yesterday afternoon, the rating agency S&P Global Ratings downgraded Mexico's sovereign credit rating from BBB+ to BBB, while keeping a negative outlook, indicating the risk of a downgrade over the coming 12–24 months, due to ineffective policy execution; potential weakening in public finances; and rising pressure on Pemex. According to S&P's press release, the institution expects a pronounced hit to the Mexican economy as a result of the combined impacts of COVID-19 and lower global oil prices. Even though these shocks will be temporary, they will worsen the country´s already weak growth dynamics for 2020–2023 that reflect, in part, low private-sector confidence and poor investment dynamics.

MEXICO ECONOMIC ACTIVITY DECREASES IN JANUARY AS OUTLOOK DETERIORATES, UNEMPLOYMENT AT 3.57% IN FEBRUARY

In January, Mexico's Monthly Indicator of Economic Activity (IGAE) fell by -0.8% Y/Y, from 0.7% Y/Y in December (vs. +1.1% Y/Y one year ago and -0.3% Y/Y expected). This result was driven by a drop in the services sector, from 1.4% Y/Y to -0.5% Y/Y (vs. +2.3% Y/Y in January of 2019), and by a larger decline in industrial activity, from -1.0% Y/Y to -1.6% Y/Y (vs. -0.8% Y/Y one year ago). On a seasonally adjusted monthly basis, economic activity stagnated in January (0.0%), after growing 0.1% the previous month.

Mexico's economic outlook for 2020 has changed dramatically in just a few weeks and now we anticipate a sharp contraction (-5.8% annual drop). Containment measures implemented by different countries to minimize the spread of COVID-19 will significantly impact global growth, including the US economy, where a recession appears unavoidable. This would not only have a negative impact on Mexico's industrial production and exports but would also slow down the sending of remittances to the country, affecting domestic consumption. Similarly, as local restrictions are implemented to limit the spread of the virus, the service sector will most likely be severely affected (especially commerce, restaurants, hotels, transportation, and cultural and recreational activities), while an already weak private consumption could deteriorate even further by a loss of consumer purchasing power as some upward risks to inflation materialize.

Unemployment rate came in at 3.57% in February, with original figures, from 3.79% the previous month (vs. 3.30% in February of 2019), relatively in line with market expectations (3.60%). With seasonally adjusted data, the unemployment rate increased from 3.65% to 3.69% between January and February.

—Alejandro Stewens

COLOMBIA: IN AN UNEXPECTED ANNOUNCEMENT S&P REVISED TO NEGATIVE COLOMBIA'S OUTLOOK. RATING AFFIRMED AT BBB-

S&P Global Rating affirmed a BBB- rating on Colombia's foreign currency sovereign credit and revised its outlook to negative from stable. Weakening in Colombia's external profile due to the recent drop in oil prices was the main reason. Expectation of a wider current account deficit and heightened concerns about economic growth prospects are the main concerns.

The sovereign rating could be reduced if fiscal and external liquidity worsened due to a steeper decline in GDP. The outlook could change to stable if adequate policy measures stabilize the economy and limit the government's net debt burden.

S&P is the agency with the lowest credit rating assessment for Colombia, and is the first agency in release a new rating review after recent COVID-19 and oil prices shocks. It is worth noting that today S&P also revised the credit ratings of Nigeria, Oman, Kuwait and Mexico—all of those revisions are related to the deterioration in oil prices.

Colombia remains in investment grade. Moody's has a rating of Baa2 with outlook stable, while Fitch has a rating of BBB with negative outlook.

—Sergio Olarte & Jackeline Piraján