Latam Economic Update

- Argentina: More rejections for restructuring terms, quarantine extended
- Brazil: Moro’s departure undermines government agenda, calls for impeachment kick off
- Colombia: April’s Citi survey—Recession is expected in 2020; inflation shall remain anchored; and the central bank expected to cut MPR to a historic low
- Mexico: Lower unemployment rate in March owing to fewer people participating in the labour market; Pemex letter
- Peru: March exports hurt worse than expected by lockdown

ARGENTINA: MORE REJECTIONS FOR RESTRUCTURING TERMS, QUARANTINE EXTENDED

The ad hoc creditor group that represents holders of about 40% of the Province of Buenos Aires’ external debt, announced on Monday, April 27, that it has rejected the Province’s restructuring offer, which is meant to complement the terms provided to the central government’s external creditors.

It looks increasingly unlikely that Argentina and its creditors will reach agreement on a debt treatment by the government’s May 8 deadline unless its restructuring offer is sweetened. A weaker restructuring would, however, increase the odds that the country would have to seek help again within a few years, given the optimistic growth assumptions embedded in the authorities’ debt-sustainability analysis.

On the weekend, Pres. Alberto Fernandez announced that the quarantine, which was due to expire on Sunday, April 26, would be extended to May 10. The new protocols add some flexibility to the relatively looser quarantines imposed in small cities, rural areas, and regions where the pandemic is under control, but it keeps existing strict guidelines in place for cities with more than 500k inhabitants.

—Brett House

BRAZIL: MORO’S DEPARTURE UNDERMINES GOVERNMENT AGENDA, CALLS FOR IMPEACHMENT KICK OFF

BRL lagged the rest of Latam FX on Monday, April 27 (BRL -1.0%, the rest of the region’s currencies up +0.1% to +0.5%), weighed down by concerns that the resignation of Minister Moro on Friday, April 24, will further weaken and isolate Pres. Bolsonaro. Sergio Moro is a powerful figure in the country due to his leading role in the Lava-Jato probe. In addition, one of the bases for Pres. Bolsonaro’s support is his pledge to fight corruption. The departure of Moro on claims that Pres. Bolsonaro interfered with a police investigation could undermine that promise. The resignation sparked concerns that the government is fracturing, which would weaken its mandate for reform and even open up the risk of impeachment. In fact, two formal requests for impeachment were presented following Moro’s resignation.
All of this falls in the middle of a severe economic shock and ongoing confrontations between Brasilia and several state governors owing to differing views on the right approach to handling the COVID-19 pandemic. On Monday, April 27, the FGV released its consumer confidence index for April, which printed at its weakest level on record (chart 1): April’s 58.2 was even lower than during Pres. Rousseff’s 2015–16 impeachment and the depths of the 2014 recession, which saw the previous worst reading on record (i.e., 64.9 on December 2015).

—Eduardo Suárez

COLOMBIA: APRIL’S CITI SURVEY—RECESSION IS EXPECTED IN 2020; INFLATION SHALL REMAIN ANCHORED; AND THE CENTRAL BANK EXPECTED TO CUT MPR TO A HISTORIC LOW

On Monday, April 27, the monthly Citi survey of economic analysts came out. BanRep uses this survey as one of its expectations measures on inflation, the monetary policy rate (MPR), GDP, and COP.

Bottom lines:

- Growth forecast: 70% of analysts expect a recession in 2020; on average, a -1.5% y/y contraction is anticipated. For 2021, GDP growth would rebound to around 3.43% y/y; for 2022, GDP growth is, on average, forecast to be 3.10% y/y;

- April’s monthly inflation is, on average, expected to come in at 0.32% m/m and 3.68% y/y; we expect 0.25% m/m and 3.60% y/y. For December 2020, the average projection is 3.41% y/y. Dec-2021 inflation is expected to print at 3.33% y/y, showing that medium-term inflation expectations remain anchored;

- BanRep’s repo rate: analysts expect a 50 bps MPR cut, on average, at the April 30 meeting. The repo rate is expected to reach 3.0% by Dec-2020; in 2021, a rate hike is, on average, expected. Out of 26 analysts surveyed, two expect a 25 bps rate cut at the April 30 meeting; eighteen analysts expect a 50 bps cut, four expect a 75 bps cut and two expect a 100 bps cut; at the same time, 90% of analysts expect rate hikes in 2021; and


—Sergio Olarte & Jackeline Piraján

MEXICO: LOWER UNEMPLOYMENT RATE IN MARCH OWING TO FEWER PEOPLE PARTICIPATING IN THE LABOUR MARKET; PEMEX LETTER

The unemployment rate (unadjusted) for March, released on Monday, April 27, was 2.94% versus 3.25% for the same month in 2019 (chart 2). This was the lowest rate for March since at least 2005, but it was based on a fall in the participation rate of 59.77%, down from 60.00% a year ago. In seasonally adjusted terms, the jobless rate decreased from 3.69% in February to 3.26% in March, the second-lowest level in the last 17 months. The seasonally-adjusted participation rate was 60.06%, the lowest in seven months. With these low COVID-19-induced participation rates, the unemployment rate does not yet properly reflect the impact of the pandemic on the Mexican labour market. The numbers are further complicated by moves to suspend face-to-face interviews from March 31.

Formal labour-market indicators are probably better measures of the state of Mexican jobs than the more comprehensive unemployment rate. For March, IMSS reported the worst results for formal job creation in any month of March since data became available in 1997, with a loss of -130.5k jobs, or -0.63% m/m. March also saw the worst year-on-year performance since 2010 with only 134.4k new positions created over 12 months, an increase of only +0.7% y/y.
IDB Invest, part of the Inter-American Development Bank Group, in agreement with “Consejo Mexicano de Negocios” (CMN), a national business group, announced on Sunday, April 26, a program totaling about USD 12 bn to provide up to 30,000 short-term loans to micro-, small-, and medium-sized firms. The revolving credits are expected to carry an average term of 90 days. Although the CMN had previously announced that the program had the endorsement of the Finance Ministry, President López Obrador said that he did not like agreement and questioned whether the government should be involved.

On the evening of Monday, April 27, Pemex sent a letter to investors regarding its recent credit downgrades that argued that the ratings action was prompted by the moves on the sovereign and the COVID-19 pandemic, and not “incorrect operational and financial decisions made by the administration” of Pemex itself. The letter went on to contend that Pemex took proactive efforts to mitigate the risks to its finances from end-February. Going forward, the company will prioritize highly profitable investments and reduce its profit-sharing duty (i.e, the DUC) to bolster its finances.

—Miguel Saldaña & Brett House

PERU: MARCH EXPORTS HURT WORSE THAN EXPECTED BY LOCKDOWN

Unofficial data imply that exports fell 46% y/y in March, according to the private trade chamber, Comex Perú. These data are usually a good predictor of the official data that follow. According to Comex’s numbers, mining exports fell 46% y/y and fishing exports were down 71% y/y. Agroindustry exports held up much better and fell only 3% y/y. Note that the lockdown was in place during only the second half of March. We can, therefore, expect an appreciably worse picture in April.

Over the weekend, President Vizcarra announced that the small-business support fund would be increased from PEN 300 mn to PEN 800 mn. The fund provides resources for small- and micro-business loans. The government has apparently come around to the idea that the PEN 30 bn guaranteed-loans program was being channeled to larger businesses.

The minister of trade and tourism said that he expected tourism to decline 65% in 2020. He also stated that his portfolio had prepared a proposal to aid the sector and promote investment. It is difficult envisioning a proposal that could do much to promote tourism demand and investment for some time.

—Guillermo Arbe
This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.

Visit our website at scotiabank.com/economics | Follow us on Twitter at @ScotiaEconomics | Contact us by email at scotia.economics@scotiabank.com