

## Latam Economic Update

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### CENTRAL BANKS: COLOMBIA BANREP MINUTES STAY GRADUALIST; BRAZIL COPOM -25 BPS CUT EXPECTED ON WEDNESDAY, AUGUST 5

The [Minutes](#) of the July 31 meeting of Colombia's BanRep were released on Monday, August 3, and confirmed that the central bank remains in a gradualist, data dependent mode. The *Minutes* of the unanimous vote to cut the headline monetary policy rate by -25 bps to a new record low of 2.25% took note of below-target inflation, substantial reductions in income across the economy, and wide output gaps. As noted in our [Latam Flash](#) on July 31, our team in Bogota continues to expect another and final -25 bps cut to 2.00% at the August meeting.

We expect Brazil's Copom to deliver another -25 bps cut in the Selic on Wednesday, August 5, to bring the headline policy rate down to a record low 2.00%. Although the BCB has emphasized that further rate cuts would be "residual", the latest BCB [Inflation Report](#) showed sharp downward revisions to the central bank's growth forecasts and anticipated inflation path. Our Brazil economist, Eduardo Suárez, expects one more -25 bps at the subsequent meeting in Q3 to take the Selic to a terminal rate of 1.75% for this easing cycle; a reversal upward is expected from Q2 next year.

—Brett House

### ARGENTINA: DEBT DEAL REACHED

In a [statement](#) released this morning, August 4, Argentina's Ministry of Economy confirmed that it has reached an agreement with three major creditor groups—the Ad Hoc Group, the Creditors Committee, and the Exchange Bondholders Group—to move forward on a swap of its outstanding USD 65 bn in foreign-law bonds currently in default. Following creditor announcements last week, it appeared possible that an agreement could be slightly delayed beyond today's deadline, but further talks in the last few days closed the narrow remaining gap between the two sides' negotiating positions. While some details are still pending, the authorities' statement indicates that, compared with their [July 5 offer terms](#), they have simply brought forward some

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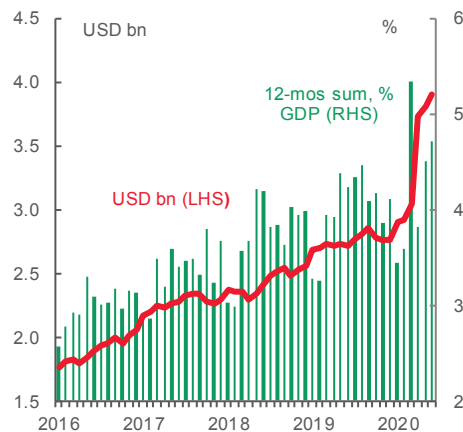
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#### Chart 1

##### Mexico: Inward Remittances



Sources: Scotiabank Economics, Banxico.

payment dates by a few months, not altered total amounts of interest and principal flows that would result from the exchange. With these three creditor groups on board, the authorities should have no trouble reaching the minimum participation thresholds they have set for the exchange.

The offer period for the swap has been extended to August 24, but the expected execution date remains September 4.

—Brett House

## **BRAZIL: JULY ACTIVITY REBOUND BOOSTED BY EXTERNAL DEMAND**

Brazil's trade data for July, which came out on Monday, August 3, showed a slightly smaller trade surplus than consensus looked for (USD 8.06 bn versus consensus USD 8.13 bn), but the monthly surplus was still the largest on record. Encouragingly, exports were almost back to July 2019 levels, coming in at USD 19.6 bn compared with the USD 20.2 bn print we had a year earlier. The rebound in export values is particularly positive given that key commodity prices remain materially lower than the levels we had a year back.

On the manufacturing side, the Markit PMI, also out on Monday, August 3, came in much stronger than we expected, showing that activity once again gained momentum. The index printed at 58.2, close on the heels of June's 51.6 survey; July's level was the strongest manufacturing PMI print since the series was introduced in 2006. We had anticipated a marginally sub-50 number for July and we were surprised by this materially more positive improvement.

On the policy front, media reports indicated yesterday that the government is considering extending its aid program for informal workers past September. The currently approved stimulus package expires that month. In its existing form, the program is expected to cost USD 50 bn, and each additional month could increase the cost by around USD 10 bn, respectively.

—Eduardo Suárez

## **CHILE: JUNE ECONOMIC ACTIVITY SURPRISED ON THE UPSIDE**

At last a favourable surprise: June's IMACEC GDP proxy, published Monday, August 3, showed a contraction of -12.4% y/y (consensus: -15% y/y), with a seasonally adjusted expansion of 1.7% m/m from May. The June economic activity numbers mean that Q2 GDP likely saw a contraction of -14% y/y, or -43% q/q saar in sequential terms. This implies that April–May was the bottom for economic activity in Chile amidst strong quarantine measures.

Due to some short-term transitory factors and better-than-expected monthly activity numbers, the contraction in aggregated GDP in 2020 should be at the better end of the -5.5% y/y to -7.5% y/y range forecast by the central bank. In fact, we see 2020 growth coming in very close to our existing baseline projection of a -6% y/y contraction, which we maintain with a positive bias. Our upward tilt reflects the strong injection of liquidity that has occurred in line with our expectation of accelerated, bulky, and rapid withdrawals from pension funds by individual account holders. These withdrawals will provide some temporary support to private consumption. For July, we anticipate a drop in monthly GDP of between -11% y/y and -13% y/y. If this is realized, it would confirm that aggregate GDP in 2020 is on the way to an even better performance than the -6% y/y contraction forecast in our baseline scenario.

—Jorge Selaive

## **MEXICO: EXPECTATIONS SOFTEN FURTHER; REMITTANCES ROSE TO NEW RECORD LEVELS IN JUNE**

### **I. Mexican outlook for 2020 worsened further in Banxico Survey of Expectations**

According to Banco de Mexico's latest monthly [Survey of Expectations](#), released on Monday, August 3 with information collected between June 23 and June 29, private sector analysts have kept lowering their forecasts for GDP growth in 2020, but have kept steady their outlook for 2021.

- The average projection for the 2020 GDP growth rate dropped again, from -8.97% y/y to -10.02% y/y; in contrast, the average forecast for 2021 changed only slightly from 2.79% y/y to 2.88% y/y.

- Average forecasts for headline and core inflation at end-2020 rose from 3.31% y/y to 3.64% y/y and from 3.50% y/y to 3.72% y/y, respectively. For end-2021, the average headline inflation forecast remained almost unchanged, ticking up slightly from 3.55% y/y to 3.56% y/y, but core inflation moved from 3.42% y/y to 3.38% y/y.
- The average USDMXN projection for end-2020 improved from 22.78 to 22.69; for end-2021, the average exchange-rate projection strengthened slightly from USDMXN 22.78 to 22.68.
- The median expectation for the interbank rate target remained at 4.50% for both end-2020 and end-2021.

## II. Remittances rose to new record levels in June

**June remittances data, which were released on Monday, August 3, printed new records for any month of June at USD 3.5 bn (chart 1) and for any first half of the year since at least 1995 at USD 19.1 bn.** These prints represented year-on-year increases of 11.1% in June and of 10.6% in H1-2020. These record levels of remittances might somewhat compensate for Mexican households' reduced labour incomes. Remittances have remained high following their surge at the beginning of the pandemic-induced lockdowns. This may reflect both job gains in the US as the economy begins to recover as well as precautionary moves by Mexican expats who may be transferring both some savings and larger fractions of their incomes in anticipation of a worsening outlook for the Mexican economy.

—Miguel Saldaña

## PERU: CONGRESS DENIES CABINET ITS VOTE OF CONFIDENCE; JULY INFLATION SURPRISES MILDLY TO THE UPSIDE; GROWTH INDICATORS MIXED FOR JUNE–JULY

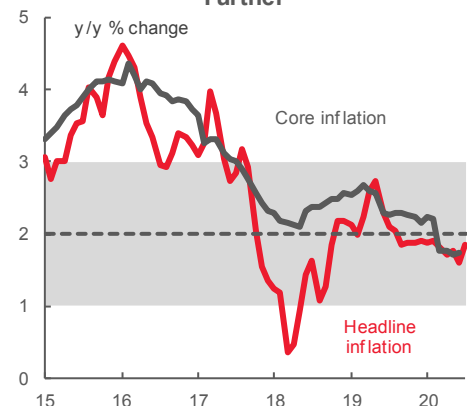
**In an unprecedented move, Congress denied the Cabinet its confidence, with 37 in favour, 54 against, and 34 abstentions in an early-morning vote on Tuesday, August 4.** As a result, the current Cabinet will need to resign and a new one will have to be formed. The Cateriano Cabinet had gone before Congress on Monday to present its governing plan, as required by law. The plan was generic, and no significant announcements or details were disclosed. Normally, the vote of confidence is fairly straightforward. However, given the unusual makeup of this Congress, the outcome of this vote was unsure from the outset. This is a Congress that will, apparently, continue to be unreliable in its behaviour. There is, therefore, no real assurance that President Vizcarra will be able to appoint a set of Ministers that is to its liking. The President will need to choose between appeasing Congress further or risking new confrontation. Meanwhile, Cabinet instability has become a concern, given the focus and continuity needed by the authorities to confront the health and economic crisis.

**July inflation, which came out Friday, July 31, was on the high side, up 0.46% m/m versus consensus of -0.08% m/m and June's -0.27% m/m, but it should return to slowing in the coming months.** This brought yearly inflation up to 1.9% y/y, a mildly surprising increase from 1.6% y/y in June (chart 2), as opposed to the decline to 1.4% that we were expecting. Monthly inflation would actually have been nearly nil if not for a sharp increase in the price of chicken, up 32% m/m, as a result of the re-opening of restaurants. Less surprisingly, health care costs were also up 0.5% m/m. Since the jump in the price of chicken was a one-off, inflation should continue its downward trend going forward. Inflation is, however, even more likely now to close the year near our 1.1% y/y full-year forecast rather than the BCRP's expectation of 0% y/y for 2020. None of this affects our expectation that the BCRP will maintain its policy rate at 0.25% until late-2021.

**June growth. A number of growth indicators were released over the weekend; most were in line with expectations, but mining was stronger than expected and implies that monthly GDP could come in better than forecast when it prints on August 17.**

Chart 2

### Peru: Inflation Expected to Fall Further



Sources: Scotiabank Economics, INEI.

- **Mining GDP fell -13.6% y/y, in June, as production revived more quickly than we expected.** We had been anticipating a much sharper -30% y/y, decline. This came in contrast with the more than -40% y/y declines we saw in April and May. Importantly, copper production led the recovery by falling a relatively small -9.1% y/y in June. June's better-than-expected mining numbers would reduce the -20% y/y aggregate GDP contraction we forecast for the month by a full percentage point.
- **Oil and gas production fell -19.7% y/y in June.** This was in line with our expectations and with the -20.7% y/y decline we saw in May. A much fuller recovery will not take place until August, as the main pipeline only restarted operations on August 1 after having been shut down since April 30.
- **Fishing output rose a considerable 48% y/y in June, as expected.** This represented a strong turnaround from a -47% y/y contraction in May and a -58% y/y decline in April, but mostly reflected a shift in the fishing season to later months this year. The current fishing quota is 15% higher this year than in 2019 with the strong growth months set for June and July. In July, fishing's contribution to overall GDP is likely to be as strong, if not stronger, than in June.
- **Exports fell -33.2% y/y in June, an improvement over the -47% y/y contraction in May.** Meanwhile, imports were down -28.5% y/y in June, a mild recovery after having fallen -36.8% y/y in May.
- **Tax revenue did not improve significantly in June.** Total VAT sales tax revenue fell -41% y/y, in June, not much different from the -44% y/y decline in May.

**All in all, except for better-than-expected mining data, the initial figures for June were in line with expectations.** The mining results were, however, significantly more positive than projected, which provides some hope that the actual contraction in aggregate GDP in June will be smaller than our -20% y/y forecast—which is itself much better than the current -33.0% y/y consensus for the month.

**July growth. A couple of initial July figures were also released over the last few days, with mixed forward-looking implications.**

- **Electricity demand in July declined by just under -6% y/y.** This was half the scale of the annual decline seen in June and significantly better than the -30% y/y contraction during most of the pre-June lockdown period.
- **On the other hand, the -49.9% y/y, decline in public sector investment in July was a huge disappointment.** It doesn't really matter that July was an improvement over June (-70% y/y) and May (-75% y/y). July marked phase 3 of the unlocking process and there's really no justification for the different levels of government, from national to regional to local, to be so slow in ramping up public investment given the need to stimulate the economy.

—Guillermo Arbe

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