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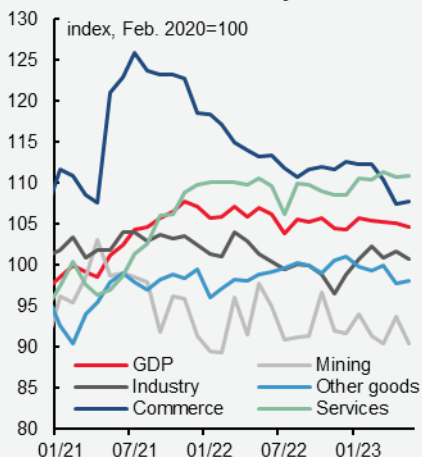
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Chart 1

Chile: Level of GDP by Sector



Sources: Scotiabank Economics, BCCh.

Latam Daily: Thin US Holiday Trading, Quiet Latam Day

- **Chile: GDP fell 2% y/y and 0.5% m/m in May**
- **Mexico: Banxico survey shows better expectations for 2023; remittances rose in May**
- **Peru: Inflation plunged in June**

Closed UST markets with the US on holiday for Independence Day and a quiet overnight session where the RBA's rate hold was the highlight leave little in terms of broad market moves. The day ahead is quiet in the DM and Latam space, where data releases are limited to Canadian manufacturing PMI and Brazilian industrial production. Canadian and Colombian markets reopen after the long weekend.

The mood is mixed and overnight markets mostly traded in narrow ranges, where the standouts are solid gains in crude oil and iron ore of 1% and 0.4% respectively, against copper losing 0.2%. The USD is mixed to weaker against the key majors, with the MXN marking a new best level in the current cycle this morning at 17.02; a 0.5% appreciation in the CNY/H seems to be weighing on the dollar. US equity futures are little changed, while Treasury futures drift lower alike weakening moves in longer-term European debt.

Brazil's senate will hold a confirmation hearing for Lula's candidates to the BCB board starting at 9ET. Yesterday's results to the BCB's economists survey showed a lower end-2023 interest rate forecast, at 12% from 12.25% last week, accompanied by a 4.98% year-end inflation projection, from 5.06% previously. Inflation expectations trending in the right direction will add to bets that the BCB will begin its cycle of rates reductions in August as markets head towards pricing in a larger 50bps hike (currently 41bps priced in).

—Juan Manuel Herrera

CHILE: GDP FELL 2% Y/Y AND 0.5% M/M IN MAY

- **We estimate a contraction of 0.7% q/q in Q2-23. Technical recession in Q3-23 in the absence of economic acceleration**

On Monday, July 3rd, the Central Bank (BCCh) released GDP growth (Imacec) for May, which fell 2% y/y, in line with our expectations (Scotia: -2.0%) and below both consensus (-1.7%) and surveys (Economist Survey: -1.1%). Furthermore, this record is a real negative surprise for the BCCh's baseline scenario in terms of expected GDP contraction in 2023.

The carry-over makes a moderate GDP contraction as expected by the consensus difficult. Avoiding a technical recession in Q3-23 requires an acceleration in June and/or in one of the months of the third quarter. Indeed, if the economy experiences 0% m/m seasonally adjusted growth for the rest of the year, the GDP contraction in 2023 would be above 1%. Moreover, to achieve a contraction of only 0.2% of GDP as in the BCCh's baseline scenario, the economy needs to recover seasonally adjusted growth in the remainder of the year, a difficult task given the high level of the monetary policy rate, sluggish execution of public and private investment, and negative business and consumer confidence indicators. For now, we project a q/q contraction of 0.7% for the Q2-23 (chart 1). In this context, we anticipate a further downward revision in GDP growth forecast in surveys, currently at -0.5% for 2023.

The non-mining Imacec remained stable with respect to the previous month (0% m/m), mainly thanks to the commerce and services sectors, whose economic activity did not show large increases with respect to the previous month, although it was enough to offset the drop in industry and mining GDP (chart 2). This month, commerce would have been positively influenced by the advance of the automotive and retail sectors, which may not

be repeated in June based on indicators of high frequency of card purchases. Similarly, personal services continued to show weakness in June due to the negative effects of the rains at the end of the month on educational services, which were partially offset by the increase in health services. In short, both sectors reportedly maintained low levels of activity in June, showing no signs of recovery.

All in all, we reiterate our forecast of a GDP decline of around 0.8% in 2023, worse than the consensus and the baseline scenario of the BCCh.

—Aníbal Alarcón

MEXICO: BANXICO SURVEY SHOWS BETTER EXPECTATIONS FOR 2023

Analysts foresee better economic conditions in the June Banxico Survey. The most noticeable change was in the end of period inflation forecast for 2023, where they expect for a 4.70%, down from the previous 5.00%. However, they still expect challenges in the medium, since average forecast only slightly changed from 4.08% to 4.01% for the 2024, above the 3.0% +/-1% target from Banxico. The core inflation expectation also moved down, albeit at a lower pace, from 4.36% to 5.31% for 2023, and from 4.19% to 4.08% for 2024, suggesting a stickier downward trend in the forecasts horizon.

Another patent change was the GDP forecast for the current year, where analysts expect now 2.26% advance, up from the 2.05% previous, whereas the consensus for 2024 stood almost unchanged at 1.57%. This higher consensus goes in line with the above consensus prints for economic activity since late 2022, specially owing to a stronger-than-expected private consumption, although fixed investment has also recently gone up, accompanied by the positive narrative of stronger dynamism by the nearshoring phenomenon.

Regarding the exchange rate forecasts, consensus went down, to 18.37 USDMXN, from 18.91 previously for 2023, and from 19.22 to 19.71 for year-end 2024. In recent weeks, The USDMXN has fluctuated above 17.0, above what we consider might be a psychological threshold (17.00). Forecast suggest that analysts are seeing the current exchange rate somewhat overpriced, with potential harms for the exporting sector.

For our part, we consider the rate spread is the main factor for the recent peso appreciation, but other factors include the dynamism in remittances, and stronger than expected economic activity. Upside risks for the USDMXN include a higher uncertainty for both the Mexican and the US elections in 2024, a negative impact of the consultation process under the USMCA, a economic slowdown in both countries, and higher public debt in Mexico in the short term.

Lastly, the median responses for the Banxico rate remain unchanged, at 11.00% for 2023, and 8.50% for 2024, yet we highlight a still uncertain outlook for both inflation and target rate.

Remittances rose in May, with still strong signs

Remittances in May accelerated to 10.7% y/y from the 6.3% previous, to 5.69 billion USD. This is typically a month where flows outperform, owing to the “Mother’s Day” celebration in Mexico, yet annual increase suggest a still strong dynamism. From January to May, remittances remain almost with the same pace (10.3% vs. 10.1% YTD previously).

Chart 2

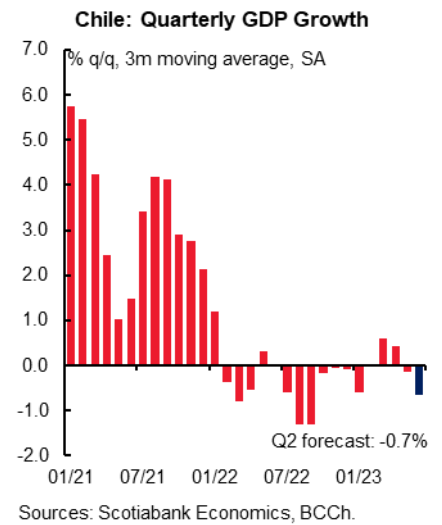


Chart 3

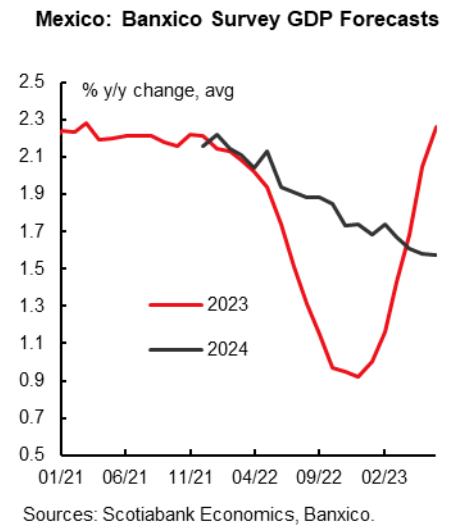
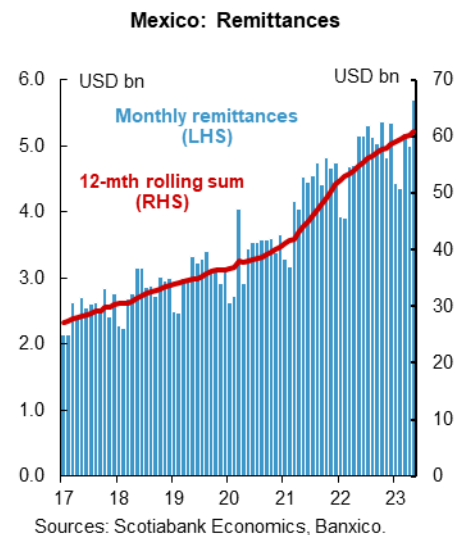


Chart 4



In the 12 months sum, remittances accounted for 60.8 bn USD, equivalent to a 11.0% increase, slightly below the 11.3% previously, but less than half the 24.4% from the same month a year ago, showing clear signs of deceleration, yet still in strong numbers. The tightness in the US labour market has boosted remittances in Mexico since the pandemic, for most of the newly created jobs have come from the services sector, where latinos occupy a big share of services vacancies. In the short term, we expect flow to remain positive, although moderating, contributing to support private consumption, along with an also tight Mexican labour market.

—Miguel Saldaña

Variable	Year	May-23	Jun-23	Change
GDP	2023	2.05	2.26	0.21
(Real annual % change)	2024	1.58	1.57	-0.01
Headline Inflation	2023	5.00	4.70	-0.30
(Annual % rate, Dec-Dec)	2024	4.08	4.01	-0.07
Core Inflation	2023	5.46	5.31	-0.15
(Annual % rate, Dec-Dec)	2024	4.19	4.08	-0.11
Exchange Rate	2023	18.91	18.37	-0.54
(USDMXN, Dec)	2024	19.71	19.22	-0.49
Policy Rate	2023	11.00	11.00	0.00
(Rate %, end of period)	2024	8.50	8.50	0.00

Sources: Scotiabank Economics, Banxico.

PERU: INFLATION PLUNGED IN JUNE

Yes, we were expecting a low monthly print for June, and also a sheer drop in the yearly rate. But the actual figures surprised even our expectations. Monthly inflation was down 0.15%. Yes, negative inflation. This was possible, but uncertain. Yearly inflation declined to 6.5%, from 7.9% in April, and a tad below our expectations of 6.7%–6.8%.

This raises expectations that the BCRP may move forward its decision to begin lowering the reference rate. We continue to expect the BCRP to maintain the current rate of 7.75% during the July 13th meeting. We are not changing our opinion that the BCRP will not begin lowering the reference rate until November, but are intrigued at the possibility of an earlier decision, which will likely hinge on another sharp downturn in inflation in July. What gives greater credence to the

expectation that inflation will continue declining notably in coming months is the trend in the wholesale price index. Wholesale inflation, which was 8.1% only four months ago, in February, shot straight through the BCRP target range (from 1% to 3%), and has come out at the other side, with yearly wholesale inflation registering only 0.5% in June.

Other information that has been released were in line with our expectations (see [Latam Daily](#)). Mining GDP for May was up 21% y/y, on two counts, the full impact of the new Quellaveco copper mine and a low base in 2022 due to roadblocks. The was offset by a 71% decline in Fishing GDP, as the initiation of one of the two large yearly fishing seasons, which typically begins in May, was postponed due in part to the impact of severe El Niño related countercurrents. The balance means low, or no, growth in May aggregate GDP.

—Guillermo Arbe

Chart 5

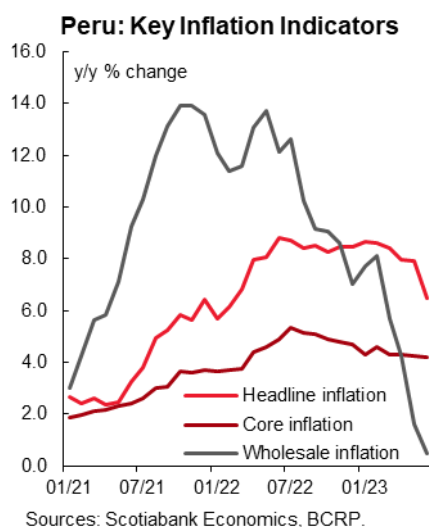
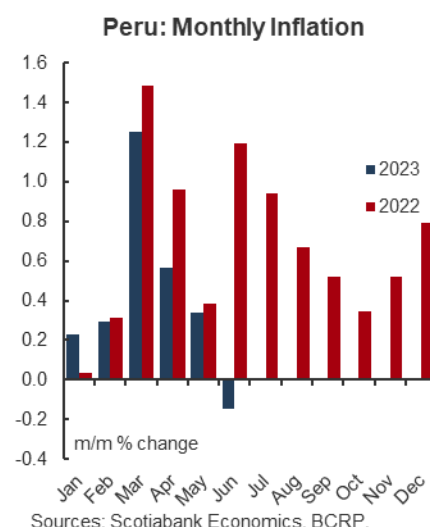


Chart 6



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