

Latam Roundtable on What's Ahead in 2022

WITH SCOTIABANK'S LATAM ECONOMICS TEAM

December 17, 2021

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Agenda

1. Economic Overview
2. Mexico
3. Peru
4. Colombia
5. Chile
6. Brazil
7. Argentina

Economic Overview



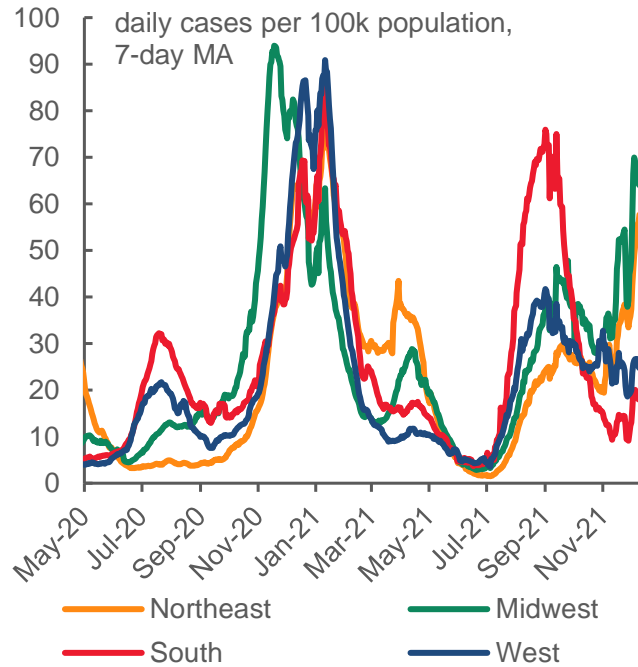
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COVID-19: Latam Below G-10 New Case #s

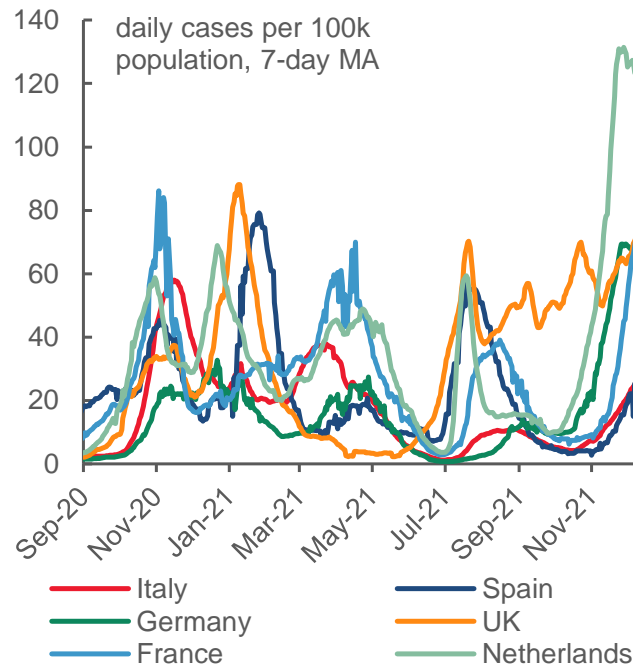
THE LATAM HOTSPOT HAS COOLED

Daily Cases Trend in US Regions



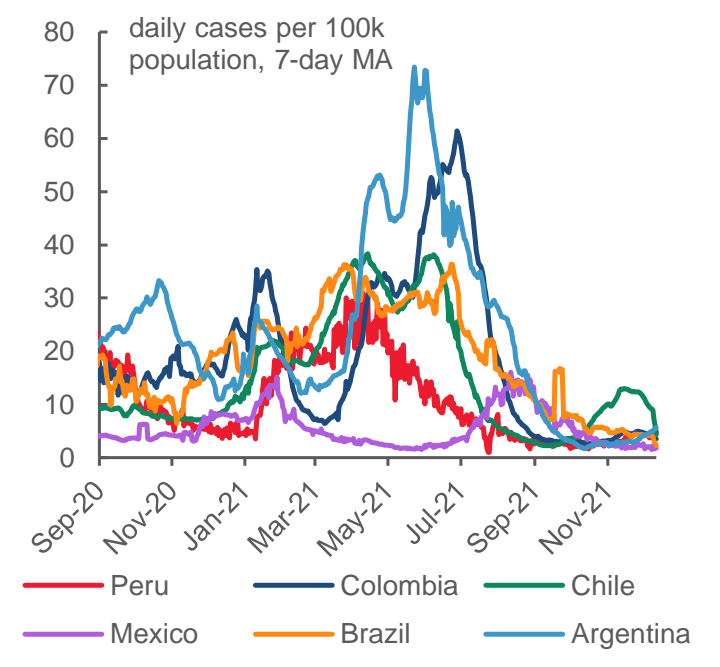
Sources: Scotiabank Economics, Bloomberg.

Trend in European Daily Cases



Sources: Scotiabank Economics, Bloomberg.

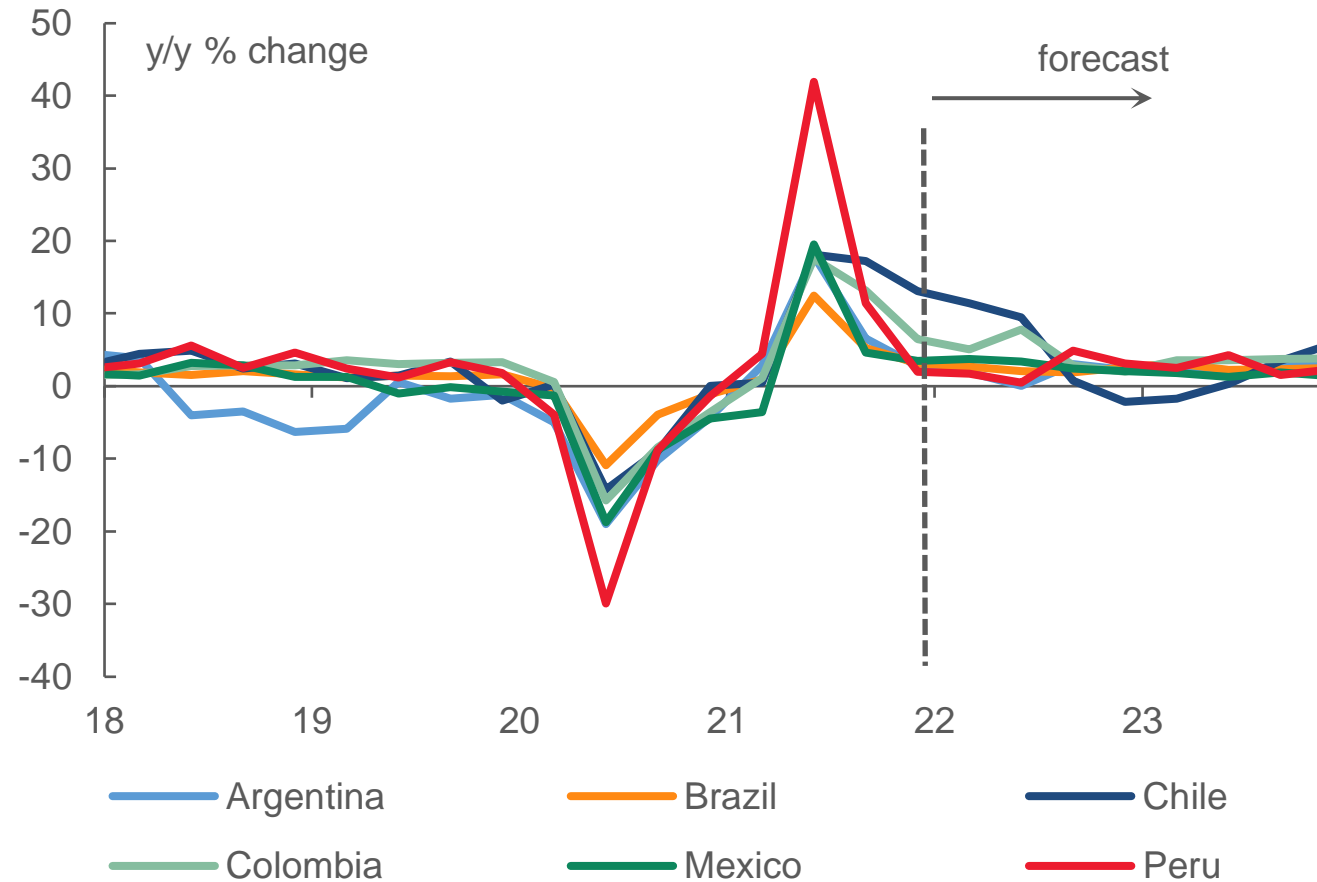
Trend in Latin American Daily Cases



Sources: Scotiabank Economics, Bloomberg.

Latam Real GDP Growth Solid into 2022

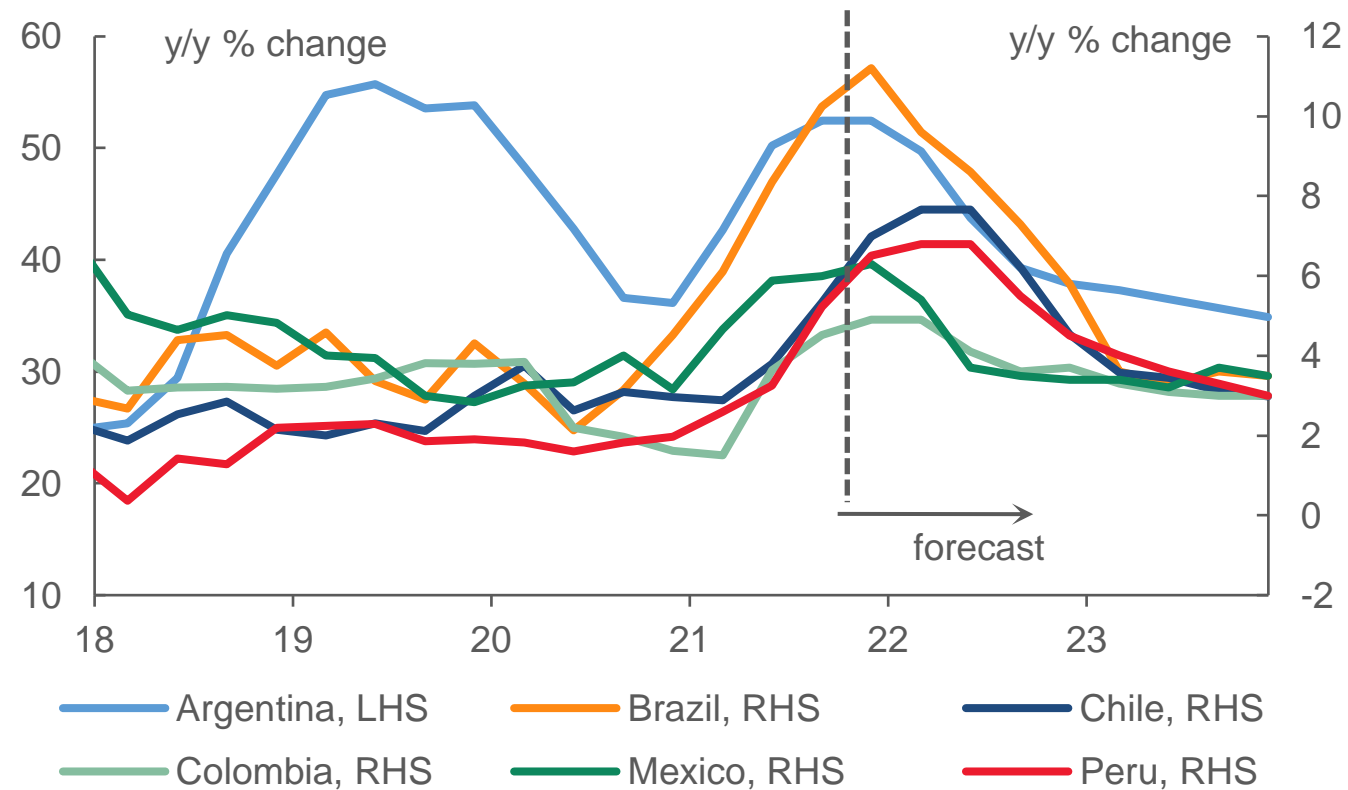
AR, BR, CL, CO, & PE ALREADY BACK TO PRE-PANDEMIC LEVELS



Sources: Scotiabank Economics, Bloomberg, national authorities.

Inflation: Has Risen More than Expected

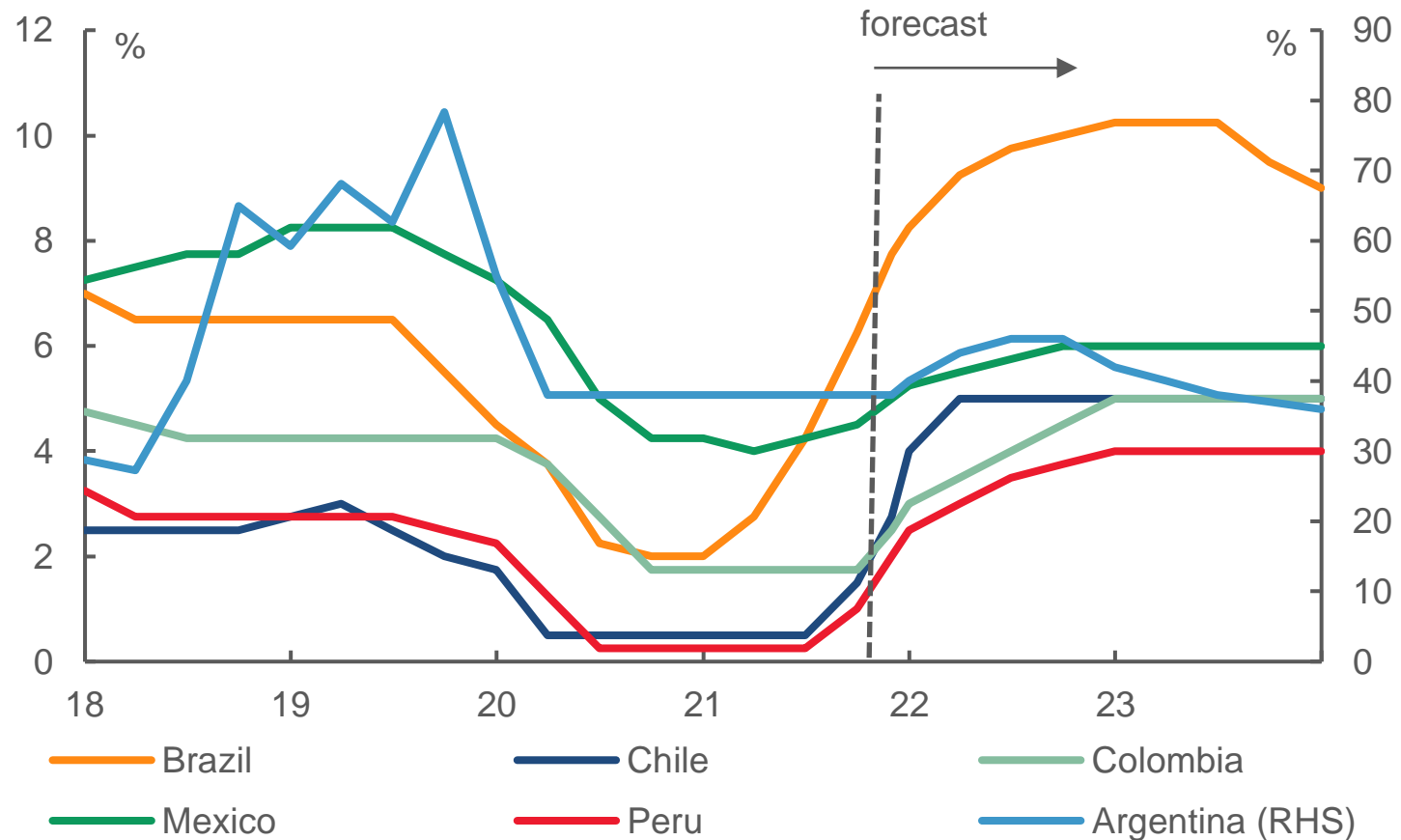
BIGGEST UPSIDE SURPRISES IN BR, CL, & PE



Sources: Scotiabank Economics, Bloomberg, national authorities.

Policy Rates: Topping Out by End-2022

STILL SET TO BE BROADLY ACCOMMODATIVE



Sources: Scotiabank Economics, Bloomberg, national authorities.

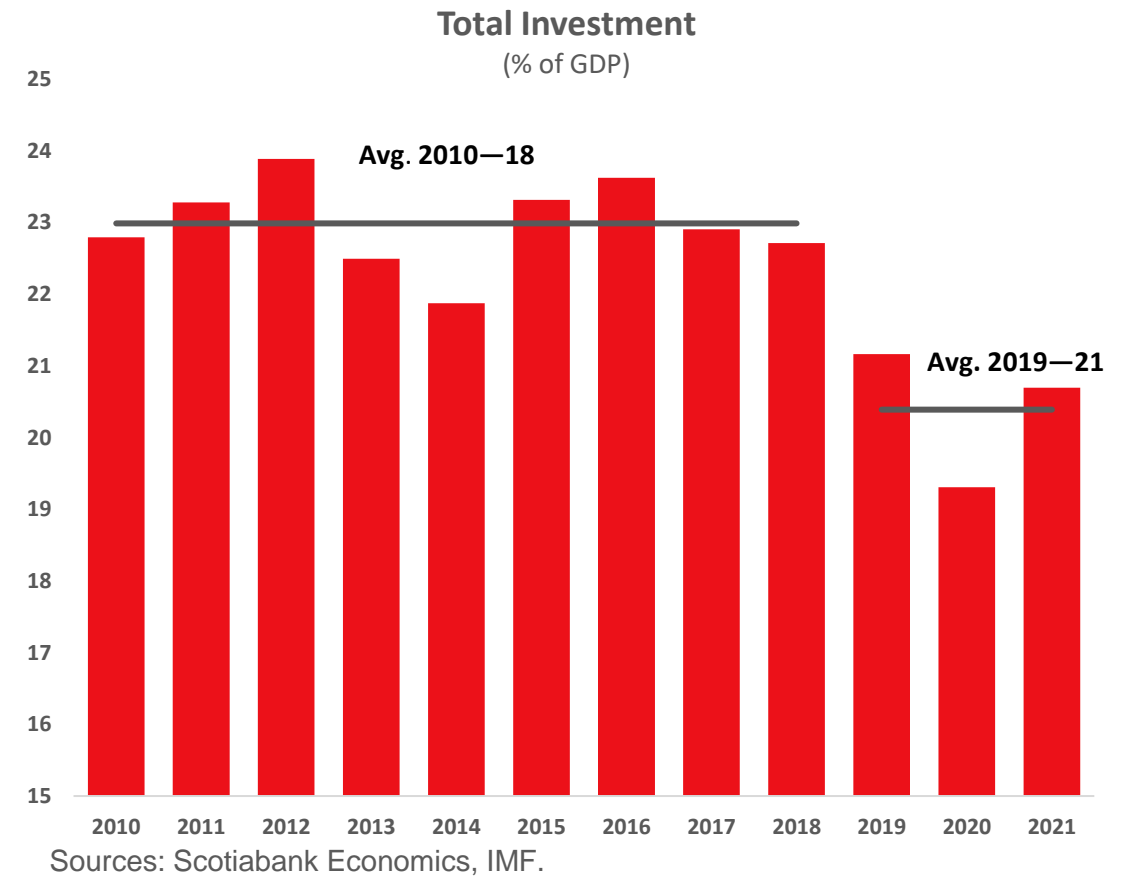
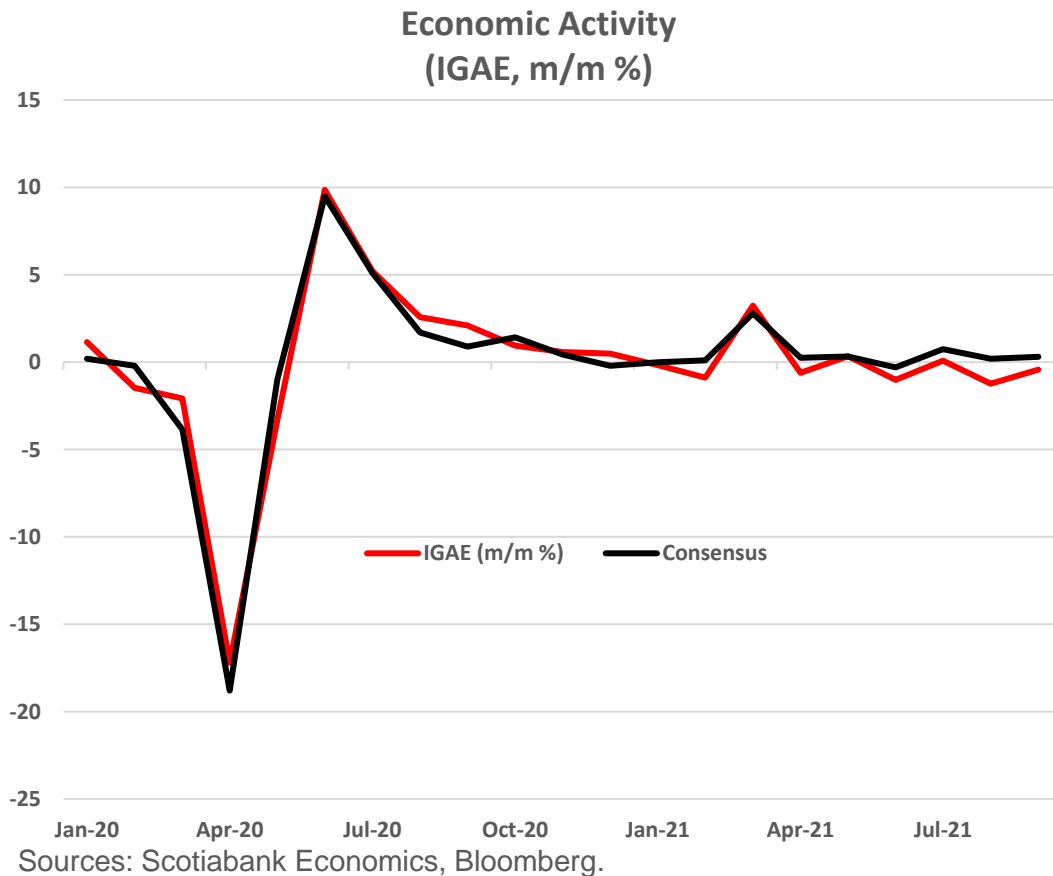
Mexico



EDUARDO SUAREZ

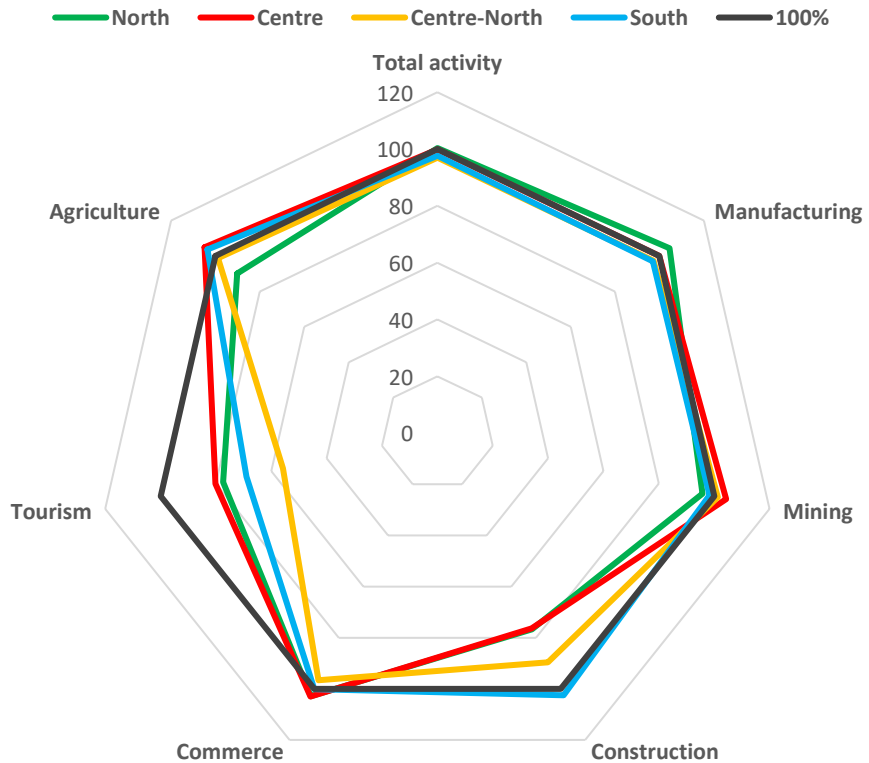
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Economists have consistently been too optimistic on Mexican growth in 2021: without greater investment, won't sustainably see it above 2%.



Banxico expects output gap to be nearly shut by end-2022; uneven performance by regions & sectors and spending changes explain some price pressures.

Regional Economic Activity
(Q2-2021 as % of activity in Q1-2020)



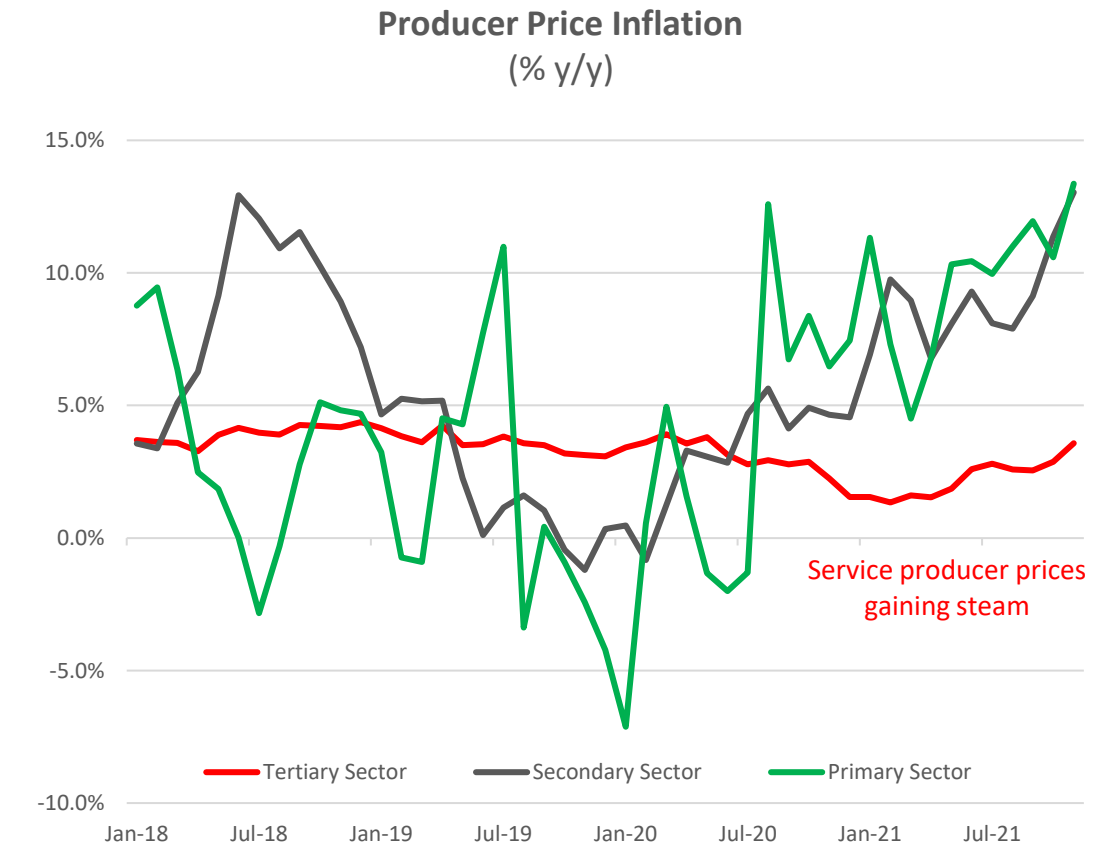
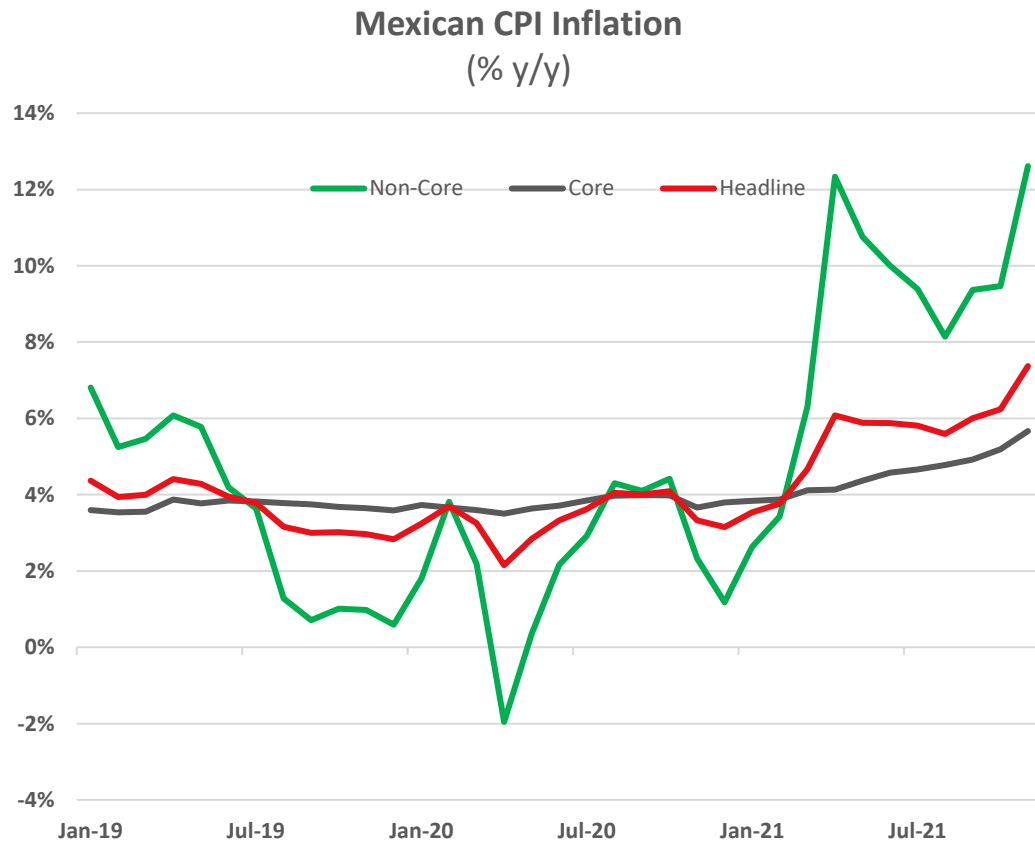
Sources: Scotiabank Economics, Banxico.

Banxico's Output Gap Estimate
(% of potential GDP)



Sources: Scotiabank Economics, Banxico.

Broad-based inflation shock putting pressure on Banxico; goods driving the shock. Services inflation kicking in as 2021 winds down.

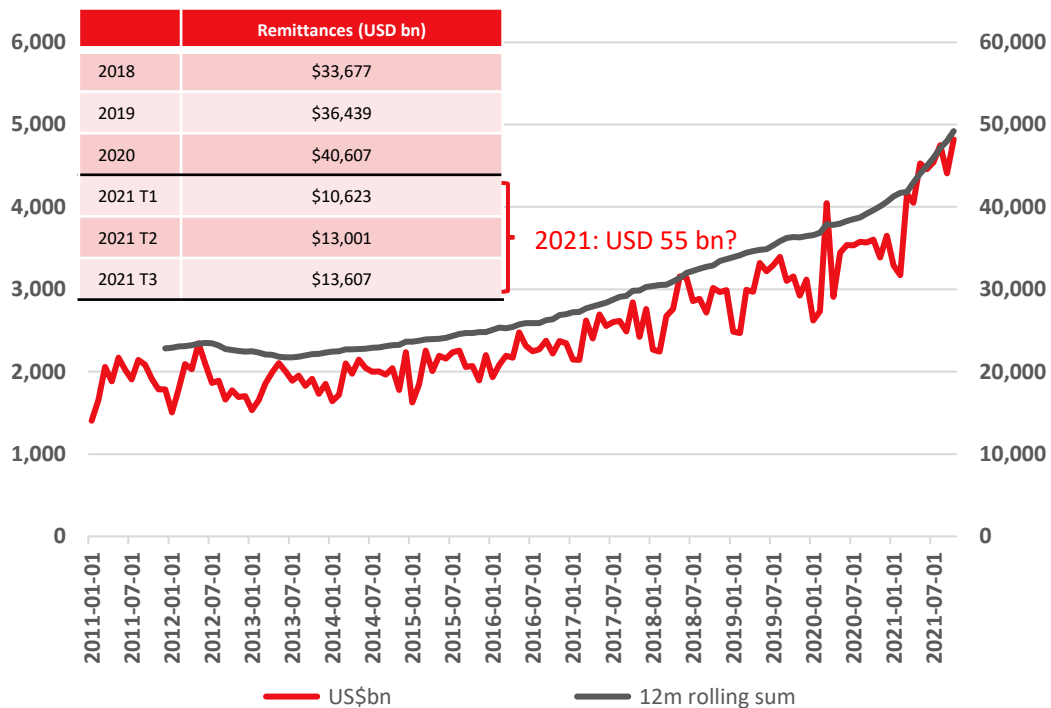


Sources: Scotiabank Economics, INEGI.

Source: Scotiabank, INEGI.

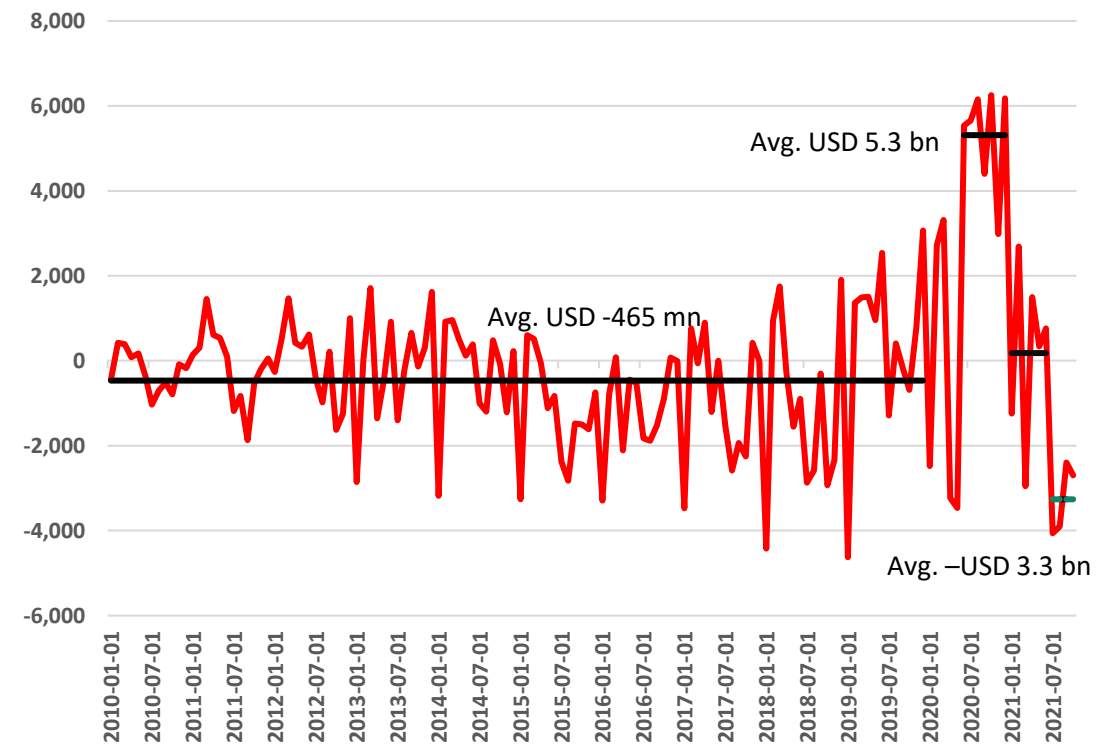
MXN has been propped up by trade & remittances... tourism recovery is key for support going forward.

Remittance Receipts
(USD mn)



Sources: Scotiabank Economics, Bloomberg.

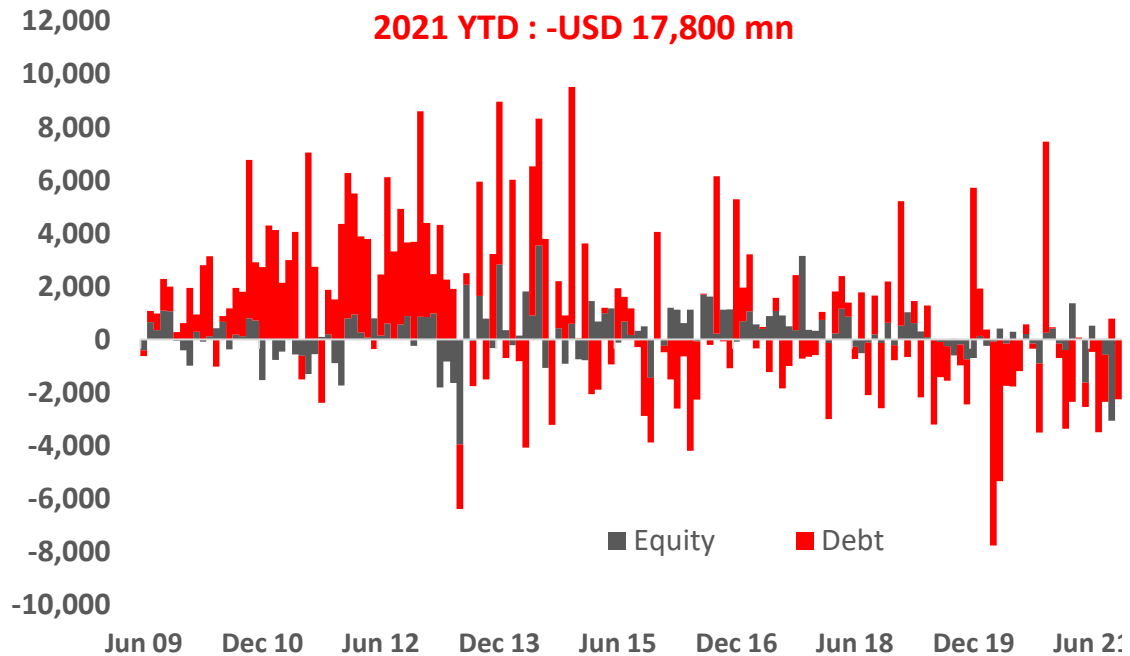
Mexican Trade Balance
(USD mn)



Sources: Scotiabank Economics, Bloomberg.

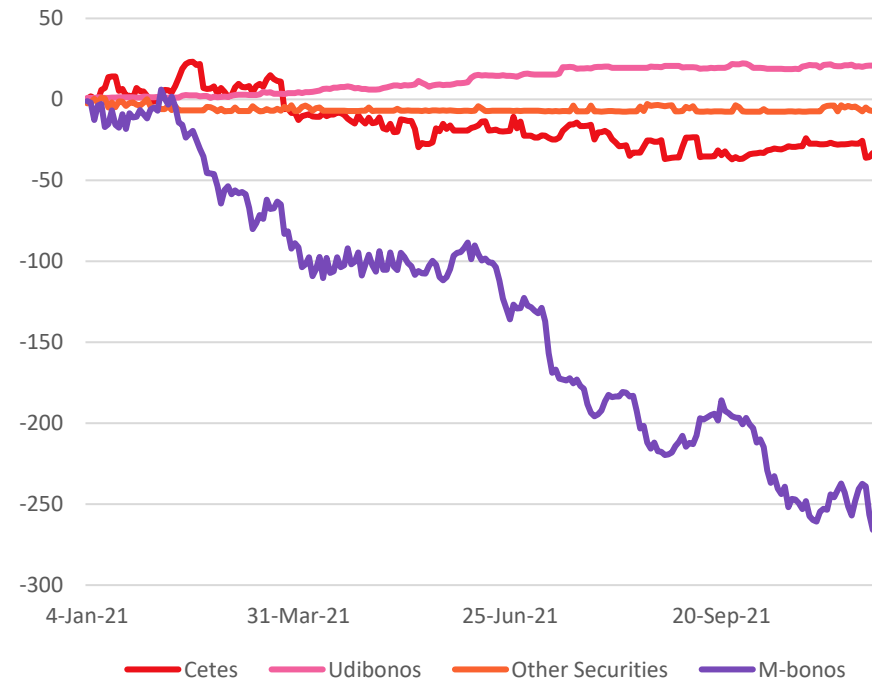
Capital flows have been a one-way street. Positioning much cleaner, but risks remain.

Cumulative Portfolio Inflows
(BoP, USD mn)



Sources: Scotiabank Economics, IIF.

Foreign Investor Flows into Public Debt in 2021
(MXN bn)



Sources: Scotiabank Economics, Banxico.

Loss of IG looks difficult in next 12 months; long-term fiscal sustainability affected by growth outlook.

Mexican credit ratings

	LTFCR	Outlook
Moody's	Baa1 (Inv. Gr.)	Neg.
S&P's	BBB (Inv. Gr.)	Neg.
Fitch	BBB- (Inv. Gr.)	Stable

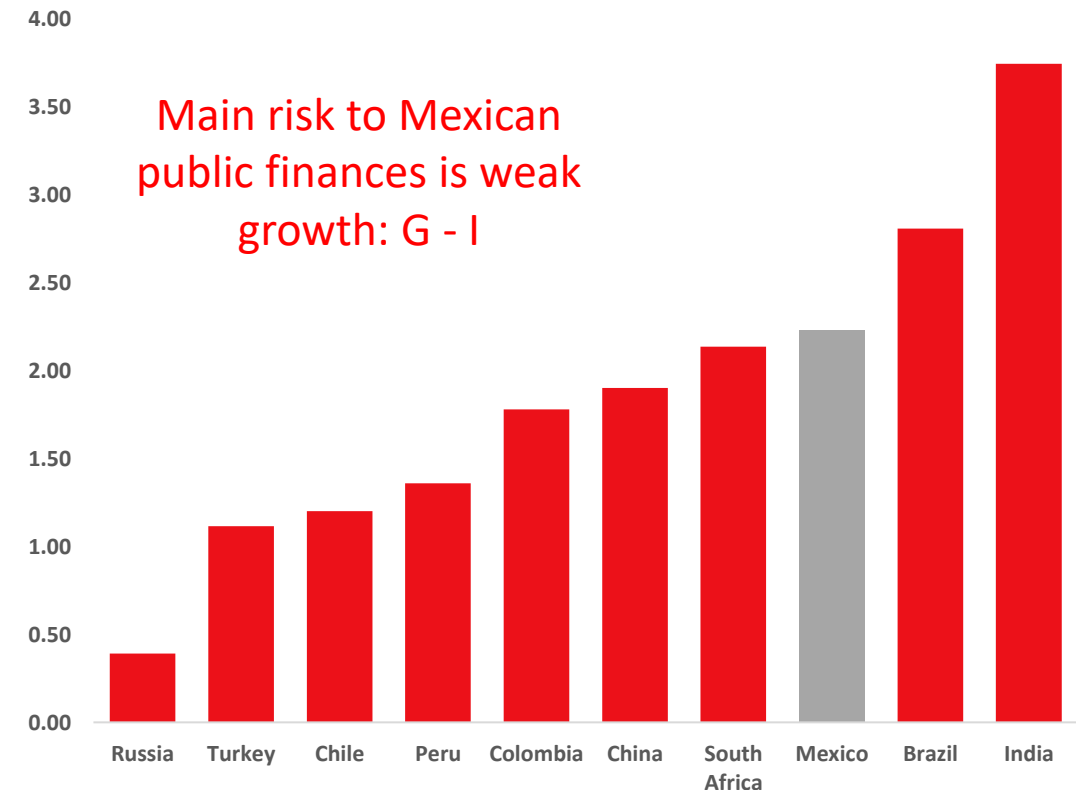
Sources: Scotiabank Economics, Bloomberg.

Mexico: Tax Revenues as % of GDP, by type of tax

	México	LAC	OCDE
Personal Income Tax	3.5	2.1	8.2
Corporate Income Tax	3.5	3.7	2.9
Soc. Sec. Contrib.	2.1	3.4	9.2
Property Taxes	0.2	1.0	1.9
VAT	3.7	6.6	6.8

Sources: Scotiabank Economics, OECD.

Gross Public Sector Debt / Revenues



Sources: Scotiabank Economics, IMF.

Peru



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Scotiabank Economics

Peru's state of affairs going into 2022

- **Macro balances are strong**
 - Surprisingly robust growth
 - Resilience in the face of uncertainty
 - COVID-19 cases are near their lows
- FX and capital outflows reflect uncertainty
- Government instability
- Policy confusion
- Social conflicts
- Inflation

2020	-11.0
2021	12.3
2022	2.6
2023	2.8
2024-2026	2.3 – 2.5

- **2022 will continue to be politically noisy and challenging**
 - Terms of risk have shifted from radicalism to underperformance, poor State management and an erratic decision-making process

Investment will be key in 2022

- Peru GDP is at pre-COVID-19 levels
- Recent indicators do not show evidence of politics affecting growth
- Economic management is more institutionalized and mainstream

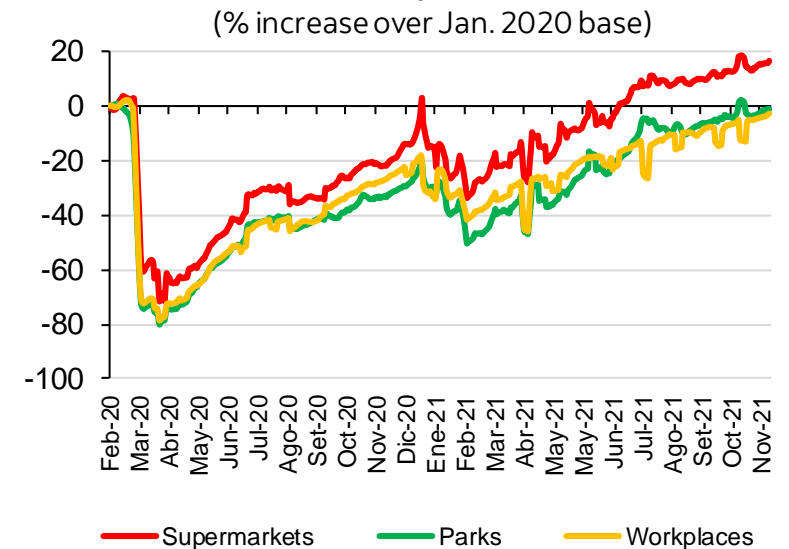
GDP Growth
(%)

	2020	2021P	2022P
GDP	-11.0	12.3	2.6
Imports	-15.6	15.2	4.3
Domestic Demand	-9.4	12.8	2.4
Private Consumption	-8.7	9.2	2.8
Public Consumption	7.2	6.0	3.0
Private Investment	-16.5	26.9	1.0
Public Investment	-15.5	20.7	5.0
Exports	-20.8	13.0	4.8

E: Estimate P: Projected.

Source: Research Department - Scotiabank Peru

Mobility Growth



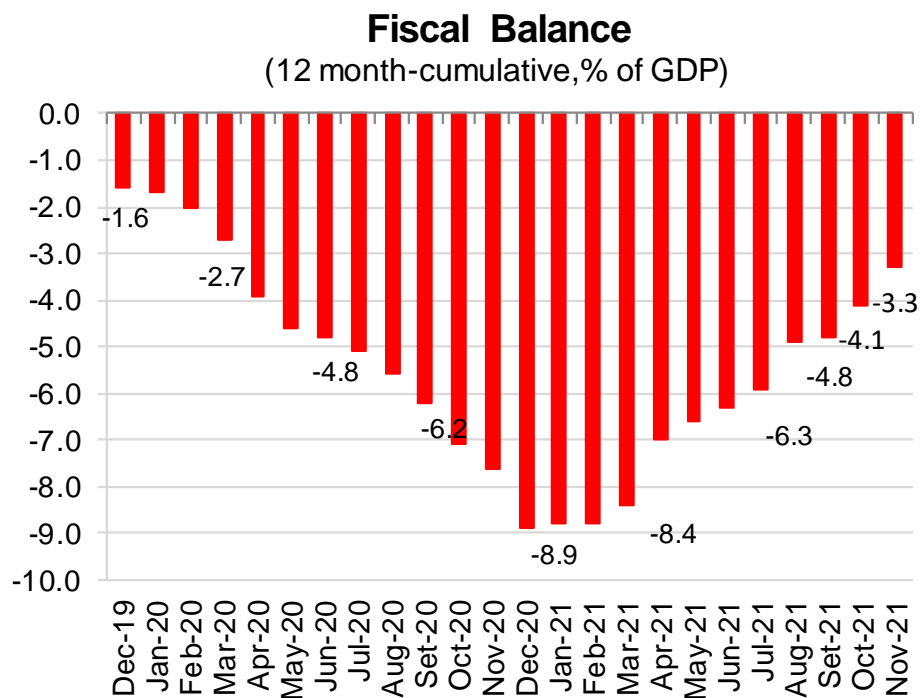
Base Period: Jan-20 daily avg.

Source: Google; Prepared by: Research Dept- Scotiabank Peru

To 30Nov

Macro balances are robust

- Peru's credit agencies: political concerns versus improving macro balances



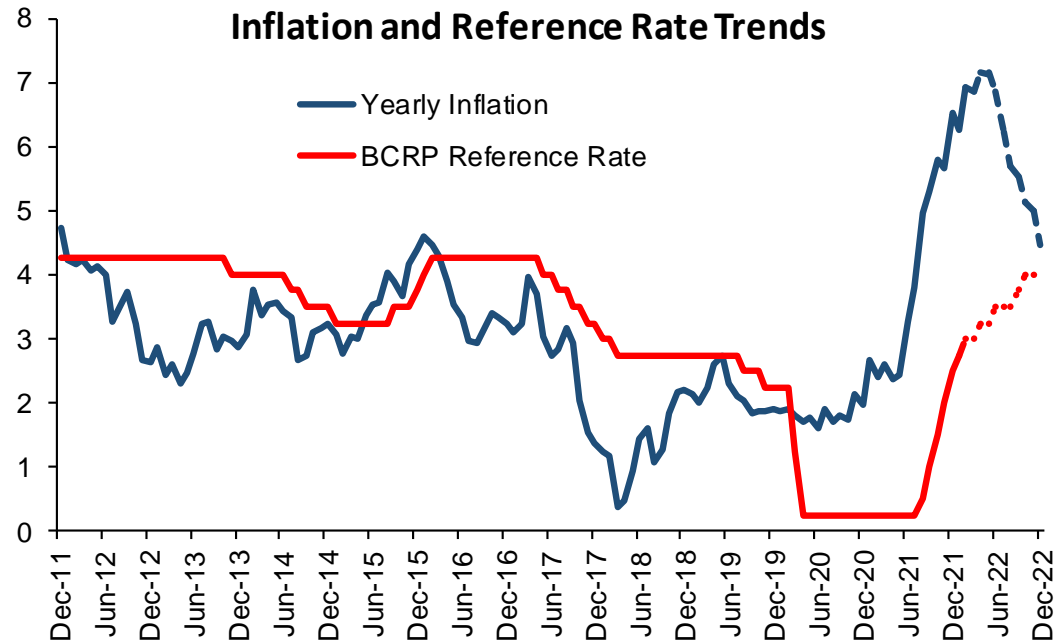
Source: BCR Prepared by: Research Department - Scotiabank Peru

Public-Sector Debt
(% GDP)

- 2020 34.7
- 2021 36.4
- 2022 37.2

Inflation is a growing concern

- Our inflation forecasts:
 - 2021: 6.5%
 - 2022: 4.5%
- We expect the BCRP to raise to 2.50% by year end, and to 4.0% in 2022
- Inflation is affecting purchasing power and risks weakening the government further



Source: BCRP, INEI, ScotiabankPeru

Social conflicts are having a real impact on mining

- Property and predictability of contract and legal matters are a risk
- Government stance favours social conflicts
- Cabinet conflicted over mine closures (Francke vs Vásquez)
- Protests in recent months at mines that represent 38% of Peru's copper exports
- Also:
 - Zinc (Cerro Lindo; 12% of zn output)
 - Gold/silver mines (Apumayo, et. al; +7% of au/ag output)

Mining Operations Most Affected by Protests 2021

Operation	Affected unit	Ranking by output	Current Status	Metal	% of main metal exports
Las Bambas	Las Bambas	4	Ongoing - intermittent	Cu	15%
Hudbay	Constancia	8	Strike lifted	Cu	3%
Antamina	Huincush	2	Strike lifted	Cu	18%
Apumayo	Apumayo	17	Output halted	Au	2%

Prepared by: Research Dept – Scotiabank Peru

Colombia



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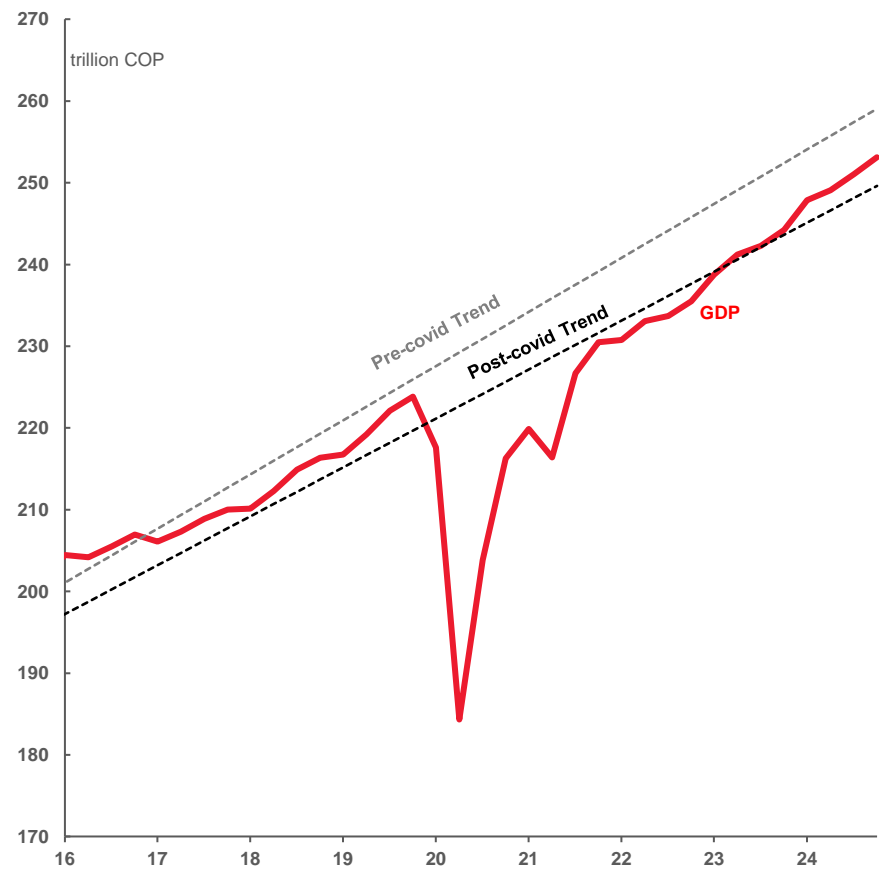


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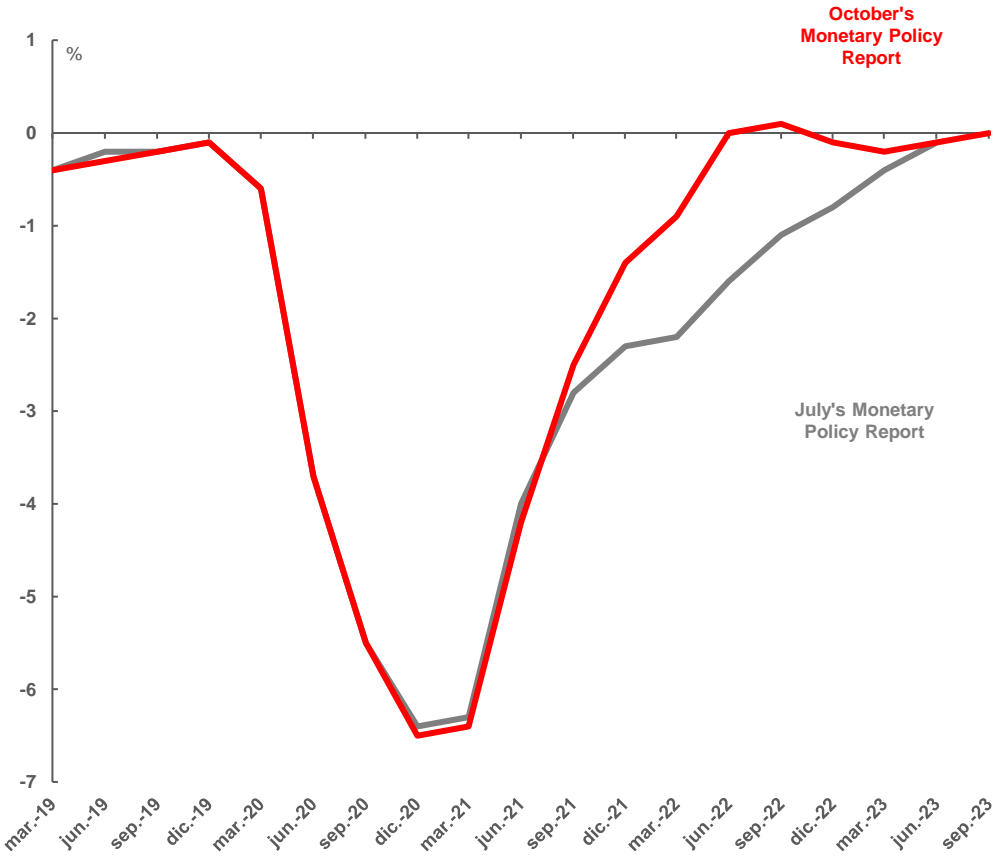
In Q3-2021, Colombia surpassed its pre-pandemic production levels; growth should approach 10% y/y for all of 2021. BanRep expects output gap to close by mid-2022.

Quarterly GDP sa vs Pre- and Post-Pandemic Trends



Sources: Scotiabank Economics, DANE.

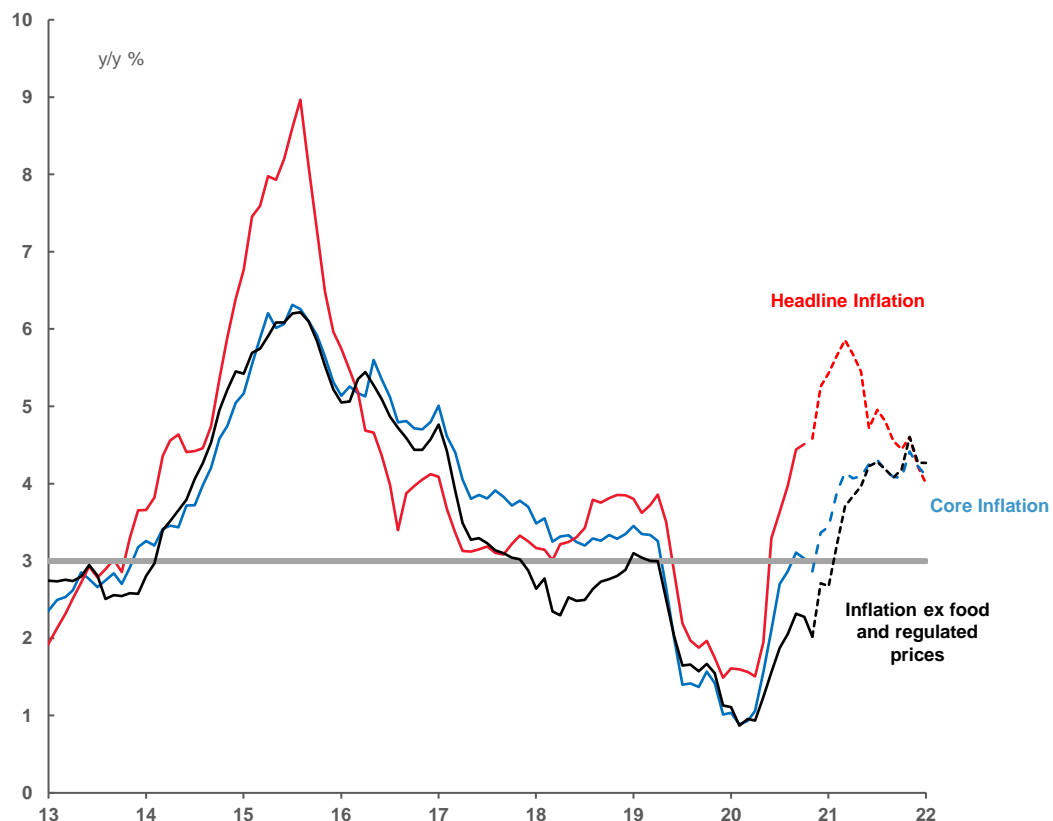
BanRep's Output Gap Estimation July vs October Forecasts



Sources: Scotiabank Economics, BanRep.

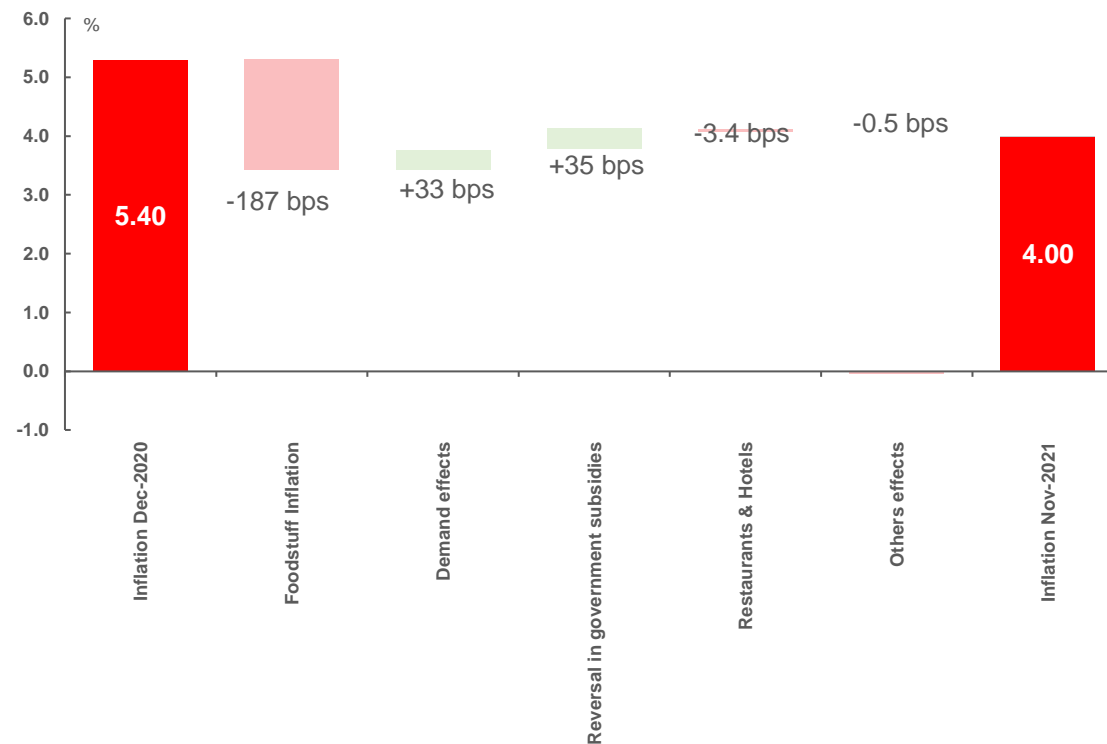
Despite supply shocks being temporary, indexation should extend CPI inflation. Reversion should start in H2-2022, but risks remain that headline closes 2022 above 3% y/y.

Inflation Expectations



Sources: Scotiabank Economics, DANE.

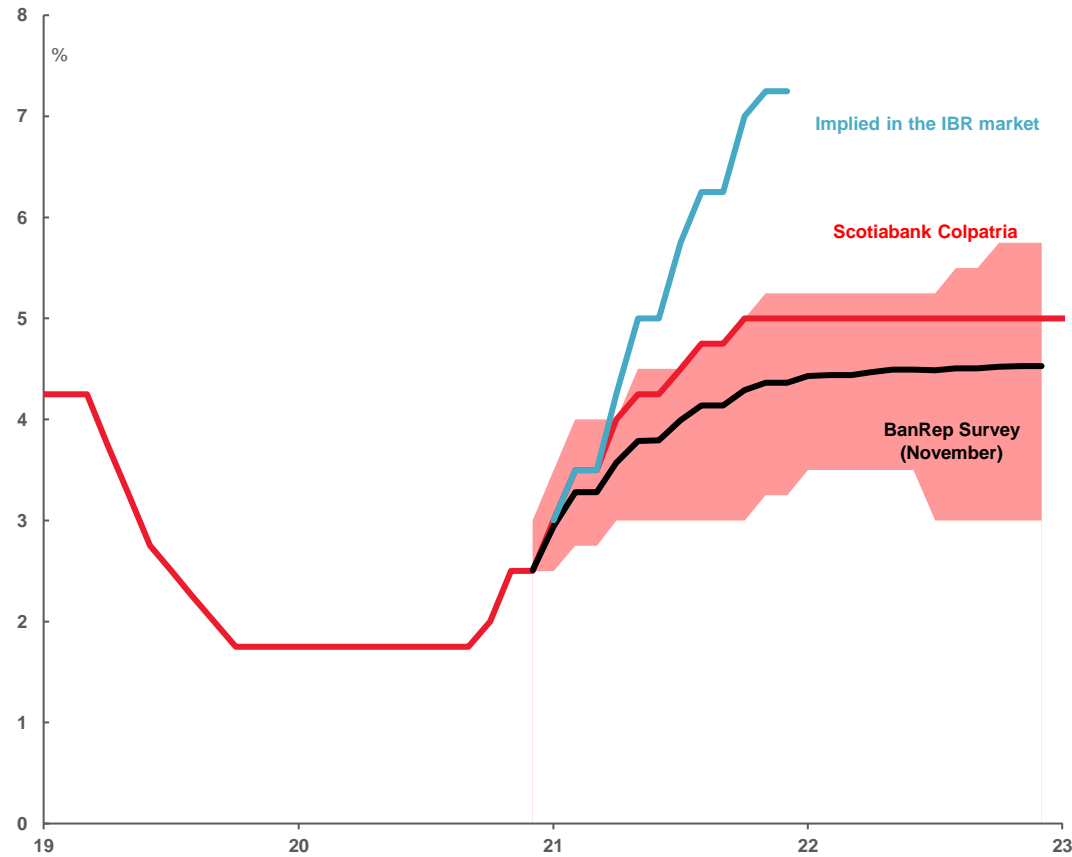
Inflation by source
2022 vs 2021



Sources: Scotiabank Economics, DANE.

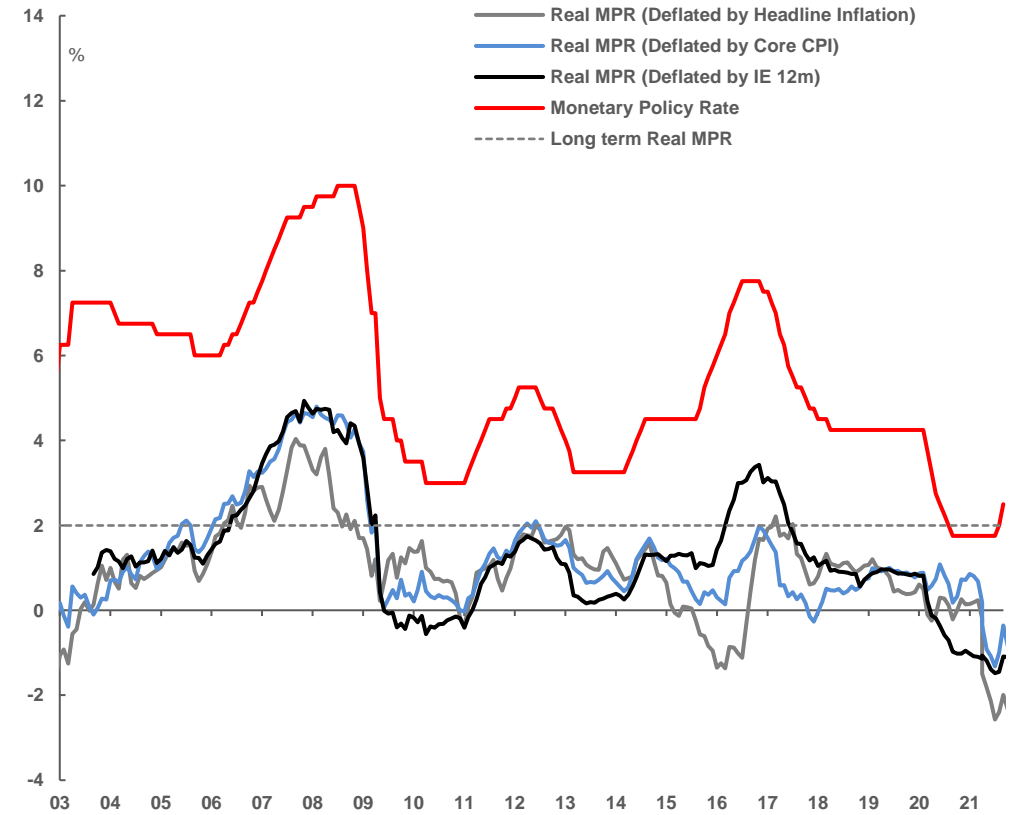
BanRep set to continue more aggressive-than-normal hiking cycle; neutral rate should be reached by mid-2022. IBR market pricing an even higher terminal rate.

Monetary Policy Rate Expectations



Sources: Scotiabank Economics, BanRep, Bloomberg.

Monetary Policy Rate vs Real rates



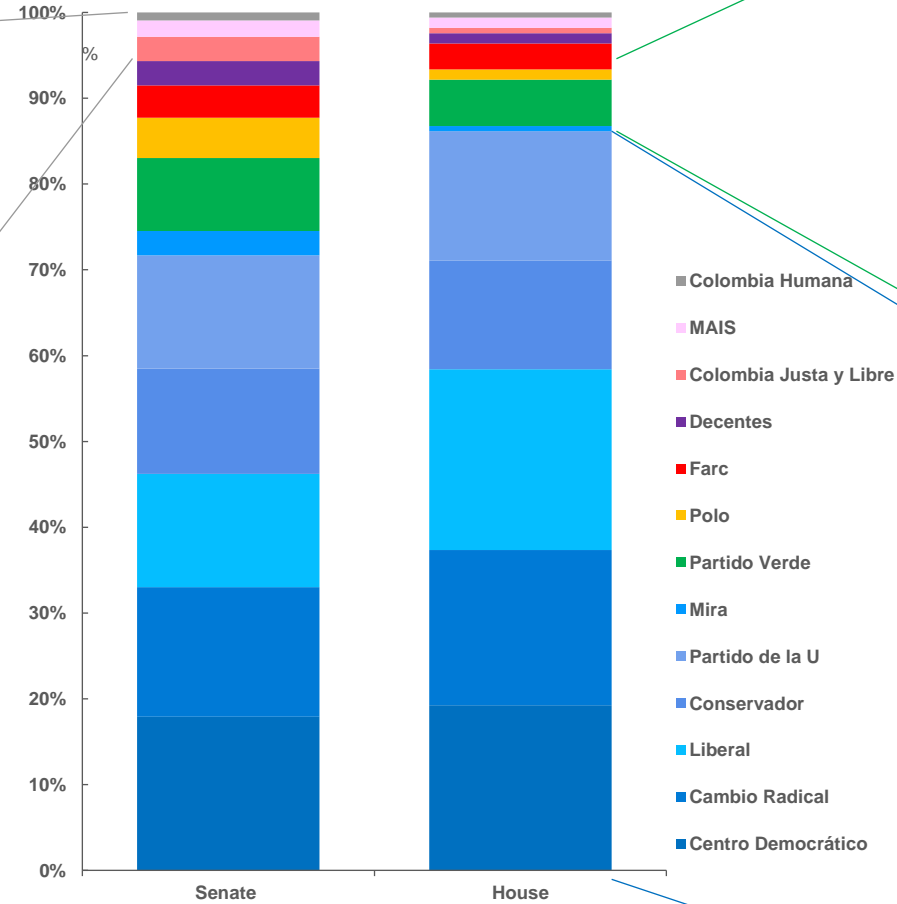
Sources: Scotiabank Economics, BanRep, DANE.

Elections in 2022 are a source of uncertainty. Congressional elections are the first milestone. Strong institutions will prevail.

**Leftist Alliance
Pacto Histórico**

Gustavo Petro, Francia Márquez, Camilo Romero, Arelis Uriana Guariyú, Roy Barreras, Alfredo Saade

Congressional composition by parties considered pro-market vs others



Pro-market parties in blue

Source: Scotiabank Economics.

**Center-left Alliance
"Coalición de la Esperanza"**

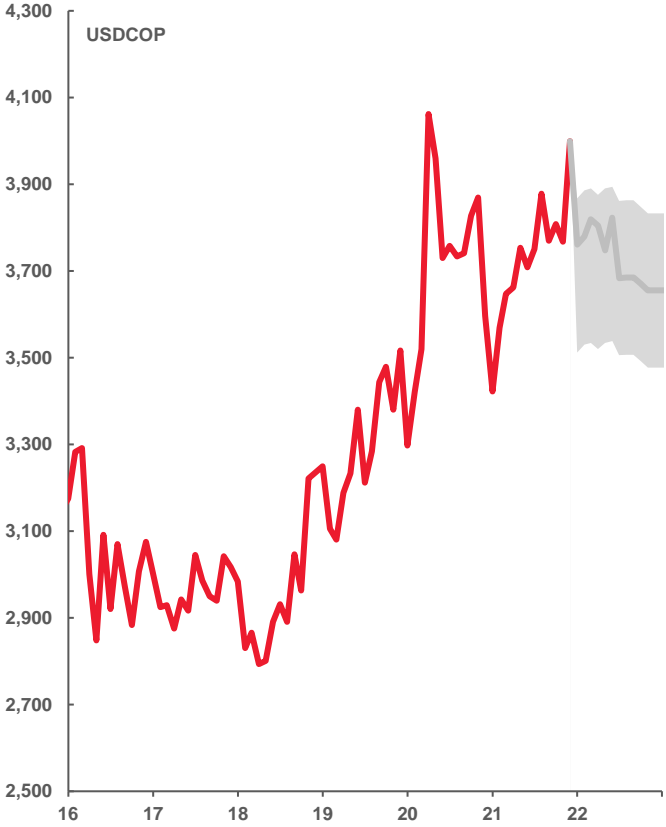
Sergio Fajardo, Juan Manuel Galán, Alejandro Gaviria, Jorge Enrique Robledo, Carlos Andrés Amaya, Juan Fernando Cristo

**Center-right Alliance
"Equipo por Colombia"**

Federico Gutiérrez, Alejandro Char, Enrique Peñalosa, Dilian Francisca Toro, David Barguil, Juan Carlos Echeverry

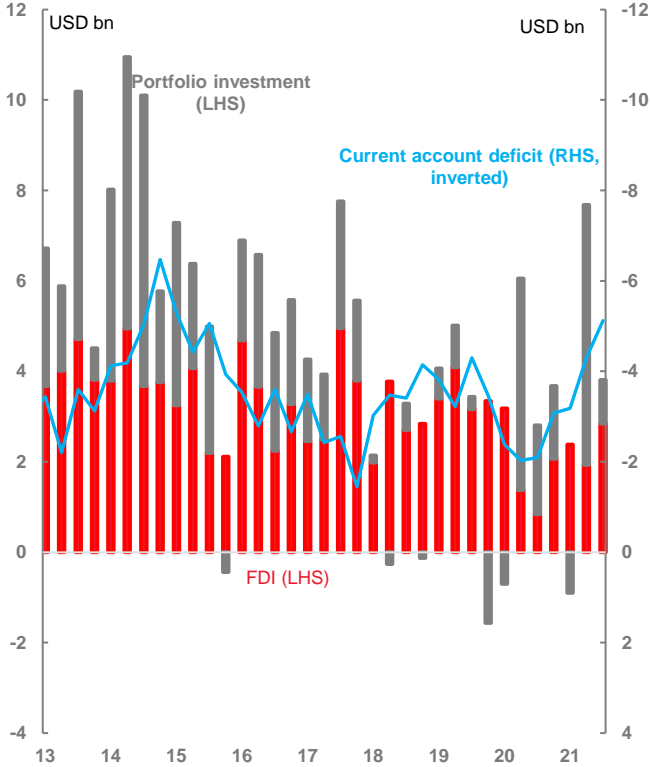
FX market could remain under pressure owing to higher external deficit and political uncertainty; positive macroeconomic news may be discounted.

USDCOP



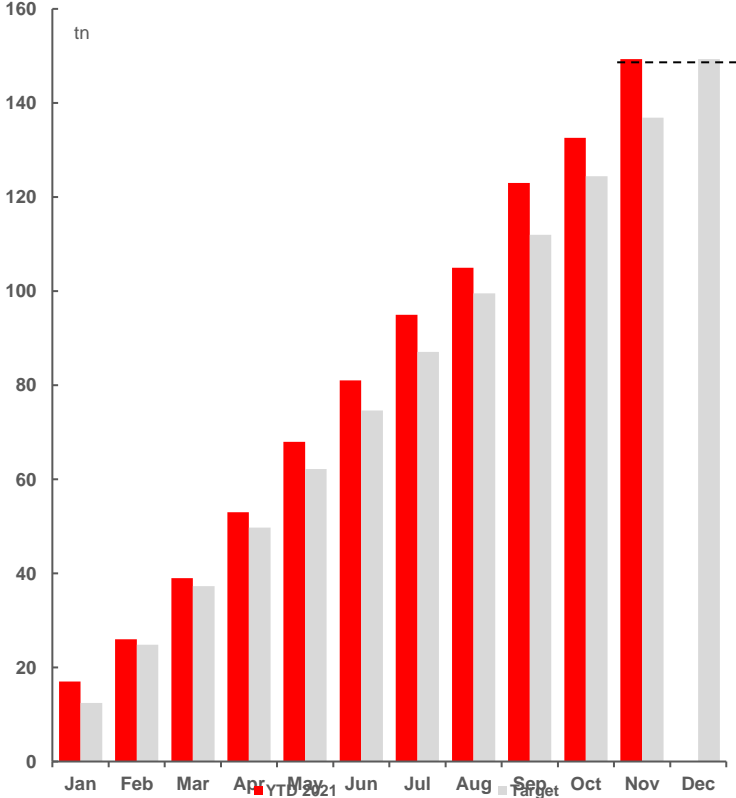
Sources: Banrep, Scotiabank Economics.

BoP Financial Account Inflows



Sources: Scotiabank Economics, BanRep.

Net tax collection YTD 2021 vs Target



Sources: Scotiabank Economics, MoF.

Chile



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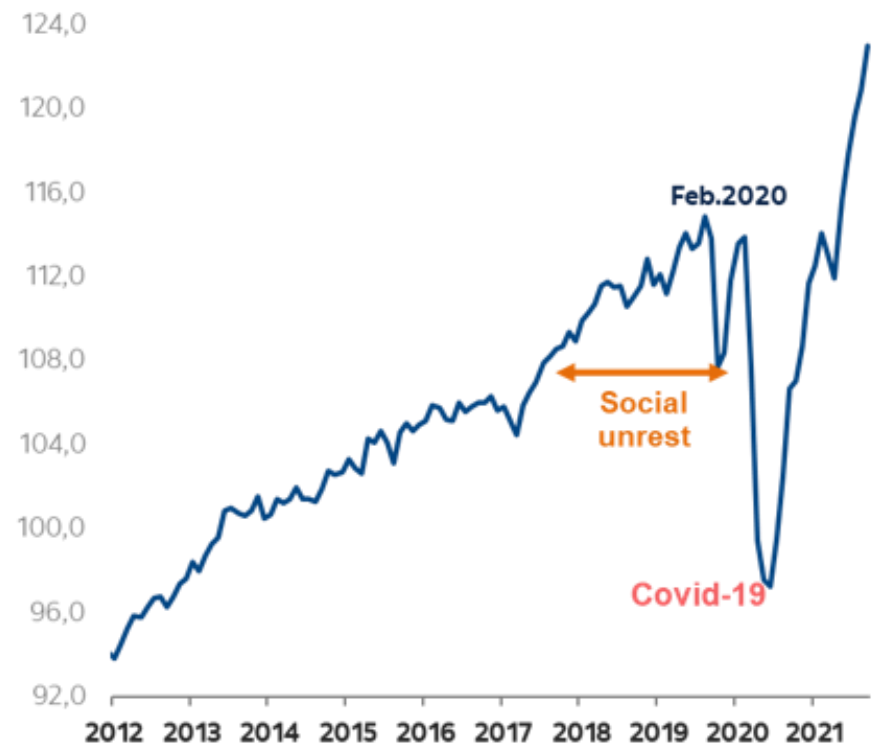
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Scotiabank Economics

Imacec expanded 15% y/y in October (0.8% m/m) driven by service sectors. **GDP growth should reach 11.6% y/y in 2021 and 4.5% y/y in 2022.** We estimate that Imacec expanded 12% y/y in November.

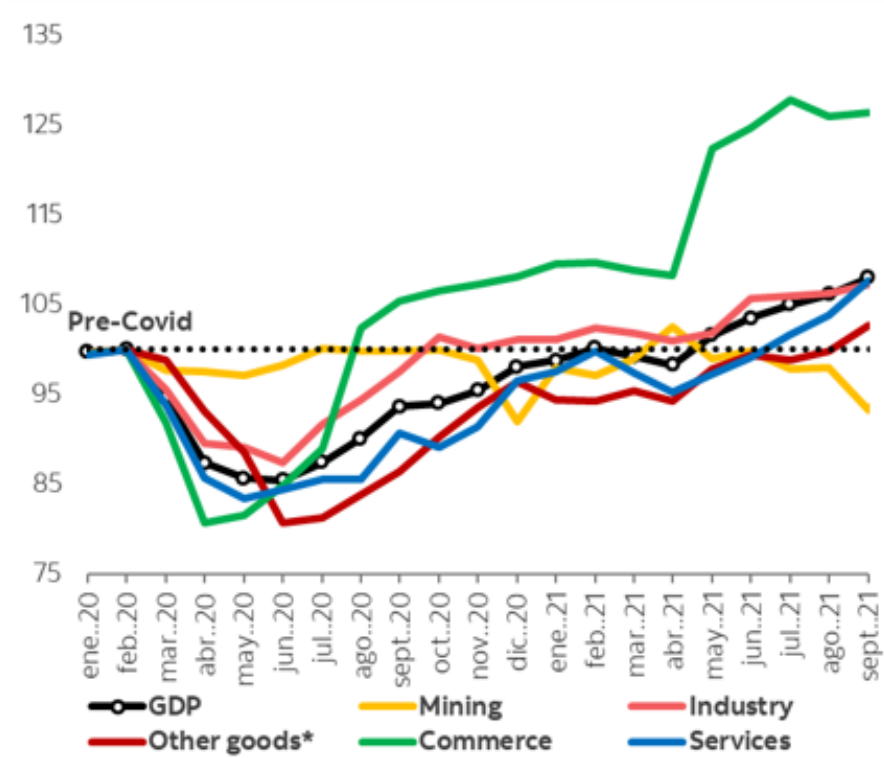
GDP level

(level, 2013=100, seasonally adjusted, monthly data)



GDP level by sector

(index, February 2020=100, monthly data)



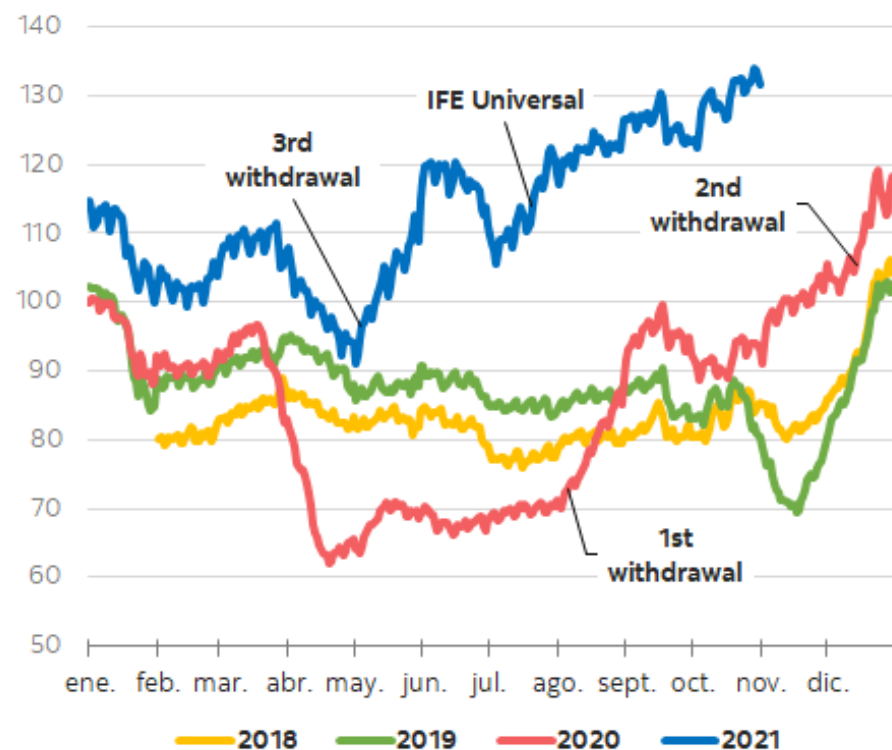
Short run forecasts: growth of monthly GDP	September-21	October-21	November-21(f)
Imacec (% y/y)	15.6%	15.0%	12%

Sources: Scotiabank Economics, BCCh.

Private consumption remains high after three pension fund withdrawals (USD 50 bn) and a strong fiscal impulse. Liquidity is normalizing, but there is still an extra USD 20 bn in chequing and debit accounts that (we project) will last until mid-2022 (at least).

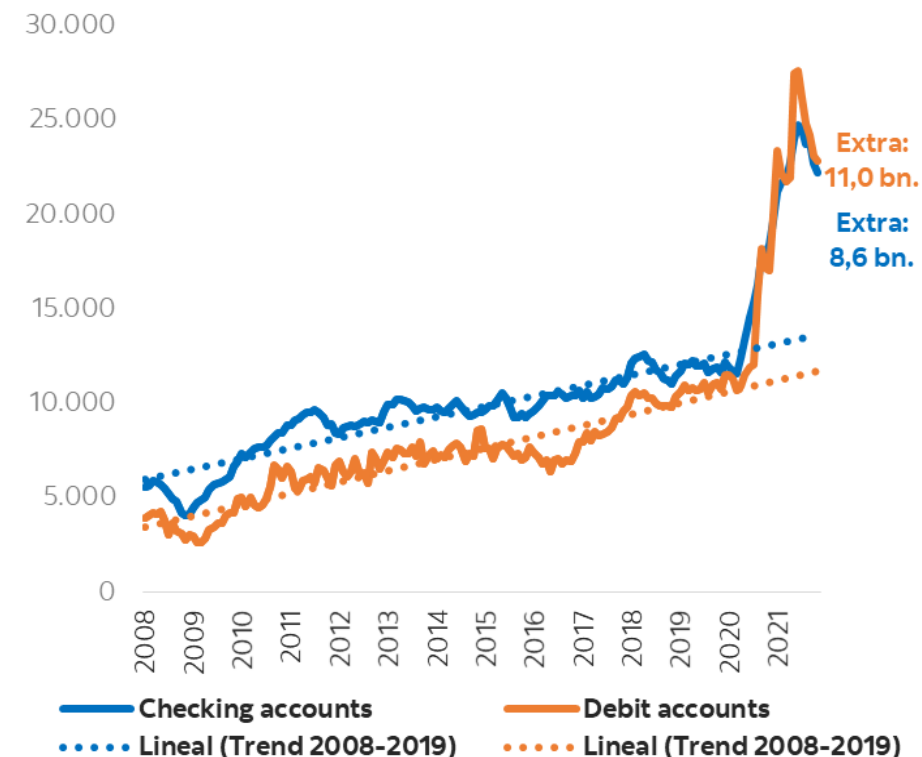
Level of purchases (debit cards)*

(level, index 1-Jan-2020=100, 30-day moving sum, up to October 31)



Liquidity in non-remunerated accounts

(millions of USD, natural persons, as of Nov. 2021)

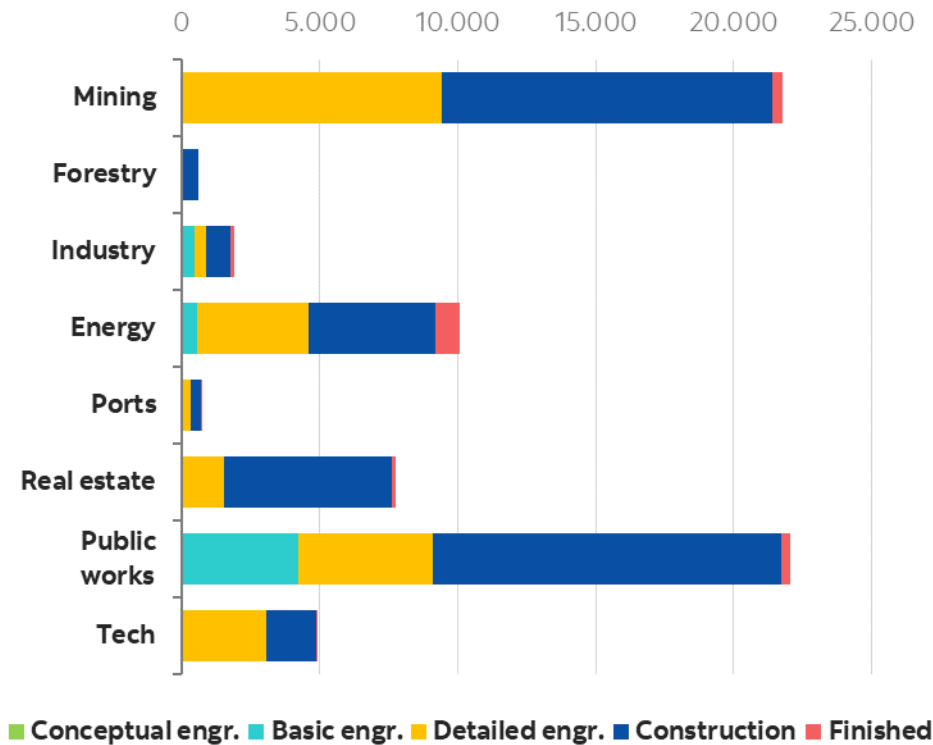


* Data show purchases with Transbank's credit and debit cards. The level of purchases is shown as an inflation-adjusted index (1-Jan-2020=100). Source: Scotiabank Economics.

As of September 2021, investment projects in the pipeline for the period 2021–25 reached USD 69.8 bn (54% in construction stage). Investment dynamics depend on the materialization of large projects in mining (public and private) and public works.

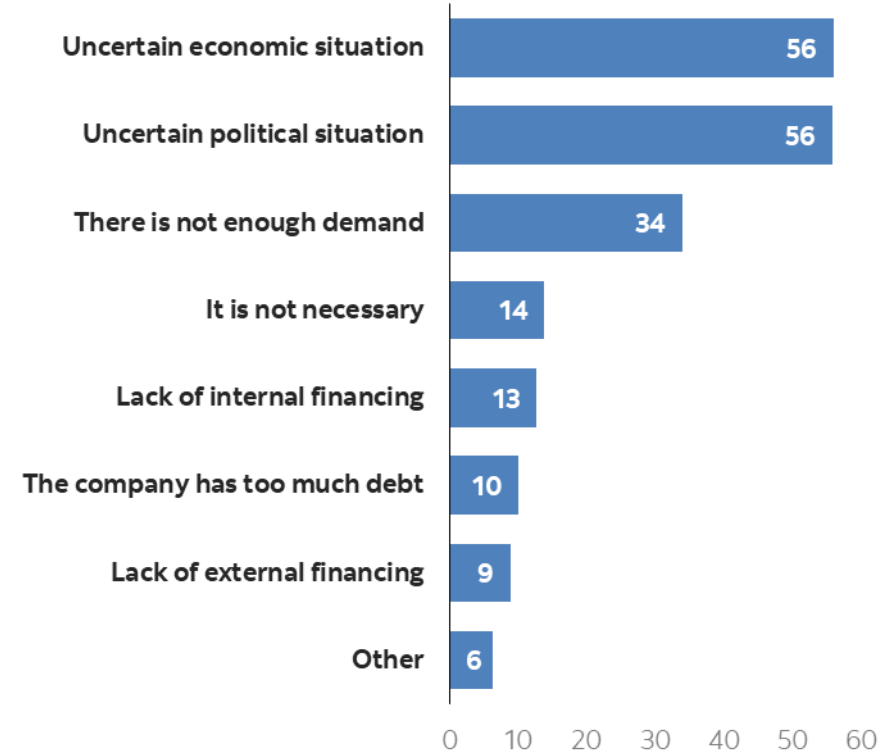
Total investments to materialize by stage

(millions of dollars, projects in pipeline as of Sep-21)



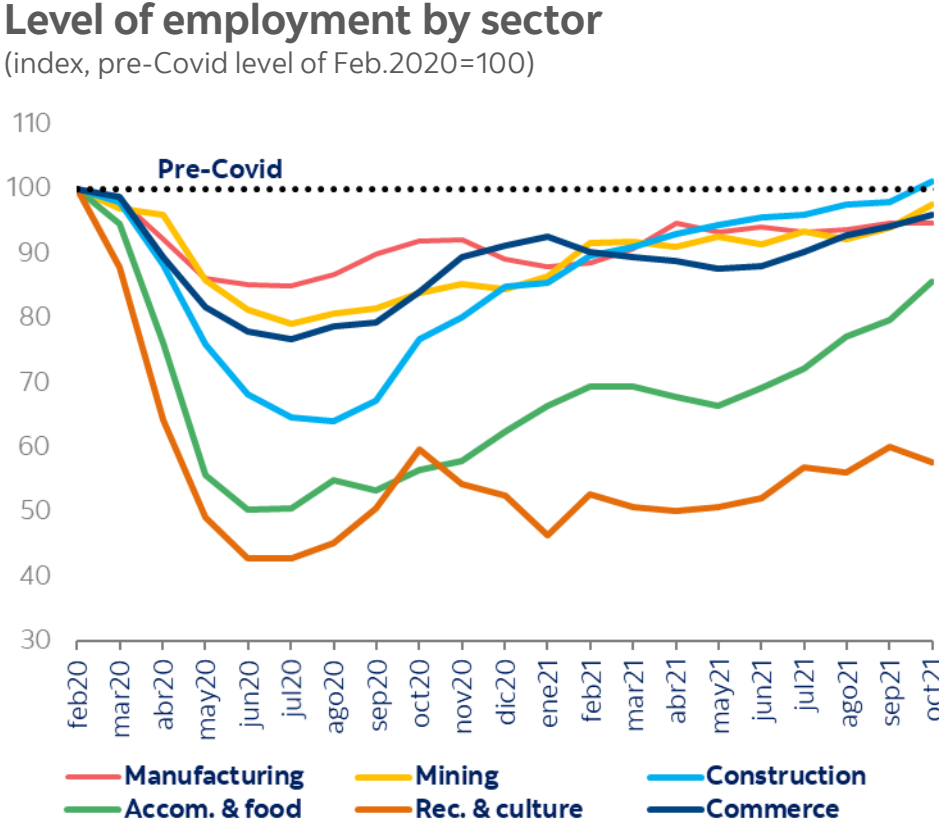
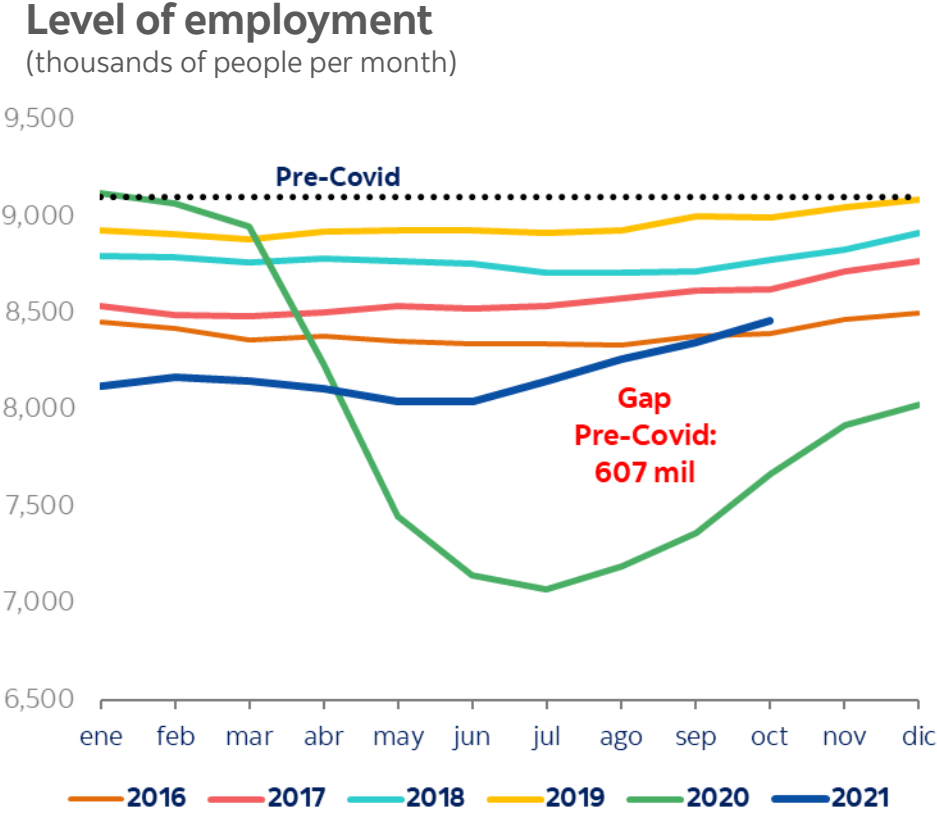
Business perception report Nov.2021: Why do you think your company will not invest in 2022?

(percentage of total, Nov.21)



Sources: Scotiabank Economics, CBC, Central Bank (Encuesta de Percepciones de Negocios, Nov. 2021).

The employment gap vs pre-pandemic levels has shrunk to -607k. By economic sector, job creation has been led by commerce, which has added +28k jobs. The construction sector has also recovered its pre-COVID-19 levels of employment.



Sources: Scotiabank Economics, National Bureau of Statistics (INE).

Economic Outlook

Forecast	2018	2019	2020	2021	2022	2023
GDP (% y/y)	3.7	0.9	-5.8	11.6	3.5-4.5	1.5-2.5
Inflation (% y/y, eop)	2.1	3.0	3.0	7.0	4.5	3.0
Exchange rate (vs. USD, eop)	695	753	711	770-850	750	730
Monetary policy rate (% , eop)	2.75	1.75	0.5	4.0	5.0	5.0
Copper price (USD/lb, eop)	2.7	2.8	3.5	4.2	4.0	3.8
Total consumption (% y/y)	3.7	0.8	-6.8	16.4	3.0	2.1
Investment (% y/y)	5.1	4.4	-11.5	18.0	3.0	2.0
Fiscal balance (% GDP)	-1.7	-2.8	-7.4	-8.3	-3.5	-2.0
Current account (% GDP)	-4.0	-3.7	1.4	-1.5	-2.0	-2.5

Source: Scotiabank Economics.

Brazil

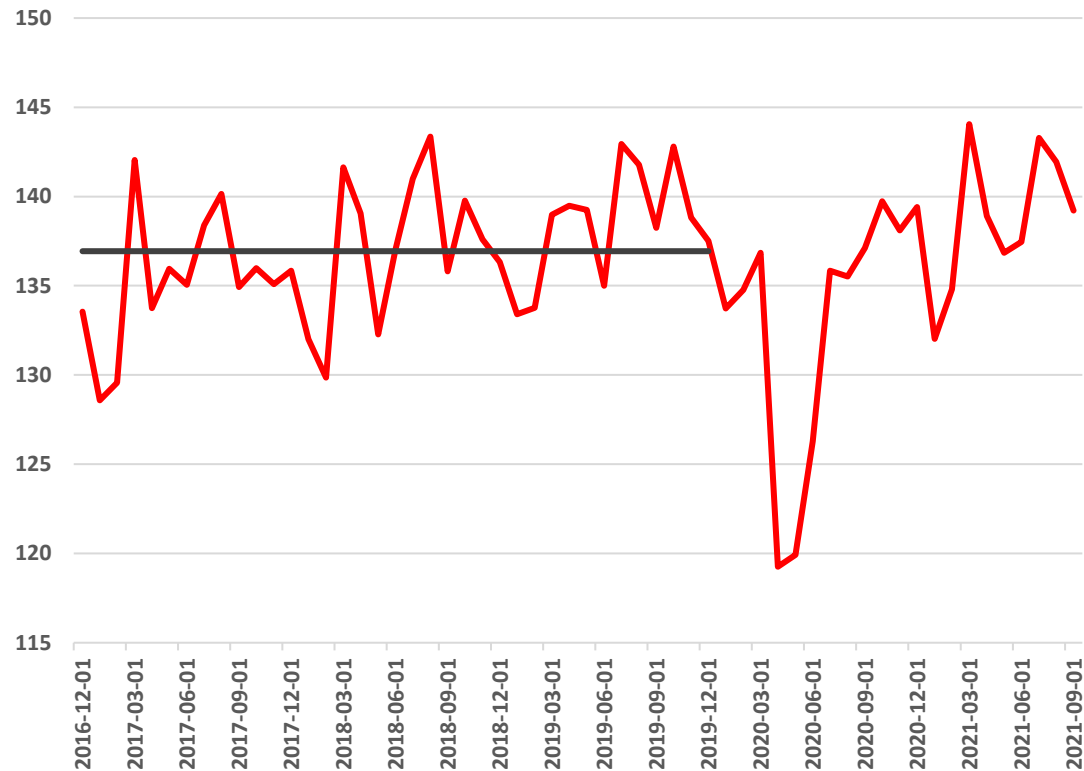


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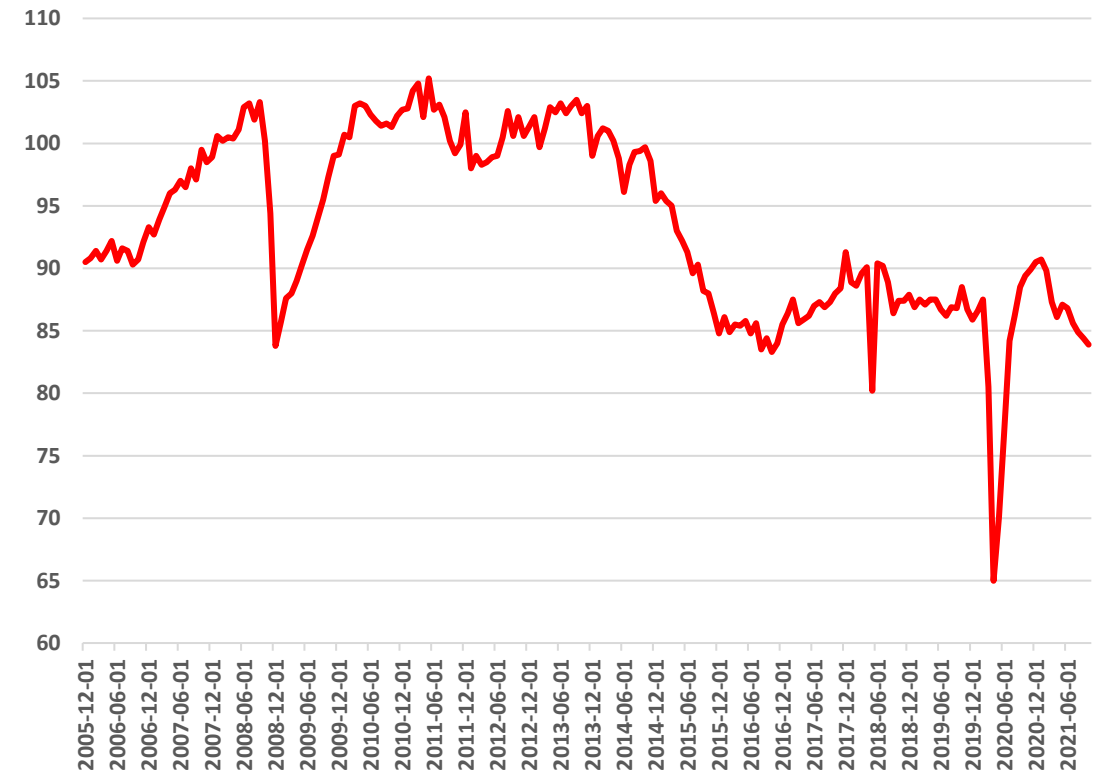
Recovery is getting back to pre-pandemic levels, but some sectors have not recovered pre-Dilma benchmarks

Brazil Economic Activity GDP
(Index, 2002=100)



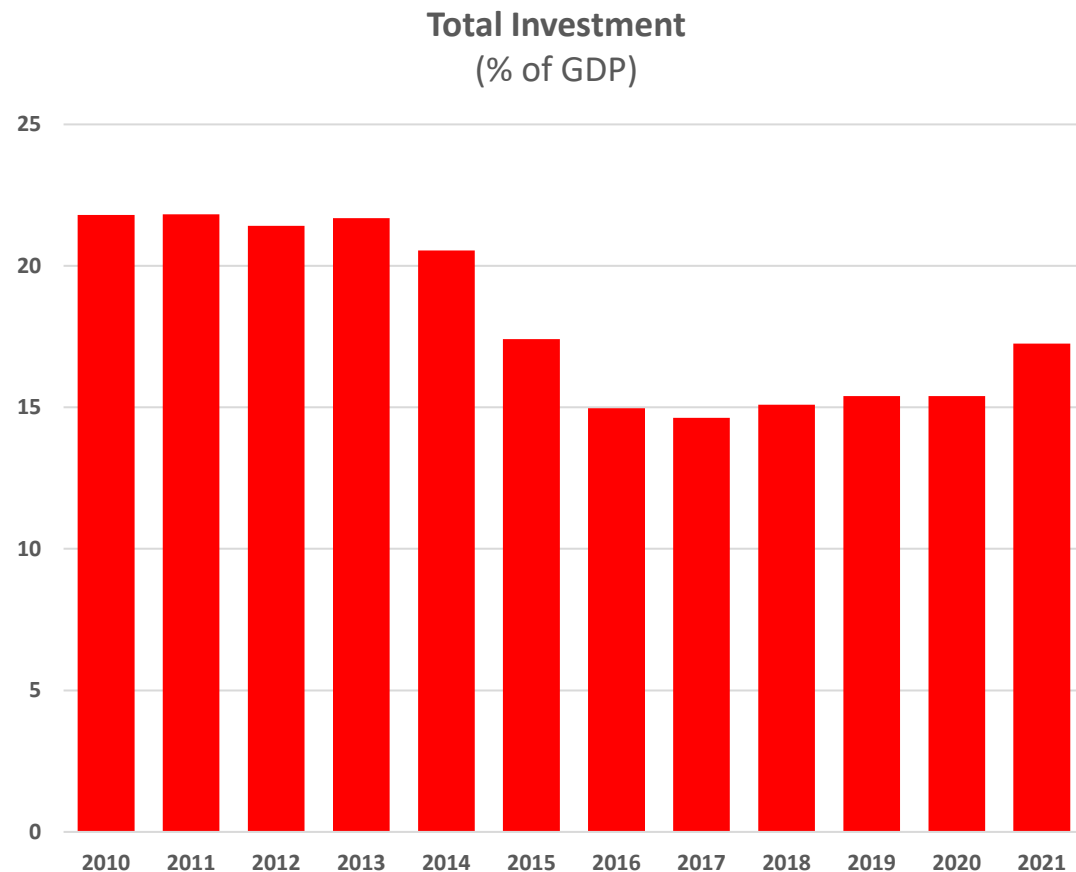
Sources: Scotiabank Economics, Bloomberg.

Brazil Real Industrial Production
(Index, s.a., 2012=100)



Sources: Scotiabank Economics, Bloomberg.

Key to economic weakness = investment. Can elections restore it?



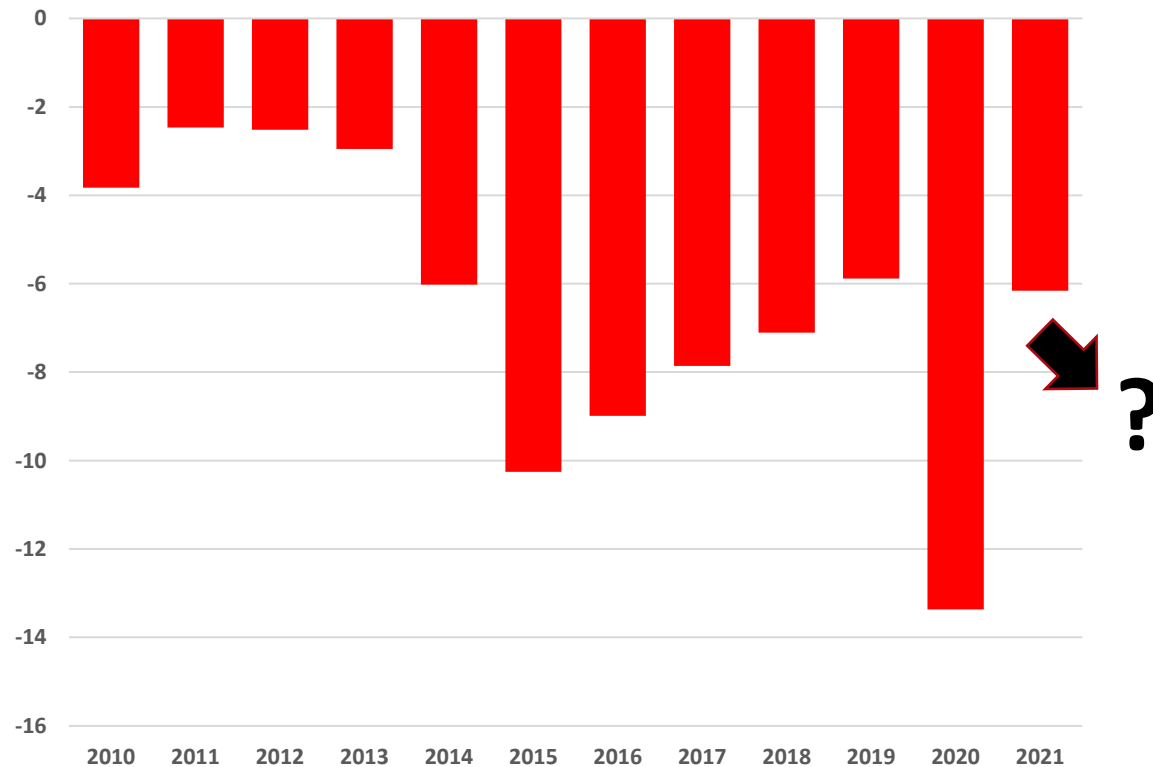
Sources: Scotiabank Economics, IMF.

2022 Elections—can they restore confidence? (October 2 & 30)

Candidate	Poll Results (Dec 6-9/Exame)
Bolsonaro	27%
Lula	37%
Moro	10%
Gomes	6%
Doria	4%
Mandetta	--
Pacheco	1%
Tebet	--

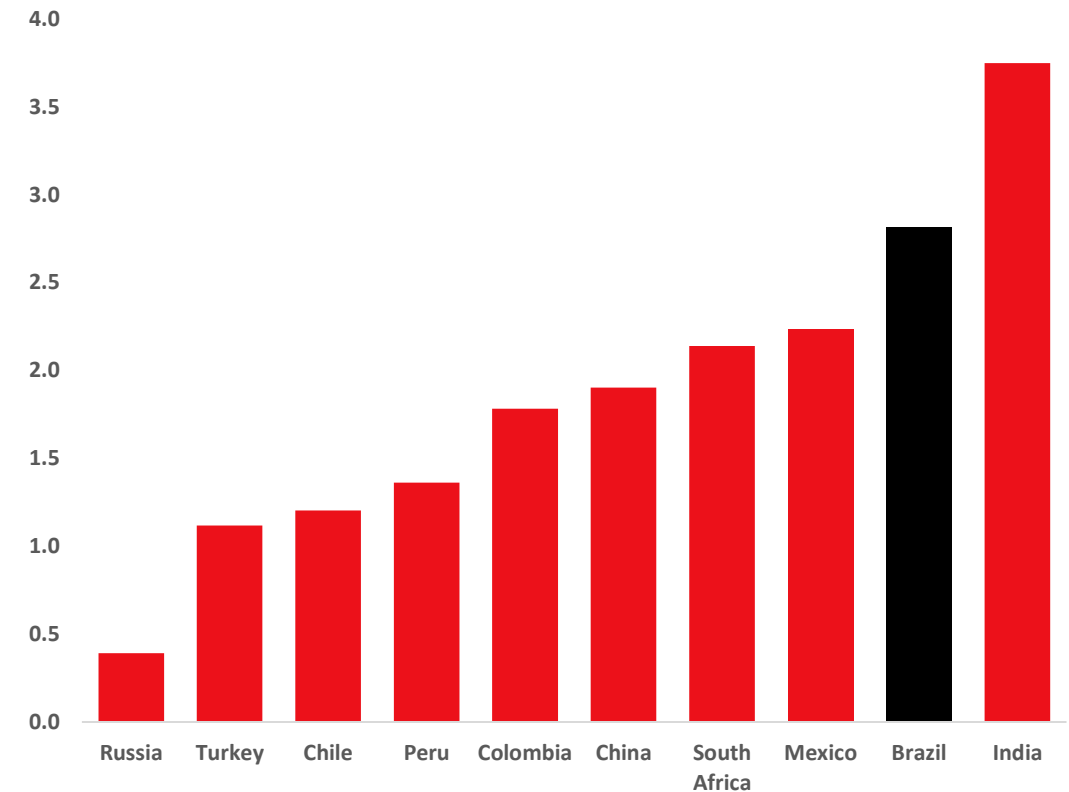
Fiscal deterioration returned with COVID-19 pandemic. Brazil's high revenue base both a strength and weakness.

General Government Net Borrowing
(% of GDP)



Sources: Scotiabank Economics, IMF.

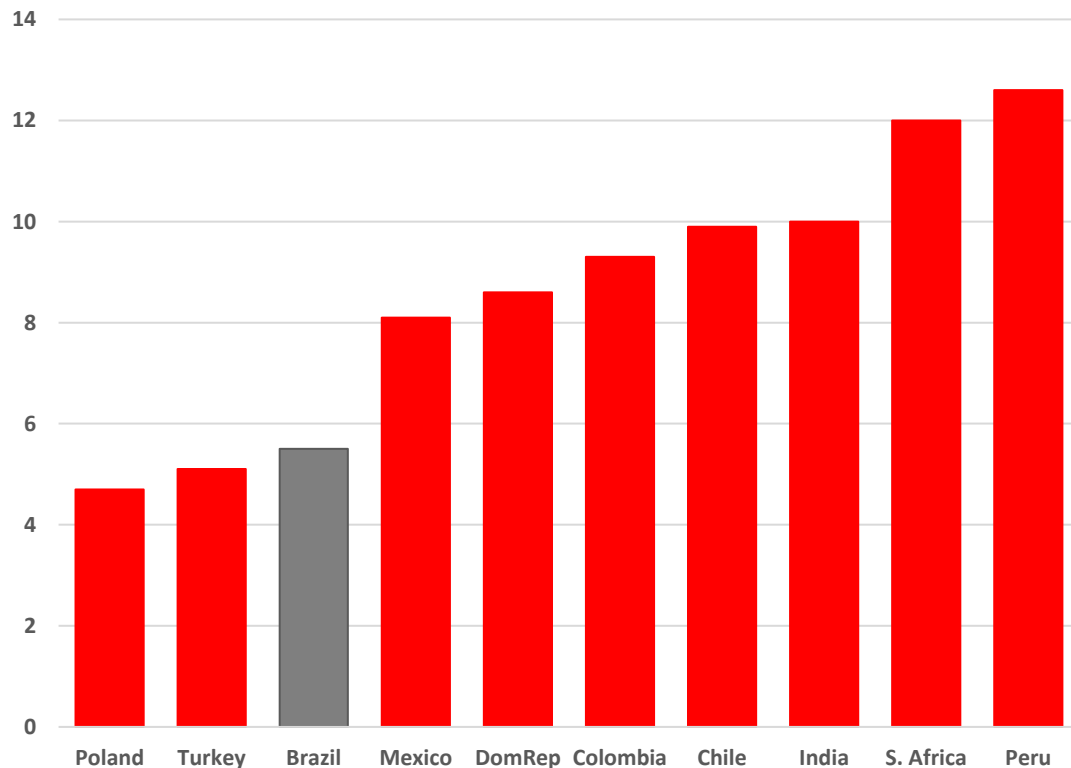
Gross Public Sector Debt / Revenues



Sources: Scotiabank Economics, IMF.

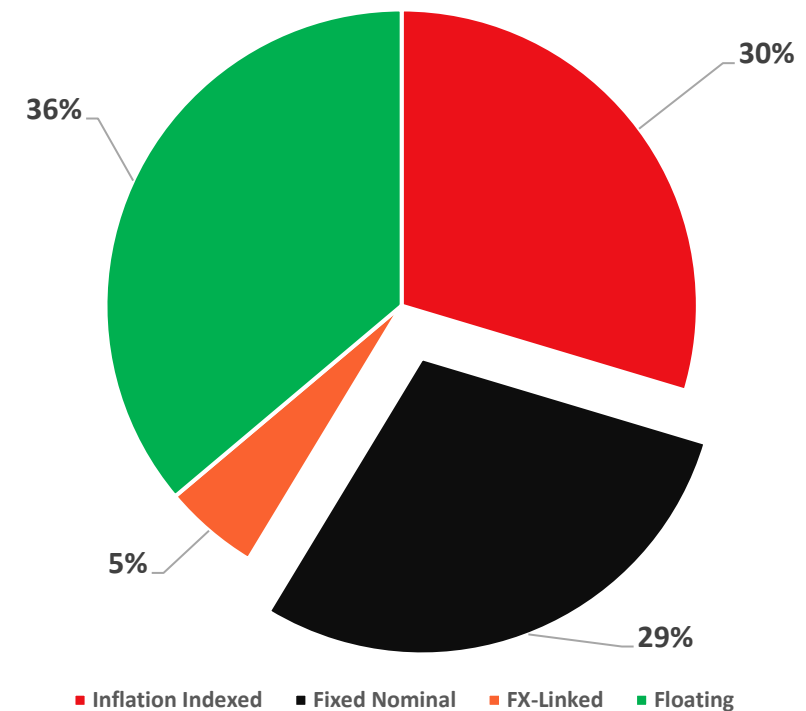
Debt composition key element of Brazil's fiscal vulnerability, makes country sensitive to rising rates

Avg. Term to Maturity
(years)



Sources: Scotiabank Economics, IMF.

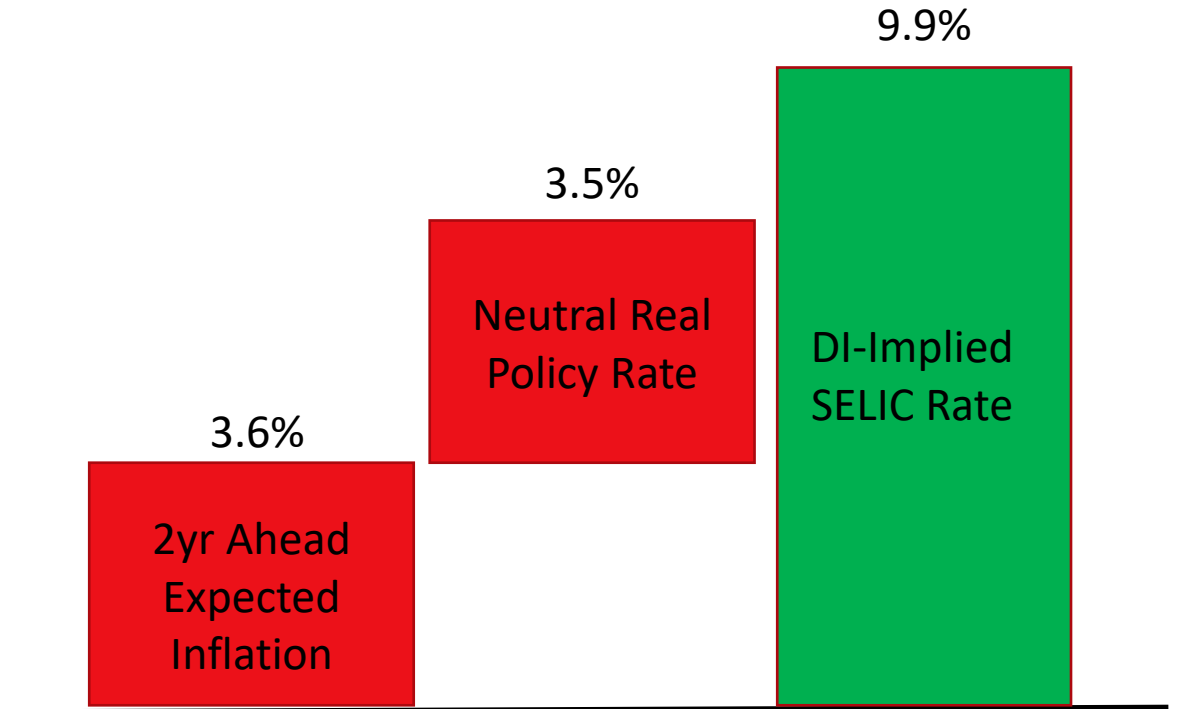
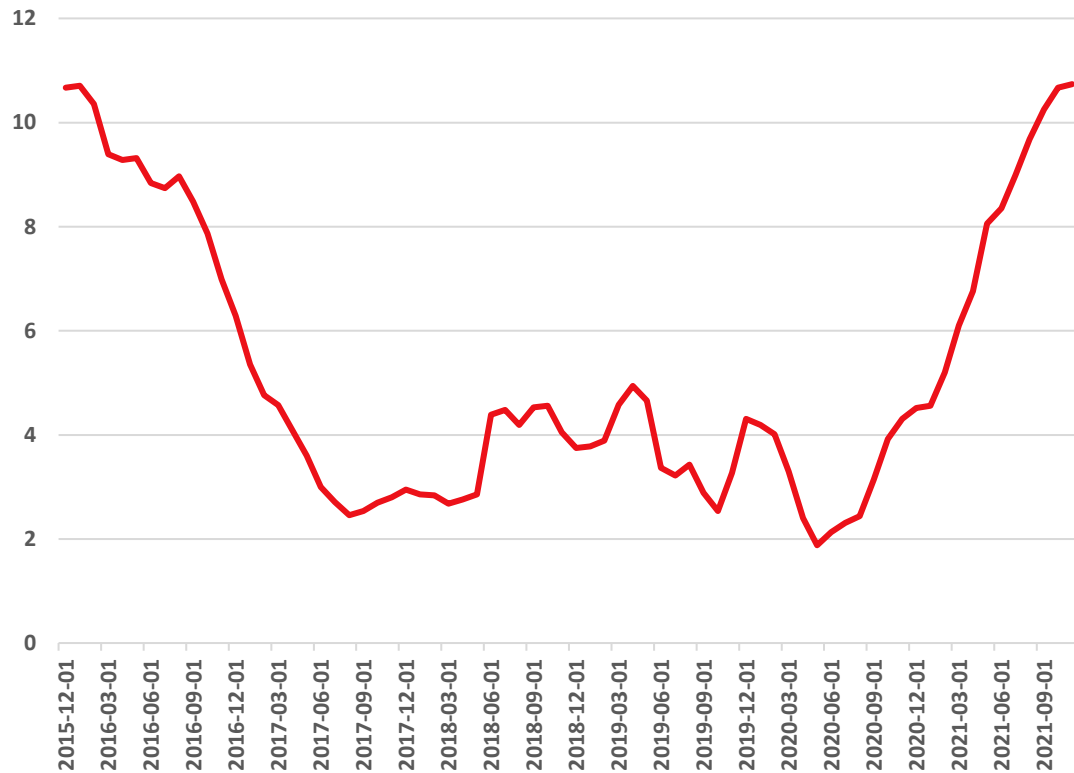
Brazil's Public Debt Composition
(by type of interest rate, Oct 2021)



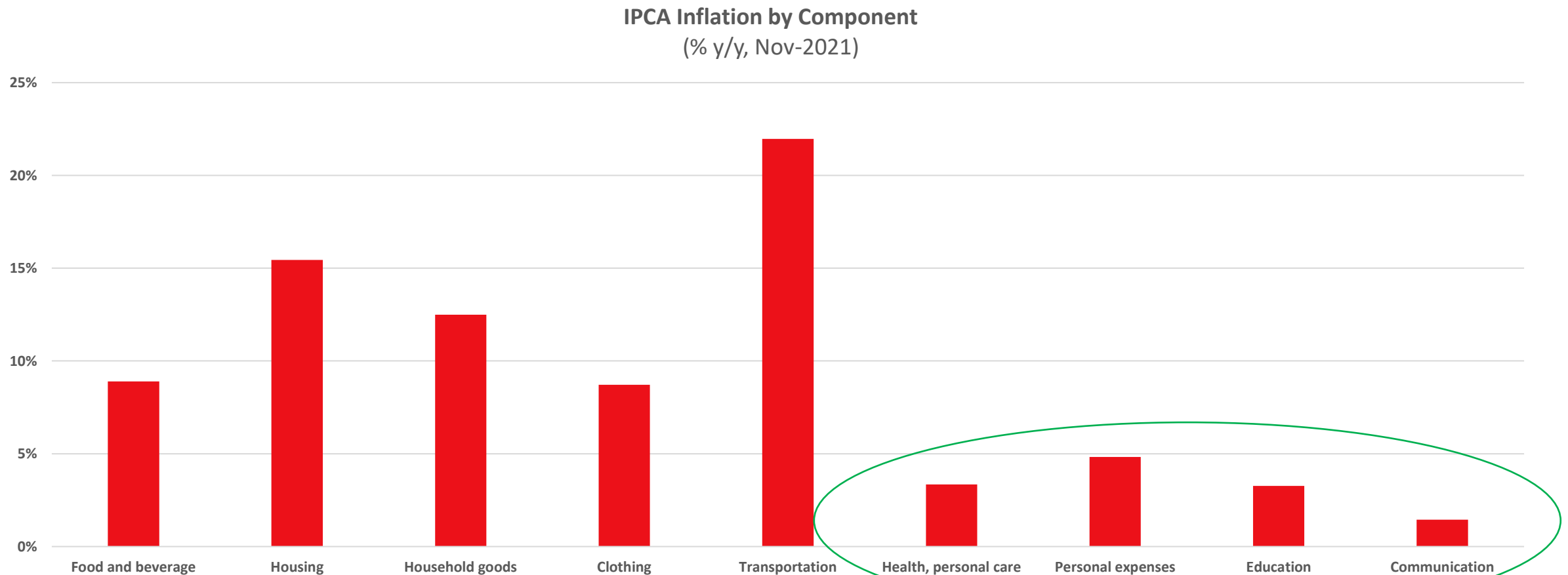
Sources: Scotiabank Economics, Tesouro Nacional.

Is aggressive BCB tightening driving an inflection point?

Brazil IPCA Inflation
(y/y %)



Goods inflation dominates the BCB's headaches...



Sources: Scotiabank Economics, Bloomberg.

Argentina



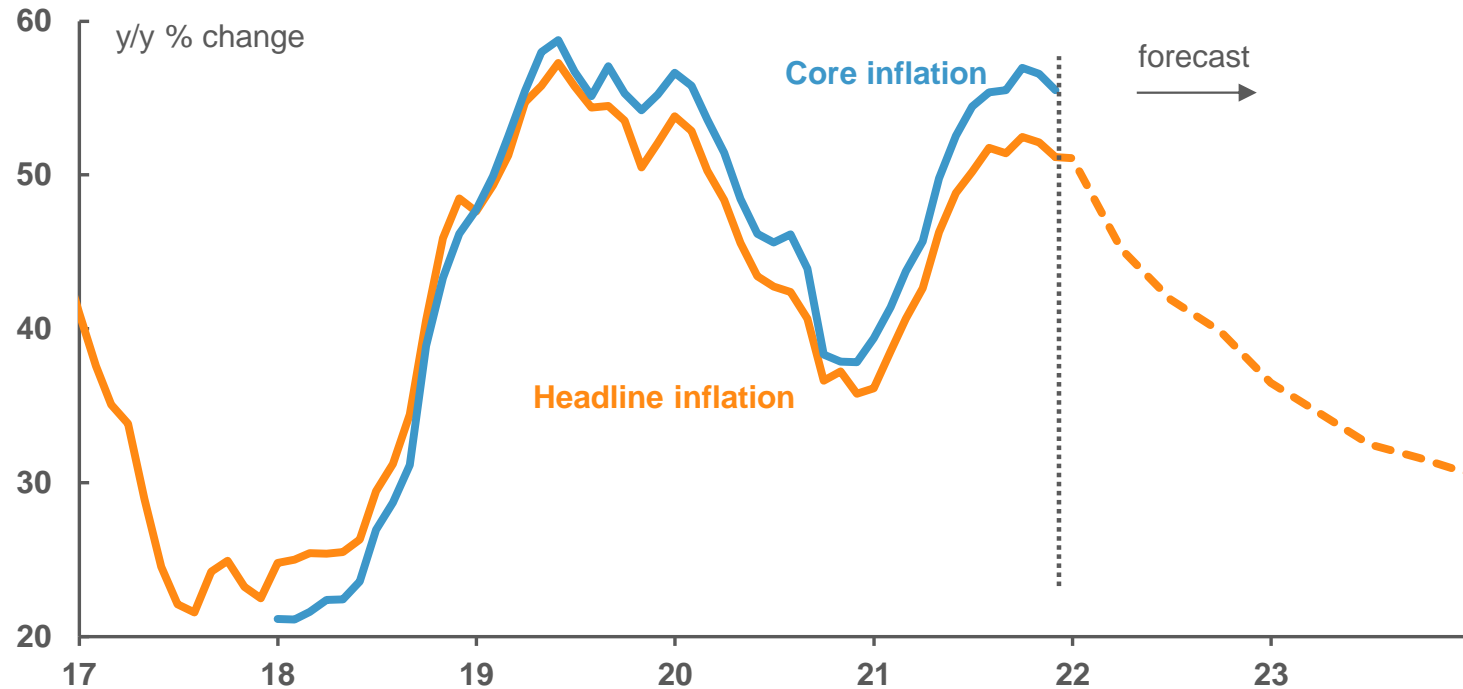
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Inflation: Deep in the Core

PRICE GAINS CONTINUE TO HAVE HIGH BREADTH

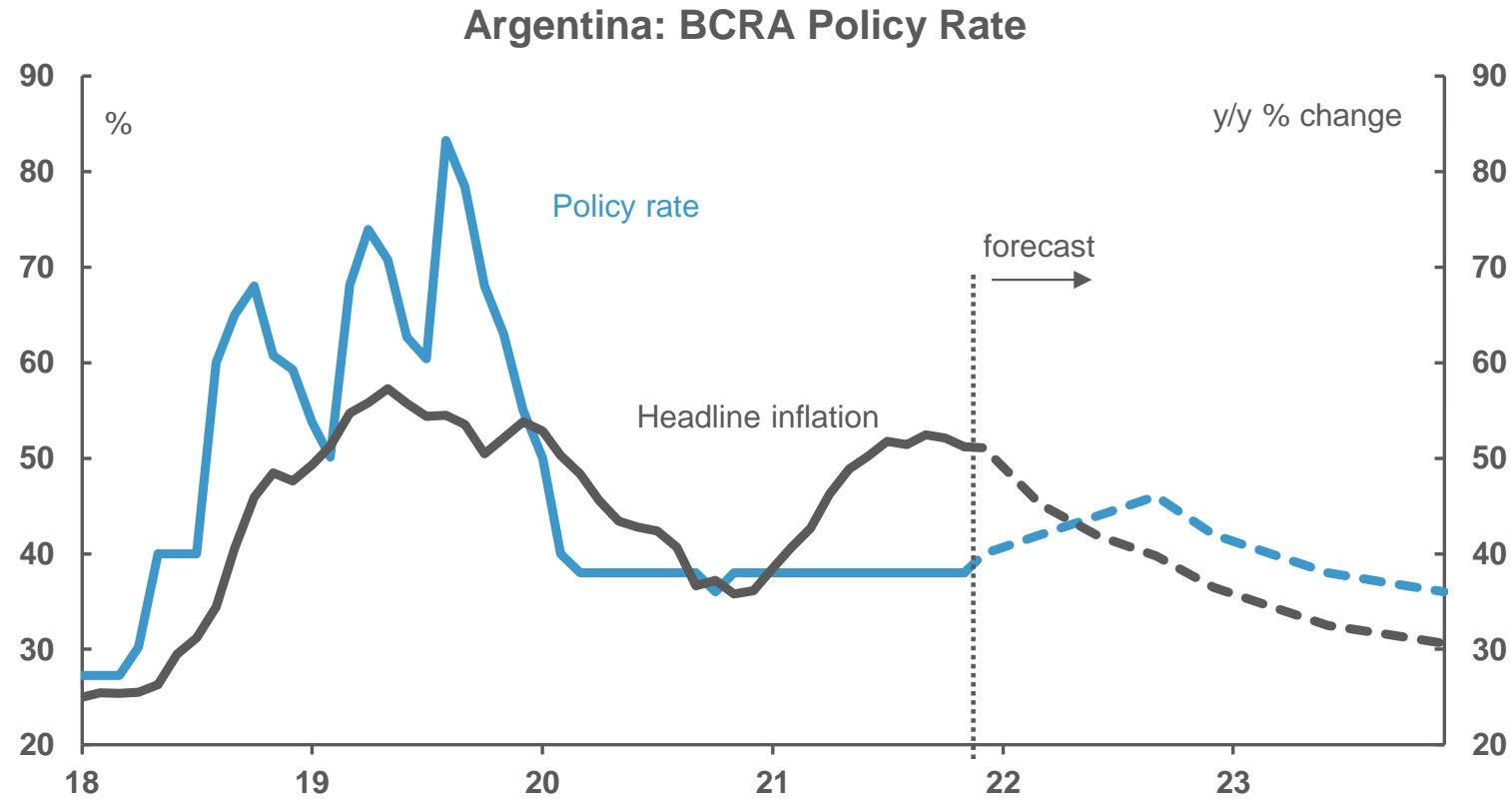
Argentina: Core Prices Driving Inflation



Sources: Scotiabank Economics, INDEC.

Inflation: Little Change, as Expected

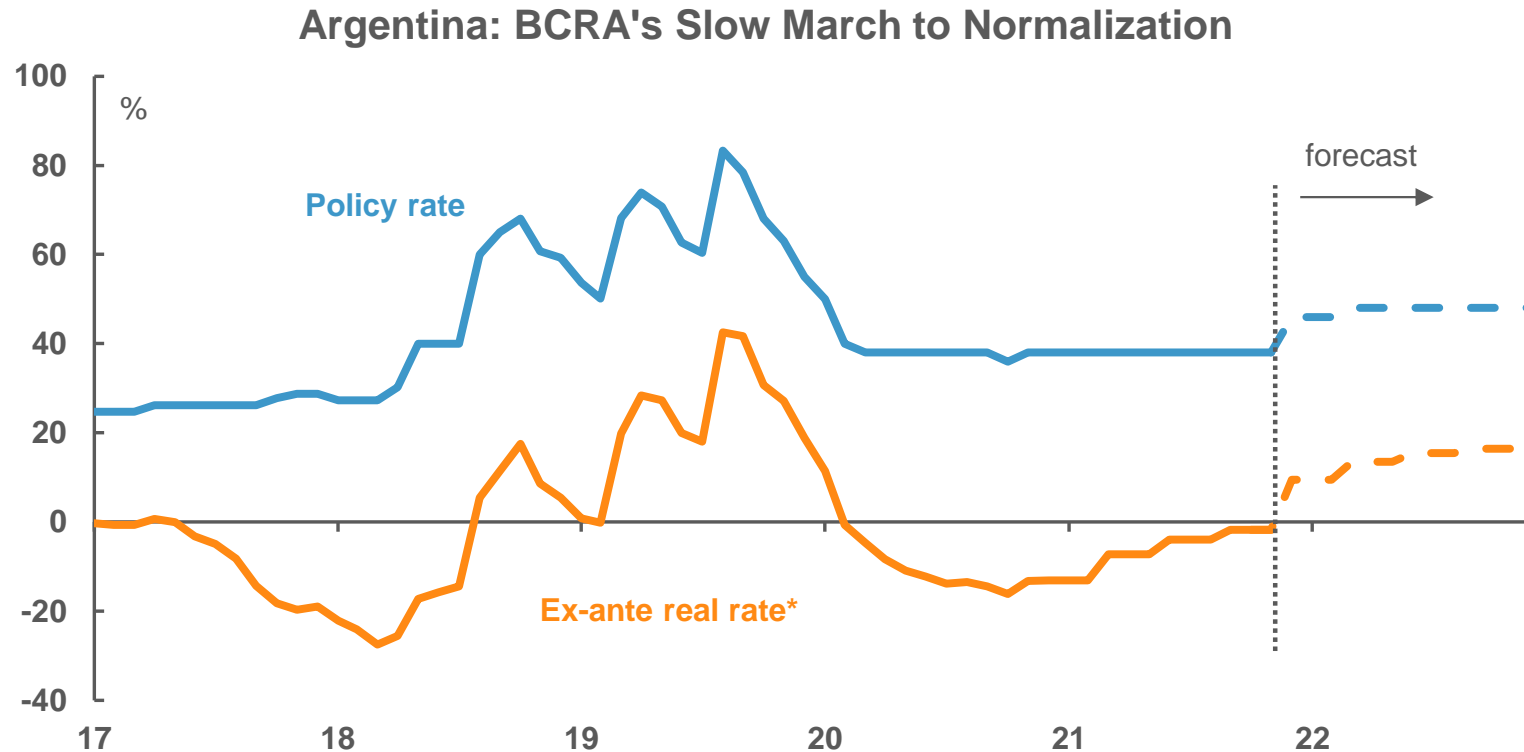
MONTHLY INFLATION STILL AT 2.5% M/M



Sources: Scotiabank Economics, BCRA, INDEC.

Monetary Policy: A Long Way to Hawkish

REAL RATES SET TO CRAWL OUT OF NEGATIVE TERRITORY

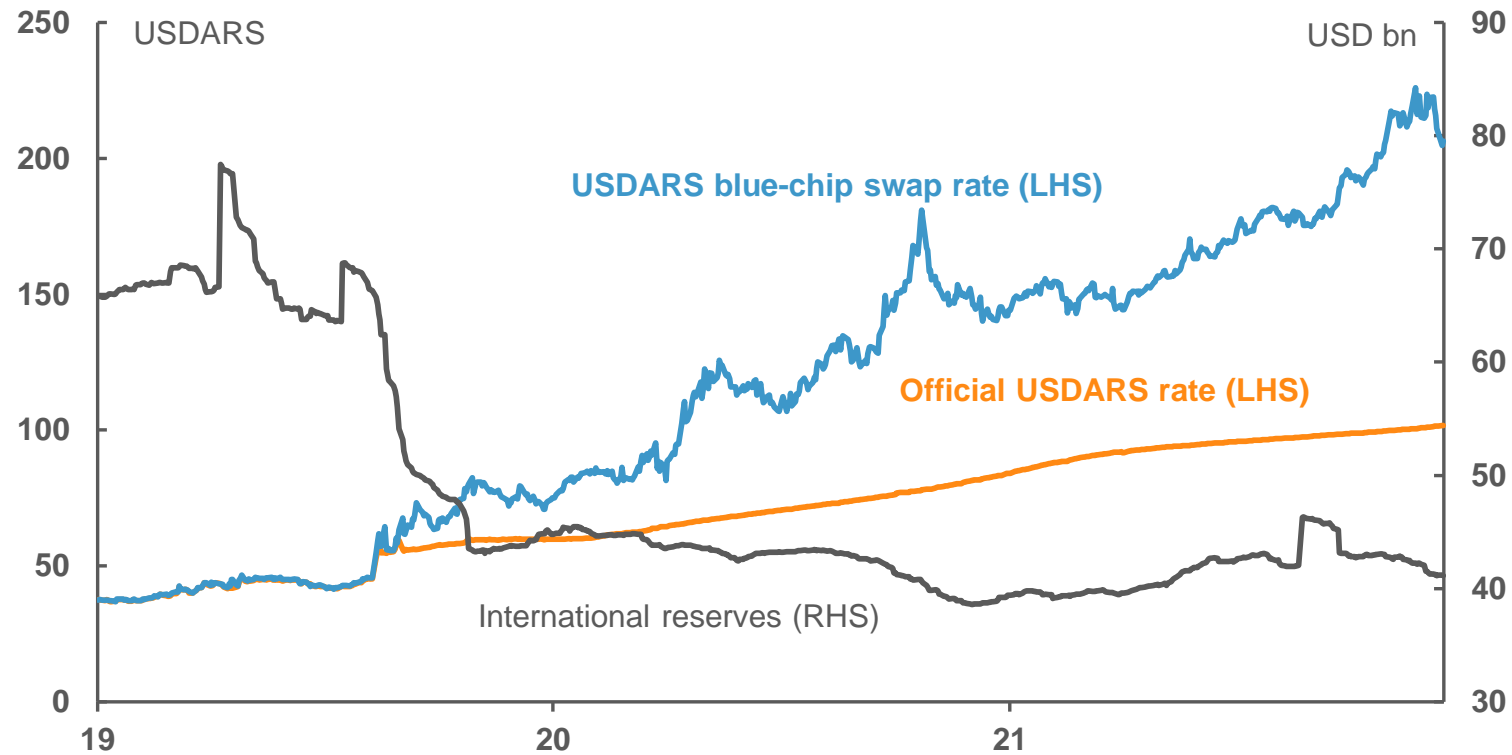


*Policy rate minus inflation 12-mos ahead.
Sources: Scotiabank Economics, BCRA, INDEC.

FX: ARS Awaits the IMF

UNIFICATION OF CURRENCIES WILL BE PAINFUL

Argentina: Extreme Strains FX Market



Sources: Scotiabank Economics, Bloomberg.

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