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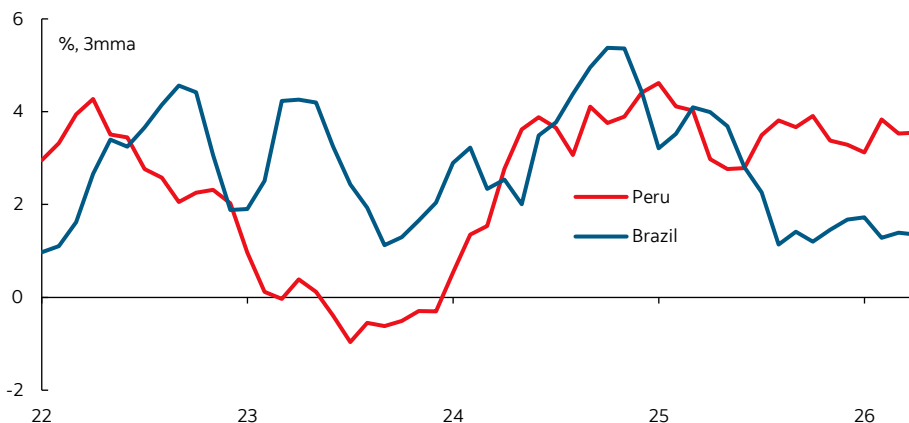
## Latam Weekly: Brazilian and Peruvian Economic Activity

### HIGHLIGHTS

- Next week's Latam schedule is fairly light, coming on the heels of regional June CPI releases that mostly surprised higher (Chile and Peru) or lower (Mexico and Brazil).
- Brazilian and Peruvian economic activity data for May is the regional highlight, while Mexico's and Chile's calendars are bare of notable releases. Global markets will focus on U.S. CPI data and Fed Chair Warsh's appearance in Congress.
- In today's report, the team in Mexico looks at the latest inflation undershoot and Banxico's meeting minutes, with both pointing to an on-hold central bank at least through the remainder of the year.

### Chart of the Week

#### Peru's Growth Holds in Solid Range, Brazil's Growth Steadies at a Muted Pace



Sources: Scotiabank Economics, BCB, INEI.

Chart of the Week: Prepared by: Syed Hasnain Abbas, Economic Analyst.

## Brazilian and Peruvian Economic Activity

- **Next week's Latam schedule is fairly light, coming on the heels of regional June CPI releases that mostly surprised higher (Chile and Peru) or lower (Mexico and Brazil).**
- **Brazilian and Peruvian economic activity data for May is the regional highlight, while Mexico's and Chile's calendars are bare of notable releases. Global markets will focus on U.S. CPI data and Fed Chair Warsh's appearance in Congress.**
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Next week's Latam schedule is fairly light, coming on the heels of regional June CPI releases that mostly surprised higher (Chile and Peru) or lower (Mexico and Brazil), with implications for monetary policy expectations that have been pulled in all directions in recent weeks—and not just in Latam. The broad market mood remains primarily driven by two things, AI news and Middle East developments, with a side dish of economic data and comments by central bankers.

The market handled the 'end' of the U.S.-Iran ceasefire (and military strikes in the region) relatively well, believing that the rise in tensions is mostly noise as the two sides are still engaging in talks toward a longer-lasting peace agreement. All in all, the ~5% rise in crude oil prices this week is relatively small and while Brent oil briefly broke through the \$80/bbl level, its current price of ~\$75/bbl is still about twenty dollars less than this time last month and only ~\$5/bbl higher compared to end-February.

Brazilian and Peruvian economic activity data for May is the regional highlight, while Colombia publishes industrial and retail readings, and Mexico's and Chile's calendars are bare of notable releases. Abroad, June U.S. CPI and Fed Chair Warsh's two-day appearance in Congress are in focus, accompanied by Chinese Q2 GDP and the Bank of Canada's rate announcement and forecast update. Next week, traders will also have to contend with the start of the Q2 corporate earnings season.

In today's report, the team in Mexico looks at the latest inflation undershoot and Banxico's meeting minutes. A few months or weeks back, economists and markets were toying with the idea that Banxico could hike this year, as the bank practically shut the door on additional near-term rate cuts at its May decision and data showed a fast acceleration in inflation. However, recent inflation prints—including yesterday's 0.1ppts miss in headline and core inflation data for June—have weakened these expectations, as vegetable prices inflation retreats, helping to take inflation to its lowest level since 2021 in June, at 3.4% y/y. This is after printing its highest reading since late-2024 back in March, at 4.6%. Markets are currently pricing in a 7.05%–7.10% Banxico overnight rate twelve months from now, compared to the ~7.6% high around this time last month.

Underlying metrics remain elevated and there's no evidence that these may soon correct; core services inflation has hung around the 4.5% mark since spring 2024. But Banxico has shown an inclination to look past core inflation consistently sitting above the 2–4% target band, so the current backdrop of 'under control' headline inflation gives Banxico room to keep policy rates as they are for the foreseeable future. While inflation has fallen of late, economic activity data have tentatively trended in the opposite direction (though growth remains underwhelming). The Fed's path ahead remains an unknown that could also influence Banxico's decisions. So, there's really no obvious path to take aside from the current one of rate stability.

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July 10, 2026

Peruvian GDP growth will likely correct from the strong 3.7% y/y expansion it recorded in April but should still hold at a very strong expansion of around 3% in May that remains about the best among the major countries in the region. Despite electoral risks and El Niño impacts on the fishing (big drag in May) or agricultural sectors, or the sharp increase in inflation in recent months due to global energy prices (that should now ease), the country's economy continues to expand at a strong pace supported by healthy household consumption and investment drivers. The recent confirmation of Keiko Fujimori as the winner of the presidential election—with her term beginning later this month—has also resulted in a recovery in economic expectations that took a hit following the first-round vote. We'll see whether a pro-business presidency gives an extra push to Peru's private sector in the months to come, though economic activity could face a transitory hit from a harsh El Niño.

In Brazil, growth remains so-so although decent considering election risks and highly restrictive policy rates. On Friday, economic activity is estimated to have grown in May by about half of April's 0.9% y/y rise with a flat or slightly negative print on a month-over-month basis. Industrial production growth held around the mid-2s y/y for the month, but it contracted by 0.2% m/m in seasonally adjusted terms. There's not much else to go on but it's fair to assume at least a slowdown from the 0.5% m/m expansion registered in April. Ahead of the data, we'll get figures on services volumes on Wednesday and retail sales on Thursday that will help narrow expectations for the economic output aggregate.

## Country Updates

### Mexico—Inflation Surprises to the Downside on Lower Agricultural Pressures, Reinforcing Banxico's Pause

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The release of Banco de México's June monetary policy meeting minutes contained few surprises. However, together with the June inflation report—which came in notably below market consensus due to a moderation in the non-core component—it strengthened expectations that the policy rate will remain unchanged for the rest of the year. Nevertheless, the possibility of an additional rate cut later this year cannot be ruled out if inflation remains below 4.0% in the coming months. This stands in contrast to the outlook in advanced economies, where markets anticipate tighter monetary conditions in the second half of the year as a result of rising inflationary pressures linked primarily to the geopolitical conflict in the Middle East and its impact on energy prices.

In June, headline inflation continued to surprise on the downside, reaching its lowest level since December 2020, falling from 3.94% to 3.37% y/y, below the consensus forecast of 3.50%. The result was largely driven by a sharp deceleration in non-core inflation, which declined from 3.10% to 1.11%, reflecting a drop in food prices of -1.72% as meat and poultry prices retreated. Core inflation also eased, falling from 4.19% to 4.03%, below the market expectation of 4.10%. Within the core basket, goods inflation moderated from 3.78% to 3.55%, while services inflation edged down from 4.52% to 4.49%, suggesting that the recent football-related events had only a limited impact on prices. On a monthly basis, headline inflation declined by -0.27%, core inflation increased by 0.24%, and non-core inflation fell by -2.04%.

Against this backdrop, the June meeting minutes reinforced the perception that Banxico has entered a prolonged pause phase. While Board members acknowledged that part of the recent improvement in inflation stemmed from the volatile behavior of the non-core component, they also highlighted the absence of significant demand-side pressures and the persistence of economic slack, factors that continue to support the disinflationary process. Moreover, the prevailing view was that the current monetary stance remains sufficiently restrictive to ensure convergence toward the inflation target. As such, any additional adjustment will depend on more compelling evidence of sustained disinflation and on developments in the external environment.

The signal of policy stability in Mexico contrasts with the expected path of monetary policy in several advanced economies. The IMF's July World Economic Outlook update indicated that the global disinflation process has stalled and revised upward its inflation forecasts for 2026. The report emphasized that pressures stemming from the conflict in the Middle East continue to pose a significant risk to energy prices and global supply chains. As a result, markets are increasingly pricing in episodes of tighter monetary policy should inflationary pressures persist.

By contrast, we believe Banco de México can maintain its current monetary stance without facing the same inflationary pressures that are affecting some advanced-economy central banks. This is largely due to the government's efforts to contain increases in gasoline prices. Furthermore, if headline inflation remains below 4.0% over the coming months and core inflation continues to moderate, we believe Banxico could consider an additional rate cut toward year-end. This possibility is already beginning to appear in the latest Citi survey of analysts, where 5 out of 37 respondents now anticipate further easing, with one participant expecting a cut as early as December.

## Market Events & Indicators for July 11–24

### CHILE

| <u>Date</u> | <u>Time</u> <u>Event</u>          | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|-----------------------------------|---------------|------------|------------------|---------------|---------------------|
| Jul 23      | 08:30 Central Bank Traders Survey |               | --         | --               | --            | --                  |
| Jul 24      | 09:00 PPI m/m                     | Jun           | --         | --               | 2.8           | --                  |

### MEXICO

| <u>Date</u> | <u>Time</u> <u>Event</u>         | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|----------------------------------|---------------|------------|------------------|---------------|---------------------|
| Jul 21      | 08:00 Retail Sales m/m           | May           | --         | --               | 0.8           | --                  |
| Jul 21      | 08:00 Retail Sales y/y           | May           | --         | --               | 4.4           | --                  |
| Jul 21      | Citi Survey of Economists        |               | --         | --               | --            | --                  |
| Jul 23      | 08:00 Economic Activity IGAE y/y | May           | --         | --               | 2.3           | --                  |
| Jul 23      | 08:00 Bi-Weekly CPI              | 15-Jul        | 0.2        | 0.0              | -0.1          | --                  |
| Jul 23      | 08:00 Economic Activity IGAE m/m | May           | --         | --               | 1.2           | --                  |
| Jul 23      | 08:00 Bi-Weekly Core CPI         | 15-Jul        | 0.3        | 0.2              | 0.2           | --                  |
| Jul 23      | 08:00 Bi-Weekly CPI y/y          | 15-Jul        | 3.3        | 3.4              | 3.6           | --                  |
| Jul 23      | 08:00 Bi-Weekly Core CPI y/y     | 15-Jul        | 4.1        | 4.1              | 4.1           | --                  |
| Jul 24      | 08:00 Unemployment Rate NSA      | Jun           | --         | --               | 2.8           | --                  |
| Jul 13-15   | Nominal Wages                    | Jun           | --         | --               | 3.6           | --                  |
| Jul 15-21   | ANTAD Same-Store Sales y/y       | Jun           | --         | --               | 0.8           | --                  |

### PERU

| <u>Date</u> | <u>Time</u> <u>Event</u>     | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|------------------------------|---------------|------------|------------------|---------------|---------------------|
| Jul 15      | 11:00 Lima Unemployment Rate | Jun           | --         | --               | 5.0           | --                  |
| Jul 15      | 11:00 Economic Activity y/y  | May           | --         | --               | 3.7           | --                  |

### BRAZIL

| <u>Date</u> | <u>Time</u> <u>Event</u>                   | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|--------------------------------------------|---------------|------------|------------------|---------------|---------------------|
| Jul 13      | 07:25 Central Bank Weekly Economist Survey |               | --         | --               | --            | --                  |
| Jul 15      | 08:00 IBGE Services Volume m/m SA          | May           | --         | --               | 1.2           | --                  |
| Jul 15      | 08:00 IBGE Services Volume y/y NSA         | May           | --         | --               | 1.9           | --                  |
| Jul 16      | 08:00 Retail Sales m/m                     | May           | --         | --               | -1.5          | --                  |
| Jul 16      | 08:00 Retail Sales y/y                     | May           | --         | --               | 1.0           | --                  |
| Jul 16      | 08:00 Retail Sales Broad m/m               | May           | --         | --               | -0.7          | --                  |
| Jul 16      | 08:00 Retail Sales Broad y/y               | May           | --         | --               | 1.4           | --                  |
| Jul 17      | 08:00 Economic Activity m/m                | May           | --         | --               | 0.5           | --                  |
| Jul 17      | 08:00 Economic Activity y/y                | May           | --         | --               | 0.9           | --                  |
| Jul 20      | 07:25 Central Bank Weekly Economist Survey |               | --         | --               | --            | --                  |

### COLOMBIA

| <u>Date</u> | <u>Time</u> <u>Event</u>           | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> | <u>BNS Comments</u> |
|-------------|------------------------------------|---------------|------------|------------------|---------------|---------------------|
| Jul 15      | 11:00 Retail Sales y/y             | May           | --         | --               | 14.9          | --                  |
| Jul 15      | 11:00 Manufacturing Production y/y | May           | --         | --               | 2.0           | --                  |
| Jul 15      | 11:00 Industrial Production y/y    | May           | --         | --               | 3.0           | --                  |
| Jul 15      | Consumer Confidence Index          | Jun           | --         | --               | 17.8          | --                  |
| Jul 21      | 11:00 Trade Balance (USD mns)      | May           | --         | --               | -1760.8       | --                  |
| Jul 21      | 11:00 Imports CIF Total (USD mns)  | May           | --         | --               | 6709.3        | --                  |
| Jul 21      | 11:00 Economic Activity NSA y/y    | May           | --         | --               | 3.3           | --                  |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Forecast Updates: Central Bank Policy Rates and Outlook

|                     | Next Scheduled Meeting |        |        | BNS Forecast |          | BNS Guidance for Next Monetary Policy Meeting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------|------------------------|--------|--------|--------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                     | Current                | Date   | BNS    | End-2026     | End-2027 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Chile, BCCh, TPM    | 4.50%                  | Jul-28 | 4.50%  | 4.50%        | 4.25%    | We expect the Central Bank to hold the policy rate at 4.50%.                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Mexico, Banxico, TO | 6.50%                  | Aug-06 | 6.50%  | 6.50%        | 6.75%    | In Banxico's latest monetary policy decision, the governing Board unanimously voted to maintain the policy rate at 6.50% after concluding the easing cycle that started in 2024. We expect there to be no changes until late next year.                                                                                                                                                                                                                                                                                          |
| Peru, BCRP, TIR     | 4.25%                  | Aug-13 | 4.25%  | 4.25%        | 4.25%    | Our end-year forecast stands at 3.2%, under the assumption that oil prices correct from June-onward (as is currently occurring). However, it was recently confirmed that the El Niño phenomenon will reach a strong intensity during the summer, which would generate upward pressures toward the end of the year. As a result, we will revise our projection upward. For the time being, we expect the policy interest rate to remain at 4.25% throughout the year, provided that price fluctuations continue to be transitory. |
| Brazil, BCB, Selic  | 14.25%                 | Aug-05 | 14.00% | 14.00%       | 12.00%   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

Key Economic Charts

Chart 1

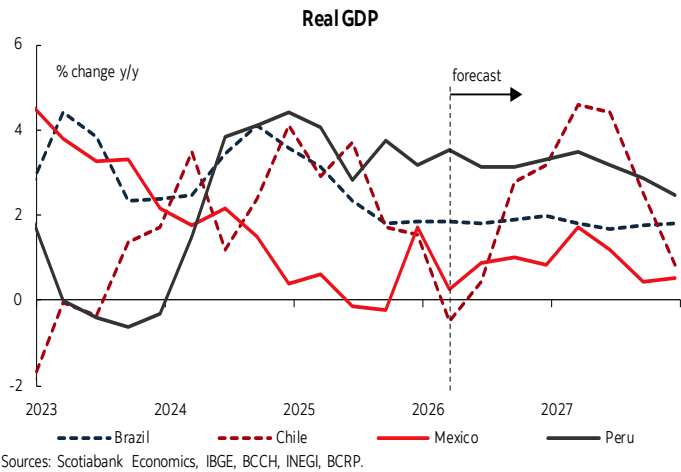


Chart 2

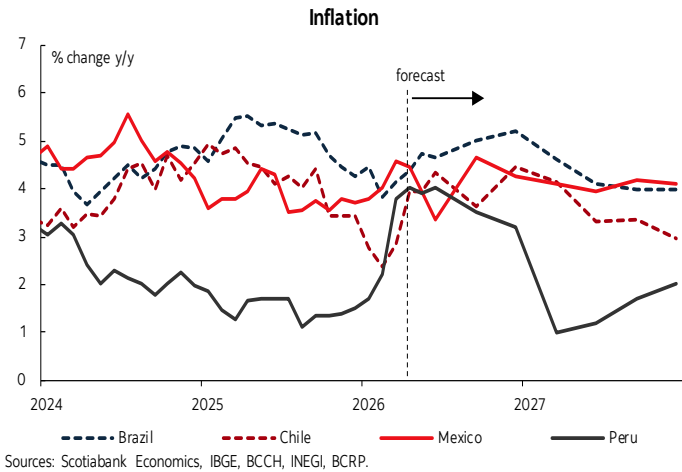


Chart 3

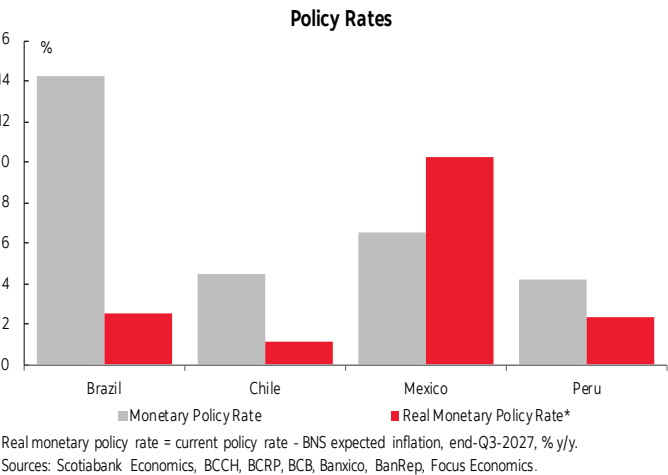
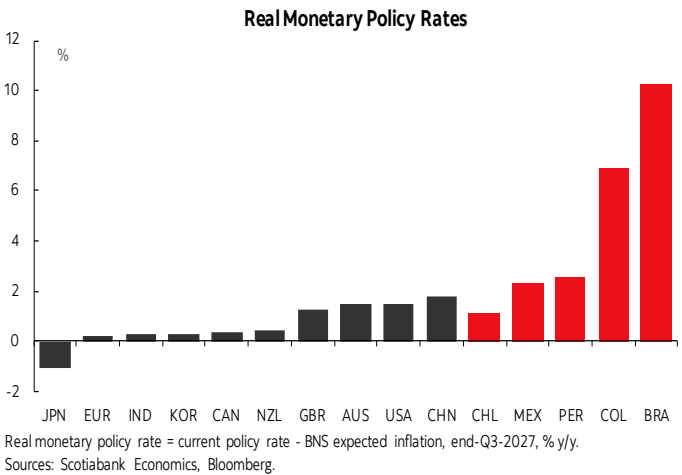


Chart 4



Key Market Charts

Chart 1

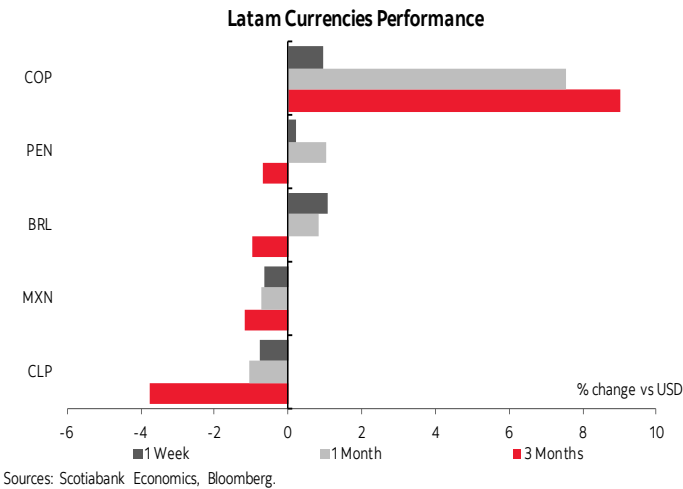


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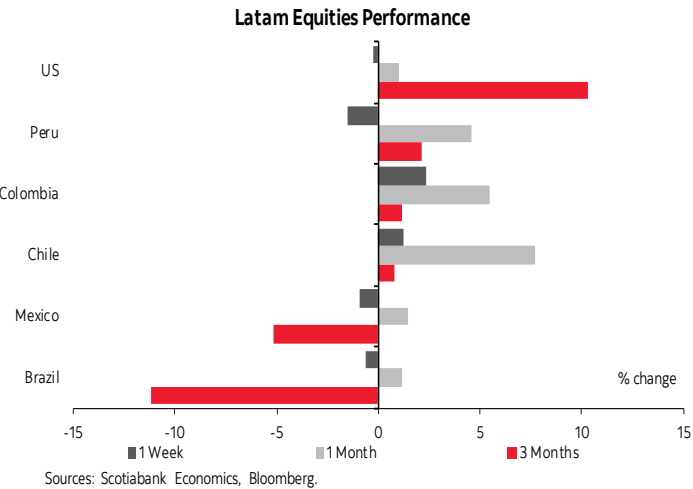


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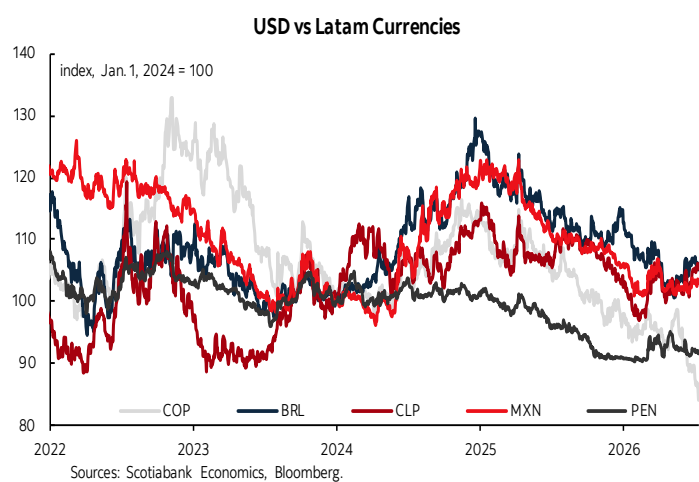
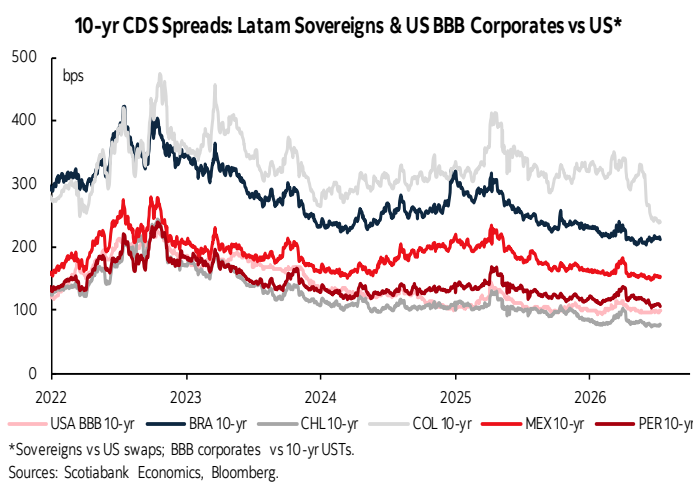


Chart 4



Yield Curves

Chart 1

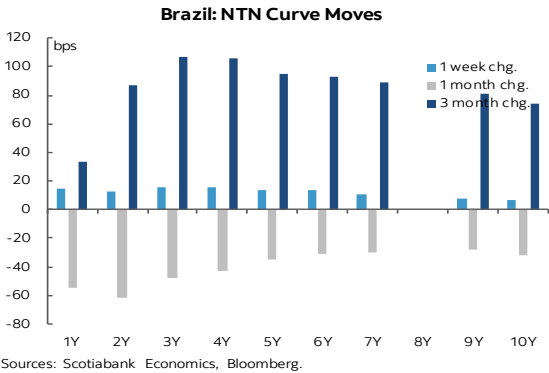


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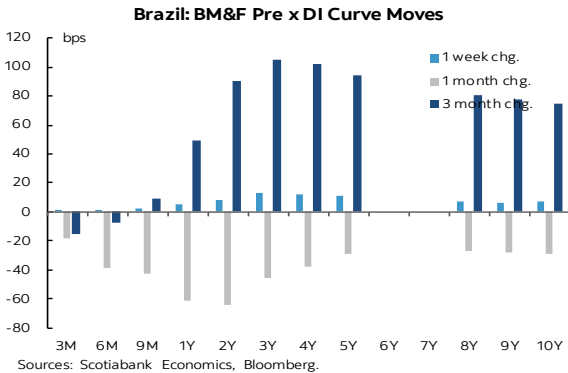


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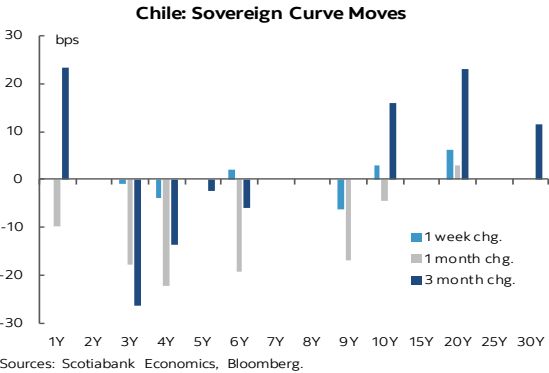


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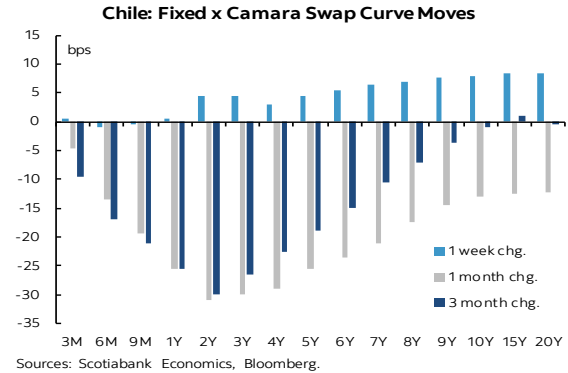


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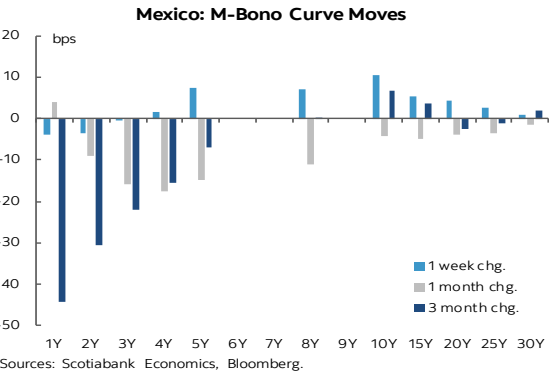


Chart 6

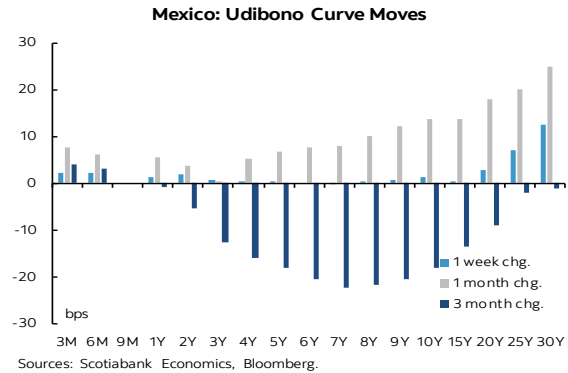
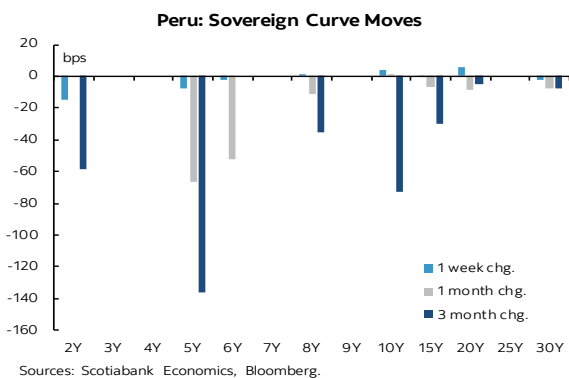


Chart 7



Scotiabank Economics Latam Coverage

Local Market Coverage

CHILE

|            |                                                                                |
|------------|--------------------------------------------------------------------------------|
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MEXICO

|            |                                                                      |
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PERU

|            |                                                                    |
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