GLOBAL ECONOMICS | LATAM WEEKLY

April 3, 2020

Latam Weekly: Charting a Seismic Shift

FORECAST UPDATES

- **In our March 29 *Latam Weekly*, we highlighted downside risks to our then still relatively positive outlook for Peru. Our team in Lima now anticipates a deeper downturn in Q2-2020, followed by a stronger rebound in 2021. Scotiabank Economics' Latam and global projections remain otherwise unchanged from our March 25 *Forecast Update*.**

ECONOMIC OVERVIEW

- **The COVID-19 pandemic is advancing into Latam, quarantines are being tightened and extended, and policy responses to provide monetary and fiscal support to domestic economic activity are being enhanced on a daily basis. We detail these developments and chart the emerging impact on the region's economies through high-frequency data.**

MARKETS REPORT

- **Asset prices across emerging markets remain volatile, with multiple pain points and signs of stress. Latam's major currencies have been hit particularly hard and spreads in the region's debt markets have moved substantially, but recent developments haven't been uniform across our Latam-6. We decompose the sources of these changes and look at differentiations across fixed-income within Latam and in the context of emerging markets more generally.**

COUNTRY UPDATES

- **Succinct analysis of recent developments and guides to the week ahead in Argentina, Brazil, Chile, Colombia, Mexico, and Peru.**

MARKET EVENTS & INDICATORS

- **Risk calendars with selected highlights for the week of April 6–10 across Latam.**

Chart of the Week

Chile: Credit & Debit Card Purchases

Sources: Scotiabank Economics.

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Forecast Updates: April 3

	2019	2020				2021						
Argentina*	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-0.5	-1.7	-5.2	-1.6	-2.4	1.3	2.0	1.6	1.7	-2.2	-2.4	1.7
CPI (y/y %, eop)	53.8	--	--	--	66.0	--	--	--	42.0	53.8	66.0	42.0
Central bank policy rate (%, eop)	55.00	--	--	--	35.00	--	--	--	30.00	55.00	35.00	30.00
Foreign exchange (USDARS, eop)	59.9	--	--	--	82.0	--	--	--	76.0	59.9	82.0	76.0

	2019	2020				2021						
Brazil	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.7	-0.7	-5.2	4.3	-1.8	0.2	1.4	1.8	2.7	1.1	-3.0	1.5
CPI (y/y %, eop)	3.8	4.4	5.4	6.7	7.3	7.8	8.1	8.3	8.2	4.3	7.3	8.2
Central bank policy rate (%, eop)	6.50	3.75	3.75	4.25	4.75	5.75	6.75	7.75	8.25	4.50	4.75	8.25
Foreign exchange (USDBRL, eop)	3.88	5.37	5.12	4.72	4.84	5.11	4.64	4.52	4.49	4.02	4.84	4.49

	2019	2020				2021						
Chile*	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-2.4	-0.6	-6.6	-2.6	1.3	0.9	6.6	2.1	2.2	1.1	-2.1	2.9
CPI (y/y %, eop)	2.6	3.8	3.3	3.2	3.0	2.5	2.9	3.3	3.0	3.0	3.0	3.0
Central bank policy rate (%, eop)	1.75	1.00	0.50	0.50	0.50	1.00	1.25	1.50	1.50	1.75	0.50	1.50
Foreign exchange (USDCLP, eop)	694	860	820	800	790	780	760	740	720	753	790	720

	2019	2020				2021						
Colombia	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	3.4	3.6	-0.8	0.2	1.8	2.5	2.8	2.9	3.0	3.3	1.2	2.8
CPI (y/y %, eop)	3.2	3.3	3.0	2.9	2.9	3.4	3.1	3.0	3.0	3.8	2.9	3.0
Central bank policy rate (%, eop)	4.25	3.75	3.50	3.50	3.50	3.75	4.25	4.25	4.25	4.25	3.50	4.25
Foreign exchange (USDCOP, eop)	3,254	4,050	3,950	3,851	3,654	3,473	3,465	3,458	3,450	3,287	3,654	3,450

	2019	2020				2021						
Mexico	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-0.4	-3.2	-9.4	-6.9	-3.6	0.3	3.6	2.5	0.9	-0.1	-5.8	1.8
CPI (y/y %, eop)	2.8	3.5	3.7	4.4	4.4	4.2	4.1	4.2	4.1	2.8	4.4	4.1
Central bank policy rate (%, eop)	7.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00	7.25	6.00	6.00
Foreign exchange (USDMXN, eop)	18.93	23.90	23.13	22.66	22.84	22.93	22.75	22.68	22.74	18.93	22.84	22.74

	2019	2020				2021						
Peru*	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.7	-4.5	-7.0	0.7	1.3	6.7	9.6	1.0	1.6	2.2	-2.3	4.5
CPI (y/y %, eop)	2.2	1.9	1.8	1.7	1.4	1.5	1.4	1.8	2.0	1.9	1.4	2.0
Central bank policy rate (%, eop)	2.75	1.25	0.75	0.75	0.75	1.25	1.50	1.75	1.75	2.25	0.75	1.75
Foreign exchange (USDPEN, eop)	3.37	3.57	3.56	3.47	3.45	3.42	3.43	3.39	3.40	3.31	3.45	3.40

	2019	2020				2021						
United States	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	2.3	1.0	-5.2	-2.6	-1.3	0.5	7.5	5.0	3.9	2.3	-2.0	4.1
CPI (y/y %, eop)	2.0	2.1	0.8	0.6	0.8	1.7	2.4	2.6	2.8	2.0	0.8	2.8
Central bank policy rate (%, eop)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
Foreign exchange (EURUSD, eop)	1.12	1.08	1.09	1.10	1.12	1.13	1.14	1.15	1.16	1.12	1.12	1.16

* April 3 revisions involve changes only to the growth and monetary policy rate forecasts for Peru and monetary policy rate forecast for Chile. We now report and forecast the BCRA's 7-day nominal LELIQ rate in place of the effective rate. All other forecasts remain unchanged.
Source: Scotiabank Economics.

Forecast Updates: March—April Revisions

	March 11		March 20		March 25		April 3*	
	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f
Argentina								
Real GDP (annual % change)	--	--	-2.4	1.7	-2.4	1.7	-2.4	1.7
CPI (y/y %, eop)	--	--	66.0	42.0	66.0	42.0	66.0	42.0
Central bank policy rate (%, eop)	--	--	42.00	38.00	42.00	38.00	35.00	30.00
Argentine peso (USDARS, eop)	--	--	82.0	76.0	82.0	76.0	82.0	76.0
Brazil								
Real GDP (annual % change)	1.8	2.1	-3.0	1.5	-3.0	1.5	-3.0	1.5
CPI (y/y %, eop)	4.2	4.1	7.3	8.2	7.3	8.2	7.3	8.2
Central bank policy rate (%, eop)	3.50	5.25	4.75	8.25	4.75	8.25	4.75	8.25
Brazilian real (USDBRL, eop)	4.37	4.11	4.84	4.49	4.84	4.49	4.84	4.49
Chile								
Real GDP (annual % change)	1.4	2.5	-0.1	3.6	-2.1	2.9	-2.1	2.9
CPI (y/y %, eop)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Central bank policy rate (%, eop)	1.00	2.00	0.75	2.00	0.50	2.00	0.50	1.50
Chilean peso (USDCLP, eop)	760	700	790	720	790	720	790	720
Colombia								
Real GDP (annual % change)	3.3	3.6	2.9	3.2	1.2	2.8	1.2	2.8
CPI (y/y %, eop)	3.5	3.1	3.2	3.0	2.9	3.0	2.9	3.0
Central bank policy rate (%, eop)	4.25	4.50	3.50	4.25	3.50	4.25	3.50	4.25
Colombian peso (USDCOP, eop)	3,357	3,180	3,480	3,450	3,654	3,450	3,654	3,450
Mexico								
Real GDP (annual % change)	0.4	1.6	-5.8	1.8	-5.8	1.8	-5.8	1.8
CPI (y/y %, eop)	3.8	3.7	4.4	4.1	4.4	4.1	4.4	4.1
Central bank policy rate (%, eop)	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Mexican peso (USDMXN, eop)	20.94	21.87	22.84	22.74	22.84	22.74	22.84	22.74
Peru								
Real GDP (annual % change)	2.4	3.5	0.3	3.5	0.3	3.5	-2.3	4.5
CPI (y/y %, eop)	1.7	2.0	1.4	2.0	1.4	2.0	1.4	2.0
Central bank policy rate (%, eop)	2.00	2.00	1.00	1.75	1.00	1.75	0.75	1.75
Peruvian sol (USDPEN, eop)	3.40	3.35	3.45	3.40	3.45	3.40	3.45	3.40

* April 3 revisions involve changes only to the growth and monetary policy rate forecasts for Peru and monetary policy rate forecast for Chile. We now report and forecast the BCRA's 7-day nominal LELIQ rate in place of the effective rate. All other forecasts remain unchanged.
Source: Scotiabank Economics.

Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

		Next Scheduled Meeting			Market Pricing		BNS Forecast		
	Current	Date	Market	BNS	12 mos	24 mos	End-2020	End-2021	BNS guidance for next monetary policy meeting
Argentina, BCRA, TPM, n.a.	38.00%	n.a.	n.a.	35.00%	n.a.	n.a.	35.00%	30.00%	The BCRA's last move on March 5 delivered its seventh rate cut in 2020, but January's economic activity indicators point to a sustained slowdown. We expect the BCRA to cut again in April.
Brazil, BCB, Selic	3.75%	May-06	3.73%	3.75%	4.23%	7.34%	4.75%	8.25%	
Chile, BCCh, TPM	0.50%	May-06	0.47%	0.50%	0.29%	0.89%	0.50%	1.50%	
Colombia, BanRep, TII	3.75%	Apr-30	3.74%	3.50%	3.58%	4.59%	3.50%	4.25%	Banrep will continue cutting rates due to the downside risks on economic activity and contained risk on the inflation side.
Mexico, Banxico, TO	6.50%	May-14	6.36%	6.00%	5.17%	5.56%	6.00%	6.00%	
Peru, BCRP, TIR	1.25%	Apr-16	n.a.	0.75%	n.a.	n.a.	0.75%	1.75%	

Sources: Scotiabank Economics, Bloomberg.

Economic Overview: High-Frequency Tea Leaves

- **Identified cases of COVID-19 across Latam continue to ramp up as testing becomes more ubiquitous across the region, though the extent of efforts to pin down existing cases and identify vectors of infection still remains limited. We are not yet seeing signs that the Latam-6 countries' new incidence curves are beginning to bend.**
- **Early-moving governments across the Latam-6 have intensified and extended their quarantine measures, while others that have been more reluctant to act have begun to catch up.**
- **The region's major macroeconomic data series are only just beginning to show the early signs of the economic impact of the initial quarantine measures. We review some alternative high-frequency data to track the speed and scale of the sudden stop in economic activity across the Latam-6.**

THE GLOBAL MILLION MARK

Confirmed COVID-19 cases hit the one-million mark on April 2 according to data compiled by Johns Hopkins University (JHU), with more than 50,000 deaths (chart 1). With this edition of the Latam Weekly, we shift to tracking JHU data, which provide a better leading indicator of the pandemic's progress since JHU's numbers are updated more regularly and with a shorter lag than the more methodical World Health Organization (WHO) confirmation process allows.

Latam still accounts for only a small 2.4% share of the world-wide confirmed COVID-19 cases, but we reiterate that this provides little indication of how the pandemic will develop in the region and the scale of the economic damage it will cause. At present, Brazil is the only country in the region that cracks the top 20 countries for total cases, at 17th globally.

Latin America continues to move further up the s-curve of exponential growth: all of the Latam-6 countries we cover saw more than a doubling of identified novel coronavirus numbers over the last week (chart 2). Mexico saw the steepest increase, with a near tripling of its confirmed COVID-19 cases. Testing and tracing across the Latam-6 remain at early stages. As both efforts develop further, we are likely to see the point of a possible flattening in the region's incidence curves initially move further into the future until control measures start to outrun new positive test results.

Chile continues to exhibit by far the highest per capita COVID-19 numbers (chart 3), but it's not clear that this points to much beyond the fact that Chile has by far the smallest population amongst the Latam-6. At 17.4 mn residents, Chile's population is less than half of the next most populous, Peru, at 39.3 mn. Per capita numbers will always look much worse in smaller countries at the outset of a transmissible disease pandemic, without implying that these countries are managing their public-health situation less effectively than others. Moreover, Chile's relatively high per capita income levels may allow it to do a better job than other countries of identifying new cases.

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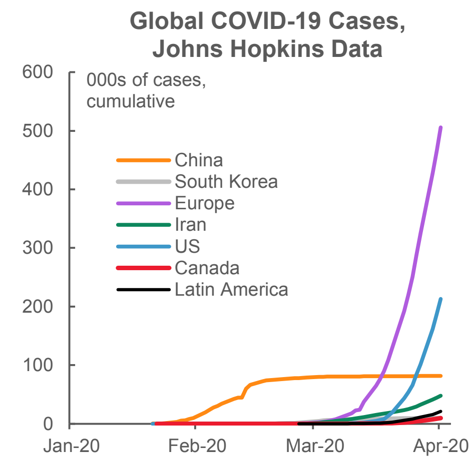
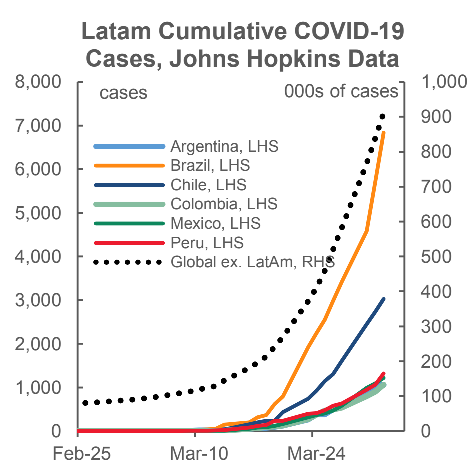
With important data and chart contributions from Carlos Muñoz, Waldo Riveras, and Boris Senderovich.

Chart 1



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 2



Sources: Scotiabank Economics, Johns Hopkins University.

NEW POLICY MEASURES

Across the Latam-6, governments are intensifying and extending their efforts to stem the spread of COVID-1 and cushion the impact of these measures on their domestic economies (table 1). Early movers, such as Argentina and Peru, have lengthened their quarantines into April, while others, such as Chile, have progressively intensified their controls. Later adopters, such as Mexico, have quickly brought their control measures in line with their regional peers over the last week. It will remain to be seen whether it has moved too late to prevent a rapid increase in new COVID-19 cases. Brazil remains a bit of an international outlier with the most limited public-health and quarantine measures of the Latam-6.

Monetary and fiscal authorities are continuing to take bold actions to sustain their economies. All six of the Latam-6 central banks have cut their policy rates, some quite dramatically in emergency meetings with large reductions. Peru stands out for the scale and scope of its measures: the central bank cut its key policy rate nearly in half, dropping it 100 bps to 1.25% in an off-calendar meeting on March 20, and its government is in the process of finalizing a fiscal package worth a whopping 12% of GDP. Lima and its Latam-6 peers are following fundamentally different playbooks than in past crises: rate cuts in developed markets and the twin supply-side and demand-side shocks hitting their economies are allowing them to prioritize support for domestic demand.

FORECASTS CONTINUE TO ADJUST

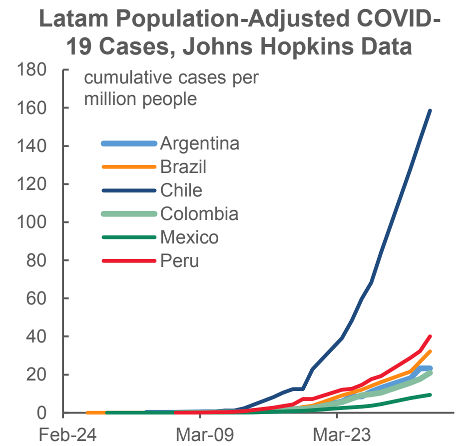
Last week, we flagged that substantial down-side risk accompanied our March 25 Forecast Update, and this risk is realized here with revisions to our outlook for Peru and Chile (Forecast Updates tables, pp. 2 and 3). Peru's growth forecast has moved from a mild expansion in 2020 of 0.3% y/y to a contraction of some -2.3% y/y (chart 4), followed by a strong 4.5% y/y rebound in 2021. The BCRP's policy rate is expected to end 2020 at 25 bps lower than previously expected (chart 5). The rapid deterioration in Peru's prospects reflects both the international environment and the extension of its quarantine deep into April. Meanwhile, the move by Chile's central bank to cut its main policy rate by another 50 bps at its scheduled meeting on March 31, so soon after an emergency 75 bps cut on March 16, convinced our team in Santiago to bring the BCCh's end-2021 terminal rate down from 2.00% to 1.50%. Our teams expect further cuts from the central banks in Bogota, Mexico City, and Lima at their next meetings (Central Banks table, p. 4).

CHARTING THE SUDDEN STOP

Most of the data coming available from statistical agencies in the Latam-6 are stale on arrival: they're low-frequency, provided with substantial lags, and aren't yet meaningfully capturing the impact of the pandemic. We look at some ways in which survey, sentiment, and high-frequency activity data can help us anticipate the scale of the slowdown underway.

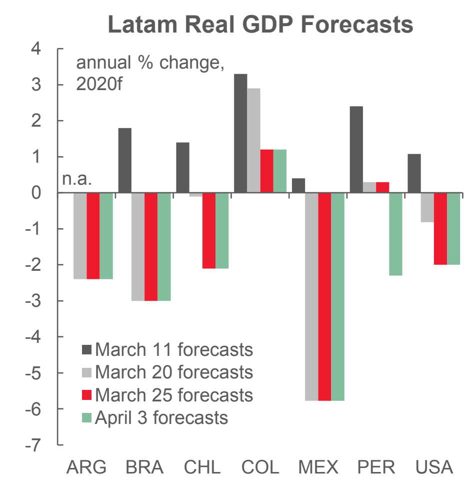
The NY Fed's weekly economic indicator has already fallen to its 2009 lows (chart 6) and it provides a clear sense of the speed and depth of the downturn that is heading for the Latam-6—and that has likely already arrived.

Chart 3



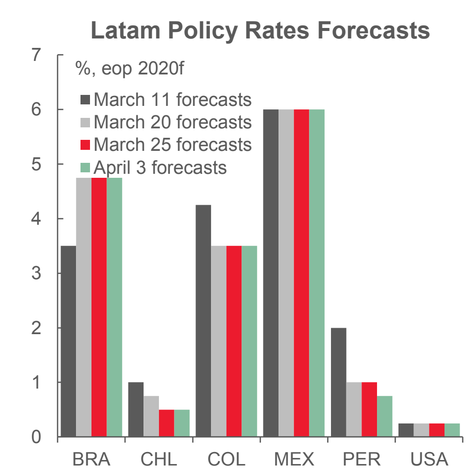
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 4



Source: Scotiabank Economics.

Chart 5



Argentina: 42%.Source: Scotiabank Economics.

FORWARD-LOOKING SURVEYS NOT SO FORWARD LOOKING

Traditional purchasing-managers' indices (PMIs) and other forward-looking survey-based sentiment readings are, unsurprisingly, registering large declines (chart 7), but they haven't yet fallen close to the levels reached in the midst of the global financial crisis (GFC) in 2009. Brazil's manufacturing PMI fell from 52.3 to 48.4 (3.9 pts) in March, its lowest reading since early-2017. New orders were a particular harbinger of more pain to come, with a steep drop from 52.6 to 45.0 (7.6 pts). Similarly, Mexico's manufacturing PMIs are now deeply into contractionary territory. But 2009's experience and our macroeconomic forecasts imply that these readings can—and will—fall much further.

Broader business and consumer sentiment indices also seem to have further to fall. Brazil's consumer confidence index plunged in March to its lowest level since early-2017 (chart 8), when political scandals and a long recession had rocked the economy. In contrast, Mexican consumer confidence hasn't yet responded to the pandemic, owing possibly to the country's delayed public response to COVID-19, but also because consumer sentiment already softened substantially last year as growth slumped.

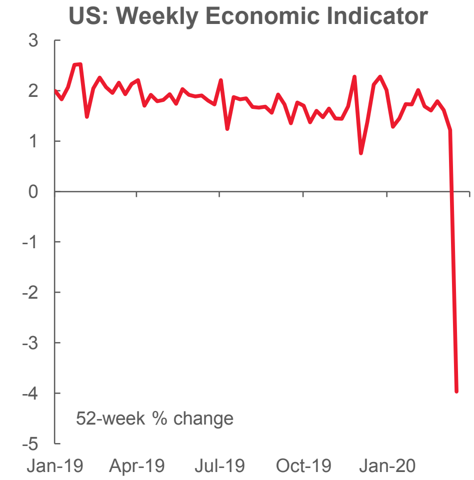
REAL, HIGH-FREQUENCY ACTIVITY DATA SHOW A SUDDEN STOP

In contrast with supposedly forward-looking sentiment surveys, high-frequency real activity data paint a much clearer and more timely picture of the sudden stop in demand that is hitting Latam:

- **OpenTable dinner reservations have plummeted in Mexico City** (chart 9) in lock-step with the downturns in the US and Canada despite the fact that non-essential businesses in CDMX were forced to close only on April 1, at least a week to 10 days later than in major American and Canadian cities;
- **Credit- and debit-card purchases in Chile** have fallen by around 30% in a representative sample (chart 10), despite the fact that supermarket sales have spiked (chart 11) as households prepared—or hoarded—going into the country-wide quarantine measures;
- **Electricity demand in Colombia (chart 12) and Peru (chart 13)** has slumped as efforts to control contagion have started to inhibit or shutter major business sectors;
- **Mexican container shipments** to end-March fell to their lowest unit volumes in 15 months (chart 14).; and
- **Daily Google searches on "unemployment"** over the course of the month of March rose by nearly 400% in Mexico and Colombia, and by about 100% in Peru and Chile,

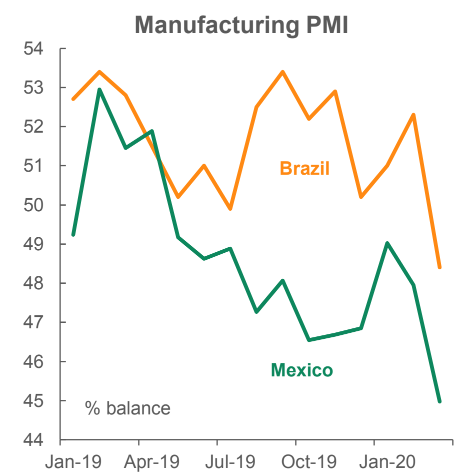
Even slightly lagged high-frequency and early indicators fail to point to the pace and degree to which Latam economic activity is set to slow. Brazilian toll-road traffic growth, often cited as a barometer of economic activity, accelerated in year-on-year terms to end-February, while y/y growth in ABPO cardboard sales, which relate to manufactured-goods shipping and consumer activity, remained well above their two-year average through the February 20 leap day (chart 15).

Chart 6



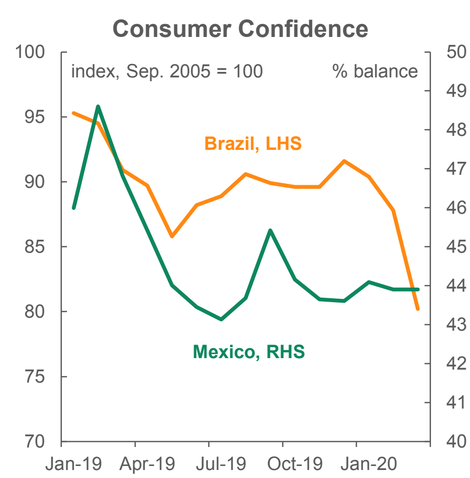
Sources: Scotiabank Economics, FRBNY.

Chart 7



Sources: Scotiabank Economics, Markit, IMEF.

Chart 8



Sources: Scotiabank Economics, Bloomberg.

The COVID-19 shutdown amounts to an unprecedented sudden stop. Assessing what it will mean for the Latam-6 requires us to draw on a similarly novel set of data sources.

USEFUL REFERENCES:

Financial Times COVID-19 reporting: https://www.ft.com/coronavirus-latest

The FT's COVID-19 chart master: https://twitter.com/jburnmurdoch

Johns Hopkins University COVID-19 data: https://coronavirus.jhu.edu/map.html

NY Fed Weekly Economic Indicator:

https://libertystreeteconomics.newyorkfed.org/2020/03/monitoring-real-activity-in-real-time-the-weekly-economic-index.html

Brazilian uncertainty index: https://portalibre.fgv.br/estudos-e-pesquisas/indicador-de-incerteza-da-economia/

OpenTable data: https://www.opentable.com/state-of-industry

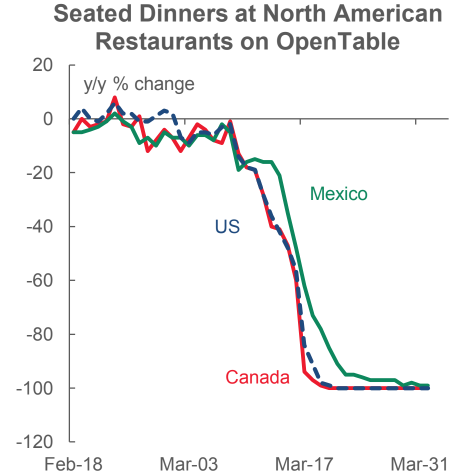
Transit use: https://transitapp.com/coronavirus

Colombia power system, XM: https://www.xm.com.co/Paginas/Home.aspx

Bloomberg data:

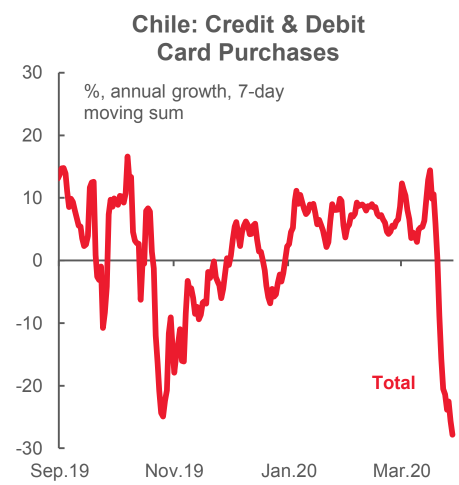
- **NY Fed Weekly Economic Indicator:** FRNYWEI7 Index
- **Brazil:**
  - Consumer confidence: BZFGCCSA Index
  - Manufacturing PMI: MPMIBRMA Index
  - Toll-road traffic: BZABABTO Index
  - ABPO Cardboard sales: BRPOI Index
- **Mexico:**
  - Consumer confidence: MXCDCOSA Index
  - Manufacturing PMI: IMEFMAIN Index
  - Container shipments: MKTVTOTL Index

Chart 9



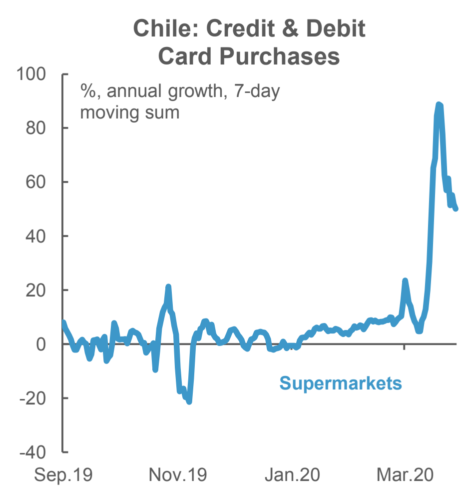
Sources: Scotiabank Economics, OpenTable.com.

Chart 10



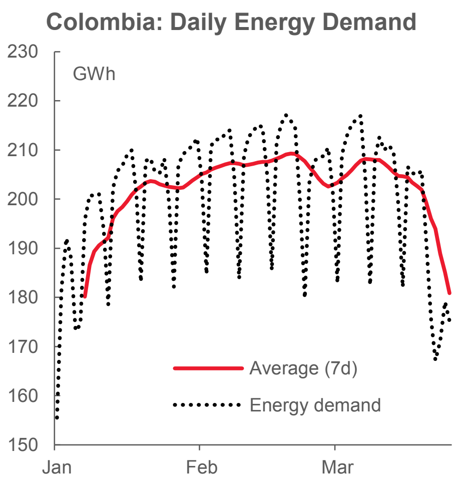
Sources: Scotiabank Economics.

Chart 11



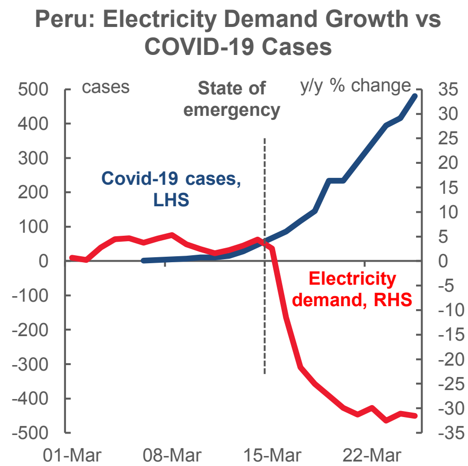
Source: Scotiabank Economics.

Chart 12



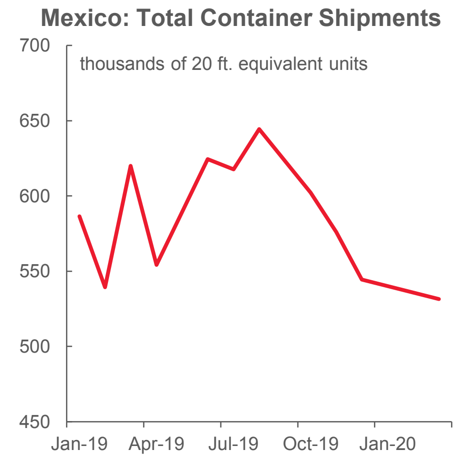
Sources: Scotiabank Economics, XM.

Chart 13



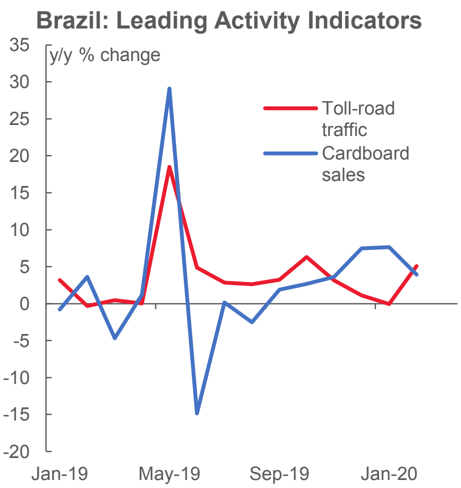
Sources: Scotiabank Economics, COES, Johns Hopkins University.

Chart 14



Sources: Scotiabank Economics, Mexico Secretaria de Comunicaciones y Transportes.

Chart 15



Sources: Scotiabank Economics, ABCR.

Table 1

Policy measures undertaken across Latam in response to the COVID-19 pandemic	
Country	**Monetary, fiscal, and public-health and security measures**
Argentina	· **Monetary.** The BCRA has gradually cut its main policy rate six times in 2020. · **Fiscal support.** March 17: gov't announced an ARS 700 bn (USD 11 bn, 3% GDP) package that includes: ARS 100 bn for infrastructure, ARS 350 bn for business loans, extended subsidies on consumer loans, price controls on a basket of basic goods, enhanced unemployment insurance and other benefits, wage subsidies, payroll-tax deferrals, and new housing credit facilities. Support measures for the informal sector also expected. · March 30: Pres. Fernandez stated he will not allow companies to carry out mass layoffs, but did not indicate any enforcement measures. · **Public health.** March 19: Argentine gov't imposed national quarantine through end-March; order confines people to home for all but essential services and production of key commodities; extended on March 29 to April 13. Borders are closed, travel restricted, and schools closed.
Brazil	· **Monetary. March 18:** BCB cut the Selic rate by 50 bps to historic low of 3.75% at its March 18 COPOM meeting; also intervening heavily in FX spot market and via swaps. · March 19: BCB granted a six-month-plus USD 60 bn swap line with Fed. · March 23: BCB broadened its measures, incl. a cut in the reserve requirement from 25% to 17%; BCB estimates these measures free up BRL 1.2 tn in liquidity. · **Fiscal.** Package under discussion in Congress includes: 50% wage subsidies through unemployment insurance and basic income equivalent to three months of min. wage for informal workers. BNDES plan for airlines. · **Public health.** Borders with 8 other South American countries were shut for 15 days on March 19. Some public gathering spots, such as beaches, have also been closed.
Chile	· **Monetary.** March 16: BCCh cut policy rate by 75 bps to 1.00% off calendar, injected liquidity into financial system. BCCh opened bank funding window at o/n rate. BCCH also launched USD 4 bn programme to buy bank corporate bonds. · March 2: BCCh announced details of credit lines and liquidity for banks. Banking regulator announced package of measures to facilitate flow of credit to companies and households. · March 31: on calendar, BCCh cut monetary policy rate by 50 bps to 0.5%, its technical minimum; signaled that monetary policy will remain expansionary for "an extended period of time". · **Fiscal.** March 19: President announced a USD 11.5 bn package (4% GDP) targeted at healthcare and jobs. The bank regulator created a package to allow deferral of up to three months debt service on mortgages, while surplus mortgage guarantees can be used to collateralize SME loans. More gradual implementation of Basel III under discussion. · March 31: Congressional approval of employment protection bill, allows workers to have access to unemployment insurance benefits while still employed. · April 1: FinMin ordered the tax authorities to return taxes paid so far in 2020 by self-employed and freelance workers. · **Public health.** March 16: borders closed, airline operations by 70%. · March 23, the gov't imposed curfew from 10pm to 5am; temporary hospitals created.

Sources: Scotiabank Economics, Latam country authorities.

(continued...)

Table 1 (...continued)

Country	Monetary, fiscal, and public-health and security measures
Colombia	· **Monetary**. On March 12, BanRep increased repo auctions to COP 17 tn and allowed more entities to participate. BanRep now also receives private bonds as collateral (it previously accepted only TES), and announced USD 1 bn in NDF auctions on the FX market. On March 16 Banrep increased repot auctions to COP 20 tn; On March 18, Banrep launched a USD 400 million FX swap program: Central Banco selling USD in the spot market with a repurchase agreement in the forward market (60 days). Additionally, improve access to short term liquidity on local and FX market extending the number of entities that can participate in Repo market and expanding the term of those operations · On March 23, BanRep announced its own version of QE: 1) Allowing the central bank to purchase private debt from financial entities with maturities up to 3 years. The first auction was on March 24 for COP 2 tn. The total purchase programme would be around COP 10 tn. Authorized counterparties are lending institutions, insurance companies, trusts, stock brokerage firms, and investment management companies; 2) Purchasing TES up to COP 2 tn for the rest of March, through the SEN platform (Sistema Electrónico de Negociación); and 3) Continue offering of repos backed by private debt for COP 5 bn on those days without regular auctions, with a previously scheduled auction canceled and the next anticipated on April 1. · On March 27, BanRep cut its monetary policy rate by 50 bps from 4.25% to 3.75%. Additionally, Banrep expanded existing measures to guarantee liquidity in the local and FX markets. · **Fiscal.** The government is providing soft loans to affected sectors, temporary exemptions on VAT and tariffs on health-related imports, credits to small businesses to cover payrolls and maintain employees. Public debt is not expected to increase: the government will use savings from oil and health funds (COP 14.8 tn) to finance these measures and TES auctions are expected to be reduced by COP 1.5 tn in 2020. · On March 25th, the government created a special fund—Fondo de Mitigación de Emergencias FOME—which will be financed by National Budget money borrowed from Fund of Savings and Stabilization (FAE) created as a fund to mitigate fluctuation in royalties, and borrowing funds from FONPET (which is a fund with pension savings from territorial entities). FOME will be managed by the Ministry of Finance to contain economic and social impacts of the coronavirus. In a radio interview, vice-minister Juan Pablo Zarate said that the Government would prefer new debt with multilaterals instead of issuing debt in the local markets. Additionally Ministry of Finance announced that will resume TES issuance in April, on Wednesday 1st will issue TES UVR due to 2029. This stimuls will total around 1.4% of GDP. · According to Survey for small and medium-size business (ACOPI) reported March 31, 20% of companies will close, 19% will not reduce its payrolls, while around one third will reduce its payrolls by 25%. · April 1, According to Minister Carrasquilla the COVID-19/oil prices shock will affect economic activity growth in 1pp in a preliminary calculation. In the fiscal plan the government had 3.7% of GDP growth for 2020. Separatly, the Universidad de Los Andes said that every month of quarantine will cost to the economy one percentage point in growth. · **Public health.** Bogota entered a four-day quarantine drill on March 20; the entire country goes on a 19-day quarantine on March 24. The government declared a health emergency on March 12 and a curfew for the elderly, and closed land and sea borders. NGOs were instructed this week to halve their activities on the border with Venezuela.

Sources: Scotiabank Economics, Latam country authorities.

(continued...)

Table 1 (...continued)

Country	Monetary, fiscal, and public-health and security measures
Mexico	· **Monetary.** Banxico moved forward its March 26 meeting to March 20 and cut by 50 bps to a still-high 6.50%. Two weeks ago it increased the potential size of its NDF program from USD 20 bn to USD 30 bn, and delivered two NDF auctions of USD 2 bn each: only USD 500 mn were placed in the first, USD 1.5 bn in the second. The central bank also re-established on March 19 a USD 60 bn swap line with the US Fed. · Banxico decided to reduce by 50 billion pesos the amount of the DRM held by commercial and development banks, which are mandatorily deposited on a permanent basis at the Central Bank. With this action, resources amounting to 50 billion pesos will be channeled to support active transactions of commercial and development banks, thus improving their liquidity and their capacity to grant credits and to maintain or expand their credit lines. · In order to strengthen the financing alternatives of commercial banks, so that they have the necessary liquidity to adequately perform their operations, the cost of the referred credits and repos has been lowered from ~2.2 to 1.1 times Banco de México's target for the overnight interbank interest rate. · On March 30, Bloomberg reported that the Mexican Bank Association requested Banxico implment broader liquidity support meassures, resembling the ECB's LTROs. It also requested measures to support the liquidity in the bond market, and to broaden the types of collateral the central bank accepts at its lending windows (the letter was reportedly sent March 26). · Also on March 30th, Banxico announced it plans to tap its swap line with the Federal Reserve to hold an auction for up to US$5bn, with the dollar liquidity having an 84 day maturity. · **Fiscal.** The FinMin with Banxico modified its debt issuance calendar to relieve pressure on the m-bono curve and executed a form of Operation Twist: it swapped longer-end bonds (m-bonos) with cetes and floating debt to reduce outstanding duration. · The President announced that from March 23, MXN 42 bn in accelerated pension payments for the elderly will be distributed. On March 24, the FinMin announced transfers to the states totalling MXN 25bn to help cope with escalating health related costs. The President also announced that the government would roll out a total of 1 mn loans to support small business. · On March 25, Mexico's Bank Association announced a series of measures that include a four-month deferral of capital and interest payments with a possible extension by two additional months on consumer loans, mortgages, auto-financing, and payroll loans. Other measures will be offered to businesses. · On March 27, Tax Administration head Buenrostro announced there will be no tax relief to businesses, as the government needs resources to cope with the medical shock. · On April 1st, Mexico's FinMin presented its Economic Policy Guideline's Update. Contrary to what the government had said, the government did introduce some mild stimulus for the corporate sector (the President had said he'd support the people). The program includes the following: liquidity provision to the construction sector (MXN 6bn), Refinancing support for company working capital and debt restructuring (MXN 10bn), funding for banks to provide longer grace periods to the productive sector (MXN 20bn), a guarantee program through commercial banks for SMEs (MXN 6.3bn), support for construction projects using syndicated lending - to extend grace periods (MXN 8.8bn), lines to help busineses withstand delays in periods for accounts receivable (MXN 6bn), micro lending for home improvments (MXN 2bn), support for loan restructurings (amount TBD), rural support measures (amount TBD), loan extensions for B-2 rated clients (MXN 2b) - this stimulus will be executed through the various development banks. All told, the suppport programs for busineses total around US$2.5bn; or around 0.2% of GDP. · On Sunday April 5, the Government is expected to announce additional economic support measures.

Sources: Scotiabank Economics, Latam country authorities.

(continued...)

Table 1 (...continued)

Country	Monetary, fiscal, and public-health and security measures
Mexico	· **Public health.** Easter Break brought forward with two weeks added to the holidays, creating a four-week school shutdown. Public events have been limited and social distancing encouraged. US border crossings are restricted in both directions from March 21 for 30 days (Mar 23 to April 19). · March 24: government moved the alert level to 2, which implies temporarily suspending large events and intensifying basic prevention measures. · March 26: government implemented the shutdown of all non-essential government functions (healthcare, tax collection, etc.). · March 27th: President Lopez Obrador escalated his social isolation recommendations for the general population, advising them to only leave for cases of strong necessity. · March 30: Mexican government extended the country's "level 2 contingency measures" from April 19 to April 30. People older than 60 years old now have mandatory isolation. · April 1: Mexico City government issued a decree ordered all non-essential business to close, including 338 shopping malls, with the decision expected to affect 80,000–100,000 employees. The head of the CONCANACO Chamber said 65% of businesses across the country were closed.
Peru	· **Monetary. March 20:** BCRP cut policy rate by 100 bps to 1.25% in out-of-calendar meeting. Financial institutions encouraged to soften loan terms. BCRP also injected PEN 400 mn to financial system through 2-yr repos. · March 26: BCRP cut reserve requirements in PEN from 5% to 4%; reduced USD rate for maturities under 2 years from 50% to 9%; reduced capital buffers. Measures expected to free up a total of PEN 1.125 bn and USD 250 mn in capital. · **Fiscal.** Gov't planned a USD 4.5 bn fiscal stimulus package (2% GDP), taking the deficit to 4% GDP. Gov't announced a stipend to compensate families for forgone income during two-week lockdown, incapacity payments for novel coronavirus patients, and extra healthcare spending. Gov't postponed mandatory tax payments for March, the kick-off for Peru's tax season and created a PEN 300 mn fund to support 10,000 SMEs. Tax authority accelerated PEN 200 mn in refunds to 200,000 taxpayers. · March 30: FinMin announced USD 26 bn (12% GDP) stimulus package: 2/3 direct support, 1/3 gov't backed loans to SMEs through BCRP; fiscal deficit, incl. package, will now total 7% GDP. As part of it, pensioners who have not contributed to their pension accounts in the last 12 months will be able to withdraw PEN 2,000 (US570). For existing pensioners, they will be able to withdraw this amount in 2 installments, half in April, and half in May (about 2.6mn pensioners are eligible according to the government). This measure represents about 3.4% of pension fund AUM. · April 1: gov't decree allowed ~3 mn members of private pension fund system without a job in the past six months to access up to PEN 2,000, estimated to boost household income by PEN 4.5 bn. · **Public health.** March 16: gov't declared an emergency, enacted a two-week quarantine, and halted air travel out of the country. · March 27: Congress granted the government legislative powers for the duration of the pandemic. · March 30: curfew was extended from 20:00–05:00 to 18:00–05:00. Army reserves called up to help keep public order. · March 31: virtual education system announced for public and private schools, from April 6; schools expected to resume in-classroom learning on May 4. State of emergency confirmed through April 12, with some aspects continuing thereafter. · April 1: gov't established a COVID-19 Operations Command to monitor and expedite policy and implementation decisions.

Sources: Scotiabank Economics, Latam country authorities.

Markets Report: Decomposing Premiums, Volatility, & Stress

- **Latam markets continue to show important signs of stress, even as regional central banks take aggressive action to calm them. Banxico has already tapped its swap lines with the Fed to ease domestic USD funding stress.**
- **On the fixed-income front, we break down local rates into their principal components to better understand Latam's debt dynamics and anticipate the post-pandemic rebound.**

PANDEMIC-DRIVEN RATINGS DOWNGRADES BEGIN

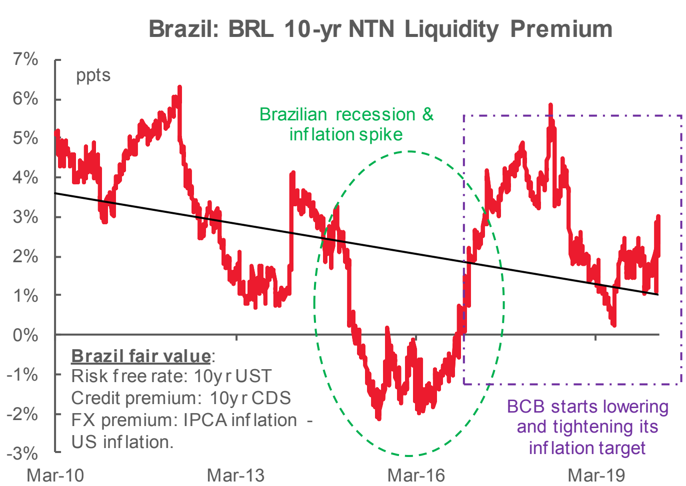
Ratings agencies are moving on sovereigns, mirroring the corporate downgrades we highlighted in our previous *Latam Weekly*. On March 26, S&P kicked off pandemic-related ratings actions across Latam with a downgrade to Mexico's BBB+ sovereign rating to BBB, with a negative outlook, and move from stable to negative on Colombia's BBB- rating. This week, on April 1, Fitch downgraded Colombia to BBB- and left its negative outlook in place.

VOLATILITY AND STRESS IN FX

In an adverse rating environment, and with global markets remaining volatile, Latam FX had another rough week. Most major regional currencies printed in the red, with MXN once again leading the declines, down -4.8% w/w (table 1). Of 31 "expanded major currencies" tracked by Bloomberg, the Brazilian real now stands as the second worst performer YTD (-23.4%), followed closely by the Mexican peso (-22.8%)—both lag only the drop of the South African Rand (South Africa lost its Moody's investment grade on March 27th).

For the Mexican peso, this has been the worst quarter in the past 25 years, taking us back to the Tequila crisis to find a worse performance for MXN. With the peso in free fall, and continued signs of stress in the Mexican FX market,

Chart 2



Sources: Scotiabank Economics, Bloomberg.

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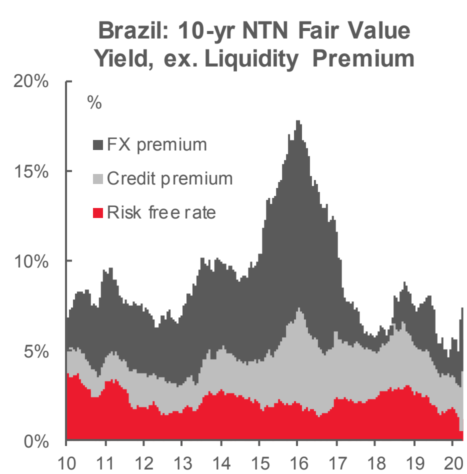
Table 1
Latam FX Performance

	Year-to-date	1-month	1-week
ARS	-7.3%	-0.3%	-0.3%
BRL	-23.4%	-0.9%	-2.9%
CLP	-12.4%	-0.6%	-2.8%
COP	-18.6%	0.6%	-1.7%
MXN	-22.8%	-3.4%	-4.8%
PEN	-3.7%	-0.2%	-0.6%

Sources: Scotiabank Economics, Bloomberg.

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Banxico on March 31 tapped its USD 60 bn swap line with the Federal Reserve, to offer USD 5 bn in USD credit lines (maturity June 26, 2020). Despite the actions by Banxico, the peso market continues to show some signs of stress.

DECOMPOSING THE PRINCIPAL COMPONENTS OF LATAM YIELDS

Liquidity premiums have spiked in much of Latin America as the global coronavirus shock drives the risk of a sudden stop for EM capital flows. Consistent with this sudden stop, Latam markets have seen spikes in liquidity premiums, forcing investors to pay higher exit prices. In Peru and Colombia, the spikes have been sharp, likely due to the unexpectedness of the sudden stop in capital to EM. In Mexico, liquidity premium has been drifting higher steadily for a couple of years now, suggesting it also won't dissipate as quickly as it will in Peru and Colombia (that's assuming, like our house view, that Colombia and Peru will experience shocks, but rebound in relatively sound shape).

It's interesting to note that not all Latam has evolved in the same way: Chile is once again an exception. Chile's liquidity premium has compressed during the COVID-19 shock, consistent with the haven behavior the country's bonds often show.

In the prologue to *Expected Returns: An Investor's Guide to Harvesting Market Rewards*, Antti Ilmanen and Cliff Asness—both from AQR, one of the largest hedge funds in the world—suggest that there are three useful methods for harvesting alpha:

> *(1) one can forecast the future from looking purely at how something has done in the past,*
>
> *(2) one can forecast the future based solely on your theory of how the world should work without examining data,*
>
> *(3) one can jump straight to current measures (e.g., the P/E of the stock market, the nominal or real yield on bonds) and use them to forecast.*
>
> *Ilmanen and Asness favor (3), but even using current measures like P/E and yield one still needs history and theory. One would like some theory to guide why one thinks today's stock market P/E should be related to its future return, and probably would like some evidence that this has historically been an effective tool.*

The Ilmanen-Asness way of looking at markets consider which factors drive prices and, based on them, tries to understand how they will evolve. In this framework, bond yields are made up of four major components: (1) a risk-free rate, (2) a credit premium, (3) an FX / inflation premium, depending on whether an investor is local or global, and (4) a liquidity premium. Applying this logic to Latam local bonds to understand their "fair value yield", we use:

- For a risk-free rate, we use the **corresponding maturity US Treasury**, in this case 10yrs;
- To proxy the credit premium, we use the **corresponding maturity CDS for that country**, again 10yrs;
- To estimate the FX premium (we are modelling it for global investors) we use **inflation differentials between that country and the US**, based on effective exchange rate theory (we use inflation differentials or expected inflation differentials depending on data availability); and
- Liquidity premium: The liquidity premium is somewhat of a "what if I need to leave and the door is too small" premium. **We estimate the liquidity premium by subtracting the other 3 components from the yield on domestic Latam securities**. In a study by the San Francisco Fed, they found "*the increase in the share of foreign holdings of Mexican bonos is significantly positively correlated with the change in the bonos liquidity premiums, both on its own and after including a large number of control variables. In terms of magnitude, the results imply that a 1 percentage point increase in the foreign share raises the liquidity premium by about 0.75 basis point*", i.e., as more foreigners are invested in Mexico, the risk of the door being too small in a mass exit gets bigger, and hence a higher premium is required. This is particularly important when the risk of a "sudden stop" rises, as we've been discussing the past couple of weeks.
- **We will focus on five of the Latam-6 markets we cover: Brazil, Chile, Colombia, Mexico and Peru. It is difficult to apply this framework to Argentine markets in the midst of the restructuring process.**

In terms of the factors that explain Latam's relatively high yields, we think a good list of factors, some of which apply to several countries in the region was discussed by the IMF for the case of Brazil (see "The Puzzle of Brazil's High Interest Rates" A. Segura-Ubiergo, IMF). The IMF explains Brazil's persistent high rates through: 1) fiscal considerations, 2) a low domestic savings rate, 3) institutional weakness that affords weaker protection to investors, 4) a history of high inflation, with high volatility, and 5) factors that affect monetary policy transmission. These factors don't all affect all Latam countries equally, but several of them are present to different degrees throughout the region.

Brazil: Brazil has had among the highest yields in the region for the past couple of decades, including during a period when it was rated investment grade. High inflation volatility, as well as the levels it reaches are a major part of the reason for the country's high historic yields, but not the only one. Historically, Brazilian yields have been propped up by: (i) fiscal dominance and a high public debt burden affecting both inflation and credit premium, (ii) a low savings rate explains part of the credit premium component of our fair value estimate—and could also explain part of the liquidity premium—as it means less domestic debt buyers during a shock, (iii) a history of high inflation and inflation volatility in our model explains the highest share of rates volatility, and at times, also the bulk of the spread between Brazilian local rates and USTs. (iv) Another major contributor to high Brazilian rates is credit segmentation (partly due to periods where the government aggressively provided subsidized lending to the country's largest companies through development banks, essentially taking prime borrowers out of the market, leaving a market made up of a pool that excluded tier-1 borrowers—leading to a higher clearing rate). Credit market segmentation for private borrowers should not affect the sovereign yield curve in a major way (it's the domestic risk-free rate), but it could affect the clearing rate for the CB policy rate, and hence the anchor curve for the Brazilian yield curve.

Over recent years, we've seen a steady decline in Brazilian rates. A large part of the decline has been due to inflation steadily moving lower with the BCB starting to reduce its inflation target, while narrowing its inflation tolerance band, increasing credibility in its inflation targeting regime. Credit market segmentation has also been reduced with the convergence of the TJLP (the BNDES reference rate) to the SELIC rate (at times the TJLP was tight by over 600 bps to the BCB policy rate), as well as less aggressive lending by state-owned banks relative to the post-crisis period. As a result, we've seen a steady decline in Brazilian yields, as well as a drop in the country's liquidity premium, as the increased perception of stability leads investors to ask for a lower "exit door premium".

However, there are 2 major risks to this view related to the current situation: 1) with the size of the global slump that we (along with many market players) anticipate, Brazil's already-weak fiscal accounts can deteriorate further, leading to a wider credit premium, 2) the size of the BRL slump suggests there is material latent FX-inflation pass-through.

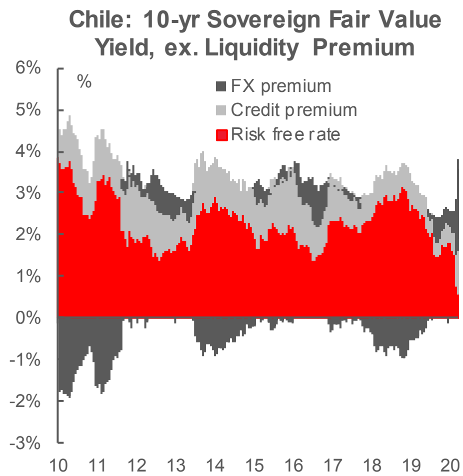
Chile: In its October 2014 *Global Financial Stability Report*, the IMF had an interesting analysis (Figure 1.26. Monetary Policy Normalization), where it outlined how large economies in the EM world react to changes in US rates. The analysis separated two components of EM yield moves: 1) a volatility shock—a form of temporary overshoot, and 2) the US rates shock—the more permanent move. The study showed that Chilean yields are quite defensive, having both low temporary and permanent bets to US rates shocks. The defensive nature of Chilean yields is supported by its net creditor pension system, which represents around USD215 bn (75% of the country's GDP, among the deepest in the world), of which just under USD90 bn (40%) was invested abroad according to the last report from the pension regulator. This large creditor position from Chile's pension funds explains why Chilean bonds tend to be somewhat defensive assets during periods which trigger a home bias for large domestic pension funds (CLP is not necessarily that defensive). The ongoing decline in "liquidity premium" in Chilean bonds results from this home bias in our view.

Colombia: Almost on the opposite end of Chile in the performance of its domestic bond market during times of global financial stress has been the COLTES market. While Chilean domestic sovereign bonds were shown by the IMF in its October 2014 *Global Financial Stability Report* to have a low beta to US rates, Colombian bonds behave in almost the opposite manner. As we saw in the taper tantrum, the Interbolsa collapse, and currently in the Coronavirus crisis, liquidity in Colombian markets tends to dry up rather severely during periods of stress. A large share of the spike in Colombian yields tends to be an overshoot that takes place due to the dry-up in liquidity, which also means that Colombian yields tend to see strong compression after stress is past. Among the countries we looked at here, Colombia easily had the sharpest spike in liquidity premium, likely in part because of how sharp and unexpected the shock to oil prices was, meaning investors were unprepared for the blow to both Colombian public finances and growth (since the shock began, Colombia's credit ratings were downgraded to BBB-, negative outlook by Fitch on April 1; and S&P cut the outlook on the country's BBB- rating to negative).

Mexico: Mexico's bond market has been showing a rising liquidity premium since 2017-2018, after being steady during 2011-2017. One possible reason is that uncertainty about a new government describing itself as a transformation, combined with very high foreign ownership of m-bonos, has driven the wider premium investors demand for maintaining a high exposure to Mexican bonds. This widening premium demanded by investors also suggests that—even if Banxico undertakes an aggressive monetary policy easing cycle to deal with the sharp slowdown we expect in economic activity— the curve will steepen rather than compress on aggregate. Given that the increase in liquidity premium has been sustained and fairly long-lasting, it's unlikely to reverse as suddenly as in countries where the liquidity premium spiked due to the unexpected COVID-19/oil shocks. Also interesting is that with the liquidity premium already steadily widening over recent years, and also possibly because of the high overall level of Mexican yields, the speed at which investors were forced to pay a steeper price to exit did not widen as much as it did in places like Peru or Colombia.

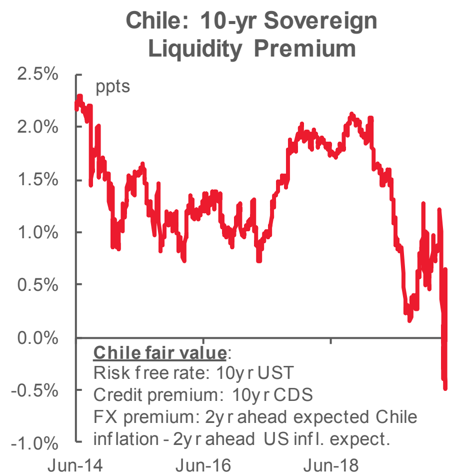
Peru: Peru's liquidity premium spiked aggressively during the current COVID-19 crisis, in a very similar manner to Colombia's premium. Next to Mexico, Peru has the highest foreign ownership of its domestic sovereign bond market (54% of the >6yr segment of the curve), likely explaining part of the reason for the sharp spike in the country's liquidity premium—which is consistent with the SF Fed paper we referenced earlier (which analyzes a similar dynamic for Mexico). The current spike in Peru is more consistent with a volatility premium or overshoot, and we'd expect it to compress relatively quickly once the financial disruptions from the Coronavirus disruptions pass.

Chart 3



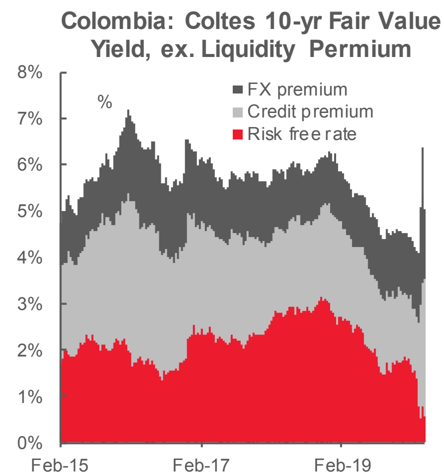
Sources: Scotiabank Economics, Bloomberg.

Chart 4



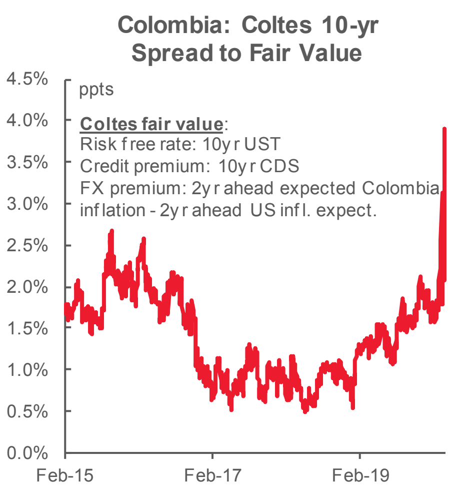
Sources: Scotiabank Economics, Bloomberg.

Chart 5



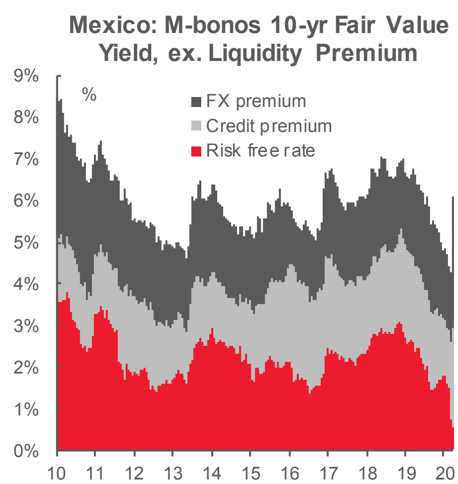
Sources: Scotiabank Economics, Bloomberg.

Chart 6



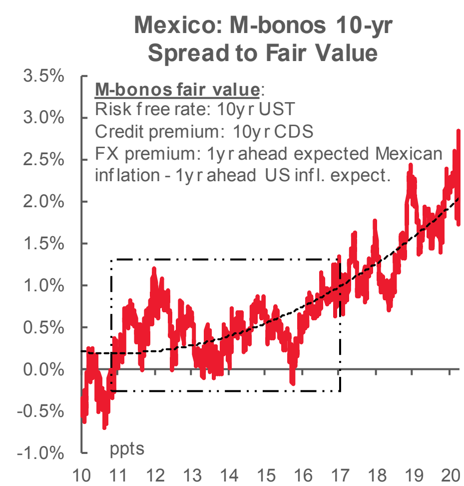
Sources: Scotiabank Economics, Bloomberg.

Chart 7



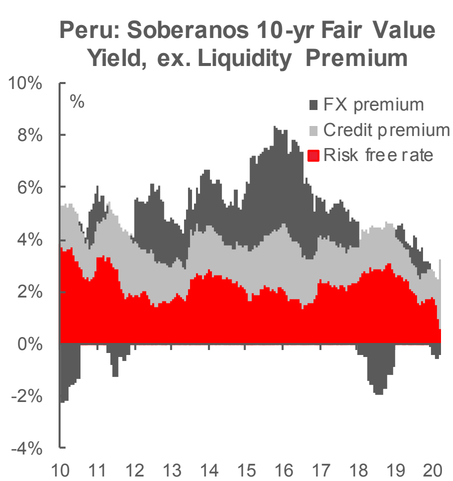
Sources: Scotiabank Economics, Bloomberg.

Chart 8



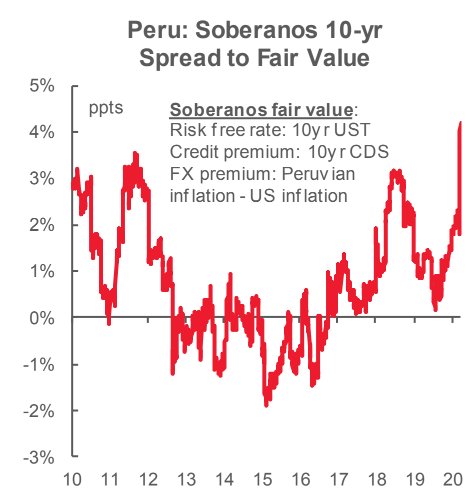
Sources: Scotiabank Economics, Bloomberg.

Chart 9



Sources: Scotiabank Economics, Bloomberg.

Chart 10



Sources: Scotiabank Economics, Bloomberg.

Country Updates

Argentina—Three Lost Years

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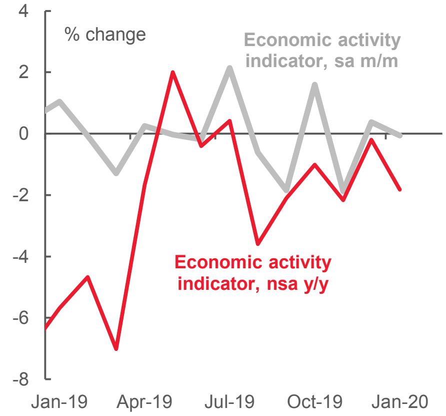
Argentina's weak close to 2019 carried over into January's monthly economic activity numbers, which put the country on an early track to underperform our forecast of a contraction of -2.4% y/y in real GDP during 2020. Economy activity (NSA) shrank by -0.1% m/m in January, a slowdown from December's 0.2% m/m expansion; this translated into a -1.8% y/y retreat in the first month of 2020, slightly worse than the survey's projected -1.7% y/y. January's weakness had substantial breadth as 8 of 15 sectors printed negative year-on-year growth. The few bright spots were public utilities, up 4.4% y/y, and education, up 0.9% y/y; in contrast, declining sectors were dominated by construction, which shrank -13.7% y/y, and finance, down -7.8% y/y. On pure base effects, January's activity index put the Argentine economy on track for a third straight year of contraction in 2020 even before the domestic and external shock of the COVID-19 pandemic begins to be felt.

Argentina: January's Soft Start to 2020



Sources: Scotiabank Economics, INDEC.

On Sunday, March 29, the Casa Rosada announced that the national quarantine, which began on March 20 and had been set to end on March 31, would be extended until April 13. On March 30, Pres. Fernandez followed up with a statement that the government would not allow companies to carry out mass layoffs, but he didn't provide any indication on how this threat would be enforced.

Despite the extension of the quarantine, the government is continuing its preliminary talks with creditors in an effort to present a debt restructuring offer in about two weeks' time. The authorities' original calendar had anticipated prospective terms and a roadshow in mid-March, followed by an agreement with creditors by the end of the month. After the completion of a new IMF debt-sustainability analysis (DSA) on March 19, talks are also ongoing with the Fund on a new borrowing programme to replace the now-suspended USD 56 bn Stand-By Arrangement (SBA). The IMF's DSA anticipates an economic contraction in 2020 of -2.3% y/y, similar to our forecast of -2.4% y/y, but it expects a firmer rebound than we foresee going into 2021 and the next couple years thereafter. The IMF pegs long-run potential growth at only 1.5% y/y. With Sunday's extension of the quarantine, both the IMF's and our forecasts look ambitious, which implies deeper haircuts in an eventual restructuring than have been broadly discussed.

Tax revenue for March, due on Friday, April 3, will be one of the first data points to show the impact of the national quarantine imposed in the second half of the month.

Brazil—Entering the Maelstrom

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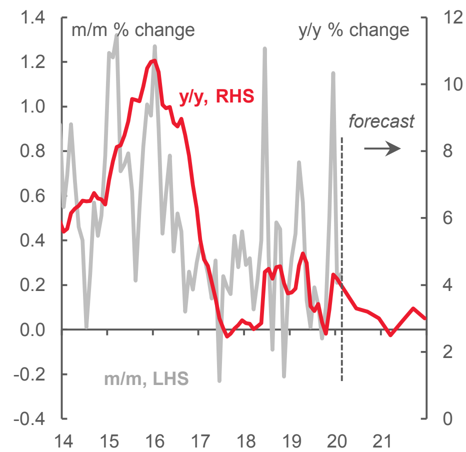
Last week, Brazilian data suggested that the economy has entered the COVID-19 pandemic in worse shape than we had expected, with January growth numbers coming in around half as strong as consensus had anticipated (i.e., +0.69% y/y versus consensus of +1.05%) and unemployment already on the rise (i.e., 11.6% versus 11.2% the previous month). Brazil has been relatively slow in adopting social distancing measures relative to other countries, so we would expect most of the economic blow from these restrictions to still lie ahead of us. On April 3, we got March PMIs, where services collapsed from

50.9 in February to 37.6 March, which gave us our first major glimpse into how severe the impact from quarantine and lockdown policies could be for the country's economy, even before federal measures and enforcement have begun. This reinforces our view that real GDP growth is set to be negative this year.

Looking ahead to data arriving next week, the monthly GDP proxy and retail sales numbers would normally both be greeted as tier-1 releases, but both updates are prints of February data, they will be stale on arrival, and they will be of little relevance to markets or policy makers at this stage. We will be looking more closely at the IPCA data for March to see how inflation is evolving in the context of a much-depreciated BRL, although we acknowledge that it is still too early to pick up FX pass-through effects. Market consensus and our forecasts for both the Selic rate and IPCA for 2020 now look too high and there are significant risks that they both will need to be downgraded.



Sources: Scotiabank Economics, Bloomberg.

Chile—Growth Stabilized Prior to COVID-19's Arrival

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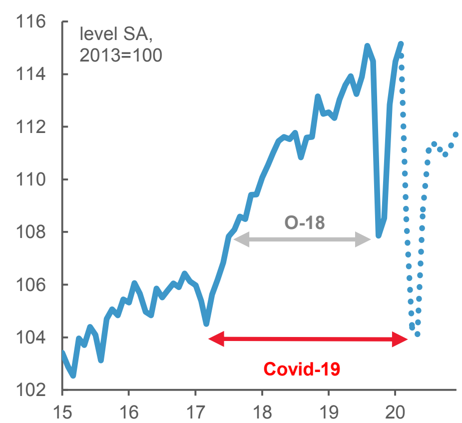
This past week has been busy with economic data publications. On Tuesday, March 31, the unemployment rate reached 7.8% in the moving quarter Dec–Feb, showing a counter-seasonal behavior for a month of February that historically presents low levels of unemployment. Although the deteriorating trend in employment that started in October continues, private salaried employment continued to show strength until February. That same day, during the afternoon, the Central Bank decided to cut the monetary policy rate by 50 bps to 0.5%, its technical minimum. It also signaled that the monetary policy will remain expansionary for "an extended period of time", in order to support the weak economy. On Wednesday, April 1, the monthly GDP for February was released, showing an expansion of 2.7% y/y, favored by an extra day due to the leap year. This result is the greatest expansion since the social outbreak, evidencing a certain normalization of activity, especially in manufacturing, and continued to be favored by the high strength of construction that was associated with the acceleration of public works projects and also those linked to the mining sector. We also saw the publication of the *Monetary Policy Report* by the Central Bank in which the Bank anticipates an annual average contraction of 2.1% for 2020 GDP, in line with our estimate of -2.1%. However, the CB estimates an average expansion of 4.3% for 2021 that we do not share. Although we will have a natural "rebound due to the base of comparison", the extended local political uncertainty leads us to project a lower expansion of 2.9% by 2021.



Sources: Scotiabank Economics, Chilean Central Bank.

Next week, on Wednesday, April 8, we will know the CPI data for March. We estimate a monthly inflation of 0.4% m/m (3.8% y/y) for March, above what was anticipated by the Financial Operators and forwards (0.3% m/m). The depreciation of the exchange rate—which would continue to push up the price of imported goods—along with the annual adjustment of educational services, would be the main determinants of this month's results. On the other hand, we should once again observe a drop in fuel prices, given the tensions between the producing countries that led to a significant drop in the price of the commodity in the month. For April, we estimate monthly inflation of 0% m/m (3.6% y/y), markedly below the market forwards, which stand at 0.2% m/m. Despite the announced price rise in bread (3% m/m), we will observe new falls in fuel prices, and there is the risk that the National Bureau of Statistics will not be able to gather prices for many of its products given the current health situation. With this, many products would show, due to methodological issues, a price maintenance during this month. Regarding activity, various indicators of electricity generation, exports and imports reveal that March GDP would suffer strongly from the effects of COVID-19. We reiterate our monthly GDP projection for March around -4% y/y.

Colombia—Waiting for March Inflation

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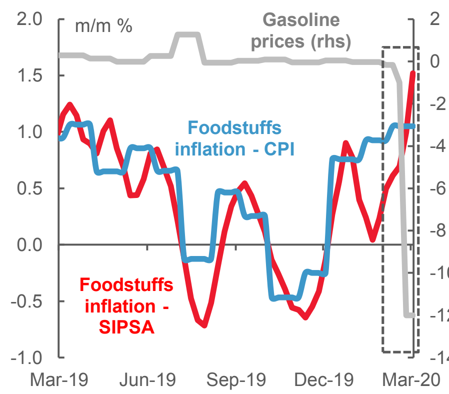
This week in Colombia, BanRep met market expectations and cut the policy rate by 50bps and continued to extend liquidity programs in pesos and dollars, which has helped the system to keep running in these new-normal times and has assisted small entities to solve some small liquidity problems. Additionally, the government started to implement the COVID-19 social program of COP$14.8 tr (~ USD3.7 bn, or 1.4pp of GDP) especially to help the health system to be prepared for the pandemic's peak, and assist the unemployed population and informal workers to survive during the mandatory lockdown (initially up to April 13).

Colombia: Leading Inflation Indicators, Foodstuffs & Gasoline



Sources: Scotiabank Economics, DANE-SIPSA, Ministerio de Minas.

In a more significant movement than S&P, Fitch decided to downgrade Colombia one notch to BBB-. Although this is still investment grade, the agency also decided to maintain negative outlook to Colombian debt on the back of lower credibility in fiscal accounts and the possibility that fiscal consolidation takes longer due to oil prices and COVID-19 shock. Fitch emphasized that although Colombia's macroeconomic policy framework overall remains solid, the predictability and credibility of the medium -term fiscal policy have deteriorated, which is a direct critique on the compliance of the fiscal rule through extraordinary revenues and on the difficulties of raising more structural sources of tax revenues.

On the data side, DANE released February's unemployment statistics; it is worth noting that February wasn't affected by COVID-19 shock. Unemployment rate had mixed results: nationwide unemployment came in at 12.2% (Feb-19 was 11.8%), while urban unemployment (13 cities) came in at 11.5% (Feb-19, 12.4%). Labor force participation decreased to 63.2% (Feb-19, 63.9%) for the nationwide print and increased to 65.9% for the urban reference. Seasonally adjusted unemployment showed a deterioration, 10.8% vs. 10.5% in January-20 for nationwide, and increased to 10.8% vs. 10.3% in January-20 for the urban print.

The unemployment rate stabilization in February was positive news, but will be interrupted by the nationwide mandatory isolation that began on March 25th since—during the isolation—activities such as commerce, non-essential manufacturing, tourism, and construction were suspended. Those activities account for around 55% of total employment. COVID-19 shock is already affecting labor market recovery and if the lockdown is extended, the deterioration will be worse. The only sectors in which the shock may not be that large are agricultural and some sub items in commerce due to the higher demand for basic goods.

Finally, this Saturday, April 4th, at noon, DANE will publish March inflation, which is the first official data that will include the initial effects of the COVID-19/oil price shock in Colombia. We think it´ll show mixed results. On one side, foodstuffs prices and basic goods (15% of CPI basket) have shown significant increases and can show inflation close to 1.5% m/m; however on the other side, gasoline prices (2.9% of CPI basket) dropped by 12% on March 15th, and other goods and services such as vehicles, culture, luxury goods will show zero or negative monthly inflation. All in all, we believe that downward forces will more than net-off the foodstuffs increase, and inflation will surprise downwards. The market is expecting 0.43% m/m (according to Blomberg), we think it can be lower, around 0.1% m/m.

Mexico—Assessing New Budget Assumptions

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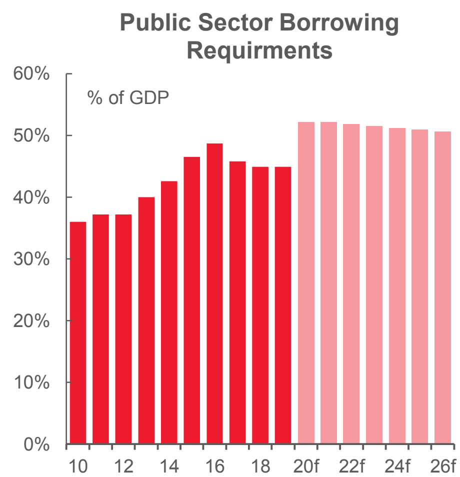
The Ministry of Finance presented the "PreCriterios" document to Congress, presenting an updated view of their budget assumptions. The numbers are closer to consensus estimates, but remain on the optimistic side. The assumptions include: a -2.9% real GDP contraction in 2020 which contrasts with an average forecast of -3.99% in the last Economist Survey by

Banxico (April 1). The government relaxed some of its fiscal targets, including the broadest definition of debt, the historical balance of the PSBR (HBPSBR), which will rise to 52.1% of GDP in 2020 from 44.9% of GDP in 2019, while the primary balance target for 2020 was adjusted to a deficit of 0.4% of GDP from an original target of a surplus of 1.0% of GDP. For 2021 a deficit of 0.6% of GDP in the primary balance is set. Even though an easing of the fiscal stance was expected, due to the emergency detonated by COVID-19 and the required measures to prevent further damage to the economy, the Government will channel resources to keep the "priority projects" (refinery, Mayan train and the Santa Lucia Airport) running, projects that most analysts agree are a waste of resources. Pemex will need to make significant adjustments to its business plan, since most likely conditions in 2020 will imply a new net loss of more than 1 billion pesos, and more financial support from the government will be required. The probability of another credit downgrade even to the point of losing the investment grade has increased—although it is still not a major short-term risk.



Sources: Scotiabank Economics, SHCP.

In the coming week (expected for Sunday the 5th), a new package of government measures to address the COVID-19 emergency and its impact on the economy will be announced, and markets will be sensitive to this package. The minutes of the last monetary policy decision will be released, as well as the figures for the auto industry in March which will start reflecting the impact of the disruption. There will also be some other relevant indicators, such as private consumption and investment in January, and industrial activity from February. Finally, it should be noted that some statistical data will be harder to collect under the isolation period and harder to read under these special circumstances.

Peru—Fiscal and Monetary Compensate Only Partially for the Quarantine

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We are lowering, yet again, our 2020 GDP forecast, from 0.3% to -2.3%. This is in line with Scotiabank Global Economics' recent change in the global GDP growth forecast from 1.3% to nil, and takes into account that Peru's State of Emergency has been extended until April 12, and may be partially extended further. It also considers recent information on the impact that the emergency is having on domestic demand and mining production, as well as the deepening of the global downturn.

Peru: Revised GDP forecasts, decomposition

	2019	2020f	2021f
GDP	**2.2**	**-2.3**	**4.5**
Imports	1.2	-7.6	5.1
Domestic demand	**2.3**	**-2.2**	**4.6**
Private consumption	3.0	-1.0	3.8
Gov't current spending	2.4	10.2	2.6
Private investment	4.0	-10.2	4.8
Public investment	-2.1	0.3	10.0
Exports	**0.8**	**-7.4**	**4.8**

Source: Scotiabank Peru.

Peru's drastic measures to contain COVID-19 have led to the shutdown of much of the economy. Nearly all sectors are affected. The production of non-essential goods and services has been shut down, small businesses are floundering, mining companies have reduced operations in magnitudes never before seen. There will be longer term repercussions in restaurants, lodging, entertainment, tourism and transportation, and even those segments of the economy that are less affected by demand issues, such as agroindustry, are having problems obtaining intermediate supplies, as well as with logistics, transportation, insurance, and port access.

Perhaps the most worrisome aspect is the loss of jobs and household income, which will recover only slowly. Until it does, consumption, especially of services, will be under pressure. We were never too optimistic about private investment growth this year, but are now considering a strong contraction. Business loans growth will reflect need for liquidity and resources to ride out the emergency period, rather than investment plans. We are forecasting a sharp 7.4% decline in exports, for both supply and demand reasons. Both exports and private investment can rebound equally sharply once COVID-19 is contained locally and globally. This would occur in 4Q2020 in our forecasts, but more resolutely in 2021.

Fishing and Agriculture are the only two sectors for which we anticipate growth in this year. We expect a sharp decline in services, manufacturing, retail and mining.

The silver lining is government spending, particularly current spending to attend the health emergency and subsidies. Public sector investment is more of a question mark, as it too will be affected by the emergency measures. On an equally hopeful note, President Vizcarra announced that on-site schooling would re-open on May 4, which puts a tentative end date to emergency measures. Vizcarra reiterated that the State of Emergency ends on April 12, although some aspects would continue. In our view, Vizcarra would like to begin lifting the State of Emergency after Easter, not totally, but enough to able to no longer call it a State of Emergency. That would mean lifting restrictions on going to work, and partially lifting the curfew. However, we also believe that for this intention to materialize, the COVID-19 case curve must not turn exponential in the meantime.

Meanwhile, Peru has launched the largest fiscal and monetary response in the country's history. This will definitely help, but will not prevent a contraction. It should help the rebound to be quicker and stronger, however. We have increased our growth forecast for 2021 from 3.5% to 4.5%.

Near the end of March, authorities announced a huge S/ 90bn (US$26 bn) in fiscal, monetary and private sector resources to confront COVID-19 and the economic downturn. This amounts to 12% of Peru's GDP. The objectives appear to include: 1. Contain COVID-19; 2. Ensure that the payment chain is not broken; 3. Provide a safety net to low-income households; 4. Provide a safety net to small and micro businesses; 5. Counter the short-term impact of the State of Emergency; 6. Stimulate an early and adequate recovery.

Of particular importance is maintaining the payments chain. With this in mind, the Central Bank has been providing liquidity through a number of measures, and has lowered its reference rate from 2.25% to 1.25%. As part of the new fiscal and monetary package, the CB will provide banks with liquidity for up to S/ 30 bn for loans to small business, with sovereign backing by the country's treasury. The main aim is to ensure that businesses continue being considered creditworthy by banks.

The breakdown of economic measures worth 12% of GDP is more or less as follows: fiscal spending 5.5% of GDP; Central Bank loan guarantees 4% of GDP; the remaining 2.5% would include increased access to pension funds, worker compensation, and tax benefits.

Not all the S/ 90 bn will not involve the use of fiscal resources. The numbers are still a bit fuzzy but—considering that the package of measures involves the use of CB guarantees, access to private savings, and tax benefits, the actual fiscal impact as well as timing—the measures could raise the fiscal deficit to between 6% and 8% in 2020, and keep it over 3% in 2021.

The emergency spending finds the country in a position of fiscal strength. The government would use, in part, savings that are held in the financial system, and would tap, to some degree, the USD5.8 bn Fiscal Stabilization Fund. Peru would also reportedly be seeking a USD18 bn contingency loan from the IMF. Eventually, the country would still need to issue sovereign bonds to complete financing needs.

Other news

Inflation was 0.65% in March, taking the 12-month figure to 1.8%. Inflation has been stable and in a tight range of just under 2.0% since mid-2019. This is especially noteworthy given strong price movements in March due to demand fluctuations linked to the coronavirus emergency. Inflation going forward should decline as domestic demand contracts, and lower global oil prices begin to feed through. Our inflation forecast for the year is 1.4%, although CB spokespeople had said they expect lower.

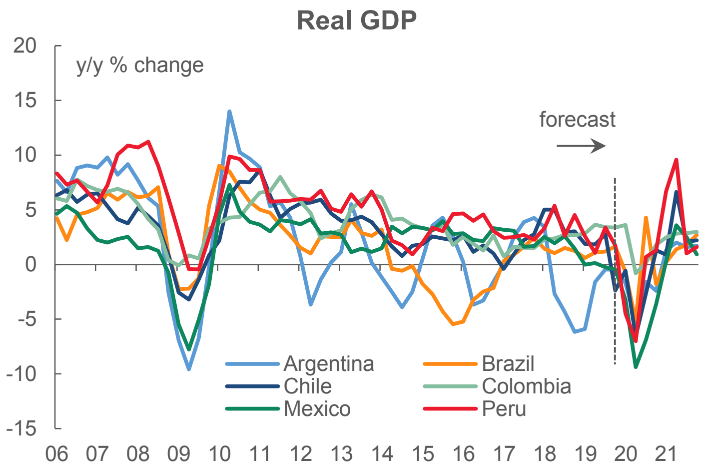
We expect the Central Bank to lower its reference rate, currently at 1.25%, to 0.75%. We expect this to occur in April, or at latest in May. The reference rate is not really the CB's main policy tool. In the past it has preferred managing liquidity through reserve requirements on bank deposits and, more recently, through repos.

In March, electricity demand fell 13% y/y, for the month as a whole. However, daily demand was down as much as 30%, compared to a year early, during a number of days, after the State of Emergency was declared on March 15.

In February, Fishing rose 19%, cement rose 4.0%, and electricity was 6.2% higher. Together, these figures suggest February GDP growth of between 2.5% and 3.0%. The figures, of course, represent a situation pre-COVID-19, and are not very relevant any longer. These figures support the idea that the economy had recovered close to 3% growth and was moving along nicely, prior to COVID-19.

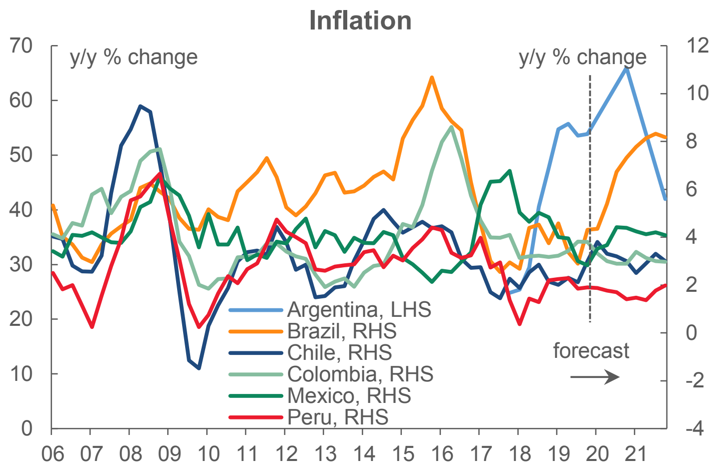
Key Economic Charts

Chart 1



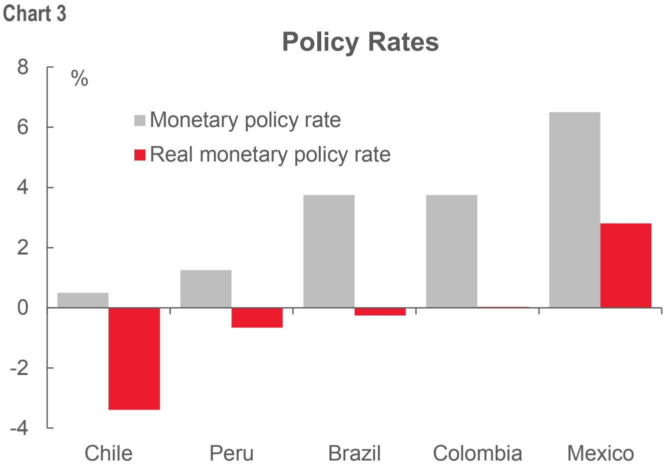
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



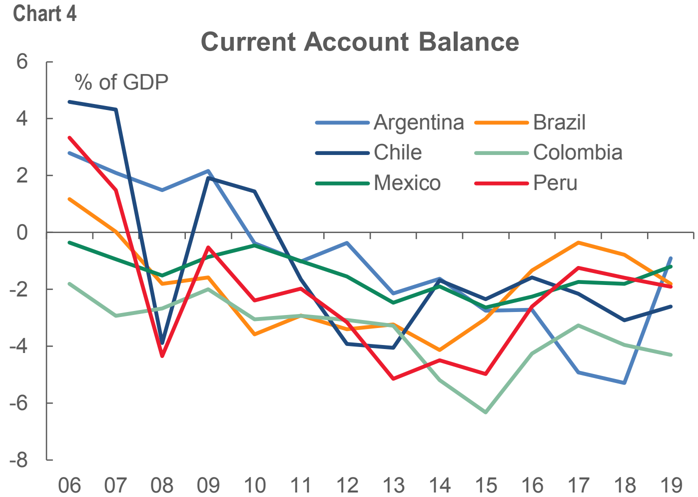
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



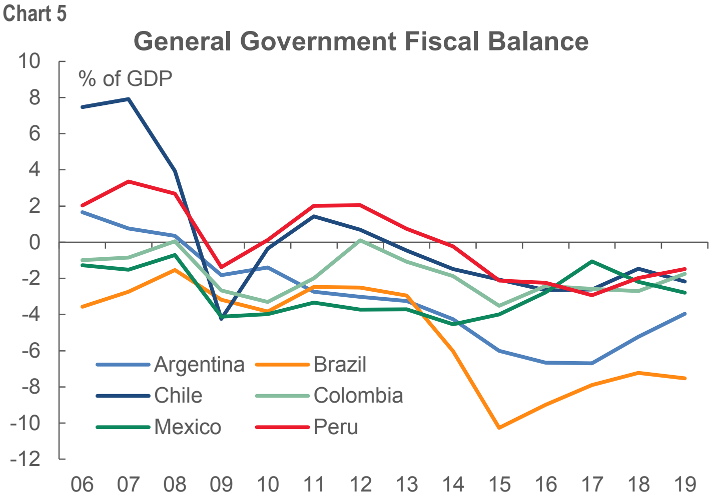
Argentina: MPR = 38.0%; Real MPR = -12.3%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



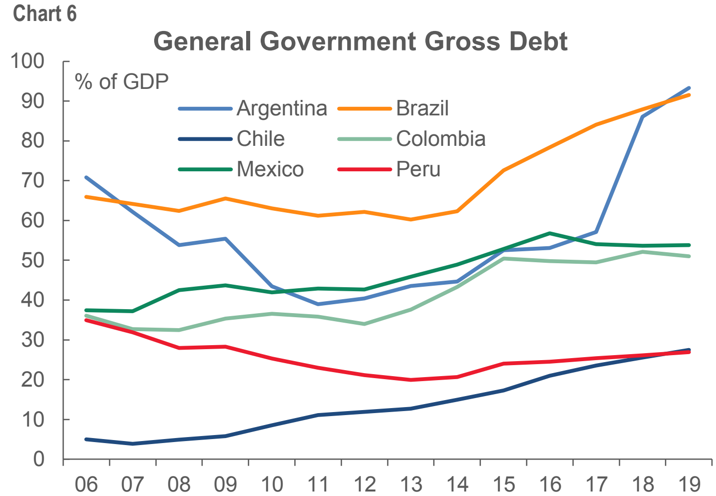
Sources: Scotiabank Economics, IMF.

Chart 5



Sources: Scotiabank Economics, IMF.

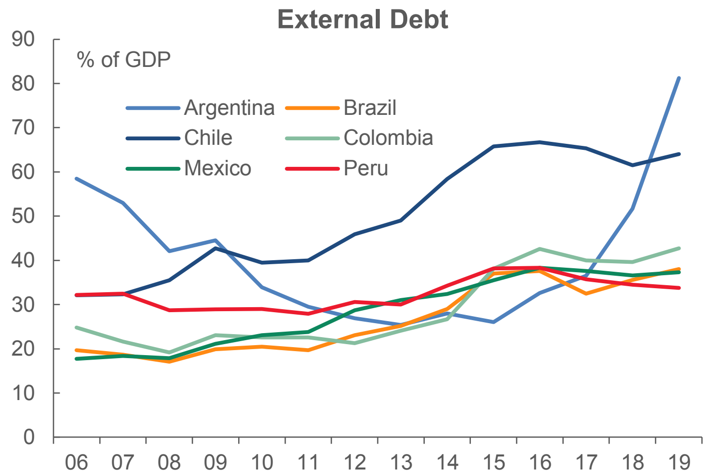
Chart 6



Sources: Scotiabank Economics, IMF.

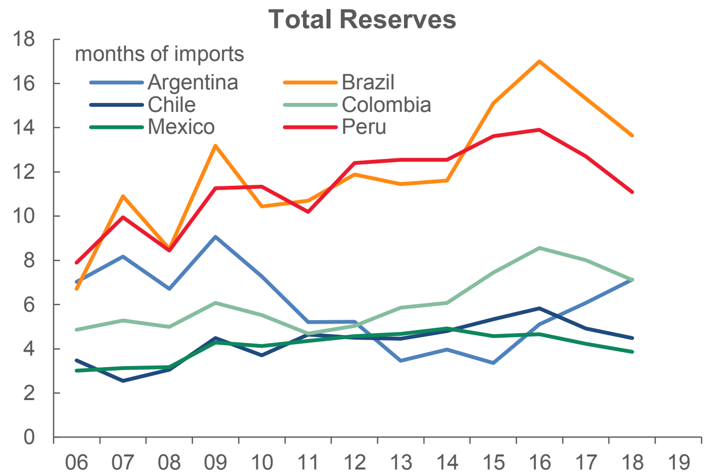
Key Economic Charts

Chart 7



Sources: Scotiabank Economics, IIF.

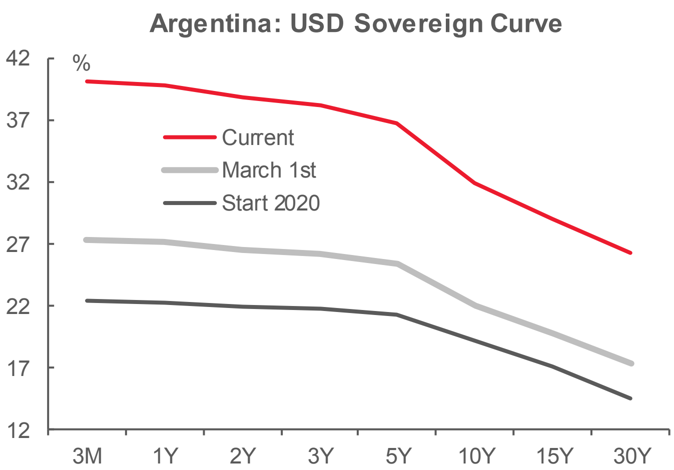
Chart 8



Sources: Scotiabank Economics, World Bank.

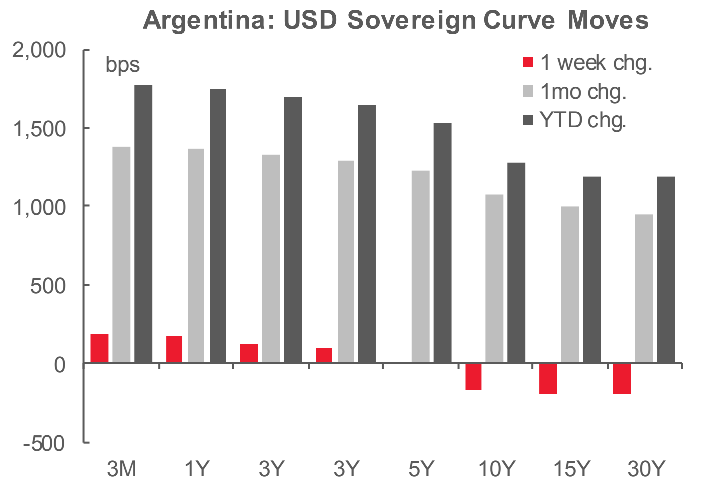
Key Market Charts

Chart 1



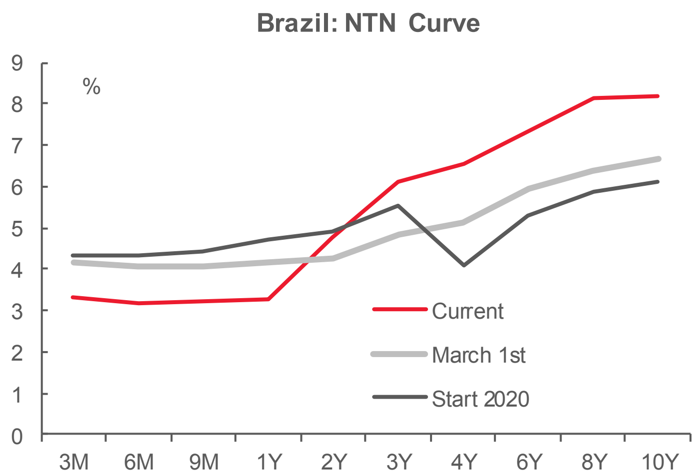
Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Chart 3



Sources: Scotiabank Economics, Bloomberg.

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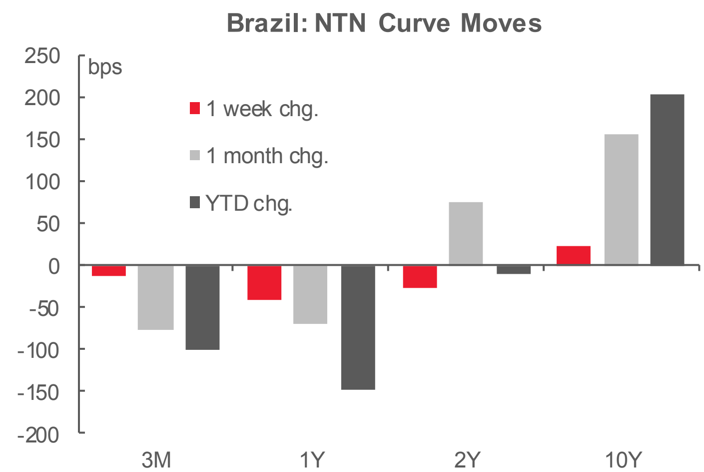
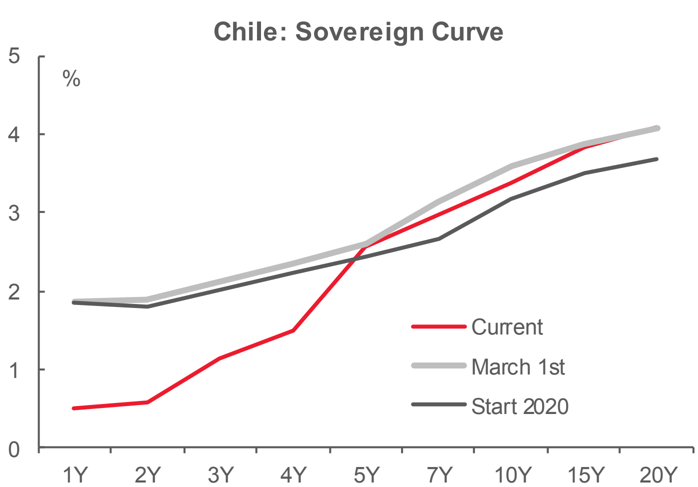


Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

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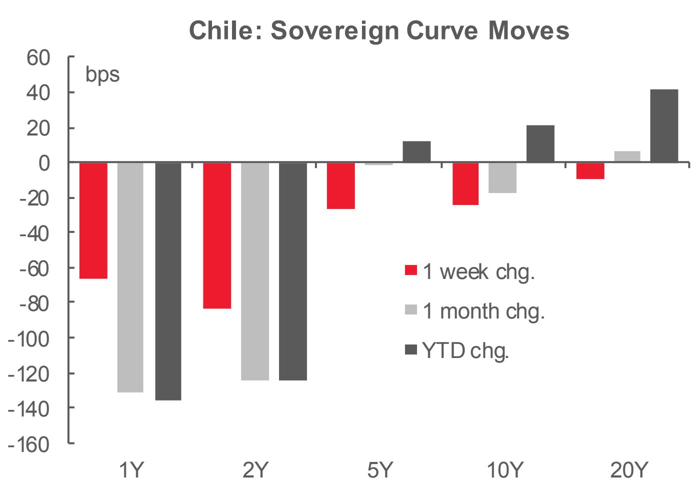

Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

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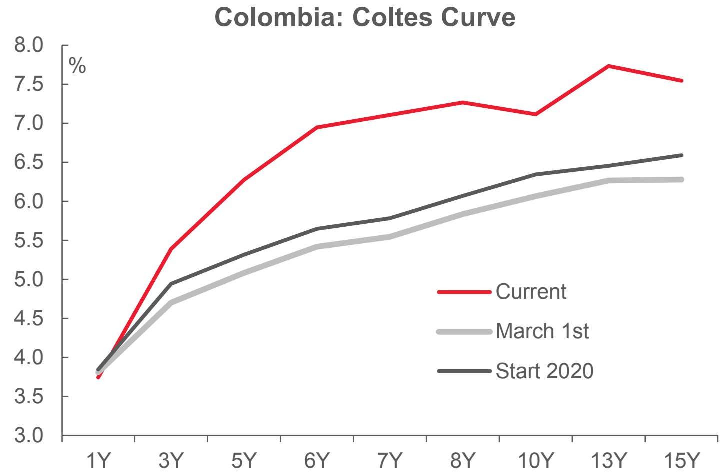
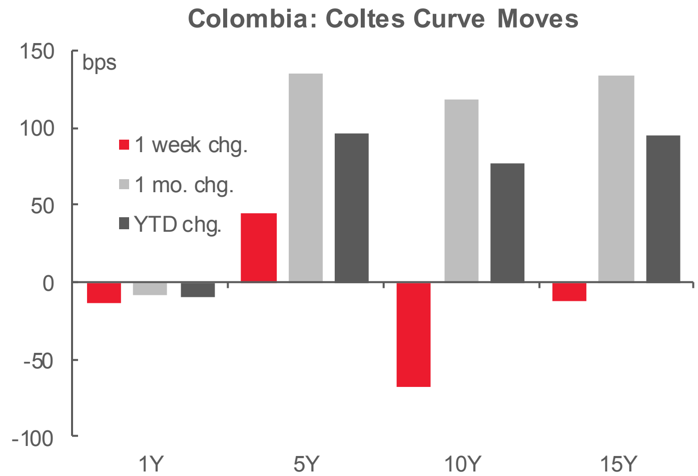


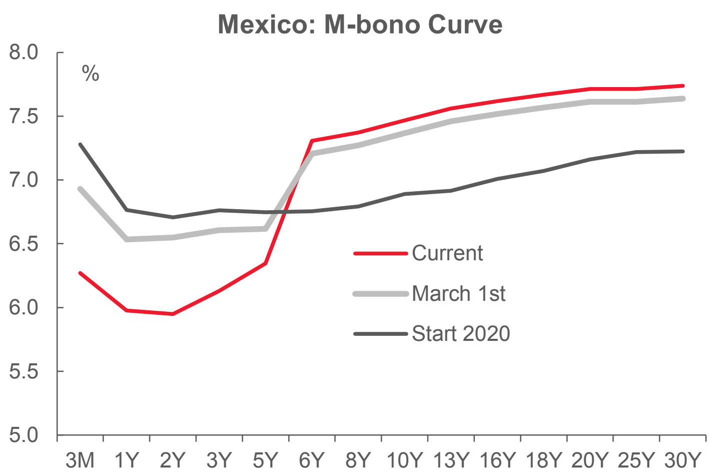
Sources: Scotiabank Economics, Bloomberg.

Chart 8



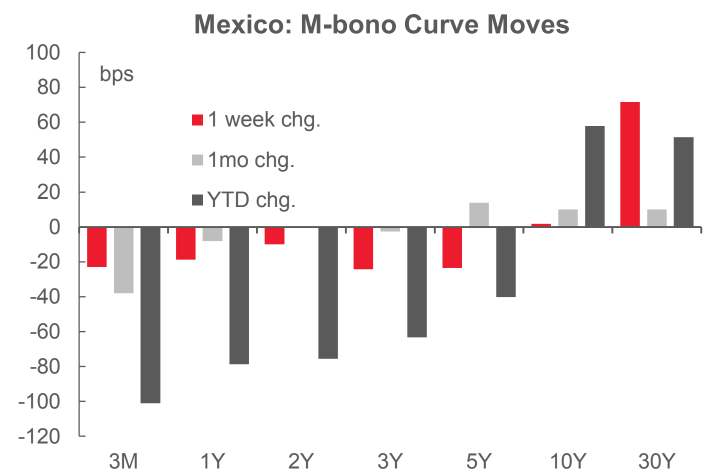
Sources: Scotiabank Economics, Bloomberg.

Chart 9



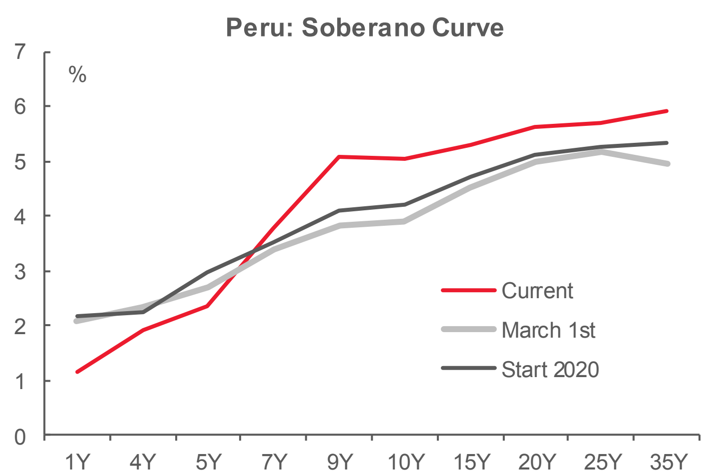
Sources: Scotiabank Economics, Bloomberg.

Chart 10



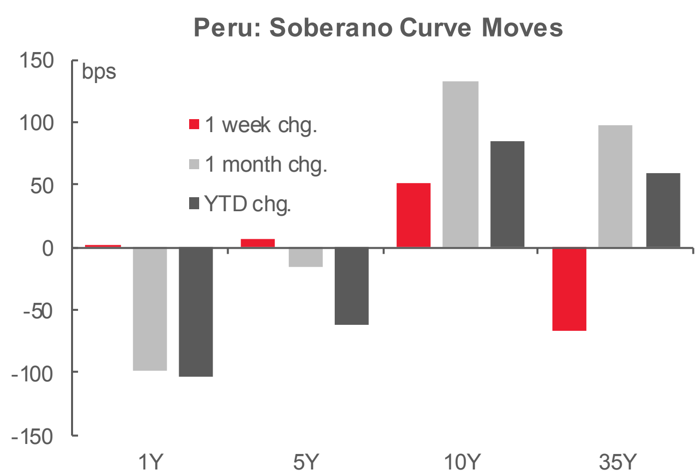
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



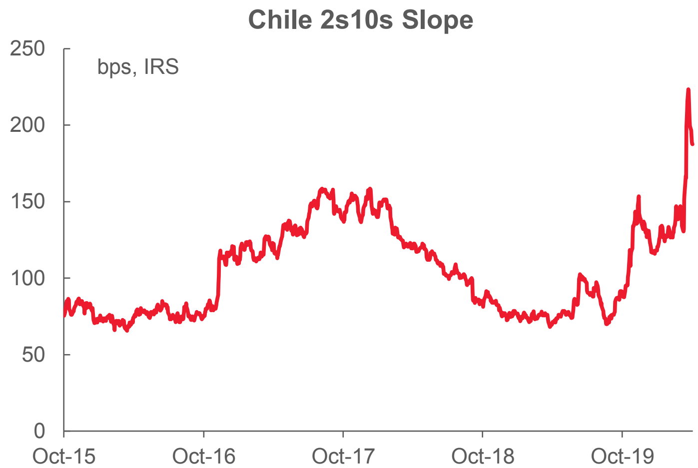
Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 13

Sources: Scotiabank Economics, Bloomberg.

Chart 14

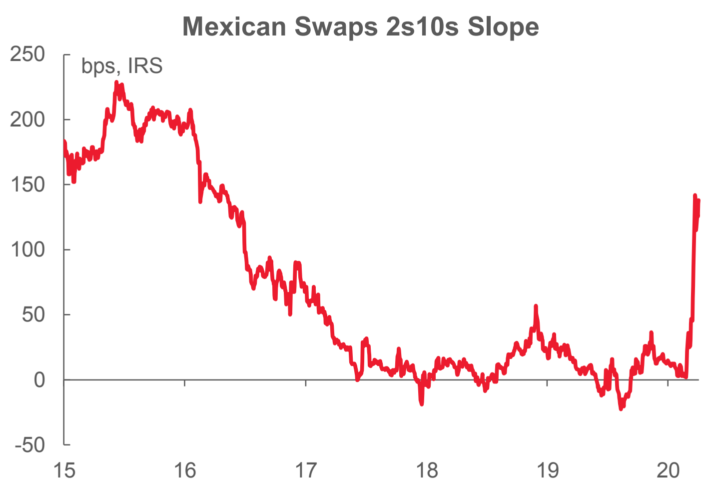


Sources: Scotiabank Economics, Bloomberg.

Chart 15

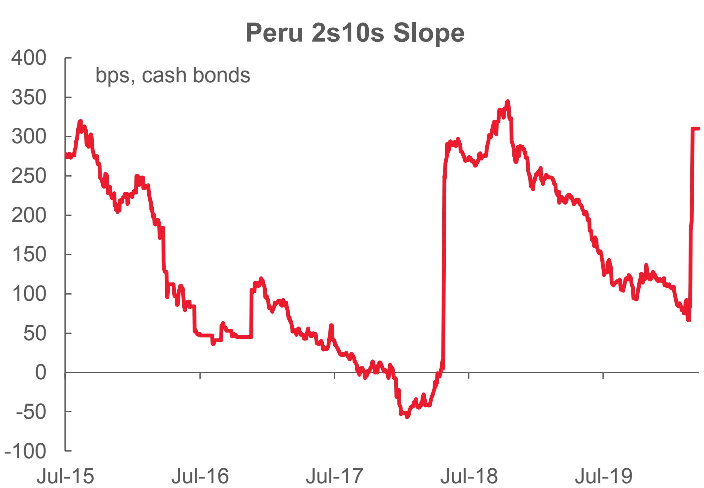
Sources: Scotiabank Economics, Bloomberg.

Chart 16



Sources: Scotiabank Economics., Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 18

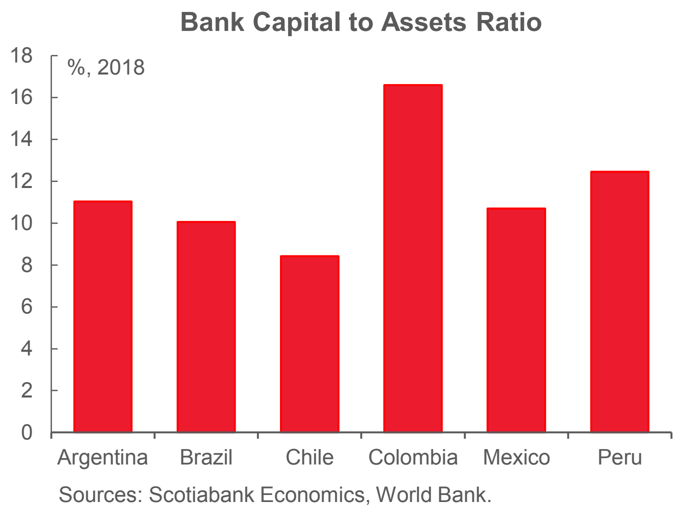


Chart 19

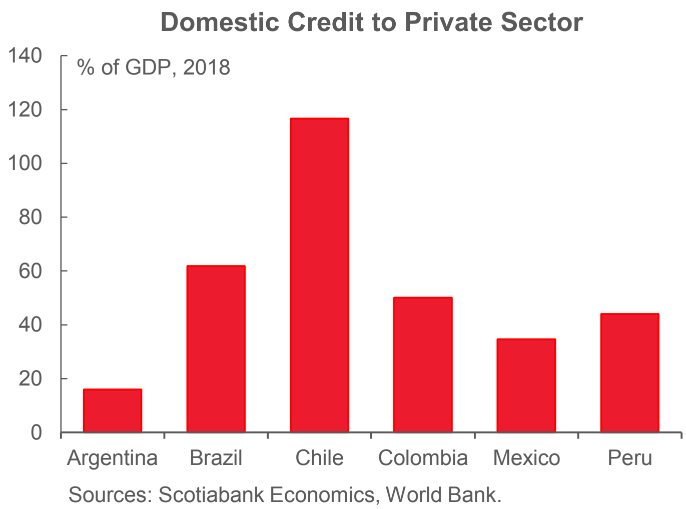


Chart 20

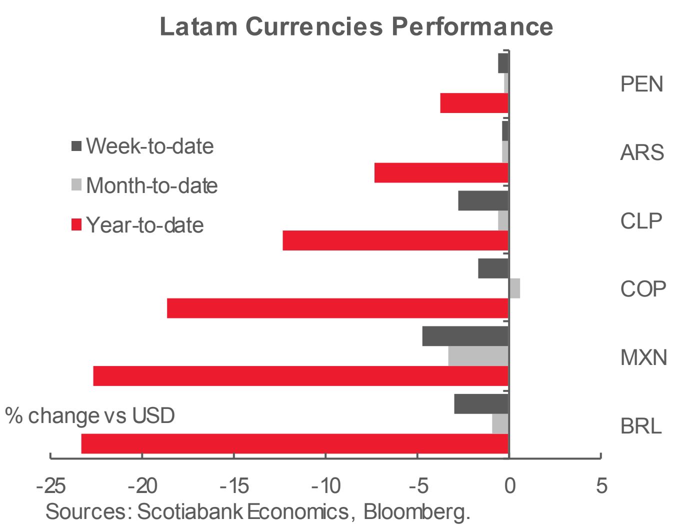
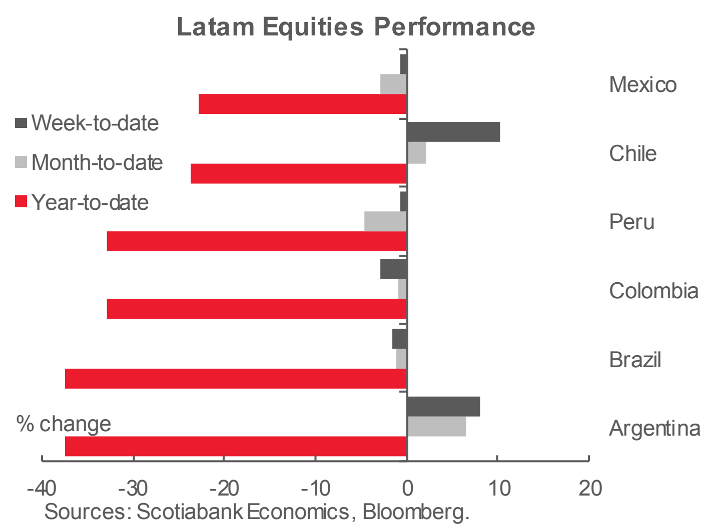


Chart 21



Market Events & Indicators for Week of April 6–10

ARGENTINA

Date	Time	Indicator	Period	BNS	Consensus	Latest	BNS Comments
06/04		Vehicle Exports Adefa	Mar	--	--	18115	After March tax revenue on April 3, vehicle data for March provide the first hard numbers on the quarantine's impact. But the industry has already been in decline, with a 32.5% production drop in 2019.
06/04		Vehicle Production Adefa	Mar	--	--	26133	
06/04		Vehicle Domestic Sales Adefa	Mar	--	--	27191	
07/04	15:00	Construction Activity (y/y)	Feb	--	--	-13.5	
07/04	15:00	Industrial Production (y/y)	Feb	--	--	-0.1	

BRAZIL

Date	Time	Indicator	Period	BNS	Consensus	Latest	BNS Comments
06/04	7:00	FGV Inflation IGP-DI (m/m)	Mar	--	1.2	0.0	
06/04	7:00	FGV Inflation IGP-DI (y/y)	Mar	--	6.5	6.4	
06/04	9:30	Vehicle Production Anfavea	Mar	--	--	204197	
06/04	9:30	Vehicle Sales Anfavea	Mar	--	--	200996	
06/04	9:30	Vehicle Exports Anfavea	Mar	--	--	37677	
06/04	14:00	Trade Balance Weekly (USD mn)	5-Apr	--	--	800.9	
07/04	8:00	Retail Sales (m/m)	Feb	--	-0.5	-1.0	
07/04	8:00	Retail Sales (y/y)	Feb	--	2.4	1.3	
07/04	8:00	Retail Sales Broad (m/m)	Feb	--	-0.4	0.6	
07/04	8:00	Retail Sales Broad (y/y)	Feb	--	1.9	3.5	
08/04	7:00	FGV CPI IPC-S (m/m)	7-Apr	--	--	0.3	
08/04	7:00	IGP-M Inflation 1st Preview (m/m)	Apr	--	--	0.2	
08/04	8:00	IBGE Services Sector Volume (y/y)	Feb	--	--	1.8	
09/04	4:00	FIPE CPI - Weekly (m/m)	7-Apr	--	--	0.1	
09/04	8:00	IBGE Inflation IPCA (m/m)	Mar	--	0.1	0.3	
09/04	8:00	IBGE Inflation IPCA (y/y)	Mar	--	3.4	4.0	
APR 9-13		Economic Activity (y/y)	Feb	--	--	0.7	

CHILE

Date	Time	Indicator	Period	BNS	Consensus	Latest	BNS Comments
07/04	8:30	Imports Total (USD mn)	Mar	--	--	4306.3	
07/04	8:30	Exports Total (USD mn)	Mar	--	--	5133.4	
07/04	8:30	Trade Balance (USD mn)	Mar	--	--	827.0	
07/04	8:30	Copper Exports (USD mn)	Mar	--	--	2483.8	
07/04	8:30	International Reserves (USD mn)	Mar	--	--	36154	
07/04	9:00	Nominal Wage (m/m)	Feb	--	--	0.9	
07/04	9:00	Nominal Wage (y/y)	Feb	--	--	4.7	
08/04	8:00	CPI (m/m)	Mar	0.4	0.4	0.4	
08/04	8:00	CPI (y/y)	Mar	3.8	--	3.9	
APR 7-13		Vehicle Sales Total	Mar	--	--	25025	

COLOMBIA

Date	Time	Indicator	Period	BNS	Consensus	Latest	BNS Comments
04/04	13:00	CPI (m/m)	Mar	0.1	0.4	0.7	
04/04	13:00	CPI (y/y)	Mar	3.4	3.7	3.7	
04/04	13:00	Core CPI (y/y)	Mar	-0.2	--	3.3	
04/04	13:00	Core CPI (m/m)	Mar	2.7	--	0.6	

Market Events & Indicators for Week of April 6–10

MEXICO

Date	Time	Indicator	Period	BNS	Consensus	Latest	BNS Comments
06/04	7:00	Gross Fixed Investment (y/y)	Jan	--	--	-3.0	
06/04	7:00	Vehicle Production	Mar	--	--	326183	
06/04	7:00	Vehicle Exports	Mar	--	--	266035	
06/04	10:00	International Reserves Weekly (USD mn)	3-Apr	--	--	185509	
07/04	7:00	CPI (m/m)	Mar	--	0.2	0.4	
07/04	7:00	CPI (y/y)	Mar	--	3.5	3.7	
07/04	7:00	CPI Core (m/m)	Mar	--	0.3	0.4	
07/04	7:00	Bi-Weekly CPI (m/m)	31-Mar	--	-0.3	0.1	
07/04	7:00	Bi-Weekly Core CPI (m/m)	31-Mar	--	0.1	0.2	
07/04	7:00	Bi-Weekly CPI (y/y)	31-Mar	--	3.3	3.7	
08/04	7:00	Industrial Production NSA (y/y)	Feb	--	--	-1.6	
08/04	7:00	Manuf. Production NSA (y/y)	Feb	--	--	-0.9	
08/04	7:00	Industrial Production SA (m/m)	Feb	--	--	0.3	
08/04		Nominal Wages (y/y)	Mar	--	--	5.5	
APR 6-15		ANTAD Same-Store Sales (y/y)	Mar	--	--	7.5	
APR 7-15		Formal Job Creation Total (000s)	Mar	--	--	123.1	

PERU

Date	Time	Indicator	Period	BNS	Consensus	Latest	BNS Comments
		No scheduled events					

Scotiabank Economics Latam Coverage