Latam Weekly: Our Outlook Steadies, for Now

FORECAST UPDATES

- **After rolling updates to our forecasts in response to the gathering pandemic, our outlook is stable this week with changes only to Colombia's policy rate profile after the BanRep signalled on Thursday, April 30 that its May 29 meeting is live and more rate cuts are likely.**

ECONOMIC OVERVIEW

- **The major determinant of our economic outlook remains the region's COVID-19 curve, which has stubbornly refused to flatten over the last five weeks. As a result, re-opening plans continue to adjust, and we expect central banks in Brazil, Colombia, and Mexico to keep cutting their headline policy rates. Nevertheless, we believe our outlook for the Latam-6 has begun to stabilize after a series of large changes.**

MARKETS REPORT

- **The recent deterioration in Brazil's political situation has taken a toll on Brazilian assets, with the BRL the worst-performing currency YTD in the EM FX space. We look at the potential spillover implications for the rest of Latam with a focus on Mexican markets and the MXN.**

COUNTRY UPDATES

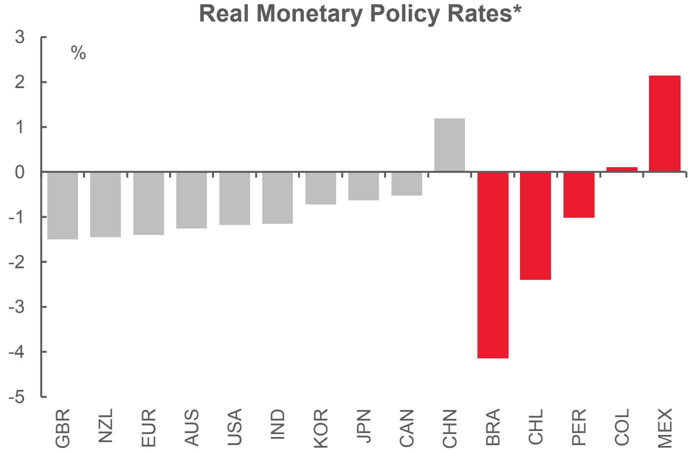
- **Concise analysis of recent developments and guides to the week ahead in our Latam-6: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.**

MARKET EVENTS & INDICATORS

- **Risks calendar with selected highlights for the period May 2–May 8 across our six major Latam economies.**

Chart of the Week

Real Monetary Policy Rates*



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Sources: Scotiabank Economics, Bloomberg.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

TABLE OF CONTENTS

THIS WEEK'S CONTRIBUTORS:

Jorge Selaive, Chief Economist
56.2.2939.1092 (Chile)
jorge.selaive@scotiabank.cl

Carlos Muñoz, Senior Economist
56.2.2619.6848 (Chile)
carlos.munoz@scotiabank.cl

Sergio Olarte, Senior Economist
57.1.745.6300 (Colombia)
sergio.olarte@co.scotiabank.com

Jackeline Piraján, Economist
57.1.745.6300 (Colombia)
jackeline.pirajan@co.scotiabank.com

Mario Correa, Economic Research Director
52.55.5123.2683 (Mexico)
mcorrea@scotiacb.com.mx

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
eduardo.suarez@scotiabank.com

Guillermo Arbe, Head of Economic Research
51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Tania Escobedo Jacob, Associate Director
212.225.6256 (New York)
tania.escobedojacob@scotiabank.com

Raffi Ghazarian, Senior Research Analyst
416.866.4211
Scotiabank Economics
raffi.ghazarian@scotiabank.com

Forecast Updates: May 2

	2019	2020				2021						
Argentina	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-1.1	-0.9	-12.4	-4.9	-3.3	0.3	3.1	5.9	7.5	-2.2	-5.6	4.2
CPI (y/y %, eop)	53.8	47.2	49.0	46.8	45.7	51.1	50.4	48.9	46.8	53.8	45.7	46.8
Unemployment rate (%, avg)	8.9	10.9	11.3	11.0	10.8	10.6	10.2	9.9	9.8	9.8	11.0	10.1
Central bank policy rate (%, eop)	55.00	38.00	37.00	36.00	36.00	36.00	37.00	38.00	40.00	55.00	36.00	40.00
Foreign exchange (USDARS, eop)	59.9	64.4	73.4	79.1	83.1	86.2	87.5	89.2	93.1	59.9	83.1	93.1

	2019	2020				2021						
Brazil	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.7	0.8	-9.3	-4.3	-0.3	1.1	4.2	3.1	1.7	1.1	-3.3	2.5
CPI (y/y %, eop)	3.8	3.3	4.2	5.2	6.3	7.1	7.9	7.6	7.1	4.3	6.3	7.1
Unemployment rate (%, avg)	11.3	11.8	12.7	12.8	12.6	13.2	13.6	13.6	13.4	11.9	12.5	13.5
Central bank policy rate (%, eop)	6.50	3.75	3.00	3.00	3.00	4.00	4.75	5.50	6.00	4.50	3.00	6.00
Foreign exchange (USDBRL, eop)	4.02	5.25	4.97	4.72	4.84	4.93	4.64	4.52	4.42	4.02	4.84	4.42

	2019	2020				2021						
Chile	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-2.1	-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)	3.0	3.7	2.9	3.1	2.8	2.5	2.9	3.3	3.0	3.0	2.8	3.0
Unemployment rate (%, avg)	7.0	7.8	9.0	8.5	8.0	7.8	7.8	7.8	7.5	7.2	8.3	7.7
Central bank policy rate (%, eop)	1.75	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.50	1.75	0.50	1.50
Foreign exchange (USDCLP, eop)	753	860	820	800	790	780	760	740	720	753	790	720

	2019	2020				2021						
Colombia	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	3.4	3.2	-8.4	-4.4	0.4	-1.0	9.8	4.3	1.4	3.3	-2.3	3.6
CPI (y/y %, eop)	3.2	3.9	3.3	3.1	3.2	3.0	3.2	3.1	3.1	3.8	3.2	3.1
Unemployment rate (%, avg)	10.4	13.3	17.0	15.0	12.0	10.8	9.3	10.0	10.4	11.2	14.3	10.1
Central bank policy rate (%, eop)	4.25	3.75	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.25	2.50	3.50
Foreign exchange (USDCOP, eop)	3,287	4,065	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**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-0.5	-3.4	-15.1	-10.3	-4.7	-1.0	3.4	1.5	0.9	-0.1	-8.4	1.1
CPI (y/y %, eop)	2.8	3.2	2.2	2.8	2.6	2.8	3.9	3.9	3.8	2.8	2.6	3.8
Unemployment rate (%, avg)	3.4	3.7	6.7	7.7	7.1	6.3	6.0	6.5	5.8	3.5	6.1	6.3
Central bank policy rate (%, eop)	7.25	6.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	7.25	5.00	5.00
Foreign exchange (USDMXN, eop)	18.93	21.97	24.25	24.03	24.24	24.29	24.07	24.02	24.15	18.93	24.24	24.15

	2019	2020				2021						
Peru	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.8	-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)	1,9	1.8	1.6	1.3	1.1	1.2	1.3	1.8	2.2	1.9	1.1	2.2
Unemployment rate (%, avg)	6.1	…	…	…	…	…	…	…	…	6.6	12.0	10.0
Central bank policy rate (%, eop)	2.25	1.25	0.25	0.25	0.25	0.75	1.00	1.25	1.50	2.25	0.25	1.50
Foreign exchange (USDPEN, eop)	3.31	3.43	3.49	3.47	3.45	3.42	3.43	3.39	3.40	3.31	3.45	3.40

	2019	2020				2021						
United States	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	2.3	-0.4	-12.4	-7.7	-4.7	-0.4	14.4	9.2	6.0	2.3	-6.3	7.0
CPI (y/y %, eop)	2.0	2.1	0.8	0.1	-0.3	0.7	1.4	2.1	2.8	2.0	-0.3	2.8
Unemployment rate (%, avg)	3.5	3.8	10.3	11.5	11.6	10.8	9.4	8.1	6.9	3.7	9.3	8.8
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

Source: Scotiabank Economics.
Red indicates off publication forecast changes.

Forecast Updates: March—May Revisions

	March 25		May 2	
	2020f	2021f	2020f	2021f
Argentina*				
Real GDP (annual % change)	-2.4	1.7	-5.6	4.2
CPI (y/y %, eop)	66.0	42.0	45.7	46.8
Unemployment rate (%, avg)	...	...	11.0	10.1
Central bank policy rate (%, eop)	42.00	38.00	36.00	40.00
Argentine peso (USDARS, eop)	82.0	76.0	83.1	93.1
Brazil				
Real GDP (annual % change)	-3.0	1.5	-3.3	2.5
CPI (y/y %, eop)	7.3	8.2	6.3	7.1
Unemployment rate (%, avg)	...	...	12.4	13.5
Central bank policy rate (%, eop)	4.75	8.25	3.00	6.00
Brazilian real (USDBRL, eop)	4.84	4.49	4.84	4.42
Chile				
Real GDP (annual % change)	-2.1	2.9	-2.1	2.9
CPI (y/y %, eop)	3.0	3.0	2.8	3.0
Unemployment rate (%, avg)	...	...	8.3	7.7
Central bank policy rate (%, eop)	0.50	2.00	0.50	1.50
Chilean peso (USDCLP, eop)	790	720	790	720
Colombia				
Real GDP (annual % change)	1.2	2.8	-2.3	3.6
CPI (y/y %, eop)	2.9	3.0	3.2	3.1
Unemployment rate (%, avg)	...	...	14.3	10.1
Central bank policy rate (%, eop)	3.50	4.25	2.50	3.50
Colombian peso (USDCOP, eop)	3,654	3,450	3,654	3,450
Mexico				
Real GDP (annual % change)	-5.8	1.8	-8.4	1.1
CPI (y/y %, eop)	4.4	4.1	2.6	3.8
Unemployment rate (%, avg)	...	...	6.1	6.3
Central bank policy rate (%, eop)	6.00	6.00	5.00	5.00
Mexican peso (USDMXN, eop)	22.84	22.74	24.24	24.15
Peru				
Real GDP (annual % change)	0.3	3.5	-2.3	4.5
CPI (y/y %, eop)	1.4	2.0	1.1	2.2
Unemployment rate (%, avg)	...	...	12.0	10.0
Central bank policy rate (%, eop)	1.00	1.75	0.25	1.50
Peruvian sol (USDPEN, eop)	3.45	3.40	3.45	3.40

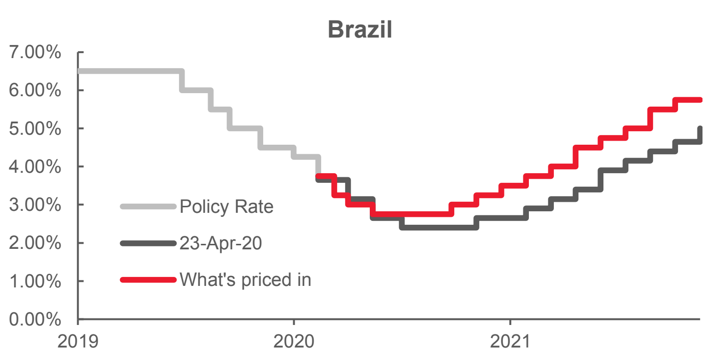
Source: Scotiabank Economics.
* Initiated coverage March 22, 2020.
Red indicates off publication forecast changes.

Forecast Updates: Central Bank Policy Rates and Outlook

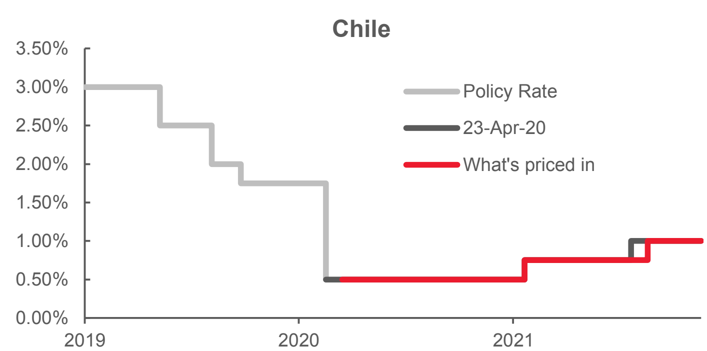
Latam Central Banks: Policy Rates and Outlook

		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.	37.00%	n.a.	n.a.	36.00%	40.00%	The BCRA's last move on March 5 delivered its sixth rate cut in 2020, but economic activity indicators since then still point to a deepening slowdown. We expect the BCRA to cut again in the coming weeks.
Brazil, BCB, Selic	3.75%	May-06	3.08%	3.25%	3.81%	6.46%	3.00%	6.00%	The BCB is expected to cut the Selic rate by 50 bps to 3.25% in May, taking the real policy rate into negative territory. We expect further dips in the PMIs to drive one further 25 bps cut from the BCB later in Q2.
Chile, BCCh, TPM	0.50%	May-06	0.51%	0.50%	0.68%	1.16%	0.50%	1.50%	The BCCh MPC indicated at its March 31 meeting that 0.5% is the policy rate's technical lower bound, and that it would remain here for an extended period.
Colombia, BanRep, TII	3.25%	May-29	2.60%	2.50%	2.29%	2.91%	3.25%	4.25%	Banrep will continue providing liquidity to the local and FX market. May's meeting was not scheduled to be a monetary-policy rate decision meeting, but in his April 30 press conference Gov. Echavarria indicated that the meeting would be live.
Mexico, Banxico, TO	6.00%	May-14	5.25%	5.50%	4.40%	4.85%	5.00%	5.00%	Banco de Mexico is implementing the additional measures to provide liquidity and promote an orderly functioning of financial markets that it announced at its April 21 emergency meeting. Another 50 bps cut is expected by the next meeting, while the probability of more cuts is increasing.
Peru, BCRP, TIR	0.25%	May-07	n.a.	0.25%	n.a.	n.a.	0.25%	1.00%	After reducing the reference rate from 2.25% to 0.25% in less than a month, our impression is that the BCRP has done enough on this front and will not lower rates further. It is, however, providing liquidity through a number of other means, foremost of which is a PEN 30 bn resource line for businesses, channeled through private banks.

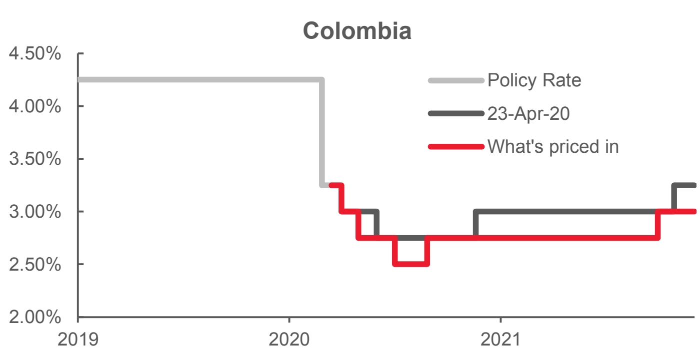
Sources: Scotiabank Economics, Bloomberg.



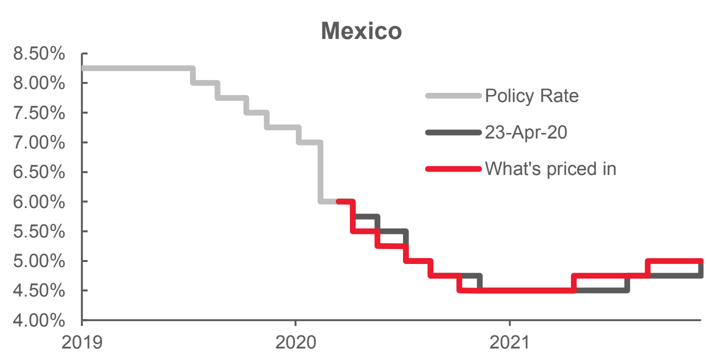
Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.

Economic Overview: Stable Forecasts After Weeks of Change

- **Latam-6's COVID-19 curves are still not flattening, which means some countries are delaying their re-opening plans, while others are moving forward in stages.**
- **While more forecast adjustments undoubtedly lie ahead as the pandemic advances and re-opening plans adjust, we believe the greater part of changes to our outlook has now been made. Our only revision this week reflects an expectation that Colombia's BanRep will cut its policy rate more deeply than previously forecast.**

COVID-19: WE'RE *STILL* NOT FLATTENING

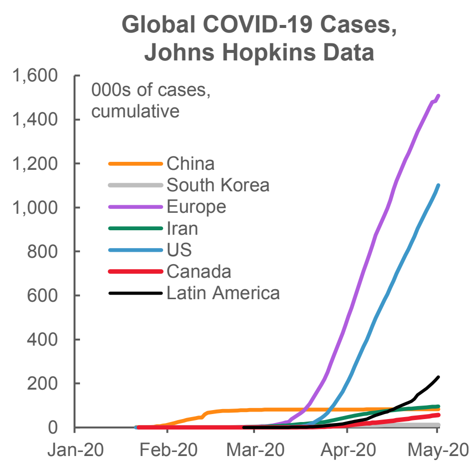
The rising chorus calling for re-opening in many parts of the world continues to look ill-timed in Latam as the region's COVID-19 total case numbers continue to climb (chart 1) and the slope of its new-incidence curve stubbornly resists flattening in a substantial way for a fifth week (chart 2). Across the region, identified cases numbers are still doubling every 7 to 10 days.

The COVID-19 epicentre has indeed moved to the Americas, as the WHO warned last week: Latam now accounts for 6.6% of the total 3.4 mn in total cases confirmed worldwide in the Johns Hopkins data, up from 2.4% on April 8. Confirmed numbers continue to rise most rapidly in Brazil and Peru (chart 3). Brazil now has the 10th largest number of confirmed cases in the world, up from 11th last week, and is likely to move higher as it is the sixth largest country in the world by population. Peru's now has the 14th-highest number of confirmed cases in the world, which contrasts poorly with its ranking as the globe's 43rd largest country by population. This puts its per capita numbers well above the rest of the Latam-6 (chart 4). Mexico now sits at 23rd in terms of identified COVID-19 numbers, but local public health experts repeatedly indicate that its official

CONTACTS

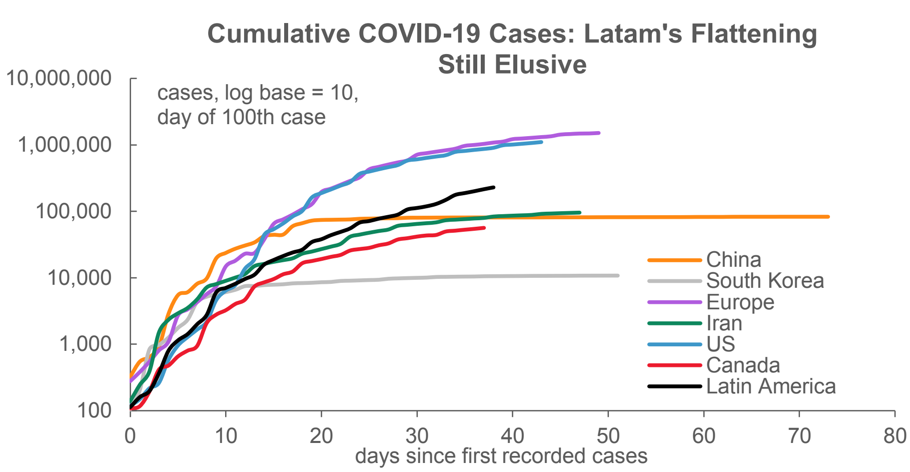
Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Chart 1



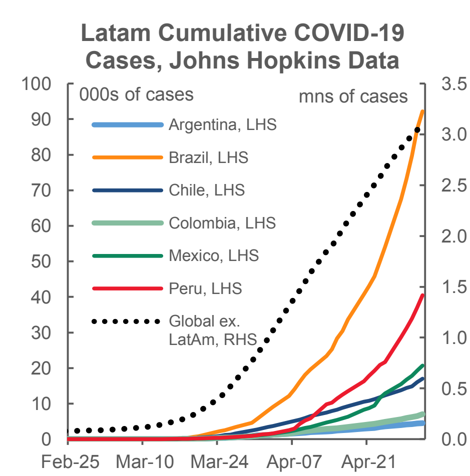
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 2



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



Sources: Scotiabank Economics, Johns Hopkins University.

numbers vastly underestimate the actual spread of the disease. Last week, we flagged the intense crisis in Ecuador, whose COVID-19 numbers now put it at 18th in the world for recognized cases.

Despite the persistent steepness of the Latam-6's COVID-19 curves, last week we addressed the countries' emerging plans to re-open. It now appears some are delayed, while others are advancing (see Country Updates). For instance, Argentina, the one country amongst the Latam-6 whose curve has become somewhat less steep had been expected to loosen its lockdown measures on their expiry on April 26, but it instead decided to extend them from April 26 to May 10. In contrast, Peru's government has announced a gradual plan to re-open up to 90% of its economy in monthly phases between May and August.

FORECAST UPDATE: MORE CUTS AHEAD FROM COLOMBIA'S BANREP

After several weeks in which our outlook has been in rolling revision mode in response to lockdowns and updates to Scotiabank Economics' global forecasts, our projections are almost entirely unchanged this week, with the exception of the projected policy rate path for Colombia's BanRep. Until this past week, our team in Bogota saw the BanRep easing to a terminal rate of 3.25% at its meeting on April 30 and holding there until initiating a gradual lift-off from Q2-2021 onward. In the event, the BanRep's monetary policy committee delivered a unanimous decision to cut the policy rate by 50 bps to 3.25% on Thursday. In the press conference, however, Gov. Echavarria additionally indicated that further, gradual easing could lie ahead, as early as their next meeting on May 29, which had not been scheduled to feature a rate decision. In view of his remarks, our economists in Bogota now expect another 50 bps cut at end-May followed by a further 25 bps in late-June to take the policy rate down to 2.50%, where it is projected to remain until Q2-2021. This is consistent with our expectation, introduced last week, that Colombia will see a recession this year.

SUMMING UP THE PANDEMIC'S IMPACT ON OUR OUTLOOK

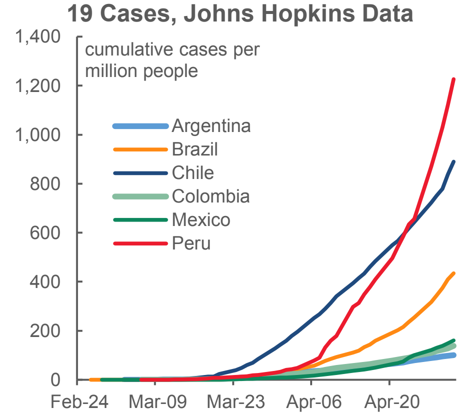
Taking stock of our forecast updates since March 6—our last set of forecasts prior to the imposition of lockdowns—unsurprisingly shows some stark changes (March–May Revisions table, p. 3, and charts 5–7).

- **Growth forecasts for 2020** across the Latam-6, ex-Argentina, have been cut, on average, by 5.7 ppts compared with a 7.9 ppts markdown in the US.
- Amongst the four Pacific Alliance countries, **headline inflation forecasts for end-2020** have been sliced by 0.5 ppts on average versus a 2.5 ppts reduction in the US. In contrast, our Brazil economist remains concerned that FX pass-through effects will stoke inflation to about 2 ppts higher than we anticipated in March, though so far initial readings aren't yet pointing in that direction.
- Finally, **end-2020 policy rates** have been reduced by an average of 120 bps for the Latam-6 ex-Argentina, compared with only 50 bps for the US.

While more forecast adjustments undoubtedly lie ahead as the pandemic advances and re-opening plans adjust, we believe the greater part of changes to our outlook has now been made.

Chart 4

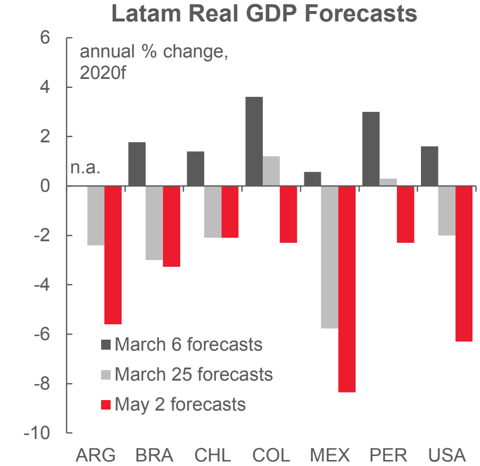
Latam Population-Adjusted COVID-19 Cases, Johns Hopkins Data



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

Chart 5

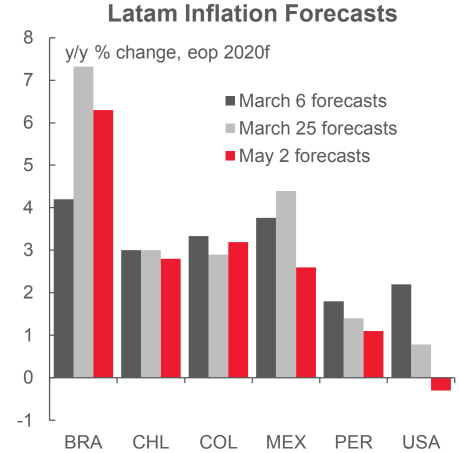
Latam Real GDP Forecasts



Source: Scotiabank Economics.

Chart 6

Latam Inflation Forecasts



Argentina: 45.7%.
Source: Scotiabank Economics.

CENTRAL BANK DECISIONS AMIDST DECLINING INFLATION

Monetary policy decisions from Brazil's BCB and Chile's BCCh will be delivered on Wednesday, April 6, with Peru's BCRP on Thursday, April 7 (see Central Bank Policy Rates and Outlook table, p. 4).

Along with the market, we expect the BCB to cut the Selic rate by 50 bps to 3.25% with another 25 bps to be delivered later in Q2. These cuts would take real policy rates in Brazil into negative territory that has been largely uncharted by the BCB. There is also an expectation that we could see the BCB move to implement powers given to it in early-April to purchase government and private debt on the secondary market.

Neither Chile's BCCh nor Peru's BCRP are expected to cut their monetary policy rates further (again, see p. 4), but both may discuss additional liquidity support measures in their decisions.

The BCCh is unlikely to cut again as its monetary policy committee has indicated that it sees the policy rate's current 0.5% level as its "technical minimum" or lower bound. The committee is likely to reiterate that it intends to keep the policy rate unchanged for the foreseeable future. In the minutes from the last meeting on March 31, the committee downplayed concerns about inflationary pressures from depreciation of the CLP, and also noted the need to use additional measures to ensure that the channels of monetary transmission to credit markets remain effective and the financial system remains stable.

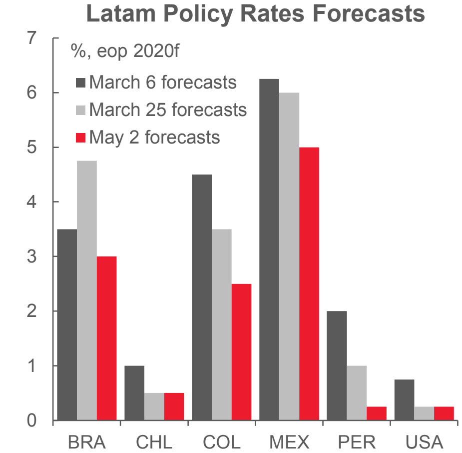
Similarly, Peru's BCRP doesn't see further rate cuts as the most effective way to add further support to the economy. The BCRP took its policy rate down with unprecedented speed over the course of a month, with the last cut of 100 bps to an all-time low of 0.25% at its April 10 meeting, 100 bps lower than the 1.25% hit in the wake of the 2008 financial crisis. At that time, the BCRP's monetary policy committee indicated that it would "continue to increase monetary stimulus through different instruments", a reference to expanded efforts to support the payments system and boost credit markets with expanded through repos and other measures to enhance the liquidity of the financial system.

Inflation readings arrive for April on Tuesday for Colombia, Thursday for Mexico, and both Brazil and Chile on Friday. As our colleagues noted in Scotiabank Economics' *Global Week Ahead* on Friday, headline inflation was falling across Latam even prior to the COVID-19 shock and its dispersion across countries has decreased from just a few years ago (chart 8). Argentina is, of course, a notable exception.

Lower inflation combined with policy rates at or near their zero lower bound across developed markets is continuing to give emerging-market central banks ample room to keep easing financial conditions in support of local economic activity. Despite lower inflation expectations, relative real policy rates still clearly allow space for the additional cuts we forecast in Colombia and Mexico, but they will take Brazil's real policy rate even more deeply negative than in Chile and Peru, given our current inflation forecasts (chart 9).

Chart 7

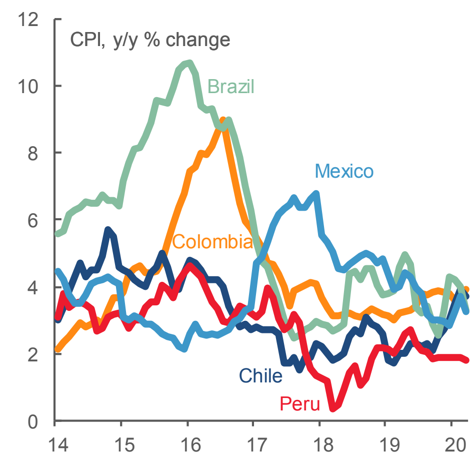
Latam Policy Rates Forecasts



Argentina: 36%.
Source: Scotiabank Economics.

Chart 8

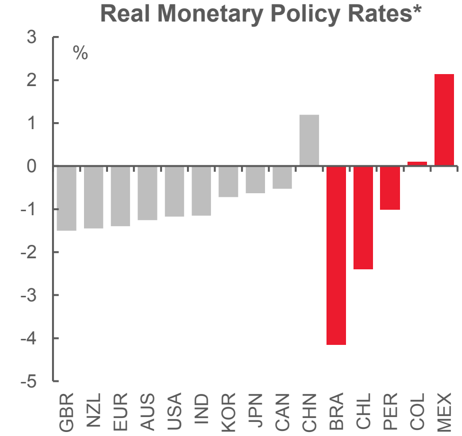
LatAm Inflation



Sources: Scotiabank Economics, Bloomberg.

Chart 9

Real Monetary Policy Rates*



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y.
Sources: Scotiabank Economics, Bloomberg.

Markets Report: If BRL Falls, Will MXN Follow?

- **The deterioration in Brazil's political situation has taken a toll on Brazilian assets: BRL is the worst-performing currency in the EM space YTD.**
- **At the vortex of the political turmoil, markets hedge some of the "Brazilian risk" by shorting the MXN and dragging Mexican assets down in tandem, prompting questions about the potential for contagion if the political situation in Brazil were to deteriorate further.**
- **Although some of the short-term nervousness might turn into generalized risk aversion expressed through MXN, we do not see evidence that a fundamental weakness in Brazil will affect Mexican assets in the longer term.**
- **Instead, in long periods of localized stress, Brazilian and Mexican assets are treated more like substitutes.**
- **At this point, markets seem to be pricing very bad scenarios for the economy and the fiscal accounts in both countries. The relative behaviour of Brazil's and Mexico's asset prices will depend on how their data start to look, relative to the currently very grim expectations.**

POLITICS… AGAIN

Brazilian assets have deteriorated in response to a political picture that gets messier by the day (table 1). BRL has been lagging the rest of EM for a while and is now the worst-performing currency in the EM space year-to-date (table 2 and chart 1) while Brazilian debt has traded much heavier since the latest round of political turmoil began, according to our traders (charts 2 and 3).

In the last few weeks, a variety of tensions have surfaced in Brasilia. We have seen the Brazilian Health Minister resign in the midst of the pandemic after continuous clashes with President Bolsonaro on how to handle the public-health

CONTACTS

Tania Escobedo Jacob, Associate Director
212.225.6256 (New York)
Latam Macro Strategy
tania.escobedojacob@scotiabank.com

Table 1

Latam Equity Market Performance (local currency): May 1, 2020

	Year-to-date	1-month	1-week
Argentina	-21.4%	29.3%	11.9%
Brazil	-30.4%	13.4%	6.9%
Chile	-14.8%	16.3%	8.1%
Colombia	-31.3%	7.4%	1.8%
Mexico	-16.2%	8.2%	5.4%
Peru	-28.0%	6.3%	3.9%

Sources: Scotiabank Economics, Bloomberg.

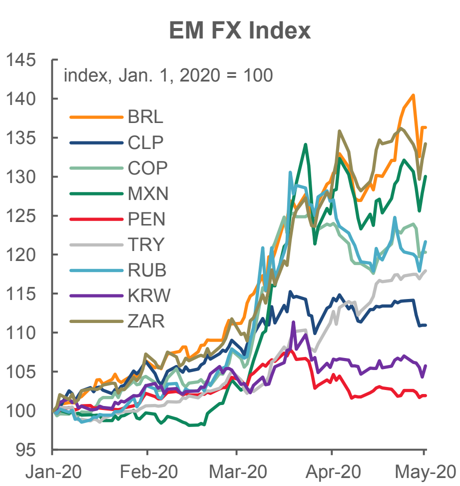
Table 2

Latam FX Performance: May 1, 2020

	Year-to-date	1-month	1-week
ARS	-10.4%	-3.4%	-0.6%
BRL	-26.6%	-4.3%	1.8%
CLP	-9.9%	3.1%	2.8%
COP	-17.0%	3.1%	2.0%
MXN	-23.0%	-1.4%	1.6%
PEN	-1.9%	2.7%	0.6%

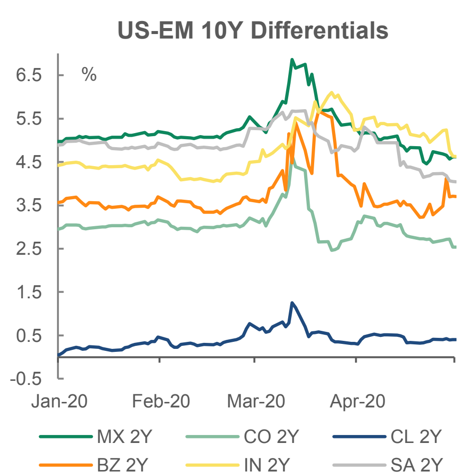
Sources: Scotiabank Economics, Bloomberg.

Chart 1



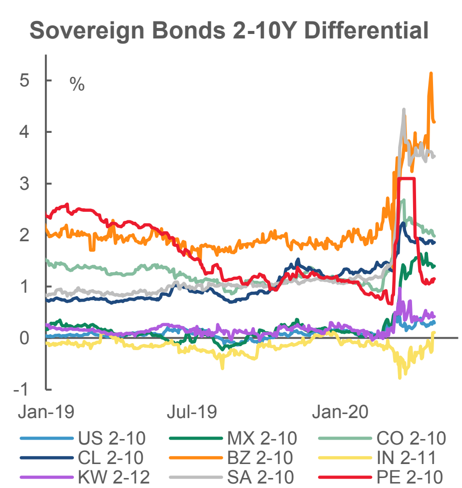
Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Chart 3



Sources: Scotiabank Economics, Bloomberg.

response. Only days after that, the "Pro-Brazil" plan to reactivate the economy was announced by the President's Chief of Staff and the Infrastructure Minister, leaving the Minister of Economy, Paulo Guedes, out in the cold. This raised questions about the state of the relationship between Guedes and Bolsonaro, and concerns about what a breakup between them could mean for the fiscal accounts, with the President tending toward spending more than the government can afford.

Things just got much worse after Justice Minister Moro, the face of Bolsonaro's fight against corruption resigned on April 24 over a disagreement with Bolsonaro regarding the head of the federal police. In his resignation announcement, ex-Justice Minister Moro made a number of accusations that are now being investigated by the Prosecutor General and that could involve crimes of "misrepresentation, coercion in the course of legal proceedings, administrative advocacy, malfeasance in office, obstruction of justice, privileged passive corruption, libelous accusation, and defamation of honor" (see box 1). The accusations of serious wrongdoing quickly turned into a discussion about the possibility of yet another presidential impeachment, complicating the picture even more. So far, Brazilian analysts claim that the possibility of an impeachment is low, mainly because Bolsonaro's popularity is still great enough to secure social support around the President, but there will be some noise for a while.

Eventually, markets caught a break from a broad improvement in risk appetite and by Bolsonaro's April 27 reaffirmation of his support for the Economy Minister Guedes and his policies, a big relief for those fearing Guedes' imminent departure. This, of course, came as good news, but Bolsonaro's behaviour is known to be volatile and we would not draw long-term conclusions from these affirmations. The unwinding of some portion of the heavy short positioning built in the previous sessions was also behind the quick recovery this week.

Still, doubts remain about Economy Minister Guedes' ongoing influence and future. Although most analysts expect him to remain in his post, the relationship with Bolsonaro seems to have deteriorated. So even if the discussion of possible impeachment is left behind, the complicated political picture and the unravelling relationships between the President, his cabinet, and Congress, seem to be unambiguously pointing to a bumpier path to economic recovery—even more so if we account for the fact that the pandemic is still not showing signs of slowing down in Brazil.

MXN CAUGHT IN THE MIDDLE

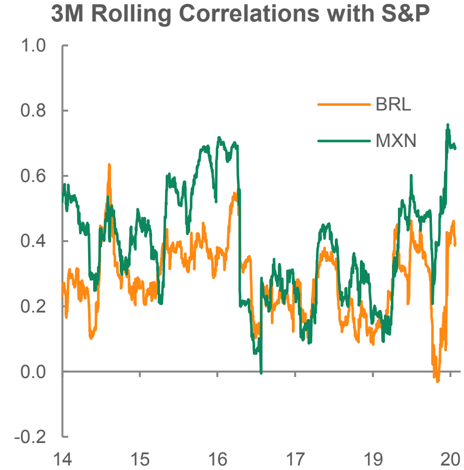
At the vortex of the political turmoil over the past two weeks, markets appeared to hedge some of the "Brazilian risk" by shorting the MXN. This behaviour triggered a fast depreciation that dragged Mexican assets down in tandem and prompted some questions about the potential of contagion for Mexican assets if the political situation in Brazil were to deteriorate further.

CHANNELS OF CONTAGION: WHY WOULD MXN BE AFFECTED BY POLITICAL TURMOIL IN BRAZIL?

There are two principal ways in which contagion from Brazil's political turmoil could spill over to the MXN. Although some of the short-term nervousness might turn into generalized risk aversion expressed through MXN, we do not find evidence that a fundamental weakness in Brazil should affect Mexican assets in the longer term.

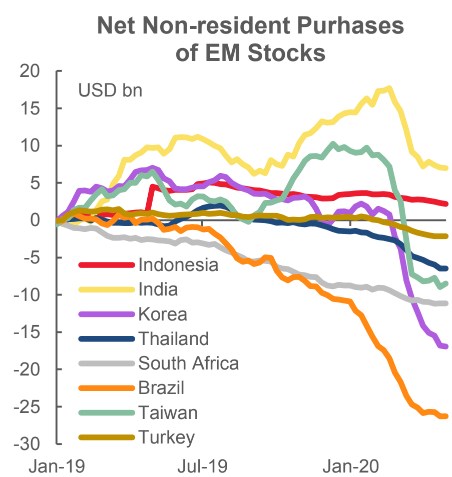
First, the MXN could be hurt if the perception of EM risk increases owing to concerns about Brazil. If the Brazilian situation is perceived to create a "domino" effect because of financial ties with the region, the risk could be perceived as less idiosyncratic and more systemic. In this case, MXN would be adversely affected by its role as risk "proxy" (chart 4). However, we doubt this is the case; Brazil's financial ties with offshore markets have been decreasing since 2019. Outflows from the Brazilian market were gradual at first, but they gained velocity as it became clearer that the political reforms would not be delivered fast enough to turn the fiscal imbalances around (chart 5).

Chart 4



Sources: Scotiabank Economics, Bloomberg.

Chart 5



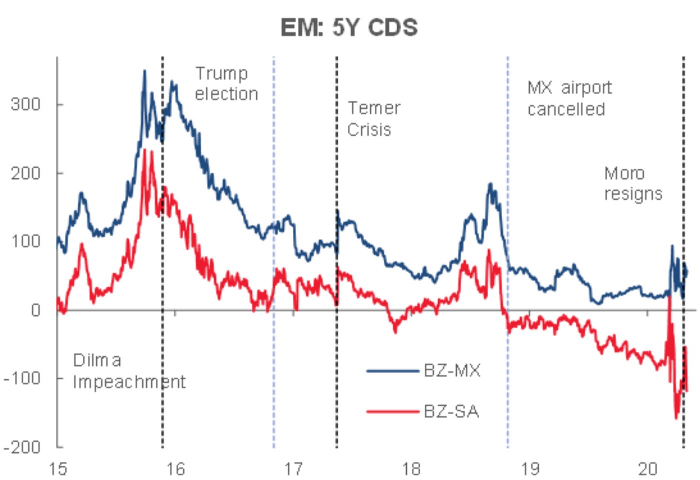
Sources: Scotiabank Economics, IIF.

Second, the MXN could suffer if investors extrapolate the Brazilian situation to Mexico. There are similarities in how markets are perceiving the "COVID-19 scenarios" in both countries. Both are perceived as having provided a late and weak response to the health crisis, which could result in a longer and more damaging pandemic. At the same time, the fiscal impulse in both countries seems to be insufficient to deal with the size of the economic shock stemming from the pandemic. If investors take the Brazilian political situation as a guide to what could be expected in Mexico, this would also affect Mexican assets more significantly. For now, we think the Mexican administration is keeping a stronger hold on political developments, although the Mexican administration's distance from the private sector might have deeper consequences.

BRL AND MXN ARE SUBSTITUTES IN TIMES OF RISK

In the longer term, if the sources of volatility remain localized, past episodes do not point to a consistent deterioration in Mexican markets in relation to higher volatility in Brazil (chart 6). In fact, taking the exchange rate as a guide, in long periods of localized stress, Brazilian and Mexican assets are treated more like substitutes (chart 7). For example, during Pres. Trump's campaign and after his eventual victory, MXN depreciated 40% vs BRL, while losing 25% vs USD. In the aftermath of Brazil's Temer scandal and potential trial in May 2017, MXN appreciated 25% vs BRL while staying relatively stable versus USD. Finally, when the late-2019 airport cancellation in Mexico significantly increased political risk in the country, MXN lost 20% vs BRL and 10% vs USD.

Chart 6



Sources: Scotiabank Economics, Bloomberg.

Chart 7

Sources: Scotiabank Economics, Bloomberg.

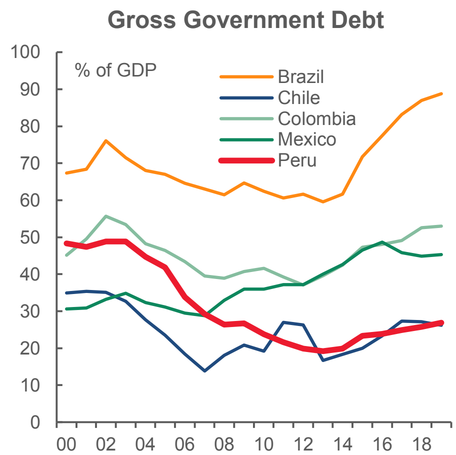
LIFE AFTER COVID-19: A DIFFICULT STARTING POINT FOR BOTH COUNTRIES

Political uncertainty is the key source of risk for both countries. The big questions concern the depth and extent of economic damage stemming from this uncertainty, and whether the path ahead for growth implies an explosion of debt ratios. In this context, it's worth bearing in mind that:

- Mexico is starting from a better situation than Brazil regarding its balance of payments and fiscal balances (charts 8 and 9), but markets' tolerance for error is very low;
- Brazil, on the other hand, has slightly better growth prospects but—even with a cautious fiscal response—is expected to post a fiscal deficit of nearly 10% GDP in 2020 in the IMF's *World Economic Outlook* forecasts, which will add to its relatively high debt burden (chart 10 and 11); and
- In terms of monetary policy, Mexico has more space to cut rates and provide further stimulus (see Key Economics Charts), while Brazil has already been through a very aggressive easing cycle that might, according to market pricing, take rates below 3% this year (see Central Bank table, p. 4).

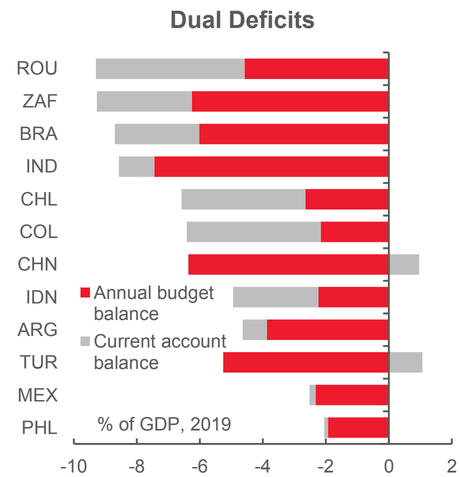
The situation is very fluid and the road ahead very uncertain. At this point, both Brazilian and Mexican assets seem to be pricing very bad scenarios for their economies and their governments' respective fiscal accounts. The relative behaviour of asset prices for the two countries will depend on the state of data that arrive over the coming weeks relative to currently very grim expectations.

Chart 8



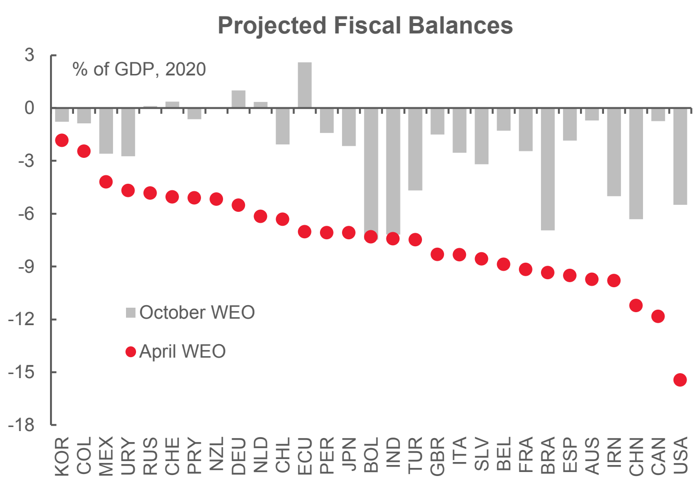
Sources: Scotiabank Economics, National Ministries of Finance.

Chart 9



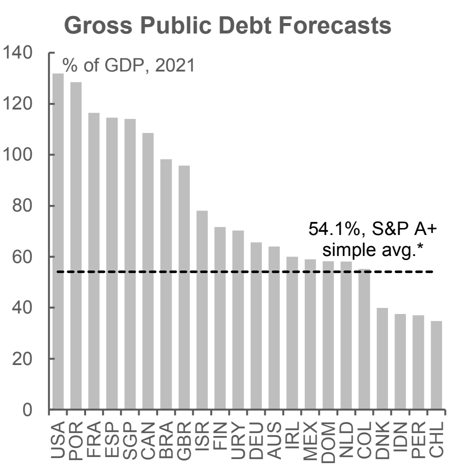
Sources: Scotiabank Economics, IMF.

Chart 10



Sources: Scotiabank Economics, IMF.

Chart 11



* Includes Chile, China & Slovak Republic.
Sources: Scotiabank Economics, IMF.

Box 1. The case against Pres. Bolsonaro

The main accusation against Pres. Bolsonaro is that he tried to interfere with federal police investigations. If the Supreme Court and the Congress find that there are credible grounds to this accusation, Bolsonaro could be removed from office.

Ex-Justice Minister Moro's principal argument is that Bolsonaro decided to change the head of the federal police in order to replace the incumbent with an ally who would give him information about ongoing investigations, some of which, coincidentally, include probes against Bolsonaro's sons. Replacing the head of federal police is something that the President is empowered to do, but concerns arise about the motives behind the decision and the potential intention to interfere with ongoing investigations.

In order to start an investigation against the President, the Federal Prosecutor needs the permission of the Supreme Court. The Supreme Court has granted permission to investigate three crimes:

- Coercion, concerning use of the President's office to pressure cabinet members to act as directed;
- Identity theft: Moro said that Pres. Bolsonaro forged his signature in the document authorizing the departure of the head of the federal police; and
- Corruption, for an attempt to interfere with the operation of an autonomous public body for personal motives.

There is no fixed time frame for the investigation, which could lead either to the case being shelved if no evidence is found or a formal presentation of charges against the President.

If the president is charged with any crime by the federal prosecutor, then the case is taken to Congress, where the lower house will decide whether the president will be put on trial. The process requires the approval of the Justice and Constitution Committee and a floor vote. If there is a trial, Bolsonaro will be suspended from office and the Vice-President would take his place.

The Supreme Court then has six months to rule on the case. If by **the end of that period there is no definite ruling or if the President is declared innocent by at least a majority of the 11 justices, then he can resume his mandate. Otherwise, the President would be discharged, losing his political rights. In that case, the VP would stay on as President for the remainder of the existing term.**

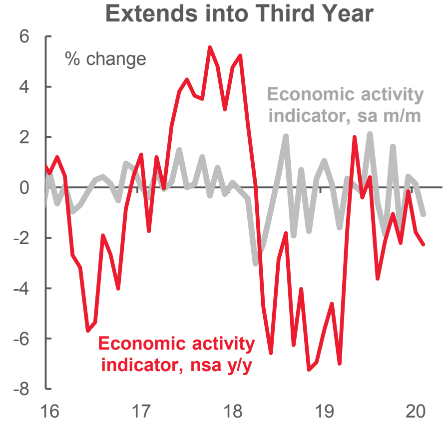
Country Updates

Argentina—Familiar Signs of Deepening Macro Imbalances

Brett House, VP & Deputy Chief Economist
416.863.7463
brett.house@scotiabank.com

Argentina kicked off the past week with the President's announcement that the national quarantine, which was due to expire on Sunday, April 26, would be extended to May 10. The new protocols add some flexibility to the relatively looser quarantines imposed in small cities, rural areas, and regions where the pandemic is under control, but it keeps existing strict guidelines in place for cities with more than 500k inhabitants

Argentina: Recession Extends into Third Year



Sources: Scotiabank Economics, INDEC.

Argentina continued its trip back to the future this past week with the imposition of further FX controls to limit the widening gap between the official USDARS exchange rate and the parallel "blue chip" swap rate. Argentina's securities regulator, the CNV, asked local brokers on April 28 to submit to it lists of clients who seek to obtain USDs via the unofficial market; at the same time, regulators introduced rules that force mutual funds denominated in ARS to hold at least 75% of their assets in local, ARS-denominated instruments. On April 30, the BRCA imposed a requirement that SMEs receiving public support must seek prior authorization before accessing the official FX market to service foreign debt obligations. All businesses tapping the official FX market are additionally banned from trading in FX-denominated financial instruments. Despite—or perhaps because of—these actions, the blue-chip USDARS rate hit 122.3 on May 1, nearly double the USDARS 66.8 official rate.

February data show that wages are tracking inflation with a 46.6% y/y increase in the second month of the year. With production constrained by the COVID-19 lockdowns, the ARS depreciating on the back of debt-default concerns, and inflation set to remain above 45% y/y in 2020, at even these astronomical rates of wage growth Argentines are set to tread water in terms of real earnings in 2020.

Economic activity in February came in softer than we expected as the usual post-holiday rebound failed to materialize, which points to an even-weaker economy heading into the COVID-19 lockdown than we had expected. Activity slid from a -1.8% y/y contraction in January to a -2.2% y/y shrinkage in February. Altogether, the January and February activity readings imply that Q1 growth is on track for a -2% y/y decline compared with the -0.9% y/y we have forecast.

Amidst the beginning of the government's roadshow, the week saw a large swath of bondholders reject the government's restructuring offer that was brought forward on April 23 and 24. It looks increasingly likely that bondholders and the government will fail to reach agreement on a debt treatment by the government's self-imposed May 8 deadline.

As we go to press, we have not yet seen an indication of whether the Province of Buenos Aires made the roughly USD 150 mn payments due on May 1 on dollar- and euro-denominated bonds. If missed, a 10-day grace period begins May 4, which would go slightly beyond the Province's May 11 deadline on its restructuring offer on USD 7 bn of bonds. The Province hasn't published fiscal numbers since end-December, so its capacity to pay is unclear, but its conduct could provide a hint on how the national government would respond to a possible stalemate in its discussions with creditors.

The coming week sees construction and industrial production data for March and vehicle data for April, all of which are likely to put an even sharper point on the economy's slide into a third year of recession.

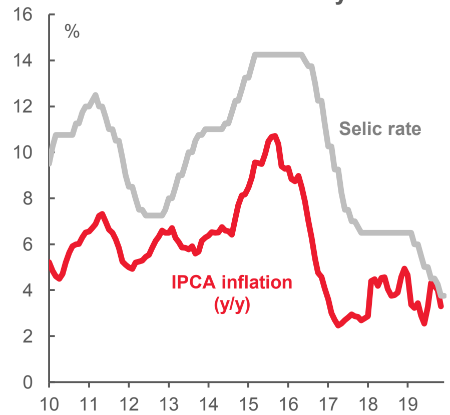
Brazil—Monetary Policy Enters Uncharted Territory

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
eduardo.suarez@scotiabank.com

The past week had several important releases that provided a slightly better than expected picture of the economy: 1) the current account balance for March, where, contrary to our expectations, Brazil did not yet swing into a deficit; 2) March net FDI printed very strongly at USD 7.6 bn vs consensus USD 6.5 bn, up from USD 6.0 bn in February; 3) the IBGE's IPCA-15 came in marginally below expectations, at 2.92%; and 4) lending data for March also proved a bit more resilient than consensus anticipated—posting positive growth, while a slight contraction was expected.

Overall, the past week's numbers were slightly better than anticipated—with growth-related indicators slightly stronger than projected and inflation marginally more controlled. But the most worrisome print from last week was FGV consumer confidence, which printed at 58.2 for April, down from 80.2 in March—easily the worst print on record.

Brazil Monetary Policy in Uncharted Territory



Sources: Scotiabank Economics, Bloomberg.

The BCB released its *Financial Stability Report* for H2-2019 on April 29. Although the description of the economy as "enjoying a gradual recovery in an environment of historically low inflation" in 2019 is now a distant memory (at least the first part of the sentence), the report is encouraging in the sense that the financial sector is fairly strong, which will be a positive for the rebound from the COVID-19 crisis. Some of the relevant signs for the post-COVID world are:

- It's encouraging to see that the gradual recovery of the economy was used by Brazil's development banks to restore their liquidity buffers—over the course of 2019, development banks' liquid assets increased by about 1/6—after the rough patch they went through during the Rousseff Administration, in which their balance sheets became quite stretched;
- The profitability of the non-financial private sector continued to increase during 2019, and NPLs continued to fall. In fact, NPLs fell without interruption from 2017, but the trend is likely to end this year;
- Household lending continued to grow at double digits last year, but as we highlighted last week, the fact that the household debt service to disposable income ratio is once again above 20% is one of the headwinds we see for the post-COVID-19 economy; and
- Rising household leverage, combined with what will likely be a sharp employment shock, could present some headwinds to the Brazilian financial sector, but the reality is that Brazilian banks are very well capitalized and have some of the strongest financial ratios in the region. The BCB's stress tests show that even under a strong COVID-19 shock, banks' Basel capital ratios would drop from 19.5 to 15.3, still relatively strong considering the shock the world is going through.

Next week we have another very busy data pipeline, including the Markit manufacturing PMI (May 4), trade data (May 4), CNI capacity utilization (May 4), Fenabrave vehicle sales (May 4–6), Markit services PMI (May 6).

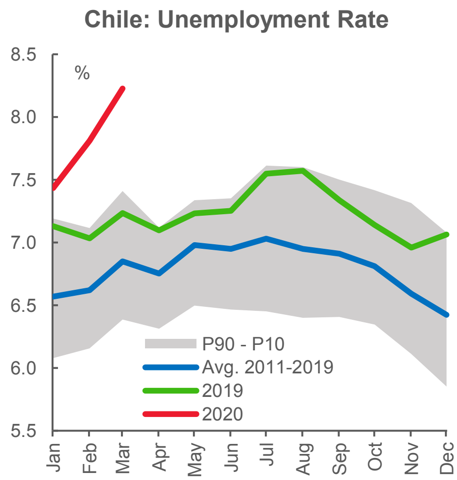
The BCB's next COPOM meeting (May 6) arrives midweek. We expect strong dips in the services and manufacturing PMIs and a 50bps cut by the BCB, which is in line with consensus. For the PMIs, we expect the manufacturing PMI to dip into the mid-30s, and services to go further south into the high-20s. We currently project another 25 bps cut later in the quarter from the BCB.

Chile—COVID-19 Hits the Sectoral Activity and Employment Data

Jorge Selaive, Chief Economist
56.2.2939.1092 (Chile)
jorge.selaive@scotiabank.cl

Carlos Muñoz, Senior Economist
56.2.2619.6848 (Chile)
carlos.munoz@scotiabank.cl

This week we saw the first sectoral and employment data that include the partial effect of the COVID-19 crisis in the Chilean economy. On Thursday, April 30, the unemployment rate reached 8.2% in Q1 2020, below the market consensus (8.4%) and our estimate (8.4%). The increase in the unemployment rate was due to low employment creation, which grew by only 0.7% y/y (previous month: 1.7% y/y) while the labor force expanded 1.8% y/y. In monthly terms, the destruction of 120k jobs was observed in the quarter ending in March, which deepened the drop we observed in February. Regarding sectoral data, manufacturing production showed a contraction of -1.2% m/m, but a slight increase of 0.6% in year-over-year terms. Mining activity confirmed the slight slowdown in production, in line with our expectations: in annual terms, it grew by 2.3% y/y, which at least will not detract from total activity. Copper mining and processing expanded a modest 1.4% y/y, due to lower ore grades and higher maintenance costs. Retail trade contracted -14.9% y/y, in line with our projection. However, supermarket sales expanded 7.1% y/y somewhat less than what actual transactions had indicated to us.



Sources: Scotiabank Economics, NBS (INE).

Next week, important data will be released that will give us additional information about the real effects of the COVID-19 crisis on the Chilean economy. On Monday, May 4, we will receive the monthly GDP data for March. We expect a decline of around -4% y/y, as many services have seen a paralysis in activity, and several factories were working at half-capacity in March. The decline in services will be even deeper in April. Data from emergency healthcare providers as of April 28 show a stabilization in activity at the margin, but continue to imply that the contraction of the service sector during April would be even worse than we have seen in March. This could be especially true in personal services, which represent about 12% of GDP and include education and health activities, among others. On Friday, May 8, CPI data for April will be released. We expect a null monthly variation for April, which will lead to an annual inflation rate of 3.4% y/y. A decrease in fuel prices and transport services costs would be partially offset by increases in some food products, such as potatoes, avocados, and bread. For May, we anticipate once again a null variation in monthly inflation, leading to an annual change of 2.8% y/y. Finally, in the labor market, it is important to highlight the "Employment Protection" law that took force in April. This law allows employers to maintain their contractual relationship with their employees by paying only their social security contributions. Formal-sector workers under this arrangement are classified by the NBS as "absentee employed", not unemployed, which will skew some of the headline jobs numbers over the coming months.

Colombia—Fiscal Strategies in Colombia as BanRep Cuts

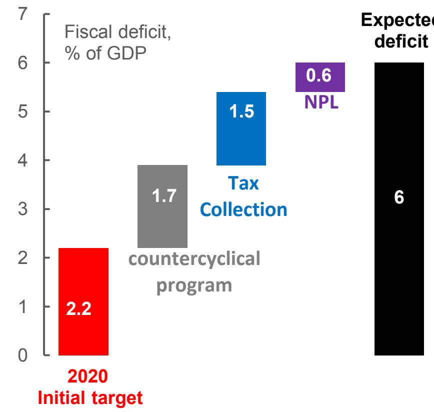
Sergio Olarte, Senior Economist
57.1.745.6300 (Colombia)
sergio.olarte@co.scotiabank.com

Jackeline Piraján, Economist
57.1.745.6300 (Colombia)
jackeline.pirajan@co.scotiabank.com

The Colombian authorities' policy response to the COVID-19 / oil-price shock was initially similar to the responses of their peers: the central bank (BanRep) acted quickly to provide liquidity to the system to avoid a financial crisis. However, the still very orthodox conduct of monetary policy and still-tight fiscal situation make us think that the Colombian government has been taking a slightly different approach from its peers in terms of fiscal policy. We believe that it will try to keep the fiscal deficit as low as possible in the short term under the assumption of higher potential liabilities in the future.

The government is well aware that countercyclical policies are the only current possibility to cushion the downturn and to speed up the recovery. Therefore, although we do not expect a fiscal program as aggressive as in Peru or some developed economies, we do expect a larger boost in government expenditures to come, which, in conjunction with lower tax collection, will significantly increase the fiscal deficit. We have the impression that even the government has not yet determined the full cost of its possible recovery plan; nonetheless, in an initial iteration, the government proposed to the Fiscal Rule Advisory Committee an increase in the deficit by 2.7 ppts of GDP to 4.9%, on the back of higher expenditures for the health sector, subsidies to the low-income population, and additional capitalization of the institution, FNG, that provides state guarantees on loans to small - and medium-sized businesses. However, the Committee discarded the proposed increase immediately and said that it should be higher since the shock has no precedent and the looming recession could be deeper than the -1.6% presented by the Ministry of Finance.

Colombia: Estimated Increase in 2020 Fiscal Deficit



Source: Scotiabank Economics.

Although we do not yet have a final word on the 2020 fiscal deficit, we can infer that it will likely land somewhere between the Committee's desire to do as much as needed to keep the economy alive and Minister Carrasquilla's very orthodox inclinations that see little room to issue more debt in the short term. Therefore, our current estimate points to a fiscal deficit totaling 6% of GDP this year, calculated as follows: to the 2.2% of GDP goal pre-COVID-19 deficit we added 1.7 ppts from the initial fiscal countercyclical program, 1.5 ppts more owing to the impact of lower growth, and an additional 0.6 ppts of GDP stemming from a share of the eventual increase in NPLs that will have to be covered by the government's guarantees provided via FNG through the decapitalization of public entities and funds such as Grupo Bicentenario and the infrastructure fund—Fondes.

From the financing point of view, the fiscal strategy takes advantage of an intertemporal swap that uses existing liquidity and creates potential future liabilities that are not easily visible today. The TES issuance program of COP 34 tn continues, plus the issuance of USD 1.4 bn of external debt, to cover the initial pre-COVID-19 deficit of 2.2% of GDP. The additional projected deficit, equivalent to 3.8% of GDP, is set to be financed by tapping other public reserves of liquidity that nevertheless generate fiscal liabilities that will have to be covered in the future.

A portion (1.5 ppts) of the additional countercyclical spending will be funded by the recently created emergency fund—FOME—that was financed with money from the sub-national entities' pension reserves and emergency fund (FAE). Both sources of financing lent monies that should be repaid in the next ten years. Additionally, FOME has extra funding from mandatory solidarity bonds that the financial system must issue, which represent around 0.9% of GDP in additional debt that initially matures in one year, but would be extended every year until 2029.

The additional widening in the deficit as a result of lower growth, which generates additional spending and tax shortfalls together equivalent to 1.7% of GDP, is expected to be financed by multilateral entities. In fact, the World Bank has already approved a USD3 bn (about 1 ppt of GDP) loan to Colombia.

Another important move that contributes to easing short-term debt requirements is the transfer of money from private pension funds to the state-owned pension fund (Colpensiones). The transfer provides liquidity equivalent to 0.5% of GDP , but generates a pension liability for the future since it implies that the government is now responsible for the pensions 10,000 additional retirees.

As a result of all of these moves, the government should be able to finance a deficit of 6% of GDP this year without additional issuance of TES or external debt. However, long-term fiscal sustainability will become a bigger issue—even more so if the deficit goes beyond the 6% we have pencilled in.

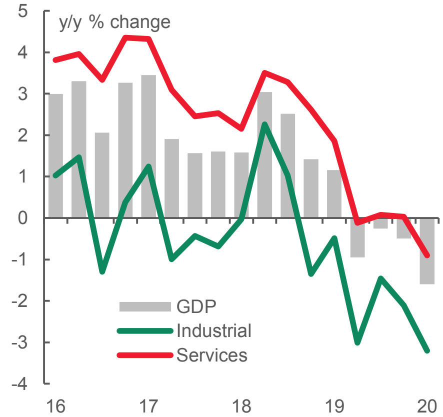
On the data side, on April 30 Banrep cut rates by 50 bps, as expected, and left the door open to future cuts. As we mentioned at the beginning, the central bank has been focused on providing enough liquidity to local and FX markets to ensure they function smoothly. In contrast, rate cuts have been delivered at a slower pace than in other economies. The May meeting was not set to be a rate-decision meeting, but it now appears live and we expect another 50 bps cut at that time.

Mexico—Pandemic-Affected Macro Data Begin to Arrive

Mario Correa, Economic Research Director
52.55.5123.2683 (Mexico)
mcorrea@scotiacb.com.mx

We had a week loaded with economic information. On the advance estimate, Q1 GDP fell -1.6% y/y, with its two main components showing contractions of -3.2% y/y in industry and -0.9% y/y in services, while primary activities grew 1.5% y/y. Using seasonally adjusted figures, GDP fell 1.6% q/q (coincidentally the same number as y/y in unadjusted terms), which will yield an annualized contraction of -6.2% (using the same methodology as in the US). However you see it, this is the deepest contraction since 2009 and it is just starting to reflect the disruption of economic activity resulting from COVID-19. The contraction in Q2 will be something dramatic, with a two-digit negative number.

Mexico: Real Gross Domestic Product



Sources: Scotiabank Economics, INEGI.

We also received the results for the trade balance in March, which posted a surplus of USD 3.4 bn that resulted from a -6.7 % y/y contraction in imports while exports contracted -1.6% y/y. These figures also reflect the beginning of the disruption produced by COVID-19. It is worth noting is that capital good imports fell -18.1% y/y, a sign that investment plummeted in this negative environment full of uncertainty. Consumer goods imports fell -9.0% y/y, as consequence of weaker private consumption with more cautious consumers. On the other hand, financial activity increased in the month of March, with significant rebounds in both deposits and credit. Total deposits at private banks grew 10.1% real y/y, a marked change from the 2.0% real y/y growth recorded in February, while banking credit to the private sector grew 7.0% y/y (after an only 1.6% y/y expansion in February). This should not be interpreted as a change in the trend of financial activity, but as precautionary moves by firms and households to gather more liquidity and max out available credit lines in response to the COVID-19 lockdown. A reversal to weaker financial activity should be expected in the coming months as economic activity suffers and businesses and households start using their war chests.

In a positive event, Mexico and the Eurozone finalized negotiations on the EU-Mexico Free Trade Agreement, which will increase the potential for trade and economic growth for both parties. On the other hand, Pemex reported a Q1 loss of MXN 562 bn, which is considerably bigger than the loss of MXN 346 bn recorded for all of 2019. The oil company warned that most of this huge result is explained by a loss of MXN 469 bn attributed to FX depreciation.

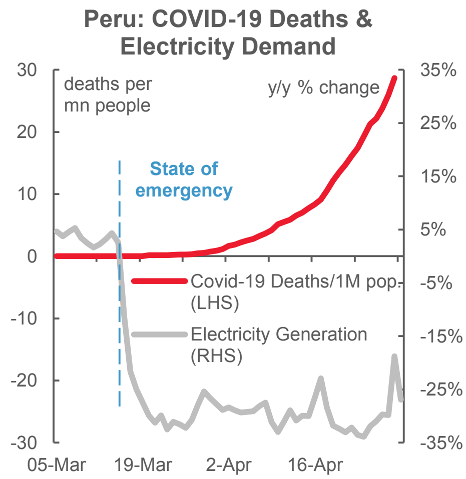
For the week ahead we will receive a lot of information that will provide a better reading on the economy. Special attention should be placed on the auto industry report for the month of April, which will give us some of the first readings regarding the severity of economic disruption. We will also get remittances for the month of March, domestic private consumption and investment for the month of February, inflation for April, and the results of the survey on economic forecasts conducted in April by Banco de Mexico.

Peru—Government Opts for Beginning to Remove the Lockdown…Slowly

Guillermo Arbe, Head of Economic Research
51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Peru's government is facing a quandary. Peru is one of the nations in which COVID-19 contagion is expanding the most. At the same time, after six weeks of some of the most drastic lockdown measures in the world, there is a growing sense that the pain from the lockdown is becoming too much to bear (or, for that matter, to control). Thus, on April 29, we saw the rather contradictory situation of the President announcing plans to shortly lift the lockdown on the very same day on which COVID-19 deaths reached a record high.

The government's intention is to lift the lockdown in four monthly stages, from May to August. Apparently, the idea is to add production sectors representing 10% of GDP incrementally each month off a current base of an economy operating at 50% of past levels. The only rationale behind equal percentile increments appears to be the desire to be gradual, although the velocity of the process is likely to be altered as it evolves. The upshot is that 90% of the economy should be up and running by the end of August. Note, however, that once industries are formally allowed to come back on stream, many will first need to implement new health and sanitation protocols, which may cause further delays. Candidates for the first stage of the process include open-pit mining (underground mining would open much later), textiles, machinery, chemical products, certain transportation and water sanitation investment projects, sales and distribution of electronic devices, and restaurant deliveries, among others. All this will need to be determined quickly, as the process of beginning to lift the lockdown process could begin next week.



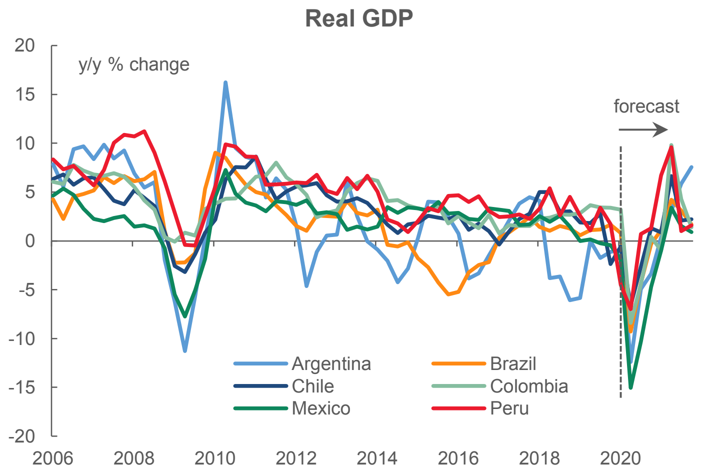
Sources: Scotiabank Economics, COES, MINSA.

Meanwhile, the government is starting to come under political pressure. Congress has called in a number of cabinet members on issues mostly related to the COVID-19 crisis. Congress is clashing increasingly with the cabinet on a number of issues, including pension funds, tax measures, and crisis management. This is likely to continue, as Congress has a clearly more populist mindset than the government.

In macro data, bank loans rose over 8% y/y in March, led by business loans, as businesses sought to shore up their liquidity positions through new borrowing and by tapping new government-sponsored funds, such as the small business support fund. This should continue in April, as banks channel the USD 9 bn of central bank resources that make up the REACTIVA government-backed loans program. This is one of the few bright spots of the economy. In contrast, according to an unofficial—but credible—source, exports fell 46% y/y in March, led by mining exports, down a similar degree. April could be even worse, as mining production may have declined by as much as 80% y/y. Agroindustry exports held up better in March, falling only 3% y/y.

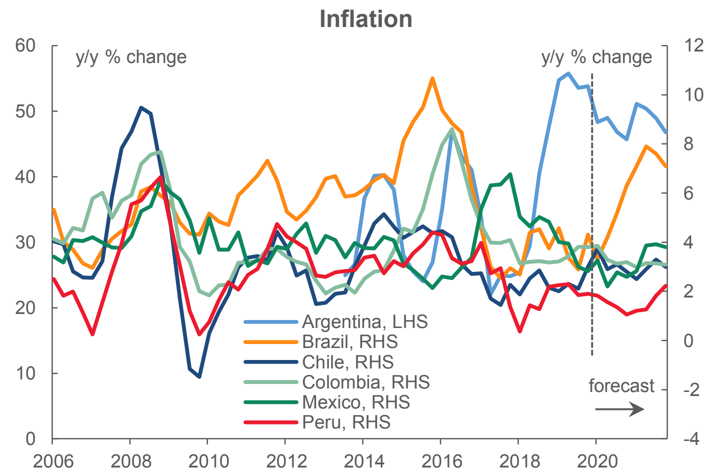
Key Economic Charts

Chart 1



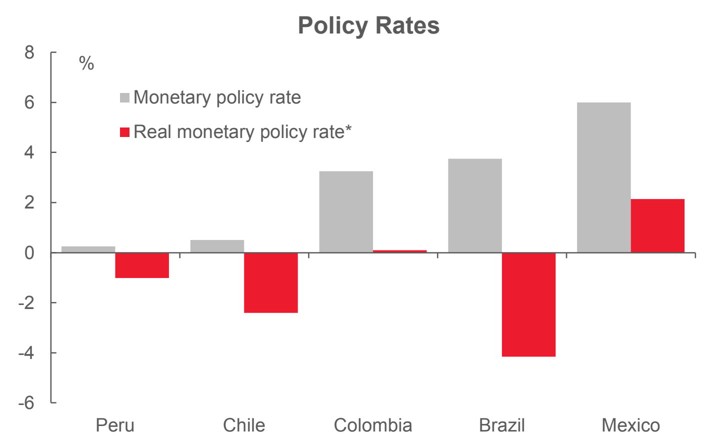
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



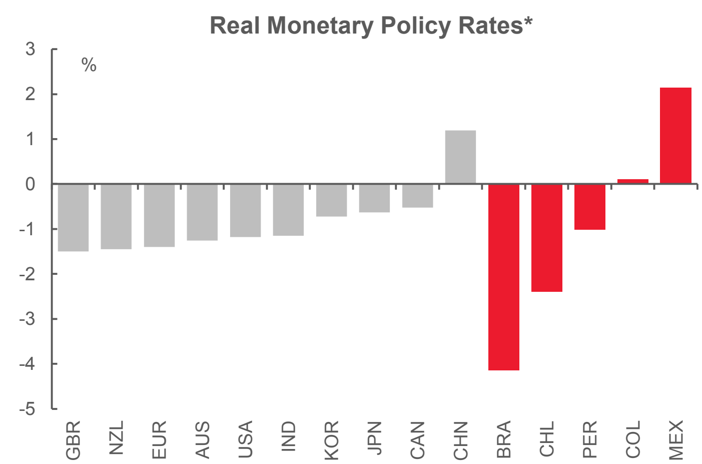
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Argentina: MPR = 38.0%; Real MPR = -12.4%. Sources: Scotiabank Economics, Haver Analytics.

Chart 4

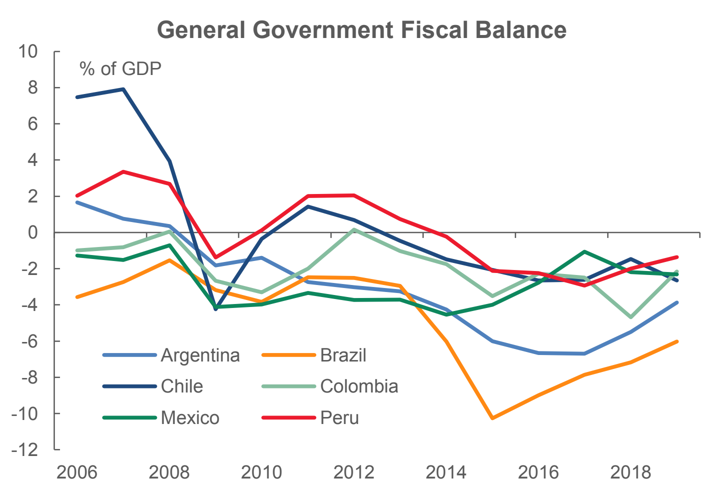


* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 5

Sources: Scotiabank Economics, Haver Analytics.

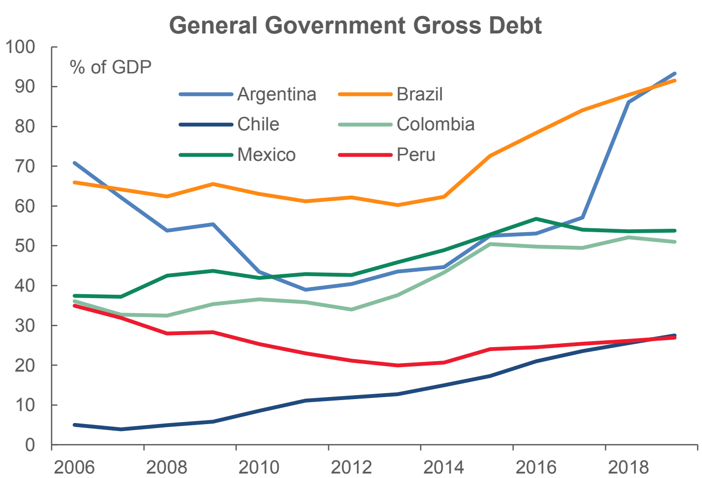
Chart 6



Sources: Scotiabank Economics, IMF.

Key Economic Charts

Chart 7

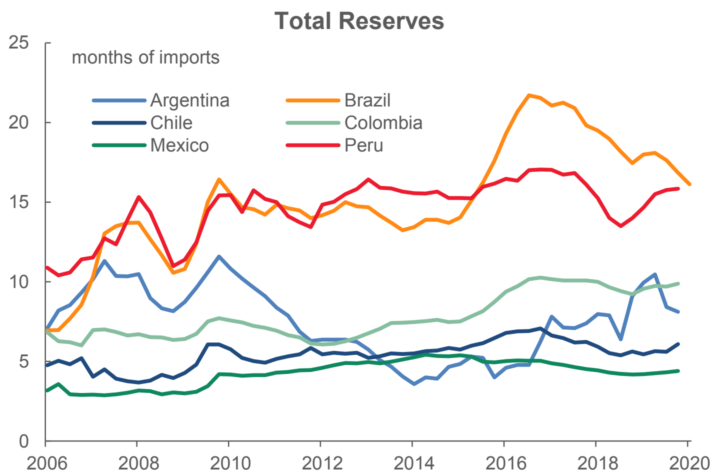


Sources: Scotiabank Economics, IMF.

Chart 8

Sources: Scotiabank Economics, Haver Analytics.

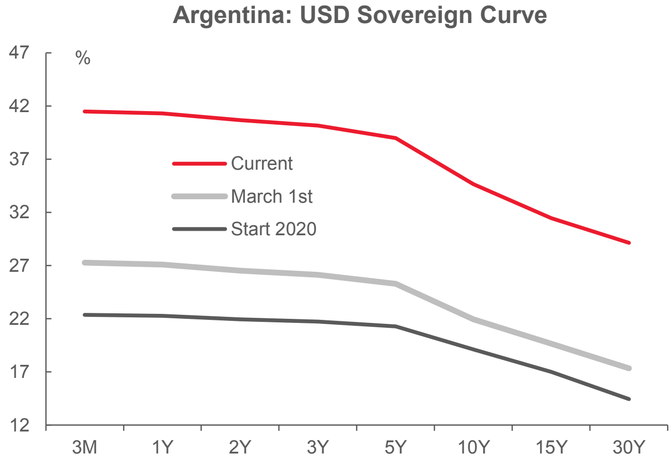
Chart 9



Sources: Scotiabank Economics, Haver Analytics.

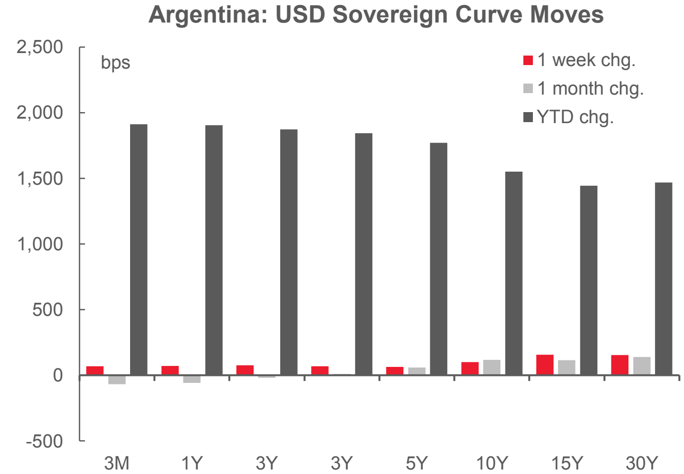
Key Market Charts

Chart 1



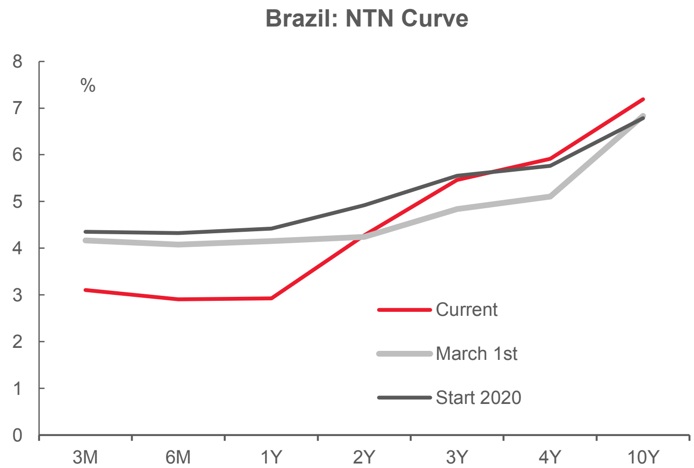
Sources: Scotiabank Economics, Bloomberg.

Chart 2



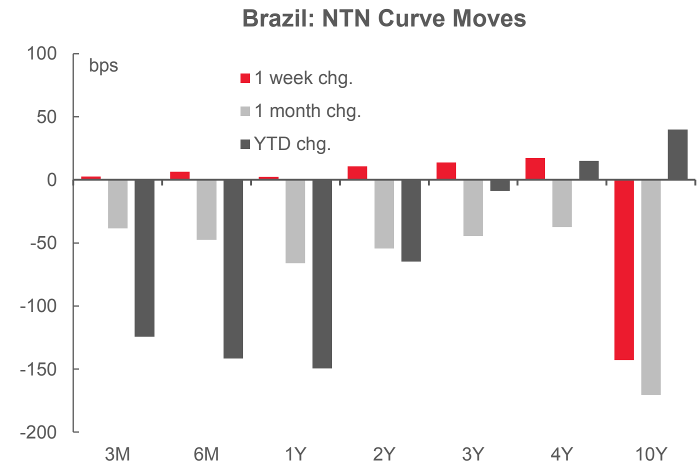
Sources: Scotiabank Economics, Bloomberg.

Chart 3



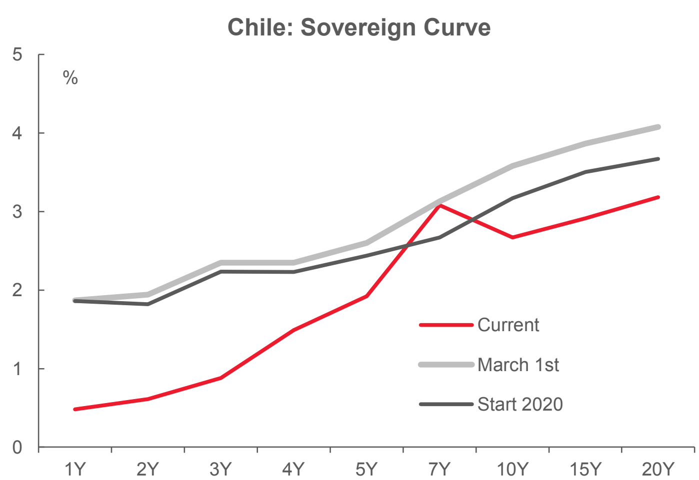
Sources: Scotiabank Economics, Bloomberg.

Chart 4



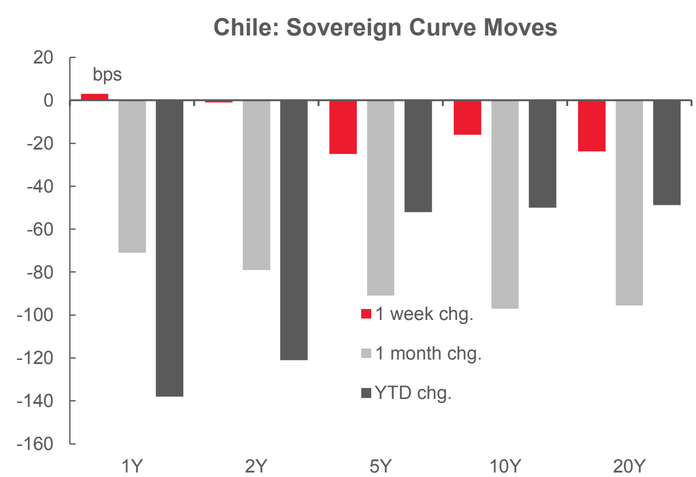
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

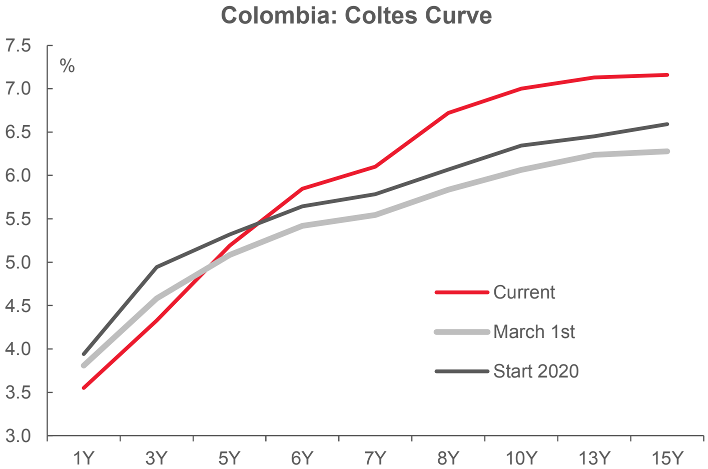
Chart 6



Sources: Scotiabank Economics, Bloomberg.

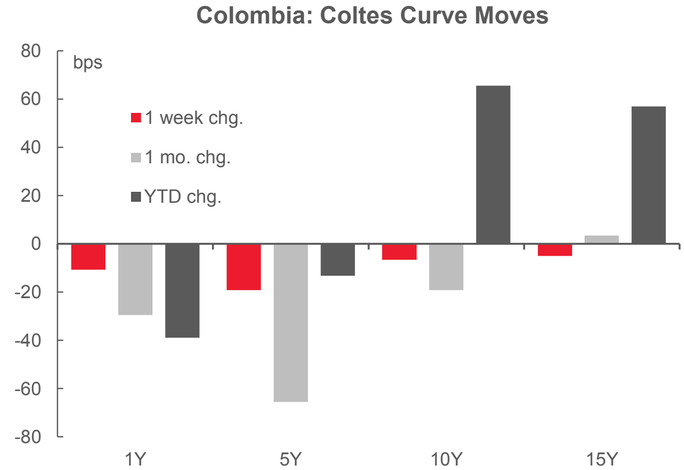
Key Market Charts

Chart 7



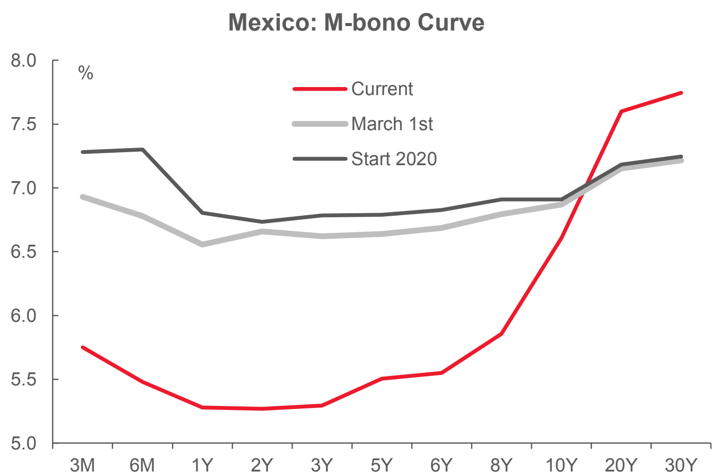
Sources: Scotiabank Economics, Bloomberg.

Chart 8



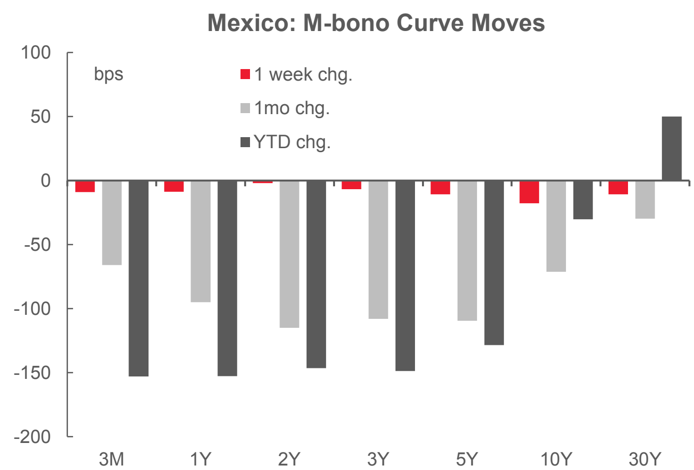
Sources: Scotiabank Economics, Bloomberg.

Chart 9



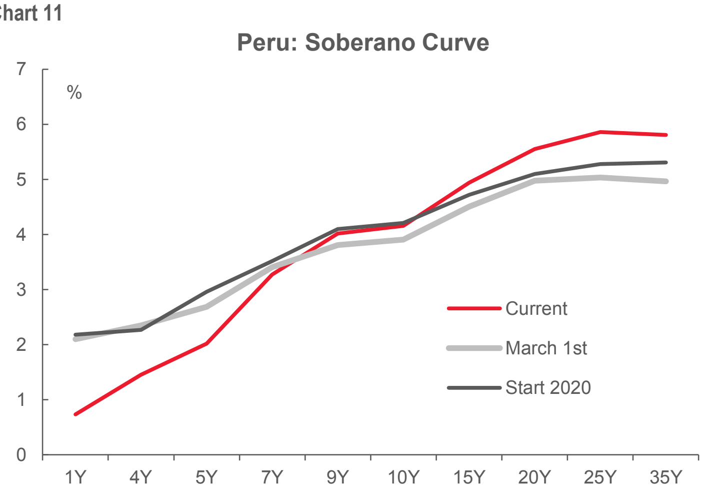
Sources: Scotiabank Economics, Bloomberg.

Chart 10



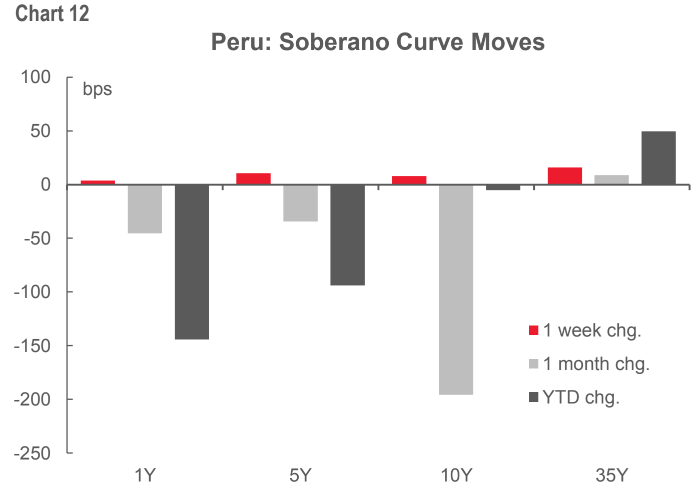
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

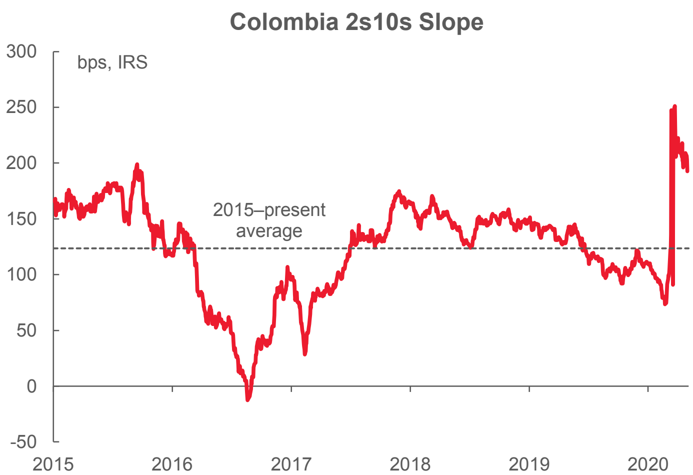
Chart 13

Sources: Scotiabank Economics., Bloomberg.

Chart 14

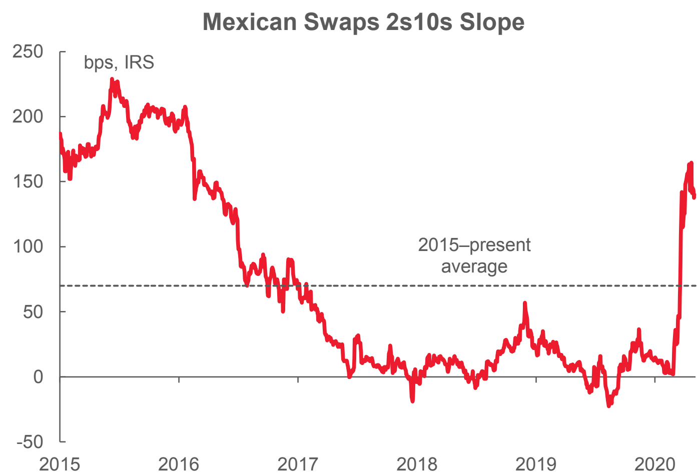
Sources: Scotiabank Economics., Bloomberg.

Chart 15



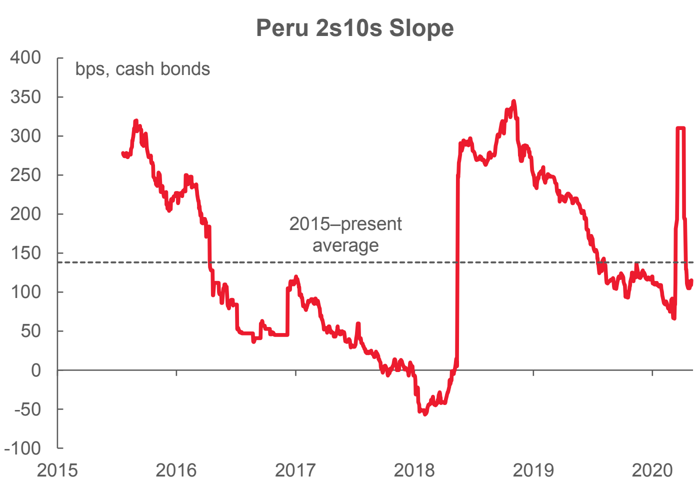
Sources: Scotiabank Economics., Bloomberg.

Chart 16



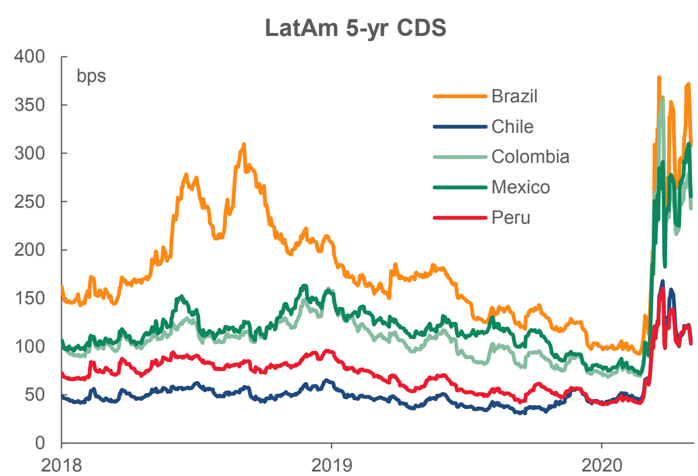
Sources: Scotiabank Economics., Bloomberg.

Chart 17



Sources: Scotiabank Economics., Bloomberg.

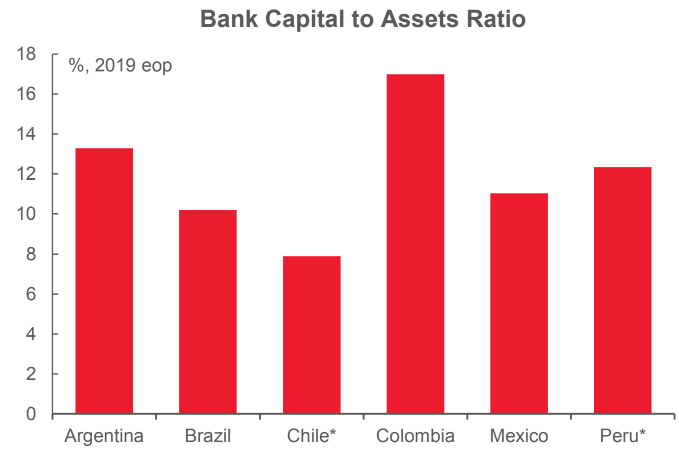
Chart 18



Sources: Scotiabank Economics., Bloomberg

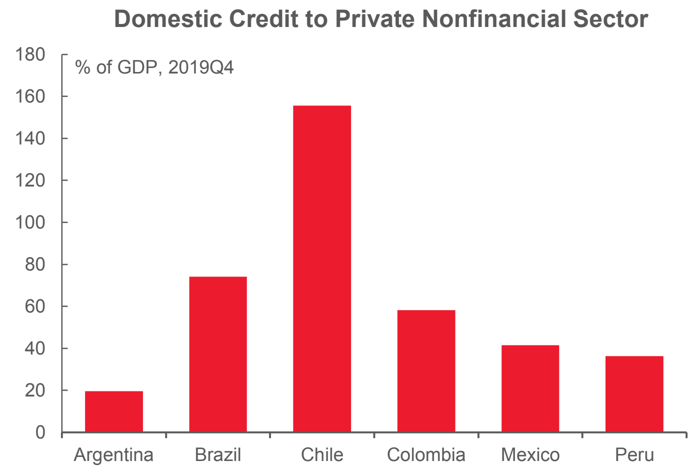
Key Market Charts

Chart 19



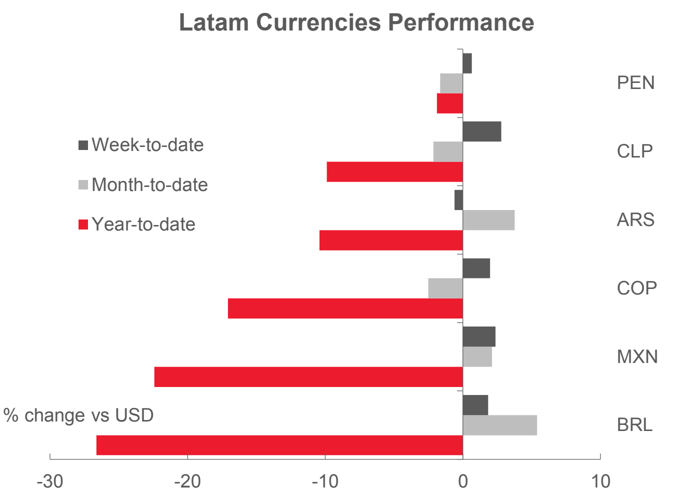
* Chile 19Q3; Peru 19Q2.
Sources: Scotiabank Economics, IMF.

Chart 20



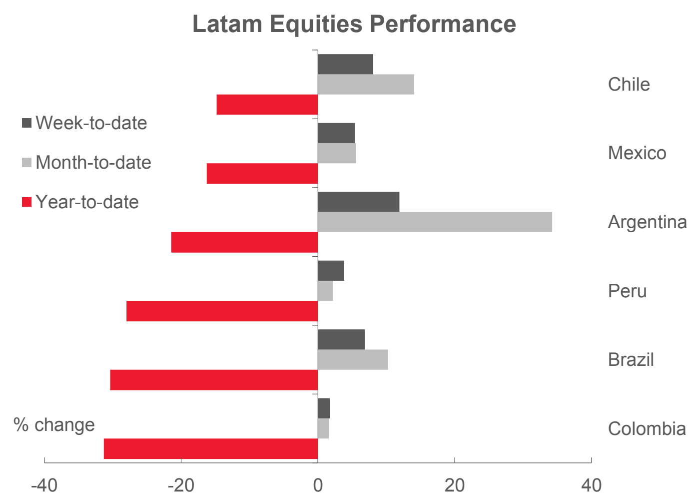
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 21



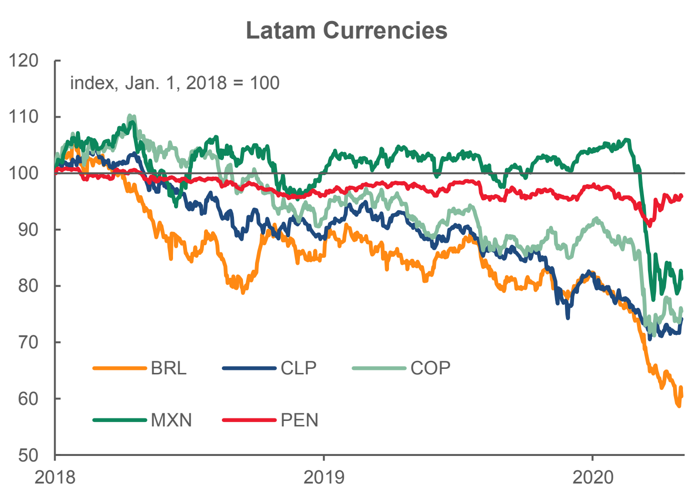
Sources: Scotiabank Economics, Bloomberg.

Chart 22



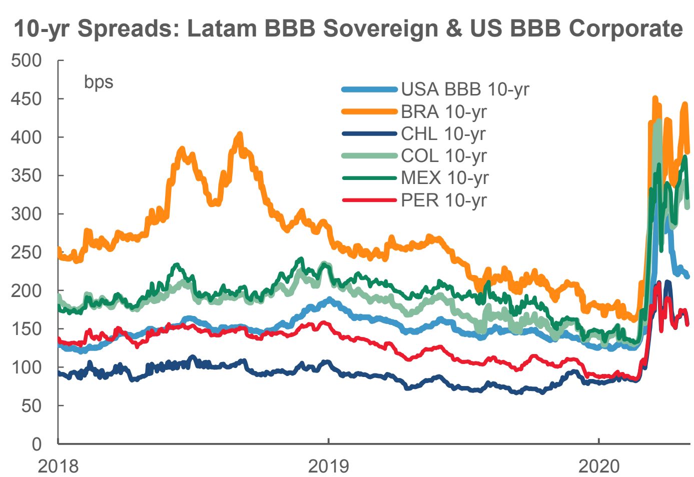
Sources: Scotiabank Economics, Bloomberg.

Chart 23



Sources: Scotiabank Economics, Bloomberg.

Chart 24



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for May 2–8

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/05		Government Tax Revenue (ARS bn)	Apr	--	--	443.6	
05/06	15:00	Construction Activity (y/y)	Mar	--	--	-22.1	Weak March trade trade and a m/m decline in the UTDT indicator point to further contractions.
05/06	15:00	Industrial Production (y/y)	Mar	--	--	-0.8	
05/06		Vehicle Exports Adefa	Apr	--	--	13928	
05/06		Vehicle Production Adefa	Apr	--	--	19164	
05/06		Vehicle Domestic Sales Adefa	Apr	--	--	18922	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/04	7:00	FGV CPI IPC-S (m/m)	30-Apr	--	-0.1	0.1	
05/04	9:00	Markit Brazil PMI Manufacturing Index	Apr	36.0	--	48.4	Expect a mid-30s reading.
05/04	14:00	Exports Total (USD mn)	Apr	--	18100	19238	
05/04	14:00	Trade Balance Weekly (USD mn)	3-May	--	--	1744.4	
05/04	14:00	Trade Balance Monthly (USD mn)	Apr	--	6150.0	4713.0	
05/04	14:00	Imports Total (USD mn)	Apr	--	11761	14525	
05/04		CNI Capacity Utilization Rate, SA (%)	Mar	--	--	78.7	
May 4-6		Vehicle Sales Fenabrave	Apr	--	--	163588	
May 4-8		Formal Job Creation Total	Jan	--	77761	-307311	
05/05	4:00	FIPE CPI - Monthly (m/m)	Apr	--	-0.1	0.1	
05/05	8:00	Industrial Production (m/m)	Mar	--	-3.2	0.5	
05/05	8:00	Industrial Production (y/y)	Mar	--	-2.0	-0.4	
05/06	9:00	Markit Brazil PMI Composite Index	Apr	--	--	37.6	
05/06	9:00	Markit Brazil PMI Services Index	Apr	29.0	--	34.5	Expect a high-20s reading.
05/06		**Selic Rate (%)**	**6-May**	**3.25**	**3.25**	**3.75**	The BCB is expected to cut the Selic rate by 50 bps to 3.25% in May, taking the real policy rate into negative territory. We expect further dips in the PMIs to drive one further 25 bps cut from the BCB later in Q2.
May 7-8		Vehicle Production Anfavea	Apr	--	--	189958	
May 7-8		Vehicle Sales Anfavea	Apr	--	--	163625	
May 7-8		Vehicle Exports Anfavea	Apr	--	--	30772	
05/08	7:00	FGV Inflation IGP-DI (y/y)	Apr	--	6.5	7.0	
05/08	7:00	FGV Inflation IGP-DI (m/m)	Apr	--	0.4	1.6	
05/08	7:00	FGV CPI IPC-S (m/m)	7-May	--	-0.1	0.1	
05/08	8:00	IBGE Inflation IPCA (m/m)	Apr	--	-0.2	0.1	
05/08	8:00	IBGE Inflation IPCA (y/y)	Apr	--	2.5	3.3	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/04	8:30	Economic Activity (y/y) ex. Mining	Mar	--	--	2.0	
05/04	8:30	Economic Activity (y/y)	Mar	-4.0	-3.5	2.7	Sectoral data point to a -4% y/y contraction.
05/04	8:30	Economic Activity (m/m)	Mar	--	-4.5	0.6	
May 4-8		IMCE Business Confidence Index	Apr	--	--	40.7	

Forecasts at time of publication.
Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for May 2–8

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/06	17:00	**Overnight Rate Target (%)**	**6-May**	**0.50**	**0.50**	**0.50**	The BCCh will stay at its technical lower bound.
05/07	8:30	Trade Balance (USD mn)	Apr	--	1000.0	1243.0	
05/07	8:30	Exports Total (USD mn)	Apr	--	--	5694.1	
05/07	8:30	Imports Total (USD mn)	Apr	--	--	4451.1	
05/07	8:30	Copper Exports (USD mn)	Apr	--	--	2641.0	
05/07	8:30	International Reserves (USD mn)	Apr	--	--	37945	
05/07	9:00	Nominal Wage (m/m)	Mar	--	--	-0.1	
05/07	9:00	Nominal Wage (y/y)	Mar	--	--	4.5	
05/08	8:00	CPI (m/m)	Apr	0.0	-0.1	0.3	
05/08	8:00	CPI (y/y)	Apr	3.4	3.4	3.7	
May 8-13		Vehicle Sales Total	Apr	--	--	19177	

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/04	11:00	Davivienda Colombia PMI Mfg Index	Apr	--	--	49.3	
05/04	14:00	Colombia Monetary Policy Minutes					Features the Monetary Policy report, which includes a medium-term scenario for the economy. The BanRep staff press conference follows on 05/07.
05/05	20:00	CPI (m/m)	Apr	0.3	0.3	0.6	The CPI print will probably point to still-high inflation on foodstuffs, which would be partially offset by a muted services prices in sectors under lockdown.
05/05	20:00	CPI (y/y)	Apr	3.6	3.6	3.9	
05/05	20:00	Core CPI (y/y)	Apr	0.0	--	3.3	
05/05	20:00	Core CPI (m/m)	Apr	2.8	--	0.3	

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/04	10:00	Remittances Total (USD mn)	Mar	--	2748.2	2694.2	
05/04	10:30	Markit Mexico PMI Mfg Index	Apr	--	--	47.9	
05/04	13:00	IMEF Manufacturing Index SA	Apr	--	35.0	45.0	
05/04	13:00	IMEF Non-Manufacturing Index SA	Apr	--	28.0	39.5	
05/05	10:00	International Reserves Weekly (USD mn)	30-Apr	--	--	186128	
05/06	7:00	Leading Indicators ((m/m))	Mar	--	--	-0.1	
05/06	7:00	Vehicle Domestic Sales	Apr	--	--	87517	Key indicator of the depth of economic disruption.
May 6-12		ANTAD Same-Store Sales (y/y)	Apr	--	--	1.1	
05/07	7:00	CPI (m/m)	Apr	-1.0	-1.0	-0.1	
05/07	7:00	CPI (y/y)	Apr	2.1	2.1	3.3	
05/07	7:00	Core CPI (m/m)	Apr	0.3	0.3	0.3	
05/07	7:00	Bi-Weekly CPI (w/w)	30-Apr	0.2	0.2	-0.7	
05/07	7:00	Bi-Weekly Core CPI (w/w)	30-Apr	0.1	0.1	0.2	
05/07	7:00	Bi-Weekly CPI (y/y)	30-Apr	2.2	2.2	2.1	
May 7-13		Formal Job Creation Total (000s)	Apr	-367.4	--	-130.6	
05/08	7:00	Gross Fixed Investment (y/y)	Feb	--	-8.6	-8.8	
05/08	7:00	Vehicle Production	Apr	--	--	261805	
05/08	7:00	Vehicle Exports	Apr	--	--	285075	
05/08		Nominal Wages (y/y)	Apr	--	--	5.0	

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Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05/07	19:00	**Reference Rate (%)**	**7-May**	**0.25**	**0.25**	**0.25**	We expect the BCRP to remain on hold and continue providing liqudity to the economy.

Forecasts at time of publication.
Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage