

Latam Economic Update

- **Global forecast updates: Two steps forward, one step back**
- **Brazil: June industrial production surprises higher, but remains materially below pre-pandemic levels; Copom still expected to cut -25 bps today**
- **Mexico: June leading indicators decreased in both the coincident and the advanced data**
- **Peru: President Vizcarra accepts Congress' decision to sink the Cateriano Cabinet, but the devil is in the details**

GLOBAL FORECAST UPDATES: TWO STEPS FORWARD, ONE STEP BACK

Scotiabank Economics released updated [global economic forecasts](#) on Tuesday, August 4. The outlook confirms that although most major economies have passed the nadir of their pandemic-induced downturns, it will take several quarters to return to pre-COVID-19 levels of economic activity even with strong growth into 2021. Disinflationary pressures are set to remain significant as prices are expected to respond with a lag to the record-setting drops in output in Q2-2020. Policy rates in most industrialized countries are expected to remain at current levels through end-2022, while in Latam further rate cuts are still expected in Brazil, Colombia, and Mexico.

—Brett House

BRAZIL: JUNE INDUSTRIAL PRODUCTION SURPRISES HIGHER, BUT REMAINS MATERIALLY BELOW PRE-PANDEMIC LEVELS; COPOM STILL EXPECTED TO CUT -25 BPS TODAY

Brazil's industrial production growth for June (-9.0% y/y) came in stronger than either consensus (-10.1% y/y) or we (-12.1% y/y) anticipated in data released Tuesday, August 4 by IBGE (chart 1). As we have seen throughout the pandemic, the industrial sector's most resilient items have been intermediate goods (-5.9% y/y) and semi/non-durable goods (-5.6% y/y) as firms focus on keeping production lines running, while capacity-boosting durables (-35.1% y/y) and capital goods (-22.2% y/y) production both continue to struggle with spare capacity and uncertainty. Looking at real output levels (chart 2), the recovery in June helped offset a little less than half the drop we had seen at the nadir of the crisis, leaving industrial production still materially lower than its pre-pandemic levels.

With all this in mind, we continue to see the BCB "tweaking" rates to provide a little more stimulus to activity: we continue to expect the BCB's Copom to make a -25 bps cut in the Selic in its announcement at 17:00 ET today.

—Eduardo Suárez

CONTACTS

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

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

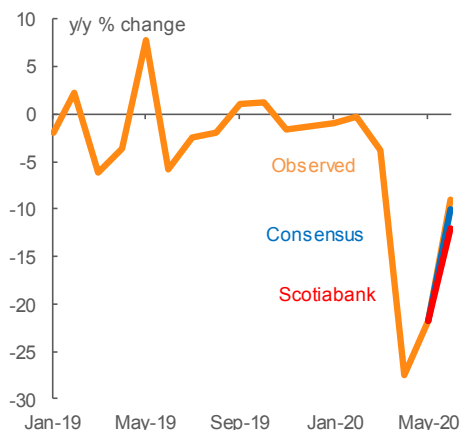
TODAY'S CONTRIBUTORS:

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

Paulina Villanueva
52.55.5123.6450 Ext. 36450 (Mexico)
Scotiabank Mexico
pvillanuevac@scotiabank.com.mx

Chart 1

Brazil: Industrial Production



MEXICO: JUNE LEADING INDICATORS DECREASED IN BOTH THE COINCIDENT AND THE ADVANCED DATA

Mexico's June leading indicators showed declines in both the coincident and advanced numbers, according to data published by INEGI on Tuesday, August 4. The coincident indicator for the month of May (the latest data in the series) fell for the 11th consecutive month to 89.8 points, a record low. Similarly, the June advanced indicator fell for the sixth consecutive time to 99.1 points, the lowest figure since September 2009 (chart 3). The measures implemented to face COVID-19 led to a significant drop in productive activity in Q2-2020; despite the gradual re-opening of some economic sectors as of mid-May, economic growth forecasts for this year remain weak.

—Paulina Villanueva

PERU: PRESIDENT VIZCARRA ACCEPTS CONGRESS' DECISION TO SINK THE CATERIANO CABINET, BUT THE DEVIL IS IN THE DETAILS

Following the Tuesday, August 4 Congressional vote of no confidence in the Cateriano Cabinet, President Vizcarra held a press conference later on Tuesday, in which he: (1) accepted the decision by Congress; (2) accused Congress of putting personal interests before the interests of the country; and (3) said that the government's proposed university reforms were non-negotiable. The first point apparently was meant to lay to rest rumours that Pres. Vizcarra would seek to use some legal loophole that would allow the Cabinet to stay in place. Points two and three are linked.

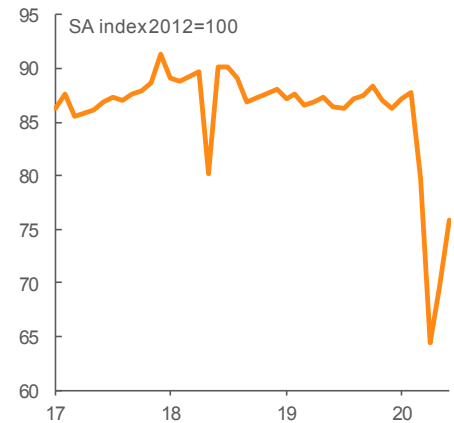
The government's plan to close universities that do not comply with a minimum quality threshold was one of the major motivations for the vote of no confidence. A number of members of Congress are linked to low-quality universities that are under threat of closure. According to the press, some members of Congress had let government officials know days ago that a vote of confidence would only be awarded if the current Minister of Education Carlos Martín Benavides, a proponent of university reform, were to be let go. Although Pres. Vizcarra has decided to take a route that clearly complies with the law, he has at the same time levied a sharp critique toward Congress. Thus, one can assume that the relationship between Congress and the government will continue to be contentious.

The next step will be for Pres. Vizcarra to appoint a new Head of Cabinet. The new Cabinet can include any, or even all, of the current members, except the Head. It will be interesting to see just how much of the current set of Ministers is re-ratified, especially if the current Minister of Education is maintained.

—Guillermo Arbe

Chart 2

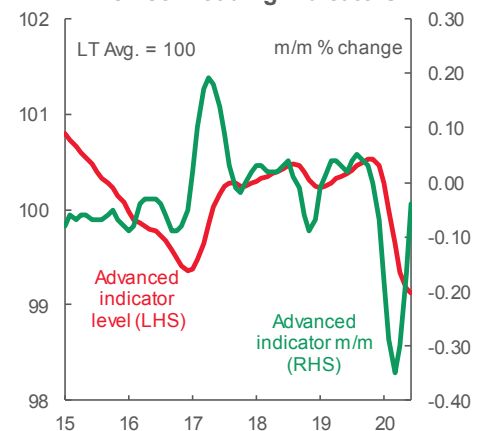
Brazil: Real Industrial Production



Sources: Scotiabank Economics, IBGE.

Chart 3

Mexico: Leading Indicators



Sources: Scotiabank Economics, INEGI.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.