Latam Economic Update

- **Argentina: Consumer confidence ticked up in June before COVID-19 cases spiked; May trade surplus up again as imports drop; "understanding" in debt talks**
- **Mexico: Banxico cut benchmark rate by -50 bps to 5.00%; retail sales plunged in April**
- **Peru: Agreement reached with private clinics on government payment for care of COVID-19 patients**

ARGENTINA: CONSUMER CONFIDENCE TICKED UP IN JUNE BEFORE COVID-19 CASES SPIKED; MAY TRADE SURPLUS UP AGAIN AS IMPORTS DROP; "UNDERSTANDING" IN DEBT TALKS

Argentina's consumer confidence index edged up from 38.42 in May to 39.47 in June according to data released Thursday, June 25. This amounted to a rise of 2.7% m/m, which still left the index down -2.7% y/y from 2019, reflecting Argentina's deepening recession over that time (chart 1). An index reading below 50 indicates more negative than positive survey responses. Individuals' predisposition toward durable goods purchases remains the Achilles heel of consumers' mood, with a deeply negative stance at only 21.15. While households are mildly positive on the macroeconomic outlook with an index reading of 52.60, they clearly don't feel enough security to undertake major household investments.

Consumer sentiment has, however, likely worsened since the index's survey was conducted during June 1–11. In the ensuing weeks, Argentina's new COVID-19 cases have surged upward and earlier this week national and local authorities discussed the re-imposition of strict isolation measures in the Buenos Aires region.

June's temporary stabilization in consumer sentiment, which still remains deep in negative territory at more than 10 points below a balanced outlook, is unlikely to offset other soft elements of the leading indicator for June. The consumer confidence index is one of 10 components of the monthly UTDT leading indicator, whose May reading was consistent with our expectation of a double-digit contraction in real GDP in Q2-2020.

May trade data also came out on Thursday, June 25, and recorded another large surplus of USD 1.9 bn, up from USD 1.4 bn in April. Import demand dropped by -31.8% y/y, while export revenues fell by -16.3% y/y. The value of total trade fell -23% y/y in May, reflecting Argentina's further slide into a deep recession. While the trade surplus assists Argentina's balance of payments and FX reserves, the drop in trade flows points to the economy's continuing challenges.

In other news, Economy Minister Martin Guzman indicated in public remarks on Thursday, June 25, that the government has reached an "understanding"

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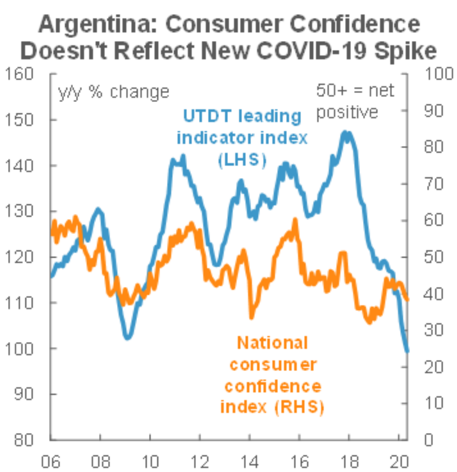
Chart 1



Sources: Scotiabank Economics, INDEC, UTDT.

—but not an agreement—with one creditor group in its debt talks. While he did not confirm which creditors are involved, he did note that it is *not* the so-called Ad-Hoc Creditor Group which reportedly has been insisting on a rollback of collective-action clauses to models of the 2005 era, which would render any future bond restructuring more difficult.

—Brett House

MEXICO: BANXICO CUT BENCHMARK RATE BY -50 BPS TO 5.00%; RETAIL SALES PLUNGED IN APRIL

I. Banxico lowered benchmark rate to 5.00% as COVID-19 crisis deepens

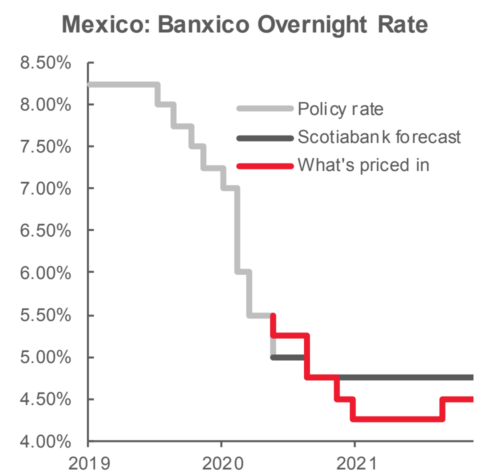
In its fifth monetary policy meeting of the year on June 25, Banco de México's Board of Governors decided unanimously to lower the overnight interbank rate—for the ninth consecutive time—by -50 bps, to a level of 5.00%, in line with expectations. In our opinion, the tone of the statement remained neutral. At the moment, we continue to forecast another -25 bps cut in Q3 to bring this easing cycle to a terminal rate of 4.75% (chart 2).

According to Banxico's press release, Mexico's economy shrank significantly in Q1-2020, and available information indicates that the impact of the pandemic intensified in April. The effect of COVID-19 in the economy has been of considerable magnitude and uncertainty around it persists. Thus, slack conditions are set to widen in a context in which the balance of risks for growth remains considerably skewed to the downside.

Regarding inflation, between April and the first fortnight of June, annual price gains accelerated from 2.15% y/y to 3.17% y/y due to increases in both core and non-core inflation. The remarkable widening of the output gap deep into negative territory and downward inflationary pressures worldwide are the key downside risks to inflation, while the depreciation of the MXN and logistical and supply-related problems concerning certain goods and services, as well as cost-related pressures associated with the adoption of sanitary measures, could increase inflationary pressures. Therefore, the overall balance of risks for inflation still remains uncertain.

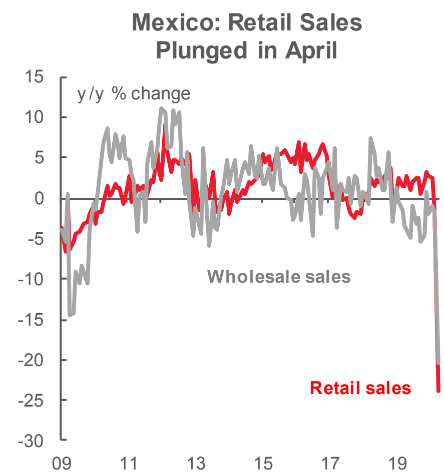
The minutes from yesterday's monetary policy decision will be released on July 9 and the next decision is scheduled for August 13.

Chart 2



Source: Scotiabank Economics, Scotiabank GBM.

Chart 3



Sources: Scotiabank Economics, INEGI.

II. Retail sales hit rock bottom in April

According to figures also published on June 25 by INEGI, retail sales plunged -23.8% y/y in April, well below market expectations of -17.3% y/y, while wholesale sales collapsed -20.5% y/y. In both cases, it was the largest drop since records have been kept from 2008 (chart 3). On a seasonally adjusted basis, retail and wholesale sales also posted unprecedented declines of -22.4% m/m and -18.2% m/m, respectively.

Even though May figures from the National Department Stores Association (ANTAD) point toward a monthly recovery from April's pandemic-induced collapse, ANTAD's May sales were still far away from the levels observed in previous years. Thus, as timely data are released, there are increasing signs that imply that an economic recovery from the COVID-19 pandemic may take longer than has been expected.

—Alejandro Stewens

PERU: AGREEMENT REACHED WITH PRIVATE CLINICS ON GOVERNMENT PAYMENT FOR CARE OF COVID-19 PATIENTS

Health Minister Victor Zamora announced on Thursday, June 25, that an agreement has been reached with private clinics concerning charges for the treatment of COVID-19 patients. In March, when the lockdown was just beginning, the government had pledged to pay private clinics for treating COVID-19 patients, but the two parties failed to reach an agreement on treatment costs. On June 24, President Vizcarra gave private clinics 48 hours to reach an agreement or risk being taken over by the government. Now that an agreement has been reached, the government seems to have dodged a bullet, as the government threat was a no-win political situation.

The government continues to boost its stimulus programs. On June 24, another PEN 1 bn (USD 300 mn) was added to the a small business fund, more than doubling the fund’s resources. The government hopes to reach 100,000 small businesses. The government also expanded the subsidy for workers on temporary layoff due to the lockdown. The expansion was both in scope, with more workers qualifying, and in time, by extending the program from two to three months.

We expect monthly inflation for June, out Wednesday, July 1, to be close to nil, with risks tilted toward a possible fall into negative territory. This would leave yearly inflation at 1.8% y/y, still in line with our year-end forecast of 1.1% y/y.

—Guillermo Arbe