Latam Economic Update

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ARGENTINA: NEW DEBT OFFERS AND FX RESTRICTIONS

The evening of Thursday, May 28 saw a flurry of activity on Argentina's proposed debt restructuring, with the submission of a new joint counter-offer by two bondholder groups and the publication of new terms by the government. In a statement, Economy Minister Guzman noted that the two sides "have come closer together, but there is still an important way to go" ahead of the current June 2 deadline. Under the government's proposed terms, the three-year payment moratorium it had previously requested would be shortened to two years with coupons first falling due in 2022; principal payments would begin in 2025. Haircuts on the principal of existing bonds would be between 5% and 7%. Depending on the assumptions one employs, the government's previous offer had valued existing bonds eligible for the exchange at around 32 to 35 cents on the dollar; on a quick estimate, the new terms would move this to around 40 cents on the dollar. Creditors have been seeking implied valuations in the low 50-cent range.

Also during the evening of Thursday, May 28, the BCRA issued new restrictions on companies that tap the FX market. The new rules are designed to force companies to use existing FX holdings to settle external obligations before seeking any additional purchases of hard currency. Companies that sell government bonds denominated in ARS to buy FX must wait 90 days to buy foreign currency. The regulations are initially set to remain in place until June 30, but could be extended. The BCRA's move adds to a suite of recent measures designed to mitigate pressure on the ARS and FX reserves (chart 1)—moves that are unlikely to be successful. We expect the authorities to raise the official USDARS exchange rate in the coming weeks.

—Brett House

CHILE: SECTORAL DATA POINT TO -8.0% Y/Y CONTRACTION IN APRIL GDP; APRIL'S QUARTERLY 9% UNEMPLOYMENT RATE CAPTURES ONLY PART OF LABOUR-MARKET PAIN

I. Sectoral data point to -8.0% y/y contraction in April's GDP indicator

Sectoral data released on May 29 imply that April was a month of significant deterioration in economic activity. Quarantine measures have imposed and

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Chart 1

Sources: Scotiabank Economics, BCRA.

continue to inflict major effects on the economy, and point to a contraction of around -8.0% y/y in April; the monthly economic activity will be released on Monday, June 1. Overall, our most recent baseline forecast of a GDP contraction of -4.5% y/y in 2020 remains alive. For May, we anticipate a monthly GDP drop in the range of -11 to -12% y/y.

Manufacturing continues to show high volatility influenced by stoppages and lower demand, showing a drop of -5.9% y/y (-6.7% m / m) in April. In this case, the National Institute of Statistics (NIS) reports that lower production of bread due to a fall in demand contributed -2.7 ppts to manufacturing growth. Likewise, furniture and clothing production together subtracted an additional -2 ppts from manufacturing growth. Altogether, 16 of the 20 manufacturing sectors grouped by the NIS showed declines, with 11 of them incurring double-digit contractions.

Mining contracted -0.5% y/y, owing to a certain stability in production processes despite health and physical-distancing measures implemented in the sector. In fact, on seasonally adjusted terms, mining saw 0.8% m/m growth.

Retail sales continued to contract in April by -31.3% y/y, which we consider to be in line with our prior estimate of a -27% y/y drop. Internet sales (e-commerce) showed a 40% y/y expansion according to our estimates in April. The NIS would be looking at sales by e-commerce as a novel aspect of the data given that they were not part of the sales figures surveyed until recently.

II. Labour market suffering not fully reflected in the April unemployment rate

The unemployment rate reached 9.0% in the moving quarter ended in April (previous: 8.2%), slightly below what was expected (9.1%), as the loss of jobs was accompanied by a fall in the workforce. As a result, data on employment creation and destruction provide a clearer picture than unemployment rates of the health of the labour market.

Even though the rolling quarterly data still include pre-COVID-19 numbers from February, employment contracted -7.6% y/y during February–April, with the destruction of 680k jobs compared to the previous year and 706k fewer jobs in April than the previous month. The workforce contracted by -5.7% y/y as 720k individuals stopped working and/or looking for a job.

The rise of the "absent employed" mitigated the job destruction numbers and skewed them downward. This category, which captures workers covered by the Employment Protection Plan (EPP), increased by almost 365k people. Under the EPP, these individuals maintain their contractual link with their employers, but receive lower pay with support from unemployment insurance (Law 21,217). The increase in this type of "employment" shows the real weakness of the labour market and the strong shock to household income that will undoubtedly be felt in consumption in the coming quarters.

The category of employment that saw the most pain was the self-employed or independent workers, since formal employees can access the EPP. As of April, the figures show the destruction of 337k self-employed jobs and only 190k private employees. By economic sector, the greatest destruction of employment was in commerce (-170k), agriculture (-110k), and manufacturing (-109k).

In line with our analysis, the NIS performed an interesting exercise which showed that the unemployment rate if one included the "potential workforce" would be 23.8%.

—Jorge Selaive

MEXICO: BANXICO'S MAY 14 MONETARY POLICY MEETING MINUTES RELEASED; CONSUMER CONFIDENCE FALLS

I. Minutes from Banxico's May 14 monetary policy meeting

On Thursday, May 28, Banco de México released the minutes corresponding to its latest monetary policy decision, on May 14, where the Governing Board voted unanimously to cut the overnight interest reference rate by 50 bps, to 5.50%. Even though the document lost some relevance since it was published one day after Banxico's Q1-2020 Quarterly Report, it reaffirms the central bank's outlook on economic activity, inflation, and monetary policy—and our expectation that another 50 bps cut will be delivered at the next monetary policy meeting on June 25.

With respect to economic activity, all Governing Board members mentioned that preliminary data suggested that Mexico's economy shrank significantly in Q1-2020, owing to the COVID-19 crisis. Containment measures have had a significant impact on aggregate demand, with some indicators pointing towards a contraction in consumption and investment. On the supply side, some other indicators suggest a decline in the services and industrial sectors. The majority of members also emphasized that the magnitude and duration of the pandemic are still uncertain, but that these are expected to intensify in Q2-2020, in a context in which the balance of risks for growth is considerably skewed to the downside.

Regarding inflation, all members noted that annual CPI came in at 2.15% y/y in April, mostly owing to a sharp contraction in energy prices. Most members observed that core inflation decelerated between March and April; however, they highlighted the increase in food prices, due to demand and supply factors. The remarkable widening of the output gap deep into negative territory and the fall in energy prices were highlighted as the key downside risks to inflation, while the depreciation of the MXN and possible disruptions to chains of production and distribution could increase inflationary pressure. Thus, the balance of risks for inflation still remained uncertain to the Board.

Most members pointed out that there have been unprecedented capital outflows, with foreign investors having reduced their holdings of government securities by more than MXN 250 bn. Also, they mentioned that these outflows may have contributed to the downgrades of the sovereign and Pemex's credit ratings. The majority of members stressed the importance of fiscal relief measures that do not put at risk the sustainability of public finances. With limited fiscal space, efforts should be made to reallocate the public budget using efficiency criteria.

Comments by individual Board members reflected both cautious and activist sentiments. On the one hand, some Board members argued for careful next steps given that Mexico is a small economy with open trade and capital markets in the midst of heightened global risk aversion. On the other hand, other Board members noted that the MXN has remained relatively stable in the context of loose global monetary policy and that this provides room to continue lowering the policy rate.

Given the severe impact that the COVID-19 pandemic is having on the Mexican economy, as economic data corresponding to Q2-2020 suggests, and taking into consideration the balance of risks for economic growth and inflation, we expect the easing cycle to continue and maintain our view of a 50 bps cut to the reference rate at Banxico's next meeting, on June 25.

II. Consumer confidence falls significantly in April

Since the beginning of the pandemic, Mexico's National Statistics Agency, INEGI, announced the cancellation of some of its surveys; however, in an effort to monitor consumers' sentiment during the COVID-19 crisis, INEGI released on May 28 the results of a Telephone Survey on Consumer Confidence. Although in a strict sense, the data obtained are not comparable with previous estimates due to changes in the survey's methodology, the results are an approximation of the Consumer Confidence Indicator (CCI) captured in the traditional survey.

On a non-seasonally adjusted basis, the indicator was approximated at 32.2 points in May, compared to 42.1 points in March and 45.5 points in April 2019. This was the greatest decline since records have been kept (2001), and reflects the significant job losses and major downward revisions to economic expectations related to the COVID-19 crisis.

—Alejandro Stewens

PERU: ZEBALLOS CABINET SURVIVES CONFIDENCE VOTE; AIRPORT CONTRACT AWARDED

At 3:00am this morning, Congress awarded the Zeballos cabinet its vote of confidence. The debate was largely critical of the government. However, this is not surprising, as there is no government party in Congress and the debate is an opportunity for members of Congress to try to shine in the political limelight, which requires being outspoken. The vote was 89 in favour, 35 against, with four abstentions. Three parties voted against the cabinet: the two leftist parties, Frente Amplio and Unión por el Perú (UPP), and the fujimorista party, Fuerza Popular.

The head of cabinet, Vicente Zeballos, stated in his presentation to Congress that the government was preparing new household safety net programs. These would involve a temporary employment program and another monetary stipend for low-income households. Details were not given.

Consorcio Wayra was awarded by tender on May 27 the contract for the construction of the Lima airport control tower by Lima Airport Partners (LAP). Consorcio Wayra is composed of Ferrovial and Acciona (Spain) and JJC (Peru). Construction begins in June. LAP announced that the tender for the construction of the second landing strip would take place in July. The two tenders are part of the expansion of the Lima airport. The significance of the announcement lies in the fact that it is another example of investment schedules slowly returning to normal.

—Guillermo Arbe