

Latam Daily: Peru's Political Plot Thickens; Mexico's Industrial Recovery Slows

- Mexico: Recovery in industrial activity slowed in September
- Peru: The political plot thickens

MEXICO: RECOVERY IN INDUSTRIAL ACTIVITY SLOWED IN SEPTEMBER

On Wednesday, November 11, INEGI released data for September industrial production (IP) that showed a significant slowing in the recovery that has been underway since June. IP growth slowed from 3.3% m/m in August to 0.0% m/m in September. According to the INEGI release, the decrease in the monthly industrial output indicator was the result of a drop in construction activity (-5.6% m/m) and a fall in the generation, transmission, and distribution by energy utilities (-3.1% m/m). In contrast, manufacturing activity, the main driver of Mexican exports, rose by 2.4% m/m and the mining sector registered growth of 0.2% m/m compared to August. These results imply that the leading edge of Mexico's economic recovery is being driven mainly by external demand.

In annual terms, industrial production was down compared with a year prior for an 18th consecutive month, although it continued to climb back toward 2019 levels, going from -8.8% y/y in August to -6.2% y/y in September (chart 1), in line with market expectations (-6.2% y/y). Looking at the details, the annual contraction was determined by the following elements:

- Continued improvement in manufacturing, which softened its decline from August's -9.3% y/y to -3.1% y/y in September (versus 1.5% y/y a year earlier). This still marked a 12th consecutive month in which manufacturing's total output was lower than a year ago (chart 1, again);
- Mining also improved a touch from -3.9% y/y in August to -2.8% y/y in September (versus -3.0% y/y in September 2019);
- Construction pulled back, going from -13.7% y/y in August to -16.1% y/y in September (worse than the -8.5% y/y recorded in September 2019);
- Utilities also softened in annual terms on the back of their monthly decline, falling from -4.5% y/y in August to -7.2% y/y in September (compared with 3.2% y/y in September 2019); and
- Thus, in the January–September accumulated YTD figures, industry was down -12.2% y/y (versus -1.5% y/y in the same period of 2019), the worst performance on record for this period.

The September data point to some generalized weakness in domestic demand that could persist for the rest of year. Uncertainty about COVID-19 and the economic outlook, combined with only limited fiscal support to soften the impact of the pandemic, could together slow the pace of Mexico's recovery from here.

—Paulina Villanueva

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@scotiabcb.com.mx

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

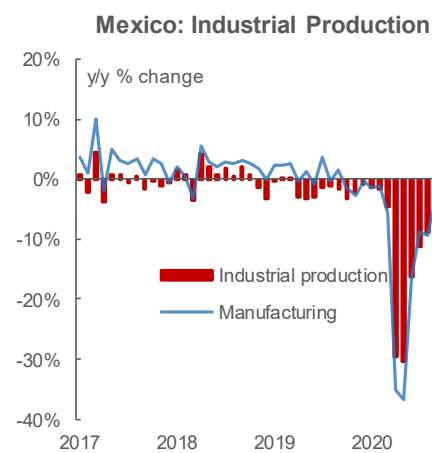
Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

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

TODAY'S CONTRIBUTORS:

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

Chart 1



Sources: Scotiabank Economics, INEGI.

PERU: THE POLITICAL PLOT THICKENS

On Wednesday, November 11, Antero Flores-Araóz was appointed to head the cabinet of the new Merino government, a role that is similar to Prime Minister in other countries. Flores-Araóz is well known in Peruvian politics, although he has not been active recently. He is a lawyer with conservative political views. In the past, he was linked to the rightist Partido Popular Cristiano. He was a member of Congress over five stints between 1990 and 2005. He was also Minister of Defense from 2007 to 2009 during the Alan García government, which was the last time he held public office in Peru. He later formed the Orden party to make an ultimately failed bid for the Presidency in 2016.

No other cabinet members were sworn in with Flores-Araóz, which is unusual and seemed to indicate difficulties in filling the cabinet's various positions. However, Flores-Araóz announced late Wednesday night that the cabinet would be sworn in today, Thursday, November 12. Meanwhile, protests continued for a third day, with a large march being called for today, Thursday, as well.

In an intriguing turn of events, the Constitutional Court may yet play a determinative role regarding the legitimacy of the Congressional decision to remove former President Vizcarra. Early Wednesday, the Organization of American States (OAS), issued a statement calling for the Constitutional Court to determine the legality and legitimacy of the Congressional decision. At the same time, Congress formally requested that the Constitutional Court table the issue of how to interpret "moral incapacity" as stated in the Constitution as grounds for the removal of the President by Congress. Soon afterward, the Constitutional Court announced that it would rule on the issue on November 18. This begs the question of what will happen if the Court's ruling implies that Congress overstepped its bounds in removing ex-Pres. Vizcarra from office. The OAS statement is interesting in that it seems to suggest that the organization is not ready to recognize Merino as President of Peru. This, coming from an important international institution, is significant.

Fitch Ratings also expressed its concern Wednesday over the "fractious" political situation in Peru and what it might mean in the medium term for deficit and debt management. Fitch Ratings did not go so far as making a modification to Peru's rating or outlook, but the statement expressed enough concern to imply that this is under consideration.

—Guillermo Arbe

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 in 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; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, 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 authorized and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized 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 authorized 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., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat 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.