Latam Daily: Peru September Inflation Surprised to the Upside as Re-Opening Advances

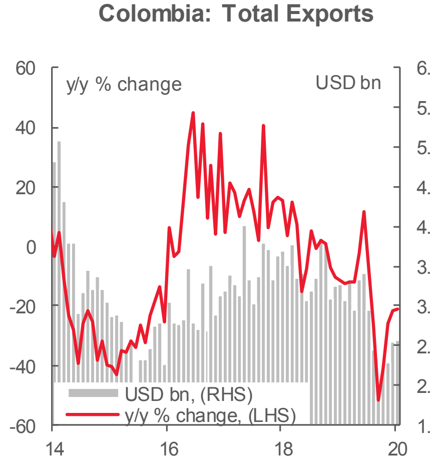
- **Colombia: August exports were down by -21.3% y/y, although they keep improving from April's lows**
- **Mexico: Consensus outlook improves; remittances remain at record levels; referendum looming**
- **Peru: Inflation surprises to the upside; debt relief bill in the works; international flights to resume**

COLOMBIA: AUGUST EXPORTS WERE DOWN BY -21.3% Y/Y, ALTHOUGH THEY KEEP IMPROVING FROM APRIL'S LOWS

According to DANE's release on Thursday October 1, August's monthly exports stood at USD 2.6 bn (-21.3% y/y, chart 1). Although August's data showed the highest export numbers since the pandemic's shock began, they continue at their lowest levels in four years. The annual contraction was a bit smaller than in July, especially on the back of better oil-related exports that were down -39% y/y, while in July they were off -51% y/y. Coal exports continue to be weak and remained down by -26% y/y. Agricultural exports were off by -7.1% y/y, while manufacturing exports were still down by -17.2% y/y.

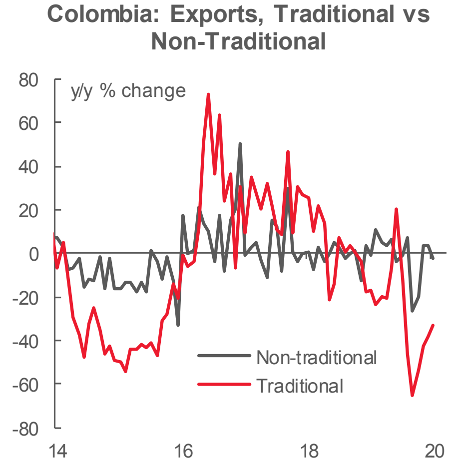
August's exports still reflect weakness in demand from trade partners and the negative effect of the sharp drop in commodity prices that we've seen. Traditional exports were down by -33.4% y/y in August (chart 2), an improvement from the previous month's figure, but still weak. Coffee exports were still down -9% y/y due to lower volumes. Oil-related exports represented 32% of total exports compared with 40% of total exports in 2019. Yet, oil still provides a drag on total exports since oil shipments continue at their lowest values since 2009. International prices, still lower than last year, and global demand both continued to weigh on oil export values. Similarly, coal exports values were hit on both volumes and prices. Non-traditional exports amounted to USD 1.25 bn in August, a contraction of -2.4% y/y. Agricultural exports were hit by lower flower exports.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

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@scotiacb.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:

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

Miguel Saldaña
52.55.5123.0000 Ext. 36760 (Mexico)
Scotiabank Mexico
msaldanab@scotiabank.com.mx

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

August's exports numbers showed a small improvement compared to the previous months' data. The world's economic re-opening process and oil price stability could further firm up export values in the coming months. The impact on the current account should be moderate due to a simultaneous deterioration in exports and imports resulting from automatic stabilizers in the economy.

—Sergio Olarte & Jackeline Piraján

MEXICO: CONSENSUS OUTLOOK IMPROVES; REMITTANCES REMAIN AT RECORD LEVELS; REFERENDUM LOOMING

I. Mexican outlook for 2020 slightly better in September *Banxico Survey of Expectations*

According to the *Banxico Survey of Expectations* for September, released on October 1, private-sector economic analysts have edged back their expectations for the 2020 contraction in GDP for a second consecutive time, on this occasion from -9.97% y/y to -9.82% y/y. Likewise, the economic rebound expected in 2021 was notched up from 3.01% y/y to 3.26% y/y, the highest expected rate for 2021 we've seen. Looking at the other details:

- **Expectations increased for both headline and core inflation at the end of 2020 to 3.89% y/y (previously 3.64% y/y) and 3.90% y/y (previously 3.82% y/y), respectively**. For the end of 2021, both headline and core inflation forecasts decreased marginally to 3.57% y/y (previously 3.60% y/y) and 3.47% y/y (previously 3.50% y/y). We emphasize that, on the horizon where monetary policy operates, both headline and core inflation expectations remain within Banxico's target range.
- **Exchange-rate projections for the end of 2020 and 2021 strengthened from the August survey** and the Mexican currency is expected to end 2020 at USDMXN 22.50 (previously USDMXN 22.69) and USDMXN 22.50 (USDMXN 22.61) in both cases.
- **As for monetary policy, it's worth noting that for the fourth quarter of 2020, most analysts anticipate an interbank funding rate equal to the current target rate of 4.25%;** however, a few expect further cuts this year. From the first quarter of 2021 to the first quarter of 2022, the analysts' consensus expects the funding rate to fall below the current level.
- **Regarding the factors that could hinder Mexico's economic growth in the next six months,** the most-cited issues were related to domestic economic conditions (42%), governance (23%), and external conditions (18%).

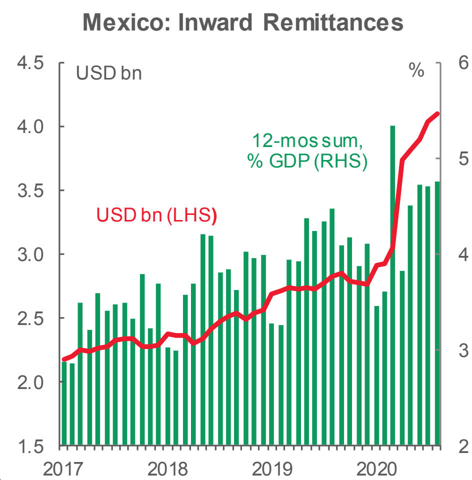
—Miguel Saldaña

II. Remittances maintain record levels in August

In data released by Banxico on Thursday, October 1, remittances—an important source of foreign exchange and resources for Mexico, with high impact on consumption—totaled USD 3,574 mn in August and USD 26,396 mn in the first eight months of the year. These were record amounts for both August and the first eight months of the year, which implied annual increases of 5.3% y/y in August and 9.4% y/y YTD. The continuous and favourable evolution of the flow of remittances, as well as the fact that their average amount remained at a high level, reflects the rebound in employment in the United States. Some of the sectors that tend to hire Mexican migrants—construction, manufacturing, professional and administrative services, health and education, and trade—have performed relatively positively, and have offset other sectors, such as hotels and restaurants, that also employ large numbers of Mexican migrants.

—Paulina Villanueva

Chart 3



Sources: Scotiabank Economics, Banxico.

III. Supreme Court approved a referendum on Presidential trials

In addition, on Thursday, October 1, the Supreme Court approved as constitutional the referendum proposed by the federal government to bring former Presidents to trial on charges of possible corruption. The local financial markets reacted adversely to the decision, in line with their previous reception of referendums that have been conducted, such as those that confirmed the construction of the Mayan Train and the cancellations of the New International Airport of Mexico (NAIM) and the brewery in Mexicalli, close to the US border. This new referendum could hinder the already deteriorated investment environment as investors could perceive the process as a deterioration of the rule of law and the division of constitutional power.

—Miguel Saldaña

PERU: INFLATION SURPRISES TO THE UPSIDE; DEBT RELIEF BILL IN THE WORKS; INTERNATIONAL FLIGHTS TO RESUME

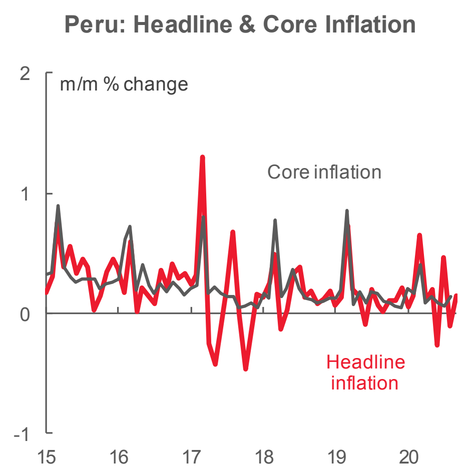
Inflation surprised to the upside in September data out on Thursday, October 1. Lima inflation rose 0.14% m/m (chart 4). This took yearly inflation up to 1.8% y/y, from 1.7% y/y in August (chart 5). We had been expecting annual inflation to slow from August to September. The figure puts our full-year forecast for 2020 of 1.1% y/y into question. September was the third consecutive month in which inflation came in higher than expected. In past months there were one-off effects that one could blame, at least partially. However, there had already been signs, which became much more evident in September, of resistance to deflation in basic food prices. Furthermore, prices of other goods linked to domestic demand were stable, but did not decline, as we thought they might. Now that the worst of the contraction is over, the risk of temporary deflation is fading. The fact that there is no indication that inflation will resume its downward trend should not lead the BCRP to change its monetary policy—we still expect the reference rate to remain at 0.25% for the next twelve months at least—but it does mean that, with only three months left in the year, that both the BCRP 2020 forecast (0.8% y/y) and our own (1.1% y/y) seem now to be out of reach.

The Government has sent Congress a bill that intends to provide bank-debt relief for individuals and some SMEs. The bill targets 25% of individuals, as well as certain small businesses, that have not been able to reprogram their bank debt, presumably due to risk considerations. The relief consists of government backing that would allow financial institutions to reprogram debt payments without incurring related risk. The Government hopes that this proposal will be accepted by Congress and replace much more aggressive—and questionable—Congressional initiatives currently being discussed.

The Government has also authorized international flights and travel to and from Bolivia, Chile, Colombia, Ecuador, Panama, Paraguay, and Uruguay. The Government had already announced that international flights would begin on October 5 to a limited number of destinations, but had not previously indicated which countries would be included. The destinations announced are united by being within a four-hour flight from Peru.

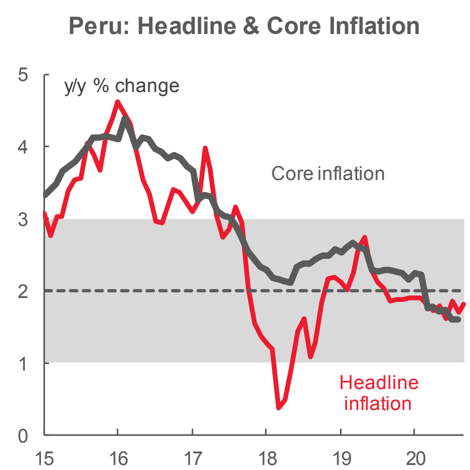
—Guillermo Arbe

Chart 4



Sources: Scotiabank Economics, INEI.

Chart 5



Sources: Scotiabank Economics, INEI.