Latam Daily: Chile Vote; Poor Brazil & Mexico Data; Holds Expected from BCB & BanRep

- **Central banks: Holds expected from Brazil's BCB and Colombia's BanRep, minutes from Chile's BCCh**
- **Argentina: Fiscal update promised as bondholders protest**
- **Brazil: Bad close to last week for Brazil**
- **Chile: Plebiscite results**
- **Mexico: Recovery in commercial activity slowed in August**

CENTRAL BANKS: HOLDS EXPECTED FROM BRAZIL'S BCB AND COLOMBIA'S BANREP, MINUTES FROM CHILE'S BCCH

This week, both Brazil's BCB and Colombia's BanRep are set for monetary policy decisions, where both we and consensus expect these central banks to remain on hold. Additionally, Chile's BCCh releases the minutes from its October 15 meeting on Friday, October 30. See our October 18 edition of the *Latam Weekly* for a full risk calendar of macro data releases this week.

- **Brazil. The BCB's Copom meets next on Wednesday, October 28, and it is expected by both our Brazil economist and consensus to keep the Selic on hold at a record low of 2.00% for a third meeting in a row (chart 1).**

  In its statement following its last meeting on September 16, the Copom noted that it expected headline inflation to rise in the near term along with economic activity, but it assessed that core price growth remained consistent with the achievement of the BCB's inflation targets. Although the Copom acknowledged that the economy remains weak and that it still requires "strong monetary stimulus", it also cautioned that the room for any further easing was small—and possibly non-existent—owing to prudential and financial stability concerns.

  Instead, the Copom invoked an intensification of its forward guidance, moving from a warning that it did not *foresee* a reduction in the extent of monetary stimulus to a stronger note that it did not *intend* such a pullback unless inflation returns to the target over the relevant policy horizon to end-2021. The minutes simply repeated and amplified the discussion of this increased reliance on forward guidance, and underscored the BCB's caution toward any further cut in rates owing to financial stability issues.

  While our Brazil economist doesn't expect any further substantial moves on Wednesday, we will look to the statement to provide additional insight on the BCB's reaction function and greater colour on its macroprudential concerns. Any fiscal developments in the meantime are also likely to be reflected in the Copom's communications.

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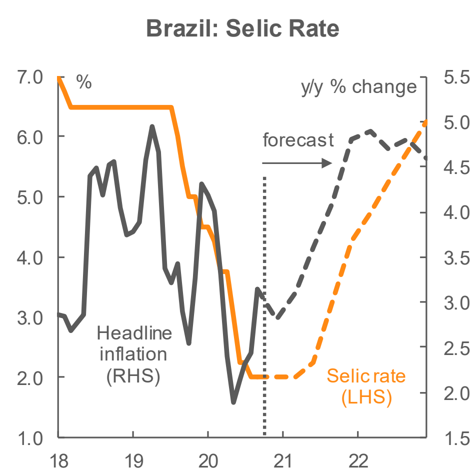
Chart 1



Sources: Scotiabank Economics, BCB, IBGE.

- **Colombia. The Board of the BanRep will conduct its next monetary policy meeting on Friday, October 30, and we expect the intervention rate to be held at its record low of 1.75% following what we sense was a final -25 bps cut in this easing cycle on September 25 (chart 2).**

The decision to cut at the September meeting followed a split 4-3 vote where the minority preferred to hold the policy rate unchanged at 2.00%. The meeting's statement maintained the Board's gradualist, data-dependent stance, and did not articulate a fresh set of forward-looking guidelines for the Bank's conduct of monetary policy.

The minutes from the September 25 meeting indicated that the Board's three -member minority had voted to hold at 2.00% owing to concerns about further COVID-19 developments and implications for public debt under additional monetary policy easing. The minutes imply that the Board's minority would not be minded to cut further on a more gradual pace, but would instead continue to oppose any additional rate cuts, other things being unchanged.

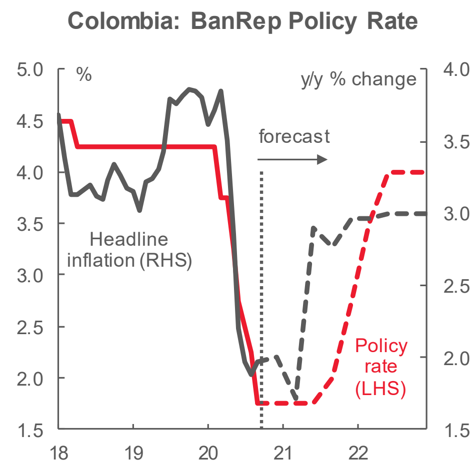
Since then, macro data has pointed toward a hold at the next meeting. September headline and core inflation came in stronger than anticipated following the roll-off of a set of public subsidies and regulations that had kept some prices in check, increased bio-security costs, and weaker disinflationary pressures than had been expected on other fronts—though inflation remains at the bottom of the BanRep's target range (chart 3). August employment numbers also showed some improvement. Altogether, these developments augur against any further easing and, in the view of our team in Bogota, should keep the Board in data-dependent, wait-and-see mode for some time.

- **Chile. The BCCh will release on Friday, October 30, the minutes of the Board's October 15 monetary policy meeting where it unanimously voted to keep its benchmark rate on hold at its 0.5% "technical minimum", level at which it has been since late-March.**

The Board's communications following the October 15 decision skewed dovish. The Board's statement implied that the central bank has begun to have less conviction in the breadth and pace of the recovery, with some particular concern about the slow-down in credit growth. Our team in Santiago expects the central bank to look at options to increase the stimulus it provides to the Chilean economy in the context of its next monetary policy meeting on December 7. The minutes may provide some early indication of how these discussions could evolve.

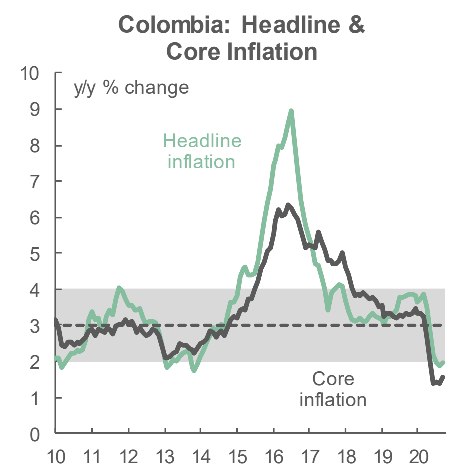
—Brett House

Chart 2



Sources: Scotiabank Economics, BanRep, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

ARGENTINA: FISCAL UPDATE PROMISED AS BONDHOLDERS PROTEST

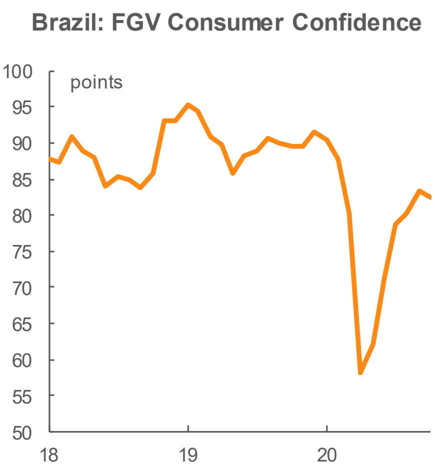
In remarks on Wednesday, October 21, to the Organization of Ibero-American States and a broadcast interview on Friday, October 23, Economy Minister Martin Guzman reiterated the Fernandez Administration's commitment to a sustainable fiscal framework and that "definition of a reserve accumulation path would be part of the IMF program". Toward this end, he promised to bring forward a multi-year fiscal plan for at least the next three years, but he cautioned that Argentina would have to move on fiscal sustainability "at a pace that would allow the country to recover and sustain this recovery."

Min. Guzman denied that the authorities would devalue the peso and argued instead that Argentina "has the conditions and instruments to continue with the FX policy that has been carried out." This strikes us as magical thinking with the ARS trading in the blue-chip swap market at less than half of its value in the official market. Devaluation is a question of "when" and "how much" rather than "if".

Min. Guzman's comments appeared to be an attempt to mollify international investors who participated in the early-September bond restructuring and have seen the value of their new paper fall by about 20% in the ensuing weeks. Two groups of creditors that participated in the debt swap—the Argentina Exchange Bondholders and the Argentina Creditor Committee—issued a joint statement on Thursday, October 22, in which they argued that "policy actions taken in the immediate aftermath of the debt restructuring have dramatically worsened the country's economic crisis." The two creditor groups contended they had contributed heavily to the country's fresh start and recovery, and called on the authorities and the IMF to move forward on elaborating an economic plan supported by a new Fund program that would ensure fiscal sustainability and rebuild international reserves. Negotiations with the IMF continue, with virtual meetings Friday, October 23, between Ministry of Economy's chief public servants, provincial authorities, and the Fund mission.

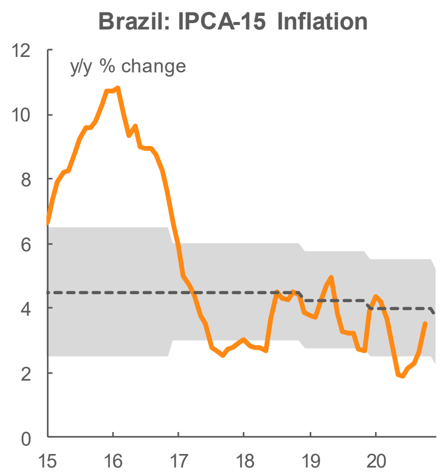
—Brett House

Chart 4



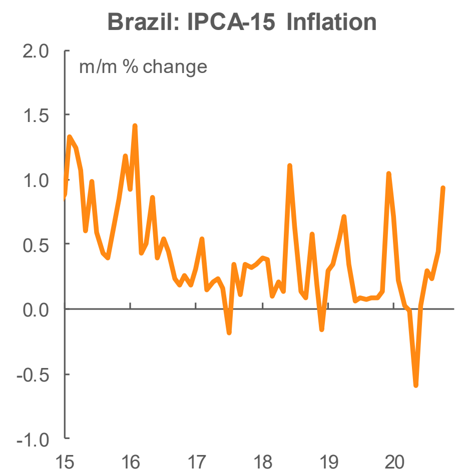
Sources: Scotiabank Economics, FGV.

Chart 5



Sources: Scotiabank Economics, IBGE.

Chart 6



Sources: Scotiabank Economics, IBGE.

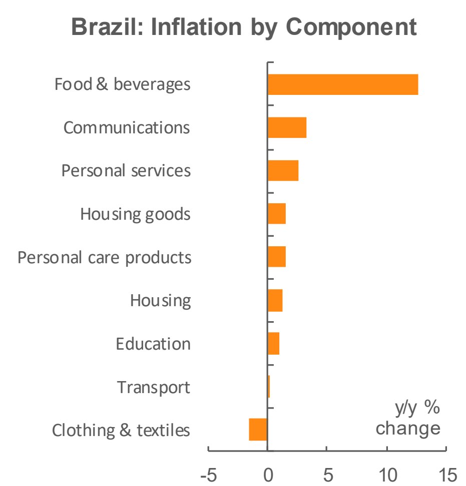
BRAZIL: BAD CLOSE TO LAST WEEK FOR BRAZIL

Brazilian data out on Friday, October 23, gave us a set of bad news.

FGV Consumer Confidence dropped in October, falling from 83.4 in September, to 82.4 in the latest print (chart 4). With the gradual reduction of government household stimulus—which is first being halved and then eliminated by 2021—this softening in sentiment wasn't a surprise. But the October confidence print still confirmed that the strong gains in economic activity we saw during the summer could start fading as the year drags on and we move into 2021.

On the inflation front, we saw the pace of price increases for the first half of October come in above expectations. IPCA-15 rose from 2.65% y/y in late-September to 3.52% y/y in early-October (chart 5), overshooting the 3.41% y/y consensus. In sequential month-on-month terms, IPCA-15 rose from 0.45% m/m in late-September to 0.94% m/m in early-October (chart 6), above the 0.83% m/m consensus. The IPCA-15 spike had already been anticipated by both market players and the BCB owing to continued increases in food prices (chart 7). However, the magnitude of the rise was still relevant and confirms the tough decisions ahead for the BCB. These new price data do not alter our view on monetary policy, or our growth forecasts so far, but they confirm our concerns that the BCB faces a binary set of scenarios ahead with softening growth and accelerating inflation. We think the Copom's reaction function will to some degree depend on global risk appetite following the US election and beyond: we have already seen explicit concerns over risk premiums from the Committee in several sequential BCB minutes.

Chart 7



Sources: Scotiabank Economics, IBGE.

Finally, September FDI rose, but came in a bit softer than was expected by consensus; the September current account surplus fell, and also undershot expectations. The weakening in the September current account balance was somewhat at odds with the anticipated weakening in Brazilian domestic demand reflected in the softer consumer confidence numbers.

—Eduardo Suárez

CHILE: PLEBISCITE RESULTS

Just over a year after major protests, Chileans voted on Sunday, October 25 in a two-part plebiscite to rewrite their constitution through a popularly-elected constitutional assembly. More than 78% of voters supported the proposal to draft a new constitution, on the high end of polls and analysts' expectations. Only three municipalities in metropolitan Santiago voted against a move to a reworked basic law. On the second question that concerned the means by which a new constitution would be created, some 79% of voters favoured a popularly elected Constitutional Assembly over the alternative proposal for a Mixed Assembly composed of elected citizens and members of Congress. Turnout appears to have exceeded 49%, the highest level recorded since voting was made voluntary in 2012—justifying arguments that the vote responded to popular demands for citizen consultation. Our team in Santiago noted that numbers along these lines could point to continuing polarization in Chilean society, but the results were greeted with a broadly celebratory tone in Chile's major cities amidst Pres. Piñera's calls for unity.

In terms of next steps, the 155 members of the coming Constitutional Assembly shall be elected by popular vote on April 11, 2021. Members will be elected along the same lines as Deputies in Congress' lower chamber; once elected, they will name a President or Speaker for the Assembly. The Assembly will then have nine months to draft a new constitution, with the possibility of a three-month extension, if necessary. The draft would have to be approved by two-thirds of the Assembly and then endorsed by a further national plebiscite in 2022.

—Brett House

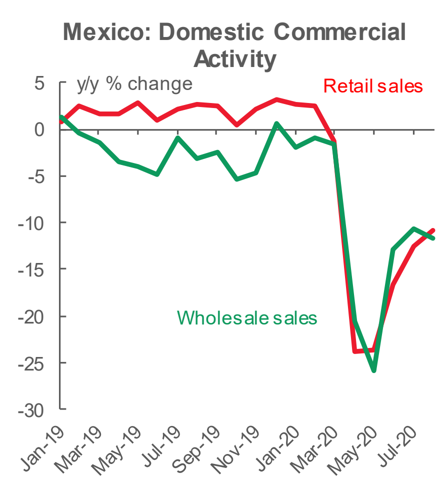
MEXICO: RECOVERY IN COMMERCIAL ACTIVITY SLOWED IN AUGUST

Retail and wholesale activity continued to improve in August, but at a slower pace, according to data released on Friday, October 23. In their seasonally adjusted monthly measurements, both segments remained in the positive growth zone, but their progress decelerated: retail growth flagged from 5.9% m/m in July to 2.5% m/m, while wholesale growth came down from 4.7% m/m in July to 1.4% m/m. In annual terms, retail sales trimmed their losses from -12.5% y/y in July to -10.8% y/y in August, but wholesale numbers pulled back from a -10.7% y/y decline in July to -11.7% in August (chart 8), which reflected the weaker wholesale month-on-month gains.

Until an effective stabilization and perhaps reduction in the number of Mexico's COVID-19 infections is achieved, full recovery of the commercial sector is likely to be delayed. With slow progress in the labour market and gradual gains in domestic consumption, commercial activity is likely to remain weak, at least for the rest of the year.

—Paulina Villanueva

Chart 8



Sources: Scotiabank Economics, INEGI.