GLOBAL ECONOMICS
| LATAM WEEKLY

May 30, 2020

Latam Weekly: Adjusting Expectations

FORECAST UPDATES

- **Following the release of weaker than expected Q1 national accounts data, we now forecast deeper downturns in 2020 in Argentina, Brazil, and Colombia.**

ECONOMIC OVERVIEW

- **COVID-19 continues to batter Latam. The region has some of the highest per capita case numbers in the world and now accounts for around 15% of cases and 40% of daily global deaths. We expect the lockdown's impact on growth to be greater than its effects on inflation across the region.**

MARKETS REPORT

- **Breakeven inflation expectations across Latam have come down more than economists' projections, owing, we believe, to the market's under-estimation of some upside risks and poor trading conditions. We lay out the case that breakeven inflation expectations will adjust upward next year in line with economists' forecasts.**

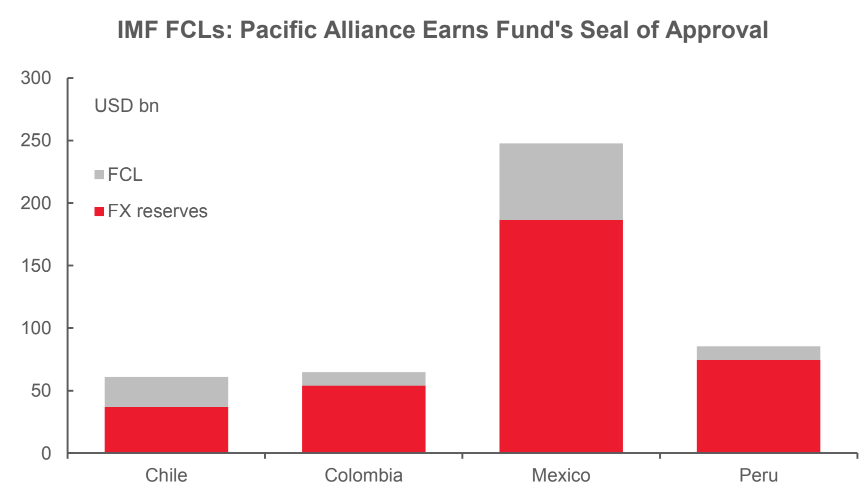
COUNTRY UPDATES

- **Concise analysis of recent developments and guides to the week ahead in our Latam-6: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.**

MARKET EVENTS & INDICATORS

- **Risk calendar with selected highlights for the period May 30–June 5 across our six major Latam economies.**

Chart of the Week



Sources: Scotiabank Economics, IMF.

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Forecast Updates

Argentina	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	-1.1	-5.4	-15.0	-6.2	-4.1	4.5	5.8	7.1	8.4	-2.2	-7.9	6.5
CPI (y/y %, eop)	53.8	48.4	49.0	46.8	45.7	51.1	50.4	48.9	46.8	53.8	45.7	46.8
Unemployment rate (%, avg)	8.9	10.9	12.1	11.4	11.0	10.9	10.3	9.8	9.7	9.8	11.4	10.2
Central bank policy rate (%, eop)	55.00	38.00	37.00	36.00	36.00	36.00	37.00	38.00	40.00	55.00	36.00	40.00
Foreign exchange (USDARS, eop)	59.89	64.40	73.40	79.10	83.10	86.20	87.50	89.20	93.10	59.89	83.10	93.10

Brazil	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	1.7	-0.3	-9.1	-4.9	-3.0	-0.8	3.8	3.1	1.8	1.1	-4.3	2.0
CPI (y/y %, eop)	3.8	3.3	2.1	3.2	3.7	4.2	4.9	5.0	5.6	4.3	3.7	5.6
Unemployment rate (%, avg)	11.3	11.7	12.7	12.8	12.6	13.2	13.6	13.6	13.4	11.9	12.5	13.5
Central bank policy rate (%, eop)	6.50	3.75	2.50	1.75	1.75	3.00	4.00	4.75	5.75	4.50	1.75	5.75
Foreign exchange (USDBRL, eop)	4.02	5.20	5.82	5.62	5.44	5.13	5.21	5.09	4.89	4.02	5.44	4.89

Chile	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	-2.1	0.4	-9.6	-6.0	-2.1	-2.7	6.9	3.2	4.2	1.1	-4.5	2.9
CPI (y/y %, eop)	3.0	3.7	2.8	3.1	2.8	2.5	2.9	3.3	3.0	3.0	2.8	3.0
Unemployment rate (%, avg)	7.0	8.2	13.0	11.7	10.2	9.6	10.4	10.2	9.1	7.2	10.8	9.8
Central bank policy rate (%, eop)	1.75	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.50	1.75	0.50	1.50
Foreign exchange (USDCLP, eop)	753	860	820	800	790	780	760	740	720	753	790	720

Colombia	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	3.4	1.1	-10.6	-6.8	-3.3	-0.4	8.8	5.7	2.6	3.3	-4.9	4.2
CPI (y/y %, eop)	3.2	3.9	3.3	3.1	3.2	3.0	3.2	3.1	3.1	3.8	3.2	3.1
Unemployment rate (%, avg)	10.4	12.6	20.9	20.5	17.8	14.8	13.1	12.6	12.1	11.2	18.0	13.2
Central bank policy rate (%, eop)	4.25	3.75	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.25	2.50	3.50
Foreign exchange (USDCOP, eop)	3,287	4,065	3,950	3,851	3,654	3,473	3,465	3,458	3,450	3,287	3,654	3,450

Mexico	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	-0.7	-1.4	-16.9	-10.4	-4.8	-1.1	3.2	1.4	1.0	-0.1	-8.4	1.1
CPI (y/y %, eop)	2.8	3.2	3.1	3.5	3.3	3.6	3.8	3.8	3.7	2.8	3.3	3.7
Unemployment rate (%, avg)	2.9	3.7	6.7	7.7	7.1	6.3	6.0	6.5	5.8	3.5	6.1	6.3
Central bank policy rate (%, eop)	7.50	6.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	7.25	5.00	5.00
Foreign exchange (USDMXN, eop)	18.85	21.97	24.25	24.03	24.24	24.29	24.07	24.02	24.15	18.93	24.24	24.15

Peru	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	1.8	-3.4	-25.4	-5.6	-1.1	0.7	23.2	4.0	3.5	2.2	-9.0	7.0
CPI (y/y %, eop)	1.9	1.8	1.6	1.4	1.1	1.1	1.2	1.6	1.7	1.9	1.1	1.7
Unemployment rate (%, avg)	6.1	…	…	…	…	…	…	…	…	6.6	12.0	10.0
Central bank policy rate (%, eop)	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	2.25	0.25	0.50
Foreign exchange (USDPEN, eop)	3.31	3.43	3.49	3.47	3.45	3.42	3.43	3.39	3.40	3.31	3.45	3.40

United States	2019 Q4	2020 Q1e	2020 Q2f	2020 Q3f	2020 Q4f	2021 Q1f	2021 Q2f	2021 Q3f	2021 Q4f	2019	2020f	2021f
Real GDP (y/y % change)	2.3	-0.4	-12.4	-7.7	-4.7	-0.4	14.4	9.2	6.0	2.3	-6.3	7.0
CPI (y/y %, eop)	2.0	2.1	0.8	0.1	-0.3	0.7	1.4	2.1	2.8	2.0	-0.3	2.8
Unemployment rate (%, avg)	3.5	3.8	10.3	11.5	11.6	10.8	9.4	8.1	6.9	3.7	9.3	8.8
Central bank policy rate (%, eop)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
Foreign exchange (EURUSD, eop)	1.12	1.08	1.09	1.10	1.12	1.13	1.14	1.15	1.16	1.12	1.12	1.16

Source: Scotiabank Economics.
Red indicates changes in forecasts since previous *Latam Weekly*.

Forecast Updates: March–May Revisions

	March 6			April 18		Current	
	2017	2020f	2021f	2020f	2021f	2020f	2021f
Argentina*							
Real GDP (annual % change)	1.3	...	...	-5.6	4.2	-7.9	6.5
CPI (y/y %, eop)	3.0	...	...	45.7	46.8	45.7	46.8
Unemployment rate (%, avg)		...	...	11.0	10.1	11.4	10.2
Central bank policy rate (%, eop)	7.0	...	...	36.00	40.00	36.00	40.00
Argentine peso (USDARS, eop)	3.31	...	...	83.10	93.10	83.10	93.10
Brazil							
Real GDP (annual % change)	1.3	1.8	2.1	-3.3	2.5	-4.3	2.0
CPI (y/y %, eop)	3.0	4.2	4.1	6.3	7.1	3.7	5.6
Unemployment rate (%, avg)		...	...	12.4	13.5	12.5	13.5
Central bank policy rate (%, eop)	7.00	3.50	5.25	3.00	6.00	1.75	5.75
Brazilian real (USDBRL, eop)	3.31	4.37	4.11	4.84	4.42	5.44	4.89
Chile							
Real GDP (annual % change)	1.5	1.4	2.5	-2.1	2.9	-4.5	2.9
CPI (y/y %, eop)	2.3	3.0	3.0	2.8	3.0	2.8	3.0
Unemployment rate (%, avg)		...	...	8.3	7.7	10.8	9.8
Central bank policy rate (%, eop)	2.50	1.00	2.00	0.50	1.50	0.50	1.50
Chilean peso (USDCLP, eop)	615	740	700	790	720	790	720
Colombia							
Real GDP (annual % change)	1.4	3.6	3.6	0.6	3.6	-4.9	4.2
CPI (y/y %, eop)	4.1	3.3	3.1	3.2	3.1	3.2	3.1
Unemployment rate (%, avg)		...	...	14.3	10.1	18.0	13.2
Central bank policy rate (%, eop)	4.75	4.50	4.75	3.25	4.25	2.50	3.50
Colombian peso (USDCOP, eop)	2,986	3,250	3,180	3,654	3,450	3,654	3,450
Mexico							
Real GDP (annual % change)	2.1	0.6	1.6	-8.4	1.1	-8.4	1.1
CPI (y/y %, eop)	6.8	3.8	3.7	3.6	3.7	3.3	3.7
Unemployment rate (%, avg)		...	...	6.1	6.3	6.1	6.3
Central bank policy rate (%, eop)	7.25	6.25	6.25	5.50	5.00	5.00	5.00
Mexican peso (USDMXN, eop)	19.66	20.78	21.86	24.24	24.15	24.24	24.15
Peru							
Real GDP (annual % change)	2.5	3.0	3.5	-2.3	4.5	-9.0	7.0
CPI (y/y %, eop)	1.4	1.8	2.1	1.1	2.2	1.1	1.7
Unemployment rate (%, avg)		...	...	12.0	10.0	12.0	10.0
Central bank policy rate (%, eop)	3.25	2.00	2.25	0.25	1.50	0.25	0.50
Peruvian sol (USDPEN, eop)	3.24	3.40	3.35	3.45	3.40	3.45	3.40

Source: Scotiabank Economics.
* Initiated coverage March 22, 2020.
Red indicates changes in forecasts since previous *Latam Weekly*.

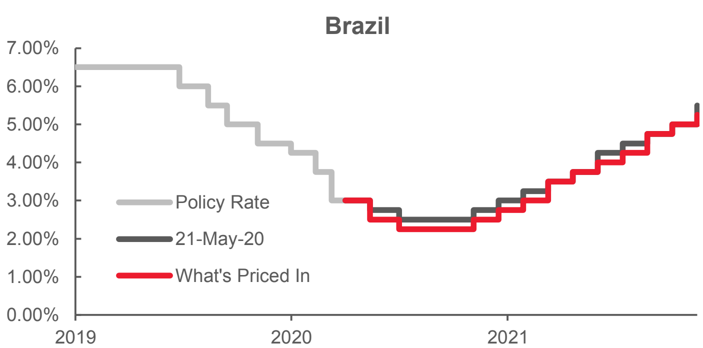
Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

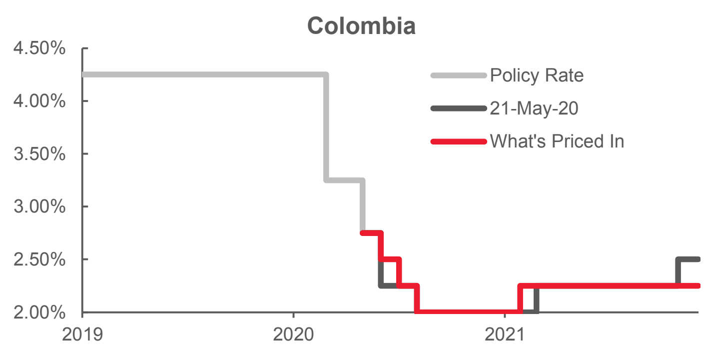
	Current	Next Scheduled Meeting			Market Pricing		BNS Forecast		
		Date	Market	BNS	12 mos	24 mos	End-2020	End-2021	BNS guidance for next monetary policy meeting
Argentina, BCRA, TPM, n.a.	38.00%	n.a.	n.a.	37.00%	n.a.	n.a.	36.00%	40.00%	The BCRA's last move on March 5 provided its sixth rate cut in 2020. Although the BCRA remains caught between a slowing economy and a sliding ARS, we still expect it to prioritize domestic stimulus by cutting further in 2020 before reversing itself next year.
Brazil, BCB, Selic	3.00%	Jun-17	2.56%	2.25%	3.89%	5.99%	2.00%	5.75%	We expect the BCB will cut the SELIC rate beyond the "last cut" in the last meeting's guidance as downside risks materialize.
Chile, BCCh, TPM	0.50%	Jun-16	0.49%	0.50%	0.60%	0.81%	0.50%	1.50%	The BCCh maintained the policy rate at 0.5%, its technical minimum, at its May 6 meeting. The bias of its press release was toward intensifying monetary stimulus and supporting financial stability with unconventional instruments, if required.
Colombia, BanRep, TII	2.75%	Jun-30	2.64%	2.75%	2.39%	2.86%	2.50%	3.50%	BanRep will deliver a final cut of 25bps in June, and enter into a very data dependent mode.
Mexico, Banxico, TO	5.50%	Jun-25	5.05%	5.00%	4.29%	4.69%	5.00%	5.00%	Banco de Mexico cut its reference interest rate by 50 bps in May's meeting, as expected. Another 50 bps cut is expected by the next meeting on June 25. We will revise our forecast in the next week, since the probability of more cuts is increasing.
Peru, BCRP, TIR	0.25%	Jun-11	n.a.	0.25%	n.a.	n.a.	0.25%	0.50%	We expect close to nil inflation in May, taking the yearly rate down to 1.6%, from 1.7% in April. This is on-trend for 1.1% inflation at year end, and does not change our expectation that the Central Bank maintain its reference rate at 0.25%.

Sources: Scotiabank Economics, Bloomberg.

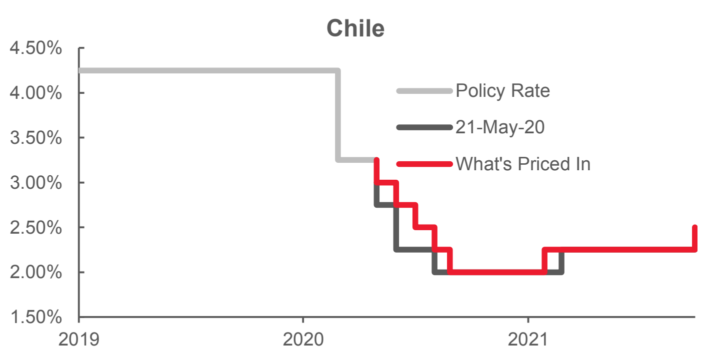
What's Priced In



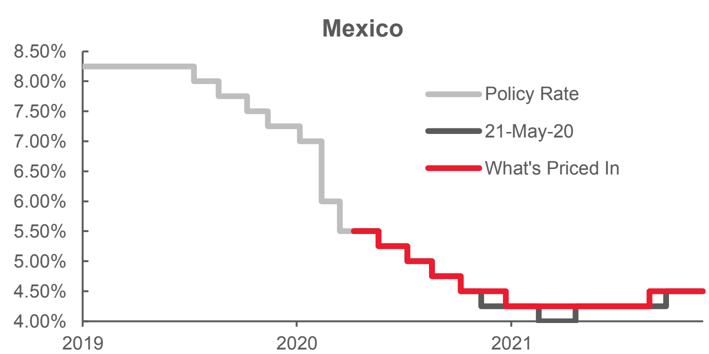
Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.

Economic Overview: Much Weaker Growth, Mildly Weaker Inflation

- **The COVID-19 crisis continues to deepen in much of Latam, with new spikes in Chile rolling back earlier progress.**
- **More data on the weak start to 2020 have driven further markdowns in our growth forecasts for Argentina, Brazil, and Colombia.**
- **Across the region, we continue to expect that growth will slow more than inflation.**

COVID-19: THE LEAGUE TABLE NO ONE WANTS TO LEAD

The COVID-19 epicentre in Latam became even more entrenched over the course of the week. The region now accounts for 15% of all cases (chart 1). Brazil's curve steepened marginally compared with the rest of Latam, but the whole region worsened compared with the rest of the world (chart 2). The spike in cases in Santiago pushed Chile's per capita numbers ahead of Peru's for the first time since mid-April (chart 3). The two countries are now amongst the world top 10 in per capita terms, once one knocks out micro countries. Colombia was the only country in the region that avoided a steepening in its curve over the past week (chart 4).

Latam now accounts for some 40% of global COVID-19 daily deaths. While the rise in Brazil's total COVID-19 death numbers is accelerating compared with its regional peers (chart 5), Peru remains only just behind it in per capita terms (chart 6). Still, Chile's death numbers, while still understandably low given its income levels and the quality of its health system, picked up noticeably over the last week.

Some of the main messages in the numbers remain the same from past weeks. Brazil's patchwork response to the pandemic is costing lives and

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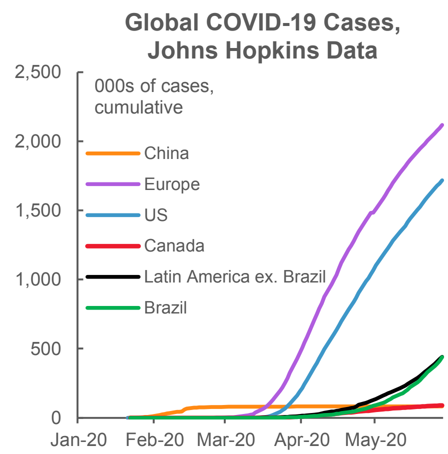
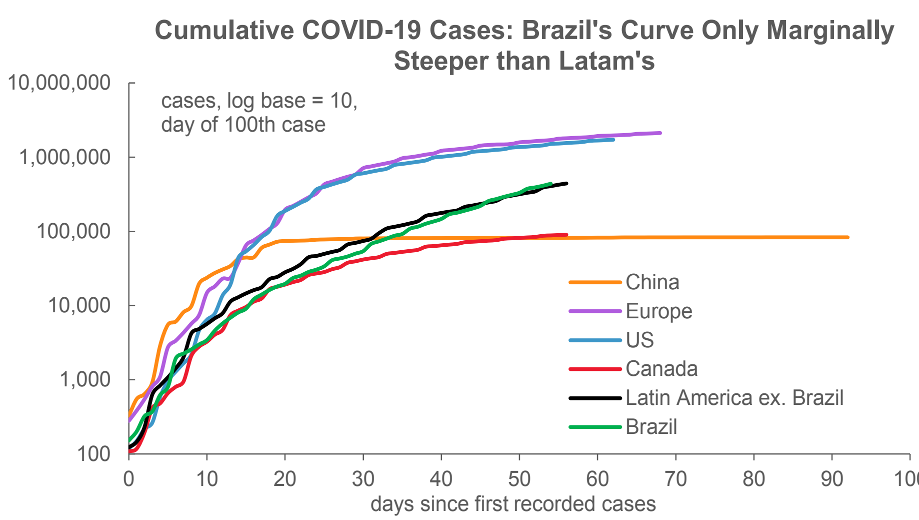
Chart 1



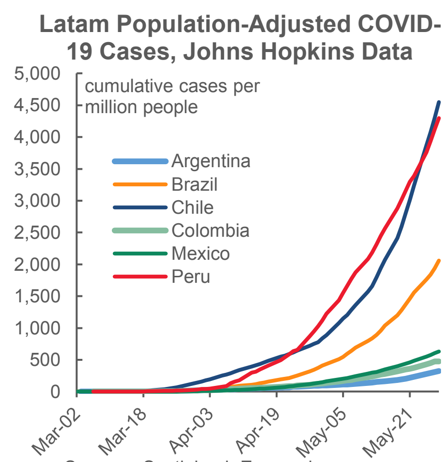
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 2



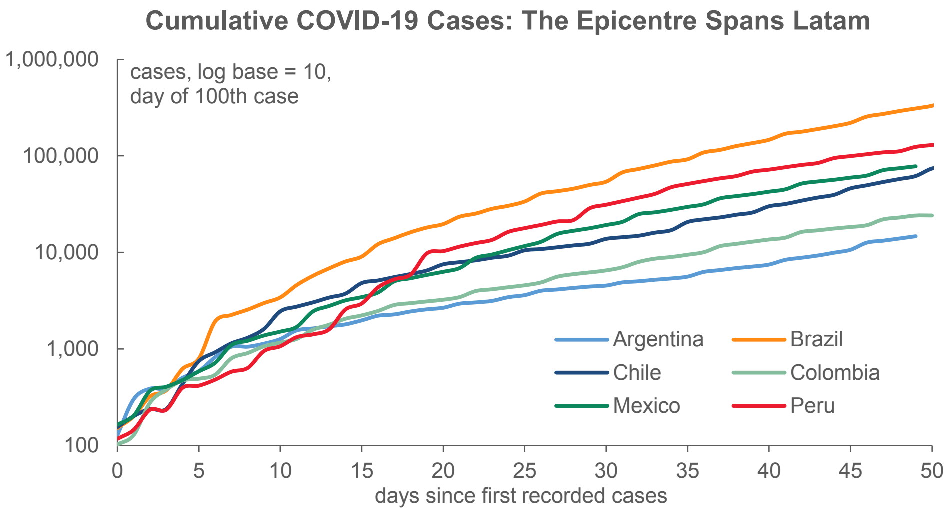
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



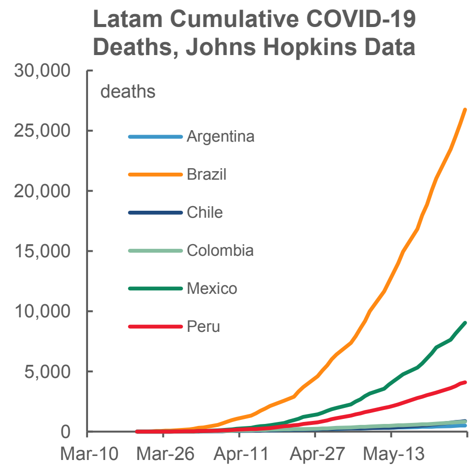
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 4



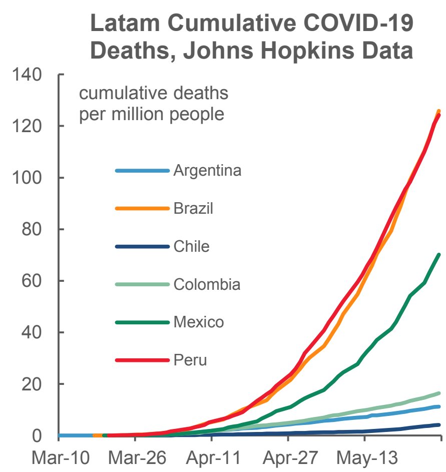
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 5



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6



Sources: Scotiabank Economics, Johns Hopkins University.

has had a direct impact on how the country's risk assets are trading. **Peru's** much more intensive and concerted contagion control measures don't seem to be working, though we don't have a counterfactual, and the country's capacity to treat the disease once infection occurs appears more constrained than elsewhere. In contrast, the early, strict, and extended lockdown in **Argentina** appears to have worked better than the measures taken elsewhere in the region. **Chile** may serve as a cautionary tale on re-opening, while **Colombia's** mild improvement in numbers may lend support to aspects of the authorities' "intelligent quarantine" approach. It's hard to know what to make of **Mexico's** numbers when both public-health officials and civil-society representatives continue to question the quality of the numbers amidst low testing rates.

MARKET MOVES: ROTATION

Risk sentiment continued to improve broadly over the past week, with equity markets and currencies gaining across much of the Latam-6 (tables 1 and 2). Argentina's default and Chile's re-imposition of a lockdown on the capital region weighed on their equity markets, but Brazil saw a notable retracement of previous sell-offs in the Bovespa and the BRL despite a rough week in macro data and political developments. It's also noteworthy that the CLP is down only -6.7% YTD and the PEN only -3.4% YTD as markets reflect the strong fundamentals both countries brought into the COVID-19 crisis and their responses to the health emergency.

FORECAST UPDATES: FALLOUT FROM WEAK Q1 CONTINUES

Additional sectoral numbers and national accounts data out this past week confirmed that the Q1 prelude to the "Great Lockdown" was softer across much of Latam than previously estimated and we have revised our growth forecasts accordingly (chart 7).

- **Argentina.** We previously flagged that Q1's -5.4% y/y contraction and the impact of the March 20 quarantine across the entire month of April had 2020 tracking a much worse decline than the -5.6% y/y that we had previously forecast. We now forecast a deeper -7.9% y/y shrinkage in the Argentine economy in 2020. This would be followed by a 6.5% y/y rebound in 2021, up from our prior forecast of 4.2% y/y owing mainly to base effects.

- **Brazil.** Even before the country became a COVID-19 epicentre and its political crisis deepened, data published this past week showed that the economy had already slipped back into contraction in Q1-2020 for the first time since end-2016. We have cut our forecast from -3.4% y/y in 2020 to -4.3% y/y, with only a small bump up in the 2021 outlook from 2.0% y/y to 2.5% y/y. Our Brazil economist's forecasts for inflation and the BRL have both been softened.

- **Colombia.** Following the 1.1% y/y print for Q1 real GDP growth on May 15, which came in much lower than our 3.2% y/y forecast, and soft tier-1 and tier-2 data since then, our team in Bogota has revised our projection for 2020 growth downward from -2.3% y/y to -4.9% y/y, with a slightly stronger rebound in 2021 from a lower base.

In contrast, our forecasts of already deep downturns remain unchanged for Mexico, Chile, and Peru. Mexico's initial Q1 real GDP growth estimate has been revised from -1.6% y/y to -1.4% y/y by the authorities. This has prompted some re-profiling of our quarterly GDP forecasts, but our expectations remain unchanged for an -8.4% y/y slide this year with a very weak 1.1% y/y expansion in 2021. Our projections for similarly deep downturns in **Chile** (-4.5% y/y) and **Peru** (-9.0% y/y) are unchanged as recent data prints have been consistent with our projections.

WEEK AHEAD: WEAKER NUMBERS

The markdowns in our forecasts owing to the weak Q1 prelude to the pandemic are expected to be corroborated by soft April and May data due out this week. Lockdowns covered all of April and nearly all of May across the region.

Headline inflation is expected to keep falling across Latam, but not as much as markets imply. Our team in Lima expects growth in Peru's CPI to come down from 1.7% y/y in April to 1.6% y/y in May in the print out Monday, June 1. Similarly, we expect releases on Friday to show a slowdown in May headline inflation in both Chile (from April's 3.4% y/y to 2.9% y/y) and Colombia (down from 3.5% y/y to 3.3% y/y). Nevertheless, our teams across Latam continue to think that markets are pricing more disinflation than we see ahead: our forecasts for end-2020 inflation haven't budged much (chart 8) compared with the big moves over the last three months in our growth forecasts. Our Markets Report this week argues that implied breakeven inflation has come down too far and/or doesn't sufficiently anticipate a rebound in Brazil, Chile, Colombia, and Mexico. With policy rates already at or expected to hit record lows in Brazil, Chile, Colombia, and Peru (chart 9), real policy rates are set to remain in negative territory.

Monday also sees the release of Chile's economic activity index for April, where our team in Santiago anticipates a slowdown from -3.5% y/y in March to -7.5% y/y, a milder contraction than the -11% y/y expected by the survey. The outlook for Chile is complicated by the recent spike in COVID-19 numbers and the re-imposition of control measures in the Santiago region, but the -7.5% y/y expected by our research team remains in line with our annual forecast of -4.5% y/y.

BanRep publishes on Monday, June 1 the minutes from its spilt 5-2 meeting on May 29 where the Board cut the policy rate again by 50 bps from 3.25% to 2.75%. With 2 members voting for a move of only 25 bps, the Board tilted its communication somewhat more hawkishly by trimming its forward guidance from an

Table 1

Latam Equity Market Performance (local currency): May 29, 2020

	Year-to-date	1-month	1-week
Argentina	-9.2%	15.5%	-8.6%
Brazil	-24.4%	8.6%	6.4%
Chile	-21.9%	-8.3%	-2.0%
Colombia	-34.1%	-4.0%	2.8%
Mexico	-17.0%	-1.0%	0.9%
Peru	-24.1%	5.4%	1.5%

Sources: Scotiabank Economics, Bloomberg.

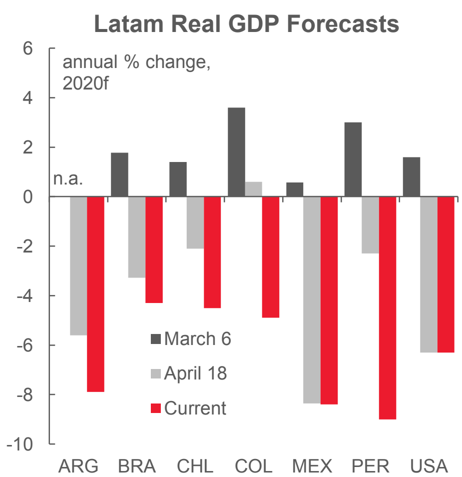
Table 2

Latam FX Performance: May 29, 2020

	Year-to-date	1-month	1-week
ARS	-12.6%	-2.6%	-0.5%
BRL	-24.6%	0.0%	3.7%
CLP	-6.6%	3.5%	-0.1%
COP	-11.9%	5.3%	1.2%
MXN	-14.7%	7.1%	2.5%
PEN	-3.4%	-1.8%	0.0%

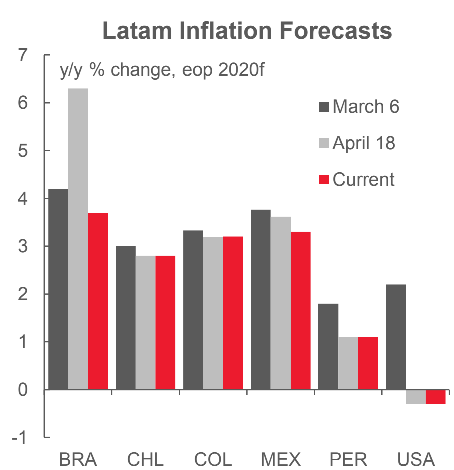
Sources: Scotiabank Economics, Bloomberg.

Chart 7



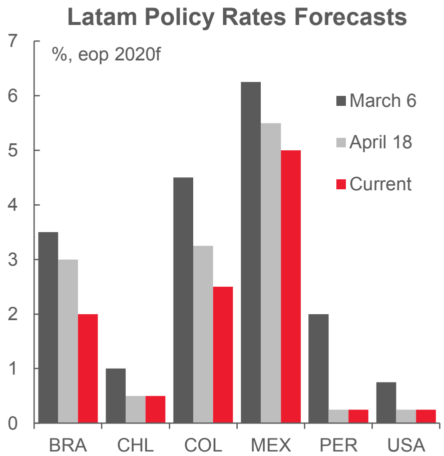
Source: Scotiabank Economics.

Chart 8



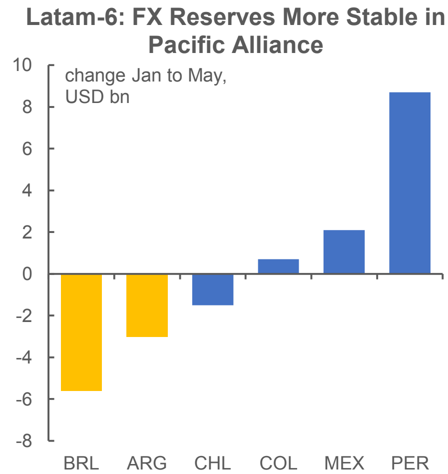
Argentina: 45.7%.
Source: Scotiabank Economics.

Chart 9



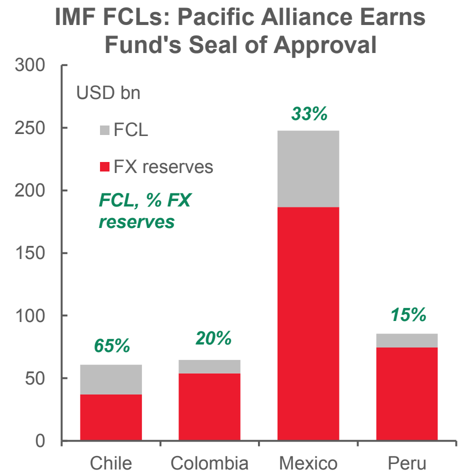
Argentina: 36%.
Source: Scotiabank Economics.

Chart 10



Sources: Scotiabank Economics, IMF.

Chart 11



Sources: Scotiabank Economics, IMF.

open-ended stance to a focus on current conditions. Governor Echavarria reiterated that the pace of cuts would remain gradual to prevent pressure on the country's capital account. We continue to expect a last 25 bps cut at the June 30 meeting, after which BanRep will move into a very data-dependent mode.

IMF: IT'S MAINLY FX RESERVES

At the end of the week, both Peru and Chile received approval from the IMF for previously announced precautionary arrangements under the Fund's Flexible Credit Line (FCL) facility, thereby joining Colombia and Mexico as the only countries with the IMF FCLs. The IMF's premier crisis prevention tool is now the *de facto* seal of approval for the Pacific Alliance countries' solid fundamentals, consistent track records, and strong policy frameworks. FX reserves have remained relatively stable in the region through this year's crisis (chart 10), but the FCLs add substantial buffers to all four countries, with the biggest impact in Chile by boosting accessible reserves by 65% (chart 11). All four countries would see their balance of payments cushions boosted further if proposals for a general increase in IMF quotas were to move ahead.

In Argentina, the June 2 extended deadline for convergence on the terms of a possible debt exchange could well see discussions continue for another week without acceleration of the roughly USD 70 bn in defaulted Argentine and Province of Buenos Aires debt. Reports imply that the two sides are moving closer together. Once the terms of an exchange are agreed, we would expect to see rapid movement toward a new IMF lending program.

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Brad Setser, "The COIVD-19 Crisis in Emerging Markets Demands a Once-in-a-Century Response", *Foreign Affairs*, May 27, 2020: https://www.foreignaffairs.com/articles/south-america/2020-05-27/covid-19-crisis-emerging-markets-demands-once-century-response

Markets Report: Breakeven Inflation Rates Are Too Low in Latam

- **While downward revisions to growth have been ample across Latam, offsetting economic forces have kept inflation expectations in surveys of economic analysts from declining to the same extent.**
- **In contrast, breakeven inflation expectations have come down more than survey-based projections, owing potentially to the underestimation of some upside risks, but also to poor market conditions.**
- **As pressures to the core component and base effects from low fuel prices feed higher year-on-year inflation prints going into next year, we think the difference between market-based breakeven inflation expectations and economists' forecasts will narrow, with breakeven-implied inflation adjusting higher.**

GROWTH FORECASTS CUT, WILL INFLATION FOLLOW?

The hit of the pandemic has resulted in significant revisions to growth forecasts for Latin America but, as uncertainty lingers, the range of expectations remains very wide (chart 1). Meanwhile, survey-based inflation expectations have not moved as much (chart 2). The prospects of weaker demand and the collapse in oil prices are offset by the potential pass-through effects from the depreciation of local currencies and the supply shocks expected from the pandemic.

Breakeven inflation expectations have, however, shifted down substantially more than economists' and analysts' forecasts. In Colombia, Chile and Mexico, specifically, there is a gap of more than 100bps between what is priced and what is expected by the consensus of analysts for the next couple of years. We think these divergences reflect some underestimation in market prices of upside risks to inflation and that the gap will close once the pressures to the core component and the stabilization of fuel prices start to be reflected in higher year-on-year inflation readings. In Brazil, even if breakevens are close to the median of the expectations of analysts, our economist has an out-of-consensus call for inflation above 7% y/y in the next two years, which would imply a strong adjustment in the coming months. Peru is not included in this breakeven analysis as Peru does not have the sort of bonds that allows for the calculation of the market's implied inflation projection.

ECONOMISTS EXPECT STRONGER INFLATION THAN THE MARKET

For Chile, our local economists are anticipating that inflation should get very close to the 3% target in one year's time, and that it will stay around there until the end of 2021. This would imply a deceleration from current rates (chart 3) that would be explained mainly by the weakness in domestic demand and the freezing of some utility prices after the 2019 social protests. The significant deceleration of economic activity is expected to offset the pass-through effect of CLP depreciation, which is also expected to dissipate in the coming

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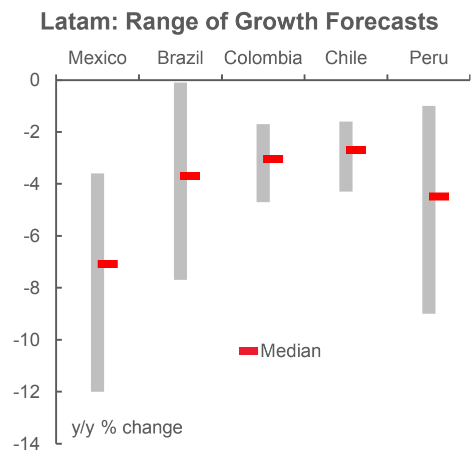
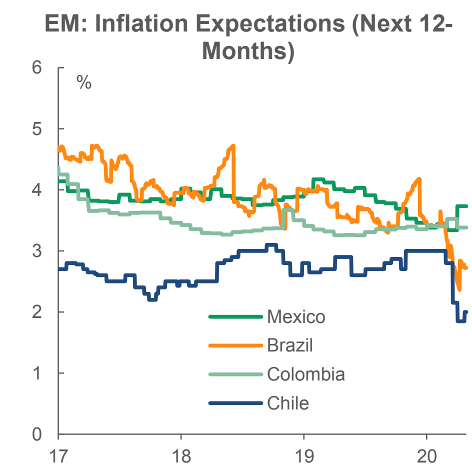
Chart 1



Sources: Scotiabank Economics, Bloomberg, Market Surveys.

Chart 2

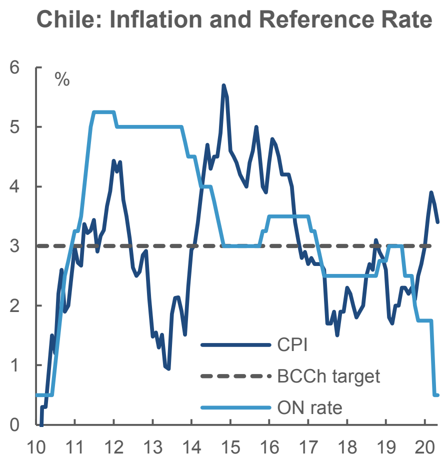


Sources: Scotiabank Economics, Bloomberg.

months. Our house forecast of 2.9% y/y inflation in 12 months is above the median of the market consensus of 2.5% y/y shown in the central bank's survey of expectations published on May 5. But even after accounting for the lower expectations of some analysts, the inflation rate implied in the 1-year real yield seems to be overly-pessimistic at 1.6% (chart 4).

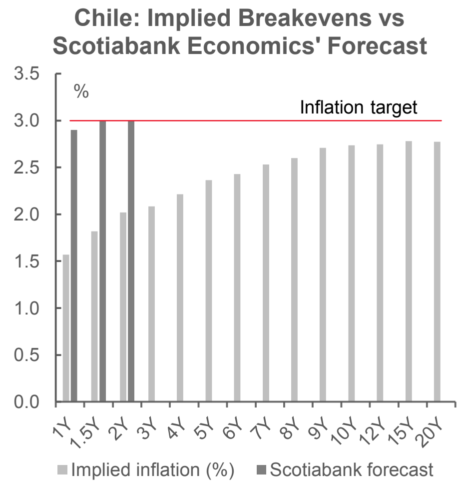
In Colombia, our economics team is expecting inflation to be at 3.2% y/y in 12 months and to remain steady at that level, finishing 2021 at 3.1% y/y, broadly in line with BanRep's target. The median of analysts' consensus is very close to our projections at 3.1% in 12-months and 3% in December 2021, according to the May survey of economic expectations. The bulk of the upside pressure to headline inflation will likely come from foodstuffs, while CPI ex-food is expected to remain weak after the significant fall we have seen recently (chart 5). We expect food prices to be resilient to the economic weakness given the persistence of disruptions in some supply chains and costly measures that will have to be implemented in distribution centers to comply with the rules of the "new normal". Most of these costs, we believe, will end up being transferred to the consumer. Also, with the stabilization in oil prices, the non-core component of the inflation indices will start to rise owing to base effects. In contrast, the inflation expectations currently implied by the breakevens for Colombia might be underestimating these effects (chart 6) and we expect them to adjust to higher levels.

Chart 3



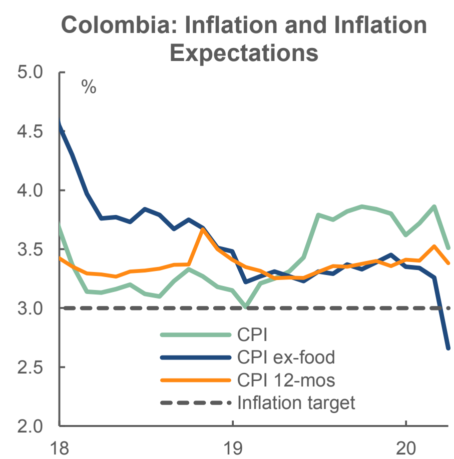
Sources: Scotiabank Economics, Bloomberg.

Chart 4



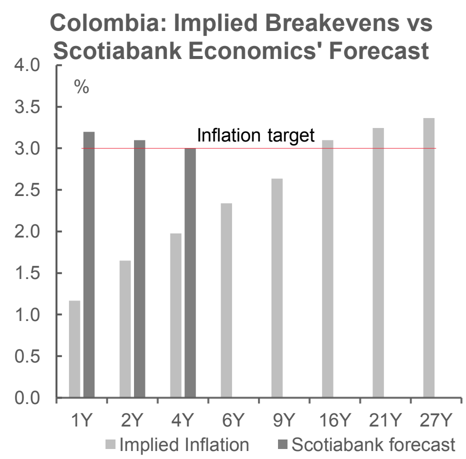
Source: Scotiabank Economics.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

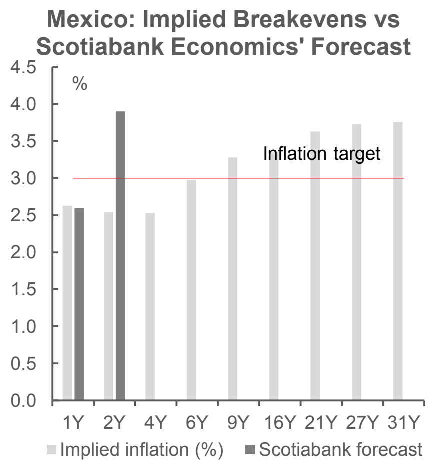
Chart 6



Source: Scotiabank Economics.

In Mexico, although the divergence between market-based inflation expectations and survey-based projections is small in short tenors, we think there is plenty of space for re-pricing in the 2-year and 4-year maturities. For the end of 2021, our economists are expecting inflation at 3.8% y/y while the median expectation of analysts in Banxico's survey from May 4 is at 3.5% y/y. The implied breakeven inflation rate for the same period, however, is at 2.5% y/y, which probably underestimates some of the supply and demand pressures to core inflation that we will see ahead (chart 7). Core inflation has remained very resistant to the fall in the headline (chart 8) and we even saw an uptick in the merchandise component in April (chart 9). Also, Banxico's last quarterly report from May 27 acknowledged some of these upside risks to goods prices and mentioned that in the "new normal", households will persistently reallocate spending to different items than they prioritized prior to the lockdown. Higher demand will likely be concentrated in merchandise and food items. These new trends in consumer demand will add to upside adjustments in the supply and distribution costs that will likely push prices higher. On the non-core component, an anticipated increase in gasoline prices will be reflected in a spike in headline inflation in early-2021, according to the Banxico Board. As pressures on the core components materialize and the base effects from fuel prices feed higher inflation prints, we think the difference between market-based and survey-based inflation expectations will narrow, with breakeven-implied inflation adjusting higher in Mexico.

Chart 7

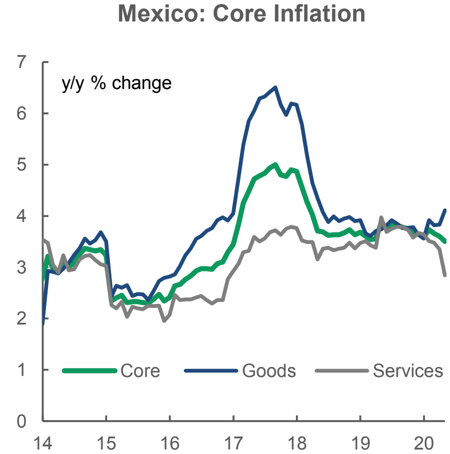


Source: Scotiabank Economics.

Chart 8

Sources: Scotiabank Economics, Bloomberg.

Chart 9



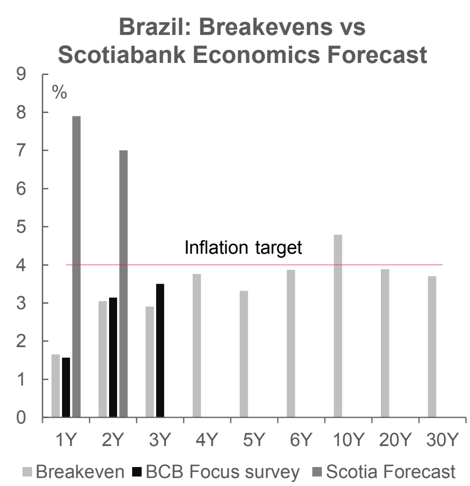
Sources: Scotiabank Economics, Bloomberg.

Finally in Brazil, although breakeven inflation does not differ much from the median of analysts' expectations, our economist has an out-of-consensus call for annual inflation ending 2020 at 6.3% and 2021 at 7.1% (chart 10). The rationale for this view includes a high level of pass-through in Brazil (20%–30%), a public finance outlook that is deteriorating once again and that in the past that has sparked inflation, extremely easy monetary conditions, and a limited effect on prices from a widening output gap.

SUMMING UP

Breakeven inflation expectations have come down more than survey-based expectations, owing potentially to the underestimation of some upside risks but also to poor market conditions. Going forward, we think that liquidity in both the nominal and real rates markets will improve, setting the conditions for these discrepancies to narrow. On the fundamental side, as pressures to the core component and base effects from low fuel prices feed higher year-on-year inflation prints going into next year, we think the difference between market-based breakeven inflation expectations and economists' forecasts will narrow, with breakeven-implied inflation adjusting higher.

Chart 10



Source: Scotiabank Economics.

Country Updates

Argentina—The Ninth Life of Default

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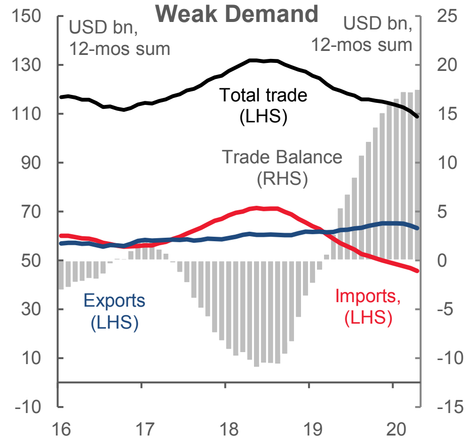
Argentina slid into the country's ninth sovereign default on May 23 and since then talks have quietly continued between the government and bondholders with a view to agreeing on the terms of a possible debt exchange ahead of the reset June 2 deadline. Acceleration of the defaulted bonds has not yet occurred, as negotiations have remained constructive.

Argentina: Soft Imports Reflect Weak Demand



Sources: Scotiabank Economics, Bloomberg.

Late on May 28, two bondholder groups submitted to the government a joint counter-offer and around the same time the Ministry of Economy published a new proposal for the terms of a possible debt exchange. Under the government's new offer terms, its sought-after three-year grace period would be cut to two years, with coupon payments beginning in 2022 and principal payments from 2025. Haircuts on existing bonds would be on the order of 5% to 7%, with some details yet to be defined. The new terms appear to increase the implied valuation of existing debt subject to the possible exchange from the mid 30-cents range to somewhere in the low 40s, depending on the assumptions one employs. Nevertheless, Economy Minister Guzman indicated on May 28 that, while the two sides have come closer together, the bondholders' offer remains insufficient and they still have an important way to go in their negotiations. Discussions on USD 7 bn in defaulted Province of Buenos Aires bonds remain ongoing.

There are clear incentives for both sides to reach an agreement on a debt exchange and to avoid a disorderly default. A breakdown in talks would start the clock on the accrual of costly 9% pre-judgment interest on the sizable share of the USD 65 bn in bonds that was issued under New York law. On the other side, Argentina has already been shut out of international credit markets for some time, so creditor leverage is more limited than it has been in other cases.

The Argentine government's claim that it needs USD 40 bn in debt relief to ensure sustainability and that it cannot commit to additional fiscal adjustment has, if anything, been corroborated by the further softening in the country's macro data over the last couple months. On the basis of Q1 and early-Q2 data we have cut our real GDP projection for 2020 to a contraction of nearly -8% y/y—worse than the -6.5% y/y decline forecast in Argentina's debt-exchange offer. This past week saw an ongoing erosion in Argentina's international trade volumes as domestic demand, already weak from two years of recession, kept plunging under the lockdown imposed since March 20. Apart from supermarket sales, retail sales tanked in March and are likely to fall further in April, which saw a full month of quarantine. The nominal national budget deficit posted a new record in April and is set to widen further in May.

The first week of June will see a sweep of data that will further quantify the impact of the extension of the lockdown measures through April and May. Nominal government tax revenue in May, due Tuesday, June 2, is set to continue its descent from the beginning of the year. May is likely to see an even bigger record fiscal deficit, more financing from the BCRA, and further pressure on the ARS. Vehicle production, sales, and export numbers for May are out on June 3 and should register some small month-on-month gains as plants resumed activity in the third week of the month. In contrast, April construction and industrial activity data, which will print on June 4, are expected to show large month-on-month and year-on-year contractions since activity was shut for all of April.

The Credit Derivatives Determinations Committee of the International Swaps and Derivatives Association (ISDA) met on Wednesday, May 27, to begin deliberations on whether Argentina has triggered credit default swaps (CDS) on its bonds. Net CDS positions are reported to total some USD 1.5 bn according to ISDA data. A vote by the ISDA committee is expected this coming week.

Brazil—We Expect a Long "U" Shape Pattern for Growth, and a "V" Shape for Inflation

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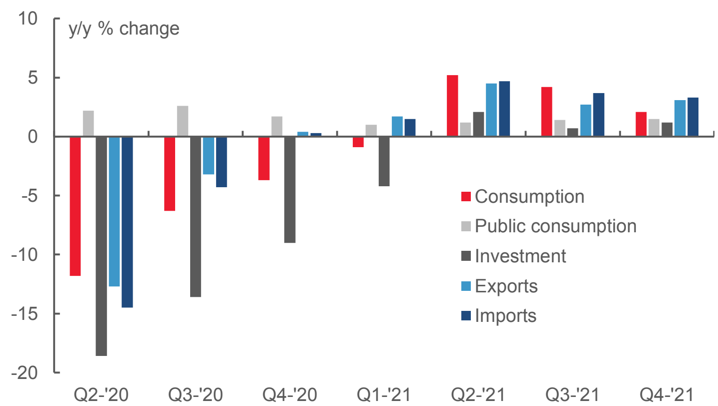
The past week was rough for Brazil, with formal employment generation data for the whole year revised aggressively lower, and the balance of payments confirmed strong capital outflows from the country, as we discussed in the May 26 and 27 issues of the *Latam Daily*. The other major macro release of the week was Q1 GDP which printed right at consensus of -0.3% y/y. In addition, the political situation became even more complex with the emergence of a new set of judicial investigations against individuals linked to the government, which added to risks already in the pipeline. There were reports that people linked to the government are being investigated for allegedly circulating false information, adding to the political headwinds the government is already facing. At this point, we think the best-case scenario on the political front is that the main casualty of the scandals will be further reform prospects. Despite the rough week for both macro data and the political environment, Brazilian assets performed reasonably well, with the BRL standing out as the second best performing major global currency, trailing only rebound in the MXN.

Brazil: Projected Path for GDP Components



Source: Scotiabank Economics.

In terms of the GDP outlook, we expect the trade balance to swing into a moderate deficit, which will provide a drag to GDP. As Asia's economies continue to re-open, their demand for Brazilian exports will provide some relief on the margin, but their re-opening will likely be stop-and-go. For consumption, we expect Q2 will bear the brunt of the COVID-19 shock. Additionally, Q3 and Q4 will likely continue to be affected by a combination of intermittent lockdowns, a slow recovery of employment, and a slower than planned re-opening of the economy, driven by the confusing signals that different levels of government have sent the population over the course of the pandemic. All of this will work against the coordination of the government's exit strategy. We think the weakest link in growth, both in terms of the depth and length of its contraction, will be investment, with the combination of pandemic-driven uncertainty and a murky political situation weighing on its strength.

Chile—Lockdown is Extended for One More Week in Santiago

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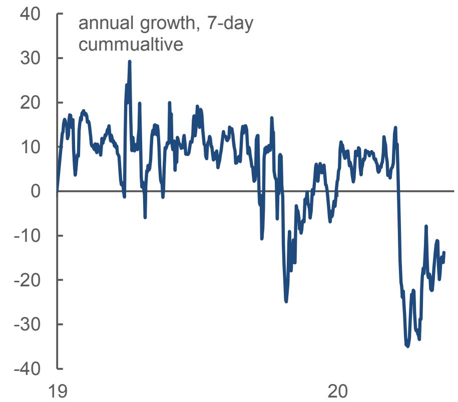
On Wednesday, May 27, health authorities announced an extension, for at least one more week, of the total lockdown of Santiago. This measure comes after a stabilization of new COVID-19 cases per day at around 4,000, with most of them registered in Santiago. In addition, the labour market is starting to show strong signs of deterioration. The unemployment rate in Gran Santiago (i.e., the Metropolitan Region of Santiago), reported by the University of Chile, was 15.6% in March 2020. This print is 8 ppts higher than that registered in March 2019, making it the highest rate recorded since 1985. It is also significantly higher than the average for the last 20 years (9.5%) and the last 10 years (7.6%). Employment and the labour force contracted 15.5% y/y and 7.5% y/y, respectively.

Regarding high-frequency data, credit and debit card purchases continue to decrease year-on-year, showing stability, but at low levels. Supermarket sales rebounded again due to the new quarantine, while sales in other sectors remain stable at low levels. Most striking are the retail stores that have continued to recover their sales levels, which we consider to be a reflection of consumers using e-commerce more strongly—a sales channel that could become the "new normal".

On Friday, May 29, the unemployment rate reached 9.0% in the moving quarter ended in April (previous: 8.2%), slightly below what was expected (9.1%), according to the National Institute of Statistics (INE). Even though this figure still includes information for February (pre-COVID), employment contracted 7.6% y/y, with a destruction of 680k jobs compared to the previous year and 706k fewer jobs than in March. The workforce contracted by 5.7% y/y, revealing the difficulties that exist for workers who have lost their jobs to seek employment. This is observed in the monthly increase of 720k people in the inactive population who are not looking for a job.

Chile: Debit and Credit Cards Purchases



Source: Scotiabank Economics.

Another factor that mitigates the job destruction revealed in these figures is the "absent employed". This category, which allows us to capture the workers covered by the Employment Protection Plan, increased by almost 365k people, and includes those who maintain their contractual link with their employer, but who are using unemployment insurance and receiving a reduced salary (*Law 21,217*). However, 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.

For next week, as Santiago starts its third consecutive week in total confinement, the data calendar has some tier-1 indicators. We have monthly GDP for April coming out on Monday, where we anticipate a decline of -7.5% y/y. The lockdown measures intensified during April, and thus we expect a sharper slowdown than in March. Indicators of electricity generation, emergency health care, exports, and imports support our view. On Friday, June 5, CPI for May will come out. We expect a print between 0.1–0.2% m/m, as the INE has announced a new method for imputing the prices of some products where it has been difficult to gather data, such as tourism packages and air transport services, which is likely to bias upwardly the print for May.

Colombia—Significant Decline in April Employment, BanRep Cuts Rate to Historic Low

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This past week we received two important pieces of information about 2020 economic activity in Colombia: Firstly, President Duque decided to extend the COVID-19 quarantine until May 31, without any further relaxation of related measures, and secondly, Q1-2020 GDP results showed that March saw a significant toll on economic activity. In fact, while the economy grew by 4.1% y/y in January and February, in March economic activity fell by -4.9% y/y.

March data also gave us some specifics on sectors such as construction, manufacturing, and mining. In fact, DANE's Q1-2020 sectoral breakdown showed that construction's recovery in the first two months of the year was milder than expected, while coal production was worse than anticipated, which was further amplified by the lockdown in March. Additionally, lockdown for ten days in March affected manufacturing disproportionately more—especially the vehicle and textile sub-sectors.

Colombia: Demand-side GDP (y/y % change)

Sector	2020f	2021f
Consumption	-2.5	4.2
Private Consumption	-4.1	5.4
Gov. Consumption	3.8	0.0
Investment	-12.0	5.4
Exports	-7.2	1.0
Imports	-4.7	3.3
Domestic Demand	-4.5	4.4
GDP	**-4.9**	**4.2**

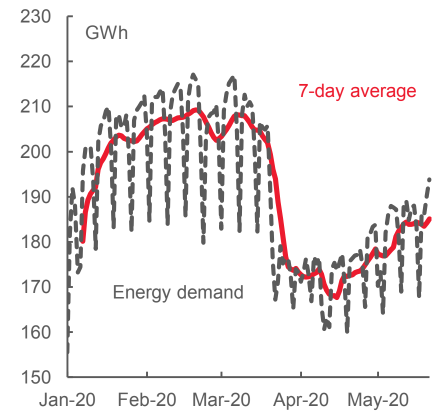
Source: Scotiabank Economics.

Finally, in terms of days of lockdown, the seven additional days of lockdown to May 31, without any relaxation in terms of the gradual opening of the economy, could reduce 2020 GDP growth by 0.3 ppts.

All in, once we incorporate these effects in our model and forecasts, the outlook for 2020 real GDP growth goes from -2.9% y/y to -4.9% y/y due to 71 days of lockdown, weaker than expected economic activity in Q1-2020, and some more restrictive measures for manufacturing sectors.

For 2021, we also have some leading indicators that permit us to maintain a constructive view on recovery next year. Both energy and gasoline demand have picked up by around 10% and 50%, respectively, since the bottom in April. Although we believe that potential output will fall significantly and we anticipate a gradual "U-shaped" recovery for 2021 GDP, we think that next year Colombian economic activity will grow by 4.1% y/y, which is 2 ppts less than in 2019.

Colombia: Daily Energy Demand



Sources: Scotiabank Economics, XM.

In terms of data, April´s employment numbers from DANE show that nationwide unemployment increased significantly to 19.8%, a new record high. Around 25% of the labour force lost its jobs, with the working population contracting by 5.3 mn. The number of inactive people (i.e., unemployed and not actively looking for work) increased by 4.3 mn, which reduced the labour force participation rate to 51.8% from 62.2% in 2019. If all people who have lost their jobs were to be included in the labour force, the unemployment rate would increase to around 38%.

Last but not least, BanRep held its fifth meeting of the year on Friday, May 29. Although this meeting was initially not scheduled as a decision-making meeting, two weeks ago the Board decided to turn May´s meeting into a discussion on the monetary policy rate. BanRep continued its easing cycle and cut the policy rate another 50 bps to 2.75%, the lowest level ever. It left the door open to further cuts depending on the data—especially inflation, inflation expectations, and economic activity—but with a split vote, the Board sounded a more cautious tone than it had in the past.

Next week, on Friday, June 5, DANE will release May's CPI inflation numbers: we expect headline inflation to come down from 3.5% y/y to 3.28% y/y, driven by a 0.09% m/m moderation in food prices as well as mild changes in the prices of some services that reopened recently, all of which would offset increases in gas prices. On the other side, the current account deficit is expected to deteriorate moderately due to a weaker trade balance. However, softer import dynamics and smaller income account outflows should mitigate current account deterioration over the rest of 2020.

Mexico—Banxico Reports

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In the most important event of the past week, Banco de Mexico (Banxico) released its very comprehensive quarterly report. Analysts were anxious to see how Banxico's GDP forecast would evolve to incorporate the COVID-19 pandemic's impact. Breaking with tradition, but acting consistently with what other central banks have done, Banxico did not present the usual range of forecasts for GDP growth, previously between 0.5% and 1.5% for 2020, but instead provided three different scenarios. It did not, however, assign specific probabilities to the scenarios. The key determinant of each scenario was the assumptions regarding the duration and degree of disruption from the isolation measures, which produced different shapes for the recovery:

- The first scenario was a "V-shaped" recovery that assumed a rapid recovery and produced a GDP growth outlook of -4.6% y/y in 2020 and 4.0% y/y in 2021;
- The second scenario was a "deep V-shaped" recovery, that assumed that existing disruptions extend through Q3 and produced a GDP growth rate of -8.8% y/y for 2020 and 4.1% y/y for 2021; and

- Finally, the third scenario was a "deep U-shaped" recovery that assumed the economic effects persist throughout the year with a slow recovery next year, which produced a GDP growth rate of -8.3% y/y in 2020 and -0.5% y/y in 2021.

It is worth noting that these three scenarios were constructed to give an idea of "the possible order of magnitude" of the economic impact resulting from the pandemic, but do not account for second round effects, as Banxico explicitly mentioned. Second round effects could arise from the disruption of production chains, from a change in consumer behaviour, or from more lasting effects derived from financial stress. With these scenarios, the central bank is validating what we and other analysts have anticipated.

Mexico: Gross Domestic Product (Annual y/y % change*)

	Share of GDP (%)	Q1'19	Q4-'19	Q1-'20
GDP	**100**	**1.1**	**-0.7**	**-1.4**
Primary Sector	**3.2**	**1.6**	**-0.3**	**1.4**
Industrial Activity	**28.9**	**-0.2**	**-2.0**	**-2.9**
Mining	5.0	-7.7	-0.3	4.2
Utilities	1.5	0.3	4.7	0.3
Construction	6.6	-0.2	-5.7	-8.2
Manufacturing	15.9	2.1	-1.5	-2.9
Services Sector	**63.5**	**1.6**	**-0.2**	**-0.7**
Wholesale Trade	7.8	-0.6	-5.8	-4.4
Retail Trade	9.1	3.0	3.1	0.8
Transport & Storage	6.4	1.4	-0.5	-2.8
Information & Communications	3.0	0.2	4.8	4.7
Financials & Insurance	4.9	5.2	-5.9	-1.8
Real Estate	11.6	1.6	1.3	1.0
Professional Services	1.9	8.5	-0.6	-2.9
Education	3.8	1.2	-1.3	-1.2
Health & Social Services	2.2	1.8	0.1	-1.9
Hotels & Restaurants	2.1	-1.9	3.1	-7.9
Legislative Activities	4.2	-3.1	0.4	6.5

*Not Seasonally Adjusted
Sources: Scotiabank Economics, INEGI.

One another interesting point to note: Banxico produced an estimate of the financial relief provided so far by interest-rate reductions, and pegged their value at MXN 13.6 bn. This represents only 0.7% of the estimated loss of MXN 2.0 tn in economy-wide activity during 2020. Around the world, people are expecting central banks to "do the magic" of producing economic growth, but this is not what monetary policy is capable of doing.

Detailed figures for the gross domestic product in Q1 were released this past week, posting a decline of -1.4% y/y, slightly better than but also not that different from the -1.6% y/y previously estimated.

We also received the figures for the trade balance in April, which presented dramatic contractions in both exports (-40.9% y/y) and imports (-30.5% y/y). A large part of the decline in trade is explained by oil, with oil exports falling by -66.4% y/y and oil imports contracting -53.0% y/y; still, non-oil trade also fell, with non-oil exports falling -39.4% y/y and non-oil imports contracting -27.6% y/y.

Balance of payments figures for Q1 presented a very small current account deficit of USD 982 mn, but also a reduced surplus of USD 7.8 bn on the financial account, almost half the USD 14.8 bn observed a year ago.

The week ahead will once again be packed with economic information, starting with Banxico's economic expectations survey results, followed by family remittances for April, auto industry and consumer confidence for the month of May, and domestic private consumption and investment for the month of March.

Peru—Rising Tides

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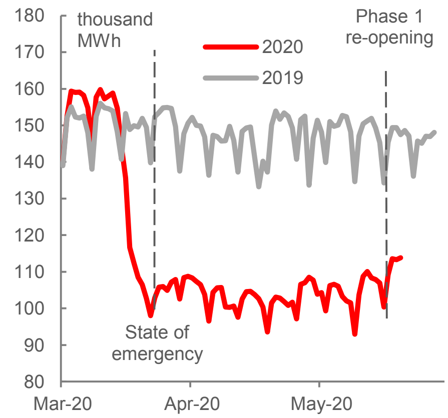
Nothing seems to be stopping the COVID-19 tidal wave in Peru. And so a quandary continues, as fear over the spreading contagion competes—in the minds of the public, policymakers and pundits—with concern over the long-term impact to livelihoods of the economic shutdown. The number of new COVID cases and of deaths per day both reached new heights this past week. At the same time, iconic marketplaces—such as the Gamarra textile district—were overwhelmed by waves of people returning to work. Unlike other countries, where unlocking had people flocking to beaches and parks, in Peru, people are massively heading back to informal workplaces and marketplaces.

A wave of businesses is reopening. The government has been busy approving the protocols for the reopening of various sectors. The head of cabinet, Vicente Zeballos, stated on May 28 that over 13,000 companies have received permission to operate so far. Recently, 300 home construction projects were approved, with another 900 in line for approval. This should accelerate as Phase 2 of the country's unlocking begins on June 1. The accompanying chart compares electricity demand this year with the same period in 2019. It's an imperfect measure in that mining represents about 40% of electricity demand, but only about 14% of GDP. Having said this, the improvement—from -30% y/y during the lockdown period to -16% y/y now—is significant.

Peru: Electricity Demand (Mar–Apr)



Sources: Scotiabank Economics, COES.

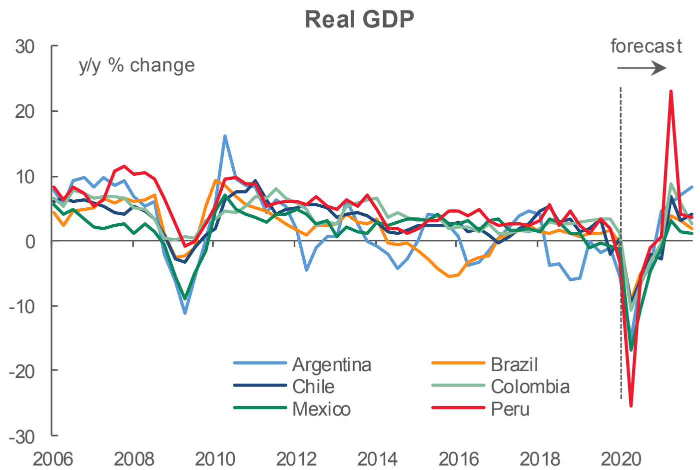
Among the most noteworthy sectors, mining electricity demand implies that 70% of mining operations are back on stream. Construction sector demand, which was at only 10% of pre-COVID levels, is now at 25%. Agroindustry never fell and is one of the few sectors to have fared well throughout the crisis.

We expect close to nil inflation in May when the data print on Monday, June 1, taking the yearly rate down to 1.6% y/y, from 1.7% y/y in April. This is on-trend for 1.1% y/y inflation at year end. We do not expect the central bank to move its reference rate, currently at 0.25%, on June 11. Regarding liquidity, the second PEN 30 bn tranche of the REACTIVA state-sponsored loans program has been delayed, as the new tranche will need to differ in structure from the first tranche if it is to elicit bank participation and reach small businesses, as the government would like.

On May 29, Congress awarded the Zeballos cabinet its vote of confidence. The debate was strongly critical of the government, but in the end the vote was comfortably favourable to the administration at 80 to 35, with four abstentions. There is growing concern among the business community, however, in response to the number of unorthodox Congressional initiatives. Congress has confronted the government on access to pension funds, on the elimination of road tolls (thereby affecting government contracts), and on corruption oversight of its members. Congress is also discussing price controls and controls on interest rates. Many of the more unorthodox of the initiatives are not prospering, but they are making noise.

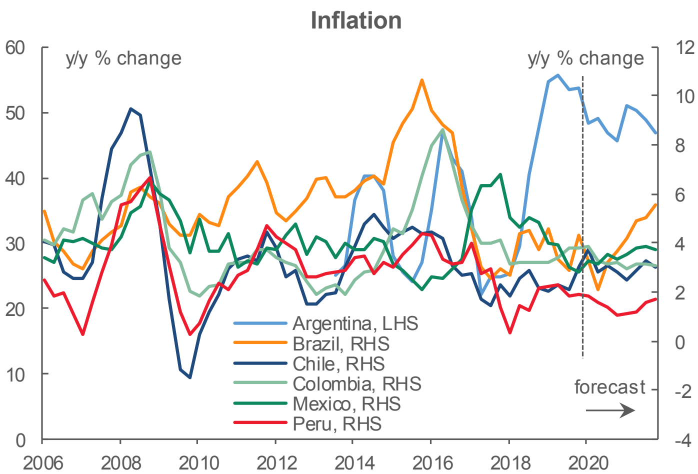
Key Economic Charts

Chart 1



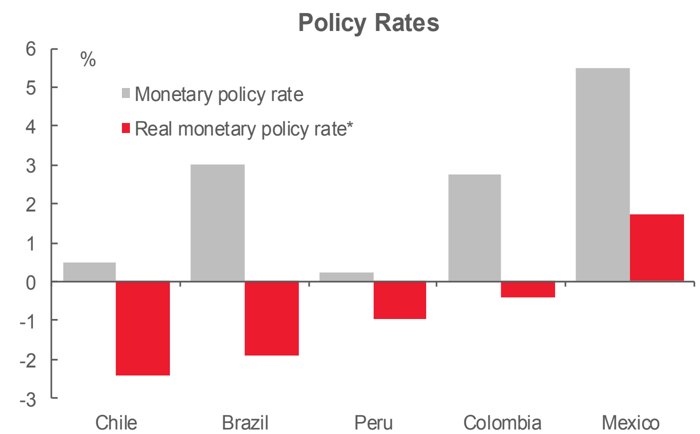
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



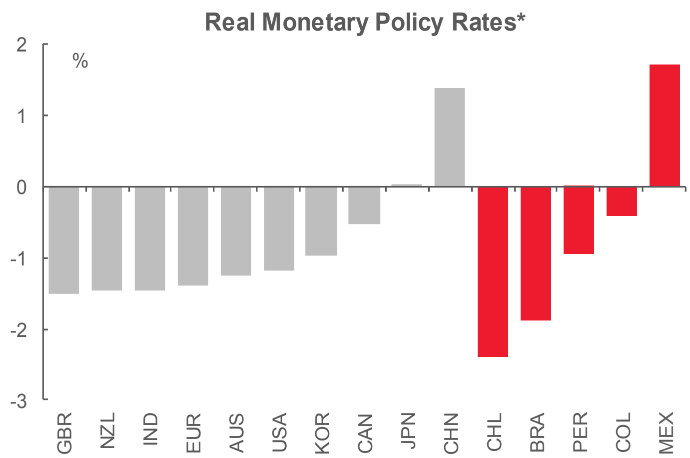
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



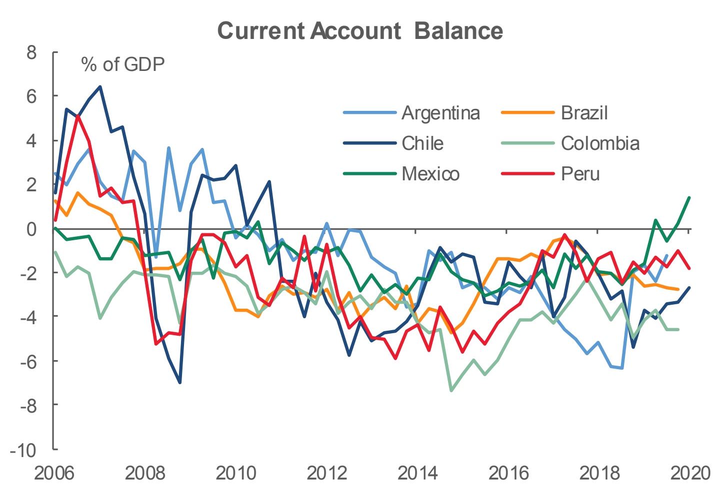
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Argentina: MPR = 38.0%; Real MPR = -12.4%. Sources: Scotiabank Economics, Haver Analytics.

Chart 4



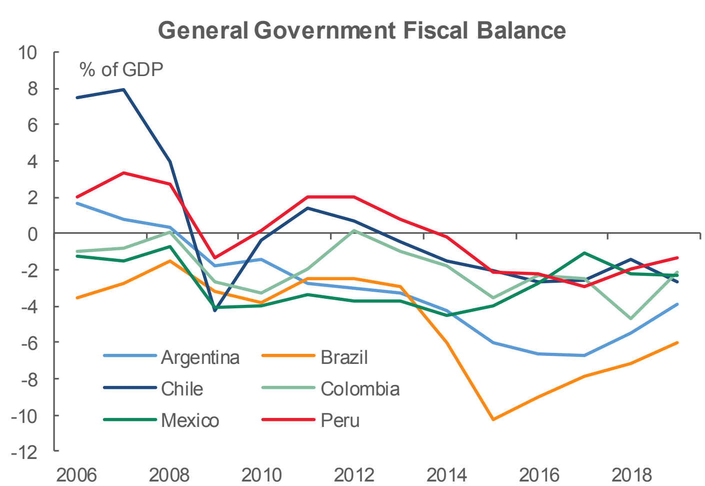
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Haver Analytics.

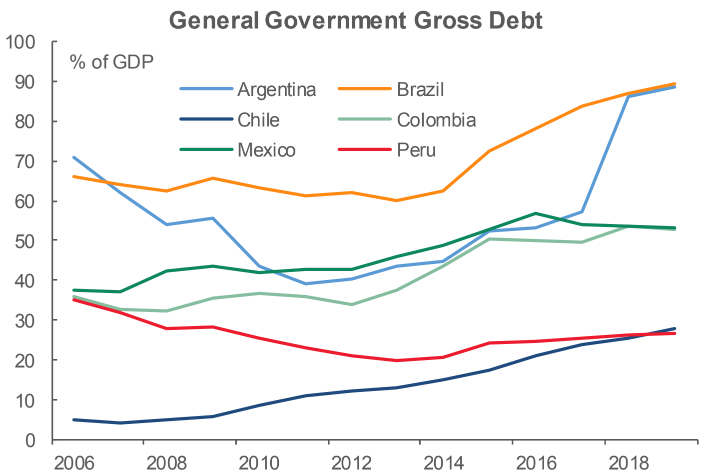
Chart 6



Sources: Scotiabank Economics, IMF.

Key Economic Charts

Chart 7

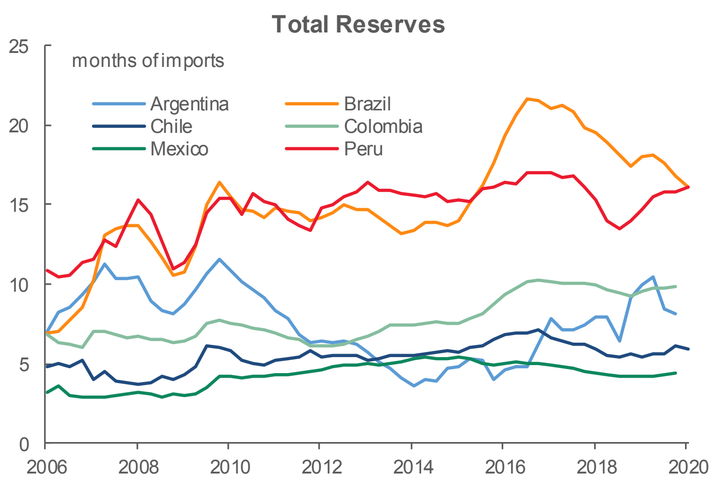


Sources: Scotiabank Economics, IMF.

Chart 8

Sources: Scotiabank Economics, Haver Analytics.

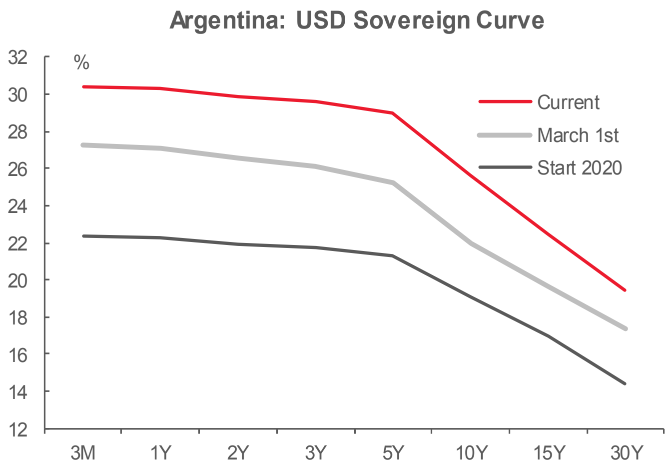
Chart 9



Sources: Scotiabank Economics, Haver Analytics.

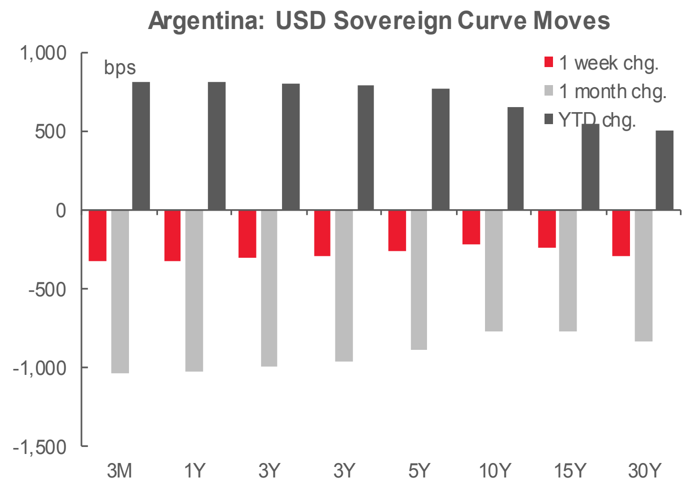
Key Market Charts

Chart 1



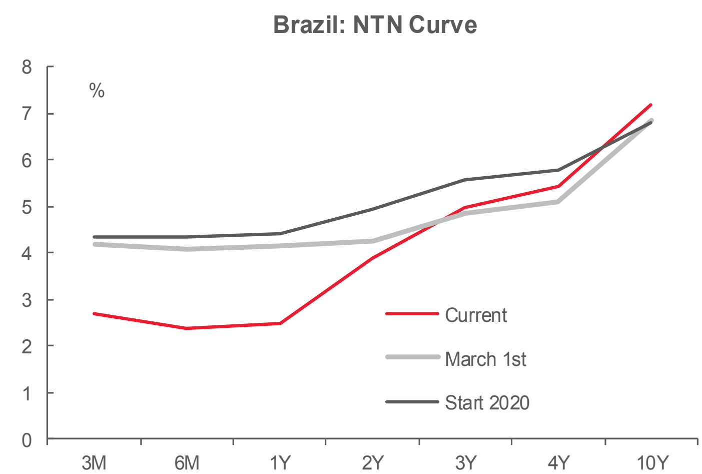
Sources: Scotiabank Economics, Bloomberg.

Chart 2



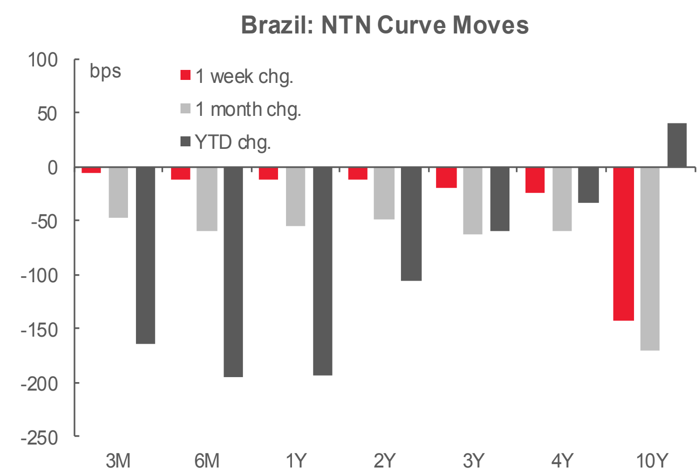
Sources: Scotiabank Economics, Bloomberg.

Chart 3



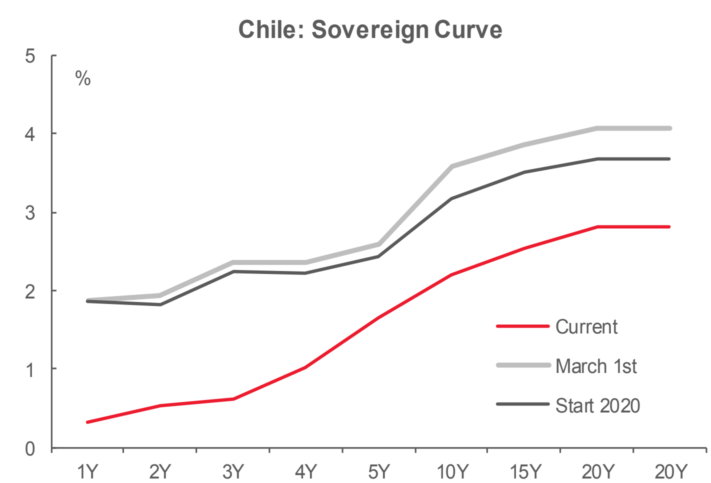
Sources: Scotiabank Economics, Bloomberg.

Chart 4



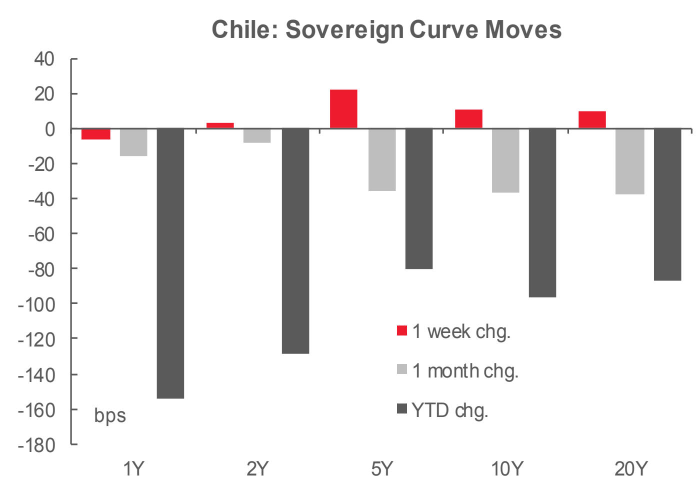
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

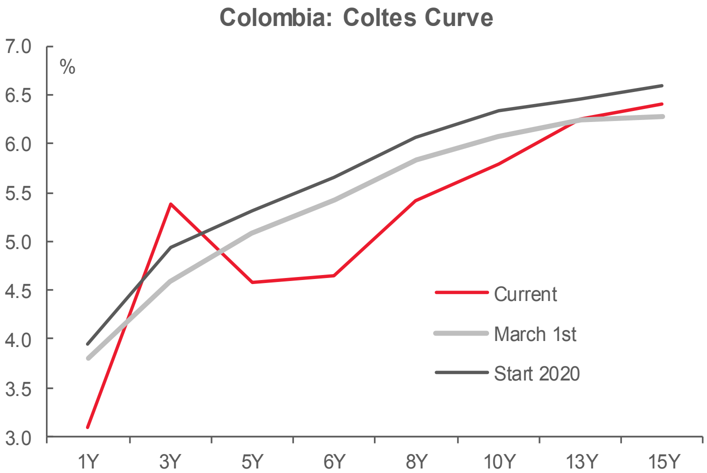
Chart 6



Sources: Scotiabank Economics, Bloomberg.

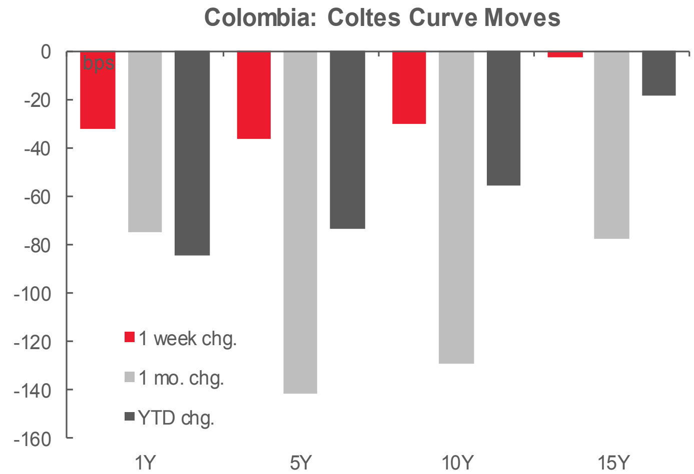
Key Market Charts

Chart 7



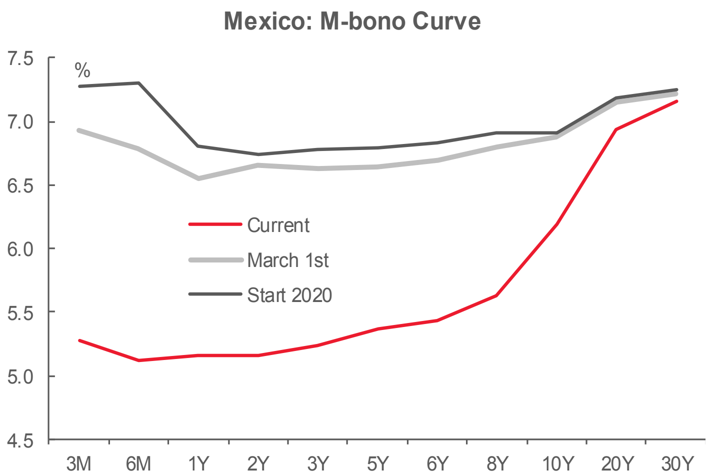
Sources: Scotiabank Economics, Bloomberg.

Chart 8



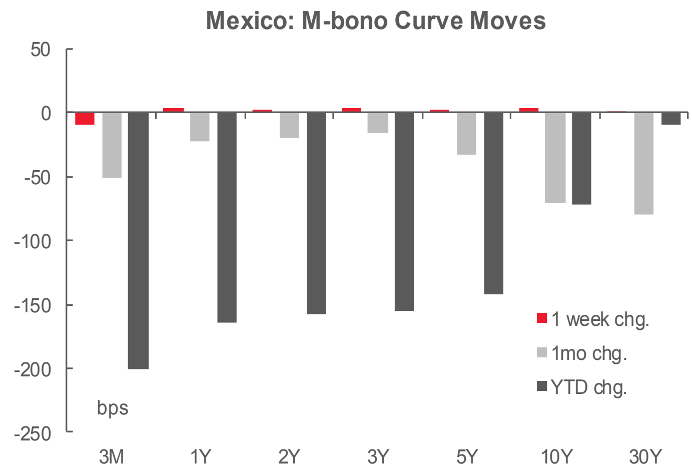
Sources: Scotiabank Economics, Bloomberg.

Chart 9



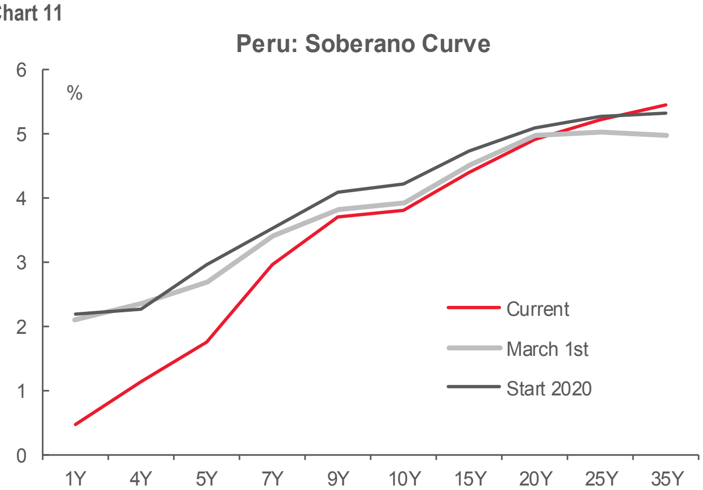
Sources: Scotiabank Economics, Bloomberg.

Chart 10



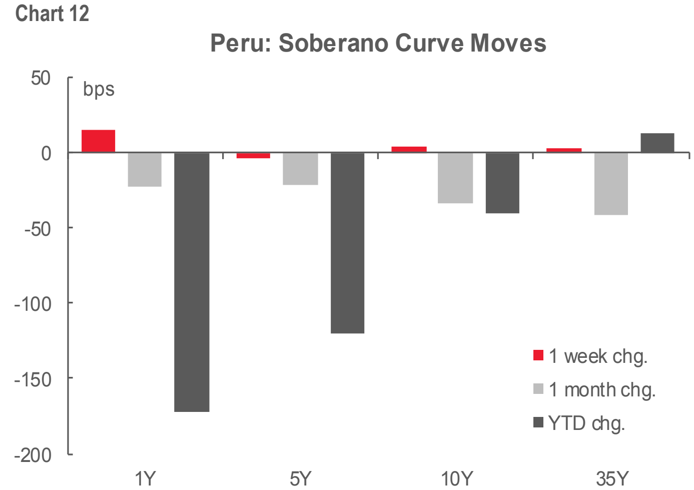
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

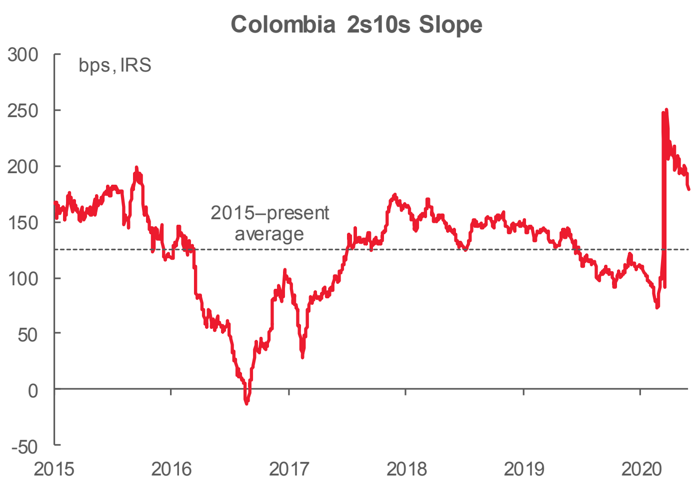
Chart 13

Sources: Scotiabank Economics., Bloomberg.

Chart 14

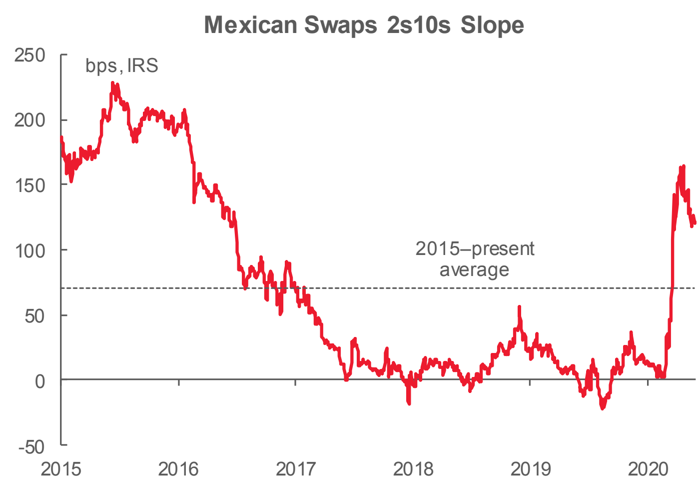
Sources: Scotiabank Economics., Bloomberg.

Chart 15



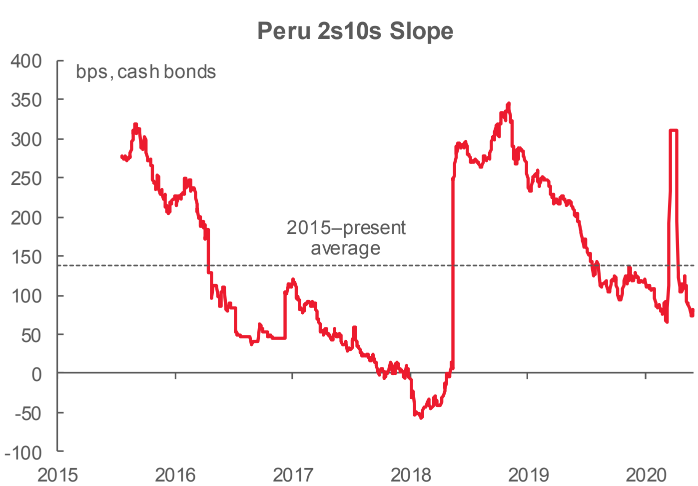
Sources: Scotiabank Economics., Bloomberg.

Chart 16



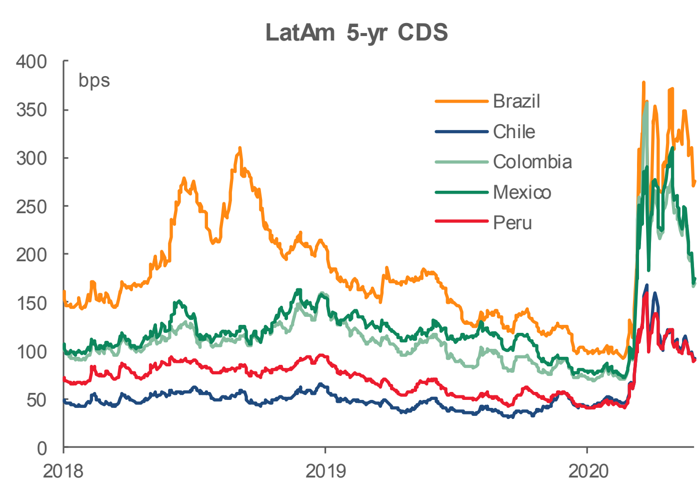
Sources: Scotiabank Economics., Bloomberg.

Chart 17



Sources: Scotiabank Economics., Bloomberg.

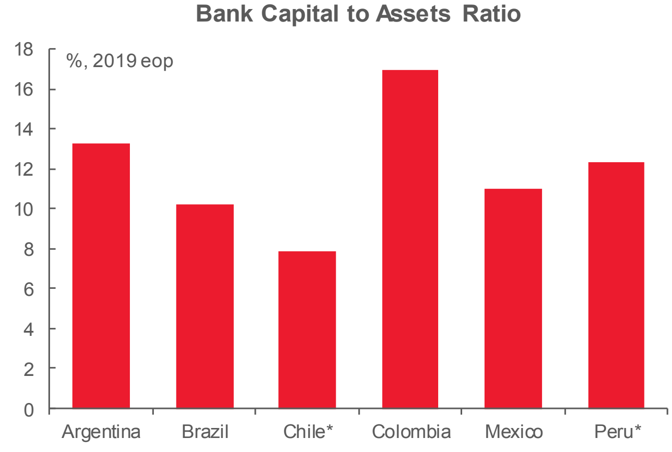
Chart 18



Sources: Scotiabank Economics., Bloomberg

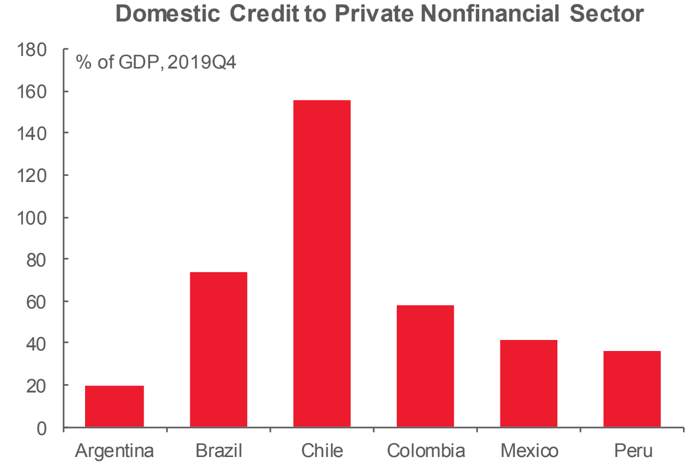
Key Market Charts

Chart 19



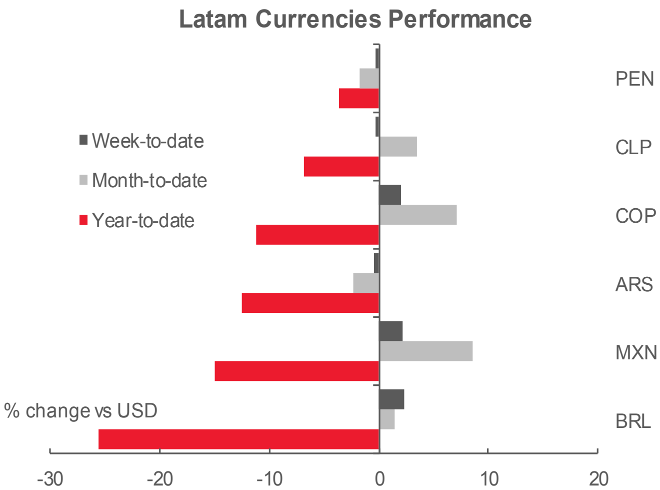
* Chile 19Q3; Peru 19Q2.
Sources: Scotiabank Economics, IMF.

Chart 20



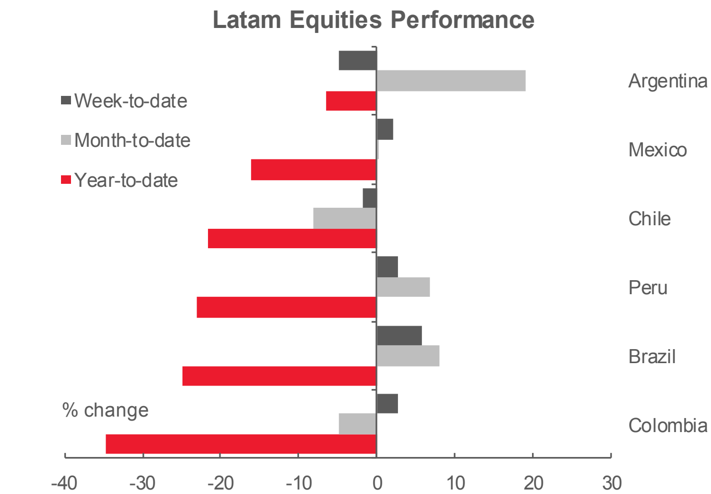
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 21



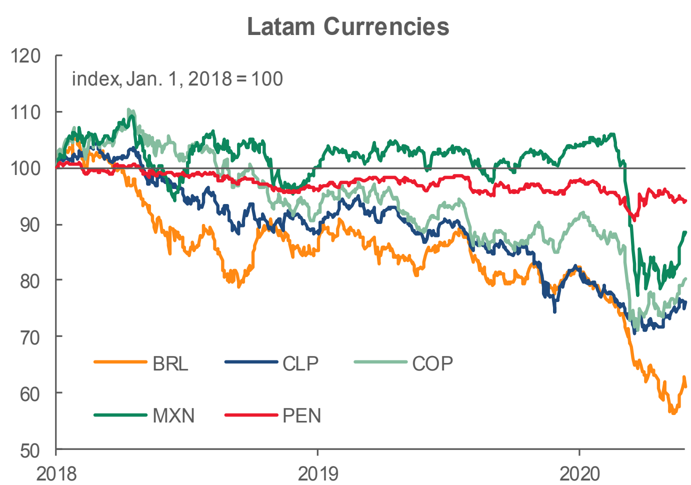
Sources: Scotiabank Economics, Bloomberg.

Chart 22



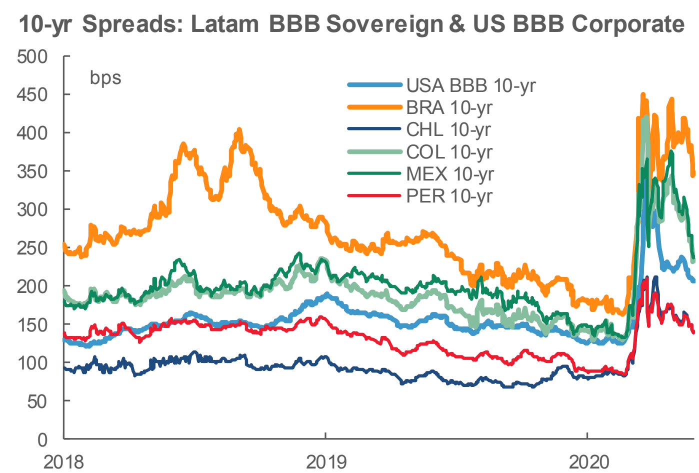
Sources: Scotiabank Economics, Bloomberg.

Chart 23



Sources: Scotiabank Economics, Bloomberg.

Chart 24



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for May 30–June 5

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-02		Central Bank Survey					
06-02		Government Tax Revenue (ARS bn)	May	--	--	398.7	Macro indicators point to a fourth consecutive monthly decline.
06-03		Vehicle Domestic Sales Adefa	May	--	--	7512	
06-03		Vehicle Production Adefa	May	--	--	0.0	After a total shutdown for all of April, plants re-opened in the third week of May.
06-03		Vehicle Exports Adefa	May	--	--	2386	
06-04	15:00	Industrial Production (y/y)	Apr	--	--	-16.8	Expect more m/m and y/y contraction during April's full-month lockdown. Together, these sectors account for nearly a quarter of GDP.
06-04	15:00	Construction Activity (y/y)	Apr	--	--	-46.8	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-01	7:00	FGV CPI IPC-S	31-May	--	-0.57	-0.6	
06-01	7:25	Central Bank Weekly Economists Survey					
06-01	9:00	Markit Brazil PMI Manufacturing	May	--	--	36.0	
06-01	14:00	Imports Total (USD mn)	May	--	--	11611	
06-01	14:00	Exports Total (USD mn)	May	--	--	18312	
06-01	14:00	Trade Balance Monthly (USD mn)	May	--	--	6702	
06-01	14:00	Trade Balance Weekly (USD mn)	31-May	--	--	-701.2	
06-01		CNI Capacity Utilization (SA)	Apr	--	60	78.5	
06-03	4:00	FIPE CPI - Monthly	May	--	--	-0.3	
06-03	8:00	Industrial Production (m/m)	Apr	--	--	-9.1	
06-03	8:00	Industrial Production (y/y)	Apr	--	--	-3.8	Further weakness expected for PMIs and industrial production.
06-03	9:00	Markit Brazil PMI Composite	May	--	--	26.5	
06-03	9:00	Markit Brazil PMI Services	May	--	--	27.4	
06-05	7:00	FGV Inflation IGP-DI (y/y)	May	--	--	6.1	
06-05	7:00	FGV Inflation IGP-DI (m/m)	May	--	--	0.1	
Jun 1-3		Vehicle Sales Fenabrave	May	--	--	55732	
Jun 4-5		Vehicle Production Anfavea	May	--	--	1847	
Jun 4-5		Vehicle Exports Anfavea	May	--	--	7212	
Jun 4-5		Vehicle Sales Anfavea	May	--	--	55735	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-01	8:30	Economic Activity (m/m)	Apr	--	--	-5.7	
06-01	8:30	Economic Activity (y/y)	Apr	-7.5	-11.0	-3.5	
06-01	8:30	Economic Activity (y/y) ExMining	Apr	--	--	-4.0	
06-04	9:00	Nominal Wage (y/y)	Apr	--	--	4.6	
06-04	9:00	Nominal Wage (m/m)	Apr	--	--	1.1	
06-05	8:00	CPI (m/m)	May	0.1	--	0.0	New method of imputation for some goods would upward bias May's print
06-05	8:00	CPI (y/y)	May	2.9	--	3.4	
Jun 1-5		IMCE Business Confidence	May	--	--	31.7	
Jun 5-10		Vehicle Sales Total	May	--	--	8906	

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-01	11:00	Davivienda Colombia PMI Mfg	May	--	--	27.6	
06-01	11:00	Exports FOB (USD mn)	Apr	--	--	2393	
06-01	14:00	Colombia Monetary Policy Minutes					
06-01		Current Account Balance (USD mn)	1Q	-3022	--	-3523	Negative trade balance due to mining export would weigh against current account balance despite the moderation in imports.
06-05	20:00	CPI Core (m/m)	May	0.01	--	-0.2	Headline inflation will continue decreasing due to lower foodstuff inflation and mild changes in prices in sectors which recently reopened.
06-05	20:00	CPI Core (y/y)	May	2.27	--	2.7	
06-05	20:00	CPI (y/y)	May	3.28	--	3.5	
06-05	20:00	CPI (m/m)	May	0.9	--	0.2	

Forecasts at time of publication.
Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for May 30–June 5

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-01	10:00	Central Bank Economist Survey					Key event, will give th latest view on GDP growth.
06-01	10:00	Remittances Total (USD mn)	Apr	--	--	4016	
06-01	10:30	Markit Mexico PMI Mfg	May	--	--	35.0	
06-01	13:00	IMEF Non-Manufacturing Index SA	May	--	--	35.5	
06-02	7:00	Leading Indicators (m/m)	Apr	--	--	-0.5	
06-02	10:00	International Reserves Weekly	29-May	--	--	186922	
06-03	7:00	Vehicle Domestic Sales	May	--	--	34903	Another deep drop is anticipated as the distruption of economic activity will continue affecting industrial activity.
06-04	7:00	Consumer Confidence	May	--	--	42.6	
06-05	7:00	Vehicle Exports	May	--	--	27889	
06-05	7:00	Vehicle Production	May	--	--	3722	
06-05	7:00	Gross Fixed Investment	Mar	--	--	-8.6	
06-05		Citibanamex Survey of Economists					

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-01	1:00	Lima CPI (m/m)	May	0.05	0.0	0.1	
06-01	1:00	Lima CPI (y/y)	May	1.6	1.6	1.7	

Forecasts at time of publication.
Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage

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