

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
+44.207.826.5654
Scotiabank GBM
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Latam Daily: Lula Defeats Bolsonaro; Strong Beat in Mexican GDP

- **Chile: Notable destruction of salaried employment**

As expected, Lula defeated the incumbent, Bolsonaro, in yesterday's Brazilian runoff election. With practically all votes counted, Lula is leading with a 50.9% share compared to Bolsonaro's 49.1% which represents a much smaller margin of victory than what polls had shown in recent days (5–6ppt in Lula's advantage). This is not terribly surprising, however, as the first election round evidenced the underestimation of possible Bolsonaro votes in polls. The narrow victory for Lula and victories by more business-friendly/right-wing candidates outside of the presidency, such as former Infrastructure Minister de Freitas in Sao Paulo and the conservative victory in congressional elections in early-October, means that he will have to stick to a relatively more centrist agenda.

While congratulatory messages to Lula have come in from leaders around the world, **Bolsonaro has yet to concede defeat and markets are attentive to any indication that he may challenge the results.** With no major signs of social unrest among Bolsonaro supporters and some of his allies recognizing Lula's victory, the chances of the President refuting the results look smaller—but Bolsonaro's unpredictability makes it difficult to be certain that he won't. The BRL is around 0.8% weaker to start the week (around twice the decline in the MXN amid broad dollar gains) while Ibovespa futures are about 2.5% cheaper at writing. We also await news on who Lula will pick to his cabinet, namely the role of economy minister currently held by Guedes.

Mexican GDP for Q3 far exceeded economists' expectations with a 4.2% y/y expansion against a median forecast of 3.3% y/y; this follows beats in IGAE readings in five of the past eight months. On a quarter-on-quarter basis, the economy grew 1.0% (vs 0.8% median), accelerating slightly from the Q2 gain of 0.9%. Overall, the year-on-year gain was broad-based as the primary sector climbed 3.8% compared to gains of 3.9% and 4.3% in secondary and tertiary activities, respectively. All-in-all, the print should give Banxico additional confidence that it can keep pace with the Fed's rate increases in the near-term without a weak economic backdrop presenting a dilemma.

On Friday, BanRep met economists' forecasts with a 100bps increase in a relatively hawkish decision with unanimous support for a full-point hike and more muted concerns about economic activity in Colombia. **We think the COP will react positively to the response from the central bank** to stubbornly-high inflation and the pressure in rates markets ahead of the decision. Our Bogota team now expects a final 50bps hike from the central bank at its December meeting (see [Latam Flash](#)) to reach a terminal rate of 11.50%—though markets remain convinced that an additional ~200bps in hikes are in the pipeline. **Colombia's DANE publishes September unemployment rate data this morning;** economists see a practically unchanged jobless rate at 10.7% vs 10.8% in August.

Note that Chilean markets are closed today, and tomorrow alongside Peru's, with Mexico and Brazil on holidays on Wednesday. The main events in the region this week will be Peruvian CPI tomorrow and Chilean economic activity on Wednesday—but the Fed's decision that day and US jobs to close out the week will likely be the main driver of moves in regional markets.

—Juan Manuel Herrera

CHILE: NOTABLE DESTRUCTION OF SALARIED EMPLOYMENT

The hard landing has begun for Chile’s labour market with a deterioration in construction and trade employment—and the worst is yet to come.

On Friday, the statistical agency (INE) released unemployment rate data for the quarter ending in September, which showed an increase to 8% (chart 1), in line with both market and our expectations. The deterioration of the labour market has begun to be reflected in the data, supporting our view regarding the negative impact of the persistent political and regulatory uncertainty, the end of elevated liquidity among households and firms, and highly restrictive monetary policy.

The employment destruction was mainly in construction and commerce (chart 2). The former has been affected by an increase in costs this year, as well as delays in public and private investment projects. In September, the construction sector shed 20k jobs, mainly salaried (17k). The trade sector showed a slight loss of employment (-3k), in a month during which its performance is historically positive. With the monthly drop, the sector has accumulated four consecutive months of job losses.

In this context, we reiterate that the central bank will have a worse diagnosis of economic activity in January which, in a scenario of decelerating inflation, would support a large cut in the policy rate, that we expect to be between 100 and 200bps, accompanied by a dovish bias.

Chart 1

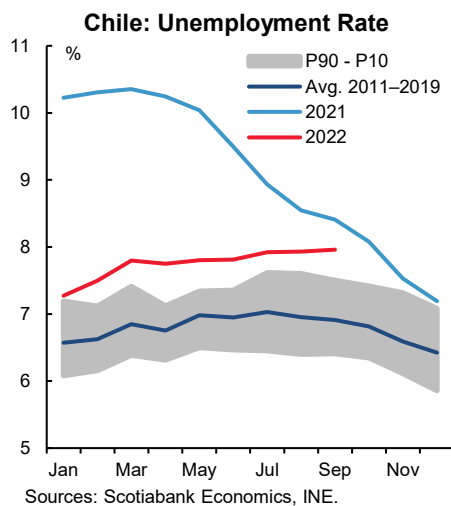
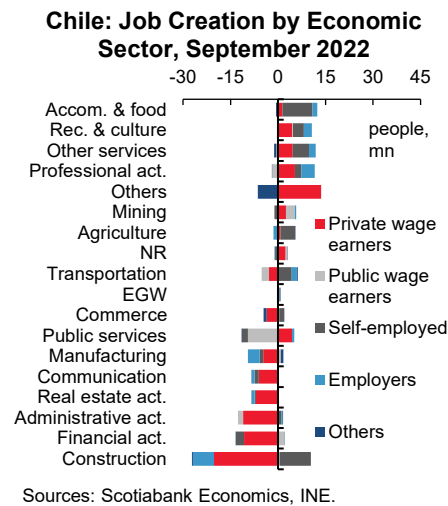


Chart 2



—Aníbal Alarcón

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

[™] Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.