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Latam Weekly: Banxico and BanRep to Stick to Large Hikes

ECONOMIC OVERVIEW

- With the Fed's policy decision in the rear-view mirror, beaten-down global markets may find some comfort in a relatively quiet data calendar in the US and Europe.
- In Latin America, Banxico and BanRep's policy decisions are the highlight of the region's upcoming trading week where we expect respective rate increases of 75 and 150bps.
- We forecast another increase in Chile's unemployment rate and a sharp year-on-year decline in retail sales. Peru's week ahead is quiet as markets and economists turn less optimistic about a material softening of inflation.

PACIFIC ALLIANCE COUNTRY UPDATES

- We assess key insights from the last week, with highlights on the main issues to watch over the coming fortnight in the Pacific Alliance countries: Chile, Colombia, Mexico, and Peru.

MARKET EVENTS & INDICATORS

- A comprehensive risk calendar with selected highlights for the period September 24–October 7 across the Pacific Alliance countries and Brazil.

Economic Overview: Banxico and BanRep to Stick to Large Hikes

- **With the Fed's policy decision in the rear-view mirror, beaten-down global markets may find some comfort in a relatively quiet data calendar in the US and Europe.**
- **In Latin America, Banxico and BanRep's policy decisions are the highlight of the region's upcoming trading week where we expect respective rate increases of 75 and 150bps.**
- **We forecast another increase in Chile's unemployment rate and a sharp year-on-year decline in retail sales. Peru's week ahead is quiet as markets and economists turn less optimistic about a material softening of inflation.**

With the Fed's policy decision in the rear-view mirror, beaten-down global markets may find some comfort in a relatively quiet data calendar in the US and Europe—at least until the release of September inflation prints on Friday (PCE and CPI, respectively). On Friday, the UK government's "mini-budget" that presented a number of fiscally unsound policies on top of energy bills support for households and businesses lit up gilt yields (2s rose up to ~45bps on the day) and pulled global rates even higher from post-Fed levels while injecting an extra dose of risk aversion in markets.

The Fed's hawkish missive saw markets take the yield on 2-yr UST notes through 4% for the first time since 2007, up about 30-35bps over the week, and market participants will monitor comments from Fed officials for clues on the size of their next move and the bank's terminal rate.

In Latin America, Banxico and BanRep's policy decisions are the highlight of the region's upcoming trading week.

On Thursday, we expect Banxico to match the Fed's three-quarter point hike given persistent inflationary pressures at home that continue to challenge Banxico's projections (see our Mexico team's write-up below). Data released this week showed bi-weekly core CPI rising by 0.44% 2w/2w and 8.27% on a year-on-year basis, and headline annual inflation has practically shown no moderation. We think the bank will follow this week's 75bps move with another cumulative 100bps in rate hikes by year-end to 10.25% that will culminate its hiking cycle—though rate risks are tilted to the upside.

As for BanRep, we anticipate a 150bps move on Thursday that matches the median submission to Bloomberg, though with about 40% of economists expecting a 100bps move (see Colombia section). Inflation in the country continues to surprise higher and price pressures are becoming more widespread—as reflected in core CPI measures. Meanwhile, economic growth remains above potential. Combined, these circumstances give BanRep plenty of justification to launch another large hike.

Chile releases labour market data next Thursday where we expect to see another slight increase in the country's unemployment rate as momentum in jobs growth lags that observed in the expansion of the labour force (see Chile section). **Economic activity figures published on Friday are projected to show a sharp decline in retail sales** as the central bank's rate increases (alongside steep inflation) restrain household

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spending. Boric's Ministry of Finance will also present its 2023 budget bill to Congress next week which, according to guidance provided by officials, should include only a 'moderate' increase in spending next year.

Finally, Peru's calendar is bare of major data or events next week, but we think markets and economists (including ourselves and those at the central bank) are turning less optimistic about a material softening of inflation in the country (see Peru section). This may keep inflation expectations elevated and the BCRP on a longer tightening path, but for now we maintain our view of only two more 25bps hikes in this cycle (in October and November). On Friday, Bloomberg publishes the results of its September economists survey on Peru.

Elsewhere in the region, markets will monitor polls ahead of Brazil's first round presidential election next Sunday. As polls stand, the most likely outcome is that neither Lula nor Bolsonaro will garner the simple majority vote required to be declared victorious without the need for a second-round vote. However, recent polls (e.g. DataFolha at 47% Lula, 33% Bolsonaro) have increased the odds of former president Lula achieving this feat.

In Europe, Ukraine war risks will figure in the market's radar with annexation 'referendums' in South and East Ukraine planned over the next few days as Russia tightens its grip on the region and threatens a nuclear response to attacks on its 'territory'.

Pacific Alliance Country Updates

Chile—Weak Economic Indicators, Good Political Signals

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Chile's statistical agency (INE) will release labour market data for the quarter ending in August on September 29. We expect the data to show another slight increase in the unemployment rate as employment growth lags the expansion in the labour force.

On Friday, sector-level economic activity data will be released by the INE, including retail sales for August. Based on our tracking of credit and debit card purchases we forecast a 15% y/y (2% m/m) decline in retail sales. Overall, we observe a normalization in consumer goods imports, a significant replenishment in inventories, and a strong deceleration in banking credit.

That same day marks the deadline to present the 2023 Budget Bill to Congress with the government signaling “moderate” austerity. The Ministry of Finance has indicated that public spending would expand by between 4% and 5% ‘only’. It is highly likely that during the coming months, when economic activity and employment figures show a weak economy, with still high inflation, high short-term interest rates, and less private investment, several congresspeople will demand new universal aid. We estimate that the Government will resist these pressures by calling for fiscal prudence and instead provide targeted/limited aid to lower-income households.

On September 22, in New York, the Finance Minister indicated that USD12bn in sovereign debt would be issued in 2023, directionally very much in line with our call that debt issuance next year would not exceed USD16bn (see our Latam Insight). More details will be provided in the Budget Bill due to Congress at the end of September but we anticipate that this news will be welcomed by long-term interest rates (lower) in Chile in an international context where important increases in external interest rates have materialized.

In the political field, the constitutional process remains in a path of moderation. For now, talks continue between the political parties, with the expectation that an agreement will be reached in the coming days. Right-wing parties are attempting to institute “limits” on the work of the body drafting the new constitution, thereby significantly minimizing the likelihood of having a new far-left constituent assembly. We believe that the market is still attentive to these signs of moderation that could support better relative performance of Chilean assets compared to those of other emerging markets.

Colombia—Monetary and Fiscal Policy in the Spotlight; 150bps Hike Expected from BanRep

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After last year's presidential election, monetary and fiscal policies in Colombia have been in the spotlight. BanRep remains under pressure since headline inflation in August surprised to the upside again, while core inflation continues to show signs of demand-driven price pressures. In fact, YTD ex food inflation has increased 4.4ppts. Additionally, indexation effects have lifted the market's and the analysts' consensus' inflation expectations for 2023 to between 7% and 9.5%—significantly higher than BanRep's target range (2–4%). What's more, economic activity, despite showing some marginal deceleration, still is above its long-run potential, mainly owing to much higher-than-expected private consumption.

Amid resilient growth and stubbornly high inflation, the market is anticipating a 150bps hike at the September 29 meeting followed by a 100bps hike at the October meeting, while the analyst consensus in the latest BanRep survey anticipates a 100bps move at next week's meeting and another 100bps in October.

At Scotiabank Colpatria, we are more closely aligned to market expectations of 150bps since we do not see a sufficient cooling of the economy that would warrant a reduction in the speed of tightening. Meanwhile, many central banks such as in Chile, Sweden, and New Zealand, among others, had to show a more hawkish stance due to stronger and more persistent inflation—also present in Colombia. Beyond the debate on how high to take the policy rate, Colombian policymakers will need to decide how long higher rates will last. With GDP growth remaining solid, and inflation continuing to point north, markets have moved to discount a higher terminal rate in a still aggressive movement.

As for fiscal policy, the 2023 budget in tandem with tax reform will be the first subject of discussion for Petro’s administration. Congress approved a COP405tn budget for 2023, which is COP14tn higher than the original plan presented by Duque’s Government. This additional spending is lower than the expected extra revenues from the tax reform, but according to the fiscal rule committee, additional budgetary room would also be supported by better economic activity. In fact, on an investors’ trip to New York, Minister Ocampo stressed that 33% of the ‘new’ revenues from the tax reform will be used for a reduction of the fiscal deficit and towards net debt reduction, while 66% of additional revenues will be used in investment and social expenditure to comply with the president’s program. Additionally, Ocampo said that external debt will mostly be contracted with multilaterals, which should reduce the pressure on market pricing of Colombian debt, while domestic issuance is not expected to change. Meanwhile, Ocampo also said that for the first time in four years Colombia will have a primary surplus balance, in line with the fiscal rule path of 0.2% of GDP. Therefore, although the space for countercyclical fiscal policy is almost zero, next year’s fiscal accounts apparently will likely not be the source of asset volatility. On the contrary, they may bring provide some comfort to the COLTES market.

Mexico—After the Fed’s Hawkish Message, Another 75bps Hike is the Obvious Choice for Next Week’s Banxico Meeting

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Considering the Fed’s latest 75bps hike and local headline inflation coming in higher than consensus (with the core component rising), we have no doubt that Banxico will raise its policy rate by 75bps for the third consecutive time, to 9.25%, matching the Fed’s pace of tightening. However, several factors (which we cover below) lead us to believe that there are upside risks to our 10.25% year-end Banxico rate forecast, though for the time being this remains our expectation.

Though the tone of the statement was virtually unchanged, the Fed’s outlook now has a more restrictive sense, even suggesting a terminal rate near 5%, which could mean an additional 75 bps and a further 50 bps increase later this year (see Scotiabank Economics’ recap [here](#)). In addition, the Fed’s inflation path is now higher and more persistent as the FOMC expects some stickiness in inflation at elevated levels, reaching its 2% target only as late as 2025.

Regarding inflation in Mexico, annual headline inflation again exceeded expectations (see [here](#)) in the first fortnight of September, although it slightly edged lower from its previous reading (8.76% vs 8.77% previous, 8.71% consensus), and core inflation continues on the rise. In this regard, the country’s consumer protection agency (PROFECO) indicated that in the coming days, President López Obrador will release an update to the anti-inflation plan (PACIC), with which the government plans to curb further increases in food and energy items. However, the plan has been successful in slowing increases only in energy prices. As for the prices of other goods, the effectiveness of the plan has been quite limited.

Mexican inflation also has certain domestic characteristics and factors that make it different from inflation in the US. Further to the imbalances observed in the economy owing to disruptions in supply chains, other factors in Mexico include problems with the rule of law and insecurity, wage cost pressures, and adverse climate events. In this sense, we take as positive the news that according to the Regional Economic Report for Q2-2022 recently published by Banxico (see [here](#)), a higher proportion of business agents in April–June expected input and sales prices to increase at lower rates, or remain unchanged in the next 12 months compared to the previous quarter.

Nonetheless, inflation expectations continue to rise; analysts participating in the Citibanamex survey now expect inflation to end 2022 at 8.36% from 8.20% previously.

Chart 1

Mexico: Business Agents' Expectations of Changes in their Input Prices Over the Coming 12 Months

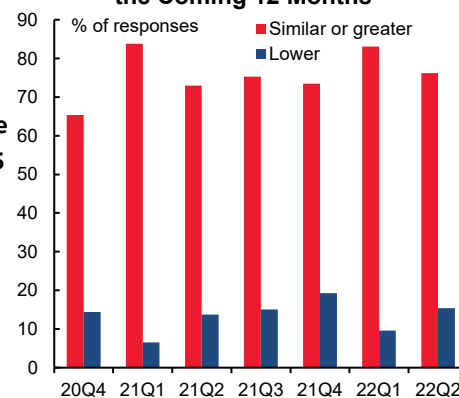
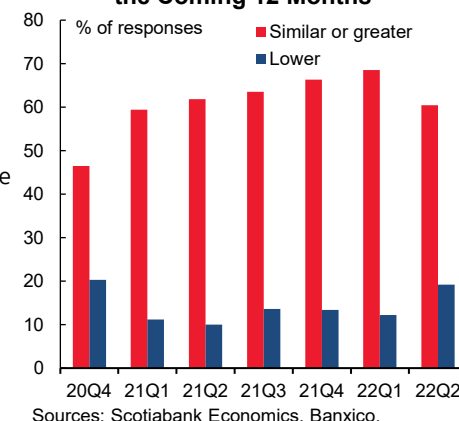


Chart 2

Mexico: Business Agents' Expectations of Changes in their Sales Prices Over the Coming 12 Months



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Therefore, we expect Banxico to update its outlook in next week's communiqué, showing a higher inflation peak than its previous forecast, keeping it at elevated levels for a longer period, and only approaching the 3% target after Q1-2024, in line with the Fed's new expected inflation trajectory.

Regardless of these factors, we do not expect the decision for a 75bps increase to be unanimous. One reason for this is that at the August meeting the Board removed the word "forceful" from the statement regarding the measures to be taken as conditions require. In addition, the minutes revealed not only the Board's concerns about the de-anchoring of expectations but also about growth, including worries related to weather events such as summer droughts in northern states. The regional report also highlighted crime and security concerns as a downside risk to growth.

Although the median economist in the Citibanamex survey expects the bank's rate to be at 10.00% by the end of the period, a handful of analysts expect a rate higher than 10.00%, including us (5/33 surveyed, charts 1 and 2). After H1-Sept inflation figures and a more hawkish Fed, the TIE swap curve shows a market split between 75 and 100bps for the September decision, and a rate higher than 10.25% at the end of 2022, which has undoubtedly been crucial for the peso's performance, which has appreciated by 3/3% during the year—making it the only major currency alongside the BRL to strengthen against the USD in 2022. For now, we maintain our 10.25% rate forecast for end-2022.

Peru—The Declining Trend in Peru's Inflation Lacks Conviction, Worrying the BCRP

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Monetary authorities have seemed disappointed lately. In recent events, monetary authorities have suggested: first, the high levels reached by inflation were unexpected—both by the BCRP and others—and second, that although inflation had started to slow—declining from 8.8% in June to 8.4% in August—it was doing so at a much slower pace than anticipated. We agree. Inflation is declining with very little conviction.

Conviction may weaken further in September. A couple of government institutions that track key agricultural and fuel prices allow us to get an early peek at how inflation is trending. Currently, this partial snapshot suggests a monthly inflation reading of between 0.34% and 0.4% m/m for September. If so and given that inflation for the month of September last year was 0.4%, this would keep twelve-month inflation at close to its current level of 8.4%.

Velarde also suggested that the BCRP expects inflation to continue above the ceiling of the BCRP's target range (the target range is 1–3%), for longer. Basically, the view is changing, both at the central bank and, we believe, in the market, regarding the pace at which inflation will soften going forward. This will likely affect the inflation expectation figures that are so important for the BCRP. Inflation expectations (twelve months out from now) have declined, but also without conviction, from 5.3% in June to 5.1% in August.

If inflation forecasts by analysts and businesses for 2023 tick higher in line with changing sentiment, then inflation expectations for 2023 could easily stop correcting downward and may even rise. We won't know that for sure until the BCRP's policy meeting on October 6. Having said that, we are inclined to believe two things: that there will be a pause in September in the downward trend in inflation and that there is a good chance that inflation expectations will rise, if only marginally, in their next print or two.

Additional issues have emerged that complicate Peru's inflation picture further: 1) soft commodity prices are no longer clearly declining; 2) freight costs have rebounded; 3) the prices of certain staples, including potatoes, are starting to face the impact of fertilizer shortages at accessible prices to small farmers; 4) bad weather is affecting fuel shipments (this is a temporary issue, but could impact inflation in September). Although these issues are being compensated by the global decline in fuel prices, it's not clear how the different factors will balance out in the months ahead. Meanwhile, the decline in inflation will continue to lack conviction. Under this scenario, a 25bps increase in the BCRP reference rate in October continues to be the most likely scenario.

POLITICS: REGIONAL AND MUNICIPAL ELECTIONS ARE COMING UP

Regional and municipal elections will be held on October 2. This could potentially colour the political spectrum differently. Or not. Regional and local elections tend to be a very mixed bag, where the left-right axis is muddled by regional groups and interests within their own parties and representatives, and by individual candidates of local color and importance. This makes the results of these elections hard to read from a national political perspective. Local groups and individual candidates do not fit into the left-right or national party frameworks easily.

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However, there are a few things to look out for. Who will win Lima will be key. How strong a showing the left will have in the country, and what will be the preferred alignment, whether with the more centric Juntos por el Perú (JPP), or the more radical Perú Libre will also be a major focus. How well candidates from national parties will do in general, compared to local regional independents is another important consideration.

Currently, the race for Lima is very biased towards the right. The three leaders, who according to a September 9 poll by Ipsos combine for two-thirds of voting intentions, are candidates that are right-of-centre and, in general, opposed to the Castillo Government. Meanwhile, the two leftist candidates don't have more than 6% of the vote combined. This is a strong statement against the Castillo Government, but it is only Lima. The true proof of how sentiment has moved along the left-right axis will be voting outside the capital region.

In Lima, Daniel Urresti (Podemos) and Rafael López Aliaga (Renovación Popular) are the more controversial of the three leaders, as they are closer to the radical right. They would conceivably use the Lima City Hall as a platform to magnify a greater anti-Castillo message. The third-place candidate, George Forsyth (Somos Peru), who is lagging a bit, but gaining ground, is less confrontational and less prone to political posturing, and more likely to actually dedicate his time to do the job he would be elected for.

In Lima, about 20% of voters are still undecided. The proportion is greater in the rest of the country. One wonders whether even those who have decided their vote have done so with conviction.

Forecast Updates

	2020		2021			2022				2023							
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2020	2021	2022f	2023f
Brazil																	
Real GDP (y/y % change)	-0.9	1.3	12.3	4.0	1.6	1.7	3.2	2.4	1.6	0.9	0.6	0.9	1.2	-3.9	4.6	2.0	0.9
CPI (y/y % eop)	4.5	6.1	8.3	10.2	10.1	11.3	11.9	8.2	7.1	5.7	4.4	5.8	5.1	4.5	10.1	7.1	5.1
Unemployment rate (% avg)	14.2	14.9	14.2	12.6	11.1	11.1	9.3	8.8	8.7	9.3	9.7	9.5	9.4	14.2	11.1	8.8	9.5
Central bank policy rate (% eop)	2.00	2.75	4.25	6.25	9.25	11.75	13.25	13.75	13.75	13.75	13.50	12.25	11.25	2.00	9.25	13.75	11.25
Foreign exchange (USDBRL, eop)	5.20	5.63	4.97	5.44	5.58	4.74	5.26	5.35	5.28	5.31	5.58	6.10	5.80	5.20	5.58	5.28	5.80
Chile																	
Real GDP (y/y % change)	0.4	0.0	18.9	17.2	12.0	7.4	5.4	-1.1	-2.6	-0.4	-1.9	-0.8	-0.6	-6.0	11.7	2.1	-0.9
CPI (y/y % eop)	3.0	2.9	3.8	5.3	7.2	9.4	12.5	13.6	12.5	10.5	7.4	4.7	3.7	3.0	7.2	12.5	3.7
Unemployment rate (% avg)	10.3	10.4	9.5	8.4	7.2	7.8	7.8	8.1	8.0	8.5	8.9	8.9	8.3	10.6	9.1	7.9	8.7
Central bank policy rate (% eop)	0.50	0.50	0.50	1.50	4.00	7.00	9.00	10.75	11.00	9.00	7.00	5.00	3.50	0.50	4.00	11.00	3.50
Foreign exchange (USDCPL, eop)	712	719	734	810	852	786	918	870	870	850	830	820	800	712	852	870	800
Colombia																	
Real GDP (y/y % change)	-3.6	0.9	18.3	13.7	10.8	8.6	12.6	4.3	2.1	3.6	3.0	2.6	2.5	-7.0	10.7	6.6	2.9
CPI (y/y % eop)	1.6	1.5	3.6	4.5	5.6	8.5	9.7	11.1	11.4	8.8	7.2	5.3	4.6	1.6	5.6	11.4	4.6
Unemployment rate (% avg)	13.8	16.0	15.1	12.7	11.5	13.2	11.0	10.7	10.9	11.2	9.8	10.8	10.8	16.1	13.8	10.8	10.7
Central bank policy rate (% eop)	1.75	1.75	1.75	2.00	3.00	5.00	7.50	10.50	11.50	11.50	11.00	10.00	9.00	1.75	3.00	11.50	9.00
Foreign exchange (USDCOP, eop)	3,430	3,704	3,752	3,808	4,080	3,771	4,155	4,450	4,315	4,268	4,229	4,253	4,288	3,430	4,080	4,315	4,288
Mexico																	
Real GDP (y/y % change)	-4.3	-3.8	19.9	4.5	1.1	1.8	2.0	1.8	2.0	1.6	1.6	1.4	1.5	-8.1	4.8	1.9	1.5
CPI (y/y % eop)	3.2	4.7	5.9	6.0	7.4	7.5	8.0	8.7	8.2	7.2	6.7	5.1	4.8	3.2	7.4	8.2	4.8
Unemployment rate (% avg)	4.3	4.3	4.2	4.3	3.7	3.5	3.2	3.6	3.7	3.9	3.9	3.9	3.8	4.4	4.1	3.6	3.9
Central bank policy rate (% eop)	4.25	4.00	4.25	4.50	5.50	6.50	7.75	9.25	10.25	10.25	10.25	9.75	9.50	4.25	5.50	10.25	9.50
Foreign exchange (USDMXN, eop)	19.91	20.43	19.94	20.64	20.53	19.87	20.12	20.44	20.97	21.13	21.33	21.53	21.65	19.91	20.53	20.97	21.65
Peru																	
Real GDP (y/y % change)	-1.3	4.5	42.0	11.9	3.5	3.8	3.3	2.0	2.3	1.9	3.0	1.8	2.8	-11.0	13.3	2.8	2.4
CPI (y/y % eop)	2.0	2.6	3.3	5.2	6.4	6.8	8.8	8.4	7.7	7.4	5.5	4.7	4.0	2.0	6.4	7.7	4.0
Unemployment rate (% avg)	13.8	15.3	10.3	10.0	7.8	9.4	6.8	6.6	7.0	7.8	6.5	6.5	6.2	13.9	10.9	7.5	6.8
Central bank policy rate (% eop)	0.25	0.25	0.25	1.00	2.50	4.00	5.50	6.75	7.25	7.25	7.25	7.25	7.00	0.25	2.50	7.25	7.00
Foreign exchange (USDPEN, eop)	3.62	3.74	3.87	4.13	4.00	3.68	3.83	3.90	3.95	3.99	3.95	3.90	3.95	3.62	4.00	3.95	3.95
United States																	
Real GDP (y/y % change)	-2.3	0.5	12.2	4.9	5.5	3.5	1.7	1.7	0.1	0.6	1.0	0.8	1.2	-3.4	5.7	1.8	0.9
CPI (y/y % eop)	1.2	1.9	4.8	5.3	6.7	8.0	8.6	8.1	7.2	5.8	4.6	4.0	3.3	1.2	6.7	7.2	3.3
Unemployment rate (% avg)	6.8	6.2	5.9	5.1	4.2	3.8	3.6	3.6	3.8	4.1	4.4	4.8	5.0	8.1	5.4	3.7	4.6
Central bank policy rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.50	1.75	3.25	3.50	3.50	3.50	3.50	3.50	0.25	0.25	3.50	3.50
Foreign exchange (EURUSD, eop)	1.22	1.17	1.19	1.16	1.14	1.11	1.05	0.97	0.95	1.00	1.02	1.05	1.05	1.22	1.14	0.95	1.05

Source: Scotiabank Economics.
Red indicates changes in estimates and forecasts since previous *Latam Weekly* on September 9, 2022.

Forecast Updates—Changes Compared To Previous Latam Weekly

	2020		2021			2022				2023							
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2020	2021	2022f	2023f
Brazil																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDBRL, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chile																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDCLP, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Colombia																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDCOP, eop)	-	-	-	-	-	-	-	-	94.67	281.18	294.04	269.48	204.44	-	-	94.67	204.44
Mexico																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	0.25	-	-	-	-	-
Foreign exchange (USDMXN, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Peru																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CPI (y/y %, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange (USDPEN, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States																	
Real GDP (y/y % change)	-	-	-	-	-	-	-	-0.1	-0.3	-0.5	-0.4	-0.6	-0.4	-	-	-0.2	-0.5
CPI (y/y %, eop)	-	-	-	-	-	-	-	0.1	-0.2	-0.3	-0.1	0.3	0.5	-	-	-0.2	0.5
Unemployment rate (% avg)	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.1	0.1	-	-	-	0.0
Central bank policy rate (% eop)	-	-	-	-	-	-	-	-	0.25	0.25	0.25	0.25	0.25	-	-	0.25	0.25
Foreign exchange (EURUSD, eop)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Scotiabank Economics.
Changes in estimates and forecasts since previous *Latam Weekly* on September 9, 2022.

Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

	Next Scheduled Meeting				Market Pricing		BNS Forecast		
	Current	Date	Market	BNS	12 mos	24 mos	End-2022	End-2023	BNS guidance for next monetary policy meeting
Brazil, BCB, Selic	13.75%	Oct-26	n.a.	13.75%	n.a.	n.a.	13.75%	11.25%	The BCB held its policy rate unchanged at its Sep meeting, opting against a final 'gradual' adjustment. The bank offset this pause decision with a signal that it is ready to quickly resume its hiking cycle if inflation resumes an upward trajectory. For now, until new prices data become available, we maintain our view of an unchanged Selic rate until next year's easing cycle.
Chile, BCCh, TPM	10.75%	Oct-12	n.a.	11.00%	n.a.	n.a.	11.00%	3.50%	We expect the benchmark rate will not exceed 11.00% in this tightening cycle, with rate cuts beginning in Q1-2023.
Colombia, BanRep, TII	9.00%	Sep-29	n.a.	10.50%	n.a.	n.a.	11.50%	9.00%	Core inflation pressures continue to be strong, while private consumption is not retreating at the margin. Consumer loans are growing at 27% y/y, depreciation has been higher than expected which makes the pass-through effect higher under higher indexation effects. Therefore, we now expect BanRep to hike 150 bps in September's meeting, following by another 100 bps in October.
Mexico, Banxico, TO	8.50%	Sep-29	n.a.	9.25%	n.a.	n.a.	10.25%	9.50%	Following the US Fed's 75 bps hike, and considering the upward trend in core inflation during the first half of September, we reinforce our call for a 75 bps hike at Banxico's meeting on September 29th. However, the minutes showed a divided board in the last meeting, worried both by de-anchoring inflation expectations and increasing the rate more than necessary. Thus, we don't expect this to be a unanimous decision. For now, our expectation for end-2022 rate stays at 10.25%, although our base scenario could move to a more restrictive rate for the end of period after next week's meeting
Peru, BCRP, TIR	6.75%	Oct-06	n.a.	7.00%	n.a.	n.a.	7.25%	7.00%	The BCRP kept the forward guidance used in previous statements, which leaves open the possibility of new hikes, depending on how the determinants of inflation evolve.

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

Market Events & Indicators for September 24–October 7

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-26	7:00	FGV Consumer Confidence	Sep	--	--	83.6	
Sep-26	7:25	Central Bank Weekly Economist Survey		--	--	--	
Sep-26	8:30	Current Account Balance (USD mn)	Aug	--	--	-3506.0	
Sep-26	8:30	Foreign Direct Investment (USD mn)	Aug	--	--	4483.0	
Sep-26	14:00	Trade Balance Weekly (USD mn)	25-Sep	--	--	1732.8	
Sep-27	4:00	FIPE CPI - Weekly (%)	22-Sep	--	--	0.1	
Sep-27	7:00	FGV Construction Costs (m/m)	Sep	--	--	0.3	
Sep-27	7:00	Central Bank Meeting Minutes		--	--	--	
Sep-27	8:00	IBGE Inflation IPCA-15 (m/m)	Sep	--	-0.2	-0.7	
Sep-27	8:00	IBGE Inflation IPCA-15 (y/y)	Sep	--	--	9.6	
Sep 20-27		Tax Collections (BRL mn)	Aug	--	171500.0	202588.2	
Sep-28	8:30	Total Outstanding Loans (BRL bn)	Aug	--	--	4956.0	
Sep-28	8:30	Outstanding Loans (m/m)	Aug	--	--	1.6	
Sep-28	8:30	Personal Loan Default Rate (%)	Aug	--	--	5.2	
Sep-28	13:30	Federal Debt Total (BRL bn)	Aug	--	--	5804.0	
Sep-29	7:00	FGV Inflation IGPM (m/m)	Sep	--	--	-0.7	
Sep-29	7:00	FGV Inflation IGPM (y/y)	Sep	--	--	8.6	
Sep-29		Central Govt Budget Balance (BRL bn)	Aug	--	--	19.3	
Sep-30	8:00	National Unemployment Rate (%)	Aug	--	--	9.1	
Sep-30	8:30	Net Debt % GDP	Aug	--	--	57.3	
Sep-30	8:30	Nominal Budget Balance (BRL bn)	Aug	--	--	-22.5	
Sep-30	8:30	Primary Budget Balance (BRL bn)	Aug	--	--	20.4	
Sep 23-30		Formal Job Creation Total	Aug	--	264650.0	218902.0	
Oct-01	7:00	FGV CPI IPC-S (%)	30-Sep	--	0.0	0.0	
Oct-02		Brazil General Elections		--	--	--	
Oct-03	7:25	Central Bank Weekly Economist Survey		--	--	--	
Oct-03	9:00	S&P Global Brazil Manufacturing PMI	Sep	--	--	51.9	
Oct-03	14:00	Trade Balance Monthly (USD mn)	Sep	--	--	4165.0	
Oct-03	14:00	Exports Total (USD mn)	Sep	--	--	30840.0	
Oct-03	14:00	Imports Total (USD mn)	Sep	--	--	26675.0	
Oct-04	4:00	FIPE CPI - Monthly (%)	Sep	--	--	0.1	
Oct-05	8:00	Industrial Production (m/m)	Aug	--	--	0.6	
Oct-05	8:00	Industrial Production (y/y)	Aug	--	--	-0.5	
Oct-05	9:00	S&P Global Brazil Composite PMI	Sep	--	--	53.2	
Oct-05	9:00	S&P Global Brazil Services PMI	Sep	--	--	53.9	
Oct 3-5		Vehicle Sales Fenabrave	Sep	--	--	208493.0	
Oct-06	7:00	FGV Inflation IGP-DI (y/y)	Sep	--	--	8.7	
Oct-06	7:00	FGV Inflation IGP-DI (m/m)	Sep	--	--	-0.6	
Oct-07	8:00	Retail Sales (m/m)	Aug	--	--	-0.8	
Oct-07	8:00	Retail Sales (y/y)	Aug	--	--	-5.2	
Oct-07	8:00	Retail Sales Broad (m/m)	Aug	--	--	-0.7	
Oct-07	8:00	Retail Sales Broad (y/y)	Aug	--	--	-6.8	
Oct 6-7		Vehicle Sales Anfavea	Sep	--	--	208607.0	
Oct 6-7		Vehicle Production Anfavea	Sep	--	--	237961.0	
Oct 6-7		Vehicle Exports Anfavea	Sep	--	--	46793.0	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-26		Central Bank Traders Survey		--	--	--	
Sep-29	8:00	Unemployment Rate (%)	Aug	8.0	--	7.9	We expect a monthly increase in the unemployment rate due to higher growth of the labour force compared to employment.
Sep-30	8:00	Manufacturing Production (y/y)	Aug	--	--	-5.1	
Sep-30	8:00	Industrial Production (y/y)	Aug	--	--	-5.1	
Sep-30	8:00	Copper Production Total (Tons)	Aug	--	--	430028.0	
Sep-30	8:00	Commercial Activity (y/y)	Aug	--	--	-11.2	
Sep-30	8:00	Retail Sales (y/y)	Aug	-15.0	--	-10.9	Our forecast is that retail sales decreased 15% y/y based on our credit and debit card high-frequency indicators, confirming a hard-landing.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 24–October 7

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-03	7:30	Economic Activity (y/y)	Aug	-1.5	--	--	1 For August, we forecast GDP contracted around 1.5% y/y, which is
Oct-03	7:30	Economic Activity (m/m)	Aug	--	--	--	-1.1 consistent with our 2022 GDP growth forecast of 2.1%.
Oct-06	8:00	Nominal Wage (y/y)	Aug	--	--	--	9.8
Oct-06		Central Bank Traders Survey		--	--	--	--
Oct-07	7:00	CPI (m/m)	Sep	--	--	--	1.2
Oct-07	7:00	CPI (y/y)	Sep	--	--	--	14.1
Oct-07	7:30	International Reserves (USD mn)	Sep	--	--	--	41448.0
Oct-07	7:30	Trade Balance (USD mn)	Sep	--	--	--	-989.6
Oct-07	7:30	Exports Total (USD mn)	Sep	--	--	--	7840.4
Oct-07	7:30	Imports Total (USD mn)	Sep	--	--	--	8829.9
Oct-07	7:30	Copper Exports (USD mn)	Sep	--	--	--	3271.1
Oct 3-7		IMCE Business Confidence	Sep	--	--	--	40.5
Oct 7-13		Vehicle Sales Total	Sep	--	--	--	35018.0

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-30	11:00	National Unemployment Rate (%)	Aug	10.7	--	--	11.0 As employment levels already surpassed pre-pandemic levels, the
Sep-30	11:00	Urban Unemployment Rate (%)	Aug	10.5	11.11	--	11.3 attention is now on the evolution of inactivity and the quality of
							jobs created.
Sep-30	14:00	Overnight Lending Rate (%)	30-Sep	10.50	10.50	9.00	A new 150 bps hike is expected. Upside surprises in core inflation
							could continue to be a motivating factor for BanRep to make an
							aggressive move. Domestic demand seems to remain strong which is
							also an argument in favour of a strong rate hike.
Oct-03	11:00	Davivienda Colombia PMI Mfg	Sep	--	--	--	52.4
Oct-03	11:00	Exports FOB (USD mn)	Aug	--	--	--	5913.9
Oct-04	18:00	Colombia Monetary Policy Minutes		--	--	--	--
Oct-05	7:00	CPI (m/m)	Sep	0.68	--	--	1.0 In September, we expect prices to continue their upward trend,
Oct-05	7:00	CPI (y/y)	Sep	11.16	--	--	10.8 especially food prices, which continue to surprise on the upside due
Oct-05	7:00	CPI Core (m/m)	Sep	0.52	--	--	0.8 to the context of high input prices. In addition, this month
Oct-05	7:00	CPI Core (y/y)	Sep	8.06	--	--	7.8 education-related prices could contribute to inflation.

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-26	7:00	Economic Activity IGAE (m/m)	Jul	--	--	--	-0.3
Sep-26	7:00	Economic Activity IGAE (y/y)	Jul	1.7	--	--	1.6
Sep-27	7:00	Unemployment Rate NSA (%)	Aug	--	--	--	3.4
Sep-27	7:00	Trade Balance (USD mn)	Aug	--	-5000.0	--	-5959.5
Sep-27	7:00	Exports (USD mn)	Aug	--	--	--	46504.5
Sep-27	7:00	Imports (USD mn)	Aug	--	--	--	52464.0
Sep-27	10:00	International Reserves Weekly (USD mn)	23-Sep	--	--	--	197869.0
Sep-29	14:00	Overnight Rate (%)	29-Sep	9.25	9.25	8.50	
Sep-30	10:00	Net Outstanding Loans (MXN bn)	Aug	--	--	--	5171.2
Sep-30		Budget Balance YTD (MXN bn)	Aug	--	--	--	-254.2
Oct-03	10:00	Remittances Total (USD mn)	Aug	--	--	--	5296.8
Oct-03	10:00	Central Bank Economist Survey		--	--	--	--
Oct-03	10:30	S&P Global Mexico Manufacturing PMI	Sep	--	--	--	48.5
Oct-03	13:00	IMEF Non-Manufacturing Index SA	Sep	--	--	--	51.9
Oct-03	13:00	IMEF Manufacturing Index SA	Sep	--	--	--	49.4
Oct-04	7:00	Leading Indicators (m/m)	Aug	--	--	--	-0.2
Oct-04	7:00	Vehicle Domestic Sales	Sep	--	--	--	91124.0
Oct-04	10:00	International Reserves Weekly (USD mn)	30-Sep	--	--	--	197869.0
Oct-05	7:00	Consumer Confidence	Sep	--	--	--	40.9
Oct-05		Banamex Survey of Economists		--	--	--	--
Oct-06	7:00	Gross Fixed Investment (%)	Jul	--	--	--	7.8
Oct-06	7:00	Vehicle Exports	Sep	--	--	--	248704.0
Oct-06	7:00	Vehicle Production	Sep	--	--	--	316815.0
Oct-07	7:00	CPI (m/m)	Sep	0.65	--	--	0.7
Oct-07	7:00	CPI Core (m/m)	Sep	--	--	--	0.8
Oct-07	7:00	CPI (y/y)	Sep	8.74	--	--	8.7
Oct-07	7:00	CPI Core (y/y)	Sep	--	--	--	8.05
Oct-07	7:00	Bi-Weekly CPI (%)	30-Sep	--	--	--	0.41
Oct-07	7:00	Bi-Weekly Core CPI (%)	30-Sep	--	--	--	0.44
Oct-07	7:00	Bi-Weekly CPI (y/y)	30-Sep	--	--	--	8.76
Oct-07	7:00	Bi-Weekly Core CPI (y/y)	30-Sep	--	--	--	8.27

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 24–October 7

PERU

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	<u>BNS Comments</u>
Oct-03	11:00	Lima CPI (m/m)	Sep	0.40	--	--	0.67 We expect a rise in food prices to be partially offset by a fall in gasoline prices.
Oct-03	11:00	Lima CPI (y/y)	Sep	8.40	--	--	8.40 The pace of annual inflation could be favored by a high base of comparison.
Oct-06	19:00	Reference Rate (%)	06-Oct	7.00	--	--	6.75 We expect the BCRP to raise the reference rate by 25 bps to 7.00% at the October 6 policy rate meeting. The Central Bank showed discomfort with the pace of deceleration of inflation and inflation expectations.

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

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