Latam Economic Update

- **Argentina: Rebound slowed in June**
- **Brazil: Political scare spikes market risk, could limit BCB room to maneuver**
- **Mexico: Consumer confidence shows moderate improvement, but Citibanamex survey points to deeper contraction in 2020**

ARGENTINA: REBOUND SLOWED IN JUNE

Argentina's economic rebound from the tightest lockdowns in April–May slowed in June and came in under the projections of both our forecasts and the consensus median owing to a larger-than-anticipated impact from the extension of tight quarantine measures around Buenos Aires into the month. Sequential growth slowed from 10.0% m/m to 7.4% m/m, well below the 10% m/m consensus forecast and our own 16.9% m/m projection. That left total economic activity down -12.3% y/y from June 2019, an improvement from May's -20.6% y/y (chart 1). June's GDP proxy points to a substantial miss on our forecast of a -15.2% y/y decline in Q2-2020 GDP, with Q2 now tracking closer to -19% y/y below the same quarter in 2019.

Looking ahead, with substantial COVID-19 control measures continuing in place through July and August, the full year 2020 is heading toward a contraction deeper than -9% y/y, worse than our current -8.1% y/y forecast.

—Brett House

BRAZIL: POLITICAL SCARE SPIKES MARKET RISK, COULD LIMIT BCB ROOM TO MANEUVER

Brazil's lower house voted on Thursday, August 20, to maintain President Bolsonaro's veto of a bill which would have broken an agreement to freeze civil servant worker wages that was part of a fiscal adjustment package brought forward earlier this year by Economy Minister Guedes that included substantial aid to the states and cities. The freeze on salaries provides a saving of around 1% of GDP. The move by the lower house countered the Senate's vote on Wednesday, August 19, to block the President's veto, which highlighted fractured relations between the Executive and the upper house.

Markets have reacted to this political wrangling and the doubts it raises about the future. The BRL has borne the immediate cost of this week's political turmoil and questions it implies about the viability of Min. Guedes' fiscal reforms. The Brazilian real was down more than -2% in intra day trading at one point on Thursday. For the year to date, the BRL is the worst performing major currency in the world so far this year (-27.5% YTD), with about one-tenth of this loss incurred over the last week. Similarly, the BRL sovereign yield curve had a rough week with most nodes in the curve widening 1–6 bps over the period.

Our main concern over this seeming complication of the fiscal adjustment process is that it could also serve to limit the BCB's room to maneuver on

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Chart 1

Sources: Scotiabank Economics, INDEC.

the monetary policy front. Although some macro data have surprised to the upside over the last few months (chart 2), the Copom has repeatedly highlighted that the country's risk premium is one of, if not the most, relevant factor that limits its capacity to provide stimulus to the still ailing economy. With this week's developments we see increasing risks to our call for one last -25 bps cut to the Selic rate.

—Eduardo Suárez

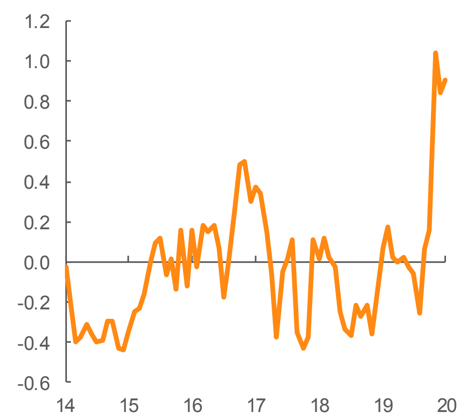
MEXICO: CONSUMER CONFIDENCE SHOWS MODERATE IMPROVEMENT, BUT CITIBANAMEX SURVEY POINTS TO DEEPER CONTRACTION IN 2020

On Thursday August 20, INEGI published its fourth Telephone Survey on Consumer Confidence. In July, the consumer confidence indicator stood at 34.4 points, up from 32.0 in June and the highest level so far recorded in four months of telephone surveys, where 50 indicates an average view that conditions over the next 12 months are expected to remain unchanged (chart 3). INEGI moved to telephone-based survey methods for the April indicator onward owing to COVID-19 control measures, which makes current readings only imperfectly comparable to the indicator's nearly 20 years of time-series data. Nevertheless, it's notable that the July indicator remains well below the 43.32 level recorded in July 2019 and indicator's record-high of 47.83 notched up in February 2019. The consumer confidence indicator's recent reading continue to coincide with concurrent business confidence indicators: in both cases they are well below the levels of a year ago, but in June and July they both showed moderate improvements.

The most recent bi-weekly Citibanamex Survey, also out on Thursday, August 20, indicated that analysts expect a deeper contraction for Mexico in 2020 than they previously forecast. The median real GDP growth forecast for 2020 moved from -9.8% y/y to -9.9% y/y, which would be the largest drop since 1932; for 2021, the median real GDP growth forecast rose slightly from 3.4% y/y to 3.5% y/y. As for the Banco de Mexico's main monetary policy rate, analysts are divided between expectations of a further -25 bps and a -50 bps cut, but the median forecast anticipates that Banxico will close the year with the policy rate at 4.25%. Inflation is expected to climb up to 3.69% y/y by December 2020, slightly higher than the previous forecast of 3.58% y/y.

Chart 2

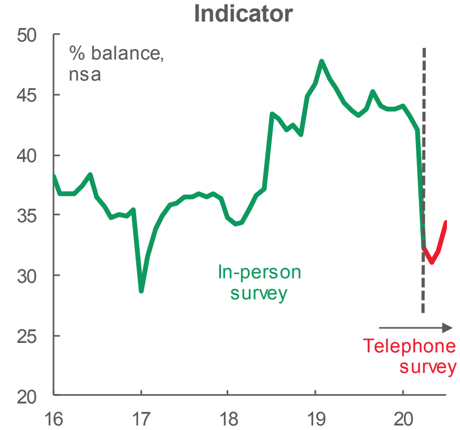
Brazil: Itau Economic Surprise Index



Sources: Scotiabank Economics, Bloomberg.

Chart 3

Mexico: Consumer Confidence Indicator



Sources: Scotiabank Economics, Bloomberg.

—Paulina Villanueva