

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

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

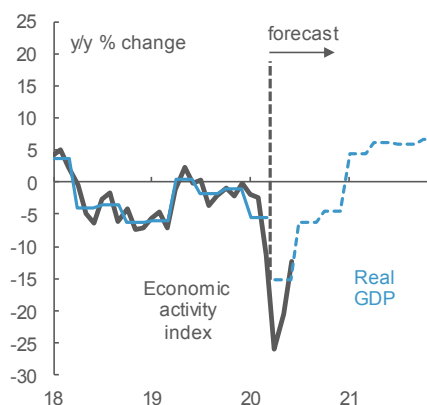
TODAY'S CONTRIBUTORS:

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

Paulina Villanueva
52.55.5123.6450 (Mexico)
Scotiabank Mexico
pvillanuevac@scotiabank.com.mx

Chart 1

Argentina: Rebound Loses Momentum in June



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

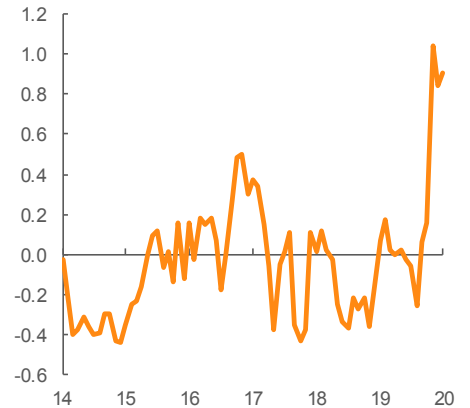
MEXICO: CONSUMER CONFIDENCE SHOWS MODERATE IMPROVEMENT, BUT CITIBANAMEX SURVEY POINTS TO DEEPER CONTRACTION IN 2020

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

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.

TM 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, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., 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 authorised 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 authorised 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., and Scotia 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.