

## Latam Economic Update

- **Brazil:** Consumers rebounding quickly from the COVID-19 shock
- **Colombia:** August's Citi survey shows the end of MPR easing cycle at 2%
- **Mexico:** Headline inflation higher than expected in the first half of August

### BRAZIL: CONSUMERS REBOUNDING QUICKLY FROM THE COVID-19 SHOCK

On Monday August 24, the FGV released consumer confidence numbers for August, providing even more evidence that Brazilian consumer sentiment is recovering quickly from the COVID-19 shock. After bottoming at 58.2 in April, consumer confidence has recovered to 80.2 (chart 1), which represents about 2/3 off from its bottom. The most recent print compares with an average of 88 in 2018 and 2019.

Brazilian consumer sentiment is rapidly approaching “normal levels”, which bodes well for retail sales going forward, adding to the positive retail sales print in June, at +0.5% y/y.

Today, the Brazilian government is expected to announce new economic and social measures to cope with the COVID-19 shock.

—Eduardo Suárez

### COLOMBIA: AUGUST'S CITI SURVEY SHOWS THE END OF MPR EASING CYCLE AT 2%

August's Citi Survey, which BanRep uses as one of its measures of expectations of inflation, the monetary policy rate, GDP, and the COP, came out on Monday, 24 August. Key points included:

- **Growth forecasts were revised downward.** For 2020, a contraction of -6.61% y/y, 0.66 pts below last month's survey reading of -5.95% y/y, is now expected. In 2021, the recovery is anticipated to hit a pace of 4.17% y/y, above the previous survey's 3.8% y/y consensus. We expect -7.5% y/y in 2020 and a rebound to 5.0% in 2021.
- **Inflation is still expected to remain below the central bank's 3% target in 2020, but is predicted return to target in 2021.** August's monthly inflation rate is, on average, expected to be 0.10% m/m and 1.97% y/y; we expect 0.37% m/m and 2.25% y/y on the back of higher expected reversal effect from government aid withdrawal. For December 2020, the survey's average projection is 1.97% y/y, up from July's survey's 1.85% y/y. By December 2021, inflation is expected to hit 2.88% y/y, nearly the same as the 2.9% y/y average projection in the previous survey. Medium-term inflation expectations remain anchored to the BanRep target.

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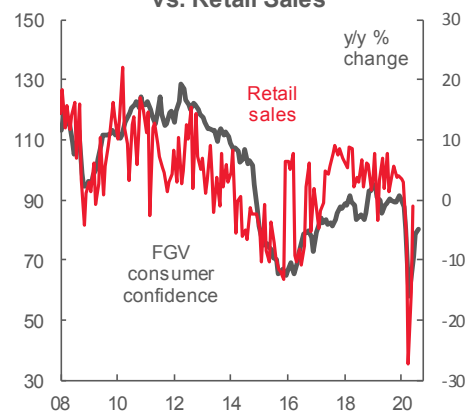
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#### Chart 1

**Brazil: FGV Consumer Confidence vs. Retail Sales**



Sources: Scotiabank Economics, Bloomberg.

- **BanRep's repo rate is expected to end 2020 at 2.00% and remain there for some time.** Analysts expect a -25 bps (median) cut in the monetary policy rate at the August 31 meeting, just one analyst expects rate stability. By December 2020 the monetary policy rate is expected to be 2%; in 2021, consensus expects two 25 bps hikes, although analysts' projections are dispersed between stability and one or two hikes (chart 2).
- **The USDCOP forecasts point to relatively a stable currency through December 2020 and a COP appreciation in 2021.** On average, respondents expect a level of USDCOP 3,728 by the end of 2020 and USDCOP 3,588 in 2021.

—Sergio Olarte & Jackeline Piraján

**MEXICO: HEADLINE INFLATION HIGHER THAN EXPECTED IN THE FIRST HALF OF AUGUST**

According to figures released by INEGI on Monday, August 24, headline inflation came in at 0.24 2w/2w in the first fortnight of August, surpassing by far the consensus of 0.16% 2w/2w, and the -0.08% printed a year ago. Core inflation came in 0.18% 2w/2w, exceeding both the 0.15% 2w/2w consensus and the 0.11% 2w/2w recorded a year ago, driven by the rebound in merchandise prices of 0.26% 2w/2w (versus -0.16% previously 2w/2w) and services from 0.02% 2w/2w to 0.09% 2w/2w. Non-core inflation accelerated to 0.43% 2w/2w (versus 0.66% 2w/2w a year ago), owing to an increase in food prices from 0.16% 2w/2w to 0.75% 2w/2w and in government tariffs from 0.15% 2w/2w to 0.60% 2w/2w, offsetting the setback in energy prices from 0.47% 2w/2w to -0.01% 2w/2w (versus -0.23% 2w/2w a year ago).

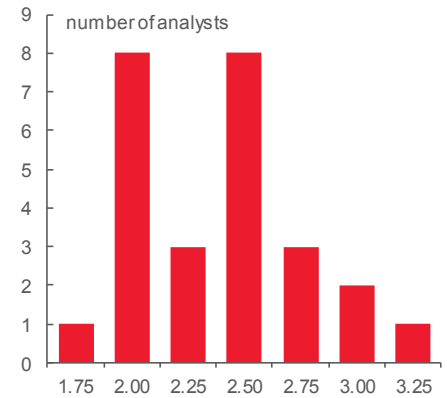
In annual terms, headline inflation preserved the accelerating trend to its highest pace since June 2019, increasing from 3.66% y/y to 3.99% y/y (chart 3), (versus 3.29% y/y in the same period of 2019), with its core component rising from 3.86% y/y to 3.93% y/y (versus 3.77% y/y a year ago), and non-core inflation increasing from 3.05% y/y to 4.18% y/y (versus 1.81% y/y in the same fortnight of 2019).

Summing up, headline inflation surpassed analysts expectations, as core and non-core components increased both in 2w/2w and on a year-to-year basis. These results added up to the risks of further cuts to the Banco de Mexico policy rate, more than offsetting the benefits of a lower rate, thus we maintain our expectation of a 4.50% rate at the end of the year.

—Miguel Saldaña

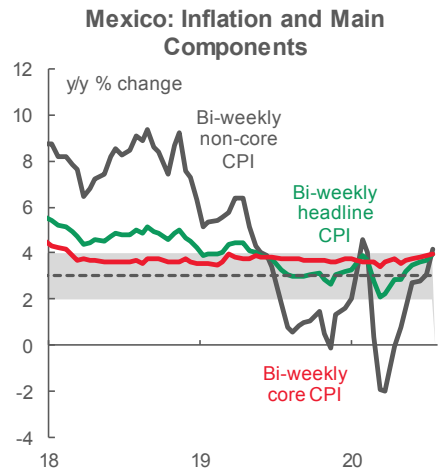
Chart 2

**Colombia: August's Citi Survey Repo Rate Expectation for End-2021**



Source: Scotiabank Economics, Citi Survey.

Chart 3



Sources: Scotiabank Economics, INEGI.

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