

Latam Economic Update

- **Argentina:** Provincial debt talks align with sovereign while pandemic digs in heels
- **Mexico:** Inflation in June surprises once again to the upside; AMLO undertakes his first international state visit
- **Peru:** Elections to be held on April 11, 2021; the BCRP keeps the reference rate at 0.25%

ARGENTINA: PROVINCIAL DEBT TALKS ALIGN WITH SOVEREIGN WHILE PANDEMIC DIGS IN HEELS

Talks on exchanges of provincial government bonds in default continued to move in line with those of the sovereign's negotiations with creditors. On Monday, Mendoza significantly improved the terms of its offer to swap USD 590 mn of debt in default with changes that echoed the last proposal from the national government: the province's new offer envisages a shorter grace period and a commitment to the payment of accrued interest that, together with other terms, imply a recovery value of around 75 cents on the dollar under a 10% exit yield, much richer than the roughly 54 cents that sovereign bondholders would receive on the national government's current offer. The province also extended the deadline on its offer to July 27, ahead of the sovereign's August 4 deadline. Nevertheless, the proposal received a swift rejection by the Ad Hoc Bondholders Group, which has also indicated that it would not accept the sovereign's latest proposal. Talks also continue on restructuring defaulted bonds issued by Buenos Aires, Córdoba, and Neuquén.

Earlier this week, COVID-19 cases across Latam passed the three million mark with Argentina now accounting for more than 87,000 of this total. Daily new case numbers are rising despite the re-imposition of lockdown measures in the greater Buenos Aires region from June 28 until July 17. July 8 saw a new daily record for Argentina at 3,604 which took the one-week rolling average up to 2,833 from 2,498 one week prior. Per capita cases sit at 1,925 per million, which compares favourably against all Latam countries—15,855 in Chile, 9,490 in Peru, 8,060 in Brazil, 2,447 in Colombia, and 2,133 in Mexico. Argentina's positivity rate now sits at 20 per 100 tests, up from 14 per 100 in mid-June (table 1), which implies that the pandemic is still advancing through community contagion. Mortality rates are still relatively low in Argentina, as it is the only Latam country sitting below the 2% level. This owes in part to its relatively strict lockdown, comparative wealth, and established health system, but the current positivity rate implies that Argentina's intensified lockdown is likely to be extended past July 17.

—Brett House & Marc Ercolao

MEXICO: INFLATION IN JUNE SURPRISES ONCE AGAIN TO THE UPSIDE; AMLO UNDERTAKES HIS FIRST INTERNATIONAL STATE VISIT

I. Headline inflation accelerated to 3.33% y/y in June, fueled by energy prices

According to figures published by INEGI on July 9, headline inflation came

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Table 1

Latam: COVID-19 Testing and Mortality Rates				
	Positive Test Rate (per 100 tests)		Mortality Rates (%)	
	June 17	July 8	June 17	July 8
Argentina	14.2	20.0	2.6	1.9
Brazil	55.9	38.3	4.9	4.0
Chile	24.9	24.5	1.6	2.2
Colombia	10.3	13.2	3.4	3.7
Mexico	36.2	40.2	11.9	11.9
Peru	17.0	16.8	3.0	3.6

Sources: Scotiabank Economics, JHU, Worldometers.

in at 0.55% m/m in June, its highest rate for a similar month in twenty years (chart 1). Once again, the CPI's monthly variation surprised to the upside, beating market expectations by a wide margin (consensus was 0.43% m/m). On this occasion, energy prices were the dominant swing factor in terms of driving higher headline inflation, posting a 5.98% m/m increase. Within energy, low- and high-octane gasoline, domestic gas, and electricity were among the top 10 goods with major monthly price increases. Similarly, core inflation printed a higher-than-anticipated rise of 0.37% m/m (versus the 0.32% m/m expected) owing to sharp increases in the prices of non-food merchandise (0.86% mm) and other services (0.17% m/m), which was possibly associated with the reopening of the economy. In annual terms, inflation accelerated from 2.84% y/y to 3.33% y/y between May and June, with its core component rising from 3.64% y/y to 3.71% y/y (chart 2). Non-core inflation increased from 0.35% y/y to 2.16% y/y.

As mentioned in our latest [Latam Weekly](#) Publication, it is worth reiterating that due to the COVID-19 pandemic, inflation readings may be subject to distortions due to methodological changes in the price-gathering process.

II. AMLO undertakes his first international state visit

On Wednesday July 8, Mexican President Andrés Manuel López Obrador (AMLO) undertook his first international state visit since he took office 19 months ago, to meet with his American counterpart, Donald Trump. In a highly anticipated meeting—at least in Mexico—both countries commemorated the entry into force of the United States-Mexico-Canada Agreement (USMCA). Earlier this week, Justin Trudeau expressed his regret that he was unable to travel to Washington D.C. due to previously agreed cabinet meetings and a “long-planned sitting of Parliament”. In contrast with most political analysts’ forecasts that foresaw a tense meeting between both leaders, the visit turned out to be polite and warm. Contrary to statements made in the past, there was a clear shift in President Trump’s rhetoric towards his southern neighbour, stating that the relationship between Mexico and the US “has never been closer”. Later that day, President Trump hosted a “working dinner” for AMLO and his delegation, where influential Mexican and American businessmen met. Posts of the evening on Twitter by Patricia Armendariz, CEO of Financiera Sustentable and Board Member of Banorte, show that investment projects between Mexico and the US were discussed.

In our opinion, the meeting was positive, at least for the short term. Avoiding sensitive bilateral key issues—such as immigration policy between both countries and the enforcement of labour standards under the new trade deal—certainly helped to maintain a positive tone. Still, as the US presidential election approaches, rhetoric toward Mexico may deteriorate again.

—Alejandro Stewens

PERU: ELECTIONS TO BE HELD ON APRIL 11, 2021; THE BCRP KEEPS THE REFERENCE RATE AT 0.25%

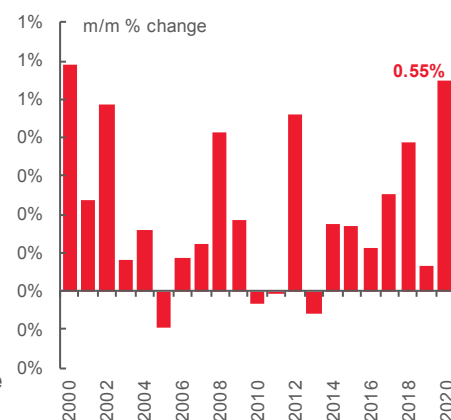
On July 8, President Vizcarra made the official call for next year’s Presidential and Congressional elections to be held on April 11. This is the first step in the beginning of the campaign season. The call, made nine days before the deadline, is an administrative act which normally goes relatively unnoticed, but this time it had an additional political meaning. Many of Vizcarra’s political critics had been suggesting that Vizcarra would use the COVID-19 emergency to delay elections to stay in power longer. These suggestions were not realistic, nor widely held, and it’s a relief that Vizcarra’s announcement will put this talk to rest.

In its July 9 meeting, the BCRP kept its reference rate at 0.25%, as was widely expected. There was one interesting change in the statement: the BCRP now expects inflation to come in below the 1% floor not only in 2020, but also in 2021. With inflation expectations—currently at 1.4%—declining, we ratify our view that the BCRP will not change its policy rate before Q4-2021.

—Guillermo Arbe

Chart 1

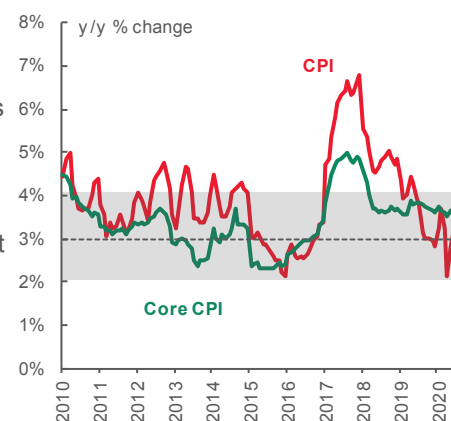
Mexico: Headline Inflation in June



Sources: Scotiabank Economics, INEGI.

Chart 2

Mexico: Headline and Core Inflation



Sources: Scotiabank Economics, INEGI.

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