GLOBAL ECONOMICS

| LATAM DAILY

June 18, 2020

Latam Economic Update

- **Argentina: May leading indicators imply more contraction ahead**
- **Brazil: BCB Copom cuts Selic by 75 bps to 2.25%**
- **Chile: Central bank will be able to buy sovereign and corporate bonds in the secondary market, but timing not yet specified**
- **Peru: The central bank comes out against Congressional initiative to defer bank debt payments; May cement consumption down; schools resuming**

ARGENTINA: MAY LEADING INDICATORS IMPLY MORE CONTRACTION AHEAD

May's UTDT leading indicator fell -1.70% m/m sa, which put it down -16.42% y/y compared with May 2019, and pointed to further contraction in economic activity in the coming months (chart 1). The probability of an exit from the recession in the next year remains in the single digits at 4.2%.

—Brett House

BRAZIL: BCB COPOM CUTS SELIC BY 75 BPS TO 2.25%

On Wednesday June 17, the BCB's Copom cut the Selic rate 75 bps to 2.25% in a unanimous decision that was aligned with consensus, although we had expected only a 50 bps cut at this meeting. The BCB acknowledged that Q1 was the weakest since 2015, and signaled that Q2 will likely be even weaker, consistent with consensus and our forecasts. At the same time, the statement stressed that uncertainty for the second half of the year is abnormally high, and that inflation is below its target range—but acknowledged large two sided risks to inflation (we expect higher inflation than the BCB's base case, which is why we anticipate a more aggressive tightening in 2021 than the BCB's base case of only 75 bps of Selic rate hikes next year).

Also contrary to our expectations, the BCB maintained its signal that this was likely the last cut, but didn't fully shut the door on further adjustments. In particular, the statement said "For the next meetings, the Committee sees as appropriate to evaluate the impact of the pandemic and of the set of credit and transfer programs in place, and foresees that any possible adjustment to the current monetary stimulus would be residual", thereby implying additional tweaking remains possible, but would be minor. Our sense is that the strongest argument used against additional easing is that in the Copom's view little additional room for further easing remains, and its impact on the economy would be marginal.

Prior to this meeting, we forecast that the Copom would continue easing the Selic to a terminal rate of 1.75% in Q3. In light of the statement's language, we are reassessing our view and will update our forecast for the BCB's rate path over the coming days.

—Eduardo Suárez

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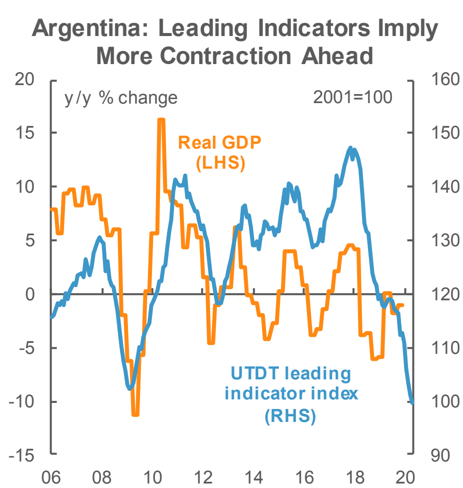
Chart 1



Sources: Scotiabank Economics, INDEC, UTDT.

CHILE: CENTRAL BANK WILL BE ABLE TO BUY SOVEREIGN AND CORPORATE BONDS IN THE SECONDARY MARKET, BUT TIMING NOT YET SPECIFIED

Mario Marcel, the President of the central bank, in his June 17 presentation of the *Monetary Policy Report*, indicated that the government will introduce a law to Congress to modify the "organic" or founding law of the BCCh to allow the acquisition in the secondary market of sovereign bonds and corporate bonds. This move demonstrates the close coordination between the government and the central bank to mitigate the financial impact on business of the extended quarantine. No details were given regarding timing, but this will certainly have an impact on corporate bonds spreads that have been punished in the absence of sufficient liquidity. Likewise, this measure dovetails quite well with the increase in the level of sovereign debt that the government expects to finance in order to execute on the new fiscal package announced this past weekend.

—Jorge Selaive

PERU: THE CENTRAL BANK COMES OUT AGAINST CONGRESSIONAL INITIATIVE TO DEFER BANK DEBT PAYMENTS; MAY CEMENT CONSUMPTION DOWN; SCHOOLS RESUMING

The BCRP sent an extensive letter to Congress on June 17 stating its strong opposition to a bill currently being discussed that would allow the deferment of debt service by small businesses and individuals. The BCRP expressed its concern that the initiative could put the solvency of the financial system at risk. Congress has, on occasion, taken into account government opposition to initiatives, but not always, so its likely response on this occasion is not certain. If the bill is approved, it will likely be vetoed by the Executive. If Congress overrides the veto, the government is likely to take the measure to the Constitutional Court.

Data released on June 16 showed that cement consumption was down -69% y/y, in May. The 290,000 metric tonnes produced were, however, an improvement over the paltry 6,000 metric tonnes produced in April.

On June 17, the government authorized on-site school classes to resume in certain areas beginning on July 1. This is in line with our general impression that the government is moving faster on unlocking the economy.

—Guillermo Arbe