Latam Economic Update

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- **Peru: March decline in mining output in line with expectations, but investment held up better**

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@scotiacb.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

TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@co.scotiabank.com

Alejandro Stewens
52.55.5123.2686 (Mexico)
Scotiabank Mexico
astewens@scotiabank.com.mx

ARGENTINA: QUARANTINE MODERATES INFLATION IN APRIL

National inflation, released on May 14, surprised with a slowdown from 3.30% m/m in March to 1.50% m/m in April, the weakest monthly number since November 2017. Strong statistical base effects had been expected to contain year-on-year inflation, but the weaker than anticipated monthly numbers pushed headline CPI down from 48.4% y/y in March to 45.60% in April (chart 1). Core inflation also fell from 3.10% m/m in March to 1.7% m/m in April, which translated into a drop from 51.40% y/y in March to 48.5% y/y in April.

The slight pause in inflationary pressures is a mixed blessing and unlikely to be sustained. The softening in price pressures implies that the comprehensive quarantine, which covered the entire month of April, is denting demand and fuelling precautionary savings in hard currency even more than February's 4%
m/m increase in wages and the soaring blue-chip USDARS swap rate are stoking inflation, at least for now. We are leaving our forecasts for 2020 unchanged.

Looking at the details, goods prices rose 2.3% m/m while services prices fell -0.2% m/m, as many types of services were closed for the entire month and INDEC's data collection efforts were impeded by the quarantine. At the sectoral level, nine of 12 sectors saw monthly price gains, with food and non-alcoholic beverages leading the way with a 3.2% m/m increase, followed by a 2.3% m/m increase in prices for entertainment and culture. Communications prices were a drag on inflation with a -4.1% m/m decline, followed by a -1.5% m/m fall in education costs.

—Brett House

Chart 1

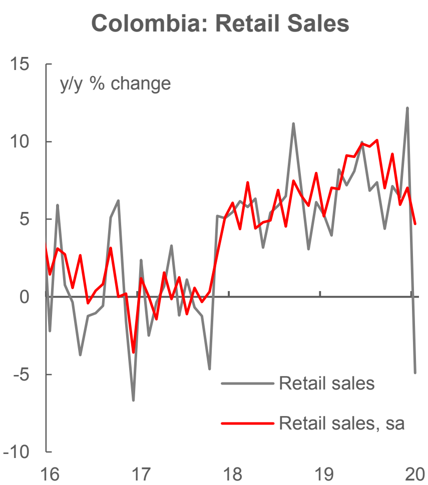
Sources: Scotiabank Economics, Bloomberg.

COLOMBIA: INITIAL COVID-19 IMPACTS ON MACRO INDICATORS WERE WORSE THAN EXPECTED

I. Retail sales and manufacturing showed the first dire effects of the COVID-19 shock

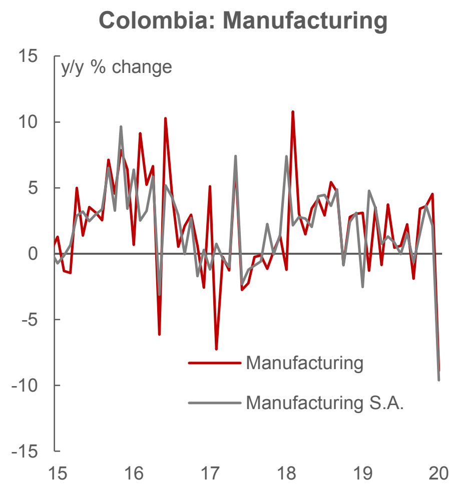
On Thursday May 14, DANE released manufacturing and retail sales data for March. Retail sales contracted by -4.8% y/y (chart 2), a bit below market expectations (-4% y/y). Manufacturing fell by -8.9% y/y (chart 3), also below

Chart 2



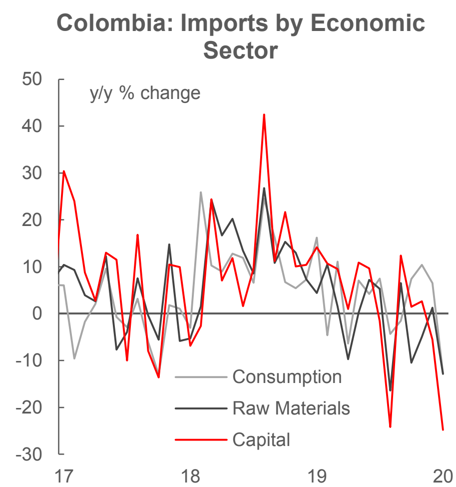
Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

market expectations (-5.4% y/y). Coincident indicators worsened more than expected due to the quarantine that started on March 25 to contain the COVID-19 pandemic.

In March, five items in the retail sales survey showed y/y increases, mainly associated with essential goods such as foodstuffs (31.7% y/y), and cleaning products (32.1% y/y). On the negative side, non-essential goods purchases contracted the most, especially gasoline (-17.1% y/y) and vehicles (-30.5% y/y). In Q1-2020, retail sales expanded by 5% y/y.

On the manufacturing side, production in 29 out of 39 subsectors fell in year-on-year terms in March. Construction-related mining (-27%), beverages (-12.7% y/y), and oil refining (-17.3% y/y) contracted at double-digit rates and accounted for 50% of the manufacturing contraction. It is worth noting that the decrease in manufacturing is equivalent to a shutdown of 50% in the industry in the last six business days of the month, which were the days affected by the quarantine. In Q1-2020, manufacturing contracted by 0.4% y/y.

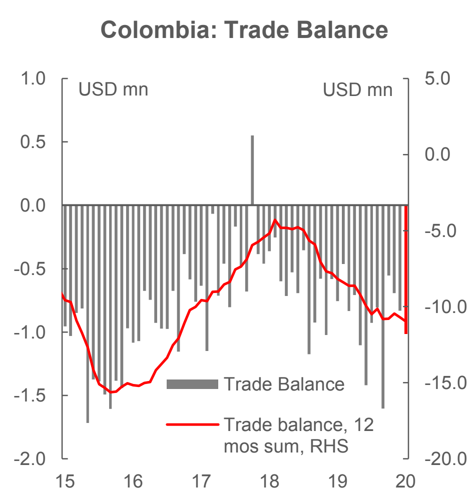
All in all, March's coincident indicators posted a strong negative effect due to the last week of lockdown. Quarterly manufacturing and retail sales results skew our Q1-2020 GDP forecast to the downside by at least 1 ppt, which also reflects negative results from the building construction indicators released on Wednesday, May 13. GDP growth projections for 2020 would probably worsen to -2.6% y/y from the previously expected -2.3% y/y. In terms of monetary policy, we think that the Board will cut the monetary policy rate by 50 bps to 2.75% at the next meeting scheduled for May 29.

II. Colombia March's imports contracted by -16.6% y/y, reflecting a strong demand shock due to COVID-19

March's import values, released on May 14, came in at USD 3.59 bn, which represented a -16.6% y/y. The manufacturing sector accounted for most of the y/y decline, while agricultural imports expanded by 3.1% y/y. First quarter imports contracted -5.3% y/y, which is in line with expectations connected to the demand shock from the COVID-19 outbreak.

Capital imports declined -24.7% y/y, due to contractions in all relevant sectors. Consumption imports slowed down by -12.8% y/y, the worst decrease since December 2017, owing mainly to a significant deceleration in durable goods imports (-22.80% y/y). Raw materials imports contracted by -12.9% y/y, pointing to a generalized weakening in economic activity (chart 4).

Chart 5



Sources: Scotiabank Economics, DANE.

The international trade deficit stood at USD 1.01 bn in March (chart 5), which took the Q1-2020 deficit to USD 2.5 bn, a 7.5% y/y increase. The deterioration in the trade balance mainly reflected weaker mining exports, but lower imports were a by-product of softer internal demand. We think that lower imports will become a more important determinant of the trade balance in the coming months.

—Sergio Olarte & Jackeline Piraján

MEXICO: BANXICO CUTS BENCHMARK RATE BY 50 BPS TO 5.50% AMID UNCERTAIN OUTLOOK DUE TO THE COVID-19 PANDEMIC

In its fourth monetary policy meeting of the year, on May 14, Banco de México's Board of Governors decided unanimously to lower the overnight interbank rate by 50 bps—for the eight consecutive time—to 5.50%, in line with market expectations. We continue to forecast another 50 bps cut at the next meeting.

According to Banxico's press release, preliminary economic data imply that Mexico's economy shrank significantly in Q1-2020 owing to the COVID-19 pandemic's arrival in March, which led to a considerable disruption in the production of goods and services. Banxico's Board emphasized that the magnitude and duration of the pandemic are still uncertain, but its side-effects on the Mexican economy are expected to intensify in Q2-2020. Slack conditions are set to widen in a context in which the balance of risks for growth is considerably skewed to the downside. Regarding inflation, between March and April, annual CPI decelerated from 3.25% y/y to 2.15% y/y due to a decline in both core and non-core inflation, reflecting the sharp contraction in energy prices. The remarkable widening of the output gap deep into negative territory and the fall in energy prices are the key downside risks to inflation, while the depreciation of the MXN and possible disruptions to chains of production and distribution could increase inflationary pressure. Thus, the balance of risks for inflation still remains uncertain.

Banco de México reiterated that it will take necessary actions based on incoming data and the evolution of the current financial shock to ensure that the policy rate is consistent with the convergence of inflation to Banxico's target. The minutes from yesterday's monetary policy decision will be released on May 28 and the next decision is scheduled for June 25, where we anticipate another 50 bps cut.

—Alejandro Stewens

PERU: MARCH DECLINE IN MINING OUTPUT IN LINE WITH EXPECTATIONS, BUT INVESTMENT HELD UP BETTER

Mining output in March fell broadly in line with our already poor expectations, which had already been cut in view of the lockdown on production that began on March 16 (table 1). Copper production, with its -26.6% y/y decrease, fell in line with expectations, while larger declines in gold, silver and iron production moderately disappointed. Smaller contractions in zinc and lead production were unexpected, but the big surprise was the 18.9% y/y increase in molybdenum production.

The decline in copper output was led by Antamina (-23.5% y/y), Southern Peru (-8.6% y/y), and Cerro Verde (-49.4% y/y). Antamina's copper decline reflected a shift towards zinc production, which increased by 45.9% y/y. Production also increased at Los Quenuales (54.1% y/y) and El Brocal (28.9% y/y), but fell at Volcan (-37.2% y/y).

Gold production was also mixed, falling at Yanacocha (-17.2%) and Ares (-34.9%), but rising at Poderosa (8.2%) and Minera Retamas (37.0%).

Table 1

Peru: March output growth, % y/y volume change	
Copper	-26.6
Gold	-32.5
Zinc	-12.1
Silver	-31.3
Lead	-15.7
Iron	-42.4
Tin	-38.4
Molybdenum	18.9

Sources: Scotiabank Peru.

Mining investment actually held up a bit better, declining only -15.3% y/y in March, and 12.8% y/y for Q1-2020 (table 2). Mining investment had already been falling in January–February, in year-on-year terms, and March mining investment not only maintained the same trend, but was actually higher than in the previous two months. Note that mining investment in the first three months of the year is normally quite volatile due to rains. Additionally, Quellaveco, the leading mining project in 2020, continued investing in March. We understand that Quellaveco, and other companies, did curtail investment to a larger extent in April.

Table 2

Peru: Investment Growth—Leading 20 Mining Investors	March		Q1–2020	
	USD	Var. %	USD	Var. %
ANGLO AMERICAN QUELLAVECO S.A.	131,505,753	37.9	276,876,519	39.2
MARCOBRE S.A.C.	41,959,027	-29.2	131,023,218	-16.1
MINERA CHINALCO PERU S.A.	21,234,921	-41.1	99,919,560	4.3
COMPAÑIA MINERA ANTAMINA S.A.	30,825,609	165.2	68,546,109	73.4
SOCIEDAD MINERA CERRO VERDE S.A.A.	19,545,995	41.4	65,558,096	34.1
MINERA LAS BAMBAS S.A.	25,830,149	46.4	58,552,720	15.9
SOUTHERN PERU COPPER CORPORATION	28,168,762	-44.8	50,168,687	-50.8
COMPAÑIA MINERA PODEROSA S.A.	6,500,612	-3.8	22,003,591	-4.9
MINERA YANACOCHA S.R.L.	6,533,732	-70.5	18,683,992	-57.2
VOLCAN COMPAÑÍA MINERA S.A.A.	4,201,795	-35.2	18,348,607	2.6
COMPAÑIA MINERA ARES S.A.C.	4,211,009	-47.1	14,588,797	-42.8
NEXA RESOURCES PERU S.A.A.	5,179,839	-43.5	14,282,075	-45.1
SHOUGANG HIERRO PERU S.A.A.	5,767,800	-75.4	13,684,435	-75.9
COMPAÑÍA DE MINAS BUENAVENTURA S.A.A.	4,918,693	143.1	11,579,984	6.8
GOLD FIELDS LA CIMA S.A.	4,968,813	153.1	11,434,500	23.4
COMPAÑIA MINERA RAURA S.A.	3,347,727	1.9	11,355,610	30.5
MINSUR S.A.	5,011,484	-47.3	10,416,615	-61.4
HUDBAY PERU S.A.C.	3,038,748	57.1	9,692,787	25.8
LA ARENA S.A.	2,601,314	115.4	8,902,883	130.7
CONSORCIO MINERO HORIZONTE S.A.	2,996,312	-37.6	8,051,770	-30.8
Total	**394,357,159**	**-15.3**	**1,052,152,218**	**-12.8**

Sources: Scotiabank Peru.

—Guillermo Arbe