Latam Economic Update

- **Argentina: CNV imposes further controls on FX market**
- **Mexico: Total trade hits lowest level since April 2009**
- **Peru: Additional data on the impact of locking and unlocking**

ARGENTINA: CNV IMPOSES FURTHER CONTROLS ON FX MARKET

On Monday, May 25, the Comision Nacional de Valores (CNV) imposed new measures that seek to discourage trading of domestic ARS-denominated securities in other currencies, including via the blue-chip swap market. The CNV's move brings in a five-day seasoning period on the settlement of local fixed-income purchases in FX. The aim is to discourage settlement in hard currency by introducing additional exchange-rate risk. Like previous efforts to control dollarization of the economy, we do not expect these measures to succeed in meaningfully shrinking the gap between the official USDARS exchange rate and various parallel market rates. In fact, they are likely to make the gaps wider over time.

—Brett House

MEXICO: TOTAL TRADE HITS LOWEST LEVEL SINCE APRIL 2009

According to figures published on Monday, May 25, Mexico's trade deficit amounted to USD 3.09 bn in April as the shutdown of many industries to counter the spread of COVID-19 cut trade volumes amidst the global oil price war—a sharp turnaround from the USD 3.3 bn surplus in March (chart 1). Exports fell -41% y/y to USD 23.38 bn, while imports were down -30.5% y/y at USD 26.47 bn. Exports saw the steepest drop since 1980, while imports observed their worst performance since July 2009.

Exports saw big declines in both oil and manufactured goods owing to the auto industry's shutdown. Petroleum exports were down -66% y/y to USD 758 mn as a result of the collapse in oil prices, while exports of manufactured goods fell -42% y/y, with shipments of vehicles and auto parts down -79% y/y and other manufactured goods down -21% y/y. Mexico's auto industry, considered nonessential, was shut down for all of April, and production of cars and light trucks fell -99% y/y from a year before.

Total trade (i.e., exports plus imports) reported its lowest monthly level since April 2009 (chart 1, again). The decline in total trade volumes quickened from -4.2% y/y in March to -35.8% y/y in April (versus 4.0% y/y in April 2019).

The Mexican current account deficit was USD 0.98 bn in Q1-2020, down from the revised USD 3.2 bn surplus in Q4-2019, but much smaller than the USD 11 mn current account deficit Mexico saw a year ago.

—Paulina Villanueva

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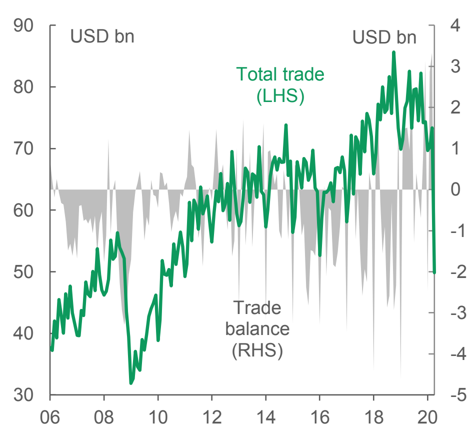
Chart 1

Mexico: Total Trade Tanks



Sources: Scotiabank Economics, Bloomberg.

PERU: ADDITIONAL DATA ON THE IMPACT OF LOCKING AND UNLOCKING

Finance Minister María Alva stated on a TV program on Sunday, May 24 that tax revenue may have fallen by -40% in April. This is not a surprise, and also not exclusively linked to declining growth, as the government has given a number of temporary reprieves in tax payments. Alva also stated that the 2021 budget would be smaller than 2020. This will reflect lower revenue, of course, but the impression is that Minister Alva wishes to convey the image of a government concerned about keeping government accounts under control. Alva also said that government spending on COVID-19 containment and safety-net programs total 5% of GDP. This includes 0.6% of GDP in government spending, over 1% in private savings, and over 3% in the REACTIVA state-sponsored loans program. Alva also stated that total measures, which initially had been pegged at 12% of GDP, then raised to 14.4%, now stand at 17% of GDP, though not all of this enveloped will be drawn.

Government officials have expressed contradictory views concerning the delayed Tía María and Minas Conga mining projects. Both projects have been put on hold due to social conflicts. While the Minister of Mining, Susana Vilca, stated that it was possible for these projects to be renewed, the head of the cabinet, Vicente Zeballos, said that the Tía María project would not proceed until the social conflict was resolved.

Minister of Production, Rocío Barrios, stated that, with the new unlocking measures, six million people would be returning to work. Phase 1, which began on May 11, was broadened as of Monday May 25 to include a number of services, including hair-dressing, clothing, household appliances, home maintenance, and delivery apps. This adds to sectors that were already unlocked, led by mining, agroindustry, e-commerce, and certain construction works. This is a large group, but six million people returning to work in the comings days sounds quite optimistic.

—Guillermo Arbe

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