

Latam Economic Update

- **Central banks & macro data: Brazil Copom decision, Chile BCCh minutes on Wednesday**
- **Argentina: Initial objectives for IMF negotiations**
- **Mexico: Lower than expected industrial activity in July**
- **Peru: Politics get messier, but move in Pres. Vizcarra's favour**

CENTRAL BANKS & MACRO DATA: BRAZIL COPOM DECISION, CHILE BCCh MINUTES ON WEDNESDAY

Central bank activity this week should be dominated by Brazil's Copom meeting on Wednesday, with some possible marginal information in the minutes from Chile's September 1 BCCh meeting, which are also due to be published that day.

- **Brazil.** The Copom is scheduled to make its next decision on the Selic rate on Wednesday, September 16 and our Brazil economist believes that risks are mildly tipped toward a final -25 bps cut in a tough decision that would end this easing cycle at 1.75% (chart 1). Although July and August data show that the Brazilian economy has passed its pandemic nadir and is recovering more quickly than previously expected, inflationary pressures remain muted (chart 2) despite the BRL's poor performance so far in 2020. Our Brazil economist believes that the Copom will prioritize recovery over as-yet unrealized inflation fears, especially since fiscal policy is set to provide less support to the economy. We will look for signs in the statement on whether the Copom believes the easing cycle has indeed come to an end.
- **Chile.** On Wednesday, September 16, the BCCh is set to publish the minutes from its Tuesday, September 1, meeting of its Monetary Policy Committee (MPC), where the central bank held its headline policy rate at its "technical minimum" of 0.5% and did not substantively alter its forward guidance that the rate would stay on hold over much of the two-year forecast horizon. We will look to the minutes mainly for any indications on the MPC's thinking on the future of the "technical minimum" and possible quantitative easing. The law that allows the BCCh to buy government bonds in exceptional situations went into force only on September 8, so any indications on QE may have been held for future communications.

In major macro data, the week's highlights include:

- **Argentina.** August inflation, due on Wednesday, September 16, is expected to come in around 2.00% m/m, contained by governmental controls, which would continue to ease down the year-on-year headline number owing to base effects.
- **Brazil.** The July economic activity index out today at 08:00 ET showed some further progress on the recovery in year-on-year terms, with annual growth rising from -7.05% y/y in June to -4.89% y/y in July.

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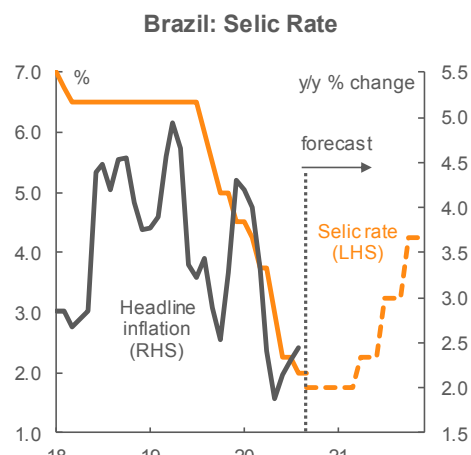
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Chart 1



Sources: Scotiabank Economics, BCB, IBGE.

- **Colombia.** Manufacturing and retail sales for July, out today at 11:00 ET, may show the impact of regional variations in re-opening and print similar levels to June.
- **Peru.** Tuesday will deliver the July monthly GDP proxy and the August unemployment rate. While the July monthly economic activity index should show further solid gains, the August unemployment rate isn't expected to budge very much as labour-market participation rises.

—Brett House

ARGENTINA: INITIAL OBJECTIVES FOR IMF NEGOTIATIONS

In a widely quoted [interview](#) with *La Nacion* published on Sunday, September 13, Economy Minister Guzman confirmed that one of the government's principal objectives for its negotiations with the IMF will be an avoidance of debt payments through 2024—but this isn't really news. The Minister has previously hinted at this goal and, so long as his reference to "payments" is limited to amortizations, his objective is broadly consistent with the grace period on a new borrowing arrangement from the Fund that would roll over existing debt outstanding to the IMF.

Min. Guzman also reiterated that the government will be presenting a new tax bill to Congress in the coming weeks that would aim to streamline the administration's fiscal framework and provide more incentives for investment and job creation. He noted the current freeze on firings was a temporary measure for the crisis period.

The IMF talk and fiscal discussions follow moves by the BCRA on Thursday, September 10, to allow banks to offer new ARS-denominated deposit facilities linked to the official USDARS exchange rate. The move was cast as an attempt to stimulate more export financing, but it may also dampen demand for FX on the unofficial market.

—Brett House

MEXICO: LOWER THAN EXPECTED INDUSTRIAL ACTIVITY IN JULY

On September 11, INEGI released industrial activity nsa figures for July, which recovered modestly, going from -16.5% y/y to -11.6% y/y in real terms (versus -1.3% y/y a year earlier), but lower than anticipated by the market (-12.9% y/y), resulting in its 21st consecutive month with a y/y drop (chart 3).

- By components, manufacturing production improved from -16.4% y/y to -9.0% y/y (versus 3.3% y/y a year earlier), resulting in a ten-month series of consecutive drops (chart 3, again). Similarly, construction increased, yet was still well in negative territory, going from -26.2% y/y to -23.5% y/y (versus -8.8% y/y in July 2019). Electricity, gas and water generation came up from -13.4% y/y to -8.9% y/y (versus 0.2% y/y a year earlier), while mining rose from -5.1% y/y to -3.1% y/y (versus -5.9% y/y in a similar month in 2019).
- Thus, in the January–July cumulative period, industry averaged a growth rate of -13.7% y/y YTD (versus -1.6% y/y YTD in the same period of 2019), resulting in the lowest rate for the same seven-month period since records became available in 1994.

Chart 2

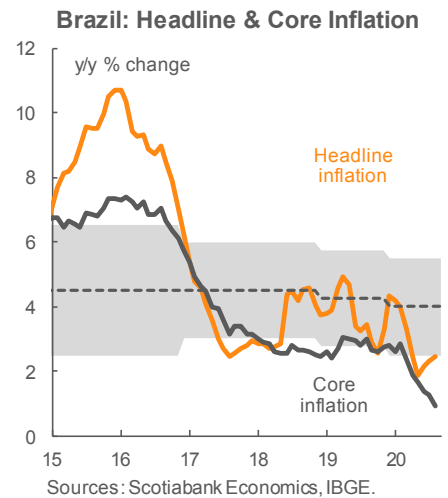


Chart 3

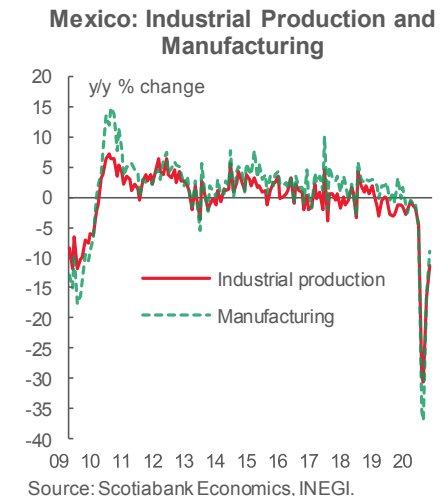


Chart 4



- Finally, in its seasonally adjusted monthly comparison, industrial activity growth cooled down to 6.9% m/m after having recorded in June its highest historical increase at 17.9% m/m.

Data for the first month in Q3 point to persistent weakness in industrial production, but a faster pace of improvement in the manufacturing sector through the rest of the year might still be driven by recovery in US demand.

—Miguel Saldaña

PERU: POLITICS GET MESSIER, BUT MOVE IN PRES. VIZCARRA'S FAVOUR

Political events became even more difficult in Peru over the weekend, although the additional levels of chaos may prove beneficial for the continuation of the Vizcarra regime in the end. The following were the major developments over the past few days.

- **On Thursday, September 10 an audio recording was aired in Congress in which President Vizcarra was heard coordinating with members of his staff on how to manage information regarding his association with a person who is under investigation for having received improper government entertainment contracts.** As a result, a segment of Congress prepared a motion calling for the removal of President Vizcarra under the argument of “moral incapacity”, an undefined concept that appears in the Constitution. President Vizcarra responded by accusing a this faction of Congress of conspiring to take power.
- **On Friday, September 11, Congress voted in favour of initiating proceedings that could lead to the removal (impeachment) of President Vizcarra on grounds of “moral incapacity”.** The motion carried with 65 votes. The proceedings are scheduled for Friday, September 18. Approval of the motion to vacate President Vizcarra would require 87 votes out of the total 130 members of Congress.
- **Also on Friday, however, it became known that, during the previous evening, the President of Congress Manuel Merino had made calls to the top echelons of officials of the armed forces, presumably to gauge their support for the removal of Pres. Vizcarra.** The message he received was not favourable to his cause (one official reportedly stated that the armed forces answered to the President). The calls, however, did lend credence to Pres. Vizcarra’s accusation that a segment of Congress was plotting against his government. On Saturday, Cabinet head Walter Martos held a press conference where he accused members of Congress of an act of sedition for having called the armed forces. During the conference, Martos was, himself, quite noticeably surrounded by the heads of the armed forces and police forces, most likely seeking to make a statement as to where these institutions stood in the power struggle. Martos also stated that the government would send a request to the Constitutional Court to interpret just what the Constitution means by “moral incapacity”.
- **By Sunday, most prominent political leaders had come out against the removal of President Vizcarra.** Statements were made in this regard by César Acuña, leader of Alianza para el Progreso; Julio Guzmán, leader of Partido Morado; Keiko Fujimori, leader of Fuerza Popular; and other political leaders. Although none of these leaders are actual members of Congress, they are prominent members of key parties that will vote on the issue in Congress. They add to a diversity of institutional voices, including that of the Defensoría del Pueblo, a local ombudsman-type institution, and local business chambers, in coming out against an impeachment.

At this point, the weight of public and political opinion appears to be tilted against a removal. Most political analysts appear to believe that the motion to remove President Vizcarra will not carry if and when it is voted upon. The motion appears to be have been weak to begin with, as only 65 members of Congress signed on to the removal proposal, which is not exactly a show a force. In addition, in a country with the history of army coups that Peru has, for Merino to have sought the support of the army was a very ill-taken move. Thus, it does seem likely that the move to remove Pres. Vizcarra will fail. Having said that, however, one must remember that this is a particularly unpredictable Congress. There is also the risk that new information will emerge that may be harmful to the government position.

Meanwhile, nearly lost in the swirl of news surrounding the motion to vacate President Vizcarra, Congress will debate a motion to remove Finance Minister María Alva today (Monday). It is not clear which way the vote will go on this motion,

although one hopes that the events surrounding the move to remove President Vizcarra will also have weakened the resolve of those elements of Congress that favour Min. Alva's removal.

—Guillermo Arbe

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