

Latam Economic Update

- **Argentina:** August inflation accelerated despite containment efforts
- **Brazil:** Copom holds Selic at 2.00%
- **Colombia:** BanRep's survey consensus thinks the easing cycle is over
- **Peru:** Cement demand returned to pre-COVID-19 levels in August

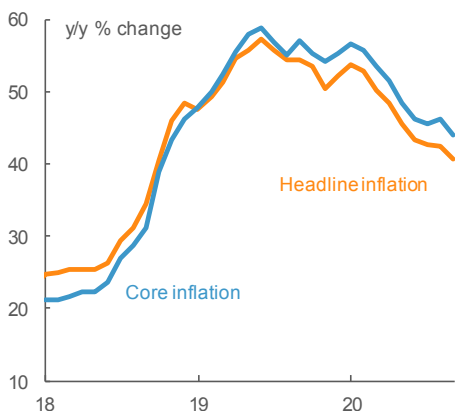
ARGENTINA: AUGUST INFLATION ACCELERATED DESPITE CONTAINMENT EFFORTS

In monthly data released by INDEC on Wednesday, September 16, base effects continued to bring headline inflation down to 40.7% y/y (chart 1) even as monthly sequential inflation accelerated from 1.9% m/m in July to 2.7% m/m in August (chart 2). This was faster than the 2.0% m/m we projected in our most recent *Latam Weekly*, but just below the more recently updated 2.8% m/m consensus. Core inflation also sped up, from 2.5% m/m in July to 3.0% m/m in August. The decline in headline annual inflation is unsustainable within the current policy framework: price controls are playing a major, but temporary, role in pulling down year-on-year inflation (chart 3) even though Argentina's monetary base is expanding rapidly. While price controls and base effects should continue to push headline inflation down to around 27% y/y by end-2020, we expect it to rise again to above 40% y/y in 2021.

—Brett House

Chart 1

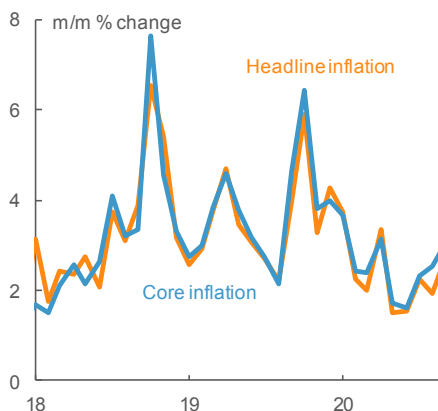
Argentina: Headline & Core Inflation



Sources: Scotiabank Economics, INDEC.

Chart 2

Argentina: Headline & Core Inflation



Sources: Scotiabank Economics, INDEC.

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@scotiabank.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

Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

TODAY'S CONTRIBUTORS:

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

Chart 3

Argentina: Regulated Goods & Services Inflation



Sources: Scotiabank Economics, INDEC.

BRAZIL: COPOM HOLDS SELIC AT 2.00%

In a unanimous decision on Wednesday, September 16, the BCB's Copom decided to hold the Selic rate at its all-time low of 2.00%, in line with consensus, and kept its forward guidance broadly unchanged. Our Brazil economist had seen a possibility of a final -25 bps cut to 1.75% at this meeting. Although this was not realized, there were some dovish elements in the Copom [statement](#). The Committee maintained its view that inflation risks remain tilted to the upside, but it reiterated that it does not intend to reduce its monetary stimulus unless inflation expectations and the BCB's projections see inflation "sufficiently close" to the target over the forecast horizon. Further analysis of the Copom's decision will follow in our next *Latam Weekly*, out at the end of the week.

—Brett House

COLOMBIA: BANREP'S SURVEY CONSENSUS THINKS THE EASING CYCLE IS OVER

According to September's BanRep survey of macroeconomic expectations, economists think the central bank's easing cycle is done.

- Analysts' consensus points to inflation at 1.77% y/y for December 2020, 8 bps lower than last month (table 1). Inflation expectations for longer tenors, however, did not change much: the 1Y tenor stood at 2.75% (previous: 2.72%), and the 2Y tenor was at 3.09% (chart 4). For December 2021, inflation is expected to remain below 3%, on the back of weaker demand: the rebound is likely to be offset by the withdrawal of some government assistance.

	Average	Change vs previous survey, bps
Sep-2020 m/m % change	0.11	...
Dec-2020 y/y % change	1.77	-8
Sep-2021 y/y % change	2.75	...
Dec-2021 y/y % change	2.84	-3
Sep-2022 y/y % change	3.09	...

Sources: Scotiabank Economics, BanRep.

- On average, September's monthly inflation is expected at 0.11% m/m (our expectation is 0.17% m/m), which would leave annual inflation at 1.76% y/y this month. It is worth noting that during September some local governments will continue withdrawing support for utility fees. Additionally, the resumption of the application of the VAT on cell phone plans will imply upward pressure on inflation. However, tuition fees for universities and schools will be revised, which should dampen inflation pressures.
- USDCOP forecasts for 2020-end stood at 3,701 (up 10 pesos from the previous survey). For December 2021, respondents think (on average) that the COP will end at 3,570. We believe that volatility will continue and our FX models point to an equilibrium level around 3,600–3,700 by the end of the year.
- BanRep's repo rate is expected to close 2020 around 2.00% (chart 5), according to the median of respondents, which implies that market consensus is not expecting further rate cuts. The first hike of 25 bps is expected by November-2021, later than the previous survey anticipated. The monetary policy rate is expected to hit 2.25% by the end of 2021. For the coming September 25 meeting, analysts' consensus points to a hold from the BanRep Board; however, some analysts, including ourselves, expect a -25 bps cut. On the other side, the lowest projection among analysts in the forecast window is 1.50%.

Chart 4

Colombia: Average Headline Inflation Expectations



Sources: Scotiabank Economics, BanRep.

Chart 5

Colombia: Average Policy Rate Expectations



Sources: Scotiabank Economics, BanRep.

BanRep’s survey showed that analysts’ expectations see inflation below the target range (defined as 2%–4%) at end-2020. However, inflation expectations remained anchored near the 3% target over the longer term. September’s CPI inflation should again show offsetting effects between higher utility fees and lower education tuition fees. Because the balance of risks tilt toward a more moderate recovery in economic growth, and upside pressures on inflation are low for now, we expect a -25 bps cut in the monetary policy rate at the September 25 Board meeting.

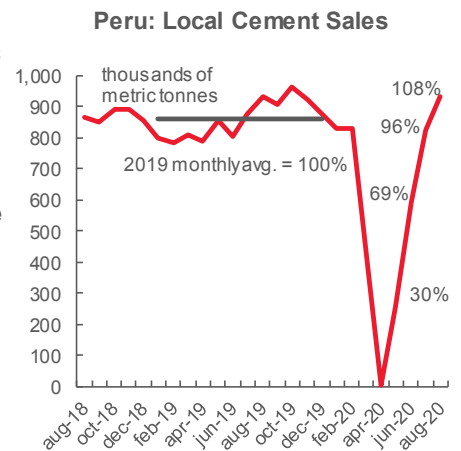
—Sergio Olarte & Jackeline Piraján

PERU: CEMENT DEMAND RETURNED TO PRE-COVID-19 LEVELS IN AUGUST

Cement sales returned to pre-COVID-19 levels in August (chart 6). Sales reached 933,000 mt for the month, which was on par with August 2019, and about 8% higher than the monthly average for 2019. This is in spite of continual sub-par private and public investment. We understand that this unexpectedly strong performance stems mainly from a huge increase in home-improvement construction, which, to some extent, may be linked to greater stay-at-home time due to the pandemic.

—Guillermo Arbe

Chart 6



Sources: Scotiabank Economics, INEI.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.