May 15, 2020

Latam Weekly: A Marathon, Not A Sprint

FORECAST UPDATES

- **Chile's real GDP growth forecast in 2020 has been cut from -2.1% y/y to -4.5% y/y, with higher unemployment rates in 2020 and 2021. Policy rates are expected to come down a toucher faster than previously projected in Mexico, and remain on hold longer in Peru.**

ECONOMIC OVERVIEW

- **New COVID-19 cases are still surging in parts of Latam. We update on the economic implications for the region. We also look at some emerging differences in Latam's response to this crisis from previous downturns.**

MARKETS REPORT

- **CDS spreads have widened aggressively across emerging markets, leaving space for corrections after the peak of the pandemic and the associated lockdowns have passed. We look at prospects for Latam country risk to be re-priced in the coming months.**

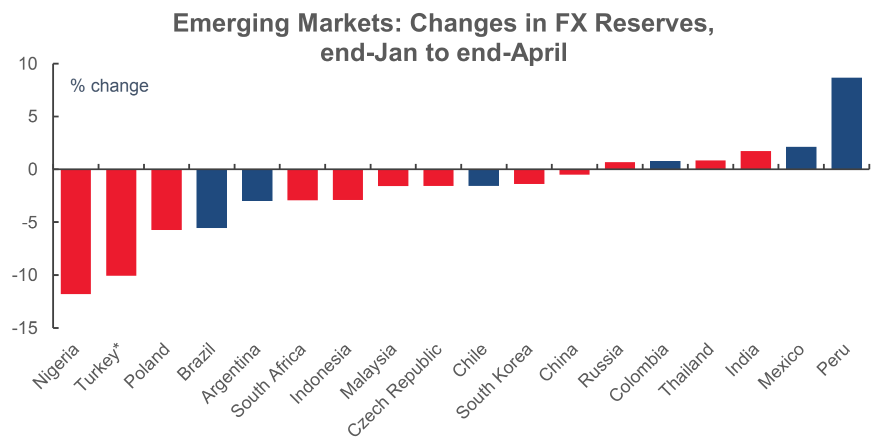
COUNTRY UPDATES

- **Concise analysis of recent developments and guides to the week ahead in our Latam-6: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.**

MARKET EVENTS & INDICATORS

- **Risk calendar with selected highlights for the period May 16–May 22 across our six major Latam economies.**

Chart of the Week



* Change from end-Jan to end-March; April 2020 data not yet available.
Source: Scotiabank Economics, central banks.

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Forecast Updates: May 16

	2019	2020				2021						
Argentina	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-1.1	-2.3	-12.4	-4.9	-3.3	0.3	3.1	5.9	7.5	-2.2	-5.6	4.2
CPI (y/y %, eop)	53.8	48.4	49.0	46.8	45.7	51.1	50.4	48.9	46.8	53.8	45.7	46.8
Unemployment rate (%, avg)	8.9	10.9	11.3	11.0	10.8	10.6	10.2	9.9	9.8	9.8	11.0	10.1
Central bank policy rate (%, eop)	55.00	38.00	37.00	36.00	36.00	36.00	37.00	38.00	40.00	55.00	36.00	40.00
Foreign exchange (USDARS, eop)	59.9	64.4	73.4	79.1	83.1	86.2	87.5	89.2	93.1	59.9	83.1	93.1

	2019	2020				2021						
Brazil	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.7	0.2	-9.3	-4.3	-0.3	1.1	4.2	3.1	1.7	1.1	-3.4	2.5
CPI (y/y %, eop)	3.8	3.3	4.2	5.2	6.3	7.1	7.9	7.6	7.1	4.3	6.3	7.1
Unemployment rate (%, avg)	11.3	11.8	12.7	12.8	12.6	13.2	13.6	13.6	13.4	11.9	12.5	13.5
Central bank policy rate (%, eop)	6.50	3.75	2.25	2.00	2.00	3.00	4.00	4.75	5.75	4.50	2.00	5.75
Foreign exchange (USDBRL, eop)	4.02	5.25	5.71	5.11	4.78	4.81	4.69	4.58	4.42	4.02	4.78	4.42

	2019	2020				2021						
Chile	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-2.1	-0.1	-9.6	-6.0	-2.1	-2.7	6.9	3.2	4.2	1.1	-4.5	2.9
CPI (y/y %, eop)	3.0	3.7	2.8	3.1	2.8	2.5	2.9	3.3	3.0	3.0	2.8	3.0
Unemployment rate (%, avg)	7.0	8.2	13.0	11.7	10.2	9.6	10.4	10.2	9.1	7.2	10.8	9.8
Central bank policy rate (%, eop)	1.75	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.50	1.75	0.50	1.50
Foreign exchange (USDCLP, eop)	753	860	820	800	790	780	760	740	720	753	790	720

	2019	2020				2021						
Colombia	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	3.4	1.1	-8.4	-4.4	0.4	-1.0	9.8	4.3	1.4	3.3	-2.9	3.6
CPI (y/y %, eop)	3.2	3.9	3.3	3.1	3.2	3.0	3.2	3.1	3.1	3.8	3.2	3.1
Unemployment rate (%, avg)	10.4	12.6	20.9	20.5	17.8	14.8	13.1	12.6	12.1	11.2	18.0	13.2
Central bank policy rate (%, eop)	4.25	3.75	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.25	2.50	3.50
Foreign exchange (USDCOP, eop)	3,287	4,065	3,950	3,851	3,654	3,473	3,465	3,458	3,450	3,287	3,654	3,450

	2019	2020				2021						
Mexico	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-0.5	-3.4	-15.1	-10.3	-4.7	-1.0	3.4	1.5	0.9	-0.1	-8.4	1.1
CPI (y/y %, eop)	2.8	3.2	2.2	2.8	2.6	2.8	3.9	3.9	3.8	2.8	2.6	3.8
Unemployment rate (%, avg)	2.9	3.7	6.7	7.7	7.1	6.3	6.0	6.5	5.8	3.5	6.1	6.3
Central bank policy rate (%, eop)	7.50	6.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	7.25	5.00	5.00
Foreign exchange (USDMXN, eop)	18.85	21.97	24.25	24.03	24.24	24.29	24.07	24.02	24.15	18.93	24.24	24.15

	2019	2020				2021						
Peru	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.8	-3.4	-25.4	-5.6	-1.1	0.7	23.2	4.0	3.5	2.2	-9.0	7.0
CPI (y/y %, eop)	1.9	1.8	1.6	1.4	1.1	1.1	1.2	1.6	1.7	1.9	1.1	1.7
Unemployment rate (%, avg)	6.1	…	…	…	…	…	…	…	…	6.6	12.0	10.0
Central bank policy rate (%, eop)	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	2.25	0.25	0.50
Foreign exchange (USDPEN, eop)	3.31	3.43	3.49	3.47	3.45	3.42	3.43	3.39	3.40	3.31	3.45	3.40

	2019	2020				2021						
United States	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	2.3	-0.4	-12.4	-7.7	-4.7	-0.4	14.4	9.2	6.0	2.3	-6.3	7.0
CPI (y/y %, eop)	2.0	2.1	0.8	0.1	-0.3	0.7	1.4	2.1	2.8	2.0	-0.3	2.8
Unemployment rate (%, avg)	3.5	3.8	10.3	11.5	11.6	10.8	9.4	8.1	6.9	3.7	9.3	8.8
Central bank policy rate (%, eop)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
Foreign exchange (EURUSD, eop)	1.12	1.08	1.09	1.10	1.12	1.13	1.14	1.15	1.16	1.12	1.12	1.16

Source: Scotiabank Economics.
Red indicates changes in forecasts since last report.

Forecast Updates: March–May Revisions

	March 6			April 18		Current	
	2017	2020f	2021f	2020f	2021f	2020f	2021f
Argentina*							
Real GDP (annual % change)	1.3	...	...	-5.6	4.2	-5.6	4.2
CPI (y/y %, eop)	3.0	...	...	45.7	46.8	45.7	46.8
Unemployment rate (%, avg)		...	...	11.0	10.1	11.0	10.1
Central bank policy rate (%, eop)	7.0	...	...	36.00	40.00	36.00	40.00
Argentine peso (USDARS, eop)	3.3	...	...	83.1	93.1	83.1	93.1
Brazil							
Real GDP (annual % change)	1.3	1.8	2.1	-3.3	2.5	-3.4	2.5
CPI (y/y %, eop)	3.0	4.2	4.1	6.3	7.1	6.3	7.1
Unemployment rate (%, avg)		...	...	12.4	13.5	12.5	13.5
Central bank policy rate (%, eop)	7.00	3.50	5.25	3.00	6.00	2.00	5.75
Brazilian real (USDBRL, eop)	3.31	4.37	4.11	4.84	4.42	4.78	4.42
Chile							
Real GDP (annual % change)	1.5	1.4	2.5	-2.1	2.9	-4.5	2.9
CPI (y/y %, eop)	2.3	3.0	3.0	2.8	3.0	2.8	3.0
Unemployment rate (%, avg)		...	...	8.3	7.7	10.8	9.8
Central bank policy rate (%, eop)	2.50	1.00	2.00	0.50	1.50	0.50	1.50
Chilean peso (USDCLP, eop)	615	740	700	790	720	790	720
Colombia							
Real GDP (annual % change)	1.4	3.6	3.6	0.6	3.6	-2.9	3.6
CPI (y/y %, eop)	4.1	3.3	3.1	3.2	3.1	3.2	3.1
Unemployment rate (%, avg)		...	...	14.3	10.1	18.0	13.2
Central bank policy rate (%, eop)	4.75	4.50	4.75	3.25	4.25	2.50	3.50
Colombian peso (USDCOP, eop)	2,986	3,250	3,180	3,654	3,450	3,654	3,450
Mexico							
Real GDP (annual % change)	2.1	0.6	1.6	-8.4	1.1	-8.4	1.1
CPI (y/y %, eop)	6.8	3.8	3.7	3.6	3.7	2.6	3.8
Unemployment rate (%, avg)		...	...	6.1	6.3	6.1	6.3
Central bank policy rate (%, eop)	7.25	6.25	6.25	5.50	5.00	5.00	5.00
Mexican peso (USDMXN, eop)	19.66	20.78	21.86	24.24	24.15	24.24	24.15
Peru							
Real GDP (annual % change)	2.5	3.0	3.5	-2.3	4.5	-9.0	7.0
CPI (y/y %, eop)	1.4	1.8	2.1	1.1	2.2	1.1	1.7
Unemployment rate (%, avg)		...	...	12.0	10.0	12.0	10.0
Central bank policy rate (%, eop)	3.25	2.00	2.25	0.25	1.50	0.25	0.50
Peruvian sol (USDPEN, eop)	3.24	3.40	3.35	3.45	3.40	3.45	3.40

Source: Scotiabank Economics.
* Initiated coverage March 22, 2020.
Red indicates changes in forecasts since last report.

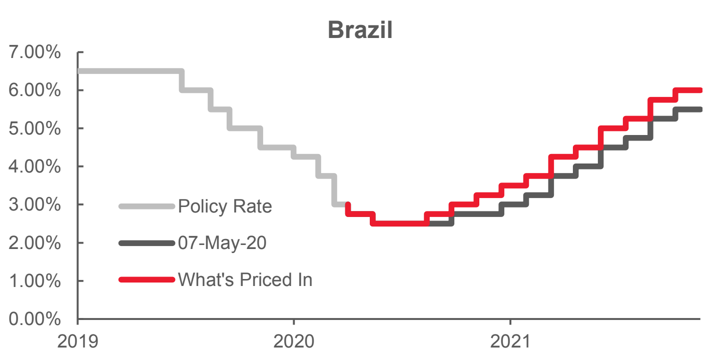
Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

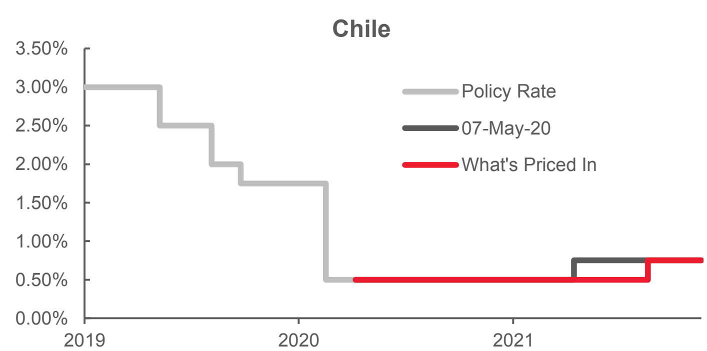
		Next Scheduled Meeting			Market Pricing		BNS Forecast		
	Current	Date	Market	BNS	12 mos	24 mos	End-2020	End-2021	BNS guidance for next monetary policy meeting
Argentina, BCRA, TPM, n.a.	38.00%	n.a.	n.a.	37.00%	n.a.	n.a.	36.00%	40.00%	The BCRA's last move on March 5 delivered its sixth rate cut in 2020, but economic activity indicators since then still point to a deepening slowdown. We expect the BCRA to cut again in the coming weeks.
Brazil, BCB, Selic	3.00%	Jun-17	2.73%	2.25%	4.07%	6.52%	2.00%	5.75%	BCB minutes show material uncertainty in the COPOM. Downside growth risks to drive deeper than expected cuts.
Chile, BCCh, TPM	0.50%	Jun-16	0.49%	0.50%	0.56%	0.73%	0.50%	1.50%	The BCCh mantained the MPR at 0.5%, its technical minimum, in its May 6 meeting. The bias of its press release was toward intensifying monetary impulse and supporting financial stability with unconventional instruments, if required.
Colombia, BanRep, TII	3.25%	May-29	2.72%	2.75%	2.64%	3.07%	2.50%	3.50%	This week, BanRep announced that the May monetary policy meeting (May 29th) is on for policy rate discussion, in line with our projection of 50bps cut to 2.75%. Recent economic activity data for March also support that easing will continue in May.
Mexico, Banxico, TO	5.50%	Jun-25	5.05%	5.00%	4.17%	4.52%	5.00%	5.00%	Banco de Mexico cut its reference interest rate by 50 bps in May's meeting, as expected. Another 50 bps cut is expected by the next meeting on June 25th. We will revise our forecast in a couple of weeks, since the probability of more cuts is increasing.
Peru, BCRP, TIR	0.25%	Jun-11	n.a.	0.25%	n.a.	n.a.	0.25%	0.50%	Based on the BCRP's May policy statement that monetary policy will be expansionary for longer, and on the lingering consequences for employment next year of this year's lockdown, we are changing our reference rate forecast for 2021. We now expect the BCRP to keep its rate at 0.25% until 3Q21, and raise to 0.5% in 4Q21 (previously we had expected the BCRP to begin raising in 1Q21, and end 2021 at 1.5%).

Sources: Scotiabank Economics, Bloomberg.

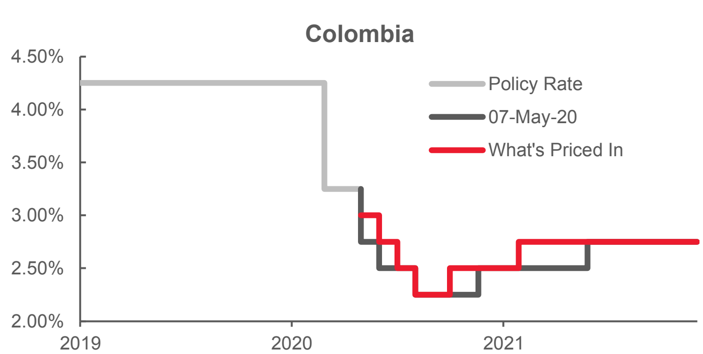
What's Priced In



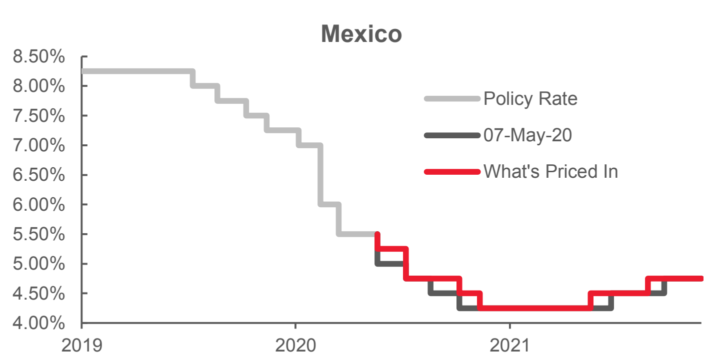
Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.

Economic Overview: Policy for the Long Haul

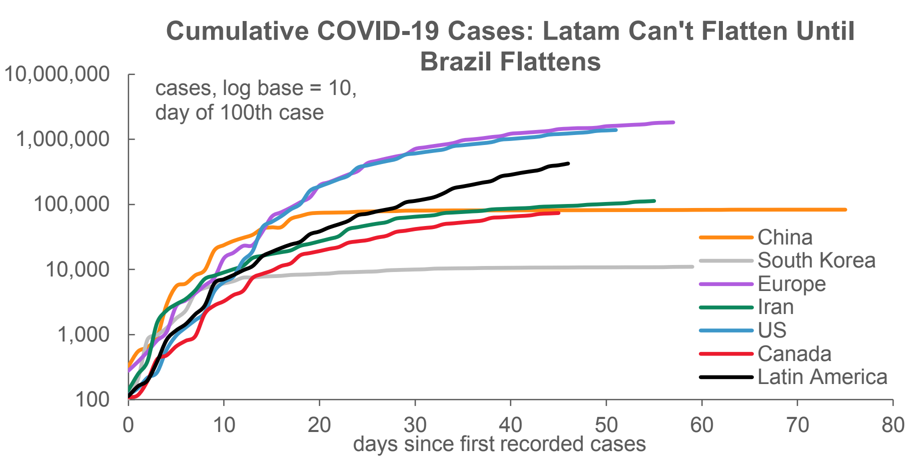
- **COVID-19 curves still aren't flattening in Latam. Instead, Brazil saw a record hit this week for new daily infections.**
- **Our forecasts continue to be marked down as data on Q1-2020 and initial readings on the start of Q2 come in. Risks remain inclined toward further negative revisions.**
- **The policy responses by the region's authorities show more and more how the reaction to this crisis has been distinct from past downturns.**

COVID-19: BECOMING A MARATHON, NOT A SPRINT

Once again, we are sad to report that Latam's regional COVID-19 case numbers continue to rise relentlessly (chart 1) and its incidence curve still isn't flattening (chart 2). You may be getting tired of seeing COVID-19 case curves—we certainly are—but we think it behooves us to keep them front of mind at least until we begin seeing a meaningful, constructive change in the progress of the pandemic in Latam. After all, the economic outlook is, at this stage, still principally a function of the region's public-health outlook. Across the region, case numbers are still doubling about every 10 to 12 days. Latam now accounts for nearly 10% of all global COVID-19 cases, up from 2.4% in early-April.

The region's major countries continue to move up the COVID-19 league tables: Brazil now has the sixth highest number of confirmed cases in the world, up from 8th last week, as Brazil's COVID-19 numbers converge with its relative share of global population. Peru now has the 12th highest case numbers in the world, with Mexico at 18th and Chile at 19th. While Mexico's ranking remains unchanged from last week, health officials warned that its actual case numbers could be eight times higher than currently reported, which would, all other things being equal, put its numbers second-highest in the world.

Chart 2



Sources: Scotiabank Economics, Johns Hopkins University.

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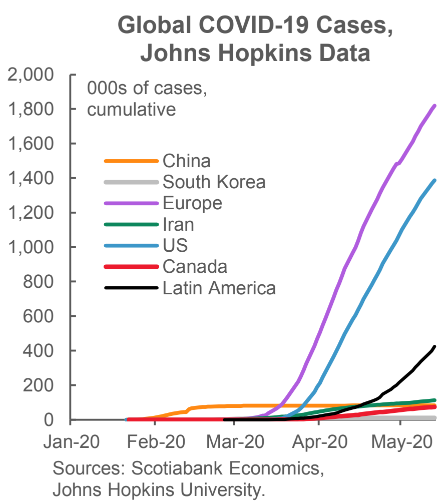
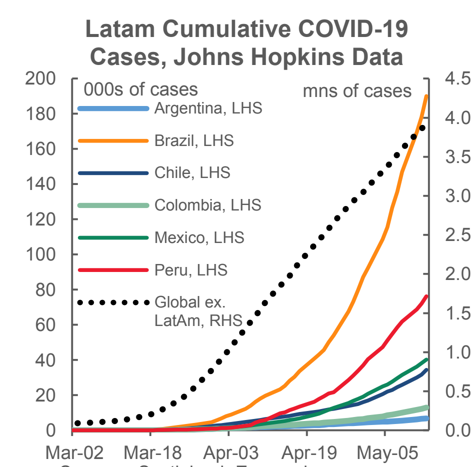
Chart 1



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



Sources: Scotiabank Economics, Johns Hopkins University.

This past week was particularly difficult for Brazil, which on May 14 hit a record for new daily infections, at nearly 14k. The next day, Brazil's new Health Minister, Nelson Teich, resigned after only a few weeks in office. As we've noted before, we won't see the COVID-19 curve in Latam flatten until Brazil's curve starts to bend, and it has yet to turn (chart 3). Per capita case numbers are still rising sharply in Brazil, as well as Chile and Peru (chart 4).

FORECAST UPDATES

Sadly, markdowns to our growth outlook continue, with direct effects on our interest-rate forecasts (see Forecast Tables, pp. 2 and 3). Ahead of next week's Q1-2020 GDP print, our team in Santiago cut **Chile**'s GDP growth forecast in 2020 from -2.1% y/y to -4.5% y/y (chart 5). At the same time, they bumped up the unemployment rates forecast for 2020 and 2021 by 2 ppts, respectively, as the scale of the downturn becomes clearer and the quarantine in the Santiago Metropolitan Region is re-tightened owing to a new spike in new COVID-19 infection numbers.

In **Mexico**, our team in CDMX now expects Banxico to hit the terminal 5.00% rate in its easing cycle at its next meeting in Q2 rather than in Q3, and cautions that the policy rate could go lower yet. They will be reassessing their forecasts next week and could take their projected terminal rate lower, in line with progressive markdowns over the past couple months (chart 6).

Similarly, in **Peru**, our economists now see the BCRP's policy rate remaining low for longer, with a lift-off from its lower bound at 0.25% now delayed from Q1-2021 to Q4-2021. In the real economy, GDP didn't contract as much as expected in Q1, but that just means some of the pain likely got deferred to Q2, which has been marked down a touch more, while keeping 2020 as a whole on track for a -9.0% y/y reduction in economic activity. The inflation outlook across the Latam-6 is unchanged this week (chart 7), but risks remain tipped to the downside.

WHAT'S AHEAD THIS WEEK

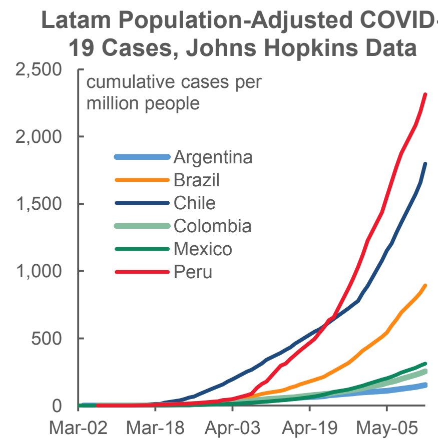
National accounts data for Q1-2020 dominate the risk calendar for the Latam-6 next week (see the Markets Events & Indicators section).

- **Chile**'s GDP numbers come in on Monday and our team in Santiago expects a -0.1% y/y decrease in activity after the -2.1% y/y contraction following the social unrest in October 2019. This is really only a last bit of calm before the storm of Q2.

- In **Peru**, March economic activity registered a -16.3% y/y plunge in data released May 15—a dire result, but better than the -25% y/y our Scotiabank Economics team in Lima had forecast. This lifted our projection for Q1-2020 GDP growth, which prints on Wednesday, from a contraction of -6.0% y/y to -3.4% y/y, which is still a harrowing prospect given that the lockdown in Peru arrived only in the latter third of March.

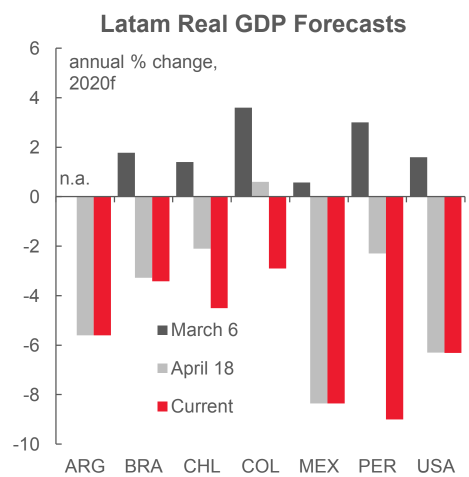
- For **Argentina**, Q1 GDP arrives with a longer lag and we get only the March economic activity index on Wednesday, where we expect the monthly decline to remain around -1.0% y/y, essentially unchanged from February. This being said, industrial production, construction, and capacity utilization data from recent

Chart 4



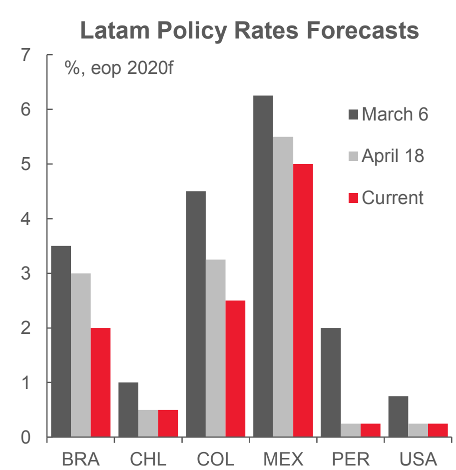
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5



Source: Scotiabank Economics.

Chart 6



Argentina: 36%.
Source: Scotiabank Economics.

weeks all point to a steeper downturn that may already be evident in the March activity index, but will undoubtedly become clearer in the April print.

In lower-priority prints, Brazil April tax collection data, due in the second half of the week, and May industrial confidence numbers, due Wednesday, May 20, are expected to confirm the depth of the slump that has already taken hold across a range of indicators. In **Mexico**, March retail sales and bi-weekly inflation, both due Friday, May 22, are both expected to fall substantially, reflecting the beginning of the COVID-19 disruption.

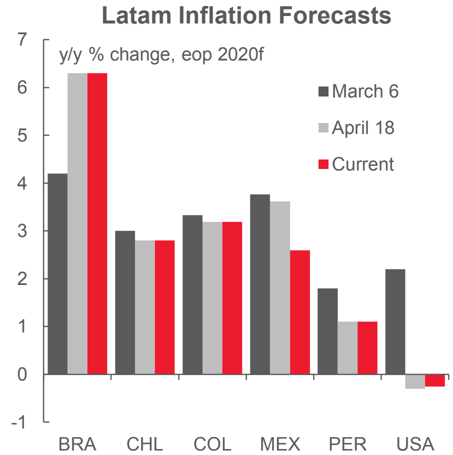
In central bank action, Chile's BCCh publishes on Friday, May 22 the minutes from its monetary policy committee meeting on May 6, where it dropped hints that it may be considering macro- and micro-prudential measures to inject liquidity into the economy to ensure the smooth functioning of credit markets, particularly for small- and medium-sized enterprises (SMEs). We expect the minutes to provide some additional colour on the possible modalities the committee discussed.

THIS TIME *IS* DIFFERENT

Any claim that we live in exceptional times is the generally the bane of macroeconomists, particularly when discussing the required responses to a crisis and the hard choices they involve. If history doesn't repeat, but does rhyme, the economic policies that emerging-market governments and monetary authorities are now implementing in response to the COVID-19 pandemic are setting a distinct meter.

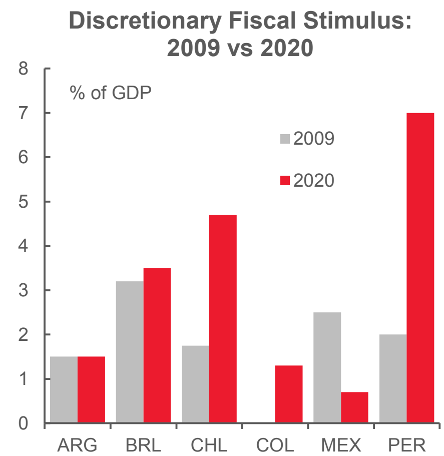
- **First, fiscal policy measures across Latam have been more immediate and larger** in 2020 than they were in 2009 in response to the global financial crisis (GFC), as chart 8 shows, based on IMF and G20 data.
- **Second, nominal monetary policy rates are already at historic lows** in Brazil, Chile, Colombia, Peru, and Brazil, and set to go lower in Brazil, Colombia, and Mexico. Real policy rates have already gone deep into negative territory in some EMs, depending on how one assesses inflation expectations, and could go further (chart 9).
- **Third, emerging markets are going even further and launching quantitative easing (QE) programs (chart 10).** Colombia's BanRep already engages in secondary-market purchases of government debt and holds about 5% of the sovereign's issuance. Chile's BCCh is enabled to provide financing and refinancing to banks and related financial institutions on a narrow mandate. Both could see their mandates expanded to engage in primary-market purchases of government debt. Last week, Brazil's Congress authorized the BCB to purchase both corporate debt and government bonds in the primary market. Peru's BCRP and Mexico's Banxico have also implemented an array of liquidity facilities that, while not direct QE, are injecting substantial liquidity into their domestic financial systems.
- **Fourth, as table 1 in the Markets Report details, with the exception of Argentina, the Latam-6 have allowed their currencies to fluctuate and act as shock absorbers**. Most countries have not run down their FX reserves in an attempt to defend their currencies (chart 11) and those with the best prior macro fundamentals have generally seen smaller FX sell-offs.

Chart 7



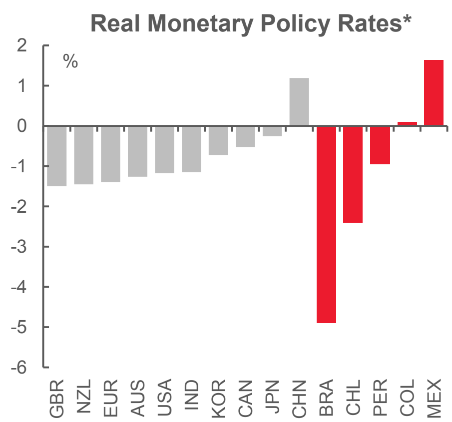
Argentina: 45.7%.
Source: Scotiabank Economics.

Chart 8



Sources: Scotiabank Economics, IMF, G20, country authorities.

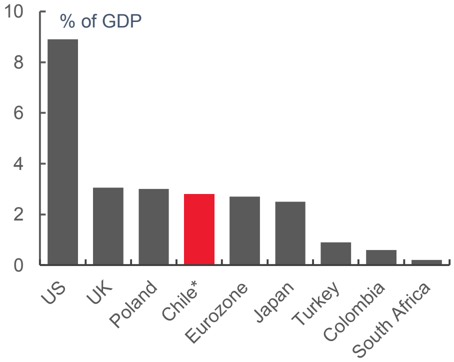
Chart 9



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y.
Sources: Scotiabank Economics, Bloomberg.

Chart 10

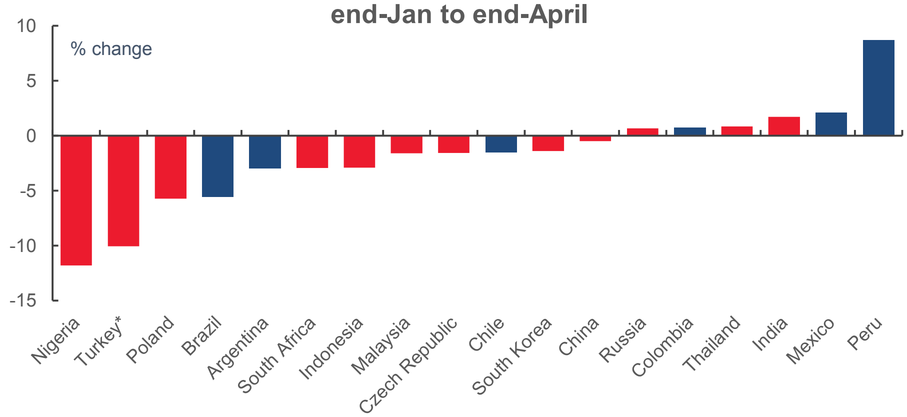
QE Comes to EM: Public Bond Purchases, Q2-2019 to Q2-2020



* Chile's BCCh purchases of private debt.
Sources: Scotiabank Economics, IIF, central banks.

Chart 11

Emerging Markets: Changes in FX Reserves, end-Jan to end-April



* Change from end-Jan to end-March; April 2020 data not yet available.
Source: Scotiabank Economics, central banks.

- **Fifth, to bolster their recourse to ready liquidity, countries in Latam and across emerging and frontier markets have approached the IMF on a pro-active basis.** All four countries in the Pacific Alliance—Chile, Colombia, Mexico, and Peru—have either obtained or have applied for precautionary arrangements under the IMF's Flexible Credit Line (FCL), which should be seen as a mark of their strength, not their weakness. The FCL is the gold-standard of IMF engagements and is provided only to countries that have very strong policy frameworks and substantial track records already in place, and is given without conditions in view of these prerequisites. Colombia and Mexico have had serial FCL arrangements backstopping their economies for years. Chile's pending FCL would more than double its access to FX liquidity, while in Peru's case the impact would be relatively smaller (about a 25% increase against its net international position) owing to its solid reserve balance.

This crisis in emerging markets, synchronized as it is with developed markets, and in a time when larger shares of emerging-market debt has been issued in domestic currency, is different. Local policy makers have more space than before to support their domestic economies and they're using it.

USEFUL REFERENCES—IMF CREDIT FACILITIES

IMF Lending, March 27, 2020: https://www.imf.org/en/About/Factsheets/IMF-Lending

Flexible Credit Line: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/40/Flexible-Credit-Line

Precautionary and Liquidity Line: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/45/Precautionary-and-Liquidity-Line

Short-term Liquidity Line (SLL), with a comparison to the FCL: https://www.imf.org/en/About/Factsheets/Sheets/2020/04/17/short-term-liquidity-line

Chile's FCL request, May 12, 2020: https://www.imf.org/en/News/Articles/2020/05/12/pr-20216-chile-imf-executive-board-receives-request-for-flexible-credit-line-arrangement

Peru's FCL request, May 8, 2020: https://www.imf.org/en/News/Articles/2020/05/08/pr20214-peru-imf-executive-board-receives-request-for-flexible-credit-line-arrangement

Colombia's FCL renewal, May 1, 2020: https://www.imf.org/en/News/Articles/2020/05/01/pr20201-colombia-imf-executive-board-approves-new-two-year-flexible-credit-line-arrangement

Mexico's FCL renewal, November 25, 2019: https://www.imf.org/en/News/Articles/2019/11/25/pr19431-mexico-imf-executive-board-approves-new-two-year-us-61-billion-fcl-arrangement

Markets Report: A New Normal for CDS in Latam?

- **The perception of country-risk has increased for Latam, along with other emerging markets, as a result of developing economic contractions, currency depreciations, and aggressive fiscal expansions that are fueling debt sustainability concerns. CDS spreads in the region have increased aggressively, leaving space for corrections after the peak of the pandemic and associated lockdowns pass.**
- **Brazil has suffered the most dramatic increase in its 5Y CDS spread, but even at current levels, given the fiscal projections, we think the pricing is fair and expect it to remain above 300 bps in the coming months.**
- **The 5Y CDS spreads for Mexico and Colombia have moved in tandem, but with oil prices stabilizing and most of the risk related to rating revisions having abated for the time being, we see CDS spreads for both countries going back to levels around 150 bps.**
- **Chile and Peru have seen much less dramatic moves in the 5Y CDS spreads, shielded, in part, by the solid starting points in their fiscal balances and balance of payments positions. Going forward, their aggressive fiscal packages and sharp economic contractions are likely to leave their CDS spreads at this higher equilibrium for some time.**

WEEK IN REVIEW

Latam FX and equities had a negative bias, in line with a broad deterioration in risk appetite (tables 1 and 2). The more cautious approach of investors was explained by doubts regarding the effectiveness of the strategies to re-open the economies, new clusters of contagion in countries that eased their lockdowns and increasing trade tension between the US and China. BRL (-2.1%) underperformed the region after local media reported that there is new evidence in the investigations against President Bolsonaro. MXN was following BRL closely, but reversed some of the losses after the central bank delivered the expected 50 bps cut but was less dovish than some analysts were anticipating. CLP was the outlier, gaining 0.1%, probably pushed by the USD sales that the Treasury is performing to monetize resources that are part of the fiscal package.

ASSESSING COUNTRY-RISK IN LATAM: IT'S NOT ALL THE SAME

The perception of country-risk has increased in Latam, along with other emerging markets. There is still a lot of uncertainty around the length and the magnitude of the current crisis in the Latin American economies, but GDP contractions, currency depreciations, and the deployment of fiscal tools are all pointing to wider deficits, higher debt-to-GDP ratios, and heightened debt sustainability concerns (chart 1).

Markets have adjusted to the new projections and CDS spreads have widened abruptly to levels not seen since the recession of 2008. There has been some recovery in the last weeks but 5Y CDS spreads for all countries are still way above their 5Y averages (chart 2).

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Table 1

Latam FX Performance: May 15, 2020

	Year-to-date	1-month	1-week
ARS	-11.6%	-3.1%	-0.7%
BRL	-31.3%	-10.5%	-2.1%
CLP	-8.9%	3.3%	0.1%
COP	-16.0%	0.1%	-0.6%
MXN	-21.0%	0.1%	-1.3%
PEN	-3.7%	-0.8%	-0.9%

Sources: Scotiabank Economics, Bloomberg.

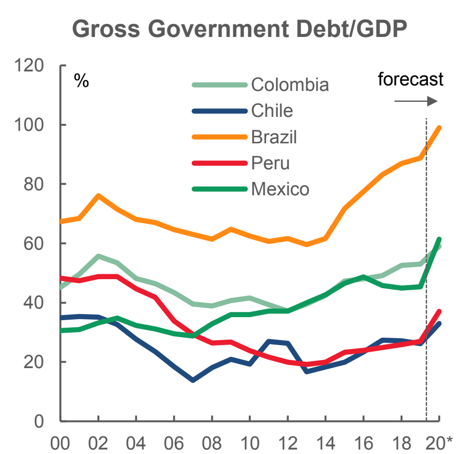
Table 2

Latam Equity Market Performance (local currency): May 15, 2020

	Year-to-date	1-month	1-week
Argentina	-5.5%	31.8%	8.9%
Brazil	-32.9%	-1.8%	-3.4%
Chile	-22.4%	-5.2%	-5.1%
Colombia	-36.6%	-11.6%	-5.1%
Mexico	-18.0%	2.7%	-5.1%
Peru	-26.0%	4.8%	-1.4%

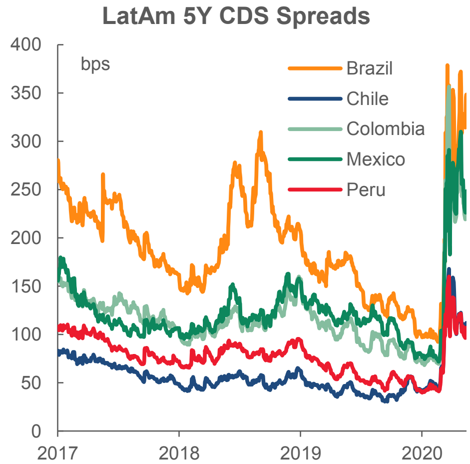
Sources: Scotiabank Economics, Bloomberg.

Chart 1



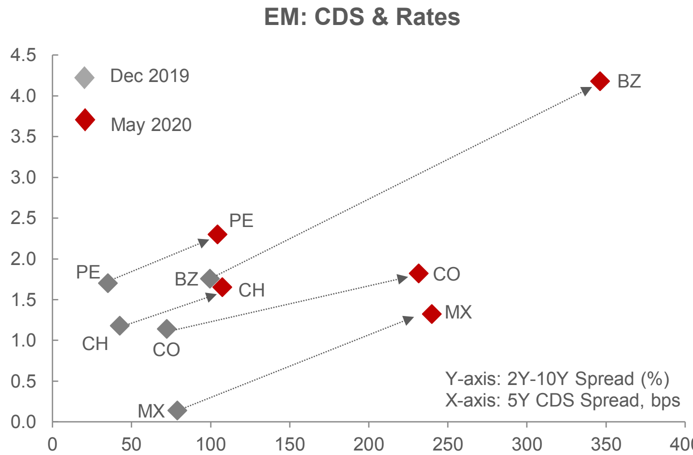
*2020 IMF Forecasts
Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics., Bloomberg.

Chart 3



Sources: Scotiabank Economics, Bloomberg.

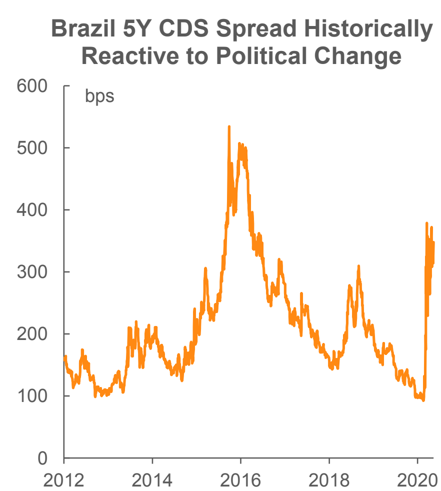
Yield curves in Latam have also steepened sharply since the onset of the COVID-19 crisis, reflecting the perception of higher country-risk, a pullback in international capital from longer-dated risks assets, and monetary-policy easing (see ***Latam Weekly May 9***). Chart 3 shows how CDS and the 2Y–10Y spreads have evolved in Latam this year.

BRAZIL: FISCAL CONSOLIDATION TO REMAIN CHALLENGING

In Brazil, the sharp deterioration in its fiscal projections has resulted in the most dramatic increase in 5Y CDS spreads in the region (+250 bps) and a 300 bps widening of the 2Y–10Y spread. But even at current levels, we think the pricing is fair because of the fragile situation of the fiscal accounts. Brazil's debt-to-GDP is expected to reach about 100% in 2020 while the reform agenda will likely be on hold for longer than anticipated, with new political turmoil complicating the health and economic crisis even further. The task of stabilizing the fiscal accounts and putting them on a sustainable path already seemed too difficult before the crisis and we think it will face further obstacles, justifying CDS spreads around 300 bps in the coming months.

If we look at the 2013–2015 period, we can get an idea of what to expect this time around. As fiscal deterioration started to materialize, taking the debt-to-GDP 10 ppts higher in one year, we saw a widening of 350 bps in Brazil 5Y CDS that took it close to 500. The trend only reversed with a convincing turn in the government strategy—the design of aggressive reforms and better prospects for GDP when Temer took power. The optimism vanished amid political scandals, taking the CDS up again. The same expectations (reforms, growth, pro-market approach) replicated when Bolsonaro took power and gave Guedes control of the economic agenda. But once again, it seems that reality will make Guedes' promises difficult to fulfill, just when debt-to-GDP is about to cross the 100% threshold (chart 4).

Chart 4



Sources: Scotiabank Economics., Bloomberg.

MEXICO AND COLOMBIA: OVERSHOOTING SHOULD BE UNWOUND

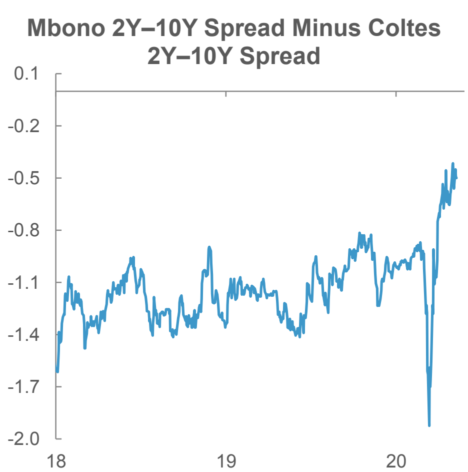
The 5Y CDS spreads for Mexico and Colombia have widened in tandem (by around +160 bps for both), but the premium reflected in the 2Y–10Y spread is higher for Mexico. Although the Coltes curve is still steeper, the move from the starting points is wider for the Mbono curve (chart 5). A combination of factors could account for this. Among these factors, the curve in Mexico at the beginning of the year might have been too flat, underpricing long-term risks as long positions crowded the market in a search for yield. Also, the fact that Mexican bonds are more liquid than the Coltes may have resulted in a more sizeable liquidation of holdings in Mexico when investors needed to get ahold of cash.

Going forward, the perception that the Mexican government has not responded efficiently to the pandemic and the fact that Pemex may face greater challenges than Ecopetrol might keep Mexico trading at a premium to Colombia in the longer end of the curve, but we think the gap will close if/when carry strategies gain momentum. With oil prices stabilizing and most of the risk related to rating revisions in the background for the time being, we see CDS spreads for both countries going back gradually to levels around 150 bps in the second half of the year (chart 6).

CHILE AND PERU: BETTER STARTING POINTS, LESS ROOM TO IMPROVE

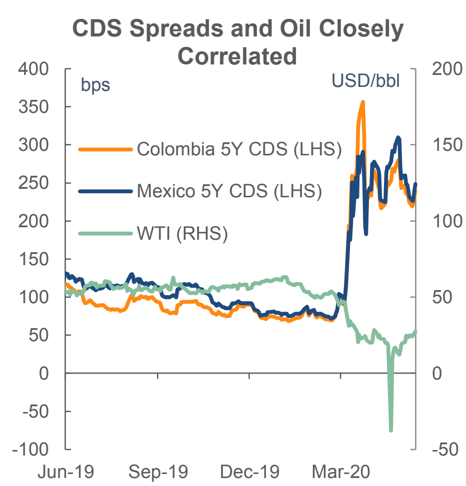
Chile and Peru have seen much less dramatic moves in the 5Y CDS spreads, shielded by very solid starting points in their fiscal balances. With uncertainty still high, we think that the aggressive fiscal packages that have been announced, paired with the sharp economic contractions anticipated in both countries, will leave the CDS at their current levels for some time. In Chile, in particular, we think that the social demands that fueled the protests last October will result in higher debt-to-GDP ratios for the long term that will validate a persistently higher risk premium, leaving the equilibrium for the 5Y CDS spread around 100. In Peru, we are looking for some consolidation of the CDS around current levels as well. We are expecting some persistence in the perception of risk as the economic picture deteriorates in the second and third quarter of the year, leading to the 9% contraction our economics team is expecting for 2020 (the sharpest fall in the region). The degree of economic damage might also trigger political disagreements or social fatigue that could bring some instability in the coming months.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Chart 6



Sources: Scotiabank Economics, Bloomberg.

Country Updates

Argentina—Debt Stalemate Amidst Deteriorating Economy

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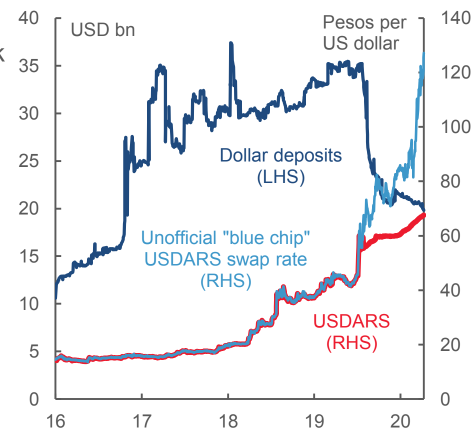
National inflation, published on May 14, slowed from 3.30% m/m in March to 1.50% m/m in April, the weakest monthly number since November 2017, which brought headline CPI down from 48.4% y/y in March to 45.60% in April. This pullback in price pressures isn't likely to continue for long as it simply means the lockdown in activity for the entire month was sufficient to offset partially February's 4% m/m wage growth and a blue-chip USDARS swap rate that is now nearly twice the official rate (first chart). Withdrawals of USD deposits from the banking system have stepped up again over the last three weeks as households have made efforts to put precautionary savings under their metaphorical mattresses or out of the country as Argentina's debt restructuring talks have foundered. We expect FX pass-through effects and ongoing monetization of the government's deficits by the BCRA to provide a sustained impulse to prices; therefore, we are leaving our inflation forecasts for 2020 unchanged.

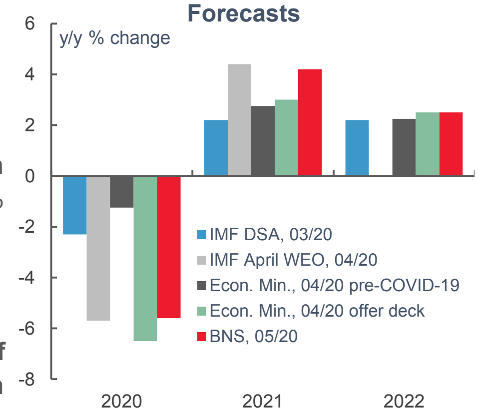
Argentina: Dollar Deposits Falling



Sources: Scotiabank Economics, BCRA.

Next week's data are dominated by March's economic activity index print on Wednesday, May 20. We expect seasonally-adjusted monthly growth to remain consistent with February's performance and record a -1.0% m/m fall, only slightly better than the -1.1% m/m contraction the month before. Statistical base effects mean that this would deliver a slightly deeper year-on-year contraction, moving from -2.2% y/y in February to -2.3% y/y in March. March economic activity along these lines would be consistent with the ongoing declines in construction activity, industrial output, and industrial capacity utilization already recorded for the month. Overall, this would imply that Q1-2020 real GDP contracted by -2.3% y/y and would put Argentina's economy on track to shrink by -5.9% y/y in 2020, all other things being equal—worse than the -5.6% y/y we currently forecast, but closer to the -6.5% contraction projected in the Argentine authorities' debt restructuring offer terms (second chart).

Argentina: Real GDP Growth Forecasts



Sources: Scotiabank Economics, IMF, Argentina Economic Ministry.

The debt negotiations will be in focus every day this week as the extended deadline for the government's offer on Friday, May 22 coincides with the end of the 30-day grace period on about USD 500 mn in deferred coupon payments on a handful of USD-denominated bonds. Province of Buenos Aires faced possible default as its own grace period on deferred bond payments ended on May 14. This past week saw little obvious movement in the debt restructuring discussions between Argentina and holders of about USD 70 bn in national and provincial government foreign-law bonds after the May 8 deadline for participation in the national government's debt exchange came and went without sufficient consent to proceed. At the beginning of the week, Pres. Fernandez indicated that the government would look at counter-proposals from creditors, but had yet to receive any. He pointedly ignored bondholders' critiques of the government's proposed grace period and coupon on exchanged debt raised at their webinar on May 4 and in subsequent engagements. Acceptance rates on the exchange are not due to be revealed until May 25.

The current "managed quarantine" lasts until Sunday, May 24 with some industrial re-openings proceeding this past week and next. We expect closure of other non-essential businesses, principally in the service sector, to be extended into June.

Brazil—Less Strict Lockdown: Short-Term Gain for Longer-Term Pain?

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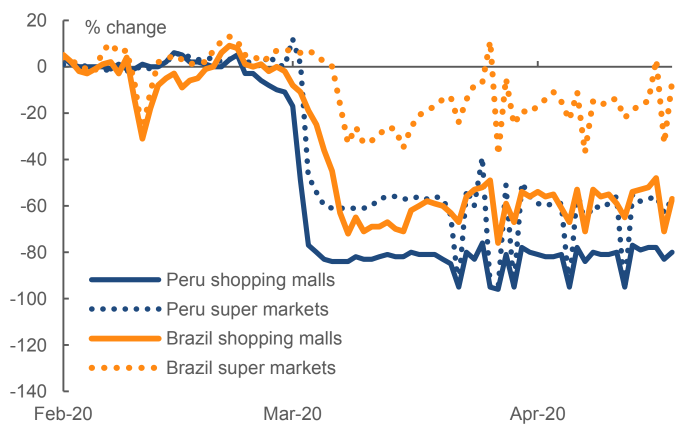
Brazil: Traffic in Commercial Establishments



Sources: Scotiabank Economics.

One of the big surprises in data relative to consensus forecasts over the past week was the strength in Brazilian retail sales for March. We expected a deceleration to -0.7% y/y, consensus was -3.9% y/y, and the actual print was -1.2% y/y. The resilience of retail sales was quite impressive compared with other recent data in the country, particularly PMIs and industrial production. We think one of the reasons for this "disconnect" in the data is the government's approach to the COVID-19 crisis. Whereas many countries such as Peru have enforced very strong lockdowns to keep the COVID-19 spread in check, Brazil has not sent its population a clear message, and the policies of the State and Federal governments have been clashing. We can see a reflection of the two approaches in the accompanying chart which shows the change in traffic in retail establishments over the course of the crisis in Peru and Brazil. Although changes in traffic are not necessarily going to be the same as drops in sales (not all traffic leads to sales, and there are also delivery services), Brazil's less strict lockdowns have resulted in a more gradual drop in traffic, and also smaller total declines than Peru, where isolation has been strictly enforced and the government's reaction and message more clear. The less strictly enforced isolation is one of the reasons we think Brazil's retail sales were relatively robust. Potential implications of a sharper drop in supply-side statistics such as PMIs and IP, relative to demand-side indicators such as retail sales include: 1) the disconnect could result in some upwards inflation pressures down the line, 2) as long as employment holds up, it could also support a stronger rebound for the supply-side indicators once the lockdown ends. However, there is also the risk that lack of enforcement of social isolation could also mean the virus spreads more aggressively, forcing the isolation (mandatory or self-imposed) to last longer and extending the slowdown period (our base case, hence our longer-than-consensus estimate for the length of the recession).

As Q1 progressed, the Brazilian economy's performance dropped sharply, moving from posting modest growth to a -5.9% m/m contraction in March. The sharp monthly drop brought the y/y evolution to -1.52%, which was still a little better than consensus calls for -2.4% y/y. The March print also took the economic activity index (the BCB proxy for GDP) to -1.95% for Q1. We had already seen several March data points come out better than expected, which we attribute to the less harsh lockdown Brazil has had relative to some of its neighbours. We expect data for April to show steeper drops.

For the coming week, the data pipeline is much lighter in tier 1 events. We have several tier-2 & 3 indicators which we do not forecast such as: weekly trade balance, the less closely followed inflation metrics (i.e. not IPCA), as well as tax collection. The indicators in which we are most interested will be tax collection for April which will give us an indication of how much the hit from the deceleration affects fiscal accounts, CNI industrial confidence which we think is particularly relevant given the sharper hit we've seen to supply-side indicators so far, and the IGP-M inflation that will give us the degree of relief that producers are getting from lower producer prices.

Chile—Santiago Enters a Total Lockdown

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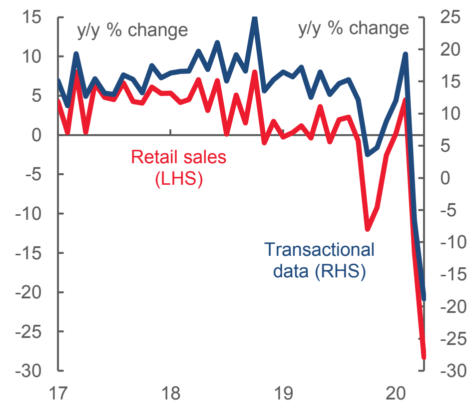
On Tuesday, May 12, the Central Bank of Chile requested a precautionary line of credit for USD 24 bn (10 times Chile's quota) from the IMF. This credit line corresponds to the Flexible Credit Line (FCL). FCL is a precautionary facility, complementary to the own sources of external liquidity coming, for example, from international reserves. Its availability is intended to help achieve the Central Bank's objectives in the event of severe external shocks, such as those that could accompany a significant worsening of the global effects of the crisis caused by COVID-19. This would have positive effects on financial conditions and appreciative marginal effect on the peso. On Wednesday, May 13, the CB also published its Financial Stability Report, reinforcing its commitment to continue providing liquidity to markets and assessing the ability of macro- and micro-prudential policies to face the crisis. In addition, the financial regulator issued a transitional rule that simplifies the process of issuing long-term bonds for Chilean companies. All these measures point to containing the financial stress and providing enough liquidity to markets. **Finally, on May 13, the Ministry of Health announced a total lockdown for the city of Santiago, beginning at 10:00pm on Friday, May 15. It will last for at least one week, and it would be the first time the whole metropolitan area is in total confinement.**

Chile: Retail Sales and Transactional Data



Source: Scotiabank Economics.

Next week, the National Accounts for 1Q-2020 will be published on Monday, May 18. Given the latest news about confinement and its significant impact on the economy, we are revising our GDP projection for 2020, from a fall of 2.1% y/y, to a decline around 4.5% y/y. For April GDP, we are expecting a decline around 7% y/y, as different measures have indicated a sharp fall in services and industrial activity. Regarding commerce data, debit and credit card transactions point to a drop of around 25–30% in retail sales in April. In addition, we will continue monitoring prices for the May inflation. We are currently forecasting a flat monthly reading in May, as the declines in fuels and transport services would be partially offset by increases in rent and cigarettes. For year-end, we maintain our projection of 2.8% of annual inflation.

Colombia—Entry to Crisis Weaker than Expected

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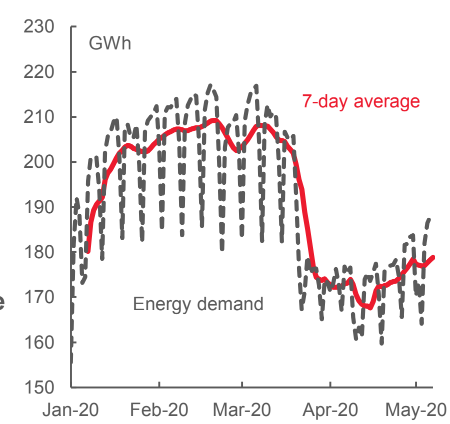
The COVID-19/oil prices shock in Colombia will continue to affect economic activity and economic policy priorities, as we have discussed in the last two issues of *Latam Weekly*. However, the labor sector, in the end, will be one of the most affected sectors due to an unprecedented lockdown in Colombia. Mandatory lockdown started in the last week of March and, according to DANE, that week produced a loss of slightly more than 1.5 mn jobs, which represent around 6.5% of the labor force.

Our calculations on economic activity shutdown indicate that, in April, 34% of the total sectors were inactive—which is consistent with a loss of 1.6 mn jobs especially in commerce (9%), construction (11.6%), manufacturing (10.5%) and leisure and hospitality (18.1%). Although gradual reopening has started in May, and we expect 76% of the economy to be running by June, with only 14% of the

Colombia: Daily Energy Demand



Sources: Scotiabank Economics, XM.

economy remaining shut down by December, we anticipate permanent job losses of almost 2.8 mn (12% of current labor force), in pretty much the same sectors as **those initially most affected.**

Additionally, it is worth noting that the most affected sectors in terms of job destruction are also the most informal sectors in the Colombian economy. For instance, 65% of the labor force in commerce is informal, along with 54% in construction, and 67% in hospitality. The "positive" side is that informality is much more flexible than formality and, during an economic activity recovery environment next year, some of those people can return to the labor market rather quickly.

Colombia: Employment Statistics by Sector	% of Total Employment	Estimated Employment Variation - 2020 (%)	Labor Informality - Urban Areas (%)
Agriculture	15.7	-6.0	43.9
Oil and Mining	0.9	-24.5	6.7
Manufacturing	11.3	-13.6	35.8
Utilities	0.9	25.7	36.8
Constuction	6.8	-12.7	53.7
Commerce & Transportation	33.4	-10.5	66.0
Communication	1.5	-0.7	13.0
Financial Services	1.4	-2.4	10.7
Real Estate Services	1.3	-17.4	37.0
Professional Activities	6.2	-1.4	38.1
Public Administration	11.4	-8.6	7.8
Leisure	9.3	-42.0	74.1
Total Employment pre-COVID	**22.2 mn**	**- 2.7 mn**	**47.8**

Source: Scotiabank Colpatria.

Deterioration in the labor market had not been fully reflected in the unemployment rate due to methodology issues. DANE´s methodology is such that if a person has not worked for the last week and couldn't look for a job due to the quarantine, that person is not counted as unemployed but as inactive. This reduces labor force statistics, and underestimates unemployment. In March, the unemployment rate came in at 12.6%, but if people who lost their job were considered unemployed and not inactive, the unemployment rate would have been around 20%. Therefore, although we think the unemployment rate in Colombia this year will be 17.8% on average in 2020, that figure can increase by at least 1 ppt if newly inactive people accounted for in March are reincorporated in the labor force statistic.

The labor market will be a key issue to the economic recovery since, although we estimate that already around 70% of the economic sectors are active, 25% of those sectors would face high uncertainty due to weaker demand. Employment recovery and confidence are needed to close the production-demand gap.

In terms of data, DANE released 1Q20 GDP numbers. Economic activity grew 1.1% which is below market expectations (1.5%) and much worse than our forecast of 3.2% due to a harder-than-expected hit in the last week of March to economic activity in the mining, manufacturing and construction sectors. Although January and February GDP proxy (ISE) showed 4.1% growth, March showed a tremendous downturn in investment. Without further revisions, the 1Q20 GDP puts our GDP growth outlook for 2020 at -2.9% instead of 2.3%. We will likely revise 2Q20 downwards which tilts the risk toward even lower economic activity for 2020.

Mexico—Re-Opening at the Pandemic's Peak

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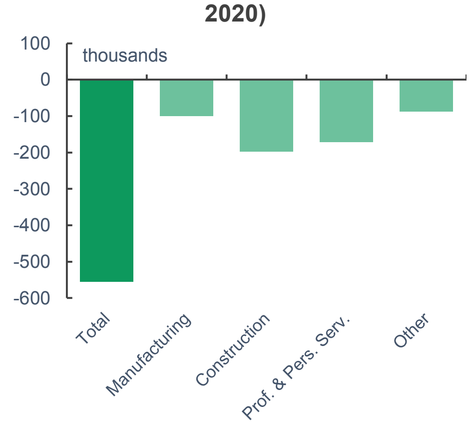
Economic disruption resulting from measures to contain COVID-19 contagion is producing unprecedented readings in economic indicators worldwide, and Mexico is no exception. **The most relevant statistic to approximate formal job creation in the country is the change in the number of workers insured in the Mexican Social Security Institute (IMSS in Spanish) which, in the month of April presented a record negative reading of 555 thousand persons, 366 thousand of whom were tagged as "permanent" workers and 189 thousand were tagged as "temporary" workers.** Adding the 131 thousand jobs lost in March, the total jobs lost in the last two months was 686 thousand. To grasp the dramatic dimension of this number,

Mexico: Employment Change (April 2020)



Sources: Scotiabank Economics, Mexico Social Security.

in the whole year 2019, only 342 thousand jobs were created. The IMSS also reported a reduction of 6,689 employers, from a total of one million registered.

We also received the results for industrial production in March, which posted a 5.0% real y/y contraction, the deepest since 2009 and the 13th consecutive month in recession. It is worth noting that this contraction is showing only the first part of the impact from the isolation safety measures, and April figures will show the full impact. Manufacturing production, which accounts for 54% of total industry, contracted 6.1% real y/y; while construction, the second most relevant component of industrial activity with 24% of the total, fell 7.5% real y/y.

Pressed by the economic emergency, and just when the pandemic is supposedly reaching its peak of contagion, the Federal Government announced its strategy to reopen the economy in 3 phases, starting Phase 1 on May 18th with what they call the "Hope Municipalities", which are those with no recorded COVID-19 contagion, totalling 269 municipalities in 15 States. Phase 2 will start between May 18th and 31st, with preparation for general reopening that will include elaboration of health protocols to be implemented by firms and training of personnel to ensure health and safety within the working environment, reconfiguration of facilities and productive processes, and the application of safety protocols when entering workplaces. Construction, mining and manufacturing of transportation equipment will be considered essential activities. Phase 3 will start on June 1st, and according to a four-color "traffic lights" code, different regions will gradually start to reopen. Worth noting is that avoiding a second wave of contagion is crucial for this strategy to work, but for this to happen, testing for COVID-19 contagion would be vital; and Mexico has been signaled as one of the countries with the lowest testing rates.

Banco de Mexico cut its reference interest rate by 50 bps as expected, and now the overnight funding interest rate will be 5.5%. There is little forward guidance in the official statement, and while risk balance for growth remains clearly biased to the downside, the risk balance for inflation is referred to as uncertain. After this decision, we anticipate another 50 bps cut in June, and in the upcoming weeks we will be revising our forecast for the rest of the year, since additional cuts are growing more likely.

For the week ahead we will have inflation for the first half of May, which will be a key input for the next monetary policy decision, and commercial activity for the month of March.

Peru—Central Bank Rate to Stay Low for Longer; Unlocking in Slow Motion

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We have adjusted our 2021 inflation forecast from 2.2% to 1.7%. Based on this, as well as on the BCRP's May policy statement that monetary policy will be expansionary for longer, and on the lingering consequences for employment of the current contraction, we are changing our reference rate forecast for 2021. We now expect the BCRP to keep its rate at 0.25% until 3Q21, and raise to 0.5% in 4Q21 (previously we had expected the BCRP to begin raising in 1Q21, and end 2021 at 1.5%).

COVID-19 case count and mortality are stabilizing but not tapering, and continue to be the main focus of government concerns, despite the harsh contraction seen in March GDP growth. As the first week of phase 1 of the unlocking ends, we are following electricity demand, but evidence of an improvement is still indeterminate. It would appear that companies, including mining companies which are large consumers of power, are still working on instituting health and labor protocols before being able to come on stream.

Peru	Share in Mining GDP (%)	Unlocked as % of Total Operations	Unlocked as % of Mining GDP
Copper	56.1	95	53
Gold	12.3	26	3
Zinc	11.9	62	7
Silver	6.4	65	4
Iron	2.8	100	3
Tin	0.3	100	0
Molibdenum	7.8	100	8
Total			**79**

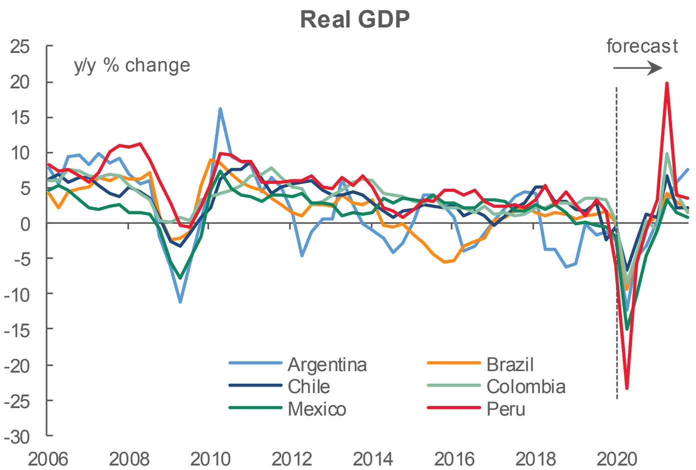
Source: Scotiabank Economics.

Meanwhile, the government is giving equal time to containment measures and to its reopening strategy. In terms of containment, the new focus is on transportation and control at outdoor marketplaces. Unlocking has included progress in designing health protocols for 27 industries, including mining, fishing, restaurants, hotels, e-commerce, infrastructure projects, as well as announcements on road and health investment projects starting up. Domestic regional passenger transportation will open up beginning in June, as well.

Recent mining information for March was not that bad. Mining investment fell only 15% y/y, which was lower than the -30% we feared. Mining output declines were more in line with expectations, with copper down 27% y/y, and gold down 32% y/y. At present, large mining operations, mainly open pit and leaching, have been unlocked. The chart shows the weight of large mining operations in total mining GDP in Peru. In aggregate, large unlocked operations constitute 79% of total metal output.

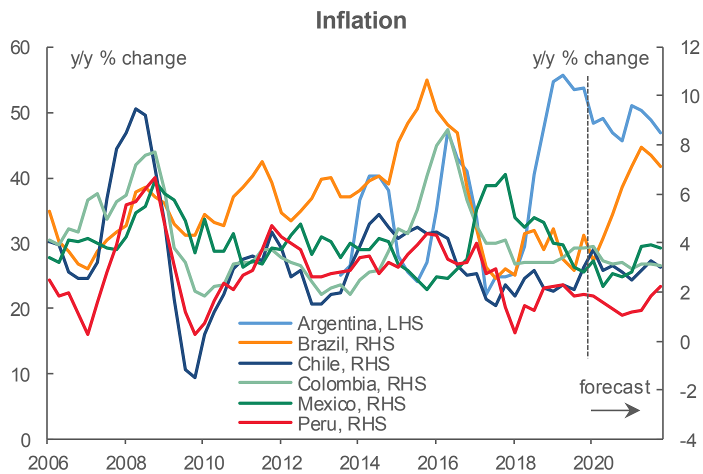
Key Economic Charts

Chart 1



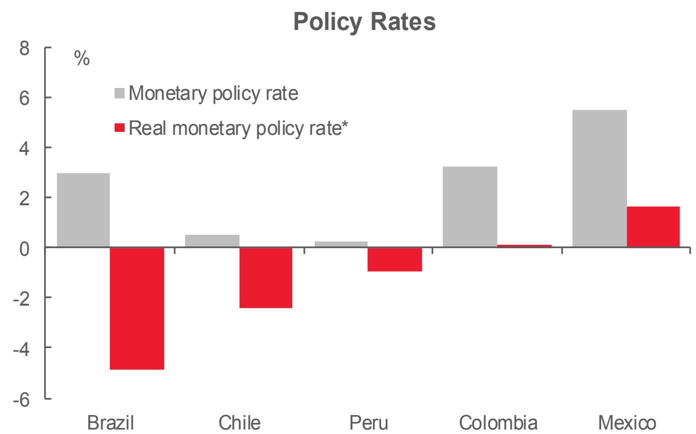
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



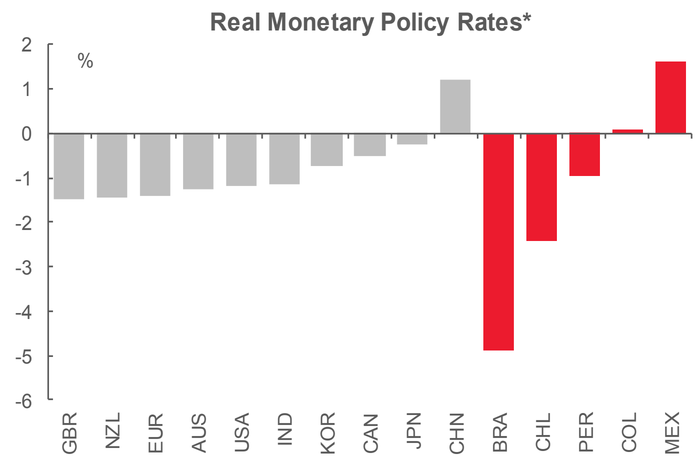
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



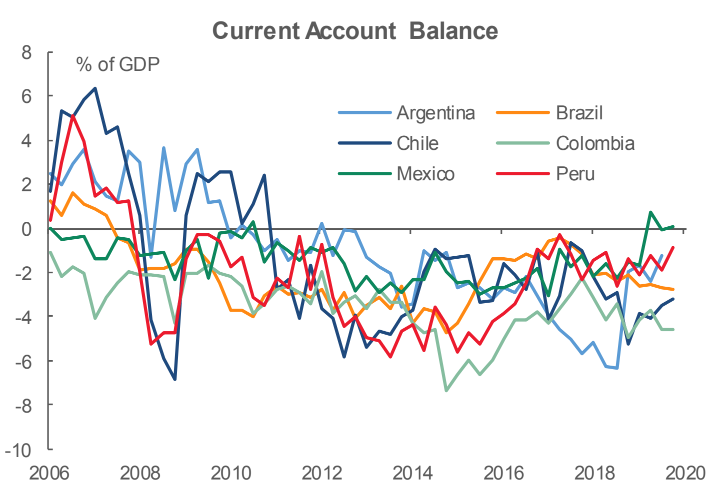
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Argentina: MPR = 38.0%; Real MPR = -12.4%. Sources: Scotiabank Economics, Haver Analytics.

Chart 4



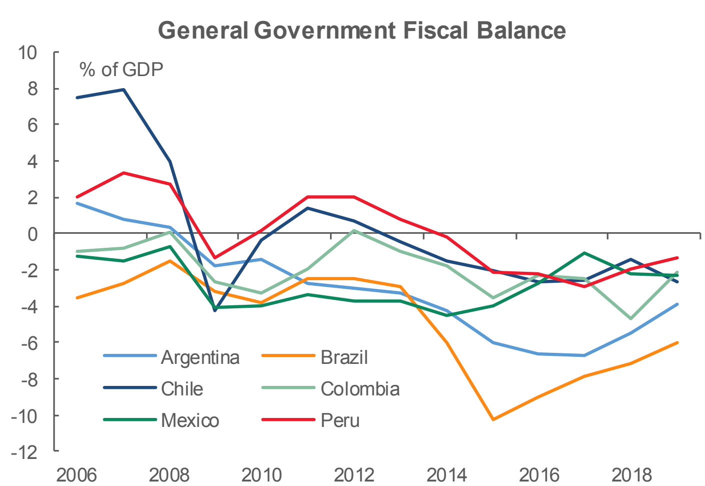
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Haver Analytics.

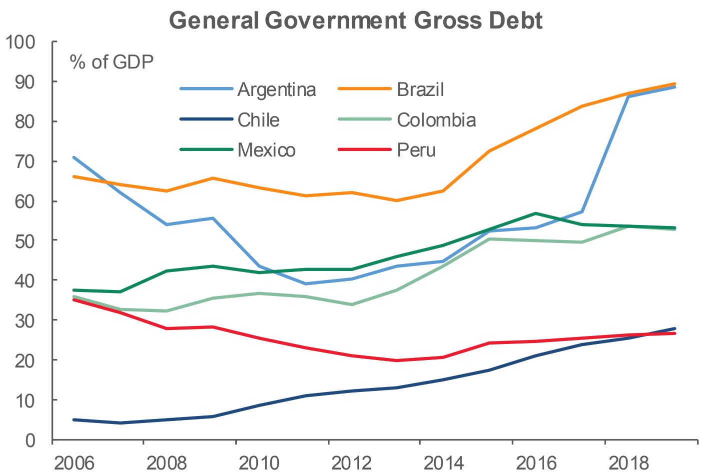
Chart 6



Sources: Scotiabank Economics, IMF.

Key Economic Charts

Chart 7

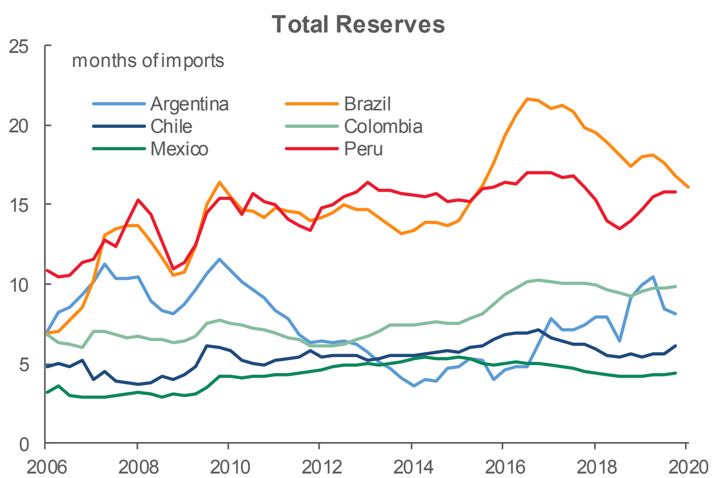


Sources: Scotiabank Economics, IMF.

Chart 8

Sources: Scotiabank Economics, Haver Analytics.

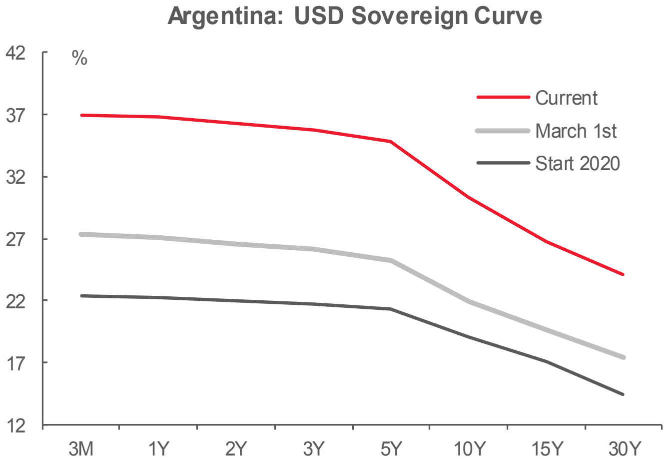
Chart 9



Sources: Scotiabank Economics, Haver Analytics.

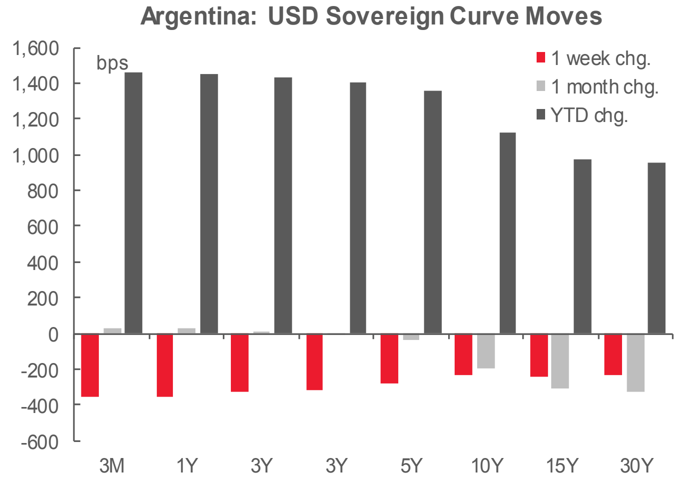
Key Market Charts

Chart 1



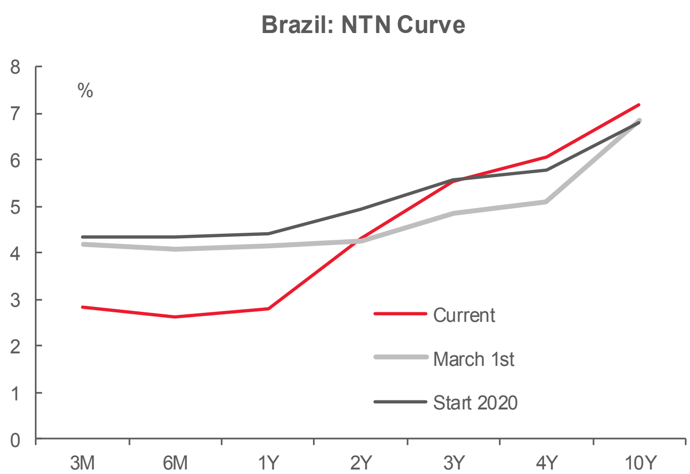
Sources: Scotiabank Economics, Bloomberg.

Chart 2



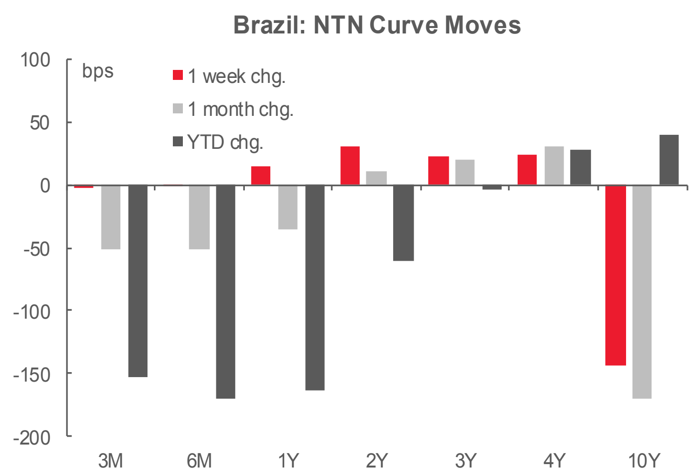
Sources: Scotiabank Economics, Bloomberg.

Chart 3



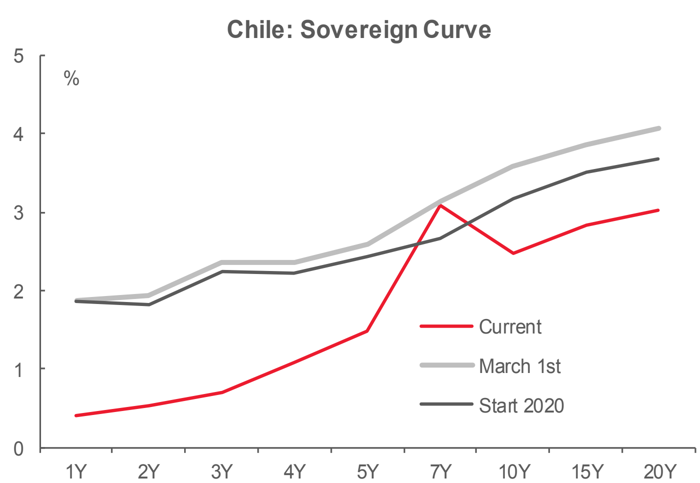
Sources: Scotiabank Economics, Bloomberg.

Chart 4



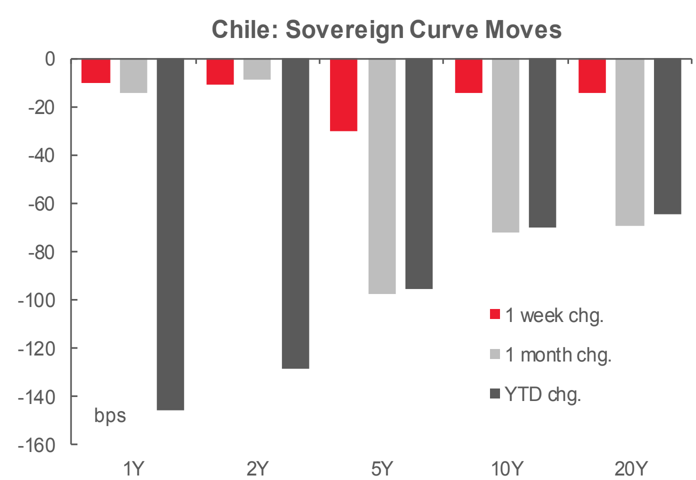
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

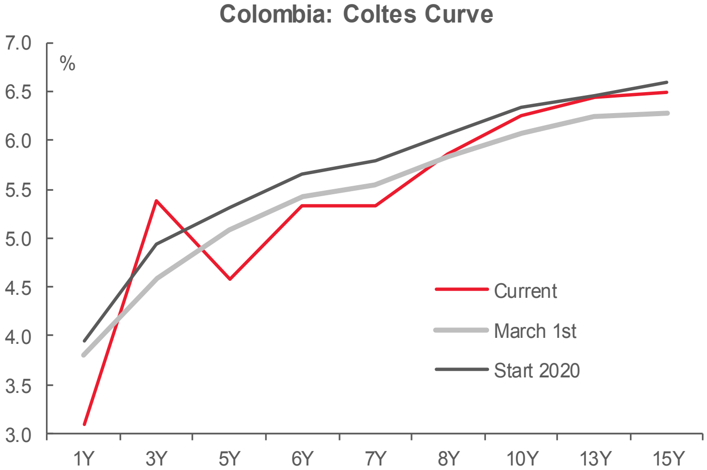
Chart 6



Sources: Scotiabank Economics, Bloomberg.

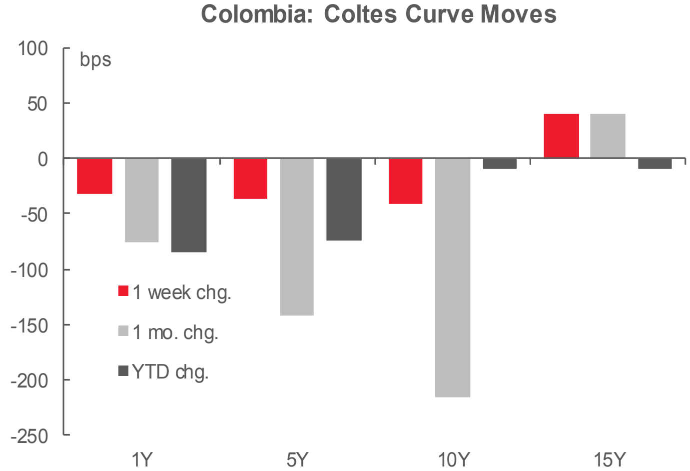
Key Market Charts

Chart 7



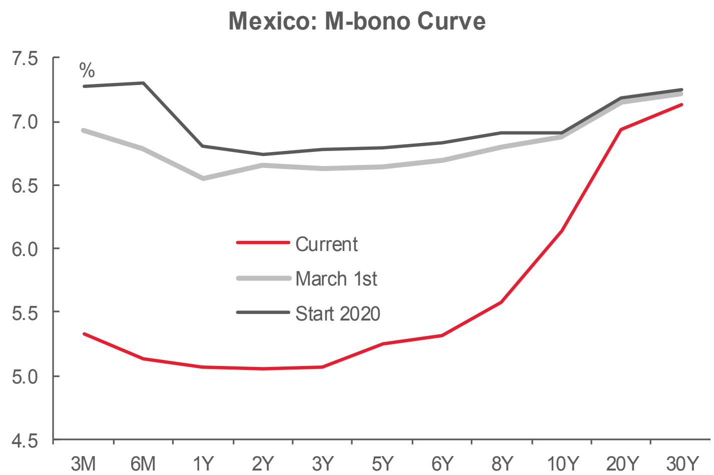
Sources: Scotiabank Economics, Bloomberg.

Chart 8



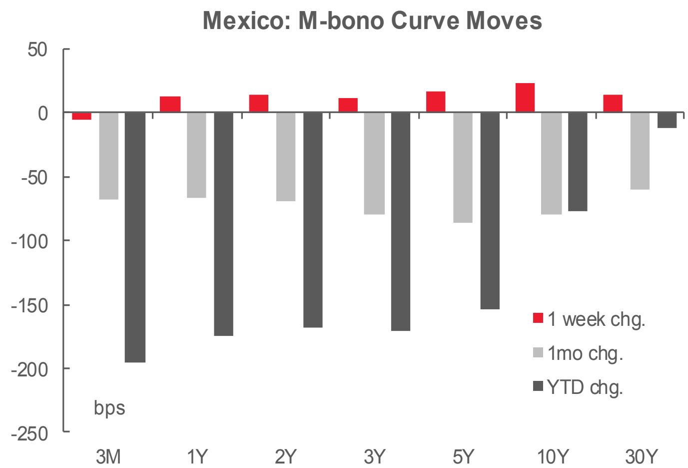
Sources: Scotiabank Economics, Bloomberg.

Chart 9



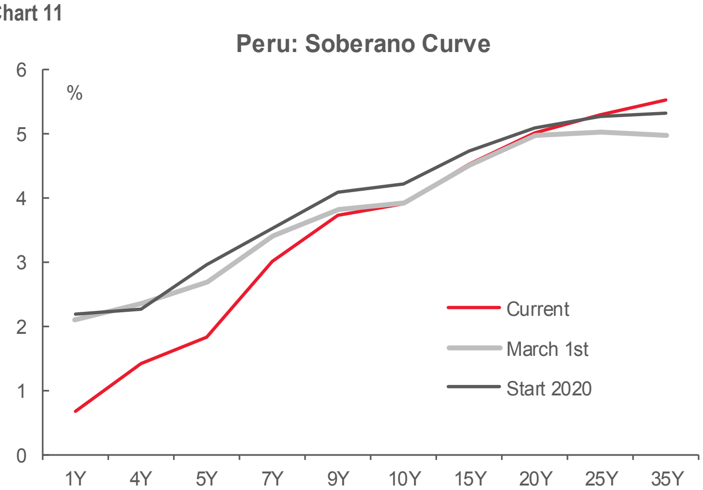
Sources: Scotiabank Economics, Bloomberg.

Chart 10



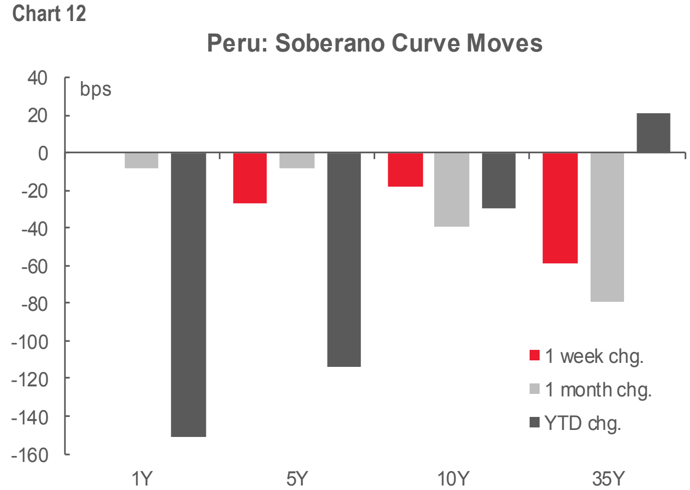
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

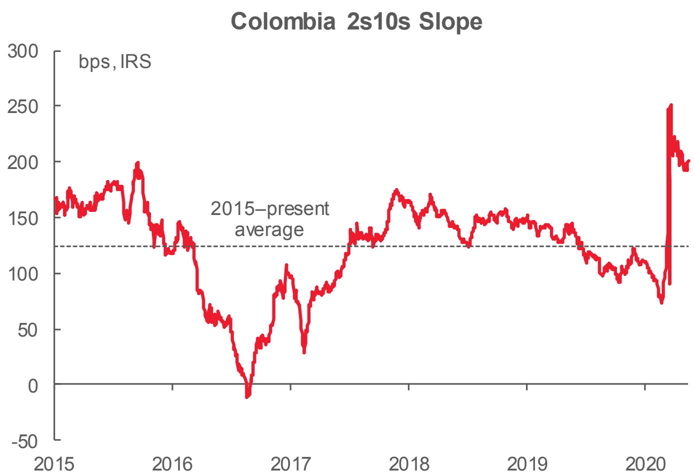
Chart 13

Sources: Scotiabank Economics., Bloomberg.

Chart 14

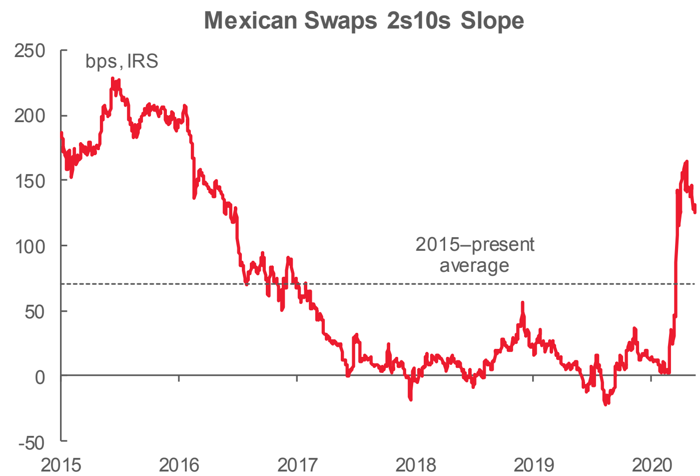
Sources: Scotiabank Economics., Bloomberg.

Chart 15



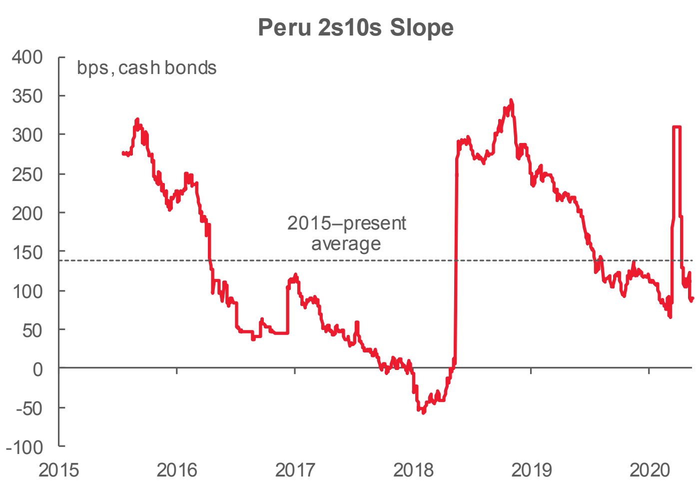
Sources: Scotiabank Economics., Bloomberg.

Chart 16



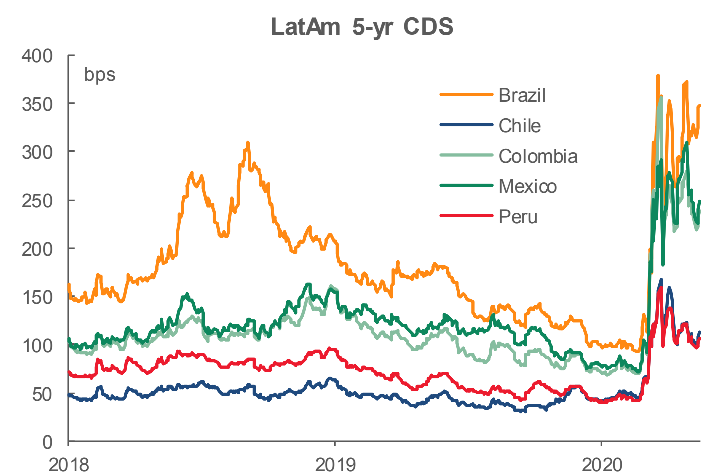
Sources: Scotiabank Economics., Bloomberg.

Chart 17



Sources: Scotiabank Economics., Bloomberg.

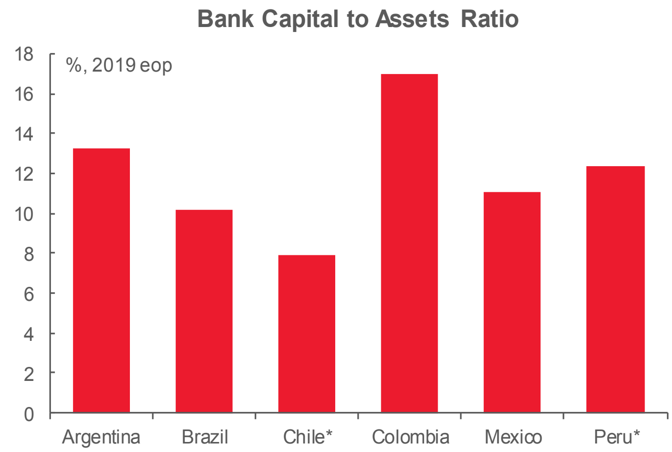
Chart 18



Sources: Scotiabank Economics., Bloomberg

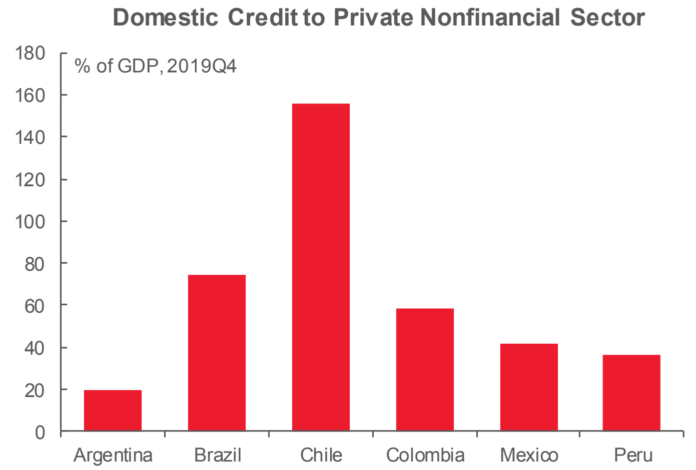
Key Market Charts

Chart 19



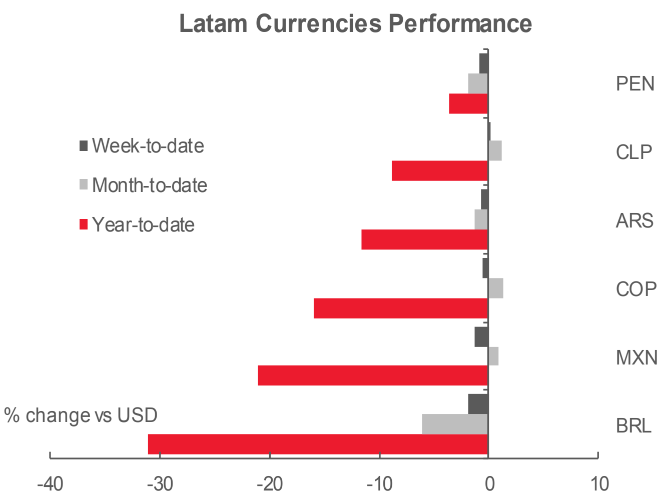
* Chile 19Q3; Peru 19Q2.
Sources: Scotiabank Economics, IMF.

Chart 20



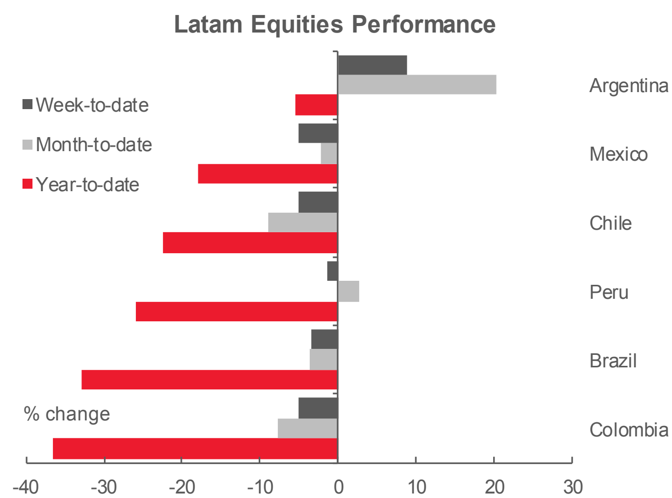
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 21



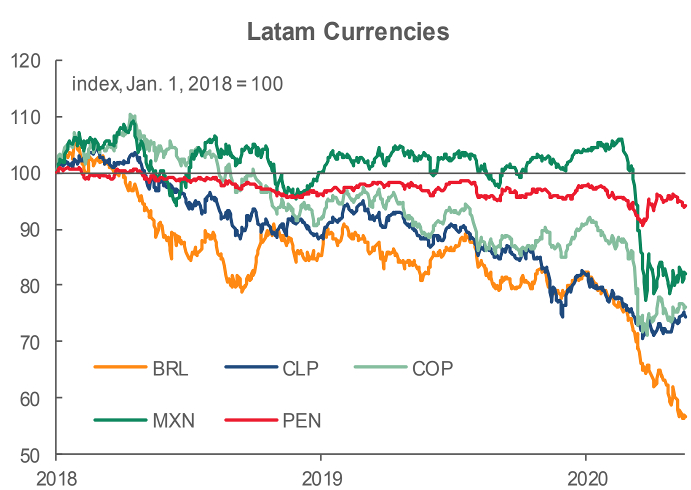
Sources: Scotiabank Economics, Bloomberg.

Chart 22



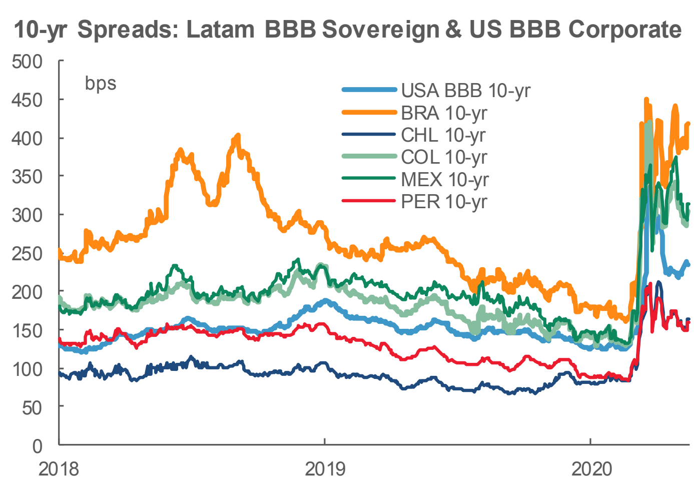
Sources: Scotiabank Economics, Bloomberg.

Chart 23



Sources: Scotiabank Economics, Bloomberg.

Chart 24



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for May 16–22

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May 20-22		Budget Balance	Apr	--	--	-124728	
05-20	15:00	Economic Activity Index (y/y)	Mar	-2.3	--	-2.2	Industrial production and capacity utilization data imply that the balance of risks is toward a print worse than our projections.
05-20	15:00	Economic Activity Index (m/m)	Mar	-1.0	--	-1.1	
05-20		UTDT Leading Indicator	Apr	--	--	-0.9	
05-21		Consumer Confidence Index	May	--	--	39	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May 14-22		Formal Job Creation Total	Jan	--	76381	-307311	
05-18	7:00	FGV CPI IPC-S	15-May	--	--	-0.3	
05-18	7:00	FGV Inflation IGP-10 (m/m)	May	--	--	1.1	
05-18	7:25	Central Bank Weekly Economists Survey		--			
05-18	14:00	Trade Balance Weekly	17-May	--	--	2475	
05-19	4:00	FIPE CPI - Weekly	15-May	--	--	-0.4	
05-20	7:00	IGP-M Inflation 2nd Preview	May	--	--	1.0	
05-20		CNI Industrial Confidence	May	--	--	34.5	Tax collection and industrial confidence expected to slump owing to COVID-19.
May 20-26		Tax Collections	Apr	--	--	109718	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05-18	8:30	GDP (q/q)	1Q	--	--	-4.1	
05-18	8:30	Current Account Balance	1Q	--	--	-2364	
05-18	8:30	GDP (y/y)	1Q	-0.1	--	-2.1	
05-22	8:30	Central Bank Meeting Minutes					We expect more details about the macro and micro prudential measures the Board is considering in order to face the COVID-19 crisis.
05-22	9:00	PPI (m/m)	Apr	--	--	-1.3	

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
05-19	10:00	International Reserves Weekly	15-May	--	--	186655	
05-20		Citibanamex Survey of Economists					
05-22	7:00	Retail Sales (m/m)	Mar	--	--	-1.1	A signficiant contraction is expected as disruption started.
05-22	7:00	Retail Sales (y/y)	Mar	--	--	2.5	
05-22	7:00	Bi-Weekly CPI	15-May	-0.6	--	0.2	Inflation will continue in negative territory due to seasonal factors. Core inflation will be a key input for the monetary policy decisions.
05-22	7:00	Bi-Weekly Core CPI	15-May	0.1	--	0.2	
05-22	7:00	Bi-Weekly CPI (y/y)	15-May	1.9	--	2.2	

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May 20-22		GDP (y/y)	1Q	--	-0.7	1.8	

Forecasts at time of publication.
Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage

Local Market Coverage

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