Latam Weekly: More Fiscal, Wider Asset Purchases

FORECAST UPDATES

- **Limited updates to our forecasts this week have been driven by a combination of policy developments and new data in Argentina, Brazil, Chile, Colombia, and Peru. The larges changes are in Chile in response to the extension of its quarantine in Gran Santiago.**

ECONOMIC OVERVIEW

- **After big policy moves at the outset of the pandemic, Latam governments are adding to fiscal efforts and central bank powers to cushion the impact of COVID-19 on their economies.**

MARKETS REPORT

- **We assess the possible implications for Chile's markets of the new policy initiatives announced this past week.**

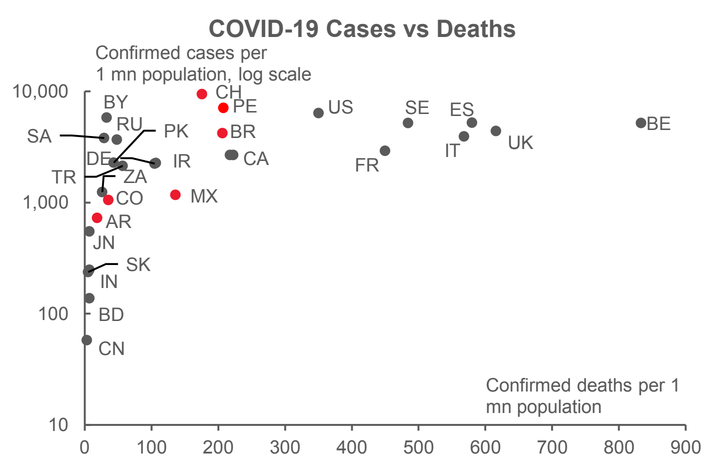
COUNTRY UPDATES

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

MARKET EVENTS & INDICATORS

- **Risk calendar with selected highlights for the period June 20–June 26 across our six major Latam economies.**

Chart of the Week



Sources: Scotiabank Economics, Johns Hopkins University.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

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THIS WEEK'S CONTRIBUTORS:

Jorge Selaive, Chief Economist
56.2.2939.1092 (Chile)
jorge.selaive@scotiabank.cl

Carlos Muñoz, Senior Economist
56.2.2619.6848 (Chile)
carlos.munoz@scotiabank.cl

Sergio Olarte, Senior Economist
57.1.745.6300 (Colombia)
sergio.olarte@co.scotiabank.com

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

Mario Correa, Economic Research Director
52.55.5123.2683 (Mexico)
mcorrea@scotiacb.com.mx

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
eduardo.suarez@scotiabank.com

Guillermo Arbe, Head of Economic Research
51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Tania Escobedo Jacob, Associate Director
212.225.6256 (New York)
tania.escobedojacob@scotiabank.com

Marc Ercolao, Economic Analyst
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

Forecast Updates

	2019	2020				2021						
Argentina	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-1.1	-5.4	-15.0	-6.2	-4.1	4.5	5.8	7.1	8.4	-2.2	-7.9	6.5
CPI (y/y %, eop)	53.8	48.4	41.2	32.4	25.8	27.5	33.2	38.5	42.6	53.8	25.8	42.6
Unemployment rate (%, avg)	8.9	10.9	12.1	11.4	11.0	10.9	10.3	9.8	9.7	9.8	11.4	10.2
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)	59.89	64.40	72.60	78.30	83.10	86.20	87.50	89.20	93.10	59.89	83.10	93.10

	2019	2020				2021						
Brazil	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	1.7	-0.3	-9.1	-4.9	-3.0	-0.8	3.8	3.1	1.8	1.1	-4.3	2.0
CPI (y/y %, eop)	3.8	3.3	2.1	3.2	3.7	4.2	4.9	5.0	5.6	3.8	3.7	5.6
Unemployment rate (%, avg)	11.3	11.7	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	1.75	1.75	3.00	4.00	4.75	5.75	4.50	1.75	5.75
Foreign exchange (USDBRL, eop)	4.02	5.20	5.82	5.62	5.44	5.13	5.21	5.09	4.89	4.02	5.44	4.89

	2019	2020				2021						
Chile	**Q4**	**Q1e**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2019**	**2020f**	**2021f**
Real GDP (y/y % change)	-2.1	0.4	-16.5	-8.3	0.7	-1.1	15.4	5.0	-0.1	1.1	-6.0	4.4
CPI (y/y %, eop)	3.0	3.7	2.7	2.7	2.4	2.5	2.9	3.3	3.0	3.0	2.4	3.0
Unemployment rate (%, avg)	7.0	8.2	13.5	16.2	14.8	11.7	11.4	10.6	9.8	7.2	13.2	10.9
Central bank policy rate (%, eop)	1.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.75	0.50	0.50
Foreign exchange (USDCLP, eop)	753	852	800	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	-10.6	-6.8	-3.3	-0.4	8.8	5.7	2.6	3.3	-4.9	4.2
CPI (y/y %, eop)	3.2	3.9	2.7	2.7	2.7	2.5	3.3	3.2	3.2	3.2	2.7	3.2
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	3,765	3,725	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)	-0.7	-1.4	-16.9	-10.4	-4.8	-1.0	3.4	1.6	1.0	-0.3	-8.4	1.1
CPI (y/y %, eop)	2.8	3.2	3.1	3.5	3.5	3.8	4.0	4.0	3.9	2.8	3.5	3.9
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	4.75	4.75	4.75	4.75	4.75	4.75	7.25	4.75	4.75
Foreign exchange (USDMXN, eop)	18.85	21.97	22.33	23.45	24.29	24.43	24.25	24.11	24.20	18.93	24.29	24.20

	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	7.4	15.0	16.0	14.0	14.0	13.0	11.0	10.0	6.6	13.1	12.0
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	0.3	-10.4	-5.2	-2.5	1.0	13.8	7.8	4.9	2.3	-4.5	6.7
CPI (y/y %, eop)	2.0	2.1	0.9	0.9	0.7	1.5	2.0	2.3	2.6	2.0	0.7	2.6
Unemployment rate (%, avg)	3.5	3.8	15.9	14.6	12.7	10.5	8.3	6.6	5.3	3.7	11.8	7.7
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	1.10	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 previous *Latam Weekly*.

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	-7.9	6.5
CPI (y/y %, eop)	3.0	...	...	45.7	46.8	25.8	42.6
Unemployment rate (%, avg)		...	...	11.0	10.1	11.4	10.2
Central bank policy rate (%, eop)	7.0	...	...	36.00	40.00	36.00	40.00
Argentine peso (USDARS, eop)	3.31	...	...	83.10	93.10	83.10	93.10
Brazil							
Real GDP (annual % change)	1.3	1.8	2.1	-3.3	2.5	-4.3	2.0
CPI (y/y %, eop)	3.0	4.2	4.1	6.3	7.1	3.7	5.6
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	1.75	5.75
Brazilian real (USDBRL, eop)	3.31	4.37	4.11	4.84	4.42	5.44	4.89
Chile							
Real GDP (annual % change)	1.5	1.4	2.5	-2.1	2.9	-6.0	4.4
CPI (y/y %, eop)	2.3	3.0	3.0	2.8	3.0	2.4	3.0
Unemployment rate (%, avg)		...	...	8.3	7.7	13.2	10.9
Central bank policy rate (%, eop)	2.50	1.00	2.00	0.50	1.50	0.50	0.50
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	-4.9	4.2
CPI (y/y %, eop)	4.1	3.3	3.1	3.2	3.1	2.7	3.2
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	3.5	3.9
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	4.75	4.75
Mexican peso (USDMXN, eop)	19.66	20.78	21.86	24.24	24.15	24.29	24.20
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	13.1	12.0
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 previous *Latam Weekly*.

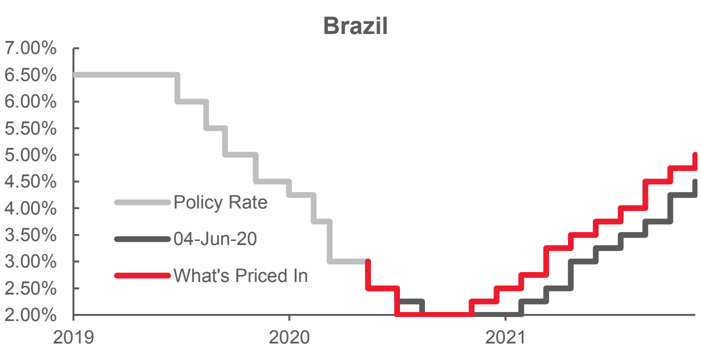
Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

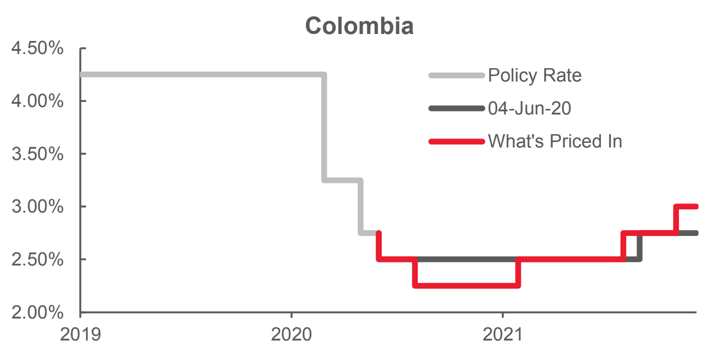
	Current	Next Scheduled Meeting Date	Next Scheduled Meeting Market	Next Scheduled Meeting BNS	Market Pricing 12 mos	Market Pricing 24 mos	BNS Forecast End-2020	BNS Forecast End-2021	BNS guidance for next monetary policy meeting
Argentina, BCRA, TPM, n.a.	38.00%	n.a.	n.a.	37.00%	n.a.	n.a.	36.00%	40.00%	The BCRA's last move on March 5 provided its sixth rate cut in 2020. Although the BCRA remains caught between a slowing economy and a sliding ARS, we still expect it to prioritize domestic stimulus by cutting further in 2020 before reversing itself next year.
Brazil, BCB, Selic	2.25%	Aug-05	2.14%	1.75%	3.79%	6.05%	1.75%	5.75%	We are holding off on making revisions to our BCB call, but for now still expect a 1.75% terminal SELIC rate.
Chile, BCCh, TPM	0.50%	Jul-15	0.48%	0.50%	0.44%	0.71%	0.50%	0.50%	The BCCh maintained the policy rate at 0.5%, its technical minimum, at its June 16 meeting. It expands the liquidity measures and announces a special asset purchase program for USD 8 bn, a QE program that will be discussed in Congress in the following weeks.
Colombia, BanRep, TII	2.75%	Jun-30	2.62%	2.50%	2.39%	2.79%	2.50%	3.50%	The lack of unanimity of the previous meeting and a less rigorous fiscal policy could lead to an approach of more gradual rate cuts. However, the negative results in macroeconomic indicators may generate a bias to continue with cuts at a 50 bps pace. It is worth noting that although inflation expectations for December fell, expectations for longer terms remain anchored at 3%, which don't give significant extra space to the Central Bank.
Mexico, Banxico, TO	5.50%	Jun-25	5.17%	5.00%	4.22%	4.88%	4.75%	4.75%	We expect Banxico to cut its reference interest rate by another 50 bps to 5.00% by its June 25 meeting; a last 25 bps cut is expected thereafter to leave the terminal rate to 4.75%.
Peru, BCRP, TIR	0.25%	Jul-09	n.a.	0.25%	n.a.	n.a.	0.25%	0.50%	We expect the central bank to maintain its reference rate at 0.25%.

Sources: Scotiabank Economics, Bloomberg.

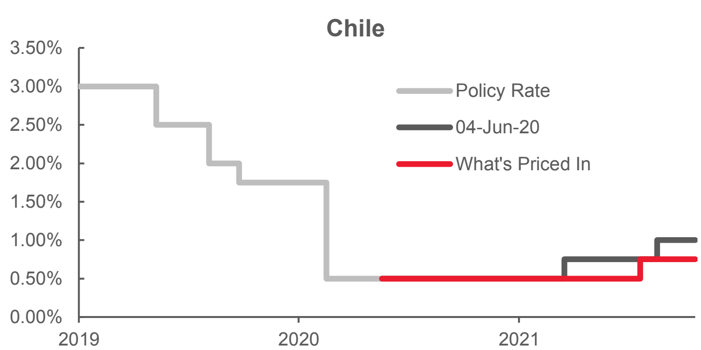
What's Priced In



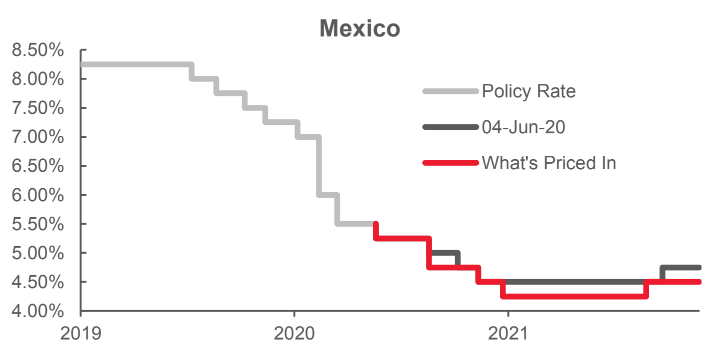
Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.

Economic Overview: More Fiscal, Wider Asset Purchases

- **Forecast updates are dominated by a softer macro outlook in Chile as COVID-19 cases rise and both the duration and scope of the quarantine are extended.**
- **Latam is unlikely to resolve its first wave of COVID-19 before second waves hit both it and the rest of the world.**
- **After big policy moves at the outset of the pandemic, Latam governments are adding to fiscal efforts and central bank powers to cushion the impact of COVID-19 on their economies.**
- **Banxico's rate decision and a string of Mexican data prints dominate the week ahead across the Latam-6.**

MIXED WEEK IN RISK

Latam markets traded in mixed fashion over the last week, with variation across the Latam-6 reflecting national and idiosyncratic developments (tables 1 and 2). The breakdown in Argentina's debt talks was reflected in a nearly 12% slide in the Merval, while the official USDARS exchange rate barely budget owing to currency and capital controls. Colombian equities saw a 3.6% lift on the suspension of the fiscal rule and the expectation of more spending ahead. Gains in Brazil's Bovespa caught some momentum after the -75 bps cut from the BCB where the Copom didn't slam the door on further easing. Those gains were offset for foreign buyers by a proportionate slide in the BRL as the Selic cut squeezed carry trades and the COVID-19 crisis worsened. The rest of the Latam-6's equity and FX markets were broadly unchanged. It's worth noting again that the CLP and PEN are down only -7.7% and -5.4% YTD. Strong policy frameworks continue to be recognized by markets.

COVID-19: EXTENDED FIRST WAVES RATHER THAN SECOND WAVES

The past week saw some more grim milestones in the COVID-19 pandemic. Globally, on June 17, more new cases were reported in a single day than ever before, with over 166k new instances. The increase was driven mainly by Latam, but also by some emerging hot spots in Africa, Asia, and the Middle East. Brazil's total cases exceeded one million and, if current trends hold, it could catch up to the US, which has now seen 2.3 million cases.

Brazil and Chile both saw spikes in new cases over the last week, which kept the slope of the Latam-6 curves persistently steep (see box 1, charts B1 and B2) and sent Chile's per capita case load soaring above those of its regional neighbours (chart B3). While Chile's new case curve steepened (chart B4) Peru saw a decline in new cases and some flattening in its curve, but Peru's death numbers rose (chart B5) and its per capital mortalities remained on par with those in Brazil (chart B6).

Latam now accounts for about 45% of daily COVID-19 deaths (chart 1), but the region's poor numbers aren't an entirely fair reflection of its efforts to

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Table 1

Latam Equity Market Performance (local currency): Jun 19, 2020

	Year-to-date	1-month	1-week
Argentina	-1.7%	0.0%	-11.9%
Brazil	-16.5%	17.5%	4.1%
Chile	-13.8%	8.1%	1.1%
Colombia	-30.1%	9.8%	3.6%
Mexico	-11.8%	7.3%	1.9%
Peru	-17.3%	10.6%	0.9%

Sources: Scotiabank Economics, Bloomberg.

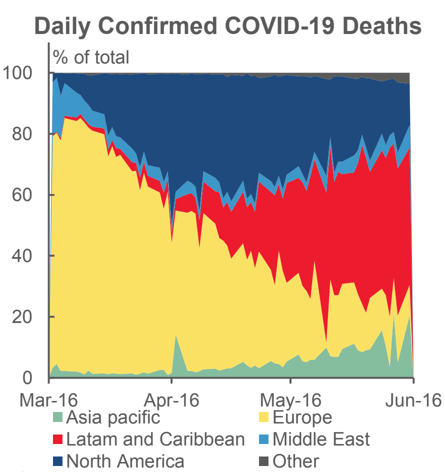
Table 2

Latam FX Performance: Jun 19, 2020

	Year-to-date	1-month	1-week
ARS	-14.2%	-2.7%	-0.6%
BRL	-24.2%	8.3%	-4.9%
CLP	-7.7%	0.3%	-2.7%
COP	-12.3%	2.3%	0.8%
MXN	-16.4%	4.4%	-1.6%
PEN	-5.4%	-2.1%	-1.0%

Sources: Scotiabank Economics, Bloomberg.

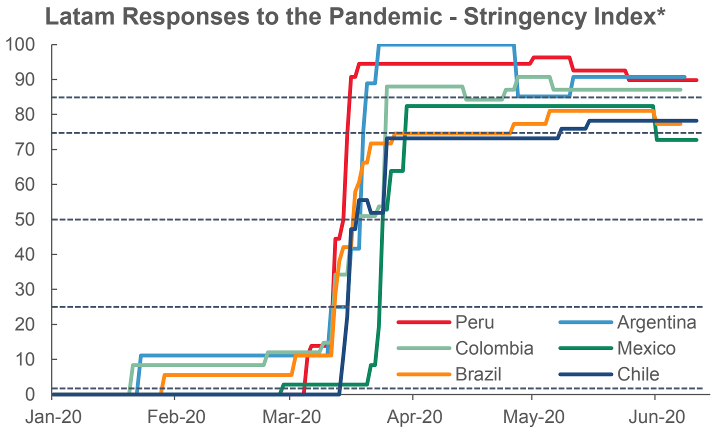
Chart 1



Sources: Scotiabank Economics, Johns Hopkins University.

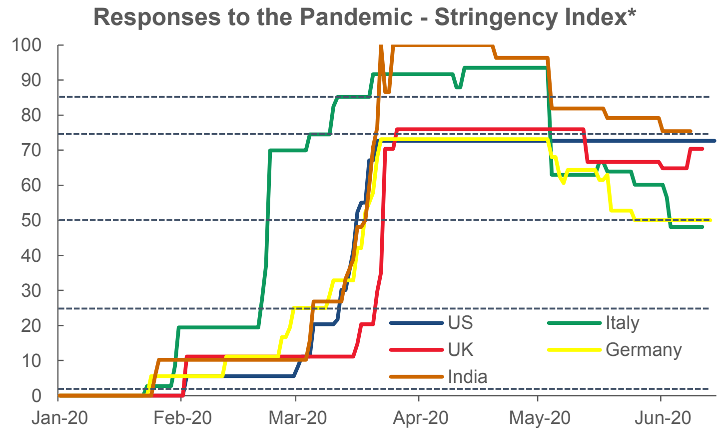
bring the pandemic to heel. Data from Oxford University imply that the stringency of policy responses to the pandemic in Argentina and Peru (chart 2) has been on par or better than other early hot spots (chart 3). Efforts have been somewhat looser in Brazil and Chile, and this is reflected in their disease numbers. But across the board, the Latam-6 have consistently maintained the strictness of their control measures for longer than other regions. So far, this hasn't produced its intended outcome.

Chart 2



* Values increasing towards 100 represent more stringent government policy responses towards the pandemic.
Sources: Scotiabank Economics, Blavatnik School of Government.

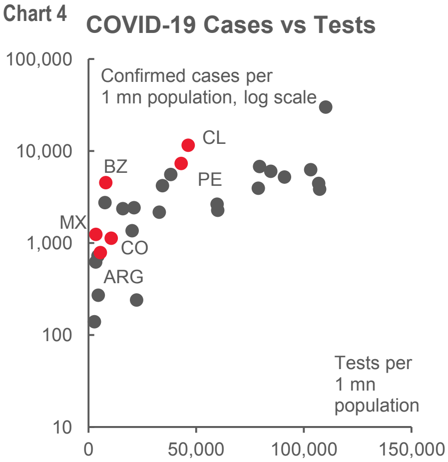
Chart 3



* Values increasing towards 100 represent more stringent government policy responses towards the pandemic.
Sources: Scotiabank Economics, Blavatnik School of Government.

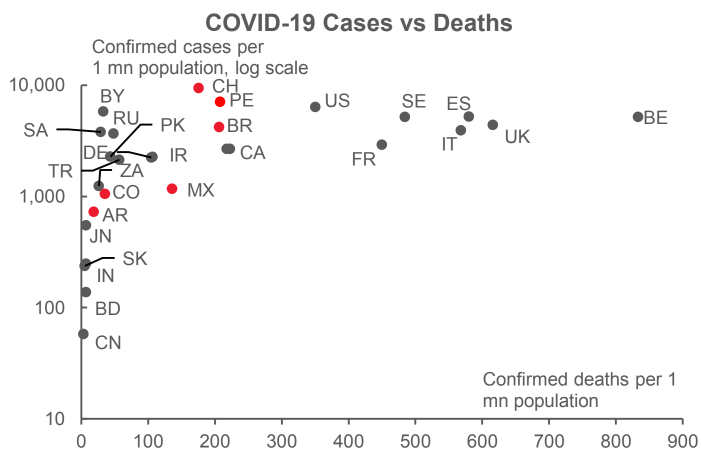
The relatively poor COVID-19 results in some Latam countries may imply that the novel coronavirus was already widespread in the region before lockdowns began in March, but it's not clear that this was the case. Looking at the 25 countries with the highest COVID-19 case numbers, the Latam-6 have not seen particularly high positive text results against the number of tests administered (chart 4)—but it's also clear that testing numbers are still too low in Argentina, Brazil, Colombia, and Mexico to provide a fully accurate sense of how the pandemic is proceeding there. This becomes even clearer when one looks at mortality numbers, where the death rates from COVID-19 for Brazil and Mexico point to under-testing (chart 5).

Chart 4



Sources: Scotiabank Economics, Johns Hopkins University, Worldometers.com.

Chart 5



Sources: Scotiabank Economics, Johns Hopkins University.

Even as Chile re-tightens its quarantine efforts, it looks unlikely that other countries in the region would intensify their lockdowns in response to an elongated first wave or a second wave of COVID-19. Nevertheless, a range of studies and reviews show that the lockdowns are saving lives, while other regions are providing a glimpse of how targeted second-wave lockdowns could be structured.

POLICY PATHS: MORE FISCAL, WIDER ASSET PURCHASES

While new lockdowns are unlikely in Latam, governments are clearly taking additional steps to cushion the impact of the pandemic on their economies with even more fiscal spending. Chile announced additional fiscal measures this week worth nearly 5% GDP, while Colombia suspended its fiscal rule in anticipation of more spending to come, and Peru unveiled USD 4 bn in public works to generate employment and renew infrastructure.

At the same, Latam is also following other emerging markets by empowering its central banks to engage in asset purchases. After a similar expansion in the powers of Brazil's BCB, Chile's authorities this past week announced reforms that will allow the central bank, the BCCh, to engage in more comprehensive asset purchases, adding secondary-market sovereign debt and corporate debt to the narrower range of financial-institution paper it was already empowered to buy.

FORECAST UPDATES: CHILE'S EXTENDED QUARANTINE SOFTENS OUTLOOK

Limited updates to our forecasts this week have been driven by a combination of policy developments and new data in Argentina, Brazil, Chile, Colombia, and Peru (see Forecast Tables, pp. 2 and 3).

- **Argentina.** May's inflation data marked a second month in which the national consumer price index has been kept artificially suppressed by controls on utilities and government monitoring of thousands of other prices to "encourage" restraint. We now expect these controls to remain in place through the end of 2020, which would keep official month-on-month inflation at about half of what underlying dynamics imply despite ongoing monetization of the fiscal deficit and a consistent slide in the value of the ARS. Annual official inflation could drop from the 40% y/y range to around 26% by end-2020, but once the existing controls and monitoring are removed, inflation would be expected to head back above 40% y/y by end-2021.

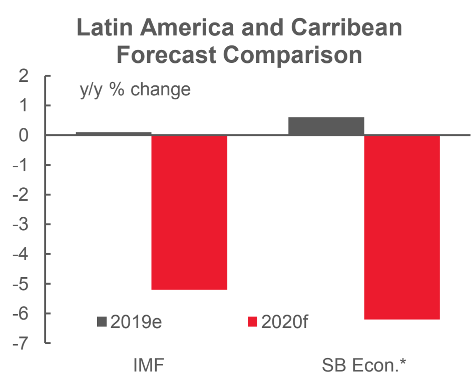
- **Brazil.** The BCB delivered a -75 bps cut to the Selic versus the -50 bps our Brazil economist expected, but despite some cautious language from the Copom, we continue to think that the Committee will deliver another -50 bps in cuts in Q3 in order to support the economy. Markets are pricing only a further -25 bps (see What's Priced In, p. 4).

- **Chile.** The extension of the duration and scope of Chile's quarantine in Gran Santiago to June 26, with an expected further stretch into July, prompted a move by our team in Santiago to soften our forecasts for growth, inflation, and employment through 2020, but with a stronger rebound in 2021, albeit from a lower base.

- **Colombia.** May inflation came in a bit weaker than expected, which, combined with other higher-frequency indicators, led our Colombia team to shave inflation in 2020 from 3.2% y/y at end-2020 to 2.7% y/y.

- **Peru.** Peru's efforts to sustain the economy through the lockdown appear to have been less successful than hoped for, with the April activity index and May unemployment numbers both coming in worse than expected. Our Lima-based economists now expect unemployment to average 13.1% in 2020 versus 12% previously, and they expect it to remain higher in 2021 at 12% versus 10% in our previous forecasts.

Chart 6



* Weighted average GDP of Scotiabank's Latam coverage countries: Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
Sources: Scotiabank Economics, IMF WEO, Apr 2020.

In the aggregate, Scotiabank Economics' Latam-6 growth forecasts for 2020 are now a touch weaker than in the IMF's last World Economic Outlook (chart 6), which is set for an update on June 24.

WEEK AHEAD: BUSY DAYS IN MEXICO

Mexico's Banxico meets on Thursday, June 25, and in line with consensus, our team in CDMX anticipates another -50 bps in cuts. Our Mexico economists note that the Banxico Board, which is usually quite clear in its inflation bias, has in recent months emphasized the high degree of uncertainty around its outlook. Board members have also expressed contrasting views on the utility of further cuts, with Jonathan Heath emphasizing in several forums that he thinks we haven't reached the end of this easing cycle; meanwhile, Deputy Governor Javier Guzmán has cautioned that further cuts carry high risks with limited upside for growth. This uncertainty underpins the gap between our forecasts and market pricing for the overnight rate through end-2020 and into early-2021. Our team in Mexico City expects a further -25 bps cut in Q3 to leave Banxico's terminal rate in this cycle at 4.75%; markets, in contrast, are pricing further gradual moves down 4.25% by end-2020 (see What's Priced In, p. 4). Mexico also gets inflation for the first half of June on Wednesday, June 24, followed by April retail sales on Thursday, June 25, and April economic activity on Friday, June 26.

Brazil will see the publication of the BCB's Q2 *Quarterly Inflation Report* on Thursday, June 25, as well as the *Minutes* from the June 17 Copom meeting. Together, the two publications should shed more light on where the Bank sees the economy and the Selic heading through the remainder of this year.

Argentina Q1 GDP and unemployment on Tuesday, June 23 are likely to simply confirm higher-frequency data that have shown the country was sliding into a third year of recession even before the pandemic took hold. The Argentine economy came into 2020 more softly than expected, saw little rebound post-holidays, and felt a disproportionate impact from the imposition of the lockdown in the latter part of March.

Chile, Colombia, and Peru have light weeks ahead for data.

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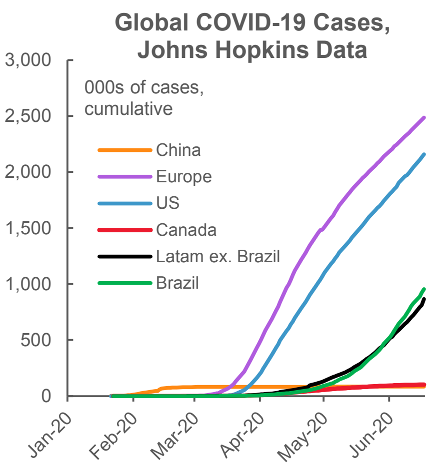
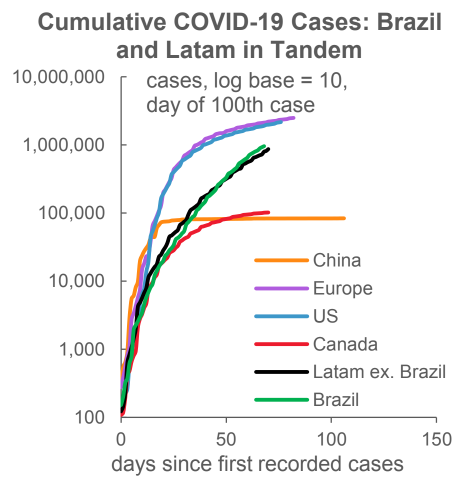
Box 1. COVID-19 in Latin America

Chart B1



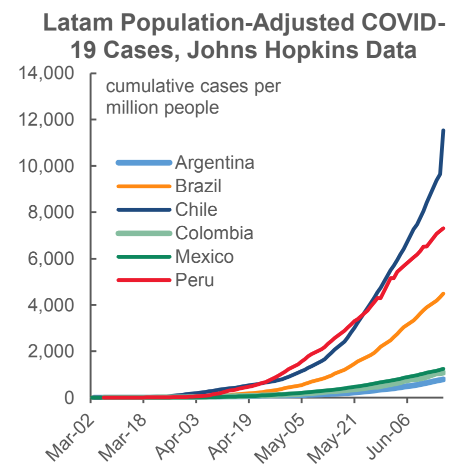
Sources: Scotiabank Economics, Johns Hopkins University.

Chart B2



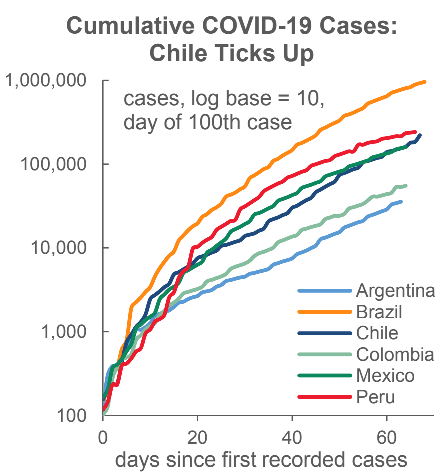
Sources: Scotiabank Economics, JHU.

Chart B3



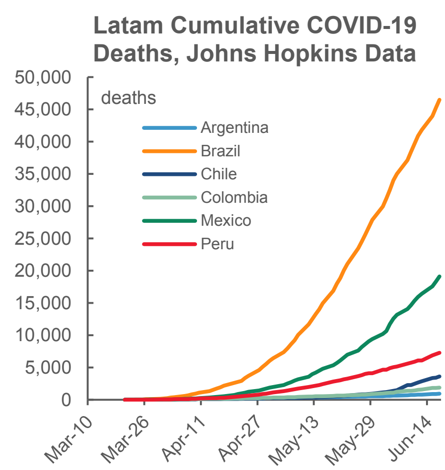
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart B4



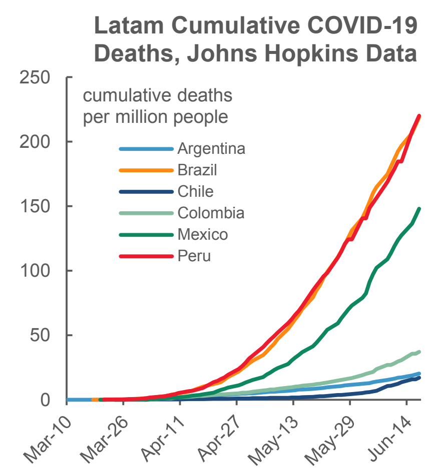
Sources: Scotiabank Economics, JHU.

Chart B5



Sources: Scotiabank Economics, Johns Hopkins University.

Chart B6



Sources: Scotiabank Economics, Johns Hopkins University.

Markets Report: Implications of Chile's New Policy Developments

CONTACTS

Tania Escobedo Jacob, Associate Director
212.225.6256 (New York)
Latam Macro Strategy
tania.escobedojacob@scotiabank.com

- **The government of Chile announced on June 14 a new two-year fiscal package worth up to USD 12 bn.**
- **Just days after the announcement, the Chilean Ministry of Finance sent a bill to Congress to allow the Central Bank to buy government bonds on the secondary market.**
- **The two announcements imply offsetting forces in the market: the prospect of more debt might steepen the local benchmark curve, but new central bank asset purchases will likely limit any net sell-off.**
- **It is too early to draw strong conclusions about the implications of the central bank's moves. We need to get details on how aggressive the BCCh will be in its asset-purchase program and at which tenors it will participate.**
- **On balance, central bank intervention might initially limit an upward creep in yields but, with the growing debt-financing needs, we think there is still space for an increase in longer-term rates in the medium term as debt issuance comes to dominate pricing.**

NEW FISCAL AND FINANCIAL MEASURES FROM SANTIAGO

The government of Chile announced on June 14 a new fiscal package for up to USD 12 bn (5% GDP) to be deployed over 24 months. All in all, the fiscal response to COVID-19 in Chile now totals around 12% of GDP. To give some context, the government had previously announced a fiscal package in two large phases, the first in March and the second in April. The first phase totaled USD 11.7 bn (4.8% GDP) and the second set of measures amounted to USD 5 bn (2% of GDP); this new stimulus comes on top of these.

According to the Ministry of Finance, the new fiscal program will be facilitated by the creation of a "temporary and flexible" legal structure that will allow the government to spend up to USD 12 bn over the next two years, depending on the social and economic effects of the pandemic. The resources will be part of a new extra-budgetary fund that the government will be tapping when it considers it necessary. This fund will be financed by new debt, savings from the sovereign wealth funds, and the reallocation of budget spending, but there are no details on the exact proportions so far. The extra spending is accompanied by a commitment to return to fiscal consolidation in 2022.

Our economic team estimates that with the current trend, gross public debt would increase from 28% of GDP at the end of 2019 to 43% at the end of 2022 and that the sovereign wealth funds would drop from 9.5% of GDP in 2019 to just under 5% of GDP in 2022.

Just a couple of days after the new fiscal package was unveiled, the central bank (BCCh) announced non-conventional measures that will inject

additional liquidity into the financial system for an amount up to an equivalent of 10% of GDP. The measures include a second phase of the targeted lending facility for an amount of USD 16 bn that will be in place for 8 months and USD 8 bn in extra asset purchases within the next six months.

Along with the announcement, the President of the central bank later indicated that a proposal to modify the bank's organic law will be sent to Congress in order to allow the central bank to buy sovereign and corporate bonds (currently, it is only able to buy commercial bank bonds). The legislation seems to have a very high probability of passing in the coming days.

WHAT DO THESE DEVELOPMENTS MEAN FOR CHILEAN ASSETS?

These two big announcements could exert offsetting forces on Chilean assets.

I. Prospects of higher debt and political risk might steepen the curve…

On the one hand, the need to finance the huge fiscal impulse that has been announced, the delivery of the extra spending through a "temporary and flexible" legal structure, the suspension of the fiscal rule, and the government's increased discretion in spending all deteriorate the fiscal picture for Chile over the next couple years. This would be consistent with a steepening of the sovereign's yield curve.

Moreover, over the medium term the management of the fiscal response might be a double-edged sword. If the government relies too much on fresh money either from new debt or withdrawals from the sovereign wealth funds, the negative impact on the fiscal accounts and the increased country risk could dominate and steepen the curve further. In contrast, if the government prioritizes the re-allocation of existing resources, it could lead to disagreements with opposition lawmakers who are asking for additional spending, resulting in heightened political risk.

Also, even if the pandemic has totally taken the focus from other domestic issues, there are additional risks that could materialize as we move into the autumn. The most important, of course, is the referendum on the new constitution that will take place on October 25 and that will be held amid the deepest economic crisis in recent history; for now, there is no reliable poll on which build expectations of the results. We need to add these risks to the existing pressure from the social demands that fueled the protests last year and that will very likely result in higher debt-to-GDP ratios for the long term. For now, there is no reliable guidance of what to expect but we cannot rule out a resurgence of social demands—particularly if the referendum is defeated—that could make difficult the return to fiscal sustainability in 2022.

II. …but the central bank's asset purchases will likely limit any net sell-off

On the other hand, the possibility that the central bank will participate in the sovereign bond market is a force that might put a cap on any sell-off. The immediate market reaction to this past week's announcements, with yields falling by as much as 30 bps in some tenors, points to the impact that BCCh asset purchases could have.

The signal sent by the central bank is strong and opens up all sorts of possibilities that investors must incorporate in their scenarios. Once it becomes lawful for the central bank to participate in the secondary market for sovereign bonds it will be able to have a much stronger impact on the curve; economic forces alone will no longer be driving long-term yields.

WHICH EFFECT WILL DOMINATE?

We think it is too early to draw strong conclusions on the net impact of the respective moves by the government and central bank. We need to receive details on how aggressive the central bank will be in its asset-purchase program and which tenors it will target. For now, selling interest still seems to be dominating among local Pension Funds who might be taking advantage of the move lower in rates to rotate away from their positions in local bonds and switch to foreign equities. This flow may, however, dissipate in a matter of days. Local Banks and offshore accounts, which were mainly sellers up until last week, have been buying since the Central Bank opened the possibility of sovereign bonds purchases.

Going forward, we think the BCCh's independence and its historical commitment to letting market forces determine market prices will limit the degree of yield control they might want to exert in the sovereign bond market. On balance, we think yields will be allowed to rise over time, mainly as markets start to focus more on the political agenda.

We are still of the view that both fiscal and political risks have been underpriced and that 10Y yields of close to 2% are too low. The central bank intervention might limit increases in yields for now, but with the government's debt-financing needs set to grow, we think there is still space for an increase in longer-term rates in the medium term. We would consider yields below 2% in the 10Y tenor as a good opportunity to enter payer positions.

We will keep a very close eye on the government's and central bank's future communications to complement or re-assess our view, if necessary.

Country Updates

Argentina—Debt Talks Break Down, but a Deal Remains Likely

Brett House, VP & Deputy Chief Economist
416.863.7463
brett.house@scotiabank.com

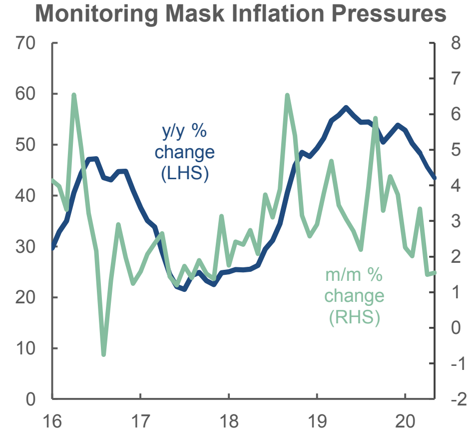
The two sides in Argentina's debt talks have been converging over the last month, but as is often the case in negotiations, the last steps seem to be proving the hardest to take. In the middle of this past week, both the Argentina government and bondholders appeared to lay down firmer lines in their communications. It seems that progress foundered on closing the gap between the two sides on NPV reductions, benchmarks for possible sweeteners, and collective action clauses that could appear in the bond contracts that would result from an exchange. The Ad Hoc and Exchange Bondholder Groups issued a joint statement on Friday, June 19 that accused the government of walking away from the negotiating table on Wednesday, June 17.

As a result of the breakdown in talks, the government pushed out the end of its offer period for a fifth time to July 24, the longest extension so far in the discussions. Since Argentina's May 22 default, extensions have been formalities as creditors have indicated that they do not intend to take legal action so long as the conversations remain constructive. Moreover, in the current international economic environment and with Argentina already shut out of international markets for some time, the conditions are not ripe for creditors to take a hardline. Nevertheless, with this week's rupture in the negotiations, bondholders indicated that they're re-considering all of their legal options.

We continue to expect the two sides to reach agreement on the specifics of a debt exchange in the coming weeks and we see this past week's developments as the typical brinkmanship often observed at the end of drawn-out negotiations. Reports earlier in the week implied that a roughly five-cent gap in NPV terms remains between the latest proposals from the authorities and the bondholders, abstracting from the possible addition of any contingent sweeteners. Meeting half way would require Argentina to pay an additional USD 300–400mn per year or about 0.1% GDP, depending on one's assumptions, over and above the possible debt-service flows implied by the broad terms of the authorities' current offer. This seems within Argentina's Overton window for a deal and should be acceptable to creditors, whose bonds are currently trading below the range of 50 to 55 cents on the dollar implied by the authorities' and the bondholders' proposals. Such a deal would certainly be less costly to both sides than extended litigation, which would also hold up support from the international financial institutions.

While the debt saga grinds on, Argentina has once again hit a period of magical thinking in its official inflation statistics. May inflation, out on June 11, printed at 1.50% m/m, the same as in April, which brought headline annual inflation down from 45.60% y/y in April to 43.40% in May. Government controls on utilities and official monitoring of thousands of goods have detached the national CPI from underlying price pressures that would imply monthly inflation closer to 3% m/m. As we now expect these controls to remain in place for the rest of 2020, we have revised our forecasts accordingly (see Forecast Tables, pp. 2 and 3), but we expect inflation to spike upward again next year when these measures are relaxed.

Argentina: Price Controls & Monitoring Mask Inflation Pressures



Sources: Scotiabank Economics, Bloomberg.

The week ahead is filled with high-priority data that are likely to provide a mixed picture of the progress of the Argentine economy through the pandemic. First-quarter 2020 GDP, out on Tuesday, June 23, is expected to show a -5.4% y/y contraction, in line with the monthly activity index. Retail sales in April, due Wednesday, June 24, should reveal further month-on-month and year-on-year retreats since April was the first full month of lockdown. In contrast, May trade numbers out Thursday, June 25 could see a mild lift owing to a resumption of some industrial production in the latter third of the month, but this could be offset by efforts by some commodity exporters to hold back shipments abroad in the anticipation of further depreciation in the ARS.

Brazil—BCB Cut More than We Expected but, as We Anticipated, Left Open the Door for Further Cuts

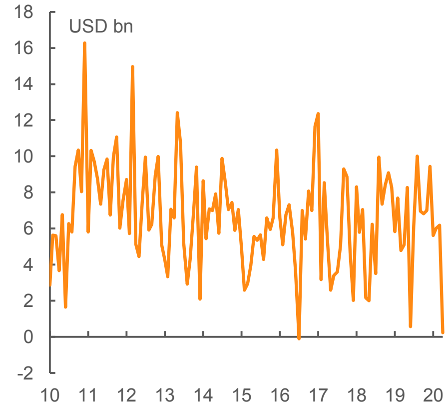
Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
eduardo.suarez@scotiabank.com

Following the BCB's -75 bps cut on June 17, we will wait and see before revising our Selic rate call. We got the size of Wednesday's cut wrong at -50 bps, but rightly assumed the BCB would not declare an end to its easing cycle. At this point in time, we continue to see the end of the easing cycle at 1.75%. We think the arguments for easing further are currently slightly stronger than those for the alternatives:

- **The economy is contracting at a record rate (on Thursday, the GDP proxy for April printed a record contraction of -15.1% y/y, exceeding the previous record contraction by a 2x factor).** Even though we think some sectors bottomed in April, we also think the recovery will be "epically anemic".

- **Brazil has very serious fiscal problems, which is a reason for the BCB to make extra efforts to provide stability—including through cautious monetary policy—but, at this point in time, giving the economy back its pulse should take precedence.** Without growth, fiscal revenues will also flat-line.

Brazil: Net Foreign Direct Investment



Sources: Scotiabank Economics, Bloomberg.

- **Inflation, for now, seems likely to remain below the BCB's target range and, even though we have it rebounding more strongly and earlier than consensus, we think that is a concern for end-2020, early 2021.** At this point in time, propping up growth should take precedence.

- **In addition, the combination of significant global slack and very low global rates should give the BCB room to ease further without immediate inflation concerns, while low core-country yields have added space for the BCB to ease.** Whether there is room to cut rates is highly uncertain, which is one of the reasons why we will wait before revising our Selic rate call, as we want to see how markets react to the Copom leaving the door open for additional stimulus. Poor BRL and local rate market performance would limit the space for additional cuts.

In favour of staying put at current levels we note that:

- **There is still some uncertainty over how low the BCB can take rates before de-anchoring local assets—a concern the BCB has often raised by referring to uncertainty over where the country's risk premium lies.** As we have noted before, this uncertainty is one of the key reasons we are waiting to revise our view.

- **Given the huge amount of concern over Brazilian political outcomes and the strength of the economy down the line, it is unlikely that low rates will boost investment, but they should at least help make it easier for companies to borrow working capital to avoid seeing a liquidity shock turn into a solvency problem.** However, we don't think cutting rates further would lead to a material acceleration in lending markets.

We currently slightly favour keeping our call for an additional 50 bps in cuts intact, but we want to see how three main factors evolve: (1) growth indicators, to see whether the rebound looks likely to be ultra-weak, as we currently expect; (2) market reactions to the BCB leaving the door open to further cuts, which are a gauge for the BCB's oft-mentioned uncertainty regarding where the country's risk premium lies; and (3) inflation expectations, and the extent to which they raise concerns for the post-2020 period. In addition, we await the BCB's *Inflation Report,* due June 25, to see how the Copom's base case has evolved.

We have a fairly busy data week coming up in Brazil featuring: formal job creation (June 23–26); FGV consumer confidence (June 24); FDI and current account data (June 24); the BCB's quarterly *Inflation Report* (June 25); and IBGE IPCA inflation (June 25).

The last FDI print (April) showed the second lowest net inflows of the past 10 years (USD 234 mn). Monthly net FDI flows into Brazil since 2010 have averaged USD 6.6 bn, which highlights how weak April's data were. Consensus expects a rebound to USD 1.5 bn in May, even though seeing two sequential prints below USD 2 bn would be extremely rare. However, with most of the world in stand-by mode due to the pandemic, and both domestic and external uncertainty still high, we tend to agree with these modest expectations.

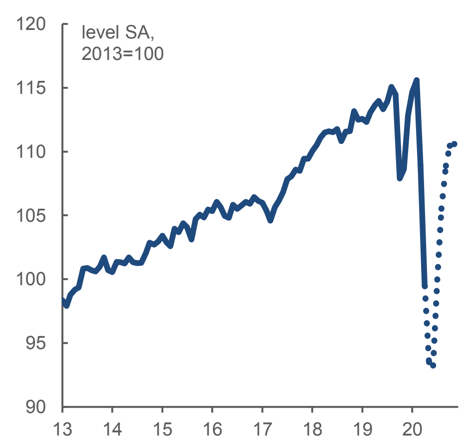
Chile—Government and Central Bank Support; Revised Growth Forecasts

Jorge Selaive, Chief Economist
56.2.2939.1092 (Chile)
jorge.selaive@scotiabank.cl

Carlos Muñoz, Senior Economist
56.2.2619.6848 (Chile)
carlos.munoz@scotiabank.cl

Following a worsening of the COVID-19 pandemic in Chile, which resulted in an abrupt increase in cases and deaths in the last month, and a consequent change of the Health Minister, the government finally reached an agreement with the opposition on a new fiscal package to contain the economic crisis. This package extends the fiscal package announced in early April, which amounted to USD 17.1 bn (6.9% of GDP), and adds USD 12 bn in new funds, which represents 4.8% of GDP. This new fund, the "COVID Fund", will be financed by the Economic & Social Fund and higher debt. It will underwrite increased current expenses (i.e., direct transfers to families, support for workers and companies, and support for health expenses), additional public investment, new stimulus to support economic recovery—including a reduction in the income tax for SMEs—and an instant depreciation scheme until December 2022.

Chile: Monthly GDP



Sources: Scotiabank Economics, Central Bank.

At the central bank meeting on Tuesday, June 16, the BCCh's Board decided to maintain the monetary policy rate at its technical minimum, 0.5%, stating that it will stay at this level until mid-2022. The Board also agreed to expand unconventional liquidity and credit support measures implemented since March. These measures would include starting a second stage of the FCIC program (Conditional Credit Facility to Increase Loans) for an additional amount of USD 16 bn over eight months. Given that nearly 83% of the resources contemplated in the first stage (USD 24 bn) have been used, this second stage will be a good tool to boost credit towards smaller companies. On Wednesday, June 17, the BCCh published its *Monetary Policy Report*, where it sharply adjusted its growth projection to a range of -7.5% y/y to -5.5% y/y for 2020, and 4.75% y/y to 6.25% y/y for 2021.

On Wednesday, June 17, the authorities extended the total lockdown in Gran Santiago to June 26 and we do not discount the possibility that this could continue through the beginning of July. Therefore, we at Scotiabank have adjusted our growth projections in acknowledgement of the severe impact of the confinement measures on activity. We now anticipate a GDP contraction of -6.0% y/y for 2020, with a rebound of 4.4% y/y for 2021. The second quarter of 2020 will be the most impacted, and we expect a slow recovery from Q3-2020 onwards.

Mario Marcel, the President of the central bank, in his June 17 presentation of the *Monetary Policy Report*, indicated that the government will introduce a law to Congress to modify the "organic" or founding law of the BCCh to allow the acquisition in the secondary market of sovereign bonds and corporate bonds. This move demonstrates the close coordination between the government and the central bank to mitigate the financial impact on business of the extended quarantine. No details were given regarding timing, but this will certainly have an impact on corporate bonds spreads that have been punished in the absence of sufficient liquidity. Likewise, this measure dovetails quite well with the increase in the level of sovereign debt that the government expects to finance in order to execute on the new fiscal package announced this past week.

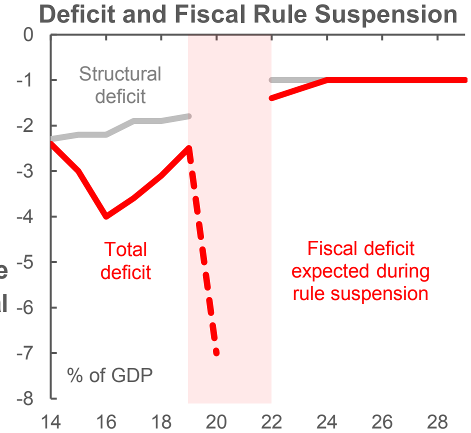
There are no tier-1 indicators coming out next week. We expect Congress to discuss and move to implement the most urgent measures included in the new fiscal package; we will learn further details of the central bank's liquidity program. In Gran Santiago, we expect the total lockdown to be extended from the current June 26 through at least the end of June.

Colombia—Higher Fiscal Flexibility, but with a Cost: Fiscal Rule Was Suspended

Sergio Olarte, Senior Economist
57.1.745.6300 (Colombia)
sergio.olarte@co.scotiabank.com

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

Colombia: Central Government Deficit and Fiscal Rule Suspension



Sources: Scotiabank Economics, Fiscal Rule Committee 2019.

Colombia has been the Pacific Alliance country with the most modest social programs thus far in response to the COVID-19 shock. While Chile and Peru have announced plans of direct expenditures above 5% of GDP, the first wave of Colombia's countercyclical program was only 1.5% of GDP. In our opinion, the main reason for this approach was that Colombia is the Pacific Alliance country with the weakest fiscal situation and has an extra imperative to show fiscal responsibility. Having said that, the COVID-19 / oil price shocks have been much more profound than expected, which will demand a more aggressive fiscal countercyclical expenditure program ahead.

This is why on Monday, June 15, the fiscal rule committee decided to suspend the rule for 2020 and 2021 to give more flexibility to the government to increase social and investment expenditure and provide some traction for the economy. In May, the fiscal rule committee allowed the government to increase the deficit to 6.1% of GDP from the 2.2% of GDP targeted at the beginning of the year. The May increase was mainly related to a countercyclical expenditure of around 2.4% of GDP, which corresponded to higher spending on social programs. However, given the uncertainty regarding the economic recovery as well as the permanent costs that the pandemic is generating, we expect a significant announcement on further countercyclical expenditures in the coming days, which undoubtedly will increase the fiscal deficit further.

In the communiqué, the fiscal rule committee said that they decided to apply the suspension clause in Article 11 of the laws laying out the fiscal rule, but with some conditions: (1) after 2021, the fiscal rule must be restored, and (2) in the 2020 Medium-Term Fiscal Framework, which will be out by the end of June, there must be explicit specifics on how long-run sustainability will be ensured beyond 2021. In fact, the committee advised the government to pass a tax reform to increase revenue collection and to revise in detail the expenditure side to ensure medium-term debt sustainability. We think that the further financing for the deficit, at least a portion of it, will come through the fungibility of the Flexible Credit Line of the IMF (USD 10.8 bn or around 3.5% of GDP). However, we cannot discount a bit more domestic TES issuance, especially via the long-anticipated 30-year bond.

It is worth noting that neither the markets nor the international rating agencies have reacted negatively so far to Colombia's fiscal easing. Richard Francis from Fitch Ratings has said that not only was the fiscal rule suspension expected, but also that what matters is the speed of economic activity recovery. We think government communications, especially messages on the Medium-term Fiscal Framework out on June 26, will be vital to maintaining calm. We expect the government to announce a credible and robust program of fiscal consolidation beyond 2021. In the short run, the government will strengthen the agenda to boost economic activity and employment.

Mexico—Pre-Pandemic Economy Was Already Weak

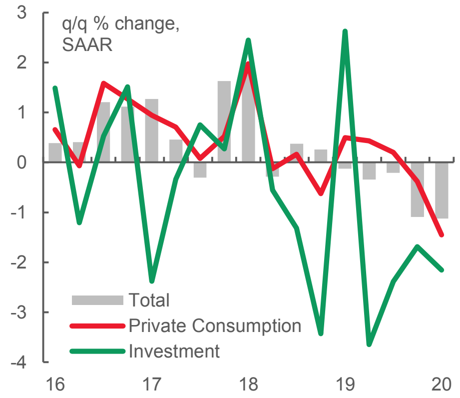
Mario Correa, Economic Research Director
52.55.5123.2683 (Mexico)
mcorrea@scotiacb.com.mx

The readings for Q1 real aggregate supply and demand were weak, contracting -1.1% q/q, with private consumption and total investment falling -1.4% q/q and -2.2% q/q, all seasonally adjusted. Government consumption expanded

3.2% q/q sa, while on the foreign-trade side, exports grew 3.1% q/q while imports contracted -1.9% q/q. These numbers include the first part of the disruption produced by COVID-19, but they also tell us that, even before the pandemic struck, the economy was already in weak shape.

A relevant recent event to note is the letter that the President and CEO of API, which represents all segments of America's oil and natural gas industry, sent to the US Secretaries of State, Energy, and Commerce, as well as the US Trade Representative. The letter expressed concern regarding recent actions taken by the Government of Mexico that undermine the USMCA/NAFTA framework and discriminate against US investors. API presented an annex of examples of discriminatory measures which mentioned many different government bodies, such as the Energy Regulatory Commission (CRE), PEMEX, Consumer Protection Bureau (PROFECO), the Ministry of Energy (SENER), the Environmental Hydrocarbons Agency (ASEA), and the Environmental Ministry (SEMARNAT). The US Government response is yet to be seen, but, given the electoral times and the pressure upon President Trump to restore his approval ratings, some actions such as tariffs on Mexican exports could be likely to happen.

Mexico: Aggregate Supply and Demand



Sources: Scotiabank Economics, INEGI.

The week ahead will be loaded with key information. Banco de México will make the next monetary policy decision on June 25, for which a -50 bps cut is widely anticipated. The Global Indicator of Economic Activity (IGAE) will let us know the extent of the damage to the service sector and the whole economy in April from isolation measures to prevent the spread of COVID-19. Trade balance figures, which are one of the earliest pieces of monthly hard data, will be released for the month of May. Inflation figures for the first half of June will shed some light on the most relevant variable for monetary policy decisions, especially after some wide and surprising movements in the previous couple of months. Retail sales for April will also be published and the unemployment report for May is originally scheduled for next week, but due to the isolation measures still in place, it is likely that it will be postponed for some time.

Peru—The Economy Takes Precedence Over COVID-19

Guillermo Arbe, Head of Economic Research
51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

It was all about the economy for the government this week. The dismal data for April, with GDP down -40.5% y/y and unemployment jumping from 9% in March to 13% in April, motivated the government to pick up the pace in unlocking the economy, and to announce new public investment programs. The government has changed its focus in favour of the economy, even though COVID-19 is not contained. Although daily contagion and mortality numbers appear to be stabilizing, they continue to be high.

This week, the government opened up malls and open-air marketplaces. More significantly, the government announced two important public investment programs. With over three million jobs having been lost, these programs focus on creating jobs. ARRANCA PERU is a PEN 6.4 bn (USD 1.9 bn) program which aims to create one million positions in the second half of 2020 through investment in labour-intensive projects in road improvement and maintenance, housing, agriculture infrastructure, and temporary employment programs.

The government also named the United Kingdom as project manager of the PEN 7 bn (USD 2.1 bn) El Niño reconstruction program, involving investment in hospitals, schools, riverbank reinforcement, and so forth. This will commence as soon as possible, with hopes that PEN 1.5 bn will be invested in the second half of 2020. A similar program was very successful in building the infrastructure for the Pan-American Games.

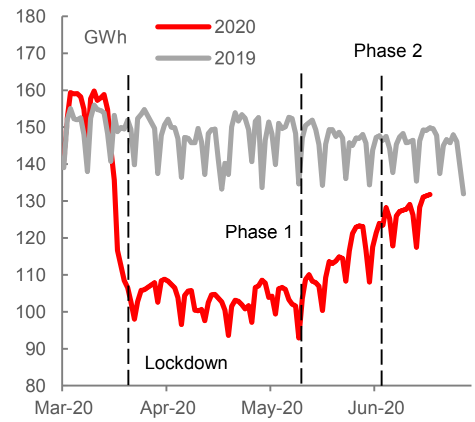
According to Finance Minister María Alva, the government is relying on these programs, together with faster unlocking, and presumably other measures that may be in the works, to keep the contraction in 2020 GDP at no more than -8% y/y.

Meanwhile, there are a number of indicators that the economy is coming back. Electricity demand is currently down only -12% y/y, an improvement from -30% y/y in April, suggesting an economy at or above 70% of normal operational levels. Mining is even better, at well over 80%. Fishing is in line to meet the 2.4 mn metric tonne quota, which is 15% greater than last year's catch. Cement consumption was still low in May—at 290,000 metric tonnes versus over one million in a good month—but is much better than the paltry 6,000 metric tonnes produced in April.

The balance of these new events, from weaker-than-expected employment on the one hand to the combination of faster unlocking and new government stimulus announcements on the other, lies within the realm of our -9% to -14% y/y GDP growth range for 2020. However, given the jump in unemployment in April, we now expect the unemployment rate to end 2020 at 14%, rather than 12%. This will depend crucially, though, on how successful the government is in its job creation programs.

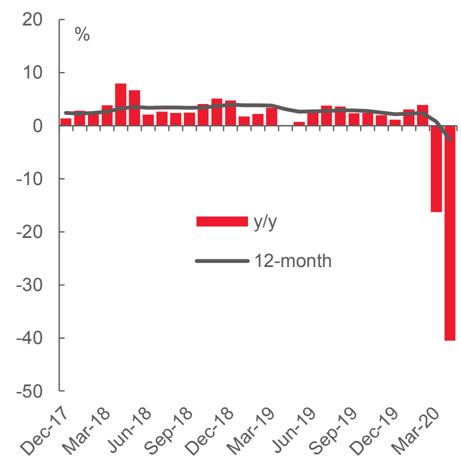
An additional risk emerged this week, however: Congress has been discussing a draft bill that would allow small businesses and individuals to defer their bank debt payments. The initiative risks derailing the efforts the central bank (BCRP) has been making to ensure that banks and companies have the liquidity needed to maintain the payment chain. Both the BCRP and the bank supervisor (SBS) came out strongly against the initiative. As a result, Congress is in the process of taking a second look at the draft bill, but may nonetheless decide to proceed with a watered-down version. If so, the bill will likely be vetoed by the Executive, and could eventually end up in the Constitutional Court.

Peru: Electricity Demand (Mar–Jun)



Sources: Scotiabank Economics, COES.

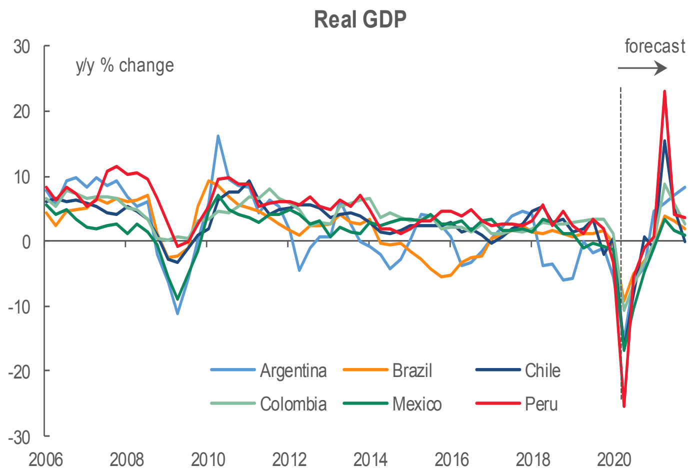
Peru: GDP Growth



Sources: Scotiabank Economics, INEI.

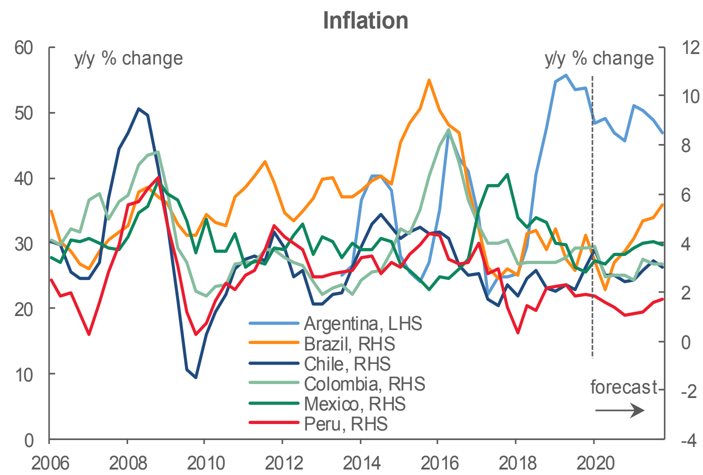
Key Economic Charts

Chart 1



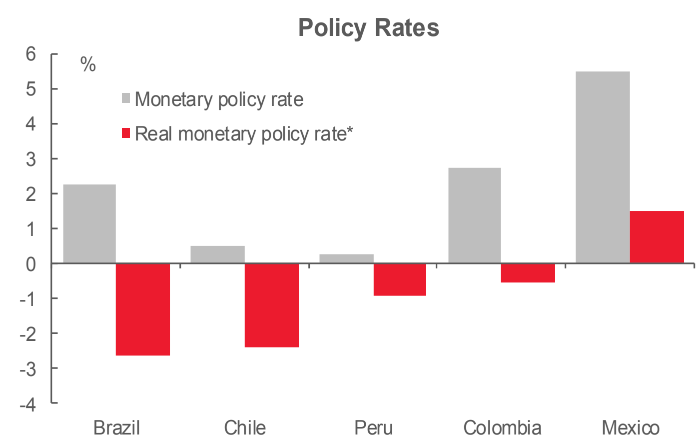
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



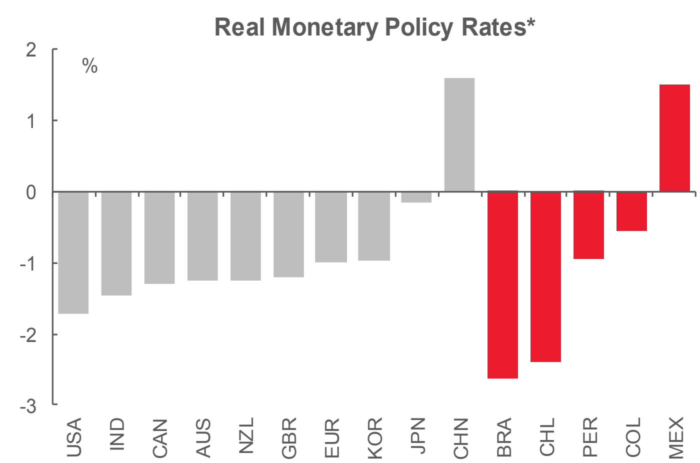
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



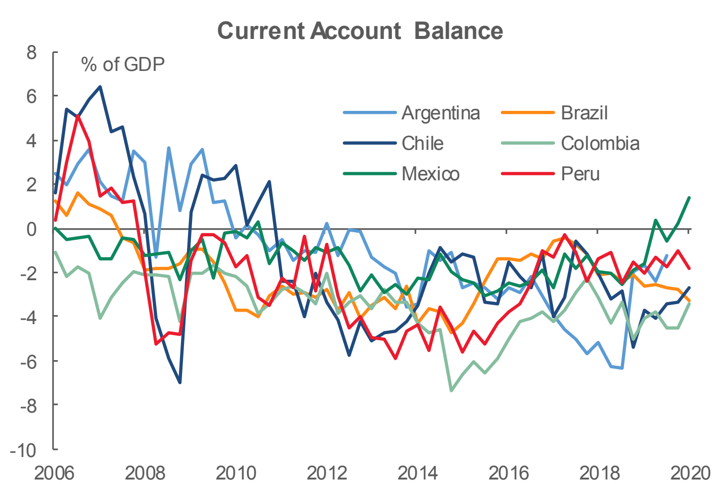
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Argentina: MPR = 38.0%; Real MPR = -12.4%. Sources: Scotiabank Economics, Haver Analytics.

Chart 4



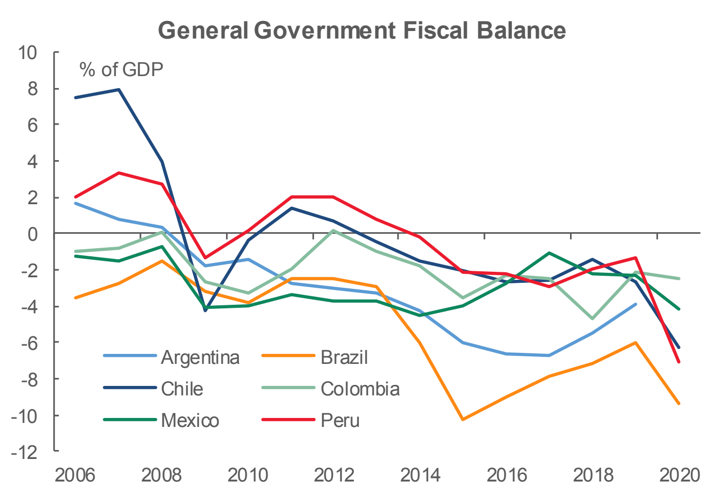
* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q2-2021, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Haver Analytics.

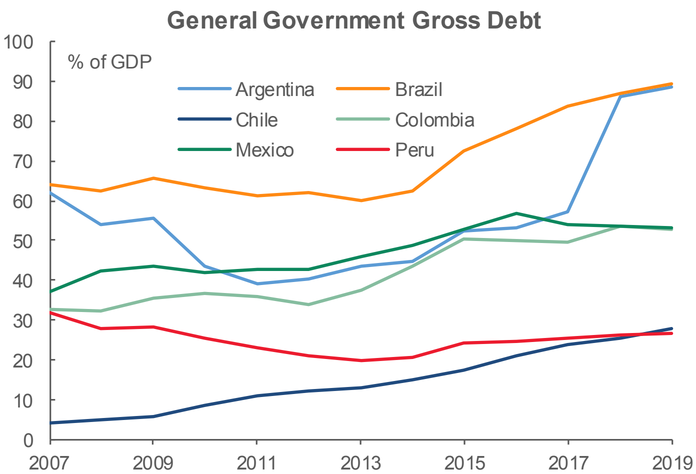
Chart 6



Sources: Scotiabank Economics, IMF.

Key Economic Charts

Chart 7

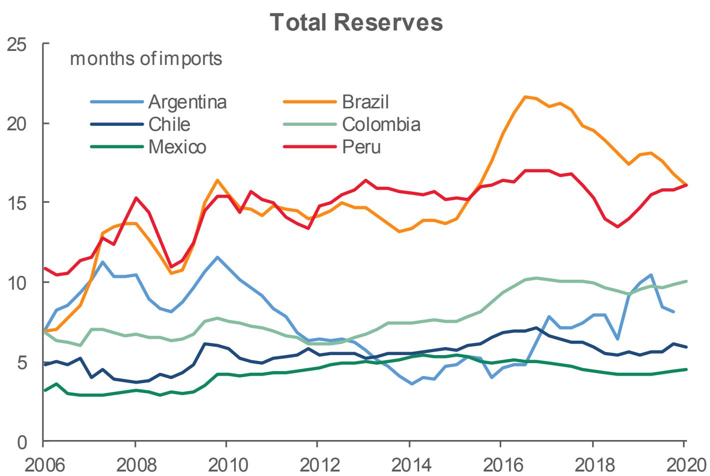


Sources: Scotiabank Economics, IMF.

Chart 8

Sources: Scotiabank Economics, Haver Analytics.

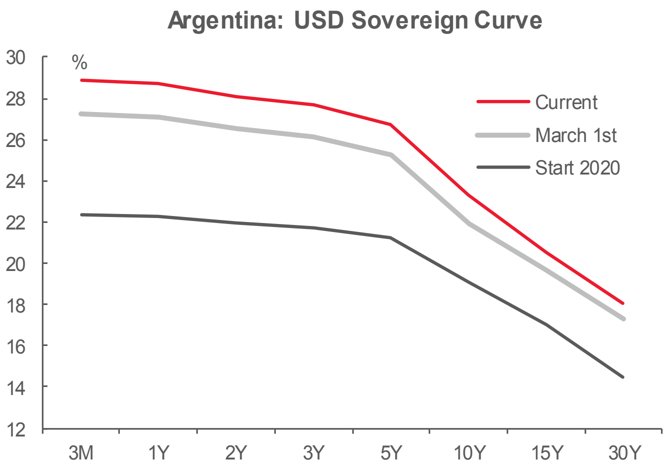
Chart 9



Sources: Scotiabank Economics, Haver Analytics.

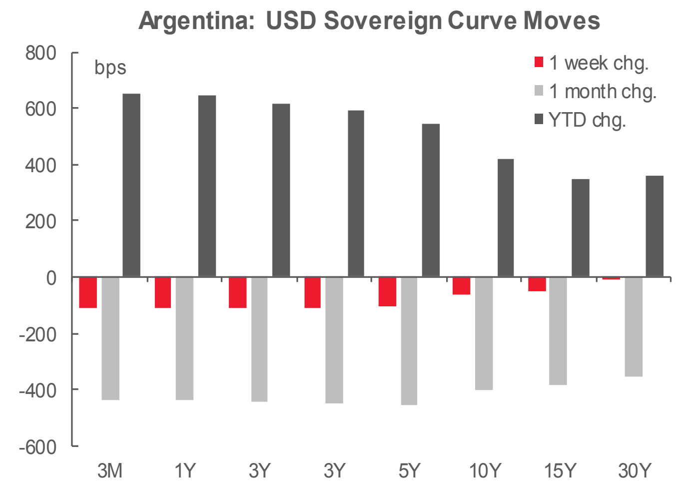
Key Market Charts

Chart 1



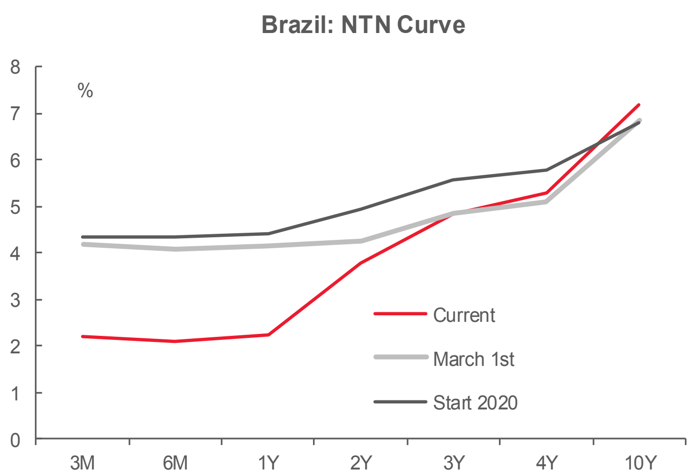
Sources: Scotiabank Economics, Bloomberg.

Chart 2



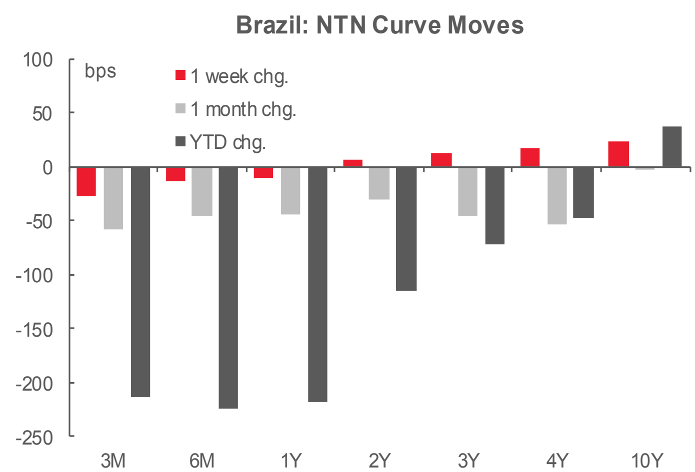
Sources: Scotiabank Economics, Bloomberg.

Chart 3



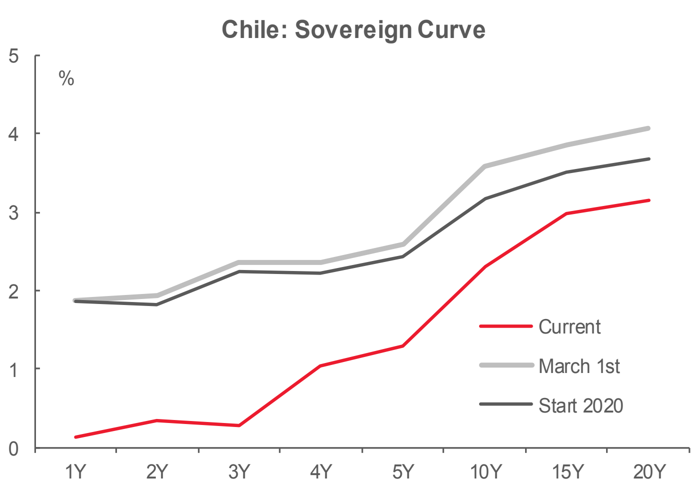
Sources: Scotiabank Economics, Bloomberg.

Chart 4



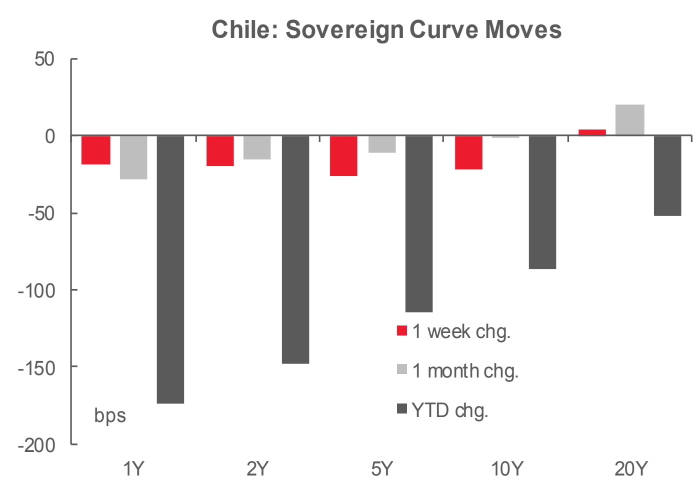
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

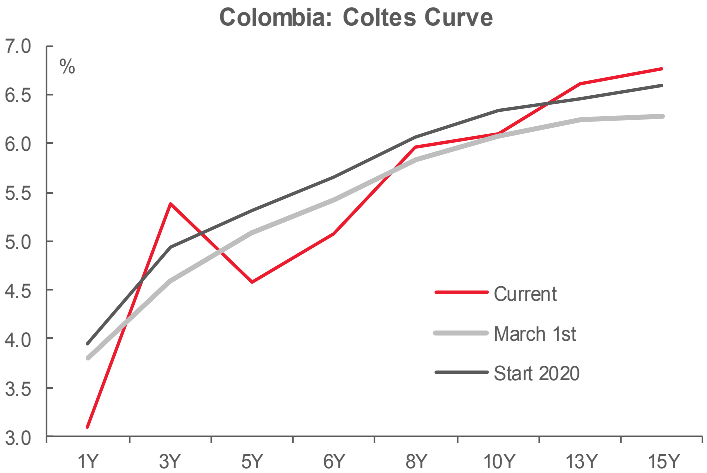
Chart 6



Sources: Scotiabank Economics, Bloomberg.

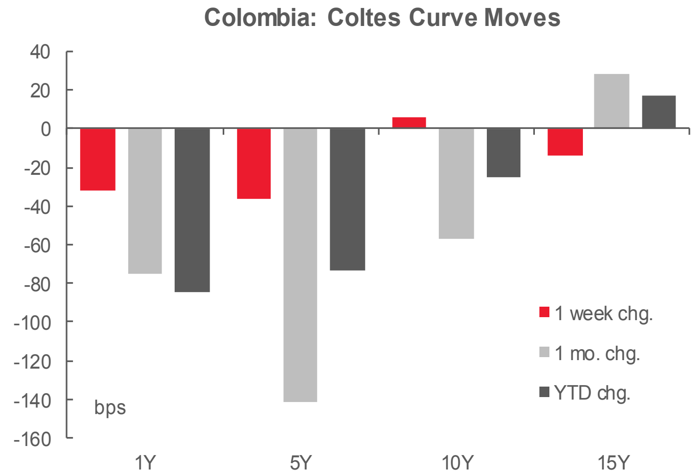
Key Market Charts

Chart 7



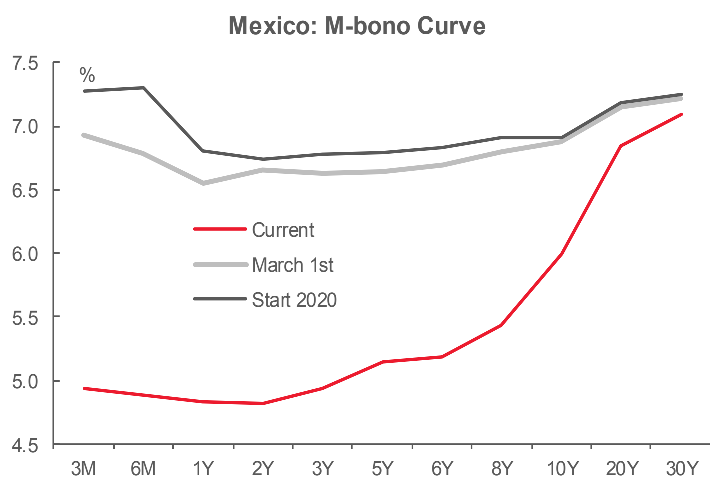
Sources: Scotiabank Economics, Bloomberg.

Chart 8



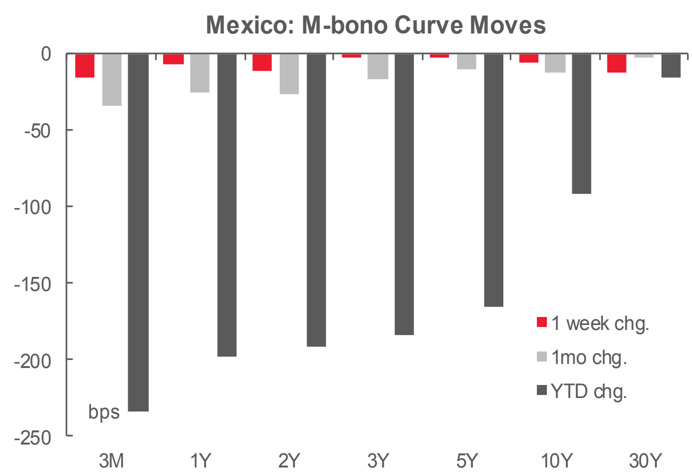
Sources: Scotiabank Economics, Bloomberg.

Chart 9



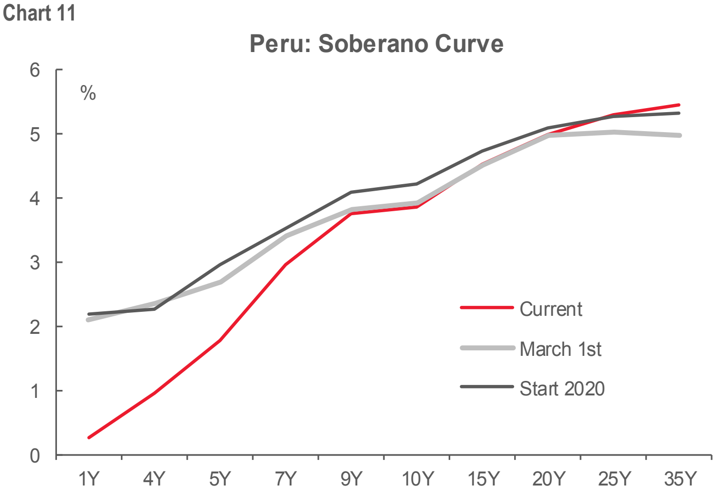
Sources: Scotiabank Economics, Bloomberg.

Chart 10



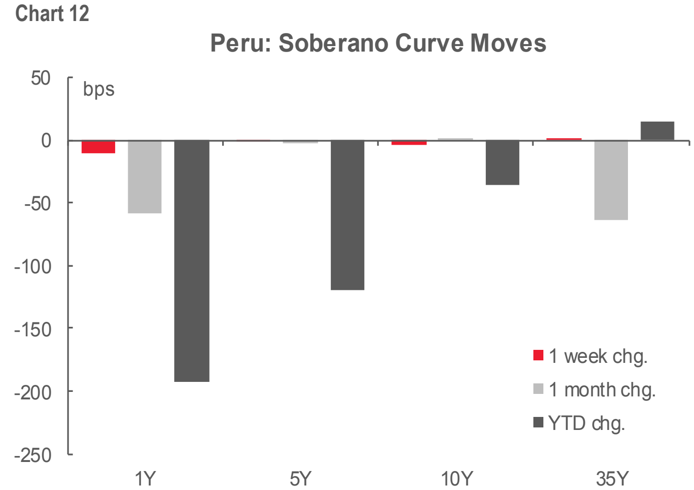
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

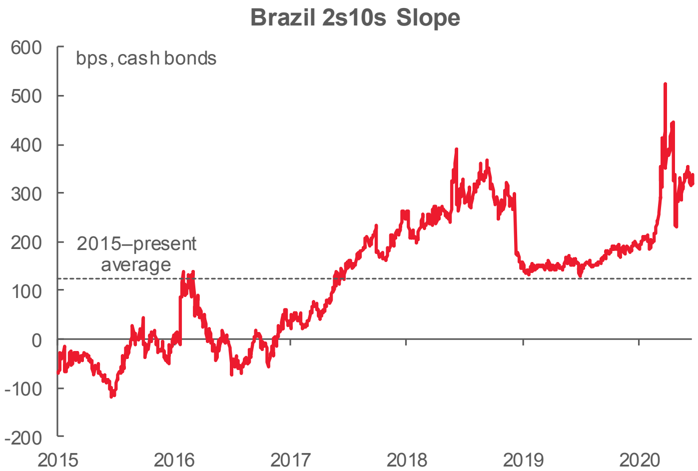
Chart 12



Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 13

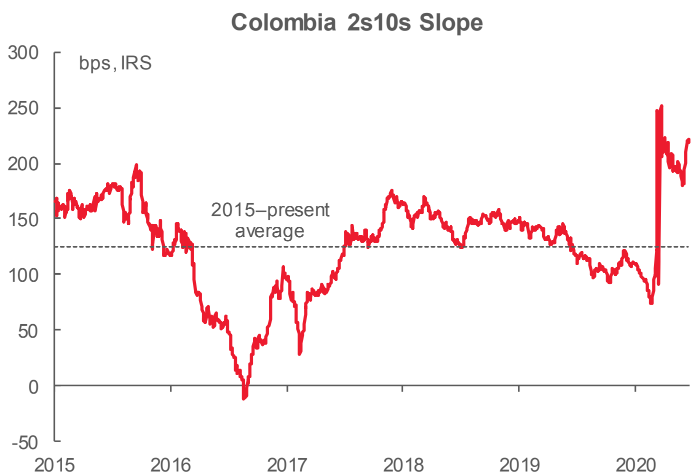


Sources: Scotiabank Economics., Bloomberg.

Chart 14

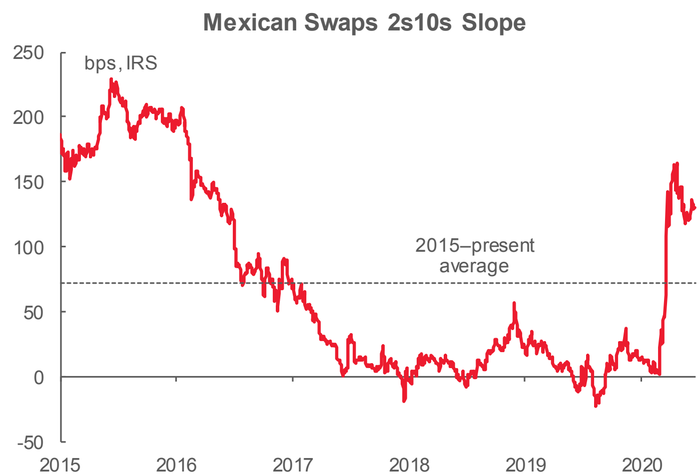
Sources: Scotiabank Economics., Bloomberg.

Chart 15



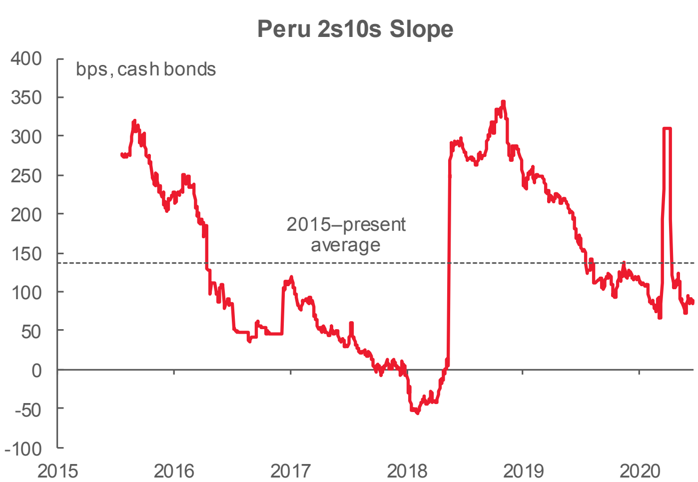
Sources: Scotiabank Economics., Bloomberg.

Chart 16



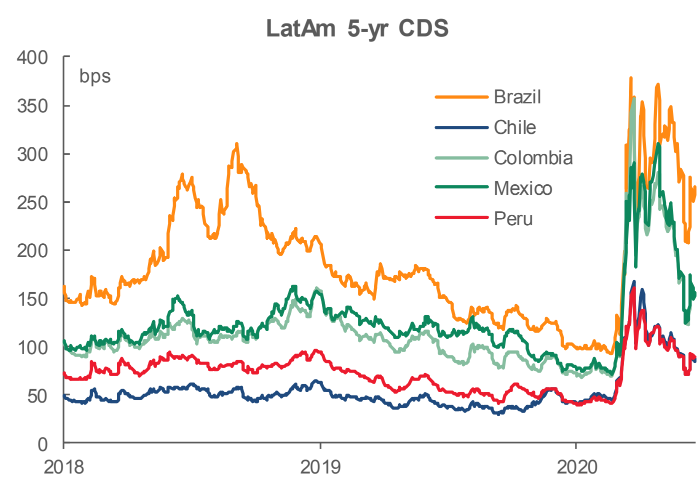
Sources: Scotiabank Economics., Bloomberg.

Chart 17



Sources: Scotiabank Economics., Bloomberg.

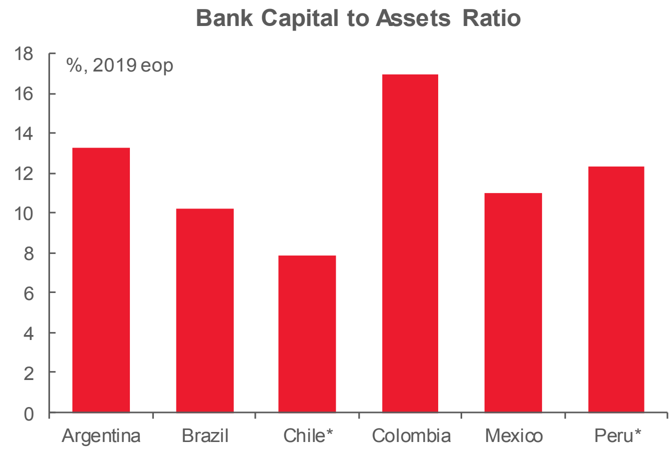
Chart 18



Sources: Scotiabank Economics., Bloomberg

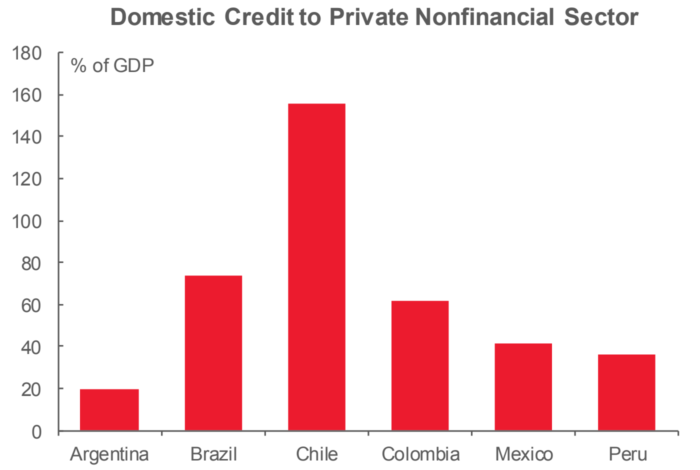
Key Market Charts

Chart 19



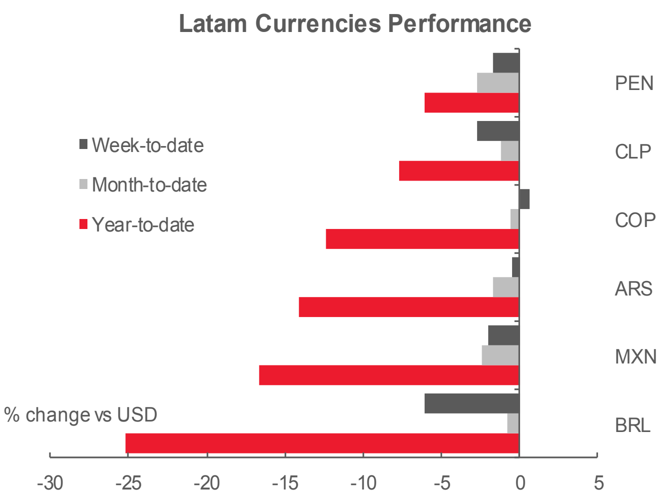
* Chile 19Q3; Peru 19Q2.
Sources: Scotiabank Economics, IMF.

Chart 20



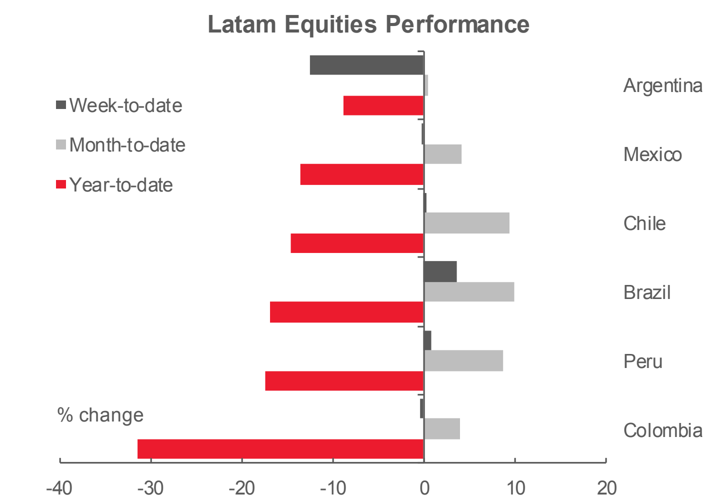
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 21



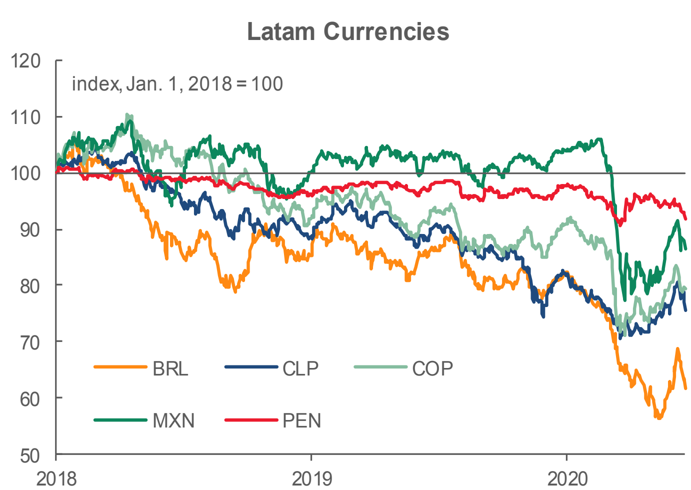
Sources: Scotiabank Economics, Bloomberg.

Chart 22



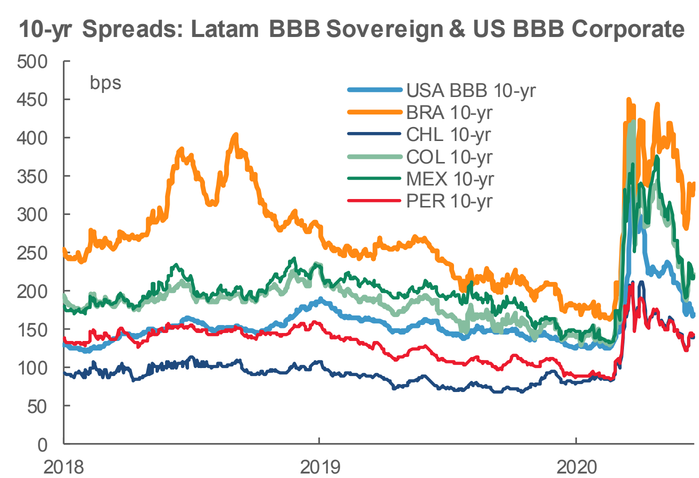
Sources: Scotiabank Economics, Bloomberg.

Chart 23



Sources: Scotiabank Economics, Bloomberg.

Chart 24



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for June 20–26

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-23	15:00	GDP (q/q)	1Q	-6.3	--	-1.0	Our GDP forecasts are in line with the monthly activity index.
06-23	15:00	GDP (y/y)	1Q	-5.4	--	-1.1	
06-23	15:00	Unemployment Rate	1Q	10.9	--	8.9	Risks are titled toward a higher unemployment print.
06-24	15:00	Supermarket Sales (y/y)	Apr	--	--	10.7	
06-24	15:00	Shop Center Sales (y/y)	Apr	--	--	-56.6	
06-25	15:00	Exports Total (USD mn)	May	--	--	4329	
06-25	15:00	Imports Total (USD mn)	May	--	--	2918	
06-25	15:00	Trade Balance (USD mn)	May	--	--	1411	
06-25		Consumer Confidence Index	Jun	--	--	38.4	
06-26	11:00	Bloomberg June Argentina Economic Survey					
Jun 22-24		Budget Balance (ARS mn)	May	--	--	-228821	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-22	7:25	Central Bank Weekly Economists Survey					
06-22	14:00	Trade Balance Weekly (USD mn)	21-Jun	--	--	1599	
06-23	7:00	FGV CPI IPC-S	22-Jun	--	--	-0.1	
06-24	7:00	FGV Consumer Confidence	Jun	--	--	62.1	
06-24	8:30	Foreign Direct Investment (USD mn)	May	--	--	234.3	
06-24	8:30	Current Account Balance (USD mn)	May	--	--	3840	
06-24		Federal Debt Total (BRL bn)	May	--	--	4161	
06-25	4:00	FIPE CPI - Weekly	22-Jun	--	--	0.2	
06-25	7:00	FGV Construction Costs (m/m)	Jun	--	--	0.2	
06-25	7:00	Central Bank Quarterly Inflation Report					
06-25	8:00	IBGE Inflation IPCA-15 (y/y)	Jun	--	1.9	2.0	
06-25	8:00	IBGE Inflation IPCA-15 (m/m)	Jun	--	0	-0.6	
06-26	8:30	Personal Loan Default Rate	May	--	--	5.4	
06-26	8:30	Total Outstanding Loans (BRL bn)	May	--	--	3587	
06-26	8:30	Outstanding Loans (m/m)	May	--	--	0.0	
06-26	10:00	Bloomberg June Brazil Economic Survey					
Jun 19-25		Tax Collections (BRL mn)	May	--	82300	101154	
June 23-36		Formal Job Creation Total	May	--	--	-860503	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-24	9:00	PPI (m/m)	May	--	--	-0.1	
06-26	10:30	Bloomberg June Chile Economic Survey					

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-24		Industrial Confidence	May	--	--	-35.8	
06-24		Retail Confidence	May	--	--	-25.5	
06-26	10:45	Bloomberg June Colombia Economic Survey					

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

Market Events & Indicators for June 20–26

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-22		Citibanamex Survey of Economists					
06-23	10:00	International Reserves Weekly (USD mn)	19-Jun	--	--	188105	
06-24	7:00	Bi-Weekly CPI (y/y)	15-Jun	3.1	--	2.9	
06-24	7:00	Bi-Weekly Core CPI	15-Jun	0.2	--	-0.1	
06-24	7:00	Bi-Weekly CPI	15-Jun	0.3	--	0.0	
06-25	7:00	Retail Sales (m/m)	Apr	--	--	-0.8	
06-25	7:00	Retail Sales (y/y)	Apr	--	--	-1.3	
06-25	**14:00**	**Overnight Rate**	**25-Jun**	**5.0**	**5.0**	**5.5**	
06-26	7:00	Economic Activity IGAE (y/y)	Apr	-18.2	--	-2.3	
06-26	7:00	Trade Balance (USD mn)	May	1161	--	-3087	
06-26	7:00	Economic Activity IGAE (m/m)	Apr	--	--	-1.3	
06-26	10:15	Bloomberg June Mexico Economic Survey					

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-26	11:00	Bloomberg June Peru Economic Survey					

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

Scotiabank Economics Latam Coverage

Local Market Coverage

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Website:	Click here to be redirected
Subscribe:	carlos.munoz@scotiabank.cl
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Subscribe:	estudeco@scotiacb.com.mx
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Website:	Click here to be redirected
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