Note: The *Latam Weekly* has moved to a bi-weekly publishing calendar for July and August. Our next edition will cover the period July 11–24. The *Latam Daily* will continue to be released Monday to Friday.

Latam Weekly: Recuperation Considerations

Happy Canada Day on July 1 and US Independence Day on July 3!

FORECAST UPDATES

- Minor changes this week include (1) a slight re-profiling of the BCB's projected final moves to take Brazil's Selic to an unchanged forecast terminal rate of 1.75%; and (2) a further nudge up in the projected path for headline inflation in Mexico after the upside surprise in the print for the first half of June.

ECONOMIC OVERVIEW

- Some data imply that Latin America's economies may be starting to find the nadirs of their COVID-19 recessions. We review some considerations as Latam begins the long process of economic recuperation.

MARKETS REPORT

- We look at possible options for Peru to finance its expanded fiscal response to COVID-19 and their implications for Peru's global and Soberano bond markets.

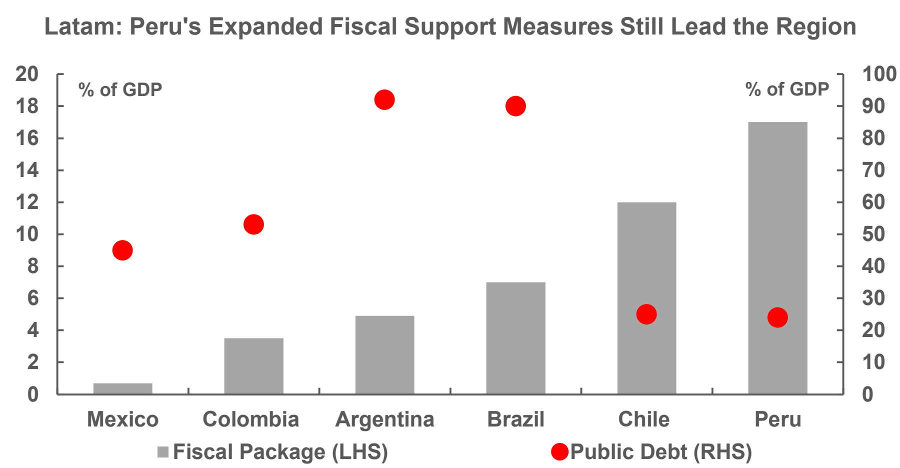
COUNTRY UPDATES

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

MARKET EVENTS & INDICATORS

- Risk calendar with selected highlights for the period June 27–July 10 across our six major Latam economies.

Chart of the Week



Sources: Scotiabank Economics, IMF, IIF.

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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	10.4	12.1	11.4	11.0	10.9	10.3	9.8	9.7	9.8	11.2	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	3.3	3.8	3.7	3.9	3.9	3.9	3.8	2.8	3.7	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	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	1.8	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	11.2	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	3.7	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	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*.

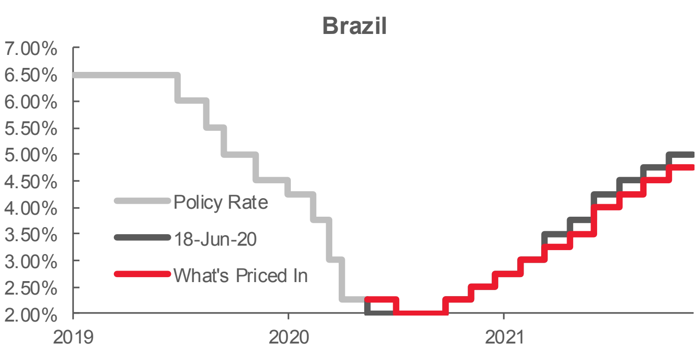
Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

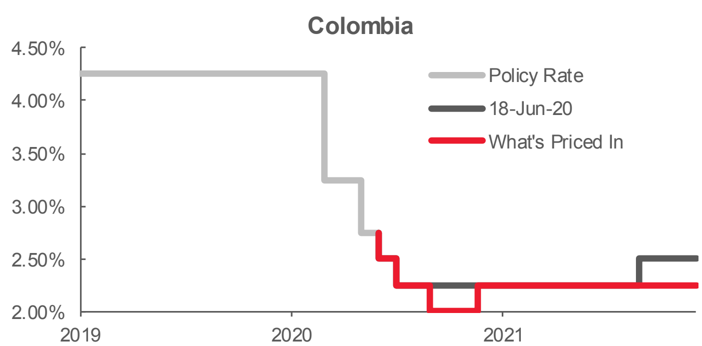
		Next Scheduled Meeting			Market Pricing		BNS Forecast		
	Current	Date	Market	BNS	12 mos	24 mos	End-2020	End-2021	BNS guidance for next monetary policy meeting
Argentina, BCRA, TPM, n.a.	38.00%	n.a.	n.a.	37.00%	n.a.	n.a.	36.00%	40.00%	The BCRA has been on hold since March 5, when it cut for a sixth time. The sliding value of the ARS has temporarily stayed further cuts, but we expect the Bank to cut again in 2020 before reversing itself next year.
Brazil, BCB, Selic	2.25%	Aug-05	2.19%	2.00%	3.65%	6.39%	1.75%	5.75%	The latest BCB *Inflation* Report shows sharp downward revisions to growth and a weaker inflation path, but the BCB also emphasizes further rate cuts will be 'residual'.
Chile, BCCh, TPM	0.50%	Jul-15	0.49%	0.50%	0.52%	0.99%	0.50%	0.50%	The BCCh maintained the policy rate at 0.5%, its technical minimum, at its June 16 meeting; it also expanded its liquidity measures and announced a special asset purchase program for USD 8 bn, a QE facility that is under discussion in Congress.
Colombia, BanRep, TII	2.75%	Jun-30	2.58%	2.50%	2.22%	2.75%	2.50%	3.50%	The lack of unanimity in the previous meeting and looser fiscal policy imply a more gradual approach to easing; hence, our expectation of a -25 bps cut at the next meeting. However, softer macroeconomic indicators may generate a bias to continue at a -50 bps pace. Although inflation expectations for December have fallen, longer-term expectations remain anchored at 3%, which doesn't leave much room for further cuts.
Mexico, Banxico, TO	5.00%	Aug-13	4.53%	4.75%	3.98%	4.27%	4.75%	4.75%	After the latest cut in the reference interest rate, we expect one more at the August meeting, but this time by just -25 bps, for a terminal rate of 4.75%, to be followed by a long hold for the remainder of 2020 and 2021.
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% until late-2021.

Sources: Scotiabank Economics, Bloomberg.

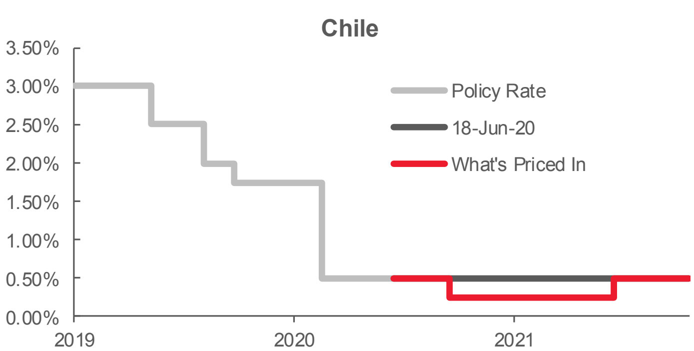
What's Priced In



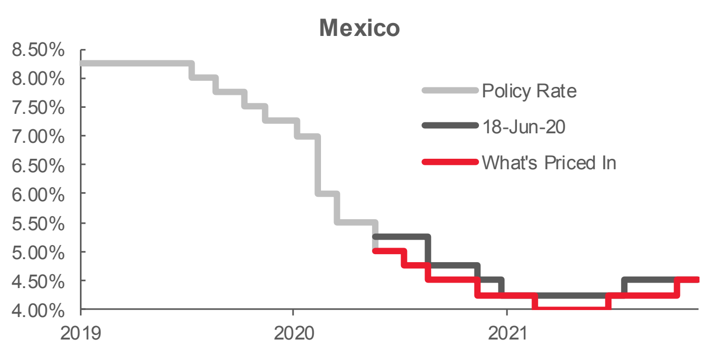
Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.



Source: Scotiabank GBM.

Economic Overview: Rehab Phase Ahead

- **The next two weeks see monetary policy rate decisions in Colombia and Peru, with a move to a more gradual easing approach expected from the BanRep and no change anticipated from the BCRP.**
- **Data could begin to show some first "green shoots" of re-opening.**
- **Latam's post-2008 consumption rise may provide a hopeful reference point for post-pandemic growth.**

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MARKETS UPDATE: LATAM REFLECTED GLOBAL SENTIMENT

The week just past ended on a busy note in Latam, with Banxico's policy rate decision on Thursday, June 25 and the release of Colombia's medium-term fiscal framework on Friday, June 26, but Latam risk traded mainly on global risk-off sentiment driven by the surge in new COVID-19 cases in the US. In contrast with the previous week where Latam equity markets saw solid gains, major stock indices across the Latam-6 were down by more than 2% in several cases this past week (table 1). FX markets were more uneven, with the BRL and MXN extending their losses on both COVID-19 and domestic economic developments, while movements in the rest of the region's currencies were more muted (table 2)

Table 1

Latam Equity Market Performance (local currency): Jun 26, 2020

	Year-to-date	1-month	1-week
Argentina	-2.6%	7.3%	-0.9%
Brazil	-18.9%	7.4%	-2.8%
Chile	-14.5%	9.4%	-0.9%
Colombia	-33.2%	1.4%	-2.5%
Mexico	-14.0%	3.6%	-2.5%
Peru	-19.0%	6.8%	-2.0%

Sources: Scotiabank Economics, Bloomberg.

Table 2

Latam FX Performance: Jun 26, 2020

	Year-to-date	1-month	1-week
ARS	-14.7%	-2.8%	-0.6%
BRL	-26.6%	-2.5%	-3.1%
CLP	-8.0%	-1.5%	-0.3%
COP	-12.3%	-0.5%	0.0%
MXN	-17.9%	-3.7%	-1.8%
PEN	-6.1%	-2.6%	-0.8%

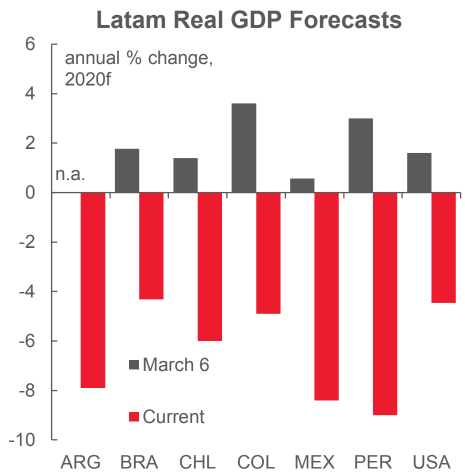
Sources: Scotiabank Economics, Bloomberg.

COVID-19: MIXED NEWS

The US competed with Latam for the worst COVID-19-related headlines over the last week, with several record days for new case numbers in the United States and in Brazil a growing sense that the country's combination of political upheaval and an uneven public-health response to the pandemic have created a COVID-19 worst-case scenario. Following the court-ordered restoration of public access to Brazil's COVID-19 data, overturning Pres. Bolsonaro's effort to pull the numbers from government websites, it's clear that Brazil's cumulative case curve has remained unbowed. Our standard panel of COVID-19 charts appears in box 1 at the end of this section. Charts B1 and B2 show that Brazil's curve has actually steepened compared with the rest of the region. At the national level, chart B3 shows progress toward a flatter curve in Peru and Colombia, while the curves in Chile, and to a lesser extent Argentina, have steepened. On per capita basis, Chile's numbers have rocketed above those in the rest of Latam over the last month (chart B4). Mortality numbers tend to lag infections, and while deaths in Mexico have accelerated (chart B5), when mortalities are scaled for population, Brazil and Peru's COVID-19 death tolls remains well above the others (chart B6).

Neither the US or Latam have completed their first waves of COVID-19, so discussions elsewhere of what is needed to prevent a second wave are best framed in the Americas as what is needed to bring the region's extended pandemic under control until a vaccine or treatment can be found. Despite Dr Fauci's optimistic hope for a vaccine by end-2020, researchers leading the charge at Oxford University are more cautious.

Chart 1



Source: Scotiabank Economics.

FORECAST REVISIONS

There are only limited revisions in our Latam-6 forecasts tables this week for Brazil and Mexico (see Forecast tables on pp. 2 and 3, and the Central Bank table and What's Priced In charts on p. 4).

- **Brazil.** The BCB Copom's latest communications combined with the June *Quarterly Inflation Report* have prompted our Brazil economist to split his call for a -50 bps cut at the next scheduled meeting in August into two "residual" cuts in the BCB's parlance: -25 bps in August and a final -25 bps in September, to leave the terminal Selic rate for this easing cycle at 1.75%, unchanged from our previous forecasts.

- **Mexico.** Our team in CDMX now expects headline inflation to end 2020 at 3.7% and to close out 2021 at 3.8%, compared with 3.5% and 3.9%, respectively, in our previous forecasts. The upside surprise in the first half of June in both the headline and core indices drove the change.

With all of the markdowns of the last four months, our 2020 GDP forecasts have now been broadly stable for several weeks as the Latam and global economies start to test their bottoms (chart 1).

FORTNIGHT AHEAD

I. Central bank action: Gradualism expected from Colombia's BanRep

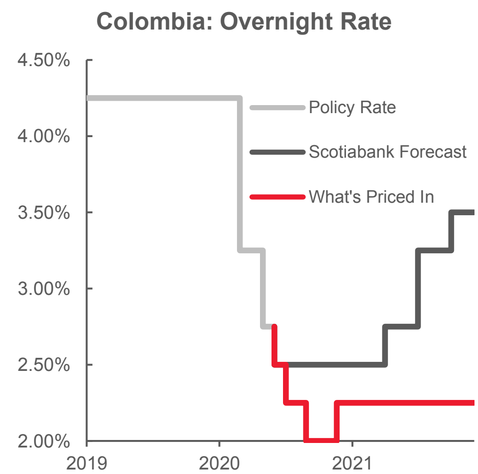
Colombia. The BanRep meets on Tuesday, June 30, and following its 5–2 divided vote at its May 29 monetary policy meeting, our team in Bogota expects the Board to become more gradualist by following up its -50 bps cut in May with a -25 bps cut at this meeting. Consensus expects another -50 bps cut (chart 2) driven by the decline in core inflation (chart 3) and our Colombia economists lay out the rationale for their call in the Country Update section. The minutes from the meeting will be published on Wednesday, July 1.

Chile. Chile's central bank, the BCCh, will publish on July 2 the minutes from the June 16 Monetary Policy Committee (MPC) meeting where the Committee unanimously decided to hold the policy rate at its "technical" lower bound of 0.5%, but updated guidance that it would stay there through the entire two-year projection horizon (i.e., at least end-2021), which was more dovish than its previous commitment to "an extended period of time." We will be looking for possible information on additional stimulus measures and secondary-market government bond purchases. Markets see some possibility of a cut to 0.25% tied to the recent drop in core and headline inflation (chart 4).

Peru. Further out, Peru's BCRP's next scheduled rate-setting meeting is planned for July 9 and, at present, looks set to be uneventful, with universal expectations that the reference rate will be held at 0.25%.

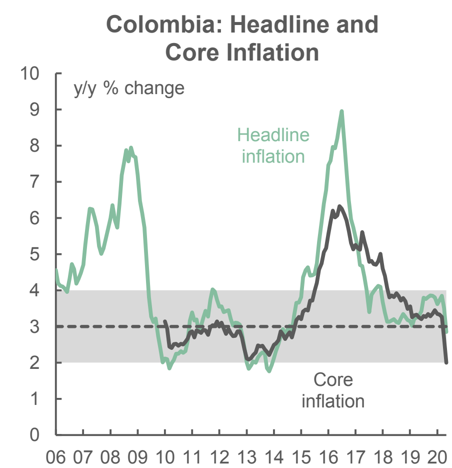
Mexico. July 9 also sees the delivery of the minutes from Banxico's June 25 monetary policy meeting where it met consensus expectations with a -50 bps cut with neutral guidance on future considerations. We expect a last -25 bps cut at the next scheduled meeting on August 5, but much will hinge on the June inflation reading and any hints in the minutes that add colour to the Board's last statement. As the IMF's

Chart 2



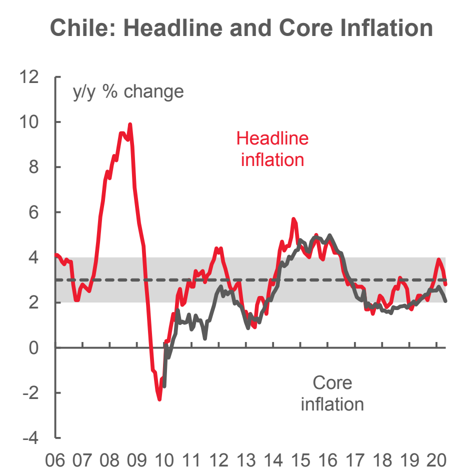
Source: Scotiabank Economics, Scotiabank GBM.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, INE.

Western Hemisphere Director Alejandro Werner noted in a briefing this past week, "Mexico has room to cut interest rates in the coming months" (chart 5).

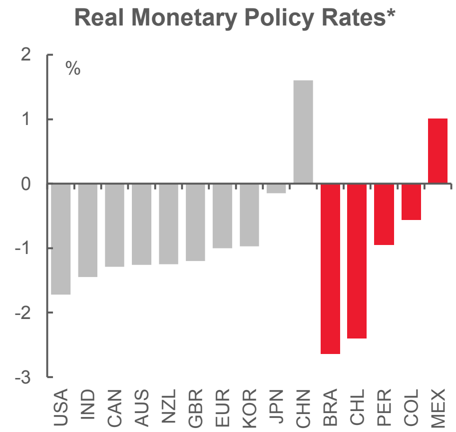
II. Data: Some first "green shoots" could be on the horizon

Inflation is expected to firm up in forthcoming June readings. Peru's June print (July 1) is expected by our Lima-based team to remain at 1.8% y/y, held up by some pass-through effects from the exchange rate. Similarly, in Mexico's June CPI print due on July 9, our team in CDMX anticipates a pick-up from 0.4% to 0.5% in month-on-month terms, which would drive annual inflation up from 2.8% to 3.3%.

Monthly economic activity indices for April in Argentina (June 29) and for May in Chile (July 1) are expected to confirm the depth of the Q2 shutdown of the region's economies, with any improvements likely coming in the next monthly prints for both countries.

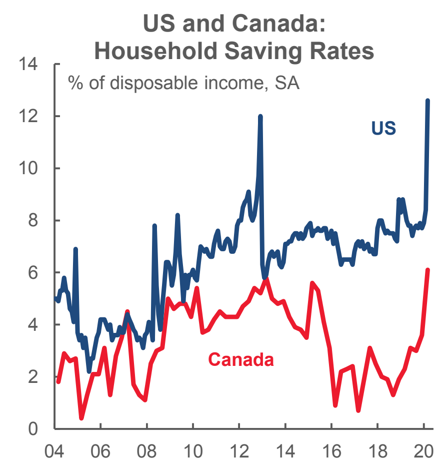
"Green shoots" of recovery could, however, be delivered by re-opening data: auto-sector production, sales, and trade data for June in Argentina (July 3) and Mexico (July 2 and 7), with Mexico's May total industrial production numbers following (July 10). Argentina's stale Q1 current account balance data (June 30) and Brazil's June trade balance numbers (July 1) are both likely to improve, but this will be a sign of weak import demand rather than any significant rebound.

Chart 5



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

Chart 6



Sources: Scotiabank Economics, BEA, Statistics Canada.

RECUPERATION CONSIDERATIONS

Latam's post-pandemic economic recuperation will depend heavily on how the region's consumers tiptoe back into the marketplace. In industrial economies, such as Canada and the US, savings rates typically rise during crises as consumers cut spending and increase reserves in case things get worse (chart 6). This provides a buffer that can be wound down and support consumption and growth as a recession abates.

Latam's economies, in contrast, with their large informal sectors, have less margin to boost savings through a crisis. In the wake of the 2008 global financial crisis, Latam GDP declined in relatively clear lockstep with other developed and emerging markets (chart 7), but consumption remained steadier and grew more strongly in Latam than in its EM and developed-market peers (chart 8). With the region's substantial fiscal and monetary support efforts, Latam's consumers will be the key again to the region's post-pandemic recuperation.

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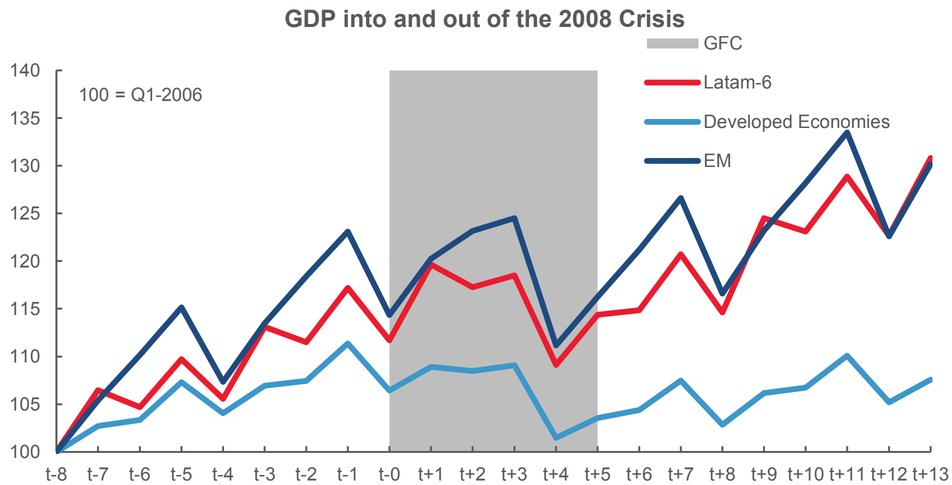
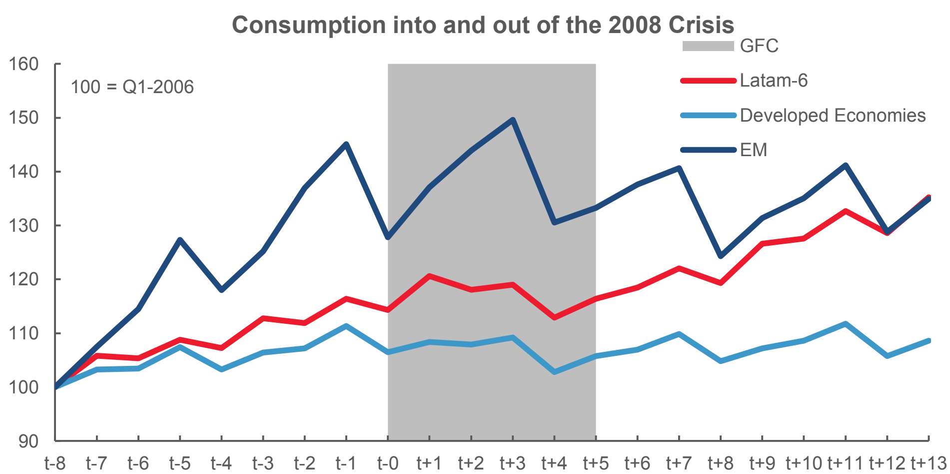
I. Sample, "COVID-19: is a second wave inevitable?" *The Guardian Science Weekly*, podcast: https://www.theguardian.com/science/audio/2020/jun/02/covid-19-is-a-second-wave-inevitable-podcast

Chart 7



* Each t represents one quarter.
Sources: Scotiabank Economics, Central Banks.

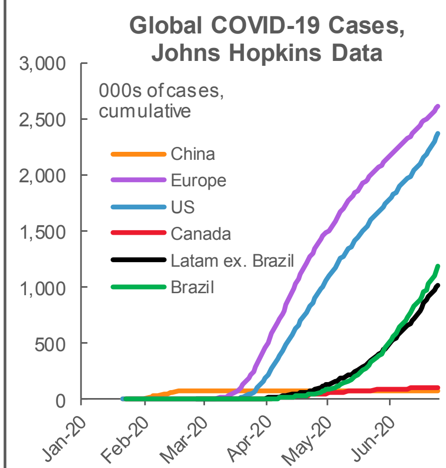
Chart 8



* Each t represents one quarter.
Sources: Scotiabank Economics, Central Banks.

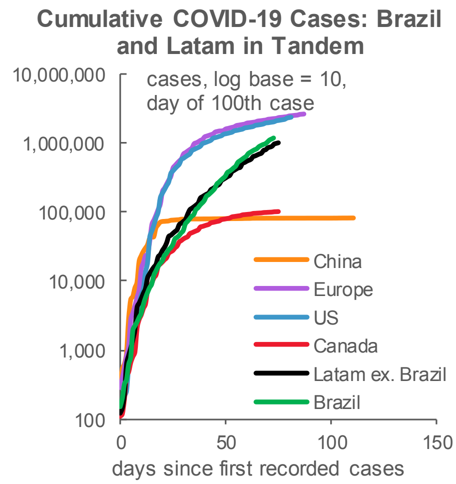
Box 1. COVID-19 in Latin America

Chart B1



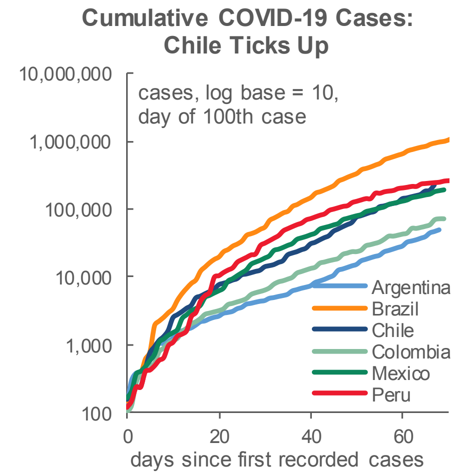
Sources: Scotiabank Economics, Johns Hopkins University.

Chart B2



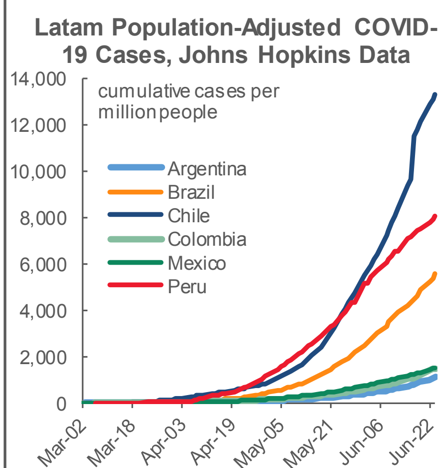
Sources: Scotiabank Economics, JHU.

Chart B3



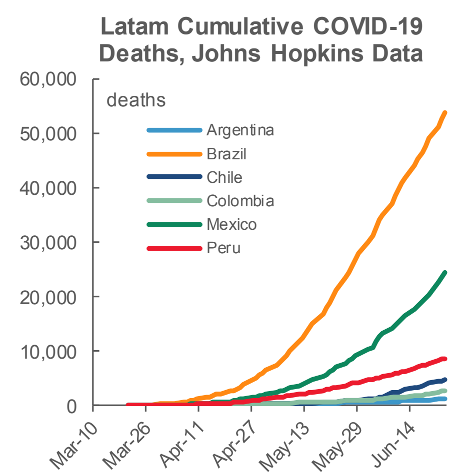
Sources: Scotiabank Economics, JHU.

Chart B4



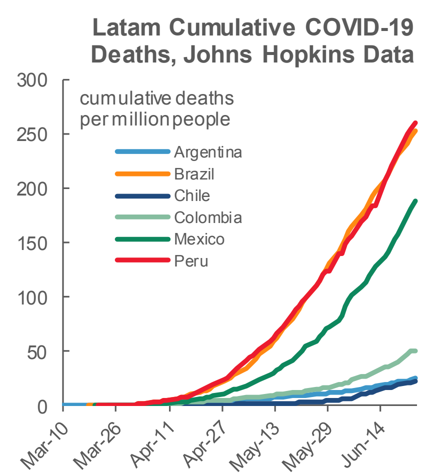
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart B5



Sources: Scotiabank Economics, Johns Hopkins University.

Chart B6



Sources: Scotiabank Economics, Johns Hopkins University.

Markets Report: Peru—2020 Financing Needs and Potential Sources

- **The fiscal response in Peru will add around 6% of GDP in financial needs in 2020, relative to what was envisaged at the beginning of the year.**
- **Among the different financing sources available, the government still has space to accommodate new debt issuance for a total of USD 4.5 bn in 2020 under current legislation.**
- **We expect to see another global bond issuance for up to USD 1.5 bn, and USD 3 bn to be issued in the local Soberano market this year.**
- **Given market dynamics, our trading team in Lima anticipates that the supply will be concentrated in the 10–15-year sector of the Soberano curve.**
- **This additional supply will result, in our view, in a bear-steepening of the curve, with the longer maturities widening between 20–30 bps on the announcement.**

MASSIVE PANDEMIC RESPONSE; MASSIVE FINANCING NEED

In Peru, the authorities' response to the COVID-19 pandemic was taken early and with full force. Lockdowns in the country extended to all industries and curfews were enforced in the major cities, resulting in a large drop in mobility. The economic response to the crisis has been sizeable as well, with fiscal stimulus totaling up to 17% of GDP, the largest in Latin America (chart 1).

The measures to fight the economic impact of the pandemic will add, according to official figures, around 6% of GDP in financial needs, owing to additional spending and lower revenue in 2020, relative to what was envisaged at the beginning of the year. Our economic team in Lima calculates that the government response will lead to a fiscal deficit equivalent to 9% of GDP and gross financing needs of about USD 20 bn for this year. In line with what we have seen in Chile and Colombia, in order to accommodate the additional financing needs, Peru's deficit rules have been suspended by the country's Fiscal Council for 2020 and 2021.

The country's new fiscal circumstances have heightened interest in how the government in Lima will finance its deficit and the impact that its eventual financing strategy could have on the Soberano curve. In this piece we try to dissect the information that we have available to develop a rough forecast of what the coming months could see in terms of new debt from Peru.

POTENTIAL SOURCES OF FINANCING

- **USD 1.3 bn have been pre-financed with sovereign bonds that were issued in 2019.**

CONTACTS

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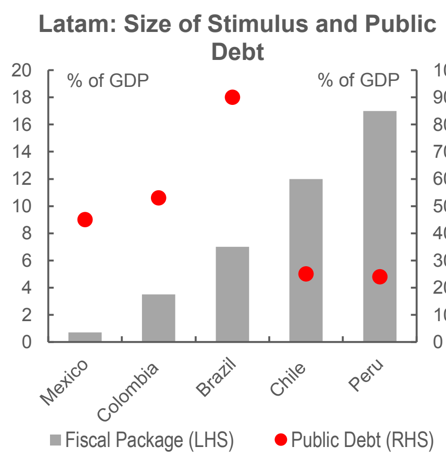
Chart 1



Sources: Scotiabank Economics, IIF.

- **Up to USD 3.8 bn can be financed with the financial lines that Peru has with multilateral organizations.** This is independent from the USD 11 bn Flexible Credit Line (FCL) that the central bank has arranged with the IMF; this is a precautionary facility to boost FX reserves, if needed, and we do not think it will be used fungibly to finance the fiscal deficit.

- **The government could use part of the USD 31.5 bn available in public financial assets (equivalent to about 14% GDP), which includes:**

  – USD 5.4 bn in the Fiscal Stability Fund, which has not been touched to date; and

  – USD 13.3 bn in deposits of the public Treasury at the BCRP. These assets include the USD 3.0 bn in proceeds from the issue of global bonds in US dollars in April of this year.

- **Peru still has plenty of space under its existing legal framework to issue new debt so issuance is also a viable alternative.** The public debt law authorized up to USD 7.3 bn in new government bonds, and only USD 3 bn has been issued YTD. Moreover, under the current circumstances, we think the ceiling could be lifted without much political resistance, particularly given that the Fiscal Council has already suspended its limits.

HOW WILL THE GOVERNMENT USE THESE SOURCES OF FINANCING?

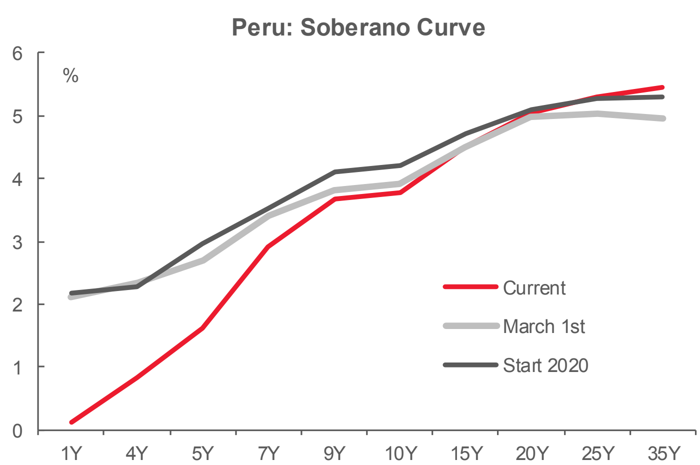
In the first half of the year, the government prioritized the use of internal financial assets and spending re-allocation to fund its fiscal impulse. According to the central bank's June 2020 *Inflation Report*, the debt to GDP ratio is intended to remain below 34% of GDP in 2020, up from 26.8% in 2019. Peru's government is likely to stay mindful of this debt ratio and will try to avoid excessive pressure in the Soberano curve.

As a result, the government will probably stay within the limits originally approved for debt issuance; our base case scenario is that we will see around USD 4.5 bn in additional new government issuance in what is left of 2020.

If this is the case, we expect another global bond issue in 2020, probably for up to USD 1.5 bn, which is the space the Ministry of Finance has left within its SEC filings for this year. This would leave around USD 3 bn to be issued in the local Soberano market. Timing would depend on the global appetite for risk and on the level of rates. Ideally, we think the government would prefer to wait until yields in the longer part of the curve come off their recent highs before tapping the market.

At the same time, any issuance must be mindful of what the market could absorb. Our trading team calculates that weekly issuance north of PEN 400 mn would be disruptive to the local bond market, which is still carrying a sizeable term premium, as implied by the steepness of the curve (chart 2). Alternatively, the government could issue the whole amount in a single deal (or a couple of deals) like the ones we saw in 2017 and 2018, when Peru issued PEN 10 bn of the Soberano 2032 and PEN 8.7 bn of the 2029.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

IS THERE A PARTICULAR TENOR WHERE THE MoF WOULD CONCENTRATE ISSUANCE?

Our local trading desk thinks that there are two likely scenarios:

1. **A re-tap of the Soberano 2034 and 2040, to take their total amounts outstanding from about PEN 10 bn and PEN 8 bn, respectively, to around PEN 14 bn in each issue.** This would boost the liquidity of those two nodes on the curve and would make them much easier to trade, which would probably smooth the shape of the curve a bit further; and/or

2. **Issuance of a new 10-year or 15-year bond to increase the liquidity in the long end of the curve.**

WHAT WILL BE THE IMPACT IN THE SOBERANO MARKET?

This would depend on the debt vehicle and maturities that the government picks, but it seems likely that the supply will be concentrated in the 10–15-year sector of the Soberano curve, particularly in the '34 or '35 maturities. Looking at past experience, the curve tends to bear-steepen whenever there is an issuance announcement. We think this steepening will be even stronger than usual this time around, as increased liquidity in the short-end keeps yields at the nodes up to the five-year maturity well anchored at current levels. We estimate that the long-end could widen between 20–30 bps on the announcement.

SUMMING UP

The fiscal response in Peru will add around 6% of GDP in financing needs (from additional spending and lower revenue) in 2020, relative to what was envisaged at the beginning of the year.

Among the different financing sources available, the government still has space in its legal framework to accommodate new debt issuance for a total of USD 4.5 bn in 2020.

We expect to see another global bond issue for up to USD 1.5 bn with USD 3 bn to be issued in the local Soberano market. Given market dynamics, our trading desk in Lima anticipates that the supply will be concentrated in the 10–15-year sector of the Soberano curve, particularly in the '34 or '35 area. This additional supply will result, in our view, in a bear-steepening of the curve, with longer-maturity yields widening 20–30 bps on the announcement.

Country Updates

Argentina—Long Month Ahead for Debt Talks While Data Confirm a Dismal Q2

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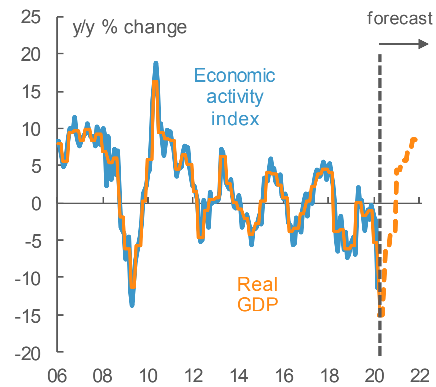
Argentina's debt restructuring talks are set to lumber on through much of July after discussions broke down on Wednesday, June 17, and the government on June 19 again extended its offer period out to July 24, the longest of several extensions. Although the two sides appear to have been gradually converging in recent weeks, differences in creditor positions have become clearer since Economy Minister Guzman noted on Thursday, June 25 that the government had reached an "understanding", but not an agreement, with some creditors, while differences remain with others. PBA's offer period has also been extended to July 31, while Mendoza's is currently set to close July 6, but it is likely to be extended.

Argentina: Real GDP on Track for Nearly -8% y/y Dive in 2020

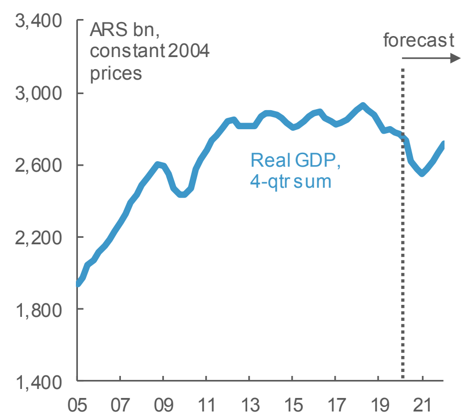


Sources: Scotiabank Economics, INDEC.

Over the coming weeks, discussions—and related headlines—are set to remain focused on the following key points to narrow the space between the authorities' third set of offer terms released on June 17 and proposals received from creditor groups and published by the Ministry of Economy on the same date:

- **Grace periods.** The authorities' most recent proposal would see coupon payments begin in 2021, with principal payments starting in 2025; in contrast, creditor proposals envisage higher coupon payments and limited reductions in principal payments.
- **Accrued interest.** The two sides continue to differ on how quickly interest accrued and capitalized during the period of default should be repaid, with the government seeking a grace period lasting until 2026, while creditors are seeking half of accrued interest to be paid on the settlement of the exchange, with the rest payable by 2023.
- **Collective actions clauses (CACs) and *pari passu* provisions.** The authorities and some bondholders want any new bonds resulting from a coming exchange to feature ICMA's 2014 model contractual language that featured in the 2016 "Macri bonds" and lowered the required thresholds for creditor participation to trigger a debt treatment to between two-thirds and 75% of bondholders. Some creditors are insisting on a return to the 85% floor specified in the 2005 debt exchange's bonds, which makes restructuring more challenging.

Argentina: A Lost Decade



Sources: Scotiabank Economics, Bloomberg.

- **Contingent sweeteners.** Bondholders have proposed that any upside connected to future securities that come out of the proposed exchange should be based on GDP outcomes that exceed a projected baseline in data prepared by the IMF. In contrast, the authorities have proposed to tie future contingent payments to any over-performance in Argentina's nominal agricultural exports. The authorities' proposal links future "bonus" payments more clearly to Argentina's notional capacity to generate FX reserves. Creditors, however, are understandably wary of any instrument whose payouts are determined by Argentine government numbers after previous administrations politicized official growth and inflation data that affected payouts on GDP-linked warrants from the 2005 exchange.

We continue to expect the Argentine government and creditors to reach an agreement. As we've previously noted, the two sides have already become sufficiently close that the differences that remain pale beside the costs of extended litigation: meeting somewhere around half way in NPV terms would cost Argentina about 0.1% GDP annually for the first few years after the exchange, and would see the defaulted bonds valued at slightly more than they have been trading recently.

The days ahead are also likely to see the re-imposition of stricter quarantine measures through July 17. Pres. Fernandez is expected to announce an extension of the quarantine, currently due to expire on June 28, with a particular tightening of controls on mobility in the greater Buenos Aires area.

The next two weeks will see fresh prints for most of the suite of Argentina's major macro indicators, with the exception of monthly inflation, and, of course, quarterly GDP (see the Market Events & Indicators section at the back). We forecast April's EMAE economic index, out June 29, to contract by -13.2% m/m and -15.4% y/y, in line with the -15% y/y contraction we project for Q2-2020 (first chart). The Bloomberg consensus has progressively converged with our forecast, and now expects -13.2% y/y in Q2, down from the -11.4% y/y published in May. Bloomberg consensus projections have also moved from -7% y/y in 2020 to -8.3% y/y, closer to our nearly -8% y/y expectation. Three years into this recession, these are distinctions without much material difference between them. Even with our forecast of a 6.5% y/y rebound in 2021, well above the 3% y/y consensus, Argentina's total real GDP going into 2022 would still be at levels first seen in 2010 (second chart).

Brazil—As BCB Makes Sharp Downward Revisions to Growth and Inflation Calls, More Easing Could Be in the Cards

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The BCB released its June *Quarterly Inflation Report (QIR)* on Thursday, June 25, in which it made strong downward revisions to its growth outlook for 2020. In its March *Quarterly Inflation Report*, the BCB expected a 0.0% y/y change in GDP for the year, and it now looks for a decline of -6.4% y/y. We are well aware that we are now behind the curve with our 2020 forecasts, but we are waiting for the June PMIs to update both our macro outlook and our BCB policy calls for 2020 and 2021, as we'd like to confirm our estimate that the economy bottomed in April–May. We'd also like to gauge what activity in June looks like as the economy seems to be slowly re-opening. Even after the June PMIs, we will still face a large degree of uncertainty with respect to how the sharp escalation of the COVID-19 pandemic in Brazil will affect both government and household behaviour from June onward. Even though the BCB only just formalized its new growth outlook, we know the deterioration in activity has not gone unnoticed in the BCB's recent decisions: the BCB has been watching the responses to its own Focus survey closely.

On the inflation front, the BCB revised its IPCA inflation assumptions for 2020 down by -100 bps, from 3.0% y/y to 2.0% y/y. This comes on the heels of Thursday's IPCA inflation print, where inflation abatement continued, with the June IPCA -15 printing at 1.92% y/y (consensus 1.85% y/y, with the previous print being 1.96% y/y).

The BCB also revised its credit growth forecasts upward (from 4.8% y/y in its March *QIR* to 7.6% y/y in the June version) which, combined with the much weaker macro outlook, would seem to reinforce our view that the BCB is likely to continue its easing cycle. One of our sources of concern has been whether the BCB saw weaker rates flowing through the economy through stronger credit growth, or whether economic uncertainty would inhibit credit growth. The central bank's view that the credit channel will continue working well adds one more piece to the puzzle of how much further the

Brazil: BCB assumptions for 2020, % y/y change	March 2020 Inflation Report	June 2020 Inflation Report
GDP	**0.0**	**-6.4**
Private consumption	0.8	-7.4
Government consumption	0.2	0.2
Gross fixed capital	-1.1	-13.8
Exports	0.9	-8.1
Imports	0.6	-11.1
IPCA inflation	3.0	2.0

Sources: Scotiabank Economics, BCB.

easing cycle can continue. On this front, the behaviour of the Brazilian yield curve will also tell us how much lower the policy rate can go without de-anchoring the longer end of the maturity structure. At this point in time, the DI curve is pricing only a 50% probability of a -25 bps cut over the BCB's next two meetings and the long end remains anchored.

With all this in mind, our sense is that the BCB will probably shift to a more gradual fine-tuning of its rates settings, and, hence, we are maintaining our call for an additional cut at the August 5 Copom meeting, but we are revising it to -25 bps (from -50 bps previously), followed by another -25 bps cut on September 16, as we anticipate the rebound in the economy will remain lackluster. Our forecast for the Selic's terminal rate remains unchanged at 1.75%. The main argument we see in the *Inflation Report* against our call for further easing is the explicit statement that the BCB sees current rates settings as compatible with the COVID-19 shock, but also that the BCB will continue to monitor macro-financial variables to make any necessary tweaks. In the press conference, Governor Campos Neto reiterated that "any further rate cuts will be residual".

Looking ahead, the coming data pipeline is quite deep, including June PMIs, which will inform revision to our own macro outlook, as well as unemployment data, monthly trade flows, fiscal numbers, and industrial production. We expect the June data (PMIs, trade) to show a modest upswing in Brazilian activity, and May's numbers (industrial production and fiscal numbers) to more or less flat-line from April.

Chile—Monthly GDP Expected to Fall Close to -20% y/y in May

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Following the release of the central bank's *Monetary Policy Report* last week, this past week the Treasury adjusted its growth projections and now expects a contraction of -6.5% y/y for 2020, followed by a recovery of 5.5% y/y in 2021. In its *Public Finances Report*, published on Monday, June 22, the Treasury acknowledged that the new fiscal package will require higher public debt and a new path for the convergence of the structural balance. It projects that public debt will be 35% of GDP in 2020 and reach 48% in 2024.

Chile: Total Debit and Credit Card Purchases

Source: Scotiabank Economics.

Our high-frequency indicators reveal that the e-commerce channel for retailers continues to strengthen, while supermarkets are back to sales closer to historical patterns. Online purchases reached an impressive 36% of total purchases in May (an increase of +13 ppts compared to May 2019). Despite this increase in online purchases, total purchases with debit and credit cards remain at low levels as of mid-June, showing no real signs of recovery. Firms' demand for loans and liquidity has show a new acceleration in June, which points to continued stress. We estimate "Fogape-Covid" loans (credits with a State-guarantee) will contribute about 6% to the annual growth of commercial loans by June. On the other hand, indicators of electricity generation, exports and imports confirm that activity in May was worse than April, but signs of stabilization have been observed in the first half of June.

Some important economic indicators will be published next week, as Gran Santiago enters its seventh week in total lockdown. On Tuesday, June 30, sectoral and employment data will be released. We project a contraction around -9% y/y in manufacturing, while card transactions point to a decline of around -32% y/y in retail sales. Regarding the labour market, we expect the unemployment rate to reach 9.8% in May versus 9.0% in April. All in all, we estimate the unemployment rate will reach 16.2% during Q3-2020. On Wednesday, July 1, we will receive the monthly GDP data for May. We expect a contraction of around -20% y/y for the month, worse than the -14.1% y/y decline seen in April. The strict lockdown measures imposed in the second part of May, that affected Gran Santiago and other big cities in the country, will certainly take a toll on activity. On Thursday, the central bank, the BCCh, will publish the minutes for its June 16 meeting.

In two weeks, on July 8, we will get the CPI data for June. We expect a null monthly variation, with annual inflation reaching 2.7% y/y. Increases in some food products (i.e., meat, dairy, bread) will be offset by the decline in fuels. For end-2020, we forecast that annual inflation will stand at 2.4% y/y. The widening of the output gap, added to the regulation of some prices (e.g., electricity rates, highway tolls), will contribute to milder inflation: our previous forecasts pointed to an annual inflation rate of 2.8% y/y for end-2020).

Colombia—Anticipated Reforms: Is This Time Different?

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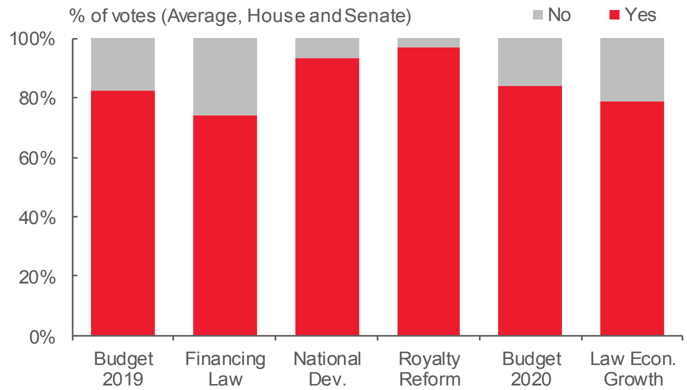
Under current circumstances, expansionary fiscal policy is necessary, but the IMF notes that countries must undertake medium-term strategies to ensure their future sustainability. Following the recent suspension of the fiscal rule for 2020 and 2021, the question of how to ensure fiscal sustainability and send a message of fiscal responsibility to markets and rating agencies is front and centre for Colombia. For the past 30 years, the typical response to fiscal problems has involved band aids. The government has often implemented non-structural reforms for the short run that have not solved structural problems. Budget inflexibility, a very complicated tax framework, and fiscal policy that hasn't reduced inequality, especially in the pension system, are still a challenge.

Colombia: Votes on the Previous Six Economic Laws Passed in Congress



Sources: Scotiabank Economics, Ministry of Finance.

Although this time is probably no different, the COVID-19 / oil-price shock gives the government an excellent opportunity to try to pass, finally, more fundamental structural reforms that aim to fix and modernize the fiscal framework. Recently implemented unconventional measures and much higher public debt both provide the government with an incentive and some leverage to negotiate more permanent reforms with Congress.

A first step will be the pension reform that, according to the recent Ministry of Finance, the government will present to Congress this year. Although we do not yet know the exact content of the reforms, Minister Cardenas has indicated that it will be tax-revenue neutral. The intention of this reform is to increase the number of people who receive pensions and reduce the inequalities of the current pension programs. Currently, the Colombian pension system is composed of two competing sub-systems—the defined benefit scheme funded by the government and a defined contribution system managed by private pension funds.

In the current public system, pensioners receive a percentage of their last ten-year average salary, which makes the public pension scheme underfunded with great dependence on subsidies to survive. Unfortunately, the framework is structured such that net subsidies go to higher-income people since their average salaries are higher than their contributions. We think that since the reforms to system are intended to be fiscally neutral and the aim of the reforms is to solve inequality, the probability of passing them through Congress is high. However, the likely fiscal benefits of the reforms would arrive only over the medium-term, less immediately than the credit-rating agencies are requesting.

The second key step will require broader changes to Colombia's fiscal framework. This was an implicit condition for the suspension of fiscal rule for 2020 and 2021: the Fiscal Rule Committee asked the government to show how it would return to fiscal consolidation in 2022 and to present a plan to ensure long-run sustainability.

The Fiscal Rule Committee has given the government a golden opportunity to present reforms that aim to reduce tax complexity and adjust the expenditure side of the budget. Currently, more than 83% of the annual budget is indexed by law and increases at the pace of either inflation or the minimum wage incremental increase; as a result, fiscal flexibility is minimal, especially under an external COVID-19 / oil prices shock. The returns provided by fiscal reform would be more immediate than those of pension reform, which makes fiscal reform a fundamental issue for future decisions by rating agencies.

The medium-term fiscal framework published on Friday, June 26, showed a 2020 fiscal deficit of -8.2% of GDP and -5.1% of GDP in 2021, on the back of higher social expenditures due to the COVID-19 shock and lower tax income due to the 2020 recession. Additionally, the document also said that once COVID-19's effects are clear, the government will pass a fiscal reform that aims to increase revenues by 2% of GDP. It is worth noting that the government said explicitly that fiscal reform means reform on both sides of its budget—both on the expenditure side and on revenue collection. Further details on the fiscal framework will be provided in Monday's *Latam Daily* report.

Finally, May employment data arrives on Tuesday, June 30, and we expect 2 million more people to join the ranks of the unemployed, which would increase the unemployment rate to 23%. The month will conclude with BanRep's monetary policy meeting, also on June 30, where we expect a -25 bps cut in a divided decision, which will reflect a more gradual approach to policy owing to the high degree of uncertainty in the macro scenario.

Mexico—A Week of Many (not so Good) Events

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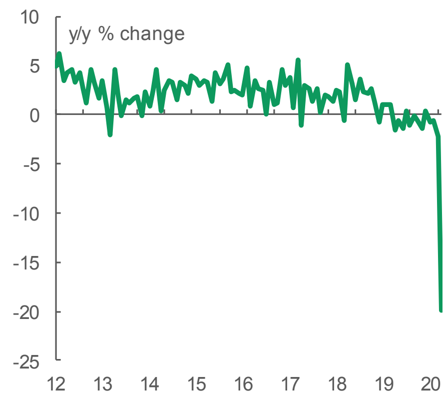
As was widely anticipated, Banco de México cut its reference interest rate by -50 bps to 5.00%, with unanimity among its Board members at its June 25 meeting. There were practically no relevant changes to the main points of the press release, but the balance of risks for economic activity were tilted significantly to the downside while the balance of risks for inflation remained uncertain. We still expect one more cut to the reference rate in August, but this time by only -25 bps, with Banxico then remaining at 4.75% for the remainder of this year and the next. We should not forget that the second half of 2020 will be challenging: pressures from the economic recession are likely to emerge in public and private finances, while global financial markets will probably be more unfavourable for emerging economies, which could add pressure on the peso. We expect that interest rates in Mexico should be high enough to compensate for these risks.

Mexico: Global Economic Activity Indicator (IGAE)



Sources: Scotiabank Economics, INEGI.

On the other hand, inflation presented a new surprise in the first half of June, posting a 0.32% m/m increase while the market was expecting 0.20% m/m in the headline rate; the annual reading hit 3.17% y/y. Core inflation was also higher than expected: 0.29% m/m versus 0.14% m/m, which produced a 3.66% y/y rate. It is worth noting that data gathering in this period could be subject to various distortions since many businesses and stores are not open, so caution should be exercised in interpreting these statistics.

Other key indicators are starting to show the deep impact of the economic disruption produced by COVID-19. The global economic activity indicator (IGAE) posted its sharpest decline on record in April, plummeting -19.9% y/y, which surpassed the -11.0% y/y drop in April 2009 and the -10.1% y/y contraction in April 1995. Markets were expecting an even worse result of -21.1% y/y. Of the main components, industry and services presented dramatic reductions of -29.3% y/y and -16.4% y/y, respectively, while primary activities grew 1.8% y/y.

Retail sales faded -23.8% y/y in real terms in April, surpassing the already weak -17.3% y/y expected by the market. There were dramatic drops in major sectors such as clothing and textile products (-72.9% y/y), amusements (-61.9%), and automotive (-32.9%).

Trade figures also presented bleak results in May, with total exports and imports dropping -56.7% y/y and -47.1% y/y, respectively, resulting in a USD 3.5 bn trade deficit. Auto exports fell by -90.1% y/y, while manufacturing exports excluding autos contracted by -41.4% y/y. Imports fell across the board: consumption goods were down -44.6% y/y, intermediate goods fell by -45.0% y/y, and capital goods dropped -38.3% y/y.

Finally, we need to mention that there was an assassination attempt on the Chief of Police in Mexico City on Friday , June 26. This event is a symptom of the weakened security situation that Mexico is facing and should be a breaking point for the Government's security strategy.

The weeks ahead will be loaded with relevant economic information. In the week starting on June 28, we will have the Banco de México survey results as well as figures for the month of May for financial activity, public finances and remittances. In the week after that, we will have private domestic consumption and the gross fixed investment for April, industrial activity for May, and auto industry and inflation figures for June.

Peru—Whatever Happens, Liquidity will not be the Problem

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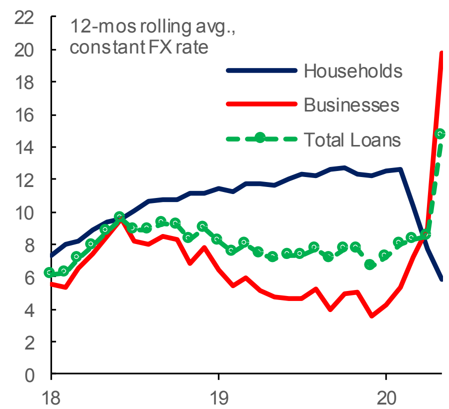
Things were quieter for the Peruvian economy this week, as little new data came out and the first signs of a flattening of the COVID-19 curve began to appear.

Perhaps the most interesting economic release this week was May loan growth. Bank loans soared 14.7% y/y in May, according to information from Asbanc, Peru's banking association. This represented a sharp acceleration from 8.5% y/y in April. The strong growth figure proves just how effective the authorities have been in providing liquidity and ensuring that it is reaching businesses. The availability of liquidity may be the main factor providing support to the economy today.

May was the first month in which funds from the huge government-sponsored Reactiva program reached banks, making the month an anomaly. Since Reactiva funds have been earmarked for businesses, it's not surprising that business loans rose 19.8% y/y, more than double the 9.0% y/y growth of the previous month.

Peru: Financial System Loans Growth



Sources: Scotiabank Economics, Asbanc, EE.

On the other hand, household loans rose only 5.9% y/y in May, slowing sharply from 7.7% y/y growth in April, and from the 12% y/y trend prior to the lockdown. However, the decrease in the stock of household loans outstanding was much milder in May than in March and April, suggesting that consumption has slowly begun coming back.

The government continued to boost its various stimulus programs during the past week. The new measures include:

- Expanding the small business fund by PEN 1 bn (USD 300 mn). The government hopes to reach 100,000 small businesses;
- Expanding, both in scope and time horizon (i.e., from two to three months), the subsidy for workers on temporary layoff.
- Allowing individuals to spread their income tax payments over 36 months;
- Allotting PEN 1.5 bn to investment in agriculture irrigation and drainage;

- Unlocking on-premises restaurant service from July 1; and
- Finalizing an agreement with private clinics on government payment for care of COVID-19 patients.

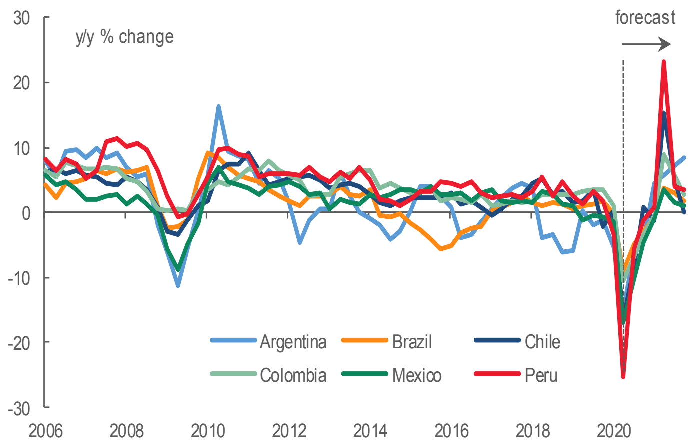
The government also had its share of run-ins with Congress recently. Foremost among these has been the Congressional initiative for a 90-day moratorium on the repayment of bank loans held by the general public. This was approved by the Congressional Economics Committee on June 25 and is set for a floor vote. There is a moderate-to-high chance that the bill will be approved, despite strong opposition from the BCRP and the banks superintendent. If so, it is likely to be vetoed by the government, and, if the veto is overridden, it would probably end up in the Constitutional Court.

The inflation figure for June will be released on July 1. We expect monthly inflation for June to be nil-to-(mildly) negative. This would leave annual inflation at 1.8% y/y, still in line with our year-end forecast of 1.1% y/y.

Key Economic Charts

Chart 1

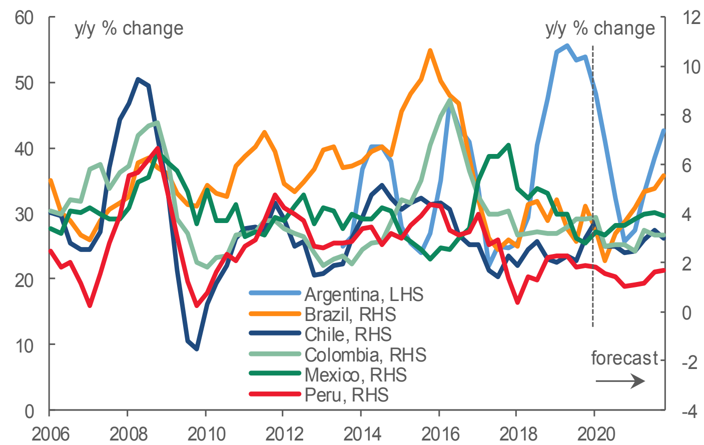
Real GDP



Sources: Scotiabank Economics, Haver Analytics.

Chart 2

Inflation



Sources: Scotiabank Economics, Haver Analytics.

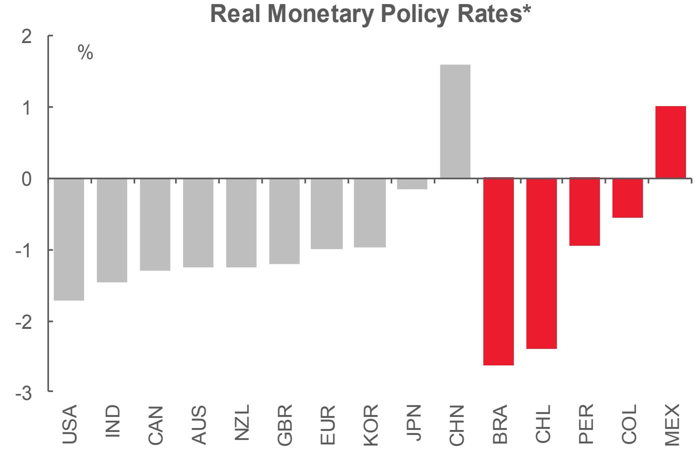
Chart 3

Policy Rates

* 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 Rates*



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

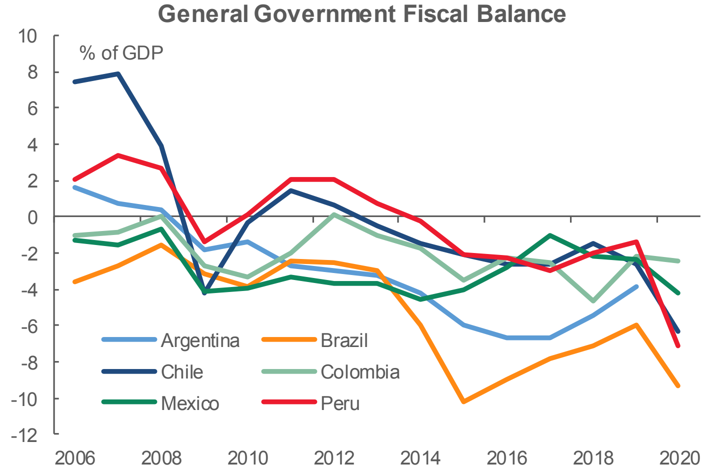
Chart 5

Current Account Balance

Sources: Scotiabank Economics, Haver Analytics.

Chart 6

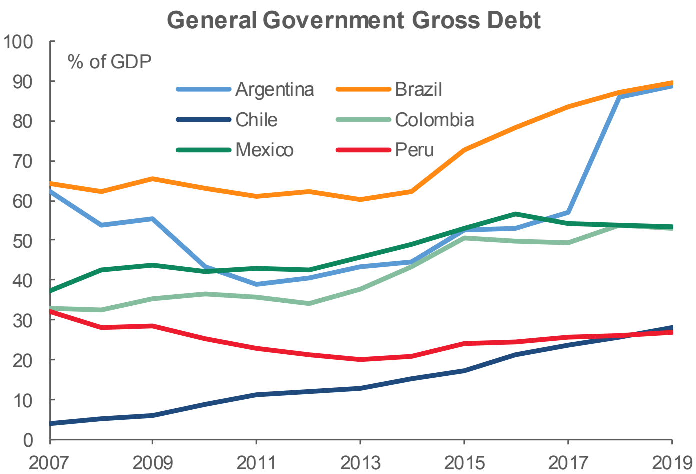
General Government Fiscal Balance



Sources: Scotiabank Economics, IMF.

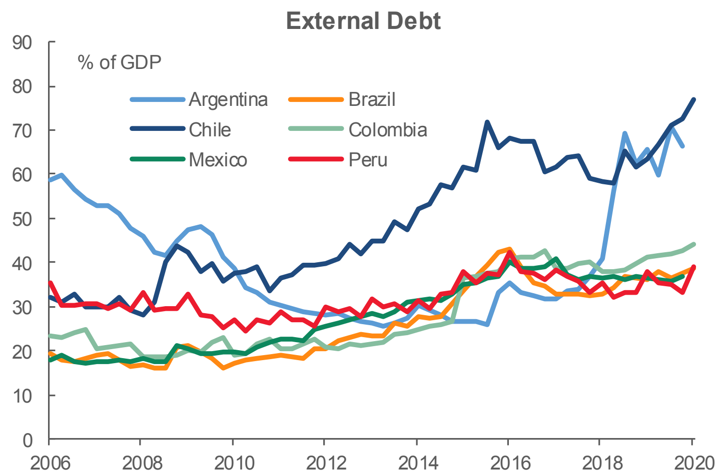
Key Economic Charts

Chart 7



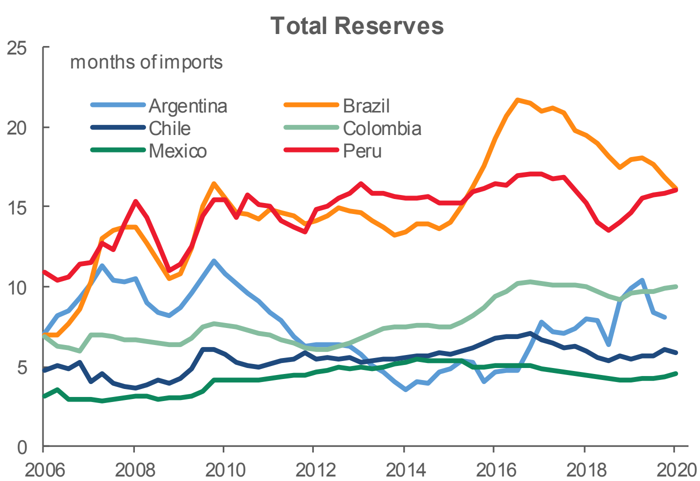
Sources: Scotiabank Economics, IMF.

Chart 8



Sources: Scotiabank Economics, Haver Analytics.

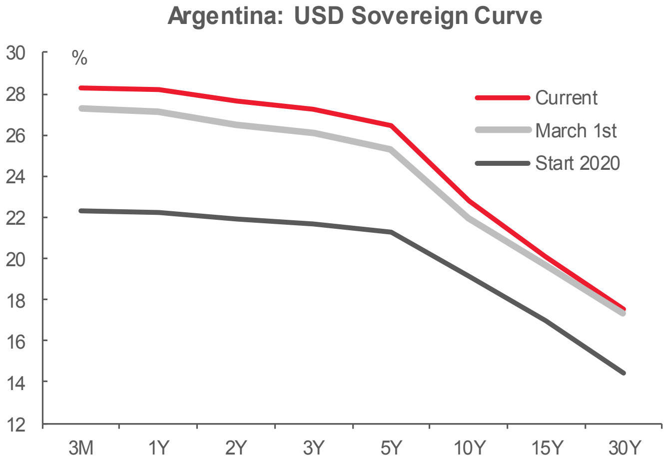
Chart 9



Sources: Scotiabank Economics, Haver Analytics.

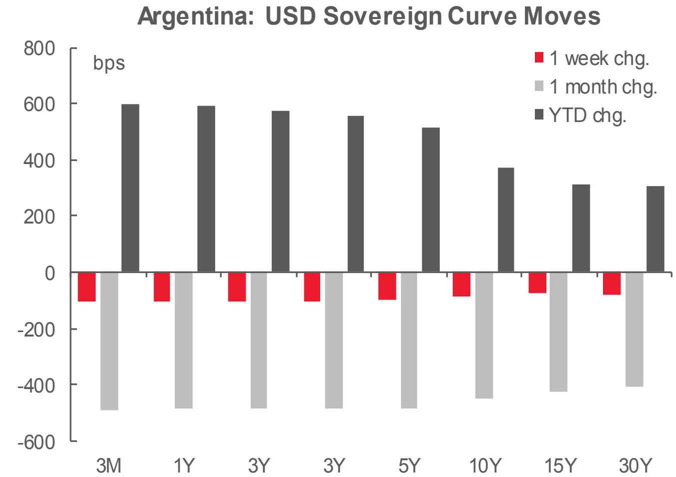
Key Market Charts

Chart 1



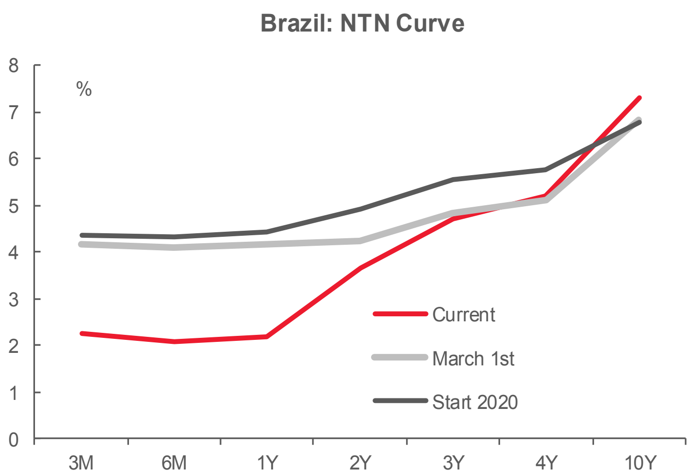
Sources: Scotiabank Economics, Bloomberg.

Chart 2



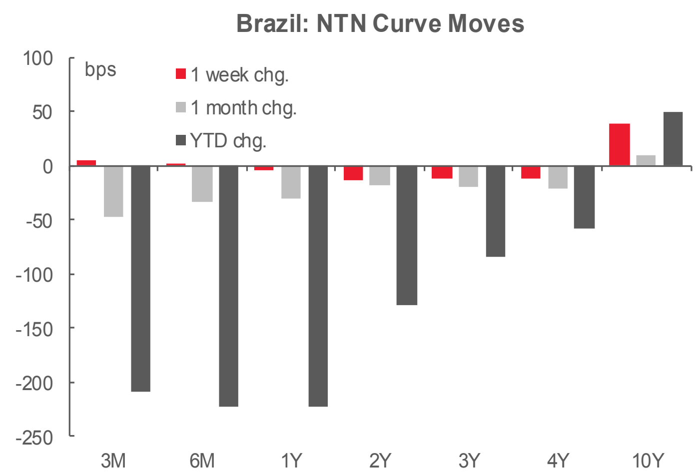
Sources: Scotiabank Economics, Bloomberg.

Chart 3



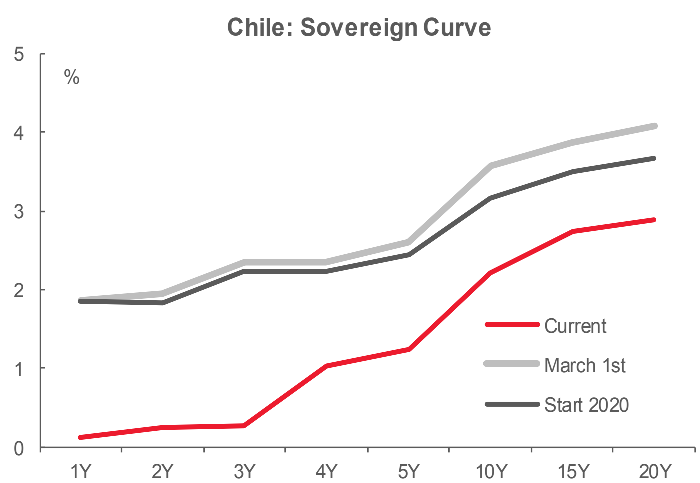
Sources: Scotiabank Economics, Bloomberg.

Chart 4



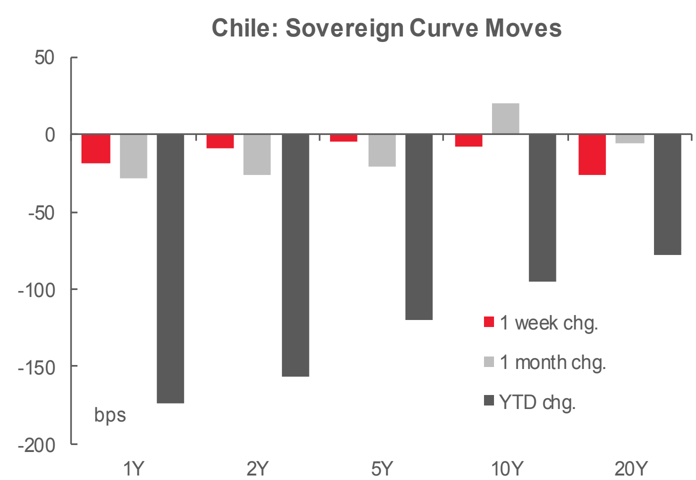
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

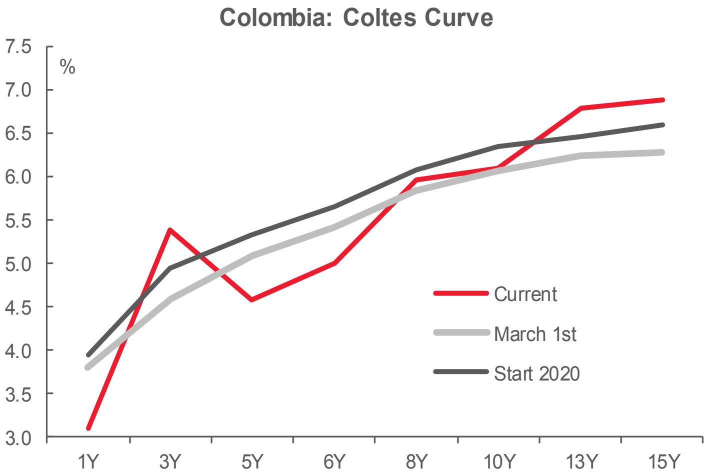
Chart 6



Sources: Scotiabank Economics, Bloomberg.

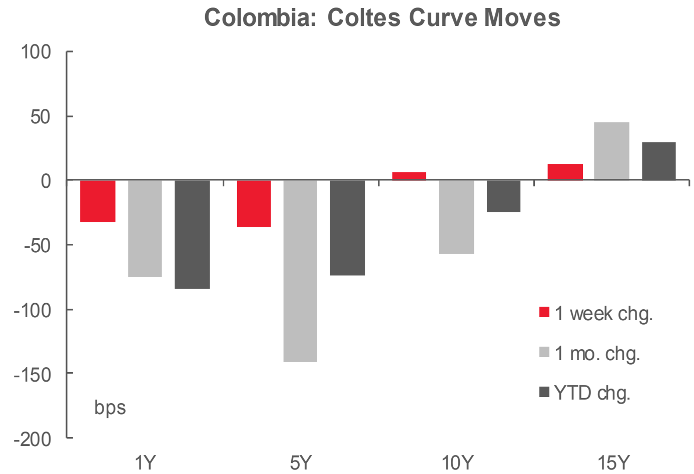
Key Market Charts

Chart 7



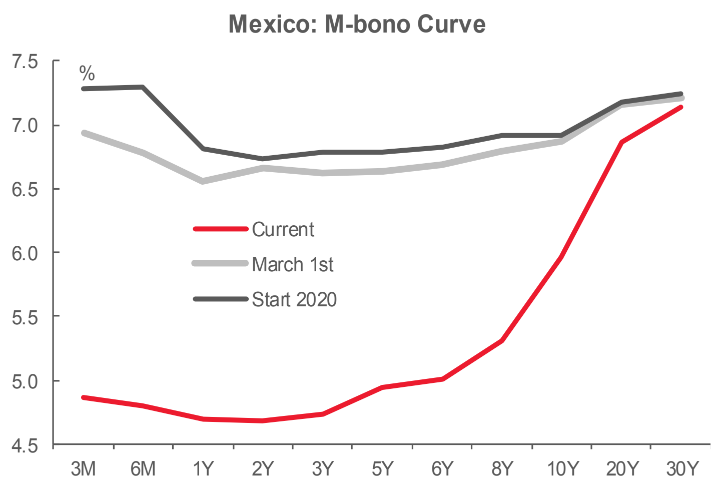
Sources: Scotiabank Economics, Bloomberg.

Chart 8



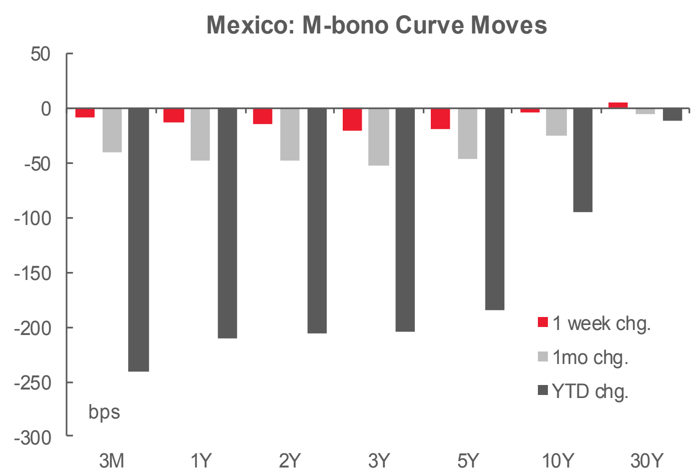
Sources: Scotiabank Economics, Bloomberg.

Chart 9



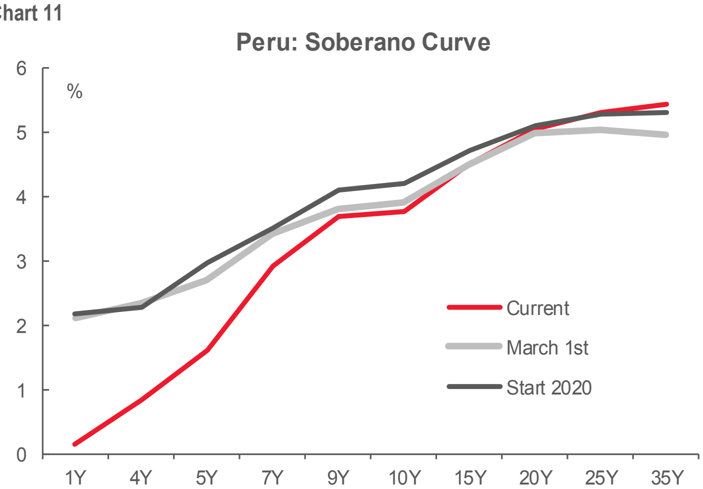
Sources: Scotiabank Economics, Bloomberg.

Chart 10



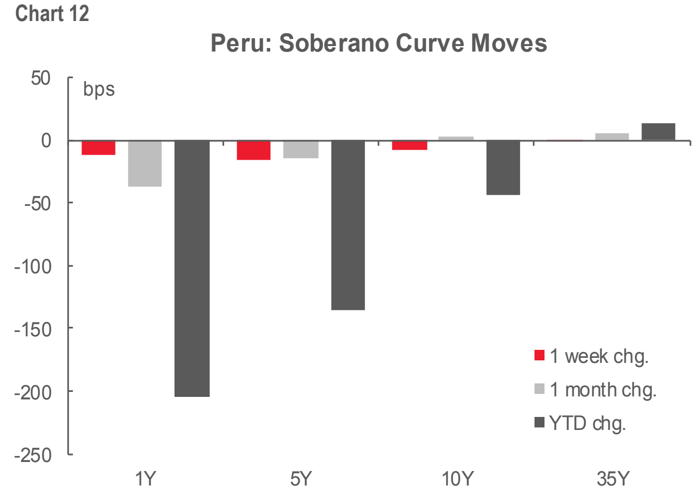
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

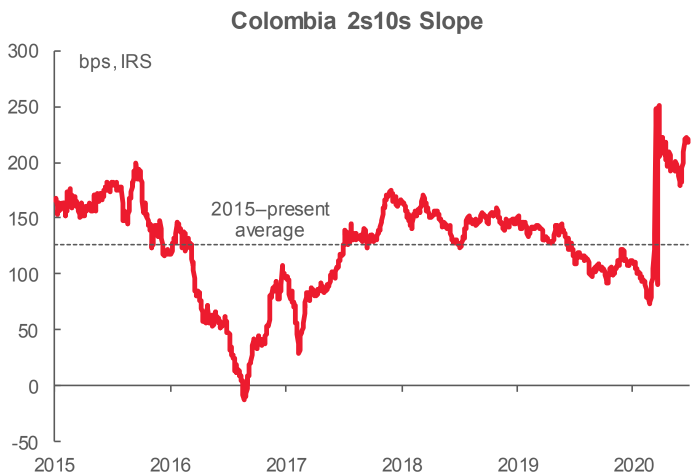
Chart 13

Sources: Scotiabank Economics., Bloomberg.

Chart 14

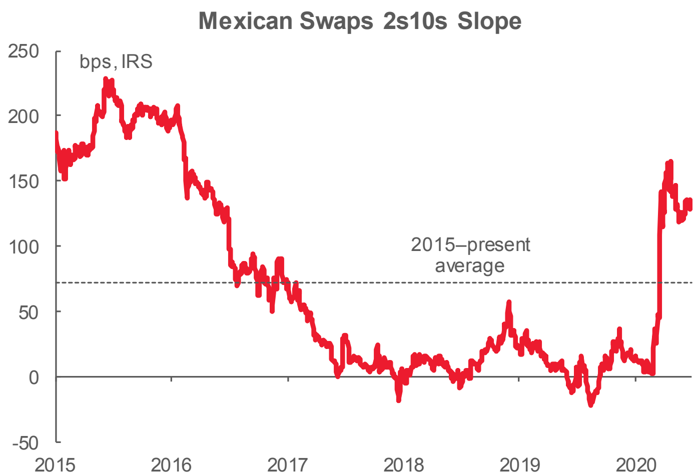
Sources: Scotiabank Economics., Bloomberg.

Chart 15



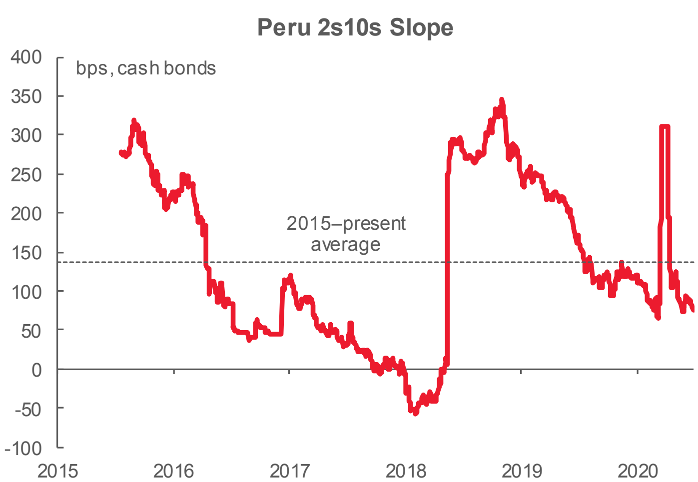
Sources: Scotiabank Economics., Bloomberg.

Chart 16



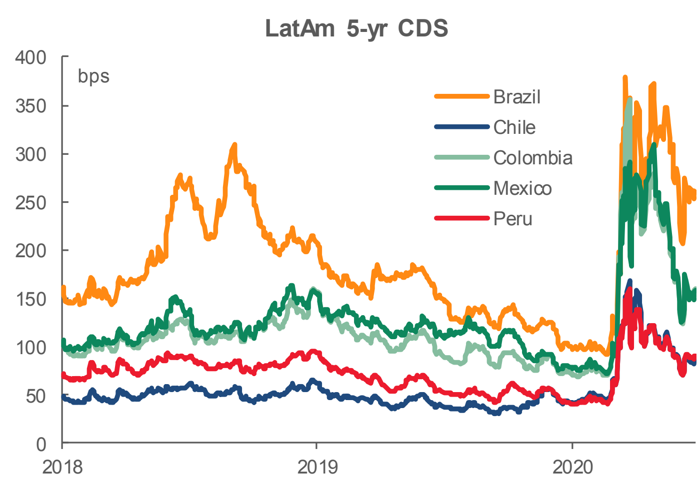
Sources: Scotiabank Economics., Bloomberg.

Chart 17



Sources: Scotiabank Economics., Bloomberg.

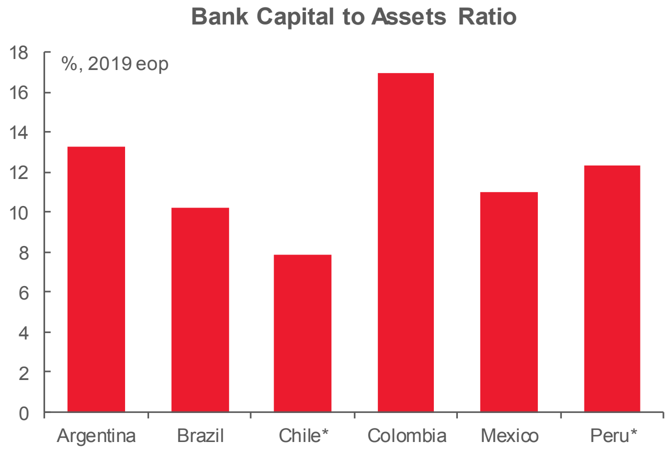
Chart 18



Sources: Scotiabank Economics., Bloomberg

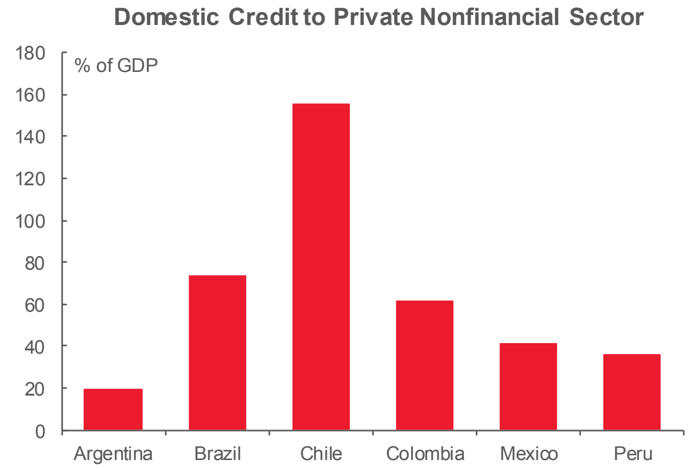
Key Market Charts

Chart 19



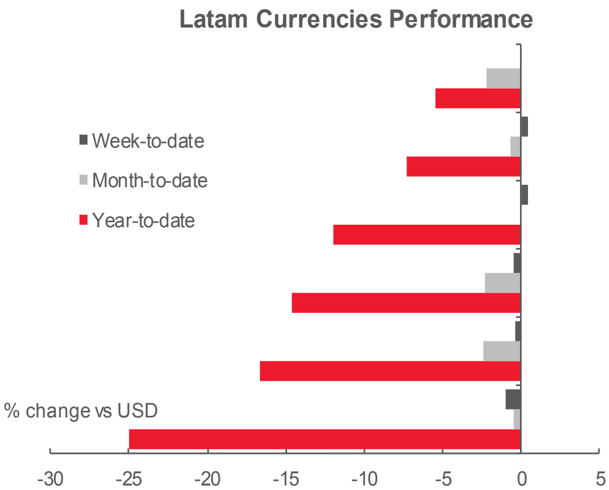
* Chile 19Q3; Peru 19Q2.
Sources: Scotiabank Economics, IMF.

Chart 20



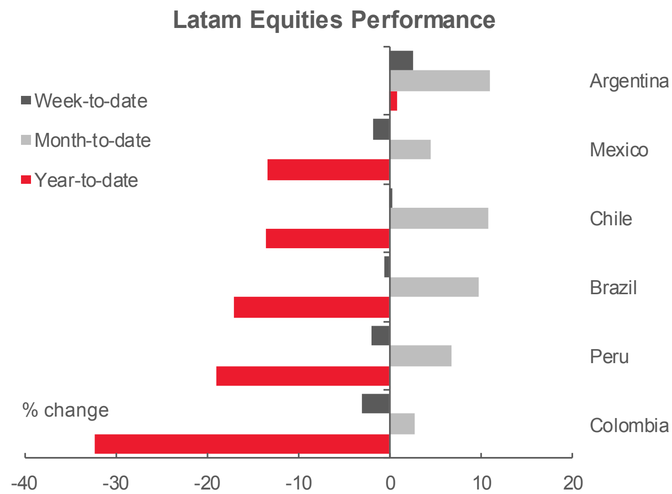
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 21



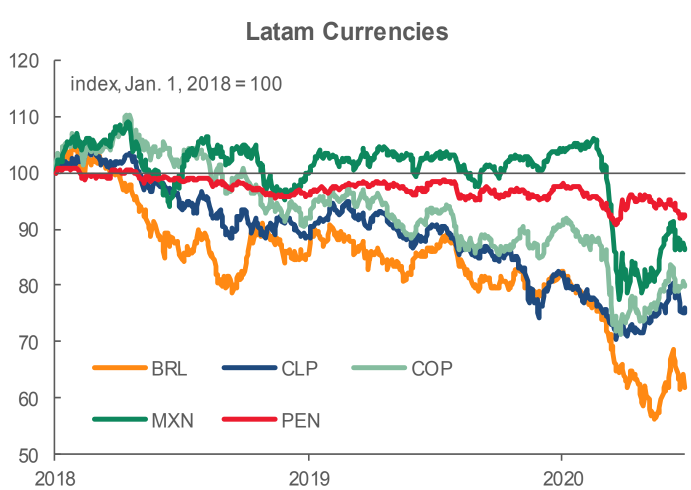
Sources: Scotiabank Economics, Bloomberg.

Chart 22



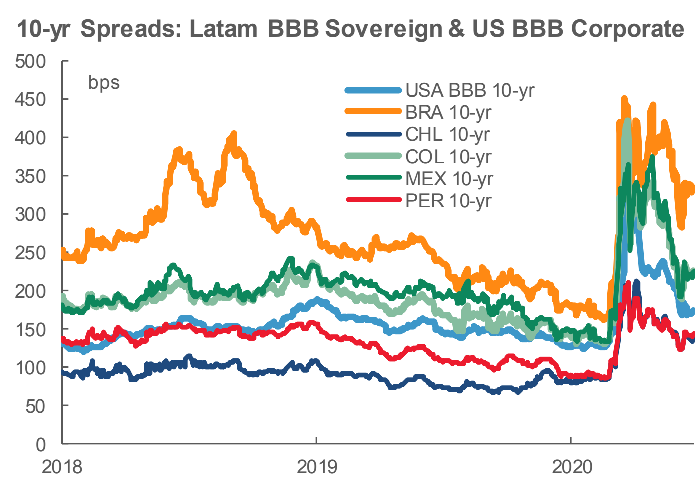
Sources: Scotiabank Economics, Bloomberg.

Chart 23



Sources: Scotiabank Economics, Bloomberg.

Chart 24



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for June 27–July 10

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-29	15:00	Economic Activity Index (y/y)	Apr	-15.4	--	-11.5	Our April forecasts are consistent with a -15% y/y contraction in real GDP in Q2-2020; BBG survey updated June 26 now expects -13.2% y/y in Q2, down from the -11.4% y/y in the May survey.
06-29	15:00	Economic Activity Index (m/m)	Apr	-13.2	--	-9.8	
06-30	15:00	Current Account Balance (USD mn)	1Q	--	--	2984	The collapse in import demand means that the Q1 CA balance should improve, a sign of pre-lockdown weakness.
06-30	15:00	Wages (m/m)	Apr	--	--	3.0	
07-02		Government Tax Revenue (ARS bn)	Jun	--	--	499.5	
07-02		Central Bank Survey					
07-03		Vehicle Exports Adefa	Jun	--	--	3227	June auto-sector activity and May industrial production should show some m/m improvements since auto production re-started in late-May.
07-03		Vehicle Domestic Sales Adefa	Jun	--	--	20033	
07-03		Vehicle Production Adefa	Jun	--	--	4802	
07-07	15:00	Industrial Production YoY	May	--	--	-33.5	
07-07	15:00	Construction Activity YoY	May	--	--	-75.6	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-29	7:00	FGV Inflation IGPM (m/m)	Jun	--	1.5	0.3	
06-29	7:00	FGV Inflation IGPM (y/y)	Jun	--	7.2	6.5	
06-29	14:00	Trade Balance Weekly	28-Jun	--	--	1653	
06-29		Central Govt Budget Balance (BRL bn)	May	--	-132.1	-92.9	
06-29	7:25	Central Bank Weekly Economists Survey					
06-30	8:00	National Unemployment Rate	May	--	13.1	12.6	
06-30	8:30	Net Debt % GDP	May	--	54.6	52.7	
06-30	8:30	Nominal Budget Balance (BRL bn)	May	--	-159.1	-115.8	
06-30	8:30	Primary Budget Balance (BRL bn)	May	--	-135.0	-94.3	
07-01	8:00	PPI Manufacturing (y/y)	May	--	--	5.3	
07-01	8:00	PPI Manufacturing (m/m)	May	--	--	-0.1	
07-01	7:00	FGV CPI IPC-S	30-Jun	--	0.3	0.1	
07-01	9:00	Markit Brazil PMI Manufacturing	Jun	--	--	38.3	
07-01	14:00	Imports Total (USD mn)	Jun	--	11200	13392	The bounce in consumer confidence and demand was not clear until June, and we still expect lacklustre domestic consumption, combined with an earlier reopening in China, to give us another fairly robust trade surplus for May.
07-01	14:00	Exports Total (USD mn)	Jun	--	18350	17940	
07-01	14:00	Trade Balance Monthly (USD mn)	Jun	5100	7000	4548	
07-02	4:00	FIPE CPI - Monthly	Jul	--	0.3	-0.2	
07-02	8:00	Industrial Production (m/m)	May	--	7.0	-18.8	We expect industrial activity to get a modest lift in May, consistent with the PMIs we already have for the month.
07-02	8:00	Industrial Production (y/y)	May	-24.3	-21.9	-27.2	

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

Market Events & Indicators for June 27–July 10

07-03	9:00	Markit Brazil PMI Composite	Jun	--	--	28.1	
07-03	9:00	Markit Brazil PMI Services	Jun	--	--	27.6	
Jul 1-3		Vehicle Sales Fenabrave	Jun	--	--	62197	
07-06	7:25	Central Bank Weekly Economists Survey					
07-06	14:00	Trade Balance Weekly	05-Jul	--	--	1653	
07-08	7:00	FGV CPI IPC-S	07-Jul	--	0.3	0.1	
07-08	7:00	FGV Inflation IGP-DI (m/m)	Jun	--	--	1.1	
07-08	7:00	FGV Inflation IGP-DI (y/y)	Jun	--	--	6.8	
07-08	8:00	Retail Sales Broad (y/y)	May	--	--	-27.1	
07-08	8:00	Retail Sales (m/m)	May	--	--	-16.8	
07-08	8:00	Retail Sales (y/y)	May	--	--	-16.8	
07-08	8:00	Retail Sales Broad (m/m)	May	--	--	-17.5	
07-10	7:00	IGP-M Inflation 1st Preview	Jul	--	--	1.4	
07-10	8:00	IBGE Services Sector Volume (y/y)	May	--	--	-17.2	
07-10	8:00	IBGE Inflation IPCA (m/m)	Jun	--	--	-0.4	
07-10	8:00	IBGE Inflation IPCA (y/y)	Jun	--	--	1.9	
Jul 6-7		Vehicle Production Anfavea	Jun	--	--	43080	
Jul 6-7		Vehicle Sales Anfavea	Jun	--	--	62190	
Jul 6-7		Vehicle Exports Anfavea	Jun	--	--	3870	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-30	8:30	Central Bank Traders Survey					
06-30	9:00	Retail Sales (y/y)	May	-32.0	--	-31.3	Credit and debit card transactions point to a print similar to the one we saw in April.
06-30	9:00	Commercial Activity (y/y)	May	--	--	-24.7	
06-30	9:00	Unemployment Rate	May	9.8	9.8	9.0	
06-30	9:00	Industrial Production (y/y)	May	--	--	-3.8	
06-30	9:00	Manufacturing Production (y/y)	May	-9.0	--	-5.9	
06-30	9:00	Copper Production Total	May	--	--	474880	
07-01	8:30	Economic Activity (y/y)	May	-17.0	--	-14.1	
07-01	8:30	Economic Activity (m/m)	May	--	--	-8.7	
07-01	8:30	Economic Activity (y/y) ExMining	May	--	--	-15.5	
07-02	8:30	Central Bank Meeting Minutes					
Jul 1-7		IMCE Business Confidence	Jun	--	--	34.3	
07-07	8:30	Trade Balance	Jun	--	--	1403	
07-07	8:30	Exports Total	Jun	--	--	5230	
07-07	8:30	Imports Total	Jun	--	--	3828	
07-07	8:30	Copper Exports	Jun	--	--	2567	
07-07	8:30	International Reserves	Jun	--	--	36815	
07-07	9:00	Nominal Wage (m/m)	May	--	--	-1.4	
07-07	9:00	Nominal Wage (y/y)	May	--	--	2.6	
07-08	8:00	CPI (m/m)	Jun	0.0	--	-0.1	The INE will use the dragging method to impute some products that have not been traded (tourist packages and others).
07-08	8:00	CPI (y/y)	Jun	2.7	--	2.8	
07-10	8:30	Central Bank Economists Survey					
07-10	8:30	Central Bank Traders Survey					
07/07/20-07/'		Vehicle Sales Total	Jun	--	--	8681	

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

Market Events & Indicators for June 27–July 10

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-30		**Overnight Lending Rate**	**30-Jun**	**2.50**	**2.25**	**2.75**	Given May's split decision and elevated uncertainty, we expect gradualism to begin at this meeting.
06-30	11:00	Urban Unemployment Rate	May	27.0	23.0	23.5	In May, employment should continue contracting, while inactive people returning to the labor market would raise the unemployment rate.
06-30	11:00	National Unemployment Rate	May	23.0	--	19.8	
07-01	11:00	Davivienda Colombia PMI Mfg	Jun	--	--	37.2	
07-01	14:00	Colombia Monetary Policy Minutes					
07-03	11:00	Exports FOB (USD mn)	May	--	1985	1844	
07-04	13:00	CPI (m/m)	Jun	0.07	-0.1	-0.3	June inflation will reflect new prices for recently opened activities and the effects of the VAT holiday. Strongly negative inflation is not expected since one-off subsidies were already incorporated in prices in previous months.
07-04	13:00	CPI (y/y)	Jun	2.65	2.5	2.9	
07-04	13:00	CPI Core (y/y)	Jun	0.03	--	2.0	
07-04	13:00	CPI Core (m/m)	Jun	1.7	--	-0.4	
07-07		Consumer Confidence Index	Jun	--	--	-34.0	

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
06-30	10:00	Net Outstanding Loans (MXN bn)	May	--	--	5070	
06-30	10:00	International Reserves Weekly	26-Jun	--	--	188277	
06-30		Budget Balance YTD (MXN bn)	May	--	--	-73.9	Tax revenues will be in the spotlight.
07-01	10:00	Remittances Total (USD mn)	May	--	2957	2861	Likely to be significantly affected by the US situation.
07-01	10:00	Central Bank Economist Survey					Another cut in the GDP forecast for 2020 is expected.
07-01	10:30	Markit Mexico PMI Mfg	Jun	--	--	38.3	
07-01	13:00	IMEF Manufacturing Index SA	Jun	--	40.1	39.2	Will reveal if perceptions keep deteriorating.
07-01	13:00	IMEF Non-Manufacturing Index SA	Jun	--	40.00	38.0	
07-02	7:00	Vehicle Domestic Sales	Jun	--	--	42028	Looking for "green shoots" in these figures.
07-02	7:00	Leading Indicators (m/m)	May	--	--	-0.8	
07-06	7:00	Gross Fixed Investment	Apr	--	--	-11.0	Deep contraction is anticipated.
07-07	7:00	Vehicle Production	Jun	--	--	22119	Looking for "green shoots" in these figures.
07-07	7:00	Vehicle Exports	Jun	--	--	15088	Looking for "green shoots" in these figures.
07-07	10:00	International Reserves Weekly	03-Jul	--	--	188277	
07-07		Citibanamex Survey of Economists		--			
07-09	7:00	CPI (y/y)	Jun	3.3	--	2.8	Inflation behaviour will be key for the next Banxico rate decision.
07-09	7:00	CPI (m/m)	Jun	0.5	--	0.4	
07-09	7:00	CPI Core (m/m)	Jun	0.3	--	0.3	
07-09	7:00	Bi-Weekly CPI	30-Jun	0.4	--	0.3	
07-09	7:00	Bi-Weekly Core CPI	30-Jun	0.1	--	0.3	
07-09	7:00	Bi-Weekly CPI (y/y)	30-Jun	3.4	--	3.2	
07-09	10:00	Central Bank Monetary Policy Minutes					Discussions among Board members could hint toward their next decisions.
07-10	7:00	Industrial Production SA (m/m)	May	--	--	-25.1	Another dramatic drop is expected.
07-10	7:00	Industrial Production NSA (y/y)	May	--	--	-29.3	
07-10	7:00	Manuf. Production NSA (y/y)	May	--	--	-35.3	
07-10		Nominal Wages	Jun	--	--	4.7	

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
07-01	1:00	Lima CPI (y/y)	Jun	1.8	1.7	1.8	In line with our full-year forecast of 1.1% y/y.
07-01	1:00	Lima CPI (m/m)	Jun	-0.1	-0.1	0.2	PEN depreciation will prevent inflation from falling further in June.
07-09	**19:00**	**Reference Rate**	**09-Jul**	**0.25**	**--**	**0.3**	
Jul 9-13		Trade Balance	May	--	--	-679.0	Expect another monthly deficit in May, but trade will turn positive afterward.

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

Scotiabank Economics Latam Coverage

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