March 22, 2020

Latam Weekly: The Response to COVID-19

ECONOMIC OVERVIEW

- **The developing sudden stop in global economic activity is now expected to translate into recessions in 2020 across Latam as external demand collapses and local efforts to stop the spread of the novel coronavirus impair domestic growth.**

MARKETS REPORT

- **Global market stresses have translated most immediately to Latam through currency markets, while Latam equity markets have also suffered steep declines. Rates and credit markets have responded in a more differentiated fashion.**

COUNTRY UPDATES

- **Concise reviews of developments in the week just past and a guide to the week ahead.**

DATA SNAPSHOTS

- **Key cross-country macroeconomic and market indicators.**

FORECAST SNAPSHOTS

- **Updated projections for growth, inflation, central bank policy rates, and exchange rates from Scotiabank Economics' March 20 *Forecast Update*.**

MARKET EVENTS & INDICATORS

- **Risk calendars for the week March 23–27.**

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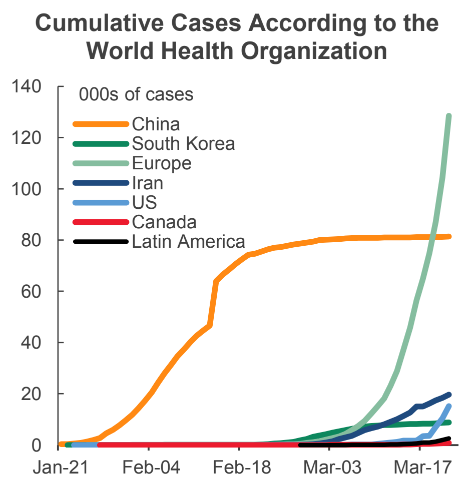
- **Announced, planned, and implemented fiscal measures to sustain local households and businesses are already substantial, but will not be enough to prevent severe contractions in the region's major economies.**
- **With the breathing room provided by developed-market central banks, Latam central banks are following through with rate cuts of their own, but they are expected to reverse themselves into 2021 as the crisis abates.**

COVID-19 COMES TO LATAM

The rapidly developing global COVID-19 pandemic now clearly dominates the world's economic outlook and its direct and indirect effects are being felt in Latam. While Latam's cumulative case numbers are still low in comparison with other regions (chart 1), Brazil, Chile, and Peru have all surpassed the 100 cumulative case mark (chart 2), beyond which other countries have tended to see an exponential growth profile in new incidences take hold even with substantial containment measures. Adjusted for population size, Chile has about 10.5 identified cases per million people, with Peru well behind at around 3.7 cases per million inhabitants. It's unlikely that these figures reflect the true presence of the novel coronavirus (nCoV) in Latam.

Latam's COVID-19 numbers are likely to rise substantially, just as they have elsewhere—and the resulting economic impact is set to be massive. Given the important role trade and tourism play in the region, there are no grounds to think Latam has been spared the onslaught that has hit other areas. Similarly, LatAm's economies are set to be severely impaired by efforts already underway to contain the pandemic.

Chart 1



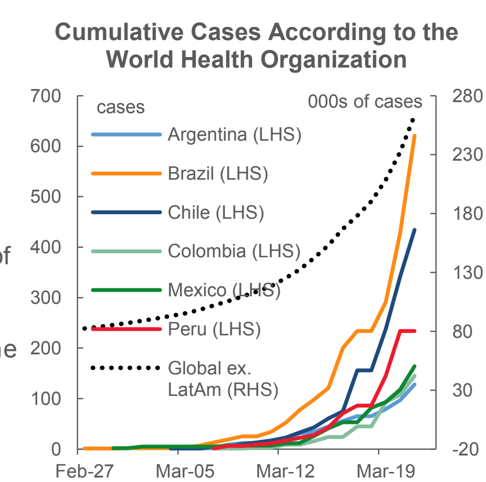
Sources: Scotiabank Economics, WHO.

A GLOBAL SUDDEN STOP

The global economic environment has weakened substantially over the last few weeks and is beginning to side-swipe Latam. The global advance of concurrent supply and demand shocks stemming from worsening public-health situations, household lockdowns, sectoral production shutdowns, thickening borders, and increasing uncertainty are prompting frequent forecast revisions across the countries Scotiabank Economics covers. On Friday, we released a fresh set of projections that point to recessions being unavoidable in many major developed and emerging markets because of containment efforts and despite gathering attempts by monetary authorities, finance ministries, and health systems to mitigate the challenges posed by the spread of the nCoV.

Global growth in 2020 is set to be the slowest the world has encountered since the world-wide economic contraction in 2009. In our March 20 forecasts, global growth is forecast to average only 1.3% in 2020. Quarterly contractions in Q2 are expected to be the most severe ever recorded in several major economies, including the US and Canada. Modest rebounds are projected to begin in 2020 in most developed markets, but could be delayed if nCoV containment efforts are less successful than we currently anticipate.

Chart 2

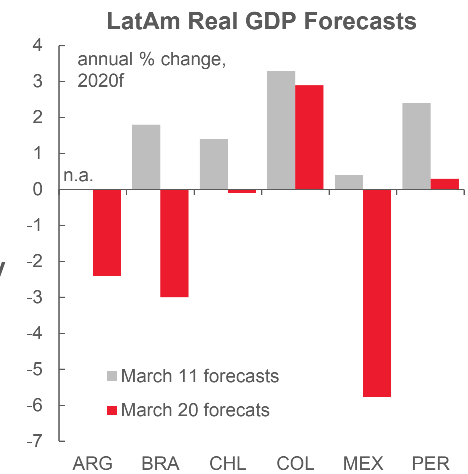


Sources: Scotiabank Economics, WHO.

LATAM RECESSIONS AHEAD

We now expect Latam's major economies to fall into recession this year and have marked down growth forecasts substantially from our March 11 projections (chart 3). Activity across Latam's major economies was already showing signs of fatigue prior to the advance of the nCoV. Now, with global growth set to come to a sudden stop, external demand withering, trade and human movement facing major frictions, and worsening developments in commodities markets, serious slowdowns are bound to take hold or deepen from Mexico to Argentina.

Chart 3



Source: Scotiabank Economics.

Policymakers are responding rapidly with fiscal packages to sustain households and businesses, but given the forces they are up against, their actions are unlikely to prevent contractions in most Latam economies. Our current forecasts for Colombia continue to imply that the country's domestic strength and policy interventions may sustain an expansion in 2020, but this projection is subject to substantial downside risk, particularly in light of the ongoing oil-price war. In contrast, while Mexico's short-term oil exposure is hedged, it is highly exposed to the shutdown in the US.

CENTRAL BANKS IN A BIND

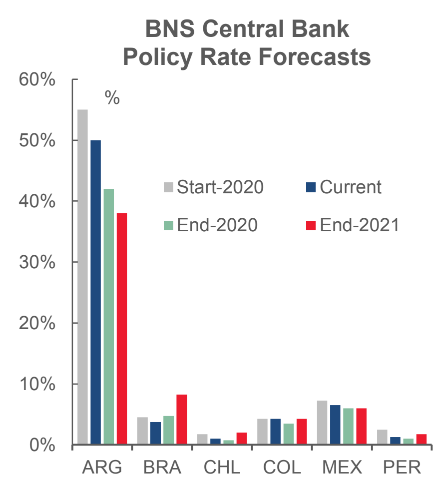
Latam's central banks are caught in a classic emerging-markets bind between the desire to ease monetary policy in order to support domestic activity and concerns about undermining their currencies, importing inflation, and undermining their capacity to service external debt. Given the globally synchronized sudden stop underway, and the breathing room provided by swift cuts by the Fed and other developed-market central banks, Latam's monetary authorities are broadly erring on the side of lowering rates rather than fulfilling recent market pricing for hikes. With massive capital outflows already under way, attempts to stand in the way of these flows would be a fruitless waste of reserves that would seriously hamper efforts to cushion local economies from shutdowns. Mexico, Brazil, and Peru all saw policy-rate cuts this past week; we expect Colombia's BanRep to follow them in the week ahead. Views about the persistence of the COVID-19 crisis differ across our country teams, however, and some anticipate rebounds late this year that could precipitate a reversal by Brazil's BCB before end-2020 (chart 4). Others are expected to follow in 2021.

CRISIS-FIGHTING MEASURES

Mirroring efforts in countries that have already felt the brunt of the pandemic, Latam governments and central banks have undertaken substantial measures to "flatten the curve" of nCoV transmission while at the same time acting to blunt the impact of shutdowns on their economies (table 1). Most have implemented efforts to halt contagion that will deal a serious blow to domestic economic activity and will compound the collapse in foreign demand caused by similar measures in other countries. At the same time, monetary easing has been accompanied by timely fiscal measures at scales that, as a share of GDP, compare favourably with packages that have been launched in major developed markets.

Latam's authorities are moving in tandem with the rest of the world.

Chart 4



Source: Scotiabank Economics.

Table 1. Measures undertaken in response to the COVID-19 pandemic

Argentina	• **Fiscal support.** On March 17, the government announced an ARS 700 bn (USD 11 bn, 3% GDP) package that includes: ARS 100 bn for infrastructure, ARS 350 bn for business loans, extended subsidies on consumer loans, price controls on a basket of basic goods, enhanced unemployment insurance and other benefits, wage subsidies, payroll-tax deferrals, and new housing credit facilities. Support measures for the informal sector are expected soon. • **Public health.** On March 19, the Argentine government imposed a quarantine on the entire country through at least end-March. The order confines most people to home with the exception of a limited list of essential services, as well as the production and trade of key commodities. Borders are closed, travel restricted, and schools closed.
Brazil	• **Monetary.** The BCB cut the Selic by 50 bps to a historic low of 3.75% at its March 18 COPOM meeting. It has also been intervening heavily in the FX spot market and through swaps. The BCB was granted a six-month-plus USD 60 bn swap line with the US Fed on March 19. • **Fiscal.** The package under consideration features 50% wage subsidies through unemployment insurance and a basic income equivalent to three months of minimum wage for informal workers. • **Public health.** Borders with 8 other South American countries were shut for 15 days on March 19. Some public gathering spots, such as beaches, have also been closed.
Chile	• **Monetary.** At an off-calendar meeting on March 16, well ahead of its March 31 schedule, the BCCh cut its policy rate by 75 bps to 1.00% and injected liquidity into the financial system. • **Fiscal.** On March 19, the President announced a USD 11.5 bn package (4% GDP) targeted at healthcare and jobs. • **Public health.** The country closed its borders on March 16 and cut airline operations by 70%. From March 23, an overnight curfew is imposed.
Colombia	• **Monetary.** On March 16, BanRep increased repo auctions to COP 20 tn and allowed more entities to participate. BanRep now also receives private bonds as collateral (it previously accepted only TES), and announced USD 1 bn in NDF auctions on the FX market. We expect the BanRep to deliver a 25 bps cut to 4.00% at its meeting on March 27, with a chance of 50 bps. • **Fiscal.** The government is providing soft loans to affected sectors, temporary exemptions on VAT and tariffs on health-related imports, credits to small businesses to cover payrolls and maintain employees. Public debt is not expected to increase: the government will use savings from oil and health funds (COP 14.8 tn) to finance these measures and TES auctions will be reduced by COP 1.5 tn in 2020. • **Public health.** Bogota entered a four-day quarantine drill on March 20; the entire country goes on a 19-day quarantine on March 24. The government declared a health emergency on March 12 and a curfew for the elderly, and closed land and sea borders. NGOs were instructed this week to halve their activities on the border with Venezuela.
Mexico	• **Monetary.** Banxico moved forward its March 26 meeting to March 20 and cut by 50 bps to a still-high 6.50%. Two weeks ago it increased the potential size of its NDF program from USD 20 bn to USD 30 bn, and delivered two NDF auctions of USD 2 bn each: only USD 500 mn were placed in the first, USD 1.5 bn in the second. The central bank also re-established on March 19 a USD 60 bn swap line with the US Fed. • **Fiscal.** The FinMin with Banxico modified its debt issuance calendar to relieve pressure on the m-bono curve and executed a form of Operation Twist: it swapped longer-end bonds (m-bonos) with cetes and floating debt to reduce outstanding duration. • **Public health.** Easter Break has been brought forward with two weeks added to the holidays, creating a four-week school shutdown. Public events have been limited and social distancing encouraged. US border crossing are restricted in both directions from March 21 for 30 days.
Peru	• **Monetary.** The BCRP cut its policy rate by 100 bps to 1.25% on March 20 in an out-of-calendar meeting. Financial institutions are also encouraged to soften loan terms for small businesses, refinance and extend retail debt service, and waive penalties. • **Fiscal.** So far, action has been limited: the government is providing stipends to compensate for income foregone during the two-week lockdown, some additional benefits to the sick, and additional healthcare spending. Mandatory tax payments for March, the kick-off of the tax season, are deferred. • **Public health.** On March 16, the government declared an emergency, enacted a two-week quarantine, and halted air travel out of the country.

Markets Report

- **Global market stresses have translated most immediately to Latam through currency markets: drops in the COP, MXN, and BRL YTD are at 20% or more, which could raise FX-inflation pass-through concerns. ARS, CLP, and PEN have proven more resilient.**

- **Latam equity markets have also suffered steep declines, with the Bovespa's, Merval's, and ColCap's YTD losses now topping -40%; while Peruvian, Chilean and Mexican equities are showing losses in the -20% to -30% YTD range. The Mexican Bolsa's relative out-performance likely stems from its less-stretched valuations entering the current shock, due to weak growth and business uncertainty back in 2019 that previously shaved prices.**

- **Chile's local bond market has stood out as somewhat of a regional safe haven, supported in part by the home bias of its well-funded pension system. Mexico's longer end has also proven relatively robust, likely protected by a hawkish stance from Banxico. Brazil's curve has materially steepened, in line with the central bank's aggressively loose stance.**

- **Latam market pain has been compounded by the steep drop in oil prices we've witnessed over the past couple of weeks. Colombia and Mexico are clearly most at risk from the drop in oil prices on both the growth and public finance fronts. In Mexico's case, both Fitch and S&P have expressed some concerns about the potential impact of the twin oil and growth shocks on the country's ratings, but neither have yet announced changes to their assessments.**

UNKNOWN UNKNOWNS

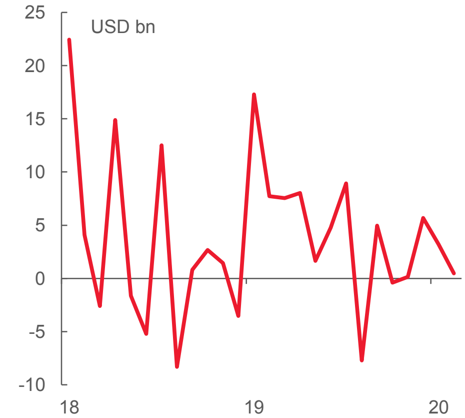
At this point in the midst of a global pandemic and oil-price war, trying to project the future course of markets is a case of trying to assess the "unknown unknowns" of uncertainty rather than estimating the probabilities of "known unknown" risks. On the novel coronavirus (nCoV) front, the Latam region's infection numbers have not yet matched the more widespread contagion we've seen in other parts of the world. Current low incidence data are, however, likely to rise exponentially over the coming weeks, as they have in other countries. No market is immune, either literally or figuratively.

Some metrics of fundamental value in asset markets, such as the S&P500 Case-Shiller Cyclically Adjusted Price-Earnings (CAPE) ratios, have approached their long-term average levels, although where the "Es" in these measure settle depends critically on the persistence of the COVID-19 pandemic, which will hinge on the efficacy of local and global social and policy responses. Other regional indicators, such as the real effective exchange rates (REERs) compared with long-term value or trend for Latam currencies, were already starting to see some value before the nCoV crisis deepened. It's also true, however, that markets tend to overshoot in response to shocks like COVID-19 and the oil-price war, so long-term averages and trends are little indication at this stage of how much further market prices could move. Instead, they provide some guidance on where markets may return once Latam countries and the major economies with which they trade succeed at "flattening the curve".

MASSIVE CAPITAL OUTFLOWS FROM EM

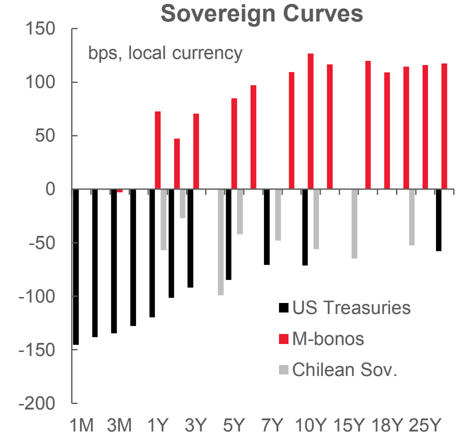
Capital flows had already begun turning away from emerging markets during 2019 and IIF data show that outflows from all EMs have accelerated sharply in 2020; they now go

Chart 1 Non-resident Portfolio Flows to Latin America



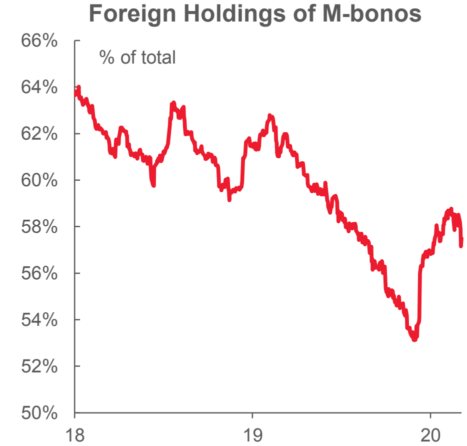
Sources: Scotiabank Economics, IIF.

Chart 2 1-month Change in Sovereign Curves



Sources: Scotiabank Economics, Bloomberg.

Chart 3 Foreign Holdings of M-bonos



Sources: Scotiabank Economics, Banco de Mexico.

far beyond the pull-back we saw in the wake of the 2008 global financial crisis. Non-resident portfolio flows were already turning negative from Latam at end-2019, even before the advent of the pandemic (chart 1). FX reserves are likely to be drawn down and current account deficits will have to go through wrenching adjustments in order to restore countries' external balances.

FX TAKES IT ON THE NOSE

Latam currency markets have borne the region's initial brunt of the global rise in risk aversion (table 1). The blow from COVID-19 related uncertainty has hurt Latam FX universally, with MXN leading the declines (-22.5% YTD). Like the Colombian peso, the Mexican peso has been weighed down by the weakness in oil prices, but unlike the Colombian peso, MXN missed the rally in oil prices at the end of last week.

Table 1

LatAm Market Performance YTD

	Spot FX performance (%)	Local curve 10-yr yield move (bps)	5-yr CDS move (bps)
Argentina	-6.1%	-370bps	n.a.
Brazil	-20.4%	+270bps	+245bps
Chile	-13.0%	+50bps	+114bps
Colombia	-19.9%	+200bps	+269bps
Mexico	-22.5%	+50bps	+197bps
Peru	-7.3%	+190bps	+112bps

Sources: Scotiabank Economics, Bloomberg.

The Mexican peso's persistent weakness could be linked to three things: 1) a perception that Mexico is lagging in the implementation of social distancing, which could potentially make the health crisis worse; 2) a higher-than-usual degree of uncertainty over the post-crisis prospects for public finances owing to the potential that Mexico's post-crisis recovery could follow an elongated "L-shaped" pattern rather than a "V-shaped" one; and 3) Banxico's surprise rate cut toward the end of the day on Friday, March 20 was inadequate to boost confidence. Up to the Banxico move, MXN was trading sideways in the USDMXN 24.09–24.19 range, and right after the cut, the USD cross spiked to 24.60 and then settled at 24.40 at the weekly close. Banxico is in a tough situation of trying to boost growth by cutting rates, while at the same time having to do so in a way that also provides support for international capital flows.

The BRL has also seen renewed pressure, and USDBRL has broken free of its multi-month 4.00–4.20 range, to reach a top of 5.20 last week; it is now down -20.4% YTD. The BCB's actions to mitigate weight on the BRL have so far included: 1) direct intervention in the FX spot market; 2) FX intervention through swaps; 3) rate cuts to boost growth prospects, including this past week's hawkish move to a new all-time low for the SELIC at 3.75%; and 4) establishing a USD 60 bn swap line with the US Federal Reserve. Nevertheless, these moves haven't stemmed further erosion in the real's value, despite some temporary moments in which it appeared to find some footing. If the BRL does not find some bounce, the country could experience about 500–600 bps of latent FX-inflation pass-through.

Overall, Colombia's peso has seen losses (-19.9% YTD) in line with those experienced by the MXN and BRL, but those overall numbers mask some distinctions within 2020. In contrast with the MXN, the COP appeared to stabilize as oil prices found their footing at the end of this past week. The COP's beta to oil appears to be higher than the MXN's, reflecting idiosyncratic risks on Mexico's outlook that go beyond oil prices.

The other three major currencies in the region, the CLP (-13.0% YTD), PEN (-7.3% YTD), and ARS (-6.1% YTD), have proven more resilient. Chile and Peru's FX performances have arguably reflected their relatively solid fundamentals and credit ratings, alongside large domestic savings pools with strong home biases.

DOUBLE WHAMMY FOR LATAM EQUITIES

Equity-market valuations in Latam are being shaped by disruptions to supply chains and their dampening effects on commodity prices, which are imposing a double-whammy on the region (table 2). Looking at the region's main equity indices, almost all of them have posted losses north of 30% YTD, with Brazil's, Argentina's and Colombia's equity sell-offs going beyond 40% YTD. The best performing equity market in the region so far is Mexico's Bolsa, with the most recent blows softened somewhat by valuations dented by last year's slow growth.

Table 2

LatAm Primary Equity Markets

Country	YTD (local currency)	Country	YTD (local currency)
Argentina	-42.7%	US (S&P500)	-28.7%
Brazil	-42.0%	US DJI	-32.8%
Chile	-34.1%	Canada	-30.5%
Colombia	-42.7%	Japan	-30.0%
Mexico	21.3%	UK	-31.2%
Peru	-29.9%	Germany	-32.6%

Sources: Scotiabank Economics, Bloomberg.

CENTRAL BANKS FAVOUR CUTS, MARKETS PRICE HIKES

On the rates front, we've seen very wild swings in monetary policy expectations, as markets attempt to decipher which factors will end up dominating central bank board decisions. On one hand we have seen the very steep drops in currencies raising inflation risks; on the other hand, growth expectations across the region have been trimmed very aggressively. So far, across the board, central banks in the region have elected to cut rates to cope with expected disruptions in activity, cuts to employment, financial-sector shocks, and funding squeezes. Inflation has been demoted to a lower-tier concern.

Markets believe that Banxico hasn't yet finished cutting its policy rates, but investors are expecting reversals from the other central banks in the region. At the close of this past week, markets continued to price in 70 bps of additional cuts over the next two years beyond the 50 bps that Banxico delivered on Friday—in stark contrast to pricing for the rest of the region. Markets expect Chile's BCCh to raise its policy rate by about 100bps, but with all of these hikes coming beyond one year out; the DI curve in Brazil has around 500 bps of hikes priced over the next two years; and in Colombia, 100 bps of rate increases are priced by two years out.

MIXED SIGNALS FROM YIELD CURVES

Moves by yield curves across the region have been all over the place and aren't communicating clear region-wide signals. The Brazilian curve is now the steepest amongst the six countries covered here following a 200 bps steepening over the past month; from the three-year point out, the curve is now trading wide to Mexico's yields. The market appears to be signalling that it thinks the BCB has cut too far and that inflation will spike, even though there's a real possibility that the BCB could cut further with a recession looming this year. The other market that has seen substantial steepening is Peru, where the curve has steepened by about 250bps over the last month.

Chile's curve has proven the most resilient (chart 2), supported by the government's strong fiscal position and the home-biased pension system. At some points on the Chilean curve, yields have moved about 50 bps tighter than a month ago.

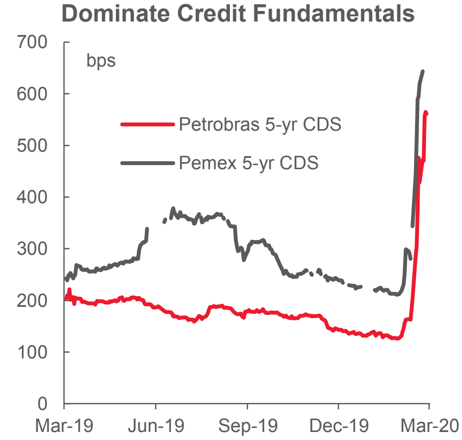
Moves in Mexico's yields have been mixed, with an overall 150bps steepening in its curve over the past month. Banxico's relatively high policy rates have kept the long end in check, where yields have risen by only 50 bps YTD in the 10-year space (chart 2, again). We'll be watching what happens with the m-bono curve over the next few days as Friday's surprise 50 bps cut is digested and foreign holdings adjust (chart 3). Further steepening is likely in response to concerns about the country's limited fiscal space to cope with the twin nCov and oil-price shocks.

OIL QUASI-SOVEREIGNS HIT HARD

In credit markets, oil related quasi-sovereigns have been hit hard (chart 4), with both Pemex and Petrobras CDS widening steeply since the COVID-19 and oil shocks hit: about 400 bps for both Pemex and Petrobras. With both quasi-sovereigns seeing similar widenings, the moves are likely a broader statement on oil prospects than the specific credits. Relative to the Mexico sovereign's CDS, Pemex spread has widened from about 150 bps in February to over 350 bps now.

Chart 4

Quasi-Sovereigns: Oil Prices Dominate Credit Fundamentals



Sources: Scotiabank Economics, Bloomberg.

Country Updates

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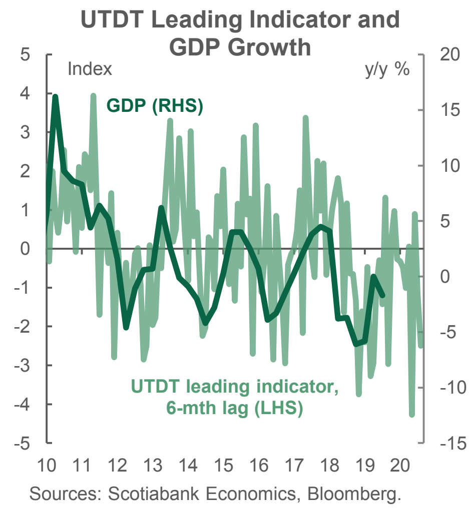
ARGENTINA: Argentina enters the pandemic in an already-compromised state with February's UTDT leading indicator printing a -2.50% m/m retreat for February with consumer confidence down -3.25% m/m in March. Official inflation remained at 50.30% y/y in February. We expect the economy to contract by -2.4% y/y in 2020 with only a modest 1.7% rebound in 2021 under the forecasts we released on Friday. The Q4 national accounts that publish this will be stale, but will provide an indication of soft base on which Buenos Aires will need to build its response to the COVID-19 pandemic.

In an echo of past debt negotiations, three groups of foreign bondholders have written to the government in Buenos Aires, asking it to accelerate progress on the restructuring process. They indicated that they have not received any response to previous requests for key macroeconomic and fiscal information, as well as updated indications on the government's plans. Finance Minister Guzman, however, pledged on Friday to "intensify" engagement with bondholders on the treatment of USD 70 bn in debt. A restructuring offer is due in two weeks and the government continues to indicate that it will seek "substantial relief".



Sources: Scotiabank Economics, Bloomberg.

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BRAZIL: Brazil's performance this week is likely to be driven principally by global risk appetite and the domestic progress of the COVID-19 pandemic. In macroeconomic releases, February tax collection data will be released. While these numbers are not normally a tier-one indicator, they will be one of the first February data points and they will provide a level set on the economy's state going into the nCoV outbreak. January retail sales data arrive on Tuesday, but these numbers will show only minor imported effects from China's lockdown. We expect the IPC inflation reading for the first two weeks of March, out on Wednesday, to record a moderate upswing from 4.2% y/y to 4.3%. January's economic activity indicator, due Friday, will be a stale indicator at this stage.

This week will also see the Tuesday publication of the minutes of the March 18 COPOM meeting. The minutes will likely underscore the BCB's reticence to cut rates further, which featured in the March 18 statement, while also conceding that the domestic and international economic environments are changing rapidly. The BCB also publishes its Q1 Quarterly Inflation Report (QIR) on March 26; we expect it to feature a significant cut in growth forecasts.

Sources: Scotiabank Economics, Bloomberg.

Country Updates

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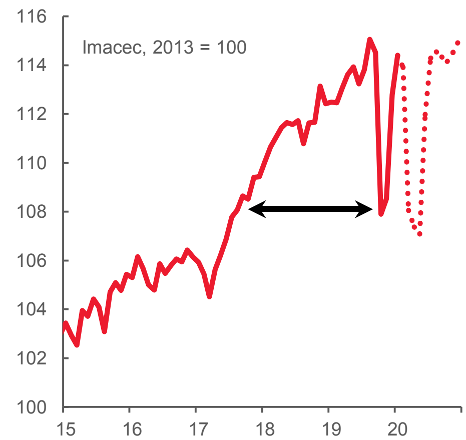
CHILE: Amidst the spread in coronavirus cases, the Chilean government has declared a state of emergency and quarantine til at least May. The BCCh cut its benchmark rate by 75bps, as we expected, to a level of 1.0%, and is supplying credit lines to banks. The government is preparing a USD 11.5 bn fiscal package to sustain the economy. Finally, the Central Bank released the national accounts this week, showing the significant impact the social unrest had on economic activity in Q4-2019. GDP growth was updated to 1.1% y/y for 2019 from 1.2%.

Chilean Economic Activity Index



Sources: Scotiabank Economics, Bloomberg.

This week, we expect more economic announcements from the Government to accompany today's announcement of a curfew. We have adjusted our economic outlook for 2020 and 2021. We expect a GDP contraction around -0.1% for 2020 due to the restrictive measures implemented, which will imply a semi-paralysis in many sectors, only partly offset by fiscal efforts. For inflation, there are opposite effects in play: CLP depreciation is putting inflationary pressures on imported goods, but the widening output gap is putting downward pressure on prices. All in all, we maintain our forecast of 3.0% of inflation for year-end. We forecast another BCCh rate cut to leave the MPR at 0.75% until Q1-2021, but it could go to 0.5%, which was the case during the sub-prime crisis. Finally, we forecast a minor appreciation on the exchange rate during the second part of the year towards USDCLP 790 as the economy gradually starts to resume activities and the external scenario stabilizes. PPI on Tuesday will be stale.

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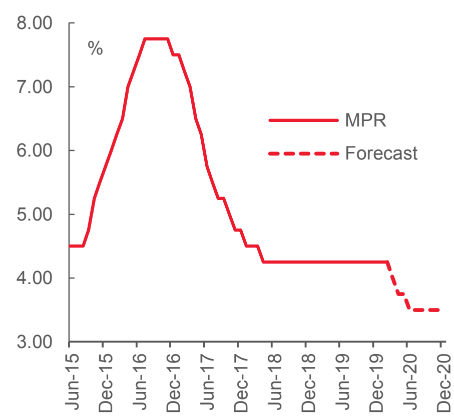
COLOMBIA: Last week we got a strong print for January's economic activity index, showing a +3.5% y/y expansion, which bodes well for the country's growth capacity post-coronavirus shock. According to BanRep's economic expectations survey, headline inflation expectations increased 16 bps to 3.49% y/y for December 2020 and to 3.52% y/y one year ahead. We think analysts incorporated upside inflation risks due to recent FX depreciation.

Colombia: Banrep MPR



Sources: Scotiabank Economics, Banco de la Republica.

Additionally, the first policy-rate hike is expected by Q1-2021, assuming a resumption of activity begins in late-2020. We think the survey is stale given the sharp change in the global and domestic outlooks for growth. For now, consensus discounts rate cuts; however, this would change if the balance of risks tilts to an even more negative growth perspective. We diverge from consensus and expect a 25 bps cut from the BanRep board on March 27, but we don't rule out a 50 bps move as cuts by other central banks have tightened Colombia's relative financial conditions. Finally, we are also scheduled to get February consumer confidence and industrial confidence prints on Wednesday. The latest prints already saw some softening, perhaps affected by early fears of the pandemic.

Country Updates

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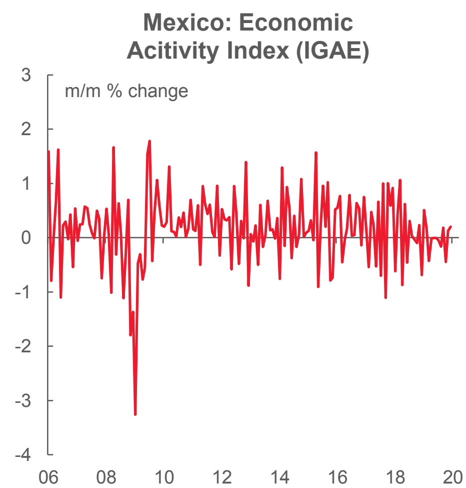
MEXICO: The economic outlook for Mexico is rapidly deteriorating, and the recovery isn't expected to follow a quick "V-shaped" path. Risk aversion has pushed USDMXN up 20% in less than a month, and it now sits over 24 for the first time ever, making it the worst-performing Latam currency YTD. The yield on the 10-year m-bono has topped 8.50%, after a 200 bps rise over the last month. The authorities' fiscal response is so-far incomplete and limited by low oil prices. Banxico cut by 50 bps off-calendar on Friday, but further moves could be constrained by the MXN and inflation pass-through.

Amongst releases this week, January's IGAE economic activity indicator will provide a sense of how the economy began the year prior to the early effects of the pandemic. Weakness from 2019 likely carried over into January. Monday's release of inflation data for the first half of March is expected to come in at 0.11% w/w and provide a sign of further room for future monetary easing now that the decision scheduled for Thursday was replaced by this past Friday's surprise cut. Finally, February's trade balance figures, due Friday, are likely to reflect China-only effects of the pandemic.



Sources: Scotiabank Economics, INEGI.

Guillermo Arbe, Head of Economic Research
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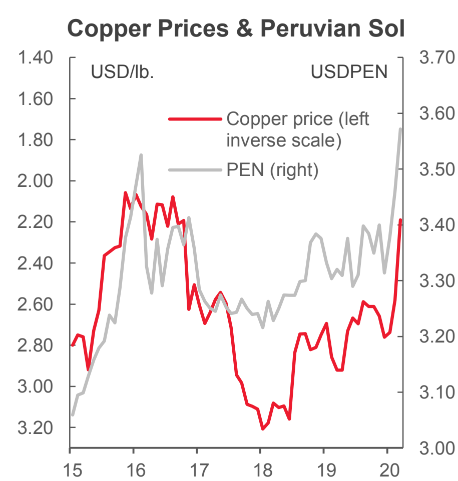
guillermo.arbe@scotiabank.com.pe

PERU: The increase in fiscal spending announced so far represents about 1.1% of the 2020 budget and 0.24% of GDP: this is rather limited, but more is promised. Much of the additional spending will be financed from the PEN 5.7 bn (USD 1.6 bn) Fiscal Stabilization Fund. The country's finances are strong enough to support this fiscal shock as long as it is temporary. The impact of the crisis and related emergency measures should be most intense in Q2, but may carry over into Q3. For a commodity producer such as Peru, signs that China is passing the worst of its shutdown are encouraging.

We have lowered our growth forecast from 2.4% y/y to 0.3% for 2020, with downside risks. We expect negative growth in Q1 and particularly Q2. We're notching down inflation to 1.4%, from 1.7% as oil prices have slumped.

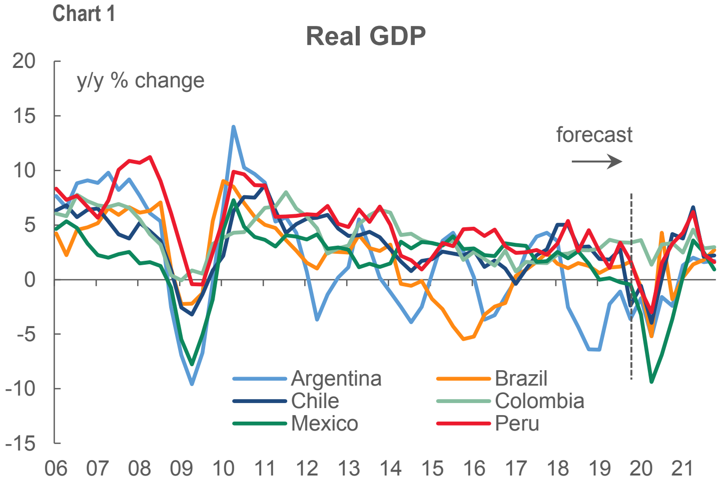


Sources: BCR. Scotiabank Perú.

The BCRP took the unusual step of lowering its policy rate between meetings this week, and did so by a significant 100 bps, to 1.25%, from 2.25%. Having broken a longstanding taboo on negative real rates, the BCRP could continue cutting, perhaps to 0.75% with complementary measures such as more flexible reserve requirements. Lower rates and copper prices are expected to raise our USDPEN average forecast for 2020 to 3.50 and year-end to 3.45. The data calendar for next week does not contain any meaningful releases.

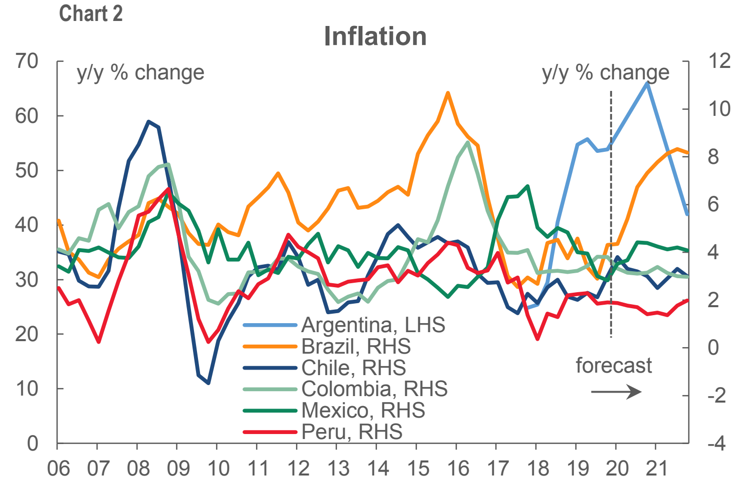
Data Snapshots: Regional Macroeconomic Indicators

Chart 1



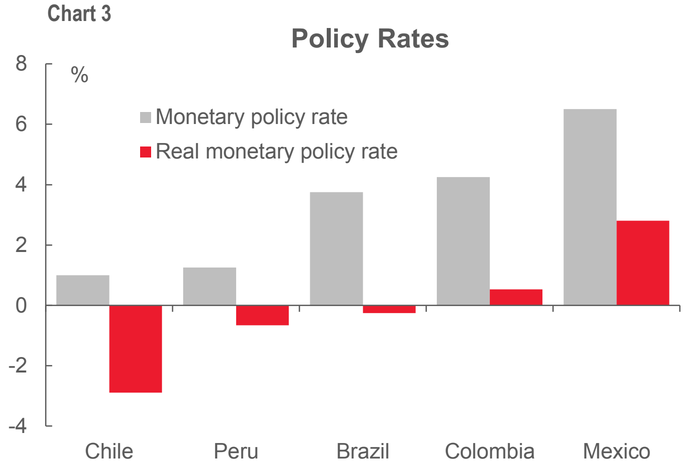
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



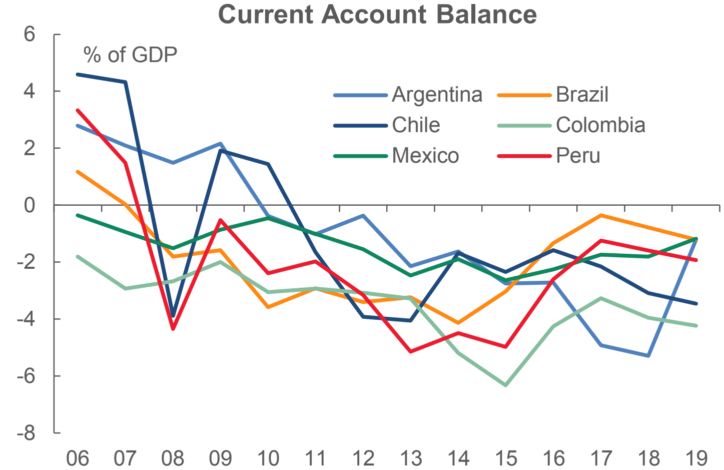
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



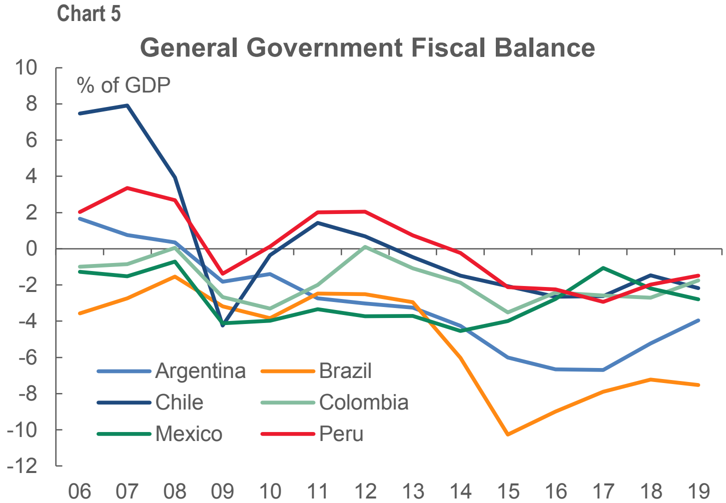
Argentina: MPR = 38.0%; Real MPR = -12.3%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



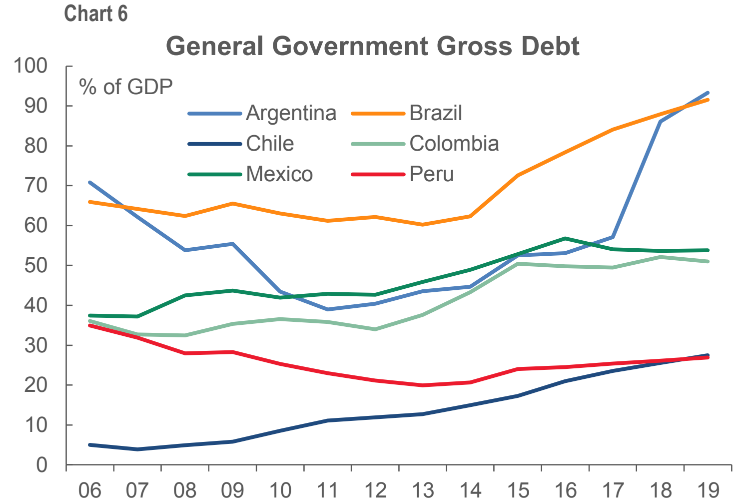
Sources: Scotiabank Economics, IMF.

Chart 5



Sources: Scotiabank Economics, IMF.

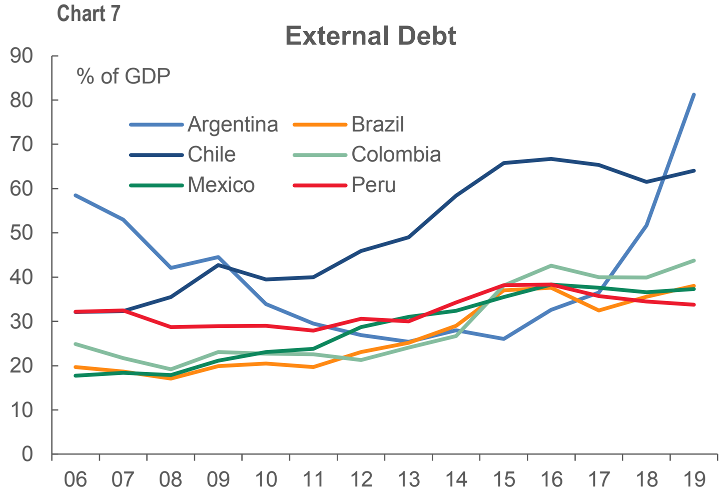
Chart 6



Sources: Scotiabank Economics, IMF.

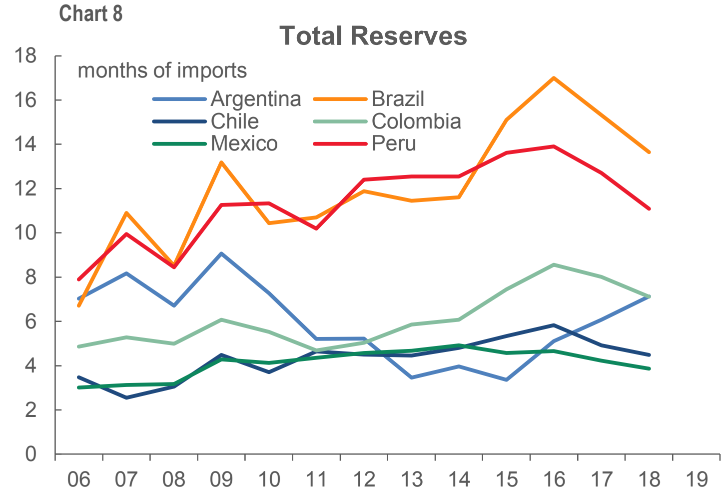
Data Snapshots: Regional Macroeconomic Indicators

Chart 7



Sources: Scotiabank Economics, IIF.

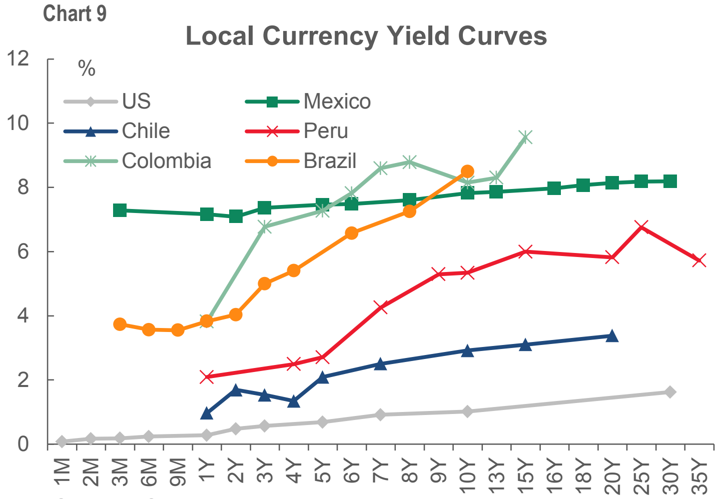
Chart 8



Sources: Scotiabank Economics, World Bank.

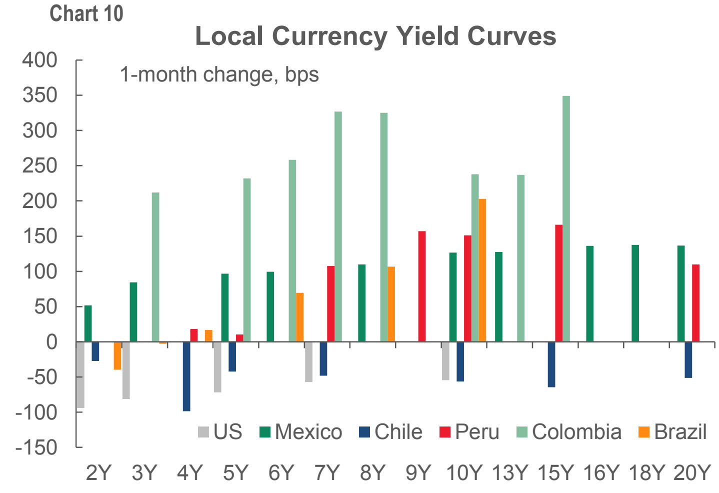
Data Snapshots: Regional Market Indicators

Chart 9



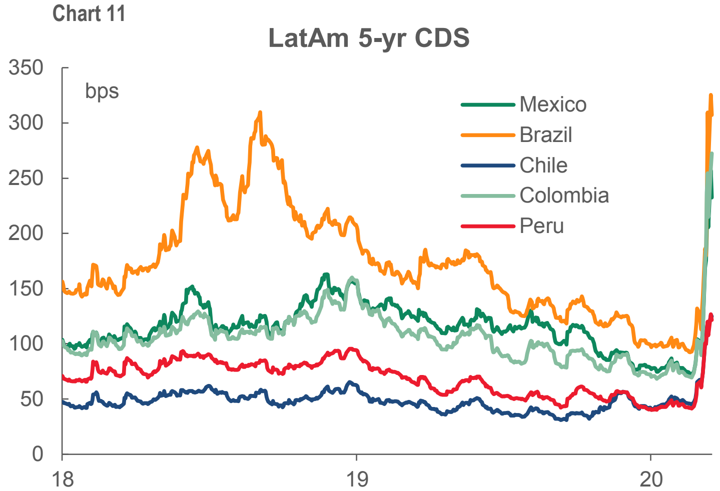
Sources: Scotiabank Economics, Bloomberg.

Chart 10



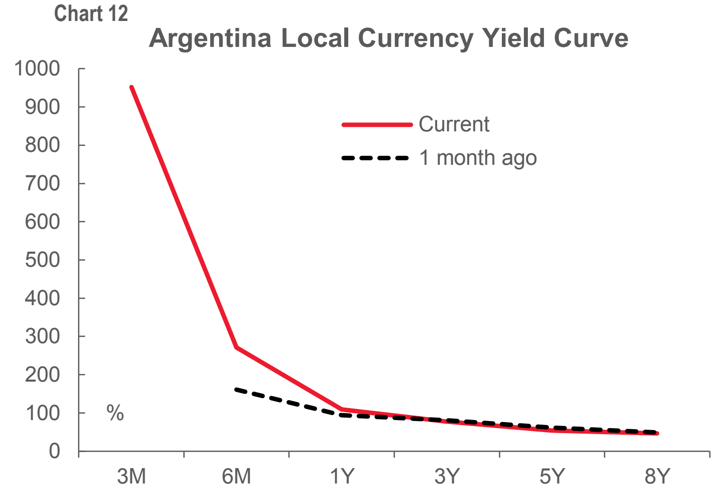
Sources: Scotiabank Economics., Bloomberg.

Chart 11



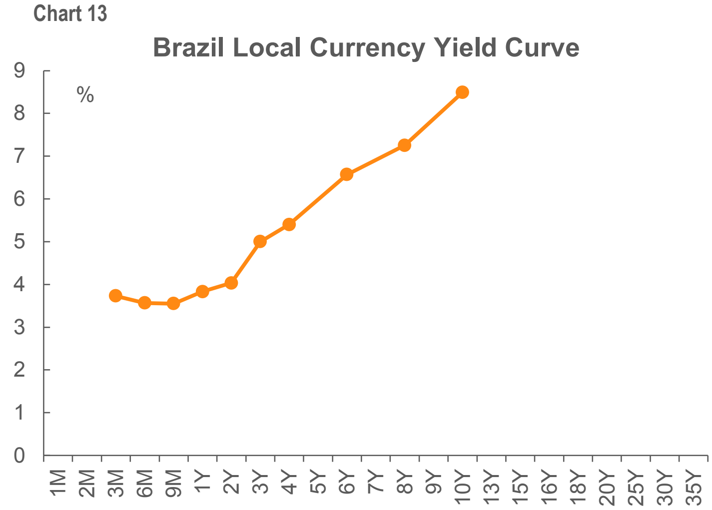
Sources: Scotiabank Economics., Bloomberg

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Chart 13



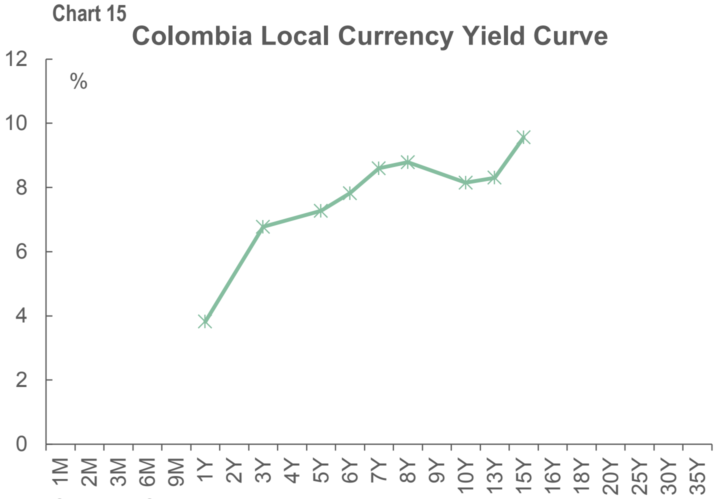
Sources: Scotiabank Economics, Bloomberg.

Chart 14

Sources: Scotiabank Economics, Bloomberg.

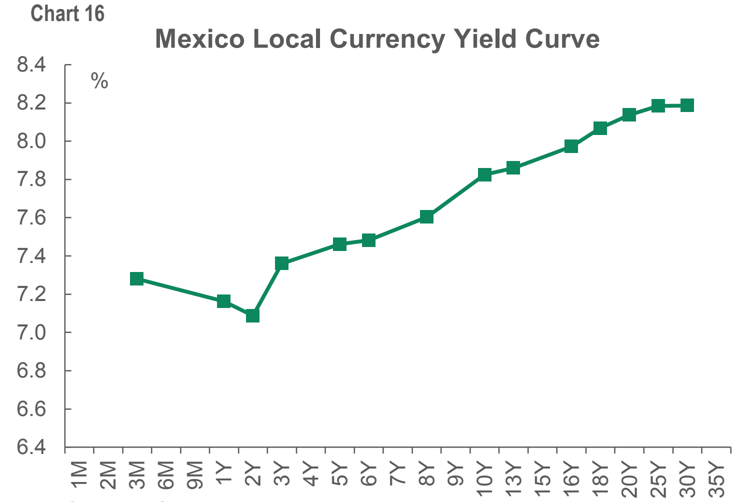
Data Snapshots: Regional Market Indicators

Chart 15



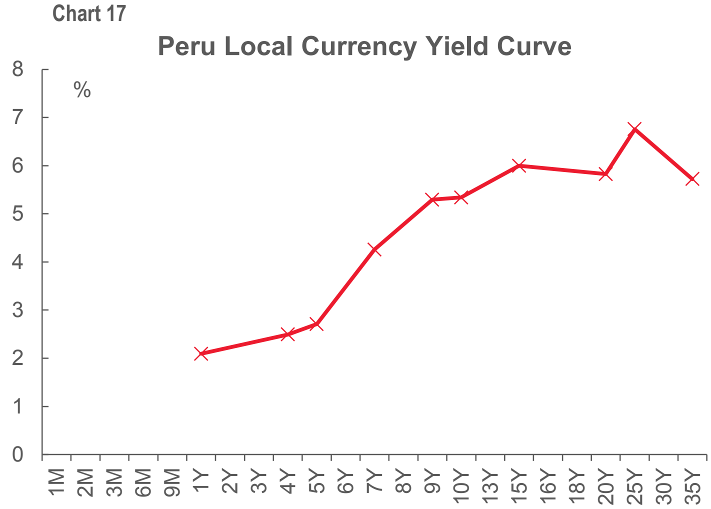
Sources: Scotiabank Economics, Bloomberg.

Chart 16



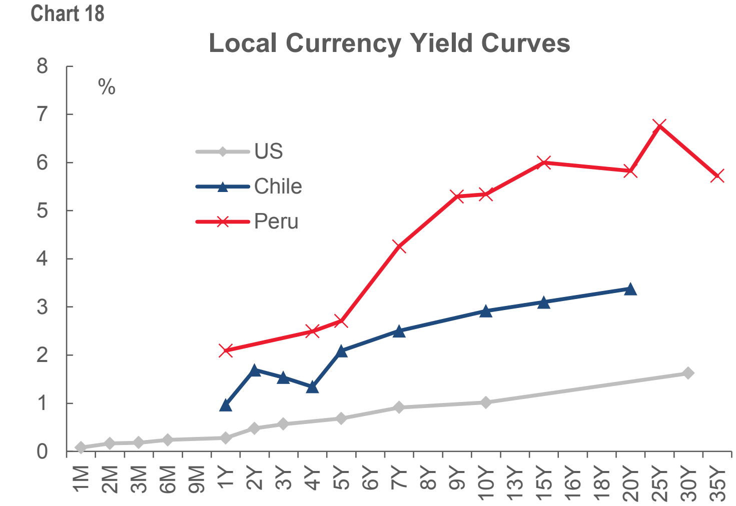
Sources: Scotiabank Economics, Bloomberg.

Chart 17



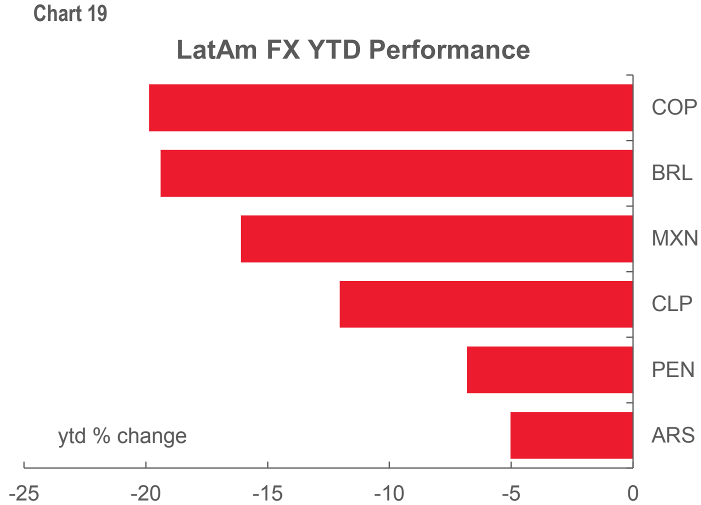
Sources: Scotiabank Economics, Bloomberg.

Chart 18



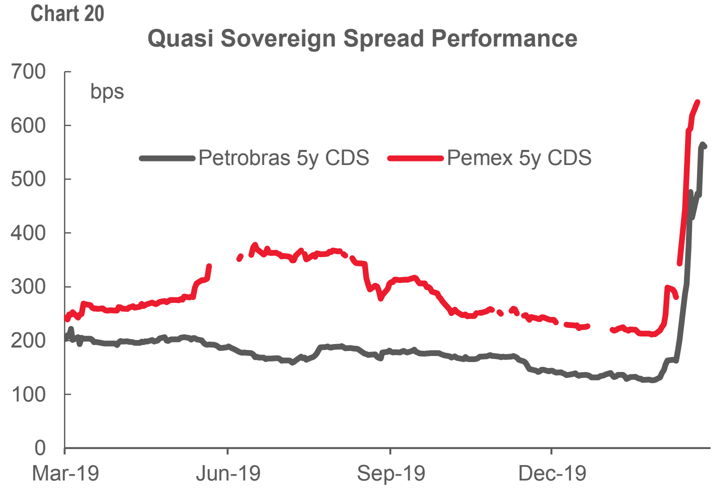
Sources: Scotiabank Economics, Bloomberg.

Chart 19



Sources: Scotiabank Economics, Bloomberg.

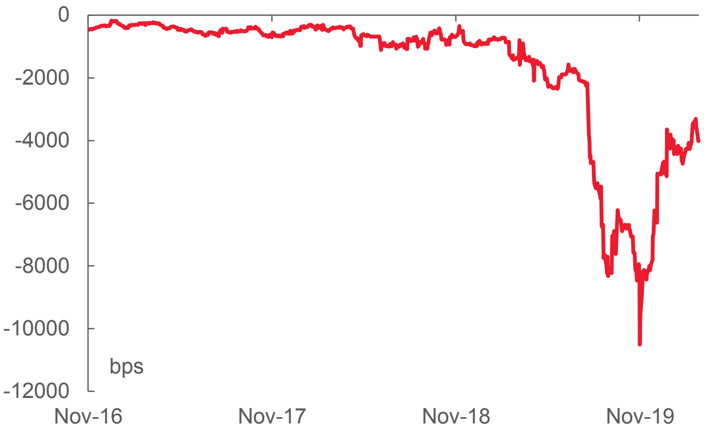
Chart 20



Sources: Scotiabank Economics, Bloomberg.

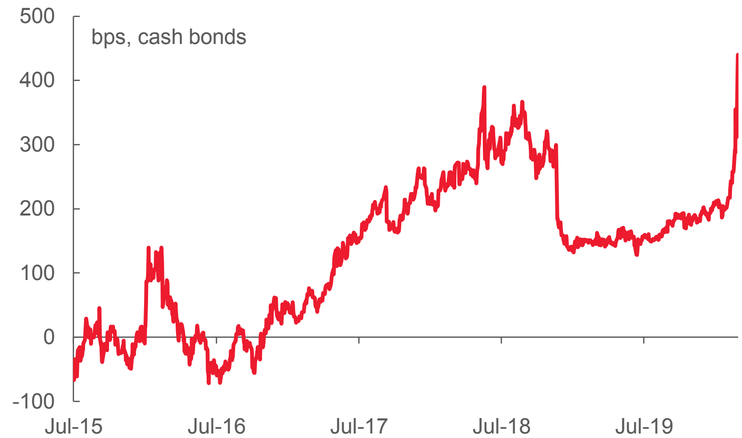
Data Snapshots: Regional Market Indicators

Chart 21
Argentina 10-2 Local Currency Yield Curve Slope



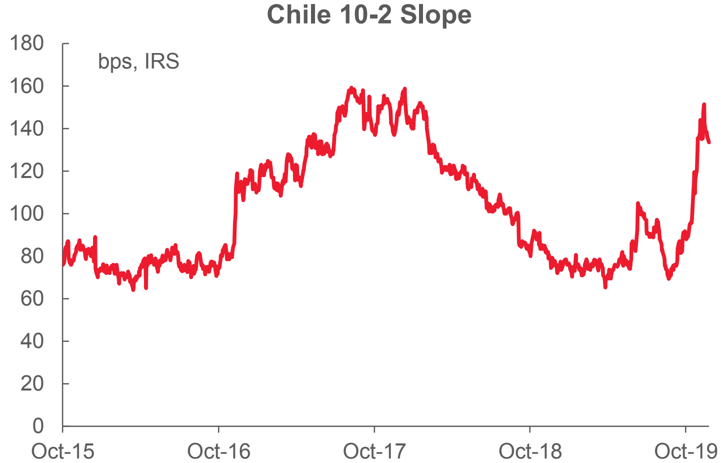
Sources: Scotiabank Economics, Bloomberg.

Chart 22
Brazil 10-2 Slope



Sources: Scotiabank Economics, Bloomberg.

Chart 23
Chile 10-2 Slope

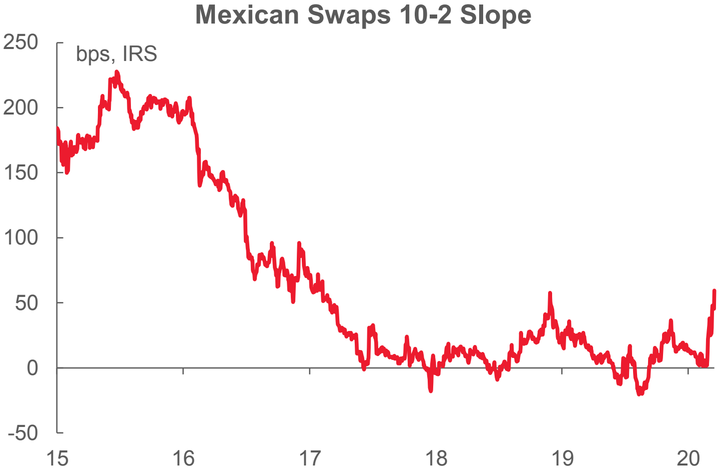


Sources: Scotiabank Economics, Bloomberg.

Chart 24
Colombia 10-2 Slope

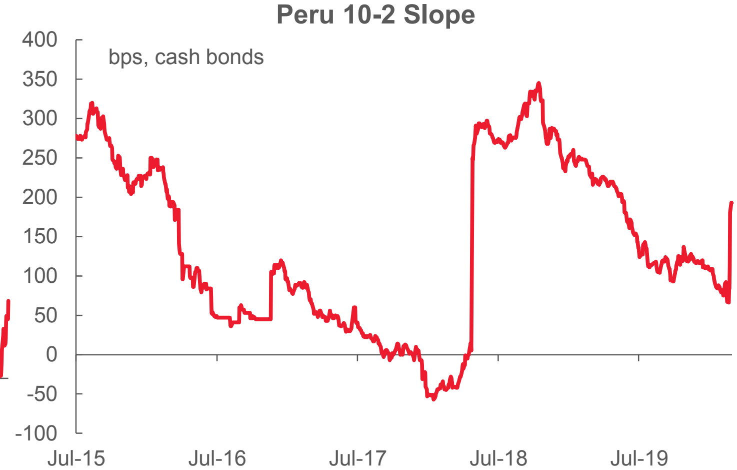
Sources: Scotiabank Economics, Bloomberg.

Chart 25
Mexican Swaps 10-2 Slope



Sources: Scotiabank Economics., Bloomberg.

Chart 26
Peru 10-2 Slope



Sources: Scotiabank Economics, Bloomberg.

Forecast Snapshots: March 20 Update

Argentina	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	-1.7	-5.2	-1.6	-2.4	1.3	2.0	1.6	1.7	-2.4	1.7
CPI (y/y %, eop)	--	--	--	66.0	--	--	--	42.0	66.0	42.0
Central bank policy rate (%, eop)	--	--	--	42.00	--	--	--	38.00	42.00	38.00
Foreign exchange (USDARS, eop)	--	--	--	82.0	--	--	--	76.0	82.0	76.0

Brazil	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	-0.7	-5.2	4.3	-1.8	0.2	1.4	1.8	2.7	-3.0	1.5
CPI (y/y %, eop)	4.4	5.4	6.7	7.3	7.8	8.1	8.3	8.2	7.3	8.2
Central bank policy rate (%, eop)	3.75	3.75	4.25	4.75	5.75	6.75	7.75	8.25	4.75	8.25
Foreign exchange (USDBRL, eop)	5.37	5.12	4.72	4.84	5.11	4.64	4.52	4.49	4.84	4.49

Chile	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	-0.6	-4.0	0.1	4.2	3.8	6.6	2.1	2.2	-0.1	3.6
CPI (y/y %, eop)	3.8	3.3	3.2	3.0	2.5	2.9	3.3	3.0	3.0	3.0
Central bank policy rate (%, eop)	1.00	0.75	0.75	0.75	1.00	1.25	1.75	2.00	0.75	2.00
Foreign exchange (USDCLP, eop)	860	820	800	790	780	760	740	720	790	720

Colombia	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	3.6	1.4	3.2	3.3	2.5	4.6	2.9	3.0	2.9	3.2
CPI (y/y %, eop)	3.3	3.1	3.1	3.2	3.4	3.1	3.0	3.0	3.2	3.0
Central bank policy rate (%, eop)	4.00	3.50	3.50	3.50	3.75	4.25	4.25	4.25	3.50	4.25
Foreign exchange (USDCOP, eop)	4,050	3,860	3,670	3,480	3,473	3,465	3,458	3,450	3,480	3,450

Mexico	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	-3.2	-9.4	-6.9	-3.6	0.3	3.6	2.5	0.9	-5.8	1.8
CPI (y/y %, eop)	3.5	3.7	4.4	4.4	4.2	4.1	4.2	4.1	4.4	4.1
Central bank policy rate (%, eop)	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Foreign exchange (USDMXN, eop)	23.90	23.13	22.66	22.84	22.93	22.75	22.68	22.74	22.84	22.74

Peru	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	-1.0	-3.0	1.5	3.3	4.3	6.2	2.3	1.6	0.3	3.5
CPI (y/y %, eop)	1.9	1.8	1.7	1.4	1.5	1.4	1.8	2.0	1.4	2.0
Central bank policy rate (%, eop)	1.25	0.75	0.75	1.00	1.25	1.50	1.75	1.75	1.00	1.75
Foreign exchange (USDPEN, eop)	3.57	3.56	3.47	3.45	3.42	3.43	3.39	3.40	3.45	3.40

United States	20Q1f	20Q2f	20Q3f	20Q4f	21Q1f	21Q2f	21Q3f	21Q4f	2020f	2021f
Real GDP (y/y % change)	1.3	-1.2	-1.8	-1.6	-0.4	2.4	3.2	3.1	-0.8	2.1
CPI (y/y %, eop)	2.1	0.8	0.6	0.8	1.4	2.3	2.6	2.6	0.8	2.6
Central bank policy rate (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Foreign exchange (EURUSD, eop)	1.08	1.09	1.10	1.12	1.13	1.14	1.15	1.16	1.12	1.16

Source: Scotiabank Economics.

Forecast Snapshots: March 11 vs March 20 Update

		March 11 2020f	March 11 2021f	March 20 2020f	March 20 2021f
Argentina	Real GDP (annual % change)	--	--	-2.4	1.7
	CPI (y/y %, eop)	--	--	66.0	42.0
	Central bank policy rate (%, eop)	--	--	42.00	38.00
	Argentine Peso (USDARS, eop)	--	--	82.0	76.0
Brazil	Real GDP (annual % change)	1.8	2.1	-3.0	1.5
	CPI (y/y %, eop)	4.2	4.1	7.3	8.2
	Central bank policy rate (%, eop)	3.50	5.25	4.75	8.25
	Brazilian real (USDBRL, eop)	4.37	4.11	4.84	4.49
Chile	Real GDP (annual % change)	1.4	2.5	-0.1	3.6
	CPI (y/y %, eop)	3.0	3.0	3.0	3.0
	Central bank policy rate (%, eop)	1.00	2.00	0.75	2.00
	Chilean peso (USDCLP, eop)	760	700	790	720

		March 11 2020f	March 11 2021f	March 20 2020f	March 20 2021f
Colombia	Real GDP (annual % change)	3.3	3.6	2.9	3.2
	CPI (y/y %, eop)	3.5	3.1	3.2	3.0
	Central bank policy rate (%, eop)	4.25	4.50	3.50	4.25
	Colombian peso (USDCOP, eop)	3,357	3,180	3,480	3,450
Mexico	Real GDP (annual % change)	0.4	1.6	-5.8	1.8
	CPI (y/y %, eop)	3.8	3.7	4.4	4.1
	Central bank policy rate (%, eop)	6.00	6.00	6.00	6.00
	Mexican peso (USDMXN, eop)	20.94	21.87	22.84	22.74
Peru	Real GDP (annual % change)	2.4	3.5	0.3	3.5
	CPI (y/y %, eop)	1.7	2.0	1.4	2.0
	Central bank policy rate (%, eop)	2.00	2.00	1.00	1.75
	Peruvian sol (USDPEN, eop)	3.40	3.35	3.45	3.40

Source: Scotiabank Economics.

Market Events & Indicators for Week of March 23–27

ARGENTINA

Date	Time	Indicator	Period	Consensus	Latest
03/25	15:00	GDP (y/y)	4Q	--	-1.7
03/25	15:00	GDP (q/q)	4Q	--	0.9
03/26	15:00	Unemployment Rate (%)	4Q	--	9.7
03/26	15:00	Current Account Balance (USD, bn)	4Q	--	-1052.1
03/26	15:00	Trade Balance (USD, bn)	Feb	--	1015.0
03/26	15:00	Imports Total (USD, bn)	Feb	--	3534.0
03/26	15:00	Exports Total (USD, bn)	Feb	--	4549.0
03/27	15:00	Supermarket Sales (y/y)	Jan	--	-6.3
03/27	15:00	Shop Center Sales (y/y)	Jan	--	-6.8

BRAZIL

Date	Time	Indicator	Period	Consensus	Latest
MAR 20-26		Tax Collections (BRL, mn)	Feb	118000	174991
03/23	7:00	FGV CPI IPC-S (m/m)	22-Mar	0.0	0.0
03/23	14:00	Trade Balance Weekly (USD, mn)	22-Mar	--	1040.2
03/24	7:00	FGV Consumer Confidence	Mar	--	87.8
03/24	8:00	Retail Sales Broad (m/m)	Jan	-1.1	-0.8
03/24	8:00	Retail Sales Broad (y/y)	Jan	1.4	4.1
03/24	8:00	Retail Sales (m/m)	Jan	-0.6	-0.1
03/24	8:00	Retail Sales (y/y)	Jan	2.5	2.6
03/25	4:00	FIPE CPI - Weekly (m/m)	23-Mar	0.2	0.2
03/25	8:00	IBGE Services Sector Volume (y/y)	Jan	1.8	1.6
03/25	8:00	IBGE Inflation IPCA-15 (m/m)	Mar	0.1	0.2
03/25	8:00	IBGE Inflation IPCA-15 (y/y)	Mar	3.7	4.2
03/25	8:30	Current Account Balance (USD, mn)	Feb	-3000.0	-11879.2
03/25	8:30	Foreign Direct Investment (USD, mn)	Feb	6000.0	5618.3
03/25		Federal Debt Total (BRL, bn)	Feb	--	4230.0
03/26	7:00	FGV Construction Costs (m/m)	Mar	--	0.4
MAR 26-27		Economic Activity (y/y)	Jan	0.7	1.3
03/27	8:00	PPI Manufacturing (m/m)	Feb	--	0.1
03/27	8:00	PPI Manufacturing (y/y)	Feb	--	5.4
03/27	8:00	Economic Activity (m/m)	Jan	0.4	-0.3
03/27	8:30	Total Outstanding Loans (BRL, bn)	Feb	--	3462.9
03/27	8:30	Outstanding Loans (m/m)	Feb	--	-0.4
03/27	8:30	Personal Loan Default Rate (%)	Feb	--	5.0

CHILE

Date	Time	Indicator	Period	Consensus	Latest
03/24	8:00	PPI (m/m)	Feb	--	-0.7

COLOMBIA

Date	Time	Indicator	Period	Consensus	Latest
03/25		Retail Confidence Index (% balance)	Feb	--	32.3
03/25		Industrial Confidence Index (% balance)	Feb	--	12.2
03/27		**Overnight Lending Rate (%)**	**27-Mar**	**4.25**	**4.25**

Market Events & Indicators for Week of March 23–27

MEXICO

Date	Time	Indicator	Period	Consensus	Latest
03/24	8:00	Bi-Weekly Core CPI (w/w)	15-Mar	0.2	0.1
03/24	8:00	Bi-Weekly CPI (w/w)	15-Mar	0.1	0.5
03/24	8:00	Bi-Weekly CPI (y/y)	15-Mar	3.6	3.9
03/24	11:00	International Reserves Weekly (USD, mn)	20-Mar	--	185571
03/25	8:00	Retail Sales (m/m)	Jan	--	-0.4
03/25	8:00	Retail Sales (y/y)	Jan	--	3.2
03/26	8:00	Economic Activity IGAE (y/y)	Jan	-0.3	0.7
03/26	8:00	Unemployment Rate, NSA (%)	Feb		
03/26	8:00	Unemployment Rate, SA (%)	Feb	--	3.7
03/26	8:00	Economic Activity IGAE (m/m)	Jan	--	0.2
03/26	15:00	**Overnight Rate (%)**	**26-Mar**	**--**	**6.50**
03/27	8:00	Trade Balance (USD, mn)	Feb	1930.0	-2415.8

PERU

Date	Time	Indicator	Period	Consensus	Latest
		No scheduled events			