

## Latam Economic Update

- **Argentina:** Lines sharpen in debt talks ahead of current August 4 deadline
- **Colombia:** July's Citi survey shows further softening in macro forecasts, terminal policy rate lowered to 2.00%
- **Mexico:** Record trade surplus in June as exports recover and imports remain weaker

### ARGENTINA: LINES SHARPEN IN DEBT TALKS AHEAD OF CURRENT AUGUST 4 DEADLINE

Bondholder groups that last week rejected the government's fourth set of offer terms now indicate that they have the support of creditors that hold over 50% of Argentina's external-law bonds that are in default, enough to block a swap from happening on the authorities' stated minimum participation thresholds. This is up from the roughly one-third claimed last week by the Ad Hoc Bondholders group, the Exchange Bondholder group, and the Argentina Creditor Committee. According to media reports, the groups say that additional large funds have joined the July 20 counterproposal that they prepared for the authorities and which the bondholder groups call "constructive".

In a [lengthy history](#) of the last few months of debt talks, published over the weekend by the Argentine authorities, the Ministry of Economy reaffirmed that its early-July [proposal](#) remains its final offer, but left room for further discussion. The statement indicated the government's willingness to adjust elements of the 2016 Macri bonds' indentures that followed the International Capital Markets Association's (ICMA) model language. This has been a persistent demand from some creditors, particularly holders of the 2005 exchange bonds that wish to maintain contractual terms in any new paper that would make it relatively hard to restructure.

We continue to expect an agreement to be reached in the coming weeks on a debt treatment given the relative small monetary value of the differences between the two sides. However, at this point, with both camps appearing to harden their positions, there is a good chance an accord could come after the current August 4 deadline.

—Brett House

### COLOMBIA: JULY'S CITI SURVEY SHOWS FURTHER SOFTENING IN MACRO FORECASTS, TERMINAL POLICY RATE LOWERED TO 2.00%

July's Citi Survey, which BanRep uses as one of its measures of expectations of inflation, the monetary policy rate, GDP, and the COP, came out on Monday, 27 July. Key points included:

- **Growth forecasts were revised downward.** For 2020, a contraction of -5.95% y/y, 1.17 pts below last month's survey reading of -4.78%, is now

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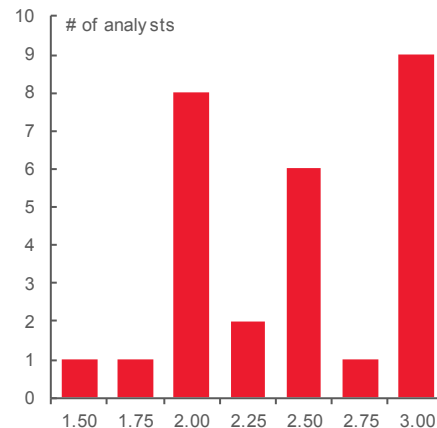
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Chart 1

Colombia: July Citi Survey's Widely Dispersed End-2021 Repo Rate Calls



Sources: Scotiabank Economics, BanRep.

expected. In 2021, the recovery is expected to hit a pace of 3.8% y/y, a bit above the June survey's 3.3% y/y consensus. We think the downward revision to 2020 came on the back of the May ISE GDP proxy, which was worse than expected.

- Inflation is still expected to remain below the central bank's 3% target in 2020, but return to the target in 2021.** July's monthly inflation rate is, on average, expected to be -0.15 % m/m and 1.83% y/y; we expect -0.17% m/m and 1.79% y/y. For December 2020, the survey's average projection is 1.85% y/y, down from the June survey's 2.24% y/y. By December 2021, inflation is expected to hit 2.9% y/y, nearly the same as the 2.98% y/y average projection in the June survey. Medium-term inflation expectations remain anchored to the BanRep target.
- The BanRep repo rate is expected to hit a low of 2.00% in this easing cycle, down from 2.25% in the June survey.** Analysts expect a -25 bps (median) cut in the monetary policy rate at the July 31 meeting. The BanRep repo rate is expected to come down another -25 bps to 2.00% by December 2020; in 2021, consensus expects two 25 bps hikes (versus one in the June survey), although analysts' projections are widely dispersed (chart 1).
- The USDCOP forecasts point to a mild appreciation in the COP through December 2020 and a relatively stable currency in 2021.** On average, respondents expect a level of USDCOP 3,673 by the end of 2020 and USDCOP 3,691 in 2021.

—Sergio Olarte & Jackeline Piraján

### MEXICO: RECORD TRADE SURPLUS IN JUNE AS EXPORTS RECOVER AND IMPORTS REMAIN WEAKER

The June trade balance data, released on 27 July, showed a major turnaround from the preceding months with the highest monthly surplus on record at USD 5.55 bn. This was well above the consensus of USD 1.55 bn and the USD 2.45 bn surplus registered a year ago.

The total value of trade came in at USD 60.61 bn in June, a significant improvement from May's -52.0% y/y decline, but which still left total trade at -17.3% y/y compared with June 2019 (chart 2). Exports are now down "only" -12.8% y/y versus -56.7% y/y in May (chart 3). The overall trade balance was also assisted by relatively weaker imports, which remain down -22.2% y/y, but this was still an improvement from -47.1% y/y in May (chart 4). June's higher trade values and volumes following May's record declines stem from the recovery in US industrial production and Mexico's re-opening of more activities since late-May.

Further growth in trade in the months ahead depends critically on the progress of the COVID-19 pandemic in both the US and Mexico. Trade surpluses are likely to remain solid as the US recovery increases demand for exports from Mexico, while the deeper contraction in economic activity in Mexico this year should keep appetite for imports comparatively weak.

—Miguel Saldaña

Chart 2



Chart 3

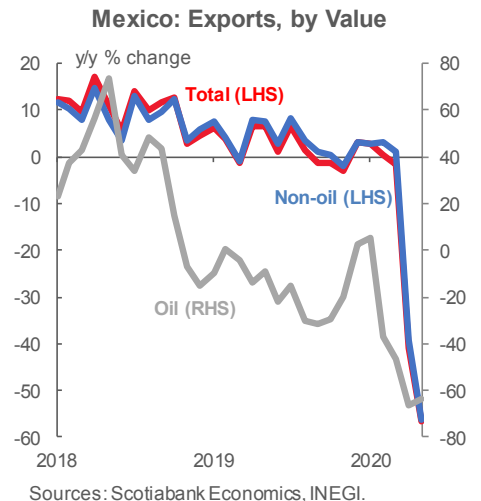
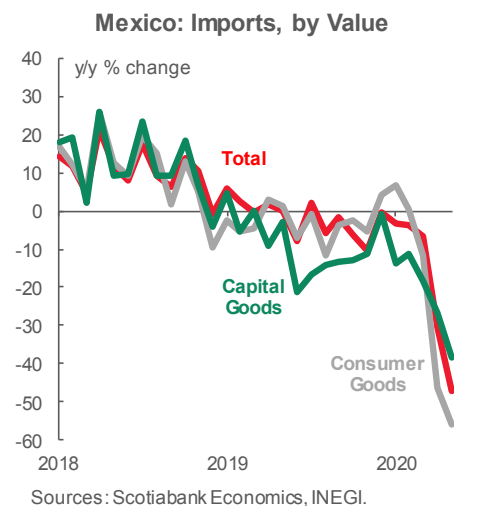


Chart 4



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