

Latam Daily: Mexico Inflation Rises; Peru Political Saga; Argentina Growth Firms

- **Argentina:** Slight upside growth surprise in August; September trade surplus narrowed; consumer confidence softened in October
- **Mexico:** Inflation again above upper limit of Banxico target range
- **Peru:** Congress to debate presidential impeachment in early November; more international flights to be allowed

ARGENTINA: SLIGHT UPSIDE GROWTH SURPRISE IN AUGUST; SEPTEMBER TRADE SURPLUS NARROWED; CONSUMER CONFIDENCE SOFTENED IN OCTOBER

Argentina saw three key data prints on Thursday, October 22, that provided a slightly muddled picture on economic developments in Q3, during which COVID-19 surged afresh and policy messages were mixed.

- The August EMAE GDP proxy grew by 1.1% m/m sa, slightly above our expectation of 0.9% m/m sa, but level with July's 1.1% m/m sa pace. This firmed up annual growth a touch, lifting it from -13.2% y/y in July to -11.6% y/y in August (chart 1). Thirteen of 14 sectors remained down in annual terms in August, with financial services, up 4.1% y/y, still the one exception. Hospitality remained deeply impaired by contagion control measures and was off a whopping -56% y/y. Overall, this print keeps Argentina's economy on track for a nearly -11% y/y contraction in 2020.
- Argentina's September trade surplus fell from USD 1.4 bn in August to USD 0.6 bn in September on the back of a strong increase in imports, from USD 3.5 bn in August to USD 4.1 bn in September, at the same time as exports retreated from USD 4.9 bn in August to USD 4.7 bn in

Chart 1

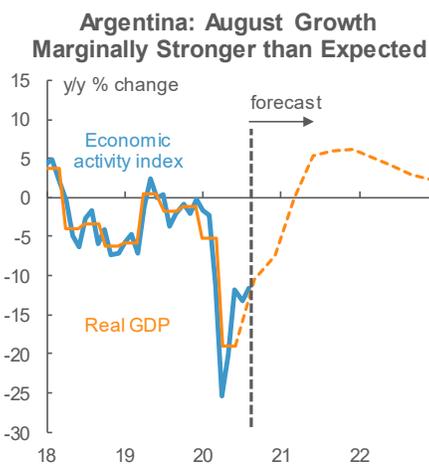
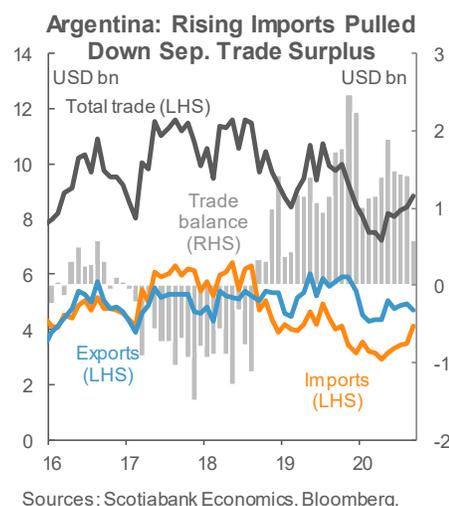


Chart 2



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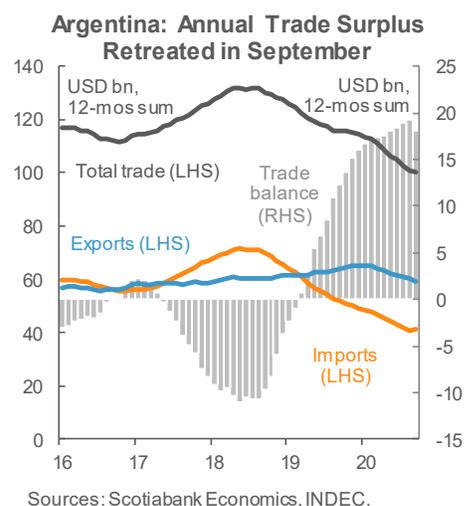
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Chart 3



September (chart 2). The rise in imports over the last few months reflects a gradual revival in domestic demand. With the concurrent fall-off in exports as agricultural producers hold back sales in anticipation of further depreciation in the ARS, trade is putting additional pressure on the country's FX reserves. The rolling 12-month trade balance pulled back from USD 19.2 bn in August to USD 18.1 bn in September, its first retreat since March (chart 3).

- **The national consumer confidence index fell from 40.31 in September to 38.83 in October.** Though this kept the index firmly in pessimistic territory (i.e., below 50), consumer confidence remains less dour than other indicators would imply it should be (chart 4). Argentine hope springs eternal.

—Brett House

MEXICO: INFLATION AGAIN ABOVE UPPER LIMIT OF BANXICO TARGET RANGE

In price data out on the morning of Thursday, October 22, headline inflation in the first half of October came in for the third fortnight since August above the upper limit of the inflation target range established by Banxico (3.0%, +/- 1 ppt). At 4.09% y/y on an annual basis, inflation was up from the 3.93% y/y recorded in late-September and exceeded consensus expectations of a 4.00% y/y print (chart 5). In sequential terms, inflation accelerated from -0.03% 2w/2w in the second half of September to 0.54% 2w/2w in the first half of October, versus consensus expectations and the Banxico Survey of Private-Sector Analysts' Expectations, both of which anticipated 0.46% 2w/2w.

We continue to think that the Banxico Board will keep the Bank's benchmark target rate on hold at 4.25% at its next meeting on November 12.

Looking at the details of the early-October print by its components, non-core regulated prices and agricultural prices accounted for much of the increase in inflation:

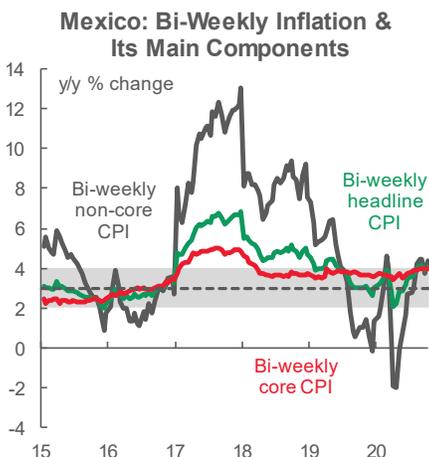
- **Core inflation remained at 4.00% y/y, practically unchanged from its late-September 3.99% y/y rate;** sequential core came in at 0.14% 2w/2w, below the 0.16% 2w/2w average expected in the Banxico Survey and under the 0.15% 2w/2w in the Bloomberg consensus. The prices of goods grew 0.12% 2w/2w and those of services by 0.17% 2w/2w. Owing to the pandemic, services inflation (2.44% y/y) has been dampened by lower demand due to social distancing measures and the reduction of private spending, while goods inflation (5.45% y/y) has maintained an accelerating trend, pressured by disruptions in supply chains and changes in consumer baskets (chart 6).

Chart 4



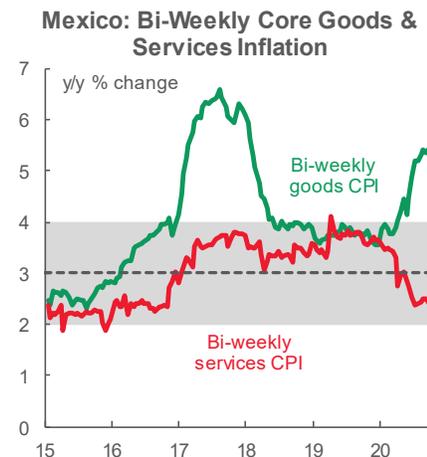
Sources: Scotiabank Economics, INDEC, UTDT.

Chart 5



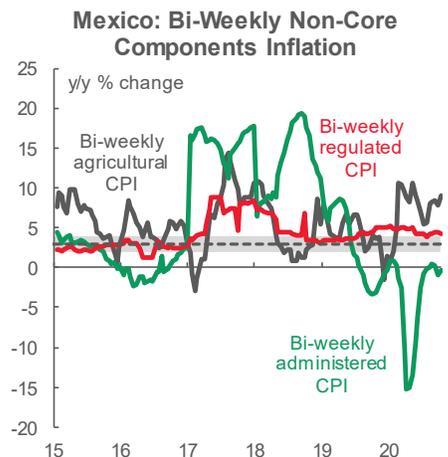
Sources: Scotiabank Economics, INEGI.

Chart 6



Sources: Scotiabank Economics, INEGI.

Chart 7



Sources: Scotiabank Economics, INEGI.

- **On the other hand, non-core inflation continued to accelerate, this time from 3.76% y/y in late-September to 4.34% y/y (versus 0.99% y/y in early-October 2019) due to an increase in the prices of tariffs authorized by the government (4.19% y/y) and upward pressures in the agricultural sector (chart 7).** In sequential terms, non-core inflation grew 1.80% 2w/2w in the fortnight, a high since late-November 2019. Agricultural inflation accelerated from -0.36% 2w/2w to 0.90% 2w/2w, while the energy component, including tariffs authorized by the government, jumped from -0.62% 2w/2w to 2.52% 2w/2w as the summer electricity-subsidy program concluded.

Price data for the second half of October, and for the month as a whole, will be critical for Banxico's monetary policy deliberations at the Board's next meeting on November 12, where we expect a hold at 4.25%. The minutes of the last meeting showed a divided Board, with two members leaning towards a pause in the easing cycle, two members in favour of more cuts, and one member inclined to be dependent on the data. With price pressures remaining strong, we don't expect the Board to continue easing.

—Miguel Saldaña

PERU: CONGRESS TO DEBATE PRESIDENTIAL IMPEACHMENT IN EARLY NOVEMBER; MORE INTERNATIONAL FLIGHTS TO BE ALLOWED

Certain parties in Congress continue in their efforts to promote a new impeachment process for President Vizcarra. The matter is already on the Congressional agenda for discussion, but will reportedly not be treated until early November. How the eventual vote will go is not clear. There are groups in Congress which seem intent on ending the Vizcarra government early, possibly with an eye to postponing the upcoming elections. Other members of Congress are uncomfortable with an impeachment—either because they view it as a power play that would seem unnecessary with elections approaching, or because of concerns about its broader institutional repercussions. Meanwhile, the Attorney General's office has called President Vizcarra in for questioning with regard to allegations of corruption around infrastructure projects built during his term as Governor of Moquegua.

President Vizcarra announced on Thursday, October 22, that flights lasting up to eight hours would be allowed beginning in November. This would permit flights to most of the Americas, but not to other continents. Currently, only flights with up to four hours of air travel time are allowed. Churches will re-open in November, at one-third capacity, but beaches will be closed during the weekend over the South American summer, except for water sports. One can only hope that the combination of open churches and closed beaches will be spiritually uplifting.

—Guillermo Arbe

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