

Latam Economic Update

- **Argentina:** Capacity utilization recovery in July
- **Brazil:** July retail sales blew past consensus expectations
- **Chile:** BCCh survey of professional economists showed a significant improvement for 2020
- **Peru:** BCRP stays on hold; mining recovering; fate of Pres. Vizcarra in question

ARGENTINA: CAPACITY UTILIZATION RECOVERY IN JULY

INDEC's July capacity utilization numbers for July, released on Thursday, September 10, came in at 56.8%, up from 53.8% in June (chart 1). The July print takes capacity utilization close to the 58.7% rate we saw in July 2019. Some further recovery is likely in the next few months, but expectations should be conditioned by the secular decline in capacity utilization in Argentina over the last decade.

—Brett House

BRAZIL: JULY RETAIL SALES BLEW PAST CONSENSUS EXPECTATIONS

Forecasts for Brazilian July retail sales were all over the place coming into Thursday's September 10 release—ranging from 4.5% to 5.6% y/y—and the actual print came in at the top of the forecast range. We had expected Brazilian retail sales to continue to recover in July, consistent with the bounce we've seen in PMIs and the broader re-opening of the economy, but we did not expect year-on-year growth to be above 2%. Our house call was for a 1.2% y/y gain in retail sales as the services sector PMI (the bulk of Brazil's GDP remained sub-50 in July) and employment were still soft. Consensus was a little more optimistic than we were, with an average call for a rise of 2.4% y/y. The actual print blew past forecasts, coming in at 5.5% y/y (chart 2), almost completely outside of the forecast set. The strength in retail sales seems to support the cuts in the government's BRL 300 "basic income" program as the economy seems to be getting back on track. However, for the rebound to be sustainable, investment also needs to pick up. Without an increase in capital commitments, unemployment is likely to remain high, which would undermine the sustainability of the demand-side recovery.

—Eduardo Suárez

CHILE: BCCh SURVEY OF PROFESSIONAL ECONOMISTS SHOWED A SIGNIFICANT IMPROVEMENT FOR 2020

The BCCh's monthly survey of professional economists, released on Thursday, September 10, showed a significant improvement in the outlook for 2020. The expected contraction of GDP in 2020 now stands at -5.5% y/y (-6.0% y/y previously), but the expansion for 2021 remains at 4.5% y/y. The

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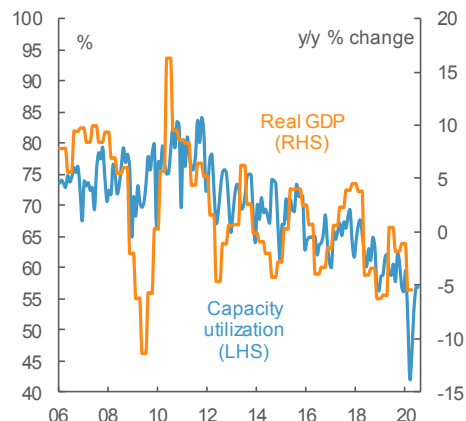
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Chart 1

Argentina: Capacity Utilization



Sources: Scotiabank Economics, INDEC.

expected annual inflation rate for 2020 moves from 2.1% y/y to 2.2% y/y. Consensus expectations are gradually migrating toward our baseline scenario, but we anticipate an additional upward correction in future surveys, at least in GDP. In fact, the survey forecasts a contraction in monthly GDP for August of -8.9% y/y, but our baseline scenario contemplates a much more moderate drop of -7.5% y/y. If our forecast for August materializes, we should see a new upward revision to 2020 GDP expectations in the BCCh's next monthly survey. Our baseline scenario in the latest edition of the [Latam Weekly](#) contemplates a fall in GDP 2020 of -5.2% y/y and an expansion of 5.1% y/y in 2021.

—Jorge Selaive

PERU: BCRP STAYS ON HOLD; MINING RECOVERING; FATE OF PRES. VIZCARRA IN QUESTION

I. Central bank maintains reference rate at 0.25%

The BCRP kept its reference rate at 0.25%, as was widely expected (chart 3).

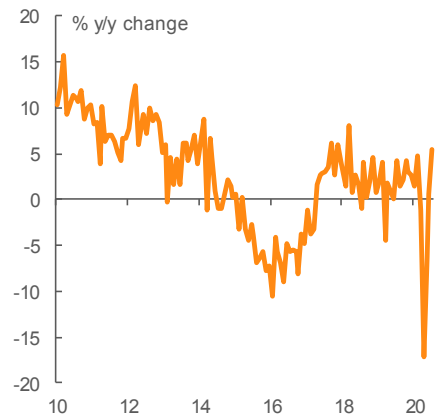
There was no significant change in the [Statement](#)'s wording to indicate any deviation from the notion that the BCRP will keep the rate at 0.25% for the remainder of 2020, and much of 2021.

II. Mining returning to pre-pandemic numbers

According to figures released by the Ministry of Mines on Thursday, September 10, metal production was mixed in July, but with a number of output levels surpassing or close to pre-COVID-19 levels. Copper production continued to return to normal, and was down only -2.2% y/y in July (table 1). This gives credence to our expectation that copper output will have returned to pre-COVID-19 levels by August. Copper output was 10% higher in July over June. Other metals numbers were mixed, with tin and molybdenum strongly up both in y/y terms and m/m terms. Zinc output is also oscillating around pre-COVID-19 levels. Precious metals production, on the other hand, continued to be strongly down, although this was not unexpected given mine exhaustion at a number of important operations, led by Minera Yanacocha. This reflects a secular decline that is not mainly COVID-19 related.

Chart 2

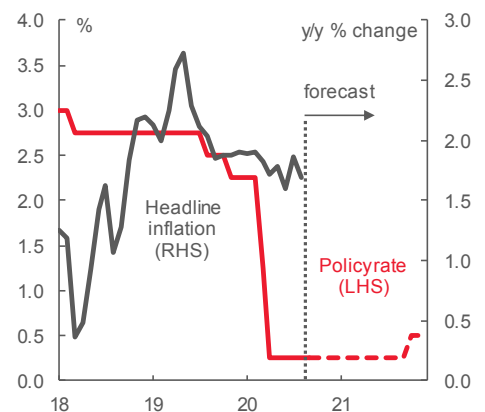
Brazil: Retail Sales Volume



Sources: Scotiabank Economics, Bloomberg.

Chart 3

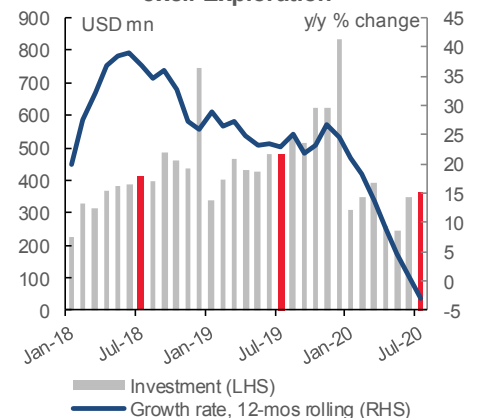
Peru: Policy Rate



Sources: Scotiabank Economics, BCRP.

Chart 4

Peru: Mining Investment, excl. Exploration



Sources: Scotiabank Economics, Min. of Mines.

Table 1

Peru: Metal Output Growth

	Copper	Gold	Zinc	Silver	Lead	Iron	Tin	Molyb.
y/y % change	-2.2	-46.6	5.6	-27.6	-16.5	-7.7	39.2	31.7
m/m % change	10.0	-1.0	-5.2	-14.4	-1.8	97.0	47.7	14.5
YTD % change	-17.7	-36.4	-19.8	-29.1	-28.3	-32.0	-15.9	12.6

Sources: Scotiabank Economics, Ministry of Mines.

Meanwhile, mining investment was down -24.7% y/y in July and a similar -25% y/y in the year-to-July (chart 4). This continues to be in line with our forecast of a -28% y/y decline for full year 2020, although we'll need to see a sharp improvement going forward for our expectations to be met. Mining investment increased only 3.4% m/m in July, a trend which is much too soft.

III. Congress discusses fate of Pres. Vizcarra after compromising audio emerges

When Peru awoke on Thursday morning, the Congressional agenda revolved largely around Finance Minister Alva's presentation in Congress on Wednesday, and whether this would lead to a vote for her removal. Just a few hours later, it was the removal of none other than President Vizcarra that was under consideration.

During the Thursday morning session, the head of the Government Supervision Committee (Comisión de Fiscalización), Edgar Alarcón, submitted an audio allegedly of President Vizcarra giving instructions to his assistants to eliminate evidence that he had met with a person who is under investigation for having received improper government entertainment contracts. As a result, the Congressional leader, Manuel Merino, called for a special session of Congress to evaluate the situation. During the session, a motion for the removal of Pres. Vizcarra was introduced and will reportedly be debated today, Friday. If Pres. Vizcarra were to be removed, then, given the resignation some time ago of former Vice-President Mercedes Aráoz, the President of Congress, Manuel Merino, would apparently become the new president. In the evening, President Vizcarra spoke, denying any wrongdoing, and accusing a segment of Congress of seeking to take over power and delay the April 11 elections.

There is a real risk that Congress, many of whose members have no love for Pres. Vizcarra, would vote for his removal. This would require at least 87 votes of the 130 members of Congress. This is not a very high hurdle for this Congress, which has frequently seen over 100 votes for a number of controversial actions. On the other hand, the removal of the President is something that could be viewed differently by enough members of Congress to make the threshold hard to reach.

According to some analysts, Pres. Vizcarra may have one legal option he can fall back on if needed. The Constitution mentions that Congress can remove a President when he has a "physical or moral incapacity". Congress would likely argue that Vizcarra is "morally incapable", but many experts consider that the term in the Constitution refers to an incapacity to perform and should not be considered as a sanction. Thus, Pres. Vizcarra would be able to take the issue to the Constitutional Court, if need be. Curiously, Vizcarra became president when former President Kuczynski was under a similar threat of removal by Congress for "moral incapacity". Kuczynski resigned rather than fight Congress on the issue.

Nearly lost within the political whirlwind on Thursday, Cesar Gentile was sworn in as the new Minister of the Interior. He replaces Jorge Montoya, who resigned the day before in response to criticism of how the police had handled an intervention with respect to a clandestine disco that was operating during the curfew. The intervention resulted in twelve deaths.

—Guillermo Arbe

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