

Latam Economic Update

- **Central banks & macro data:** Hold expected from Mexico's Banxico, -25 bps cut projected from Colombia's BanRep
- **Argentina:** Lockdown measures extended again; waiting for a soy miracle
- **Colombia:** Economic activity contracted by -9.6% y/y in July as industrial production and mining growth slowed

CENTRAL BANKS: HOLD EXPECTED FROM MEXICO'S BANXICO, -25 BPS CUT PROJECTED FROM COLOMBIA'S BANREP

This week sees monetary policy decisions from Mexico's Banxico and Colombia's BanRep that should mark the end of their easing cycles, while meeting minutes and the quarterly inflation report from Brazil's BCB ought to provide additional colour on the Copom's recent hold.

- **Brazil.** [Minutes](#) from the Copom's September 16 meeting, where it voted unanimously to hold the Selic at 2.00%, are due to be published on Tuesday, September 22, and should provide greater insight on the BCB's "small remaining space" for stimulus while inflation is well below target. The Q3 [Inflation Report](#), set to be released on Thursday, September 24, will lay out updated macroeconomic forecasts that are likely to feature a stronger growth outlook.
- **Mexico.** Banxico's Board meets on Thursday, September 24 and our team in CDMX expects a hold in the policy-rate target at 4.50% (chart 1) in the context of rising inflation; the consensus is tilted toward a -25 bps cut.
- **Colombia.** Both our team and consensus have shifted from expectations of a hold to now anticipating a -25 bps cut from 2.00% to 1.75% at the BanRep Board's meeting on Friday, September 25 (chart 2).

In major data that are set for release this week, **bi-monthly price numbers for the first half of September**, due in both Brazil (Wednesday, September 23) and Mexico (Thursday, September 24), are expected to show moderate pick-ups in inflation. The **August monthly GDP proxy** in Mexico (Friday, September 25) should show further, but slower, gains.

Please see our latest [Latam Weekly](#) for more details.

—Brett House

ARGENTINA: LOCKDOWN MEASURES EXTENDED AGAIN; WAITING FOR A SOY MIRACLE

The Fernandez Administration announced on Friday, September 18, that it would extend its relatively strict quarantine measures, first imposed in March, through to October 11. Although the restrictions apply mainly to the

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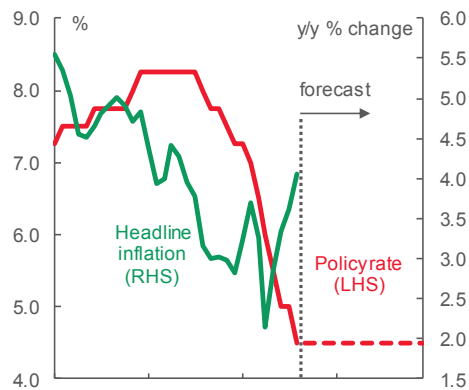
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Chart 1

Mexico: Overnight Rate



Sources: Scotiabank Economics, Banxico, INEGI.

greater Buenos Aires area, the provinces now account for about half of new COVID-19 cases in the country and regional governments will determine local controls. This is expected to dampen, but not halt, the ongoing recovery from April–May.

BCRA Governor Pesce said in an [interview](#) published Saturday that he was pinning hopes for the economy and its FX market on a further rebound in international soy prices that would add support to the country's balance of payments. Gov. Pesce noted that if soy prices continued to rise from USD 380/tonne to USD 400/tonne on Asian markets, pressure on the ARS would be alleviated—at least for the time being. But any reprieve would be temporary given the continued pile-up in monthly fiscal deficits that are being financed by an ongoing expansion of the monetary base, as we highlight in our latest [Latam Weekly](#). Gov. Pesce noted that he expects September inflation to come in below 3% m/m, which would still be an acceleration from recent months.

—Brett House

COLOMBIA: ECONOMIC ACTIVITY CONTRACTED BY -9.6% Y/Y IN JULY AS INDUSTRIAL PRODUCTION AND MINING GROWTH SLOWED

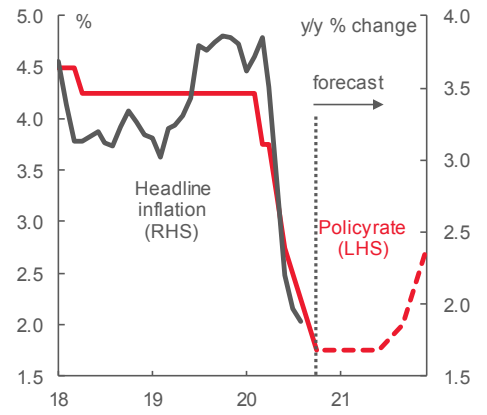
On Friday, September 18, DANE released July's Economic Activity Indicator (i.e., ISE, the main GDP proxy), which showed a slowdown in the recovery. July's contraction of -9.6% y/y was an improvement from June's results (-11% y/y) on the back of an acceleration in services-related growth, but regional restrictions on activity slowed sequential month-on-month progress (chart 3). These controls almost halted the recovery in industrial activities, which showed a monthly gain of only 0.9% m/m (chart 4). The rebound in mining activities also slowed down on lower oil and coal production, which partially offset the agricultural sector's positive results. On the other hand, services-related activity growth accelerated mildly, owing mainly to the commerce sector's progress as a result of the VAT holiday.

All in all, July's economic activity numbers showed that regional quarantines slowed the economic recovery. August is likely to post a similar result with a modest month-on-month increase, while in September, we would expect a better dynamic since the month marked the start of the "new normal" with the opening of around 95% of the economy.

—Sergio Olarte & Jackeline Piraján

Chart 2

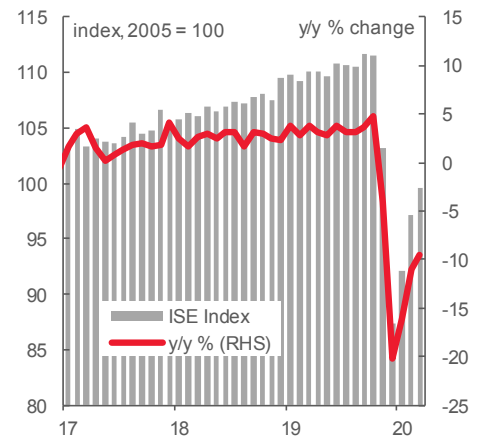
Colombia: BanRep Policy Rate



Sources: Scotiabank Economics, BanRep, DANE.

Chart 3

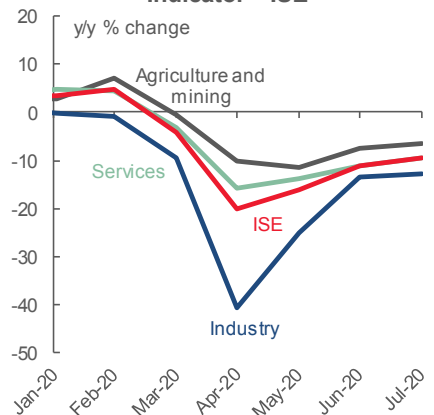
Colombia: ISE SA Index vs ISE y/y %



Sources: Scotiabank Economics, DANE.

Chart 4

Colombia: Economic Activity Indicator - ISE



Sources: Scotiabank Economics, DANE.

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