

Latam Daily: Argentina's Q2 BoP Underscores Economy's Weakness; Higher Inflation Projected in Chile

- **Argentina:** Q2-2020 current account surplus buoyed up by economy's weakness
- **Chile:** Looking ahead—we expect inflation to accelerate in September and October

ARGENTINA: Q2-2020 CURRENT ACCOUNT SURPLUS BUOYED UP BY ECONOMY'S WEAKNESS

Argentina's balance of payments saw another rise in the current account balance in Q2-2020, up from USD 251 mn in Q1 to USD 2.8 bn in Q2, well above the USD -1.9 bn deficit notched up in Q2-2019 and in line with expectations. The Q2 print pushed the current account surplus up to 1% of GDP, thereby capping a persistent rise in the current account balance over two years from a deficit of -5.5% of GDP in Q2-2018 (chart 1). The shift of the current account balance into the black has been driven almost entirely by falling demand for imports of goods and services in the midst of three years of recession.

The current account surplus was offset by a USD -2.5 bn capital account deficit as portfolio outflows amounted to about USD -2.7 bn. Net FDI remained small and flat at around USD 61 mn, or 0.08% of GDP on a 12-month rolling basis (chart 1, again).

If investors had confidence in the country, one would have expected FX reserves to rise on the back of such strong current account surpluses. Instead, FX reserves fell during the quarter by USD 300 mn to just over USD 43 bn at the end of Q2-2020.

—Brett House

CHILE: LOOKING AHEAD—WE EXPECT INFLATION TO ACCELERATE IN SEPTEMBER AND OCTOBER

Looking ahead to the September CPI print due next week on Thursday, October 8, we forecast that inflation will rise from 0.1% m/m (2.4% y/y) in August to 0.3% m/m (2.7% y/y) in September, in line with the consensus in the *Survey of Financial Operators* (0.3% m/m), but higher than the consensus in the *Survey of Economic Expectations* (0.2% m/m). Accelerating price increases in September have likely been driven by three key developments:

- Lockdown measures have been progressively lifted in Gran Santiago and in other cities across the country;
- Pension-fund withdrawals have added about USD 15 bn to consumers' pockets, thereby increasing demand for goods and services; and
- Despite limits on mobility, the national holidays have also increased demand for certain products, especially food.

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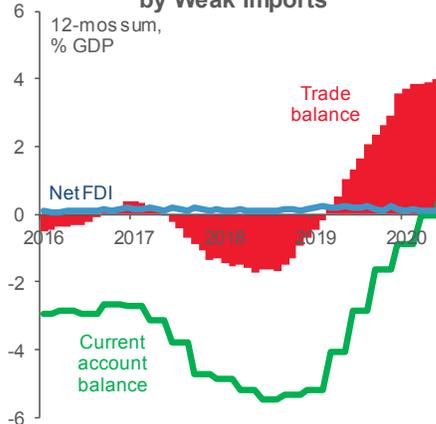
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Chart 1

Argentina: Current Account Boosted by Weak Imports



Sources: Scotiabank Economics, INDEC, BCRA.

The main positive contributions for the month would come from some food products, such as tomatoes, beef and pork (table 1). Additionally, after seven months of declines, September would be the first month to show a positive variation in gasoline prices, which should contribute about 0.04 ppts to monthly inflation. Finally, we should also see an increase in new car prices as September marks the start of the 2021-model sales season.

September should also mark the first month since April in which the INE has collected prices for some goods and services that are heavily weighted in the CPI, such as air transport services and tourist packages, but where data was difficult to compile during the lockdown. This increases uncertainty around September's forecasts. Still, we expect September core CPI inflation to come in at 0.1% m/m (2.0% y/y), with goods registering a null monthly variation (2.4% y/y) and services increasing 0.2% m/m (1.8% y/y).

For October, we preliminarily project an inflation print of around 0.3% m/m or 2.2% y/y. The stamp tax, which was suspended in April, is set to be reinstated in October, which is expected to contribute nearly 0.06 ppts to inflation in the month. This, combined with seasonal increases in food prices and lower-than-usual declines in transportation prices, would support a high inflation print in October. All in all, we maintain our projection of annual inflation of 2.2% y/y in December 2020.

Table 1

Chile: CPI Projections for September 2020

Components	Contribution, ppts
Food and non-alcoholic beverages	0.16
Alcoholic beverages and tobacco	-0.03
Clothing and footwear	0.01
Housing, water, electricity, gas and others	0.02
Household equipment and maintenance	0.00
Health	0.01
Transport	0.09
Communication	-0.01
Recreation and culture	0.00
Education	0.00
Restaurants and hotels	0.02
Miscellaneous goods and services	0.02
CPI	0.29
CPI (rounded)	0.30

Source: Scotiabank Economics.

—Carlos Muñoz

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