

Latam Weekly: Navigating Between Scylla and Charybdis?

FORECAST UPDATES

- Stronger growth and higher inflation prompt forecast revisions.

ECONOMIC OVERVIEW

- A policy rate hike in Brazil this week is a reminder that Latam central banks are charting a “steady as she goes” course to higher rates.
- Headline inflation running above the upper bands of inflation-targeting central banks across the region focuses attention on the issue of whether temporary supply-side price shocks will spill over to expectations.
- While past episodes of above-target inflation have featured an orderly and timely return of inflation to target, central banks must be cognizant of possible risks that could throw them off course.
- Less favourable global financial conditions and the build of leverage in domestic public and private balance sheets are twin risks—the Scylla and Charybdis—through which central banks must pass in pursuit of their price stability at full employment objectives.

PACIFIC ALLIANCE COUNTRY UPDATES

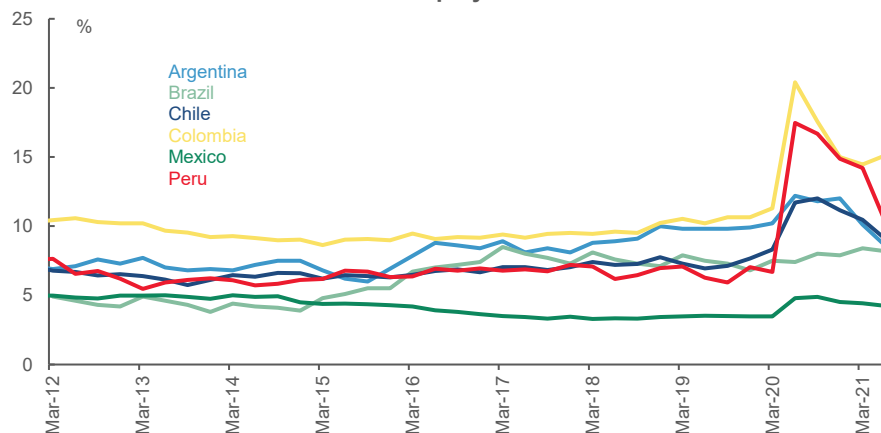
- We assess key insights from the last week, with highlights on the main issues to watch over the coming fortnight in the Pacific Alliance countries: Chile, Colombia, Mexico, and Peru.

MARKET EVENTS & INDICATORS

- A comprehensive risk calendar with selected highlights for the period September 25–October 8 across the Pacific Alliance countries, plus their regional neighbours Argentina and Brazil.

Chart of the Week

Latam: Unemployment Rates



Sources: Scotiabank Economics, Haver Analytics.

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Forecast Updates

| | 2020 | | 2021 | | | 2022 | | | | 2023 | | | | | | | |
|------------------------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|--------|--------|
| | Q4 | Q1 | Q2 | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f | 2020 | 2021f | 2022f | 2023f |
| Argentina | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | -4.3 | 2.9 | 17.9 | 6.6 | 2.8 | 2.3 | 1.1 | 2.1 | 2.2 | 2.6 | 1.4 | 3.1 | 3.1 | -9.9 | 7.3 | 1.9 | 2.5 |
| CPI (y/y %, eop) | 36.1 | 42.6 | 50.2 | 53.6 | 51.8 | 45.8 | 42.6 | 39.5 | 36.5 | 34.5 | 32.5 | 31.6 | 30.6 | 36.1 | 51.8 | 36.5 | 30.6 |
| Unemployment rate (% , avg) | 11.0 | 10.2 | 9.6 | 11.2 | 10.9 | 10.7 | 10.3 | 9.8 | 9.6 | 9.5 | 9.5 | 9.3 | 9.1 | 11.6 | 11.0 | 10.1 | 9.4 |
| Central bank policy rate (% , eop) | 38.00 | 38.00 | 38.00 | 38.00 | 42.00 | 46.00 | 46.00 | 44.00 | 40.00 | 39.00 | 38.00 | 37.00 | 36.00 | 38.00 | 42.00 | 40.00 | 36.00 |
| Foreign exchange (USDARS, eop) | 84.15 | 91.99 | 95.72 | 99.70 | 108.50 | 112.00 | 121.00 | 132.00 | 141.00 | 138.00 | 135.00 | 132.00 | 131.00 | 84.15 | 108.50 | 141.00 | 131.00 |
| Brazil | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | -1.1 | 1.0 | 12.4 | 5.2 | 3.1 | 2.7 | 2.1 | 1.9 | 2.6 | 3.1 | 2.2 | 2.3 | 2.5 | -4.1 | 5.4 | 2.3 | 2.5 |
| CPI (y/y %, eop) | 4.5 | 6.1 | 8.3 | 9.7 | 8.7 | 6.9 | 5.2 | 4.1 | 3.6 | 3.1 | 3.3 | 3.6 | 3.5 | 4.5 | 8.7 | 3.6 | 3.5 |
| Unemployment rate (% , avg) | 13.9 | 14.7 | 14.1 | 14.0 | 13.1 | 13.5 | 12.4 | 11.9 | 11.8 | 11.2 | 10.7 | 10.3 | 9.9 | 13.9 | 14.1 | 12.1 | 10.5 |
| Central bank policy rate (% , eop) | 2.00 | 2.75 | 4.25 | 6.25 | 7.00 | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | 7.25 | 7.00 | 2.00 | 7.00 | 7.50 | 7.00 |
| Foreign exchange (USDBRL, eop) | 5.19 | 5.63 | 4.97 | 5.11 | 4.96 | 4.85 | 4.81 | 4.85 | 4.92 | 4.85 | 4.77 | 4.70 | 4.63 | 5.19 | 4.96 | 4.92 | 4.63 |
| Chile | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | 0.0 | 0.5 | 18.1 | 15.9 | 9.6 | 8.5 | 7.5 | 2.5 | 2.1 | 2.1 | 1.8 | 2.2 | 2.8 | -5.8 | 10.7 | 5.0 | 2.2 |
| CPI (y/y %, eop) | 3.0 | 2.9 | 3.8 | 4.7 | 5.0 | 4.6 | 4.6 | 3.6 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 5.0 | 3.0 | 3.0 |
| Unemployment rate (% , avg) | 10.3 | 10.4 | 9.5 | 8.0 | 6.7 | 6.6 | 6.6 | 6.5 | 6.0 | 6.4 | 6.4 | 6.4 | 6.0 | 10.9 | 8.6 | 6.4 | 6.3 |
| Central bank policy rate (% , eop) | 0.50 | 0.50 | 0.50 | 1.50 | 2.50 | 3.50 | 4.00 | 4.00 | 4.00 | 4.00 | 3.75 | 3.75 | 3.50 | 0.50 | 2.50 | 4.00 | 3.50 |
| Foreign exchange (USDCLP, eop) | 711 | 719 | 734 | 750 | 720 | 720 | 720 | 710 | 700 | 680 | 680 | 680 | 680 | 711 | 720 | 700 | 680 |
| Colombia | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | -3.6 | 1.1 | 17.6 | 9.0 | 5.0 | 4.7 | 6.3 | 3.8 | 2.8 | 3.8 | 3.7 | 3.6 | 3.6 | -6.8 | 8.2 | 4.4 | 3.7 |
| CPI (y/y %, eop) | 1.6 | 1.5 | 3.6 | 4.4 | 4.8 | 4.5 | 3.7 | 3.2 | 3.3 | 3.1 | 3.1 | 3.1 | 3.0 | 1.6 | 4.8 | 3.3 | 3.0 |
| Unemployment rate (% , avg) | 13.8 | 15.8 | 15.0 | 14.6 | 13.5 | 13.1 | 13.5 | 14.0 | 12.7 | 12.0 | 12.0 | 12.0 | 12.0 | 16.1 | 14.6 | 13.3 | 12.0 |
| Central bank policy rate (% , eop) | 1.75 | 1.75 | 1.75 | 2.00 | 2.50 | 3.00 | 3.50 | 4.00 | 4.50 | 4.50 | 4.50 | 4.75 | 4.75 | 1.75 | 2.50 | 4.50 | 4.75 |
| Foreign exchange (USDCOP, eop) | 3,428 | 3,663 | 3,755 | 3,730 | 3,525 | 3,468 | 3,455 | 3,443 | 3,450 | 3,430 | 3,420 | 3,410 | 3,400 | 3,428 | 3,525 | 3,450 | 3,400 |
| Mexico | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | -4.5 | -3.6 | 19.6 | 5.2 | 3.5 | 3.7 | 3.4 | 2.4 | 2.1 | 1.8 | 1.3 | 1.9 | 1.4 | -8.3 | 6.2 | 2.9 | 1.5 |
| CPI (y/y %, eop) | 3.2 | 4.7 | 5.9 | 5.8 | 6.0 | 5.5 | 3.8 | 3.3 | 3.5 | 3.4 | 3.2 | 3.6 | 3.5 | 3.2 | 6.0 | 3.5 | 3.5 |
| Unemployment rate (% , avg) | 4.3 | 4.3 | 4.2 | 4.1 | 3.9 | 3.9 | 3.8 | 4.4 | 4.2 | 4.3 | 4.0 | 4.1 | 4.1 | 4.4 | 4.0 | 4.1 | 4.1 |
| Central bank policy rate (% , eop) | 4.25 | 4.00 | 4.25 | 4.75 | 5.25 | 5.50 | 5.75 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 4.25 | 5.25 | 6.00 | 6.00 |
| Foreign exchange (USDMXN, eop) | 19.91 | 20.43 | 19.94 | 20.21 | 20.54 | 20.76 | 21.03 | 21.27 | 21.45 | 21.38 | 21.51 | 21.62 | 21.78 | 19.91 | 20.54 | 21.45 | 21.78 |
| Peru | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | -1.4 | 4.5 | 41.9 | 8.6 | 2.0 | 1.7 | 0.5 | 4.9 | 3.1 | 2.5 | 4.3 | 1.5 | 3.2 | -11.0 | 12.3 | 2.6 | 2.8 |
| CPI (y/y %, eop) | 2.0 | 2.6 | 3.3 | 5.2 | 6.5 | 6.7 | 6.5 | 5.4 | 4.5 | 4.1 | 3.9 | 3.4 | 3.0 | 2.0 | 6.5 | 4.5 | 3.0 |
| Unemployment rate (% , avg) | 13.8 | 15.3 | 10.3 | 9.2 | 9.0 | 8.8 | 8.8 | 8.7 | 8.7 | 8.8 | 8.8 | 8.8 | 8.8 | 13.6 | 9.0 | 8.7 | 8.8 |
| Central bank policy rate (% , eop) | 0.25 | 0.25 | 0.25 | 1.00 | 1.25 | 1.75 | 2.00 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 0.25 | 1.25 | 2.50 | 2.50 |
| Foreign exchange (USDPEN, eop) | 3.62 | 3.74 | 3.87 | 4.10 | 4.15 | 4.15 | 4.20 | 4.20 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 3.62 | 4.15 | 4.25 | 4.25 |
| United States | | | | | | | | | | | | | | | | | |
| Real GDP (y/y % change) | -2.3 | 0.5 | 12.2 | 6.1 | 6.7 | 6.3 | 5.5 | 4.2 | 2.8 | 2.2 | 1.8 | 1.8 | 1.8 | -3.4 | 6.3 | 4.7 | 1.9 |
| CPI (y/y %, eop) | 1.3 | 2.6 | 5.3 | 5.3 | 4.8 | 4.4 | 3.8 | 3.0 | 3.0 | 2.9 | 2.7 | 2.6 | 2.6 | 1.2 | 4.8 | 3.0 | 2.6 |
| Unemployment rate (% , avg) | 6.8 | 6.2 | 5.9 | 5.2 | 4.6 | 4.0 | 3.5 | 3.1 | 2.9 | 2.8 | 2.8 | 2.9 | 2.9 | 8.1 | 5.5 | 3.4 | 2.9 |
| Central bank policy rate (% , eop) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.75 | 1.00 | 1.25 | 0.25 | 0.25 | 0.25 | 1.25 |
| Foreign exchange (EURUSD, eop) | 1.22 | 1.17 | 1.19 | 1.18 | 1.18 | 1.17 | 1.17 | 1.15 | 1.15 | 1.15 | 1.15 | 1.18 | 1.18 | 1.22 | 1.18 | 1.15 | 1.18 |

Source: Scotiabank Economics.

 Red indicates changes in estimates and forecasts since previous *Latam Weekly* on September 10, 2021.

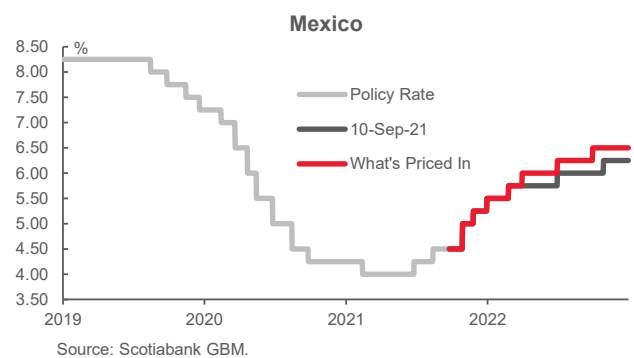
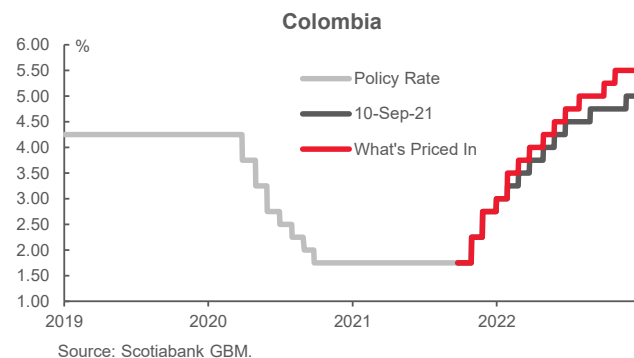
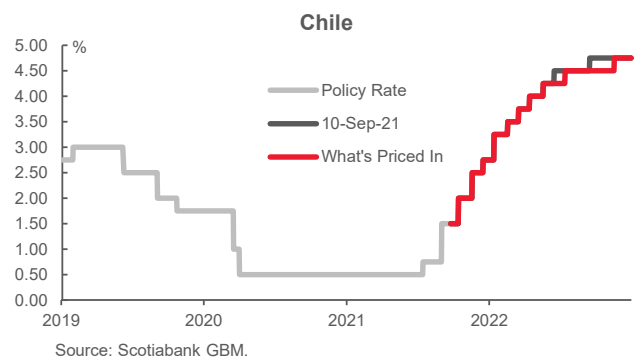
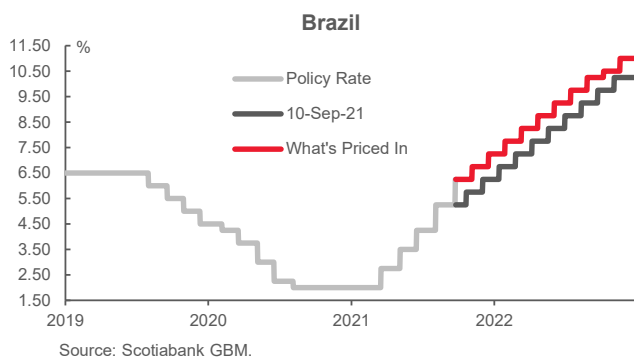
Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

| | Next Scheduled Meeting | | | Market Pricing | | BNS Forecast | | BNS guidance for next monetary policy meeting | |
|-----------------------------------|------------------------|--------|--------|----------------|--------|--------------|----------|---|--|
| | Current | Date | Market | BNS | 12 mos | 24 mos | End-2021 | | End-2022 |
| Argentina, BCRA, TPM, n.a. | 38.00% | n.a. | n.a. | 38.00% | n.a. | n.a. | 42.00% | 40.00% | After cutting the benchmark Leliq rate by -200 bps in October 2020, the BCRA reversed these moves on Nov. 12, 2020 as negotiations resumed with the IMF mission. Talks with the Fund aren't likely to conclude until after the October 2021 elections. At this point, our rate call is speculative and wholly contingent on whether the authorities want to begin gradually hiking to take real rates back into positive territory or move in a sharper fashion in late-2021. |
| Brazil, BCB, Selic | 6.25% | Oct-27 | 6.15% | 6.25% | 10.61% | 11.03% | 7.00% | 7.50% | The BCB delivered 100 bps of additional tightening on September 23, raising the Selic rate to 6.25%. The central bank's baseline scenario has rates rising to 8.25% by year-end, hitting a ceiling of 8.50% in 2022, and falling to 6.25% by 2023. BCB's focus survey revealed expected inflation of 8.3% for 2021, 4.1% for 2022, and 3.25% for 2023, indicating a large upfront spike and gradual return to target over the policy horizon. Mounting risks of a slowdown in Asia (China) and monetary tightening elsewhere in the Latam region, which reduces BCB's tightening relative to other regional central banks, were cited in the decision. |
| Chile, BCCh, TPM | 1.50% | Oct-13 | 1.50% | 2.00% | 4.57% | 4.52% | 2.50% | 4.00% | The Board of the Central Bank surprised the market increasing the policy rate by 75 basis points up to 1.5%. The measure is justified by activity data above what was expected in the BCCh's baseline scenario for the second quarter, as well as the extension of new fiscal aid recently delivered by the government that will remain until the end of this year, which implies a fiscal boost greater than that previously considered. The scenario described by the BCCh considers a Monetary Policy Rate that will increase rapidly to its neutral level towards the first quarter of 2022 (3.5%), being able to be above said level towards the second quarter of next year. |
| Colombia, BanRep, TII | 1.75% | Sep-30 | 1.74% | 2.00% | 5.26% | 5.79% | 2.50% | 4.50% | Analyst consensus points to a 25 bps hike for the next meeting, despite speculation of a potential 50 bps hike increase due to inflation results. We perceive the recent inflation spike as temporary, and we affirm our expectation of a gradual hiking cycle of 25 bps each meeting. The inflation would remain above 4% (or even closer to 5%) until April 2022; after that, we expect inflation to decrease and get closer to the 3% target. |
| Mexico, Banxico, TO | 4.50% | Sep-30 | 4.75% | 4.75% | 6.41% | 7.09% | 5.25% | 6.00% | Banxico's Board is currently split down the middle, with Deputy Heath currently playing the swing vote: however, it is broadly expected there will be another hike in the reference rate by 25 bps, to 4.75% on September 30's policy meeting, making this the third consecutive hike. As our forecast suggests, inflation is set to remain out of range for the rest of 2021 and will end the year at 6.0%, double the central bank's target rate of 3.0%. This will likely push Banxico to further increases by 25 bps in each of the remaining policy meetings and close the year at 5.25%. We expect that the hiking cycle will end at 6.0%, just in neutral settings, by the second half of 2022. |
| Peru, BCRP, TIR | 1.00% | Oct-07 | n.a. | 1.25% | n.a. | n.a. | 1.25% | 2.50% | At its meeting on September 9, the BCRP raised its key interest rate by 50 bps to 1.00%. We expect the reference rate to end 2021 at 1.25%, and 2022 at 2.50%, but, with inflation running at 5% and rising, the risk is clearly to the upside. However, uncertainty persists over the designations for the new BCRP Board of Directors, and we shall wait to see the profile of the new board before revising our view. |

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

What's Priced In



Economic Overview: Navigating Between Scylla and Charybdis?

- Latam central banks have embarked on a tightening cycle designed to prevent temporary price shocks from becoming embedded in inflation expectations.
- Previous episodes of above-target inflation in the region suggest that these shocks do not pose insurmountable obstacles to central banks with credible inflation-targeting frameworks.
- But challenges remain. The risk of unfavourable external financial conditions, as investor risk appetite fads or global rates rise, and the possible build-up of leverage in domestic public and private balance sheets pose twin risks.
- Like Homer's hero, Odysseus, who had to sail between the twin perils of Scylla and Charybdis, Latam central banks may be required to navigate treacherous waters in the months ahead.

HIGHER INFLATION AND THE TWIN RISKS TO PRICE STABILITY

Latam central banks are charting a **"steady as she goes"** course to higher rates as they unwind the extraordinarily accommodative monetary conditions introduced to fight the economic and financial side effects of the pandemic. Inflation is tracking higher across the region and central bankers are cognizant of the need to anchor expectations. Yet, while the direction of policy rate changes over the near term is clear, the pace at which central banks are likely to raise interest rates and the challenges they may confront in their quest for long-term price stability are less apparent. Like Homer's hero, Odysseus, who had to sail between the twin perils of Scylla and Charybdis, Latam central banks may be required to navigate treacherous waters in the months ahead.

Across the Latam region economic recovery output is returning to pre-pandemic levels (charts 1–6). In Chile and Colombia, output has closed the gap.

Less progress has been made in terms of labour market recovery. Despite sharp drops in a few countries, and more gradual declines in others, unemployment rates remain above March 2020 levels in most countries of the region (chart 7). The divergence in employment and output responses leads Scotiabank's team in Bogota to examine the Okun relationship between the two (see the discussion below). Such considerations could militate for patience and slower pace in central banks' monetary tightening cycles.

The need for tighter monetary conditions stems from inflation rates that have spiked higher, with headline inflation now above the upper bound of inflation-targeting central banks in the Pacific Alliance countries, significantly so in the case of Mexico and Peru (charts 8–11). Individual country experience varies, however, and the potential threat to expectational anchors differs across the region. In Colombia, for example, core inflation remains at the mid-point of BanRep's target, while both headline and core inflation in Mexico have been running consistently above Banxico's upper band. Our team in Mexico City highlight below how domestic price developments in Mexico are influenced by the nuanced evolution of the economy. In Chile, meanwhile,

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Chart 1

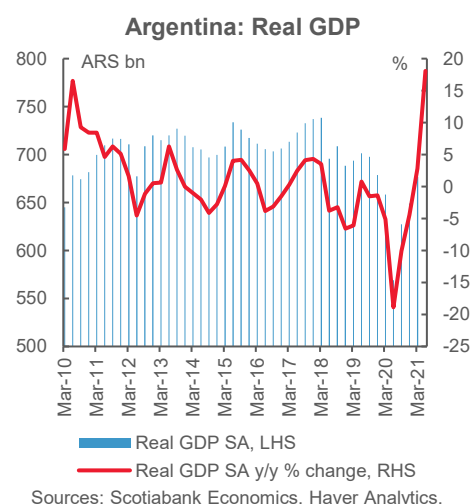


Chart 2

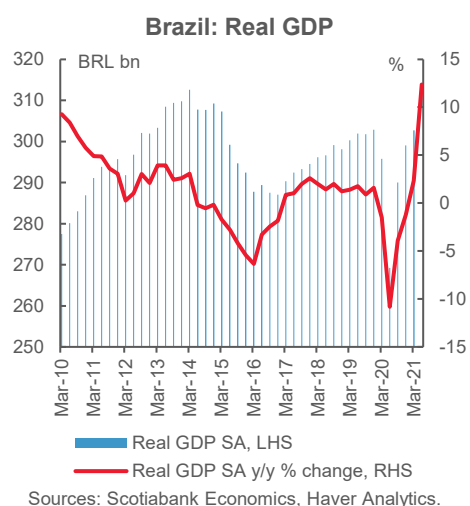


Chart 3

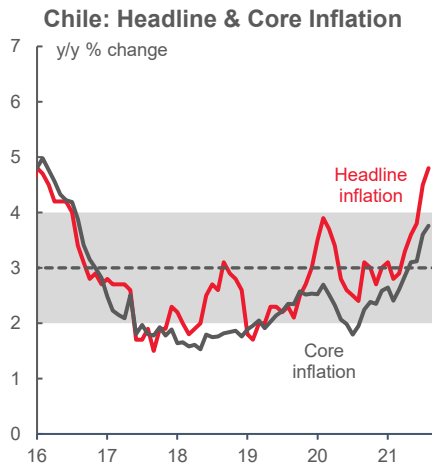


Chart 4

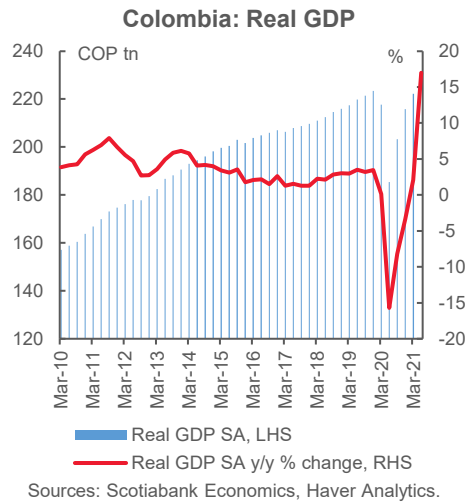


Chart 5



headline inflation is well above the BCCh’s upper bound, while core remains within the target range, though it is trending higher. Similarly, core inflation in Peru remains comfortably within the BCRP’s target bands as headline inflation has spiked.

Since core inflation is viewed as a more reliable indicator of underlying price pressures, it may provide a better guide to the risk that inflation expectations are becoming unmoored. Recent increases in core inflation across the region could thus be cause for concern. But such concerns should be weighed against previous experience.

Pacific Alliance countries have experienced temporary bouts of above-target inflation in the past. In Chile, Colombia and Peru, large currency depreciations, fueled by steep declines in global commodity prices and fears of slower growth in China, led to one such episode in 2016. Mexico experienced similar price pressures in 2017, led by higher food and energy costs exacerbated by a weaker peso and an end to government controls on gasoline and other fuels. In all cases, clear central bank communications, which supported credible inflation-target frameworks, and the calibrated tightening of monetary conditions, gradually restored inflation rates to their respective targets.

These episodes suggest that current inflation developments are not necessarily a harbinger of sustained higher inflation. However, they do underscore the importance of central banks acting in a manner consistent with their long-term price stability commitments; waiting too long or moving at too slow a pace in the face of evidence that the anchor on inflation expectations is shifting could raise the eventual costs of bringing inflation back to target. And because inflation expectations evolve over time in response to new information, possibly through a process analogous to Bayesian updating, the longer and higher that headline inflation runs above the target level without eliciting a response, the greater the risk to expectations. This effect may account for the aggressive tightening by Brazil’s BCB over the past several months, including [yesterday’s](#) 100 bp increase in the Selic rate to 6.25%.

At the same time, it would be imprudent to blithely assume that there are no hidden shoals in the “steady as goes” course to higher rates. Several risks lie in the path to long-term price stability.

Chart 6

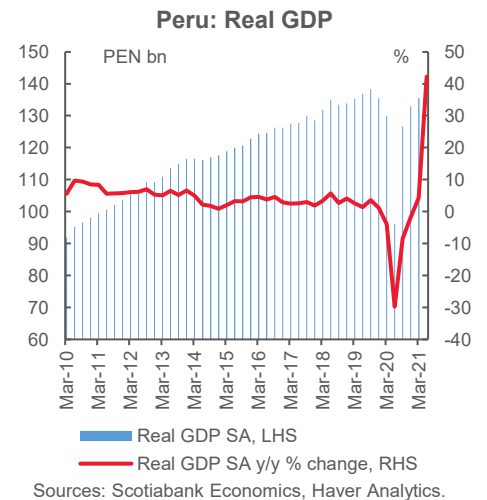


Chart 7

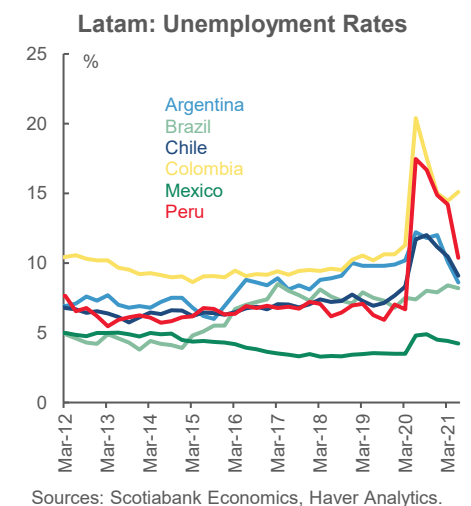


Chart 8

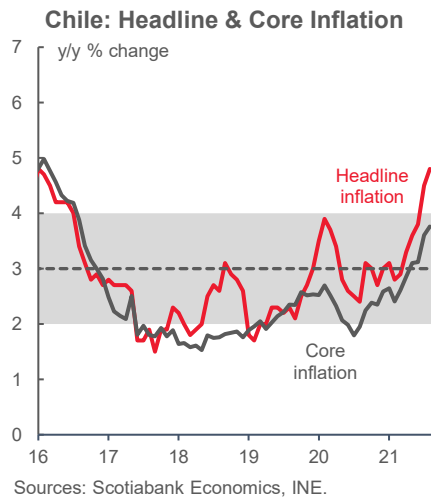


Chart 9

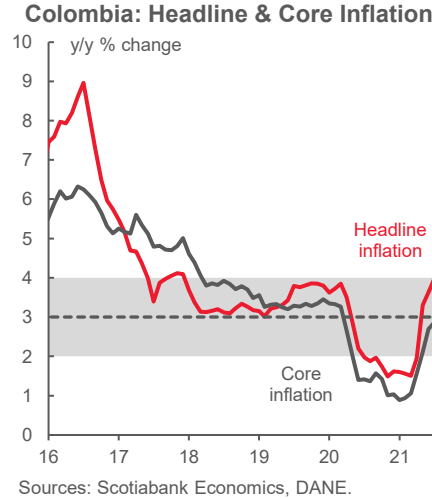
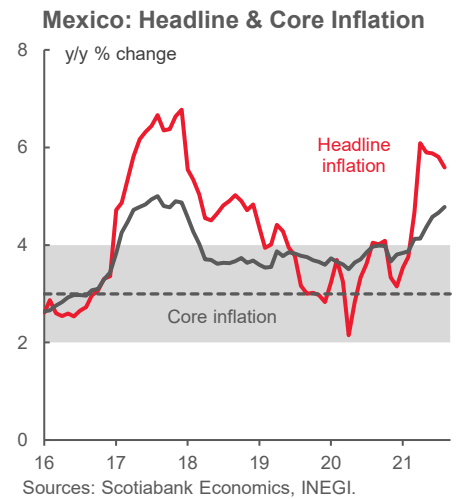


Chart 10



This week’s meeting of the Federal Reserve Board—which signaled the possible start of a tapering of the Fed’s bond purchases and re-focused attention on the timing of US interest rate hikes—and market tremors over financial developments in China are timely reminders that the benign external financial conditions that have prevailed could become less favourable. Unexpected increases in US interest rates or a shift in global risk appetite could trigger capital outflows. That was certainly the case with respect to the financial disruption that accompanied the onset of the global pandemic (table 1).

Table 1
Table 1: Latam Portfolio Flows (USD bn)

| | 2020 | | | | | 2021 | |
|--------|-------|-------|------|------|------|------|------|
| | Q1 | March | Q2 | Q3 | Q4 | Q1 | Q2 |
| Debt | 7.7 | -13.9 | 8.9 | 22.7 | 38.8 | 27.3 | 12.9 |
| Equity | -21.8 | -15.0 | 7.5 | -1.2 | 26.5 | 7.9 | 14.7 |
| Total | -14.1 | -29.0 | 16.4 | 21.5 | 65.3 | 35.2 | 27.7 |

Sources: Scotiabank Economics, IIF.

Latam markets experienced a sudden withdrawal of capital in March 2020 as investors sought safe havens in the face of unprecedented uncertainty. Although those outflows were quickly reversed as markets calmed and investors reassessed risks, the episode highlights the

potential dangers that could lie ahead. Steep currency depreciations triggered by large outflows raise the specter of pass through effects on inflation as higher import prices on foodstuffs and key inputs feeds through into other prices. Such effects have declined over the past two decades or so as inflation-targeting regimes have gained credibility, but the 2016–17 experience shows that it remains an important consideration with respect to inflation expectations and monetary policy decisions. As the discussion by Scotiabank’s experts in Lima below highlights, such considerations may be especially relevant with respect to Peru.

The underlying state of public and private balance sheets is another consideration that central bankers will have to monitor in the weeks and months ahead. In particular, high public debt burdens reflecting extraordinary fiscal responses to the pandemic could rekindle old fears of fiscal dominance—the notion that central banks’ price stability commitments become hostage to the need to finance governments. There is no indication that is a relevant consideration across the region, except in the outlier case of Argentina; indeed, Pacific Alliance governments have introduced reforms to strengthen public finances (as in the case of Colombia) or laid out

Chart 11

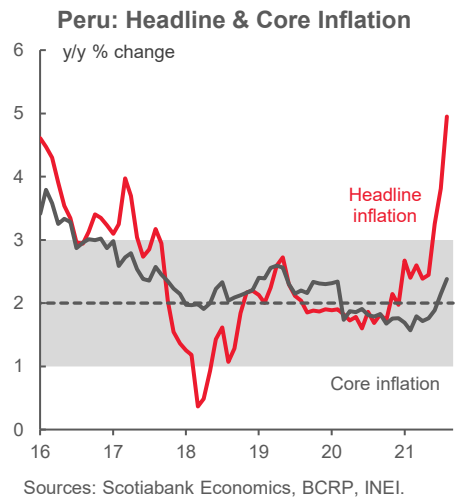
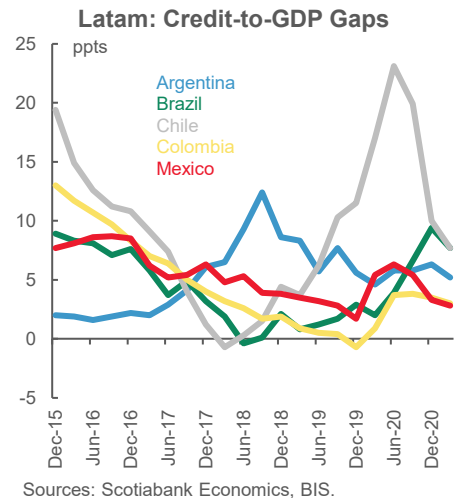


Chart 12



plans to bring deficits down and ensure [fiscal sustainability](#). Nevertheless, unexpected fiscal shocks overlaid on elevated public debt burdens could cause foreign and domestic investors to reassess possible risks.

Private non-financial sector balance sheets are also a potential concern. The low interest environment that followed the global financial crisis animated a build-up of leverage in private sector balance sheets globally. One way to assess this build-up is to look at credit-to-output gaps that measure the extent to which increases in credit outpace the underlying growth in GDP. While there is no reason to believe that credit and output should grow in lock step year-in, year-out, persistent increases in credit that outpace GDP (on which debt servicing capacity rests) could be an early warning indicator of possible problems. In this respect, there is some evidence of such gaps across the Latam region over the past decade, though such effects have moderated more recently (chart 12).

For non-financial firms and households, this increase in leverage entails greater risks. This is because the higher the degree of leverage, the greater the likelihood that a subsequent deleveraging in response to an interest rate or output shock becomes highly disruptive. In effect, leverage serves as an amplifier of adverse shocks. [Work](#) done by the IMF staff suggests that higher leverage tends to be associated with more subdued economic activity over the subsequent 12 quarters in both advanced and emerging economies. For central banks navigating their way to price stability at full employment, the presence of such effects could represent an additional challenge. Here, again, there is no clear and present danger associated with leveraged private sector balance sheets. But the potential for disruptive deleveraging, should it become necessary, could represent a possible constraint on the pace of monetary tightening.

Possible external challenges emanating from shifts in investor risk appetite or disruption in Chinese financial markets that spills over to global markets and the leveraging of domestic public and private balance sheets constitute twin risks—the Scylla and Charybdis—central banks may confront. Banks with robust inflation-targeting frameworks, and that are widely viewed as credible, supported by governments with clear fiscal anchors, are better equipped to find their way through the narrows.

Pacific Alliance Country Updates

Chile—Government Presents 2022 Budget Bill Amid Low Number of COVID-19 Cases

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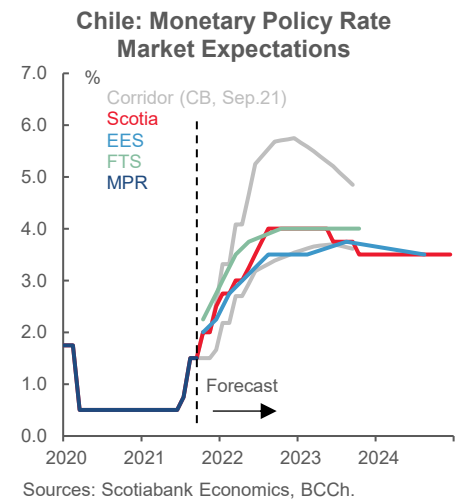
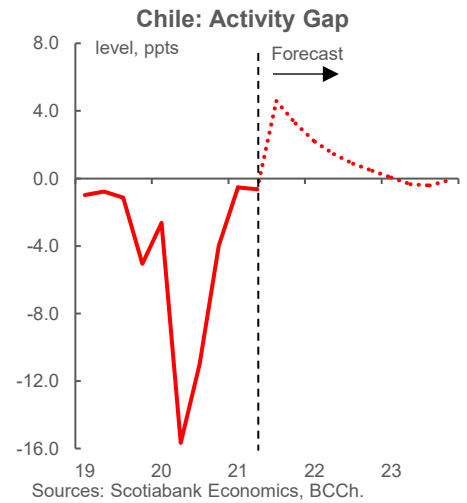
The number of confirmed daily cases of COVID-19 has slightly increased in recent days, although it remains at its lowest level since April 2020. Similarly, the positivity rate is at the lowest level since the beginning of the pandemic, at around 1%, and COVID-19-related deaths continue to decrease. Vaccination has reached 88% of the target population, while the occupancy of ICU beds continues to decrease in all age groups. Thanks to these developments, mobility has increased, reaching—or surpassing for some activities—pre-pandemic levels. As of September 22, no commune is in lockdown, while more than 98% of the population has reached the highest degree of mobility in the “Paso a Paso” Plan.

In preparation for the budget bill, the Ministry of Finance (MoF) released the results of its consultancy of economists on long-term GDP and copper price forecasts on Monday, September 13. According to the MoF, estimated long-term GDP growth increased from 1.6% to 2.6% for 2022, while the estimated long-term copper price increased from USD 2.88 per pound to USD 3.31 per pound for the next 10 years. Both measures are key variables underlying the fiscal budget.

On Wednesday, September 15, the central bank (BCCh) released the Minutes of its last Monetary Policy Meeting in which the Board decided to increase the Monetary Policy Rate 75 basis points (bps). According to the Minutes, a critical argument behind the decision was that the current degree of monetary stimulus was not commensurate with an economy that grew at double-digit rates and that had already closed the activity gap (first chart). Given this argument, the BCCh will probably consider rate hikes of between 50–75 bps in October and December. In this regard, the BCCh’s baseline scenario reveals a Monetary Policy Rate (MPR) that will increase rapidly to its neutral level towards the first quarter of 2022 (3.5%), rising above this level towards the second quarter of next year (second chart).

Our high-frequency indicators show a high level of purchases with credit and debit cards up to the second week of September, evidence that the liquidity coming from fiscal aid and withdrawals of pension funds is fueling consumption. Restaurants, tourism and travel services continue to benefit from high liquidity, showing further increases due to greater mobility and reopening of the economy.

In the fortnight ahead, on September 30, the INE will release the unemployment rate for the moving quarter that ended in August, as well as the indicators by economic sectors for August. On October 1, the BCCh will publish the monthly GDP growth for August. Also, it is expected that the government will present its 2022 Fiscal Budget to Congress, no later than September 30. Finally, on October 8, the INE will publish the CPI index for September.



Colombia—Between Positive Surprises and Challenges Ahead

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A year and a half has passed since the COVID-19 outbreak shook Colombia. Quarantines introduced to control the virus hit the economy hard. And, at the beginning of the pandemic, the possibility of returning to pre-pandemic production levels seemed far off. However, despite the strong impact of the COVID-19 shock, the economy showed resilience and some traditional activities strengthened during the pandemic. Meanwhile, new activities led growth. In this respect, news about the economic recovery consistently surprised us and market consensus since the economy keeps improving, despite the third COVID-19 wave and in a context of significant social discontent.

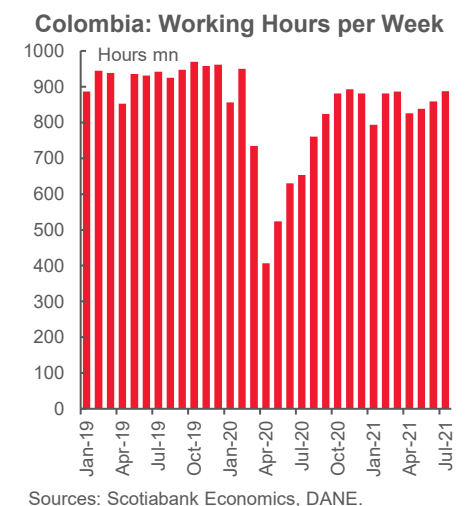
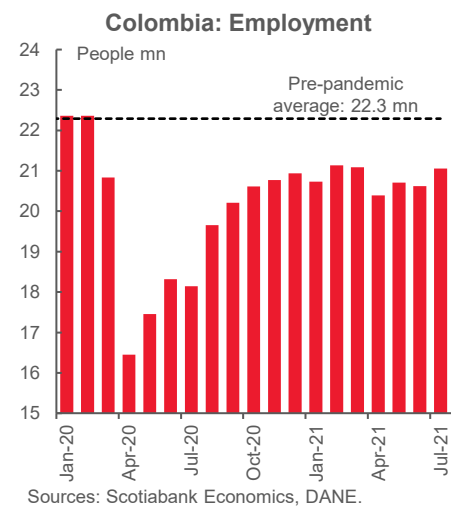
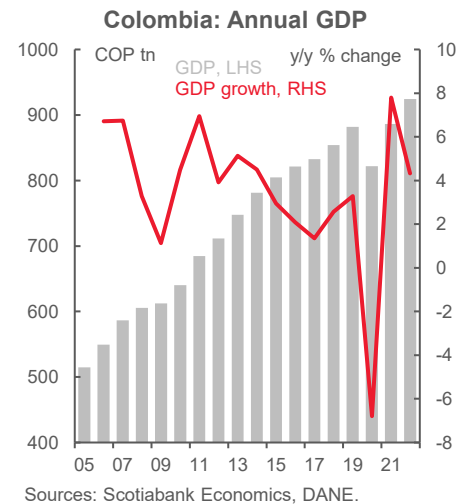
According to the most recent DANE release, economic activity in July reached pre-pandemic levels (first chart). It is noteworthy that the services-related sector had the strongest performance, even with some activities still operating under capacity. The strong pace of economic activity leads us to revise up our GDP forecast. We now expect an expansion of 8.2% in 2021 and 4.4% in 2022.

However, Okun’s Law doesn’t seem to be working very well; in fact, despite the strong recovery in the economy, employment remains 5.5% below pre-pandemic levels (second chart). How employment is measured may explain the gap between the recoveries in output and employment. If we measure employment by the average of hours worked per week, the lag versus pre-pandemic is lower than the gap if we measure the employment in terms of persons (third chart). Either way, employment policies remain a key item on the political agenda as the youth population demanded in the previous strike for increasing job opportunities.

On the external sector side, there are two effects at work: widening trade deficits, which are to be expected in an economic recovery; and higher international prices on raw material imports. Accordingly, as we revised our GDP growth forecast, we also revised the current account deficit forecast for 2021 from 4.0% to 5.2% of GDP. On the financing side, Colombia will remain dependent on government debt issues, with FDI contributing more in the second half of the year.

In the short-term, inflation will likely track close to 5%, although we think that the current price shock is temporary. However, as we explained in the previous [Latam Weekly](#), prices dynamics are sufficiently concerning to motivate a hawkish bias in the central bank’s hiking cycle. That said, we expect a 25 bp rate hike in each possible meeting in 2021 and 2022, as reflected in our revised forecast of the monetary policy rate for Dec-2022 of 4.50%, up from 4.0%. At that point, we expect the Colombian economy to consolidate better growth numbers with inflation hovering around the 3%.

Challenges remain, however. Although the economy is recovering faster than expected, the coming months may see increased uncertainty from the electoral cycle. Presidential campaigns will soon begin their most intense phase ahead of the May 29, 2022 vote. Before that, legislative elections take place on March 13, 2022. And while the traditional parties have not yet revealed their potential strategies, we expect alliances to become clearer. For now, recent surveys suggest that voters are undecided, the menu of presidential candidates is crowded, and the key months are still to come.



Mexico—Mexican Regional and Sectoral Dynamics, and Monetary Policy

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There are arguments for caution on rate hikes, but we think the balance of risks favours being prudent on controlling inflation—recent data continue to support the unwinding of monetary stimulus through further interest rate increases.

Banxico’s Board is currently split down the middle. On one end, Governor Diaz de Leon and Deputy Espinoza are entrenched in the hawkish camp that is delivering rate hikes to keep inflation in check. On the opposite end, Deputies Esquivel and Borja are in the dovish camp, arguing that the inflationary shock the country is facing is supply-side driven, and not of the kind that monetary policy can efficiently deal with. Hovering somewhere in between we have Deputy Heath, currently playing the role of swing voter. Which camp is correct?

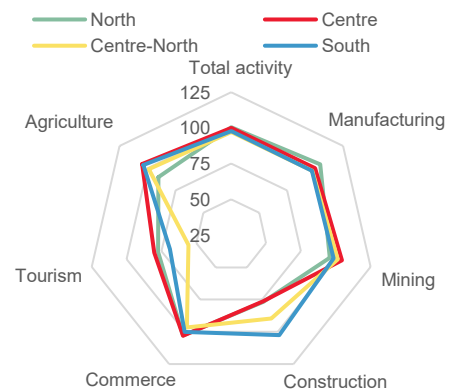
We have argued in the past that raising the policy rate to 6.0% by the end of 2022, as both markets and economists anticipate, would only move monetary conditions to neutral. In fact, Banxico’s [own estimate](#) of neutral real rates and consensus [estimates](#) of long-run inflation suggest 6% is a neutral setting. At the same time, Banxico’s latest Quarterly Inflation Report suggests that by the end of 2022 the output gap will be within 50 bps of being closed in its central-scenario (page 101 [here](#)), and inflation will be 20 bps above the midpoint of its target—essentially, that the economy will be operating at levels that justify “neutral settings”.

In this context, there are two considerations that, in our view, support erring on the hawkish side. The first consideration is “plain vanilla”—the traditional monetary policy transmission lag of 12-18 months, which means that with the economy operating in its sweet spot by the end of 2022, neutral monetary policy would arrive a year too late. We acknowledge, however, that this argument is weakened in a world in which most developed markets are likely to keep conditions lax, giving the emerging economies somewhat of a pass on this front, through relative monetary conditions that removes potential inflationary pressures coming from currency depreciation.

The second consideration, which in our view may be more important, comes from the nuanced evolution of the domestic economy. It is true that not all sectors in an economy return to potential or full capacity at the same pace, leading to possible supply shortages of key inputs. But price pressures in a complex and integrated supply chain—or within a more economically complex region—can generate more distortions and confusion with respect to overall output and prices than a marginal sector or region. It is worth noting, therefore, that strategic sectors such as manufacturing and more economically complex regions of the country—such as the North and the Bajío—are much further along in their recovery process than sectors with less complex supply chains and regions, such as tourism and the South (first and second charts). This observation weakens the dovish camp argument that supply-side shocks are driving the increase in inflation. Moreover, outside the South of the country, formal employment in most sectors is now above pre-pandemic levels. With this in mind, we think price pressures are not only the result of input shortages and commodity price reflation but are also fueled by underlying growth.

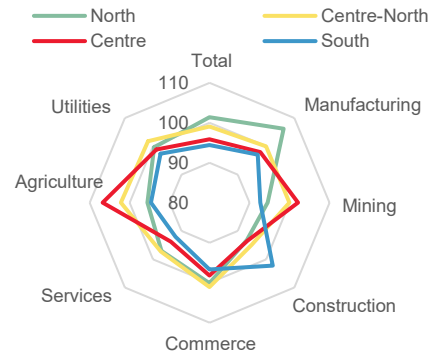
In this context, we think it highly relevant that in a survey published last week by Banxico in its [Report](#) on Regional Economies a majority of company

Mexico: Regional Economic Activity
 (21Q2 as % of activity in 20Q1)



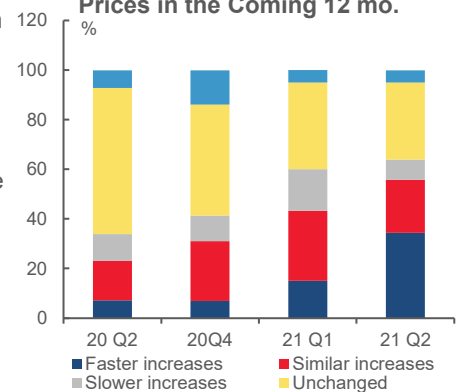
Sources: Scotiabank Economics, Banxico.

Mexico: Number of Social Security Institute Affiliated Formal Jobs
 (21Q2 as % of their level Feb-2020)



Sources: Scotiabank Economics, Banxico.

Mexico: Manufacturing Corporate Leaders’ Expectations for their Prices in the Coming 12 mo.



Sources: Scotiabank Economics, Banxico.

executives in both the manufacturing (third chart) and non-manufacturing (fourth chart) sector expected to increase their prices over the next 12 months at the current or faster pace (55.7% and 60.1%, respectively). In our view, this reflects contamination of prices, as well as an increase in pricing power for firms that have been dealing with a contracting economy for the past two years. In industries with tight supply chains, in which firms have faced two years of flat or negative growth, demand is picking up fast, and firms are experiencing faster producer price increases (PPI inflation in Mexico started rapidly accelerating in the summer of 2020); it is not a surprise that companies plan to increase prices.

Peru—Two Months into the Castillo Regime: Cohesion on Economic Management, but Elsewhere Confusion Abounds

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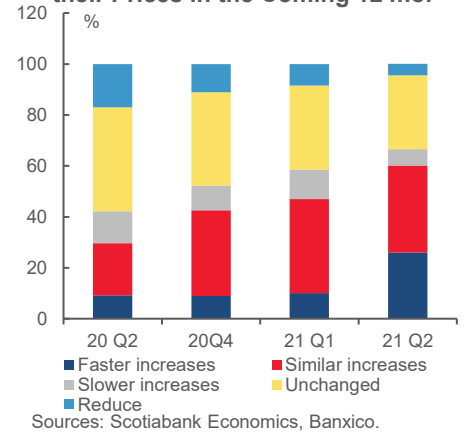
It's been nearly two months now since the new Castillo regime came to power in late July. Over this time, we've been able to sketch a better picture of the government. And yet, it's still only a sketch. The government has provided more clarity and cohesion on its economic agenda. The budget proposal for 2022, the guidelines established in the Multi-year Macroeconomic Framework (Marco Macroeconómico Multianual), the signals given by Finance Minister Pedro Francke, and even the recent interventions by President Castillo in his visit this week to the U.N. and World Bank, are all within the bounds of reasonable policy, and proper fiscal deficit and debt management. The leftist bent of government policy resides mainly in two issues that are not really that radical in the context of Peruvian politics: a greater emphasis on social programs, and the likelihood of an increase in taxation, at least for mining. If anything, during his trip abroad, Castillo has added a new pro-business element to the administration's economic posturing, seeking to attract foreign private investment to Peru.

It's in the government's non-economic issues agenda where signals have been more mixed, affecting business confidence and generating further uncertainty. For example, the government party, Perú Libre, has begun to undertake serious endeavours to obtain signatures in favor of a referendum on a Constitutional Assembly and reform. There are also conflicting views among key figures of the administration, including the Head of the Cabinet, Guido Bellido, regarding the government's position on recognizing Venezuela. This dispute has already been aired through social media and the public spat could escalate further, possibly affecting the make up of the Cabinet upon Castillo's return to Lima from the US. Whether or not it has an impact on the Cabinet, the incident generates additional uncertainty as to how the administration and the ruling party make decisions on key issues.

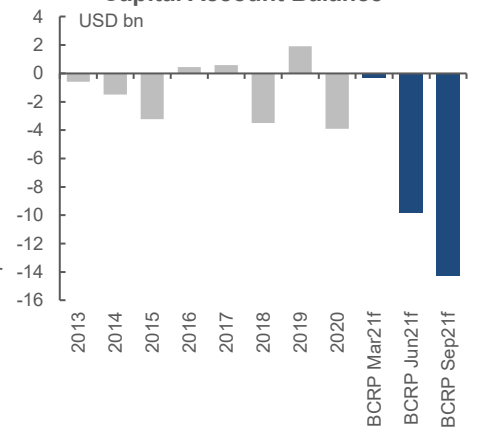
At the same time, the President of the Board of the BCRP, Julio Velarde, has yet to be ratified, and the delay is raising questions regarding whether other options are being weighed.

Meanwhile, short-term economic concerns are evolving. While recent figures continue to point to healthy growth and improving fiscal and external macro accounts, concern is shifting to inflation, FX volatility, capital outflows and the outlook for private investment.

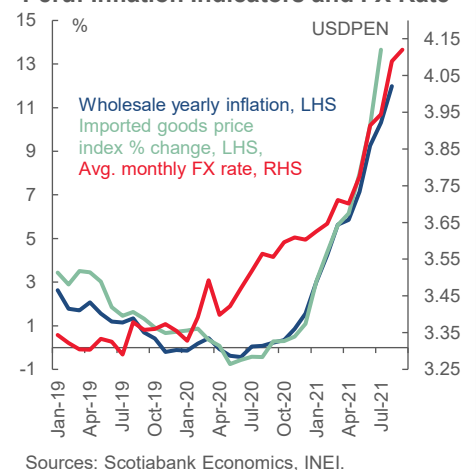
Mexico: Non-Manufacturing Corporate Leaders' Expectations for their Prices in the Coming 12 mo.



Peru: Private Sector Short-Term Capital Account Balance



Peru: Inflation Indicators and FX Rate



The third quarter started out with robust GDP growth of 12.9% y/y in July. This represented 0.4% growth versus pre-lockdown July 2019 levels, and 0.2% in month-on-month terms. It is also in line with our full-year 12.3% forecast. The BCRP raised its forecast, in its quarterly inflation report, from 10.7% GDP growth for 2021 to 11.9%, drawing nearer to our own.

Overall, there is still little evidence that political turbulence is having much of an impact on growth. The same cannot be said for some of the financial indicators. The most dramatic is the outflow of short-term capital (first chart). The BCRP now expects a huge USD 14.3 bn of short-term capital outflow in 2021. This is up from its previous forecast of USD 9.9 bn, and from the forecast at the beginning of the year, which was barely USD 300 mn. The BCRP may fall short yet again, as the outflow in the first half of the year was USD 13 bn. The figure is over triple the previous record outflow.

The PEN has also continued weakening, reaching a new all-time high at 4.12 during the week (second chart). The pace of the depreciation has slowed a bit, but domestic corporate demand for USD continues to put pressure on the currency. Meanwhile, offshore movements and pension funds have become much more neutral.

Inflation is becoming an increasing concern. With yearly inflation to August rising to 5.0%, the BCRP needed to increase its forecast for 2021, which it did, from 3.0% to 4.9%, well above its target range (second chart again). The BCRP expects inflation to fall back to 2.6% in 2022, arguing the following: 1. Inflation is temporary; 2. The offshore components that are driving inflation are stabilizing; and 3. Inflation expectations (currently at 3.07%), while rising, are not overly worrisome. The BCRP underlines that core inflation is at 3.0% yearly to August, and has, therefore, not breached the target ceiling.

All this suggests that the BCRP is uncomfortable with the idea of adopting an aggressive reduction in monetary stimulus going forward. However, in practice, the BCRP has been taking its policy decisions based on the data as it has become available, raising the reference rate, not so much in anticipation of rising inflation going forward, but in reaction to recent past inflation data as it has emerged. Given that we expect inflation to rise at a greater pace than the BCRP (4.5% in 2022, versus 2.6% for the BCRP), we believe the BCRP will continue raising its reference rate, to at least 2.5% in 2022, if not more (table 1).

Table 1

Peru: BCRP Forecast Changes for 2022

| | Previous | New | Scotiabank |
|---------------------------|----------|------|------------|
| GDP Growth | 4.5% | 3.4% | 2.6% |
| Private Investment Growth | 2.5% | 0% | 1% |
| Inflation | 2.0% | 2.5% | 4.5% |
| Fiscal Deficit (% of GDP) | 3.1 | 3.4 | 4.2 |
| Trade Surplus (USD bn) | 19.7 | 17.6 | 16.8 |

Sources: Scotiabank Economics, BCRP.

Market Events & Indicators for September 25–October 8

Argentina

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|--------|-------|---------------------------------|--------|-----|-----------|----------|--------------|
| Sep-27 | 15:00 | Shop Center Sales (y/y) | Jul | -- | -- | 241.5 | |
| Sep-27 | 15:00 | Supermarket Sales (y/y) | Jul | -- | -- | 1.0 | |
| Sep-28 | 15:00 | Economic Activity Index (y/y) | Jul | -- | -- | 10.8 | |
| Sep-28 | 15:00 | Economic Activity Index (m/m) | Jul | -- | -- | 2.5 | |
| Sep-30 | 15:00 | Wages (m/m) | Jul | -- | -- | 2.3 | |
| Sep-30 | | Consumer Confidence Index | Sep | -- | -- | 39.8 | |
| Oct-01 | | Government Tax Revenue (ARS bn) | Sep | -- | -- | 1,005.3 | |
| Oct-05 | | Vehicle Exports Adefa | Sep | -- | -- | 24,937.0 | |
| Oct-05 | | Vehicle Production Adefa | Sep | -- | -- | 38,362.0 | |
| Oct-05 | | Vehicle Domestic Sales Adefa | Sep | -- | -- | 26,069.0 | |
| Oct-07 | 15:00 | Construction Activity (y/y) | Aug | -- | -- | 19.8 | |
| Oct-07 | 15:00 | Industrial Production (y/y) | Aug | -- | -- | 13.0 | |
| Oct-07 | | Central Bank Survey | | -- | -- | | |

Brazil

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|-----------|-------|--------------------------------------|--------|-----|-----------|-----------|--------------|
| Sep 21-27 | | Tax Collections (BRL mn) | Aug | -- | -- | 146,463.0 | |
| Sep 24-30 | | Federal Debt Total (BRL bn) | Aug | -- | -- | 5,396.0 | |
| Sep-27 | 4:00 | FIPE CPI - Weekly (%) | 22-Sep | -- | -- | 1.2 | |
| Sep-27 | 7:00 | FGV Construction Costs (m/m) | Sep | -- | | 0.4 | 0.6 |
| Sep-27 | 7:00 | FGV Consumer Confidence | Sep | -- | -- | 75.3 | |
| Sep-27 | 7:25 | Central Bank Weekly Economist Survey | | -- | -- | | |
| Sep-27 | 8:30 | Outstanding Loans (m/m) | Aug | -- | | 1.5 | 1.2 |
| Sep-27 | 8:30 | Total Outstanding Loans (BRL bn) | Aug | -- | 4,303.9 | 4,265.6 | |
| Sep-27 | 8:30 | Personal Loan Default Rate (%) | Aug | -- | -- | 4.1 | |
| Sep-28 | | Formal Job Creation Total | Aug | -- | 340,000.0 | 316,580.0 | |
| Sep-29 | 8:00 | PPI Manufacturing (m/m) | Aug | -- | -- | 1.8 | |
| Sep-29 | 8:00 | PPI Manufacturing (y/y) | Aug | -- | -- | 31.8 | |
| Sep-29 | 8:30 | Primary Budget Balance (BRL bn) | Aug | -- | -21.2 | -10.3 | |
| Sep-29 | 8:30 | Nominal Budget Balance (BRL bn) | Aug | -- | -60.8 | -55.4 | |
| Sep-29 | 8:30 | Net Debt % GDP | Aug | -- | 60.9 | 60.3 | |
| Sep-30 | 7:00 | FGV Inflation IGPM (m/m) | Sep | -- | -0.5 | 0.7 | |
| Sep-30 | 7:00 | FGV Inflation IGPM (y/y) | Sep | -- | 25.1 | 31.1 | |
| Sep-30 | 8:00 | National Unemployment Rate (%) | Jul | -- | 13.9 | 14.1 | |
| Sep-30 | | Central Govt Budget Balance (BRL bn) | Aug | -- | -24.8 | -19.8 | |
| Oct-01 | 7:00 | FGV CPI IPC-S (%) | 30-Sep | -- | -- | 1.3 | |
| Oct-01 | 9:00 | Markit Brazil PMI Manufacturing | Sep | -- | -- | 53.6 | |
| Oct-01 | 14:00 | Trade Balance Monthly (USD mn) | Sep | -- | 5,100.0 | 7,664.6 | |
| Oct-01 | 14:00 | Exports Total (USD mn) | Sep | -- | 26,407.5 | 27,211.6 | |
| Oct-01 | 14:00 | Imports Total (USD mn) | Sep | -- | 19,500.0 | 19,547.0 | |
| Oct 1-5 | | Vehicle Sales Fenabrave | Sep | -- | -- | 172,796.0 | |
| Oct-04 | 4:00 | FIPE CPI - Monthly (%) | Sep | -- | -- | 1.4 | |
| Oct-04 | 7:25 | Central Bank Weekly Economist Survey | | -- | -- | | |
| Oct-05 | 8:00 | Industrial Production (m/m) | Aug | -- | -- | -1.3 | |
| Oct-05 | 8:00 | Industrial Production (y/y) | Aug | -- | -- | 1.2 | |
| Oct-05 | 9:00 | Markit Brazil PMI Composite | Sep | -- | -- | 54.6 | |
| Oct-05 | 9:00 | Markit Brazil PMI Services | Sep | -- | -- | 55.1 | |
| Oct-06 | 7:00 | FGV Inflation IGP-DI (m/m) | Sep | -- | -- | -0.1 | |
| Oct-06 | 7:00 | FGV Inflation IGP-DI (y/y) | Sep | -- | -- | 28.2 | |
| Oct-06 | 8:00 | Retail Sales (m/m) | Aug | -- | -- | 1.2 | |
| Oct-06 | 8:00 | Retail Sales (y/y) | Aug | -- | -- | 5.7 | |
| Oct-06 | 8:00 | Retail Sales Broad (m/m) | Aug | -- | -- | 1.1 | |
| Oct-06 | 8:00 | Retail Sales Broad (y/y) | Aug | -- | -- | 7.1 | |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 25–October 8

Brazil

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|---------|------|----------------------------|--------|-----|-----------|-----------|--------------|
| Oct 6-7 | | Vehicle Sales Anfavea | Sep | -- | | 172,784.0 | |
| Oct 6-7 | | Vehicle Production Anfavea | Sep | -- | | 164,027.0 | |
| Oct 6-7 | | Vehicle Exports Anfavea | Sep | -- | | 29,443.0 | |
| Oct-08 | 7:00 | FGV CPI IPC-S (%) | 07-Oct | -- | | 1.3 | |
| Oct-08 | 8:00 | IBGE Inflation IPCA (m/m) | Sep | -- | | 0.9 | |
| Oct-08 | 8:00 | IBGE Inflation IPCA (y/y) | Sep | -- | | 9.7 | |

Chile

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|---------|------|---------------------------------|--------|------|-----------|--------|---|
| Sep-30 | 8:00 | Unemployment Rate (%) | Aug | 8.3 | | -- | 8.9 We expect a new drop in the unemployment rate, mainly due to a higher increase in employment compared to the work force. |
| Sep-30 | 8:00 | Retail Sales (y/y) | Aug | 45.0 | | -- | 62.2 Our high-frequency indicators point to a new upturn in purchases with credit and debit cards in August, evidence that the liquidity coming from fiscal aid and withdrawals of pension funds is being consumed intensely. |
| Sep-30 | 8:00 | Commercial Activity (y/y) | Aug | -- | | -- | 39.6 |
| Sep-30 | 8:00 | Manufacturing Production (y/y) | Aug | -- | | -- | 11.0 |
| Sep-30 | 8:00 | Industrial Production (y/y) | Aug | -- | | -- | 4.8 |
| Sep-30 | 8:00 | Copper Production Total (Tons) | Aug | -- | | -- | 470,262.0 |
| Oct-01 | 7:30 | Economic Activity (y/y) | Aug | 17.5 | | -- | 18.1 We estimate that Imacec expanded in the range of 17 to 18% y/y in August. |
| Oct 1-4 | | Vehicle Sales Total | Sep | -- | | -- | 38,226.0 |
| Oct 1-7 | | IMCE Business Confidence | Sep | -- | | -- | 60.4 |
| Oct-07 | 7:30 | Central Bank Traders Survey | | -- | | | |
| Oct-07 | 7:30 | Trade Balance (USD mn) | Sep | -- | | -- | 6.0 |
| Oct-07 | 7:30 | Exports Total (USD mn) | Sep | -- | | -- | 7,821.8 |
| Oct-07 | 7:30 | Imports Total (USD mn) | Sep | -- | | -- | 7,816.2 |
| Oct-07 | 7:30 | Copper Exports (USD mn) | Sep | -- | | -- | 4,383.2 |
| Oct-07 | 7:30 | International Reserves (USD mn) | Sep | -- | | -- | 52,022.0 |
| Oct-07 | 8:00 | Nominal Wage (m/m) | Aug | -- | | -- | 1.3 |
| Oct-07 | 8:00 | Nominal Wage (y/y) | Aug | -- | | -- | 6.5 |
| Oct-08 | 7:00 | CPI (m/m) | Sep | -- | | -- | 0.4 |
| Oct-08 | 7:00 | CPI (y/y) | Sep | -- | | -- | 4.8 |

Colombia

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|--------|-------|--------------------------------|--------|------|-----------|--------|---|
| Sep-30 | 11:00 | National Unemployment Rate (%) | Aug | 14.5 | | -- | 14.3 Labour market would point to a new improvement in job creation, but also people joining the labor market again (increasing participation rate). That said, unemployment rate will continue improving but at a slower pace. |
| Sep-30 | 11:00 | Urban Unemployment Rate (%) | Aug | 15.1 | | -- | 15.0 |
| Sep-30 | 14:00 | Overnight Lending Rate (%) | 30-Sep | 2.0 | | 2.0 | 1.75 After a year of rate stability, the central bank is expected to start its hiking cycle with a 25bps move. Despite recent inflation readings which have surprised to the upside, it is due to temporary shocks. In fact, recent surveys point to still anchored inflation expectations and it is a reason to expect a gradual approach from the central bank. |
| Oct-01 | 11:00 | Davivienda Colombia PMI Mfg | Sep | -- | | -- | 53.2 |
| Oct-01 | 11:00 | Exports FOB (USD mn) | Aug | -- | | -- | 3,252.4 |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 25–October 8

Colombia

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|--------|-------|----------------------------------|--------|-----|-----------|--------|--|
| Oct-04 | 18:00 | Colombia Monetary Policy Minutes | | -- | | | |
| Oct-04 | 20:00 | CPI (m/m) | Sep | 0.3 | 0.4 | 0.5 | Inflation will continue to show upside pressures from |
| Oct-04 | 20:00 | CPI (y/y) | Sep | 4.4 | 4.5 | 4.4 | the foodstuff group. Education will be an inflationary |
| Oct-04 | 20:00 | CPI Core (m/m) | Sep | 0.3 | -- | 0.3 | item, and normalization will continue revealing the |
| Oct-04 | 20:00 | CPI Core (y/y) | Sep | 3.0 | -- | 3.1 | cleanest prices for some services closed in previous |
| | | | | | | | quarantines. Annual inflation will continue above the |
| | | | | | | | ceiling of the target range for the rest of 2021. |
| | | | | | | | However, as it is due to temporary factors, it affirms |
| | | | | | | | our expectation of a 25 bps hike in BanRep's |
| | | | | | | | September meeting. |
| Oct-07 | | Consumer Confidence Index | Sep | -- | -- | -8.2 | |

Mexico

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|--------|-------|--|---------------|-------------|-------------|------------|--------------|
| Sep-27 | 7:00 | Trade Balance (USD mn) | Aug | -- | -- | -4,062.9 | |
| Sep-27 | 7:00 | Economic Activity IGAE (y/y) | Jul | -- | -- | 13.3 | |
| Sep-27 | 7:00 | Economic Activity IGAE (m/m) | Jul | -- | -- | -0.9 | |
| Sep-28 | 7:00 | Unemployment Rate NSA (%) | Aug | -- | -- | 4.4 | |
| Sep-28 | 10:00 | International Reserves Weekly (USD mn) | 24-Sep | -- | -- | 198,402.0 | |
| Sep-30 | 10:00 | Net Outstanding Loans (MXN bn) | Aug | -- | -- | 4,633.1 | |
| Sep-30 | 14:00 | Overnight Rate (%) | 30-Sep | 4.75 | 4.75 | 4.5 | |
| Sep-30 | | Budget Balance YTD (MXN bn) | Aug | -- | -- | -242.7 | |
| Oct-01 | 10:00 | Remittances Total (USD mn) | Aug | -- | -- | 4,540.3 | |
| Oct-01 | 10:00 | Central Bank Economist Survey | | -- | -- | | |
| Oct-01 | 10:30 | Markit Mexico PMI Mfg | Sep | -- | -- | 47.1 | |
| Oct-01 | 13:00 | IMEF Manufacturing Index SA | Sep | -- | -- | 51.3 | |
| Oct-01 | 13:00 | IMEF Non-Manufacturing Index SA | Sep | -- | -- | 50.1 | |
| Oct-04 | 7:00 | Vehicle Domestic Sales | Sep | -- | -- | 78,235.0 | |
| Oct-04 | 7:00 | Leading Indicators (MoM) | Aug | -- | -- | 0.1 | |
| Oct-04 | 7:00 | Consumer Confidence | Sep | -- | -- | 42.7 | |
| Oct-05 | 10:00 | International Reserves Weekly (USD mn) | 01-Oct | -- | -- | 198,402.0 | |
| Oct-05 | | Citibanamex Survey of Economists | | -- | -- | | |
| Oct-06 | 7:00 | Gross Fixed Investment (%) | Jul | -- | -- | 17.1 | |
| Oct-06 | 7:00 | Vehicle Exports | Sep | -- | -- | 212,687.0 | |
| Oct-06 | 7:00 | Vehicle Production | Sep | -- | -- | 237,040.0 | |
| Oct-07 | 7:00 | CPI (m/m) | Sep | 0.4 | -- | 0.2 | |
| Oct-07 | 7:00 | CPI Core (m/m) | Sep | 0.4 | -- | 0.4 | |
| Oct-07 | 7:00 | CPI (y/y) | Sep | 5.8 | -- | 5.6 | |
| Oct-07 | 7:00 | Bi-Weekly CPI (%) | 30-Sep | -- | -- | 0.4 | |
| Oct-07 | 7:00 | Bi-Weekly Core CPI (%) | 30-Sep | -- | -- | 0.3 | |
| Oct-07 | 7:00 | Bi-Weekly CPI (y/y) | 30-Sep | -- | -- | 5.9 | |
| Oct-08 | | Nominal Wages (m/m) | Sep | -- | -- | 5.7 | |

Peru

| Date | Time | Event | Period | BNS | Consensus | Latest | BNS Comments |
|--------|-------|---------------------------|---------------|-------------|-----------|------------|--|
| Oct-01 | 1:00 | Lima CPI (m/m) | Sep | 0.5 | 0.3 | 1.0 | Inflation continues rising, towards our 6.5% full-year |
| Oct-01 | 1:00 | Lima CPI (y/y) | Sep | 5.4 | -- | 5.0 | figure. |
| Oct-07 | 19:00 | Reference Rate (%) | 07-Oct | 1.25 | -- | 1.0 | The risk is to the upside. |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Scotiabank Economics Latam Coverage



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