

Contributors

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Anibal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Luisa Valle, Deputy Head Economist
+52.55.5123.1725 (Mexico)
lvallef@scotiabank.com.mx

Latam Daily: Banxico Hikes by 75 bps; Chile's BCCh Considered a More Aggressive Move

- Mexico: Banxico's first 75 bps hike
- Chile: BCCh evaluated raising rates by 100 bps

MEXICO: BANXICO'S FIRST 75 BPS HIKE

Banxico raised the policy rate by 75 bps to 7.75% in a unanimous decision, June 23 (chart 1). While the market was split between 50 and 75 bps a few weeks ago, after the Fed's 75 bps rate hike on June 14, all 27 economists surveyed by Bloomberg anticipated a 75 bps move. The rate hike is a first: Since January 2008, when Banxico began using an overnight rate target as its primary mechanism for implementing monetary policy, it had not delivered a 75 bps hike. We had only seen moves of this magnitude during the 2009 crisis, when the central bank made three consecutive 75 bps cuts.

The central bank also once again revised upward its inflation forecasts: in their new scenario, which includes revisions of up to 120 bps higher, inflation peaks at 8.1% in 2022 Q3 before gradually converging to 3.1% by 2024 Q1 (chart 2, chart 3).

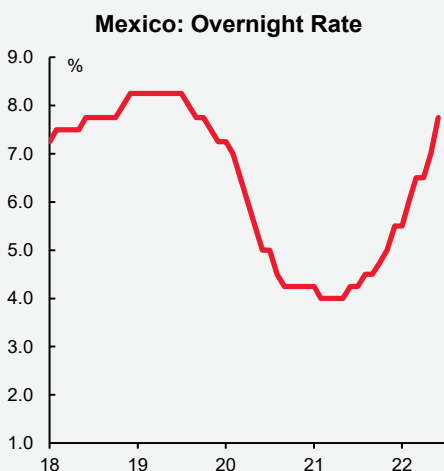
In our view, conditions warranted a decisive move. Given that inflation continues to accelerate (despite the inflation control package and gasoline subsidy), some sectors of the economy are operating beyond pre-pandemic capacity levels, and the Fed's commitment to bring inflation to the 2% target (following Powell's speech to the Senate Banking Committee), **we see room for more hikes of at least 50 bps and do not rule out another 75 bps increase (especially after Banxico mentioned in the statement that they "will evaluate taking the same forceful measures").** For now, we expect the central bank to take the rate to 10% by the end of 2022 and expect it to remain at that level until the end of 2023. As we anticipate that inflation will be durable, with some "sources" of inflation less responsive to central bank policy tightening (i.e., price pressures from supply-side shocks), Banxico and other central banks will have to continue to demonstrate a commitment to do "whatever it takes" to return inflation to target.

—Luisa Valle

CHILE: BCCH EVALUATED RAISING RATES BY 100 BPS

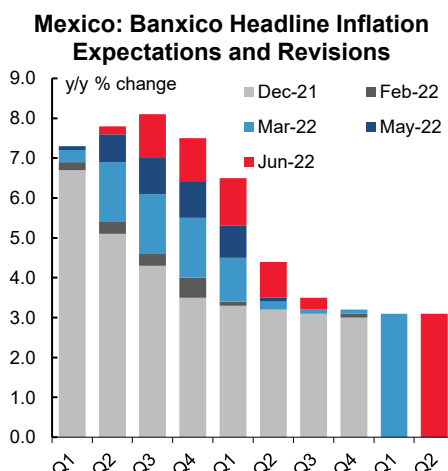
On Thursday, June 23, the central bank (BCCh) released the minutes of its monetary policy meeting held on June 7, in which it increased the reference rate by 75 bps, to 9%. According to the Board's analysis, the drop in economic activity was moderate, driven by the fall in investment and a gradual slowdown in private consumption below that

Chart 1



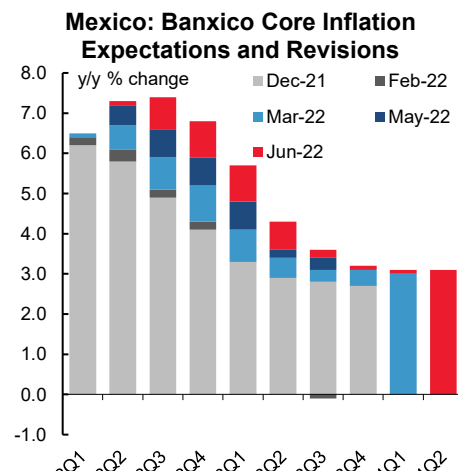
Sources: Scotiabank Economics, Banxico.

Chart 2



Sources: Scotiabank Economics, Banxico.

Chart 3



Sources: Scotiabank Economics, Banxico.

June 23, 2022

expected by the central bank in its previous base scenario. At the same time, board members recognized that the prospects for economic activity point to a significant weakening in the coming months. With regard to the external scenario, the Board pointed to the risk of a recession in the world's largest economies accompanied by a liquidity crisis resulting from an increased probability of a more accelerated withdrawal of monetary stimulus to contain inflationary pressures in those countries.

In this context, the Board considered that the current monetary policy rate is close to its terminal level in this cycle. Although the decision was to increase by 75 bps, the Board of Directors considered increasing the reference rate by 100 bps, an alternative that had drawbacks, such as less flexibility for future decisions, mainly because it had to incorporate a neutral bias. Board members viewed a 75 bps hike as more appropriate, since it was both in line with market expectations and left room for future increases of lesser magnitude.

In light of the recent depreciation of the CLP, in our view, the central bank is likely to probably move faster than expected in raising rates at the next monetary policy meeting to be held on July 12-13. Looking further ahead, cuts in the monetary policy rate should begin as soon as inflation starts to ease, which is highly conditional on the external scenario, the exchange rate, and to a lesser extent on the output gap. Absent additional supply chain disruptions, further increases in global food prices, and/or multilateral depreciation of the CLP, the first cut could take place in the December 2022 meeting.

—Anibal Alarcón

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.