

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:

Miguel Saldaña, Economist
+52.55.5123.0000 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Chile's FX Sales; Mexico's Trade Deficit; Peru's Fiscal Support

- **Chile:** FX sales of USD 5 bn likely to lead to an appreciation of between USD 10 to USD 15; FX intervention by the BCCh will also be weighed by the market
- **Mexico:** Imports and exports accelerated in May, resulting in a second consecutive monthly trade deficit
- **Peru:** Government seeks measures to provide inflation relief

CHILE: FX SALES OF USD 5 BN LIKELY TO LEAD TO AN APPRECIATION OF BETWEEN USD 10 TO USD 15; FX INTERVENTION BY THE BCCH WILL ALSO BE WEIGHED BY THE MARKET

On Friday, June 24 the Ministry of Finance announced the sale of USD 5,000 million dollars at a rate of USD 200 million per day after the exchange rate reached USDCLP 919. The announcement followed Scotiabank Economics' call that an exchange rate of between 900–920 would trigger actions by the BCCh and/or the Treasury to contain the depreciation.

Inflation close to 13% has become a political problem in the midst of the process to draft a new Constitution, which polls suggest could be rejected in the upcoming ratification vote. The recent depreciation of the peso makes the inflationary situation even more complex. While central bank intervention remains an option, should the actions announced by the Ministry of Finance strengthen the peso below USDCLP 900 in the short term, we believe the likelihood of foreign exchange intervention by the BCCh would be reduced.

—Jorge Selaive

MEXICO: IMPORTS AND EXPORTS ACCELERATED IN MAY, RESULTING IN A SECOND CONSECUTIVE MONTHLY TRADE DEFICIT

The trade deficit widened in May, going from USD -1.884 bn to USD -2.215 bn, (chart 1) according to data released by the [INEGI](#) statistical agency, on June 27. Total exports increased 22.4% y/y (USD 50 bn), up from 16.0% y/y, driven by the value of oil exports (63.0% y/y), as non-oil exports rose 20.0% y/y and manufacturing exports rose 20.3% y/y. Non-oil exports to the US, which represent 82% of the YTD cumulative non-oil exports, rose 21.2% y/y during May, owing to a 10.5% y/y increase in automotive item and a 26.5% y/y rise in the rest of non-oil exports.

Chart 1

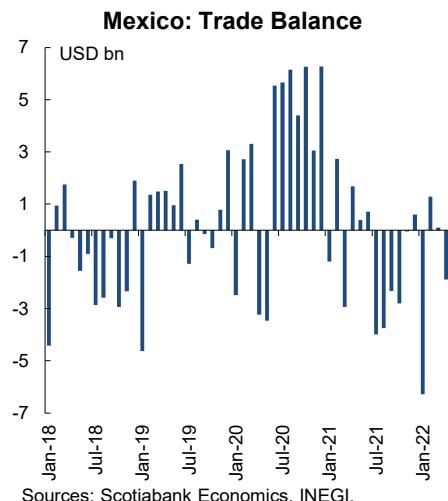


Chart 2



Imports totaled USD 52.2 bn (chart 2), equivalent to an annual increase of 29.1% y/y (versus 25.7% previously). Consumer imports led the increase (27.6% y/y), followed by capital imports (26.6% y/y), and intermediate goods (23.2% y/y).

On a year-to date basis, the trade balance thus stands at a deficit of USD -8.986 bn, while the oil balance deficit stood at USD -11.2 bn. Exports totalled USD 229.5 bn (18.5% YTD) during the January–May period, while imports totaled USD 238.5 bn (23.5% YTD).

On a monthly seasonally adjusted basis, import growth slowed from 4.88% m/m to 0.42% m/m, while exports marginally accelerated, from 0.82% m/m to 0.91% m/m.

Going forward, some uncertainty persists regarding supply chain disruptions and its impact, especially on manufactures exports.

However, we expect exports to show greater dynamism as global supply chain issues and supply shortages begin to unwind. Additionally, rising rates and persistent inflation dynamics in both Mexico and its trading partners represent a downside risk to imports and exports as economic activity is expected to slow.

—Miguel Saldaña

PERU: GOVERNMENT SEEKS MEASURES TO PROVIDE INFLATION RELIEF

The government plans to expand the budget for 2022 by nearly 1% of GDP. Finance Minister Oscar Graham announced that the government is preparing a bill to increase fiscal spending by as much as PEN 9 bn (USD 2.4 bn) to allow a PEN 2 bn transfer to low-income households to compensate for inflation. Other spending initiatives would include agricultural support through the purchase of fertilizer, support for low-income housing, with the additional intention of generating jobs in construction, and additional resources for local government investment projects.

Minister Graham stated that the strong fiscal accounts allow room to increase the budget and counter the impact of inflation, without jeopardizing fiscal responsibility. We agree with this. We had originally projected a fiscal deficit for 2022 of 3.0% of GDP but have since lowered our projection in two steps to our current forecast of 1.5% of GDP. In principle, the measures could increase the deficit back above 2%, although this will depend on execution, which has not been a strong point of the current government. However, even if this were the case, the fiscal situation would continue to be manageable, given that the new spending initiatives would be one-offs.

Minister Graham also stated that the government was contemplating measures to compensate land transportation of cargo for high fuel prices, such as a direct transfer, reimbursement of toll payments, or the expansion of the fuel stabilization fund. Currently, fuels are exempt from certain taxes. Graham suggested that this exemption was too costly and should be eliminated. Note, that the government is under pressure from transportation sectors. A cargo truck strike began today, after the government and truckers failed to reach an agreement after three days of negotiations.

—Guillermo Arbe

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 construed 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.