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# Latam Weekly: Brazil Looks Ahead to Second-Round Election; BCB and BanRep Meet

## ECONOMIC OVERVIEW

- Brazil is in the regional spotlight next week with October inflation data, the BCB's policy decision, and a highly contested second round election.
- In Colombia, BanRep's policy decision will be closely watched to see whether the bank shifts to a lower pace of hikes.
- Elsewhere in the region, Chile publishes retail sales data while we monitor tax reform debates in Congress and Mexico will release inflation data for the first half of October. Peru's week ahead is quiet.

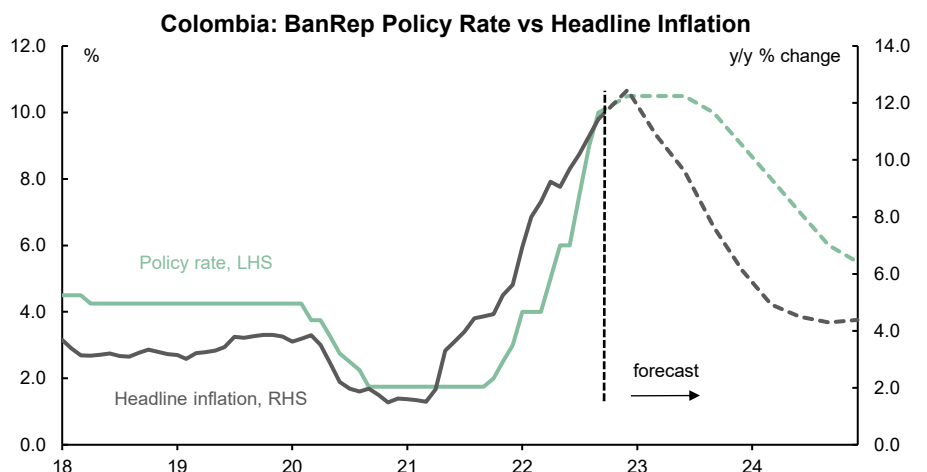
## PACIFIC ALLIANCE COUNTRY UPDATES

- 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 October 22–November 4 across the Pacific Alliance countries and Brazil.

Chart of the Week



Sources: Scotiabank Economics, BanRep, DANE.

Chart of the Week: Prepared by: John Fanjoy, Economic Analyst.

## Economic Overview: Brazil Looks Ahead to Second-Round Election; BCB and BanRep Meet

- **Brazil is in the regional spotlight next week with October inflation data, the BCB's policy decision, and a highly contested second round election.**
- **In Colombia, BanRep's policy decision will be closely watched to see whether the bank shifts to a lower pace of hikes.**
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**Brazil is in the regional spotlight next week with October inflation data, the BCB's policy decision, and a highly contested second round election** on the 30<sup>th</sup> that will keep markets on edge. Polls in the aftermath of the first-round vote in early-October had held steady in favour of a victory for former President Lula until recently, but recent surveys have moved within the margin of error—and 'hidden' Bolsonaro voters may still come out en masse to support the incumbent. The BCB is expected to stand pat for the second consecutive time as its hiking cycle seems to have the intended impact on inflation—with political considerations also likely to influence their communications.

**In Colombia, BanRep's policy decision will be closely watched to see whether the bank shifts to a lower pace of hikes**—which poses risks to a weakened exchange rate in light of market-unfriendly comments by President Petro.

**Elsewhere in the region, Chile publishes retail sales data while we monitor tax reform debates in Congress and Mexico will release inflation data for the first half of October.** Peru's week ahead is quiet outside of political intrigue with continued calls for the impeachment of President Castillo. The global focus will be on the selection of a new prime minister in the UK, as well as monetary policy decisions in Canada and the Eurozone as we await the Fed's own rate-setting meeting the following week.

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## Pacific Alliance Country Updates

### Chile—Structural Reforms Amid Weak Economic Activity Indicators

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**The government has kicked off an energetic agenda of structural social reforms (pensions, healthcare), which would be financed by the tax reform (see our [Latam Daily](#)).** On Monday, October 24, Congress will begin the article-by-article discussion of the tax reform, which intends to collect 3.6% of GDP to finance the social agenda. In the days following, the government should send the pension reform to Congress. This comes amid weak indicators of economic activity and an expected increase in the unemployment rate.

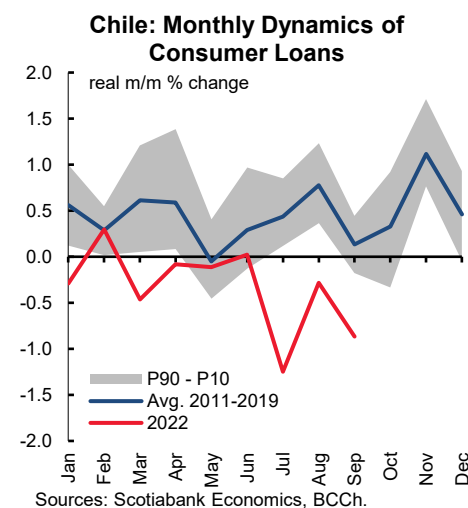
**Purchases with credit and debit cards are confirming a hard-landing. On Friday, October 28, the statistical agency (INE) will release September retail sales, for which we expect a 13% y/y contraction**, based on our high-frequency indicators of purchases with debit and credit cards (chart 1). We observe a deceleration in consumption imports, mainly durable goods, and a strong deceleration in banking credit (chart 2). In this context, we see a more intense usage of credit cards in low-income segments (especially in supermarkets), which is aligned with dwindling household disposable funds and the weakness of the labour market. These conditions could be reflected in a slight increase in the unemployment rate to up to 8.0% that we expect for the quarter ending in September (from 7.7% in the three months to August). The main drivers of the rise would be higher labour force growth compared to employment, which is below pre-pandemic levels.

**The government will send the pension reform no later than the first week of November.** The bill would include the elimination of one of the current pension options called “programmed withdrawal”, the creation of a new public manager, the replacement of the current five multi-funds with a new “generational fund”, among others (more details in our [Latam Daily](#)). We anticipate a slow discussion in Congress and possible changes to the bill, which will be needed to obtain the support of the right-wing parties in both houses of Congress.

Chart 1



Chart 2



### Colombia—Challenging Backdrop Ahead of BanRep Meeting

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**On October 28, BanRep is expected to continue its hiking cycle, however, we are in a crucial moment in which “too much” tightening would be negative for the real economy, while “too little” would be bad for markets.** Since the September meeting, Colombia has continued to face a challenging international and domestic environment. The hawkish mantra from the Fed continued applying pressure on all global central banks and yields. However, in Colombia, many things are occurring in parallel to the monetary policy developments. The fiscal reform under discussion is increasing uncertainty in the business sector that now expects higher taxes against already troublesome high rates and consumers with lower disposable income. The fiscal reform still has to proceed to debate in plenary sessions, and now even declared pro-government parties such as the Liberal party are proposing changes to some initiatives which increase uncertainty in the domestic picture.

October 21, 2022

**As for the real economy, data are still supportive, but confidence indicators are showing weaker consumer and business sentiment and expectations.** Regarding inflation, forecasts continued increasing as expected indexation effects and still relevant supply-side upside pressures are reducing BanRep's capacity to achieve a faster reduction in inflation.

**Meanwhile, despite the technical staff of the MoF sending strong messages of fiscal and macroeconomic responsibility, communications from other government officials are preventing agents to be completely comfortable with their positioning in Colombia.** All of the above has been reflected in a weakening of Colombian debt with the COLTES curve sitting at 14.5% yields on average, accompanied by increases to record highs in CDS spreads and the USDCOP.

**That said, BanRep is facing a difficult decision.** Increasing the rate by 100bps would be a "market-friendly" move, but it would weigh negatively on investment decisions on the real-economy side. A 50bps will be compatible with gradual signaling that the end of the hiking cycle is approaching but would trigger even more negative effects on the COP. It is difficult to anticipate what is a good mix, but for now, **we affirm our call of a 50bps rate hike**, with a high probability of announcements of FX intervention through instruments to reduce volatility (forwards, or options, but not direct sales from international reserves) if markets continue showing strong pressure on the domestic currency.

## Mexico—Changes at the Economy Ministry; H1-October Inflation Projected Slightly Lower

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### MEXICO'S ECONOMY MINISTRY CHANGES & IMPLICATIONS

Following the changes to Mexico's Economy Ministry (where Tatiana Clouthier was replaced by former Tax Collection Agency Head Raquel Buenrostro, and Under Secretary Luz Maria de la Mora was replaced by Alejandro Encinas Najera), **the Ministry reinforced that the current priority is obtaining a negotiated outcome of the energy sector dispute with the US and Canada under USMCA**, before the extended consultation period ends, to avoid going to an arbitration panel. The new Secretary & Undersecretary have no obvious experience in trade and trade disputes, but the Head of the USMCA office in Washington DC, Cesar Remis, remains in place—and he does have material experience in trade-related matters. Last week, the consultation period was extended for another 75 days, suggesting that if a solution is not found before the end of the year, arbitration will be the next step. Our take is that from the US/Canada perspective, there are two possible solutions, each with its own advantages:

- Negotiating a truce that allows US and Canadian companies to continue to operate with the contracts that were negotiated in past administrations, selling power to CFE at the previously agreed upon conditions. This could allow avoiding getting to arbitration, but risks setting a negative precedent in USMCA. It also means that Canadian and American companies that plan to enter the Mexican market in the future would not be protected under the agreement.
- Alternatively, the US & Canada could stand firm and continue on with arbitration, protecting the principle of the trade agreement. This would force the Mexican government to backtrack on favouring the public sector's CFE over private investors, but it would likely lead to continued/escalated tensions between Mexico and the US, which both governments could decide against given already complex geopolitical issues with China and Russia.

**Trade experts we've spoken to believe that if Canada & the US decide to pursue arbitration, they will likely win, but the process will take time.** In addition, the range of the potential compensation is very wide, as there will likely be a dispute over the "opportunity cost" of the investments, rather than the invested amounts to date.

### INFLATION FOR H1-OCTOBER IS EXPECTED TO MODERATE, YET YEAR-END FORECASTS REMAIN ON THE RISE

**In terms of indicators, our focus will be on inflation numbers for the first half of October.** Participants in the Citibanamex Survey expect a 0.51% 2w/2w sequential change for headline and 0.36% in the core component. This implies 8.61% y/y inflation (8.64% in September H2), and a core basket inflation on the rise, from 8.29% to 8.32%.

**On the non-core side, it might be too soon to see any effect of the anti-inflation plan update, focused on the basic consumption basket.** However, we'll pay particular attention to possible implications of the tax and tariff exemptions in food items that were recently announced by Lopez Obrador in the plan.

**Year-end inflation expectations remain on the rise, but starting to stabilize, this time changing from 8.50% to 8.54% in the Citibanamex Survey.** However, this time end-2023 inflation projections also rose, from 4.93% to 5.11%, suggesting that analysts foresee some sticky price dynamics.

**Other indicators include the GDP index for August, which could hold a very modest pace of growth, yet with positive growth readings in both services and industry.** The trade balance for September could show a lower deficit for the third consecutive month, owing to a higher pace in manufacturing exports. Regarding the labour market, the unemployment rate is expected to slightly move higher, yet labor conditions are also expected to improve as participation rates reach pre-pandemic levels, while formal jobs growth in the last 12 months has maintained a solid 4.0% y/y pace.

## Peru—Don't Blink: A Softening Economy Amidst Political Lawfare

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**Peru's economy seems to be ending the year with a whimper.** Recent growth indicators are weak. GDP came in below 2% y/y in August (1.7% y/y) and in July (1.4%). This is Peru's new reality. Factors that may provide a bit of temporary buoyancy in the coming months include a new government transfer of PEN1.2bn (USD300mn) to low-income households to compensate for inflation and the Quellaveco copper mine coming online. One hopeful sign is that leading indicators such as electricity and transportation/mobility have improved in October (charts 1 and 2).

**Another issue authorities are grappling with is inflation.** So far, data for October point to a 'benign' month that could pull yearly inflation down to around 8.1–8.2% from its September level of 8.5%. If so, the improvement should revive within the BCRP the vital question of whether to pause its tightening cycle. Meanwhile, the BCRP has been busy reining in the FX rate, which has been showing signs of wanting to break over the USDPEN4.00 mark. Markets are showing the BCRP some respect...for now. However, one wonders if there will not come a time when the BCRP feels that the PEN is misaligned in respect to other regional currencies, in particular those of Chile and Colombia, and it could therefore allow the USDPEN to drift upwards with more determination.

**The novelty concerning fiscal accounts is that the fiscal deficit surprisingly fell to 1.1% of GDP in September, after having risen to 1.6% the month before.** This trend won't last for long for a number of reasons, namely owing to lower metal prices but also due to the recent announcement that the government would fund a USD1bn capital increase to Petroperú, the state oil company. This alone will add nearly 0.4 percentage points to the fiscal deficit when it occurs.

**The third leg of the uncertainty tripod is politics.** There are so many moving pieces on the political chessboard that it's hard to determine where the political stream leads. The word of the moment in Peru is "lawfare", as both sides of the President Castillo polemic submit legal documents. The Attorney General's office submitted to Congress a Constitutional Demand for collusion and influence-peddling against President Castillo. Congress requested that the Constitutional Court interpret the Constitutional clause on presidential impeachment ("vacancia"). Members of Congress are seeking support for a third presidential impeachment, and the government formally reached out to the Organization of American States, OAS, requesting that it activate clauses in its statutes for situations in which a country's democratic institutions are at risk. It will be interesting to see what position the OAS takes. Some of these issues will play out in the coming days—don't blink.

Chart 1

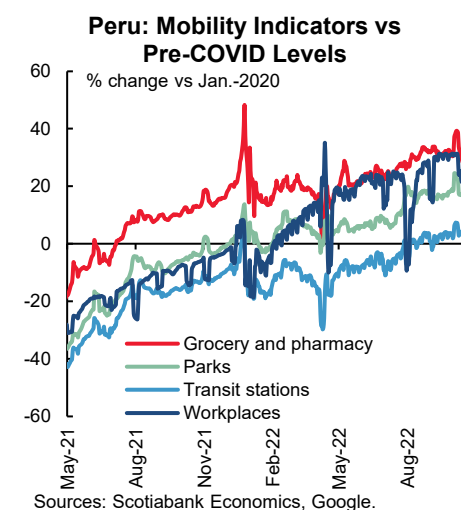
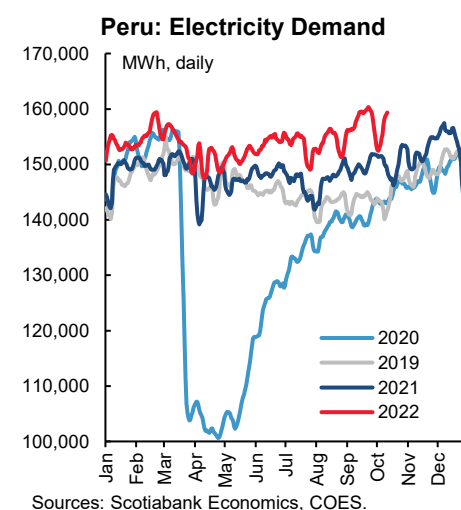


Chart 2



Forecast Updates

|                                  | 2021  |       | 2022  |       |       | 2023  |       |       |       | 2024  |       |       |       |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                  | Q4    | Q1    | Q2    | Q3e   | Q4f   | Q1f   | Q2f   | Q3f   | Q4f   | Q1f   | Q2f   | Q3f   | Q4f   | 2021  | 2022f | 2023f | 2024f |
| <b>Brazil</b>                    |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 1.6   | 1.7   | 3.2   | 0.5   | 0.3   | 0.2   | 0.6   | 0.7   | 0.8   | 1.1   | 1.5   | 1.7   | 1.9   | 4.6   | 2.0   | 0.6   | 1.6   |
| CPI (y/y % eop)                  | 10.1  | 11.3  | 11.9  | 7.2   | 6.6   | 6.1   | 5.8   | 5.5   | 5.1   | 5.0   | 4.7   | 4.5   | 4.3   | 10.1  | 6.6   | 5.1   | 4.3   |
| Unemployment rate (% avg)        | 11.1  | 11.1  | 9.3   | 9.0   | 10.4  | 9.8   | 10.1  | 10.7  | 11.4  | 11.8  | 12.3  | 11.5  | 12.1  | 11.1  | 10.1  | 10.5  | 11.9  |
| Central bank policy rate (% eop) | 9.25  | 11.75 | 13.25 | 13.75 | 13.75 | 13.75 | 13.50 | 12.25 | 11.25 | 10.75 | 9.50  | 8.50  | 8.00  | 9.25  | 13.75 | 11.25 | 8.00  |
| Foreign exchange (USDBRL, eop)   | 5.58  | 4.74  | 5.26  | 5.42  | 5.28  | 5.31  | 5.58  | 6.10  | 5.80  | 5.90  | 5.70  | 5.90  | 5.60  | 5.58  | 5.28  | 5.80  | 5.60  |
| <b>Chile</b>                     |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 12.0  | 7.4   | 5.4   | -0.3  | -3.0  | -1.0  | -2.4  | -1.1  | 0.6   | 2.0   | 3.5   | 2.1   | 3.4   | 11.7  | 2.1   | -0.9  | 2.8   |
| CPI (y/y % eop)                  | 7.2   | 9.4   | 12.5  | 13.7  | 12.5  | 10.6  | 7.4   | 4.6   | 3.7   | 3.1   | 3.1   | 3.0   | 3.0   | 7.2   | 12.5  | 3.7   | 3.0   |
| Unemployment rate (% avg)        | 7.2   | 7.8   | 7.8   | 8.0   | 8.0   | 8.5   | 8.9   | 8.9   | 8.3   | 8.2   | 8.0   | 7.3   | 6.2   | 9.1   | 7.9   | 8.7   | 7.4   |
| Central bank policy rate (% eop) | 4.00  | 7.00  | 9.00  | 10.75 | 11.25 | 10.00 | 7.00  | 5.00  | 3.50  | 3.50  | 3.50  | 3.50  | 3.50  | 4.00  | 11.25 | 3.50  | 3.50  |
| Foreign exchange (USDCPL, eop)   | 852   | 786   | 918   | 969   | 950   | 900   | 880   | 870   | 850   | 800   | 780   | 770   | 750   | 852   | 950   | 850   | 750   |
| <b>Colombia</b>                  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 10.8  | 8.6   | 12.6  | 5.2   | 4.0   | 1.8   | 2.0   | 2.1   | 2.2   | 2.4   | 2.9   | 3.2   | 3.4   | 10.7  | 7.6   | 2.0   | 3.0   |
| CPI (y/y % eop)                  | 5.6   | 8.5   | 9.7   | 11.4  | 12.5  | 10.9  | 9.6   | 7.7   | 6.1   | 4.9   | 4.5   | 4.3   | 4.4   | 5.6   | 12.5  | 6.1   | 4.4   |
| Unemployment rate (% avg)        | 11.5  | 13.2  | 11.0  | 10.7  | 10.6  | 11.5  | 10.2  | 10.5  | 10.2  | 11.0  | 10.5  | 10.8  | 10.6  | 13.8  | 10.8  | 10.6  | 10.7  |
| Central bank policy rate (% eop) | 3.00  | 5.00  | 7.50  | 10.00 | 10.50 | 10.50 | 10.50 | 10.00 | 9.00  | 8.00  | 7.00  | 6.00  | 5.50  | 3.00  | 10.50 | 9.00  | 5.50  |
| Foreign exchange (USDCOP, eop)   | 4,080 | 3,771 | 4,155 | 4,609 | 4,561 | 4,580 | 4,518 | 4,518 | 4,553 | 4,572 | 4,572 | 4,597 | 4,622 | 4,080 | 4,561 | 4,553 | 4,622 |
| <b>Mexico</b>                    |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 1.1   | 1.8   | 2.0   | 2.6   | 1.6   | 2.4   | -0.1  | 1.1   | 1.9   | 2.7   | 1.9   | 1.8   | 1.6   | 4.8   | 2.0   | 1.3   | 2.0   |
| CPI (y/y % eop)                  | 7.4   | 7.5   | 8.0   | 8.7   | 8.7   | 7.4   | 6.4   | 5.7   | 5.1   | 4.5   | 4.1   | 4.0   | 3.8   | 7.4   | 8.7   | 5.1   | 3.8   |
| Unemployment rate (% avg)        | 3.7   | 3.5   | 3.2   | 3.7   | 3.8   | 4.0   | 4.0   | 3.9   | 3.8   | 3.6   | 3.7   | 3.8   | 3.8   | 4.1   | 3.5   | 3.9   | 3.7   |
| Central bank policy rate (% eop) | 5.50  | 6.50  | 7.75  | 9.25  | 10.50 | 10.50 | 10.50 | 10.50 | 10.00 | 9.50  | 9.00  | 8.50  | 8.00  | 5.50  | 10.50 | 10.00 | 8.00  |
| Foreign exchange (USDMXN, eop)   | 20.53 | 19.87 | 20.12 | 20.14 | 20.66 | 20.84 | 20.83 | 21.24 | 21.29 | 21.49 | 22.10 | 21.91 | 22.58 | 20.53 | 20.66 | 21.29 | 22.58 |
| <b>Peru</b>                      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 3.5   | 3.8   | 3.3   | 2.0   | 2.3   | 1.9   | 3.0   | 1.8   | 2.8   | 2.6   | 2.6   | 2.3   | 1.3   | 13.3  | 2.8   | 2.4   | 2.2   |
| CPI (y/y % eop)                  | 6.4   | 6.8   | 8.8   | 8.5   | 7.7   | 7.4   | 5.5   | 4.7   | 4.0   | 3.7   | 3.0   | 2.5   | 2.5   | 6.4   | 7.7   | 4.0   | 2.5   |
| Unemployment rate (% avg)        | 7.8   | 9.4   | 6.8   | 7.7   | 7.0   | 7.8   | 7.4   | 7.2   | 7.2   | 8.0   | 7.5   | 7.5   | 7.5   | 10.9  | 7.6   | 7.4   | 7.6   |
| Central bank policy rate (% eop) | 2.50  | 4.00  | 5.50  | 6.75  | 7.25  | 7.25  | 7.25  | 7.25  | 7.00  | 6.75  | 6.50  | 6.00  | 5.50  | 2.50  | 7.25  | 7.00  | 5.50  |
| Foreign exchange (USDPEN, eop)   | 4.00  | 3.68  | 3.83  | 3.98  | 3.95  | 3.99  | 3.95  | 3.90  | 3.95  | 3.90  | 3.95  | 3.90  | 3.95  | 4.00  | 3.95  | 3.95  | 3.95  |
| <b>Canada</b>                    |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 3.2   | 2.9   | 4.6   | 3.3   | 2.1   | 1.3   | 0.4   | 0.5   | 0.3   | 0.7   | 1.3   | 1.7   | 2.1   | 4.5   | 3.2   | 0.6   | 1.4   |
| CPI (y/y % eop)                  | 4.7   | 5.8   | 7.5   | 7.2   | 6.8   | 5.2   | 4.1   | 3.7   | 2.7   | 2.2   | 1.6   | 1.5   | 1.5   | 4.7   | 6.8   | 2.7   | 1.5   |
| Unemployment rate (% avg)        | 6.3   | 5.8   | 5.1   | 5.2   | 5.4   | 5.7   | 5.9   | 6.1   | 6.3   | 6.3   | 6.4   | 6.3   | 6.3   | 7.4   | 5.4   | 6.0   | 6.3   |
| Central bank policy rate (% eop) | 0.25  | 0.50  | 1.50  | 3.25  | 4.25  | 4.25  | 4.25  | 4.25  | 4.00  | 3.50  | 3.00  | 3.00  | 3.00  | 0.25  | 4.25  | 4.00  | 3.00  |
| Foreign exchange (USDCAD, eop)   | 1.26  | 1.25  | 1.29  | 1.38  | 1.35  | 1.35  | 1.30  | 1.30  | 1.30  | 1.27  | 1.27  | 1.25  | 1.25  | 1.26  | 1.35  | 1.30  | 1.25  |
| <b>United States</b>             |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Real GDP (y/y % change)          | 5.7   | 3.7   | 1.8   | 1.8   | 0.0   | 0.4   | 0.5   | 0.1   | 0.4   | 0.9   | 1.4   | 1.9   | 2.2   | 5.9   | 1.7   | 0.4   | 1.6   |
| CPI (y/y % eop)                  | 6.7   | 8.0   | 8.6   | 8.3   | 7.8   | 6.7   | 5.3   | 4.4   | 3.5   | 2.7   | 2.1   | 1.9   | 1.9   | 6.7   | 7.8   | 3.5   | 1.9   |
| Unemployment rate (% avg)        | 4.2   | 3.8   | 3.6   | 3.6   | 3.7   | 3.9   | 4.2   | 4.4   | 4.7   | 4.9   | 5.0   | 5.1   | 5.1   | 5.4   | 3.7   | 4.3   | 5.0   |
| Central bank policy rate (% eop) | 0.25  | 0.50  | 1.75  | 3.25  | 4.50  | 5.00  | 5.00  | 5.00  | 4.75  | 4.25  | 3.75  | 3.25  | 3.00  | 0.25  | 4.50  | 4.75  | 3.00  |
| Foreign exchange (EURUSD, eop)   | 1.14  | 1.11  | 1.05  | 0.98  | 0.95  | 1.00  | 1.02  | 1.05  | 1.05  | 1.08  | 1.08  | 1.10  | 1.10  | 1.14  | 0.95  | 1.05  | 1.10  |

Source: Scotiabank Economics.

Red indicates changes in estimates and forecasts since previous *Latam Weekly* on October 14, 2022.

Forecast Updates—Changes Compared To Previous Latam Weekly

|                                  | 2021 |     | 2022 |      |      | 2023 |      |      |      | 2024 |     |     |     |      |       |       |       |
|----------------------------------|------|-----|------|------|------|------|------|------|------|------|-----|-----|-----|------|-------|-------|-------|
|                                  | Q4   | Q1  | Q2   | Q3e  | Q4f  | Q1f  | Q2f  | Q3f  | Q4f  | Q1f  | Q2f | Q3f | Q4f | 2021 | 2022f | 2023f | 2024f |
| <b>Brazil</b>                    |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Unemployment rate (% avg)        | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Foreign exchange (USDBRL, eop)   | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| <b>Chile</b>                     |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Unemployment rate (% avg)        | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Foreign exchange (USDCLP, eop)   | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| <b>Colombia</b>                  |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Unemployment rate (% avg)        | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Foreign exchange (USDCOP, eop)   | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| <b>Mexico</b>                    |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Unemployment rate (% avg)        | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Foreign exchange (USDMXN, eop)   | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| <b>Peru</b>                      |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Unemployment rate (% avg)        | -    | -   | -    | 0.7  | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| Foreign exchange (USDPEN, eop)   | -    | -   | -    | -    | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |
| <b>Canada</b>                    |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | -    | -   | -    | 0.1  | 0.2  | 0.1  | -0.2 | -0.5 | -1.0 | -    | -   | -   | -   | -    | 0.1   | -0.4  | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | -0.4 | -0.1 | 0.1  | 0.1  | 0.1  | 0.1  | -    | -   | -   | -   | -    | -0.1  | 0.1   | -     |
| Unemployment rate (% avg)        | -    | -   | -    | -    | -    | 0.1  | 0.1  | 0.2  | 0.3  | -    | -   | -   | -   | -    | 0.1   | 0.2   | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | 0.50 | 0.50 | 0.50 | 0.50 | 0.25 | -    | -   | -   | -   | -    | 0.50  | 0.25  | -     |
| Foreign exchange (USDCAD, eop)   | -    | -   | -    | 0.08 | 0.05 | 0.08 | 0.03 | 0.05 | 0.05 | -    | -   | -   | -   | -    | 0.05  | 0.05  | -     |
| <b>United States</b>             |      |     |      |      |      |      |      |      |      |      |     |     |     |      |       |       |       |
| Real GDP (y/y % change)          | 0.2  | 0.2 | 0.1  | 0.1  | -0.1 | -0.2 | -0.5 | -0.7 | -0.8 | -    | -   | -   | -   | 0.2  | -0.1  | -0.5  | -     |
| CPI (y/y %, eop)                 | -    | -   | -    | 0.2  | 0.6  | 0.9  | 0.7  | 0.4  | 0.2  | -    | -   | -   | -   | -    | 0.6   | 0.2   | -     |
| Unemployment rate (% avg)        | -    | -   | -    | -    | -0.1 | -0.2 | -0.2 | -0.4 | -0.3 | -    | -   | -   | -   | -    | -     | -0.3  | -     |
| Central bank policy rate (% eop) | -    | -   | -    | -    | 1.00 | 1.50 | 1.50 | 1.50 | 1.25 | -    | -   | -   | -   | -    | 1.00  | 1.25  | -     |
| Foreign exchange (EURUSD, eop)   | -    | -   | -    | 0.01 | -    | -    | -    | -    | -    | -    | -   | -   | -   | -    | -     | -     | -     |

Source: Scotiabank Economics.  
Changes in estimates and forecasts since previous *Latam Weekly* on October 14, 2022.

Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

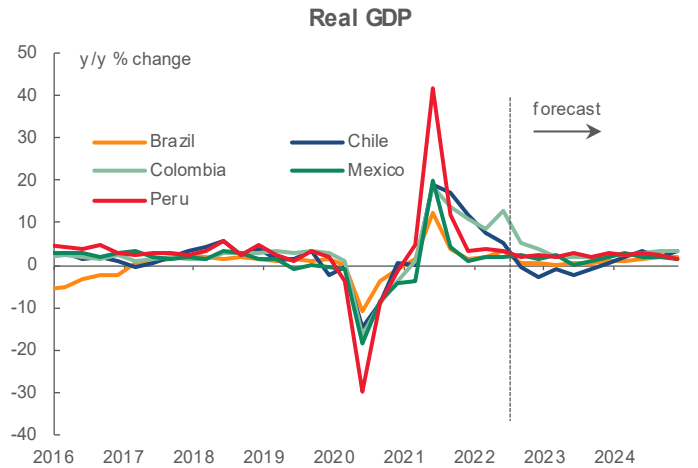
|                              | Next Scheduled Meeting |        |        |        | Market Pricing |        | BNS Forecast |          |   |
|------------------------------|------------------------|--------|--------|--------|----------------|--------|--------------|----------|---|
|                              | Current                | Date   | Market | BNS    | 12 mos         | 24 mos | End-2022     | End-2023 | BNS guidance for next monetary policy meeting   |
| <b>Brazil, BCB, Selic</b>    | 13.75%                 | Oct-26 | n.a.   | 13.75% | n.a.           | n.a.   | 13.75%       | 11.25%   | The BCB held its policy rate unchanged at its September meeting, opting against a final 'gradual' adjustment. The Bank offset this pause decision with a signal that it is ready to quickly resume its hiking cycle if inflation maintains an upward trajectory. We maintain our view of an unchanged Selic rate until next year's easing cycle.  |
| <b>Chile, BCCh, TPM</b>      | 11.25%                 | Dec-06 | n.a.   | 11.25% | n.a.           | n.a.   | 11.25%       | 3.50%    | We expect rate cuts beginning in Q1-2023.   |
| <b>Colombia, BanRep, TII</b> | 10.00%                 | Oct-28 | n.a.   | 10.50% | n.a.           | n.a.   | 10.50%       | 9.00%    | Slowing down the hiking cycle in the context of high volatility in domestic markets seems difficult. However, we affirm our expectation of a 50bps hike to 10.50%, as concerns about economic growth could continue to be an important issue for the Board. We don't discard the announcement of an FX intervention program to reduce the volatility.   |
| <b>Mexico, Banxico, TO</b>   | 9.25%                  | Nov-10 | n.a.   | 10.00% | n.a.           | n.a.   | 10.50%       | 10.00%   | Analysts have no doubt that Banxico will hike for the fourth consecutive time by 75bps, to 10.00%, following the Fed's expected pace. For December we consider Banxico will align again with Fed's stance, ending the year at 10.50%, in line with consensus. However, views for 2023 are divergent. For now, we expect the rate to end 2023 at 10.00%, but with risks to the upside, depending on upcoming data. |
| <b>Peru, BCRP, TIR</b>       | 7.00%                  | Nov-10 | n.a.   | 7.25%  | n.a.           | n.a.   | 7.25%        | 7.00%    | We expect a final hike of 25bps to 7.25% as part of the adjustments to the monetary policy stance, provided that inflation expectations continue to visibly decline.  |

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.



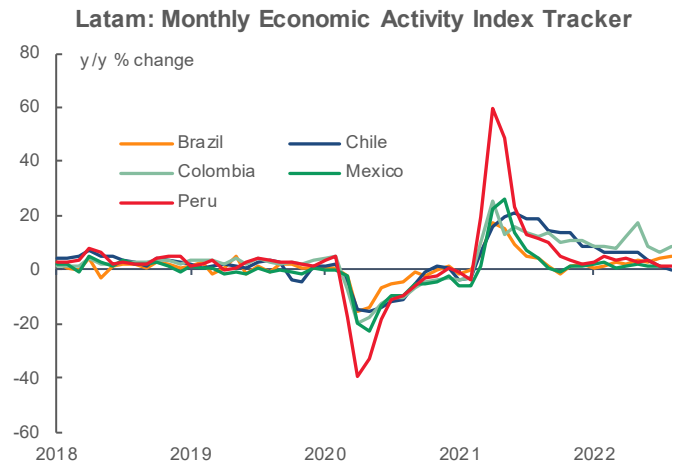
Key Economic Charts

Chart 1



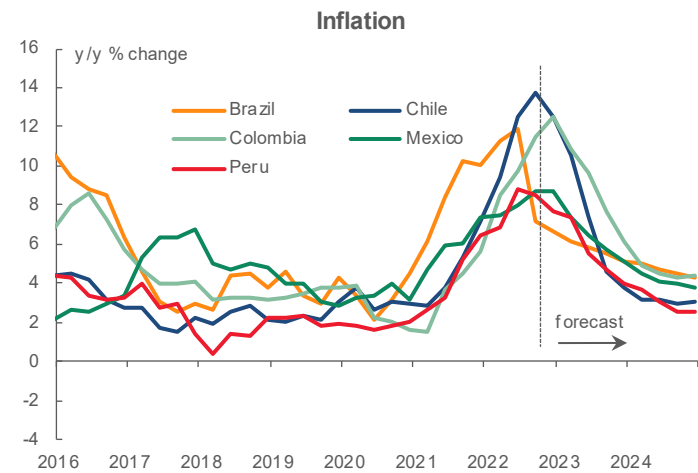
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



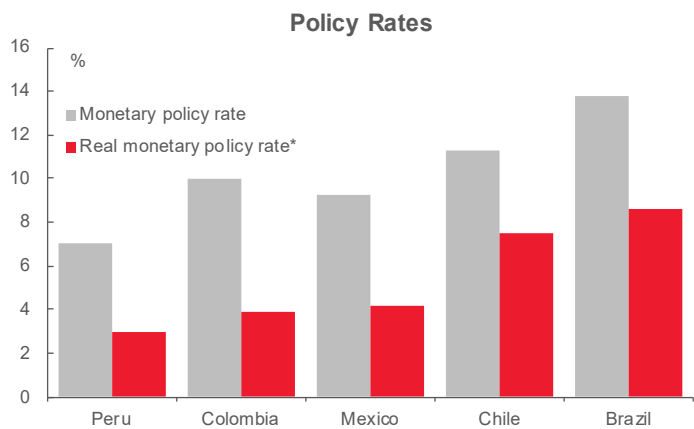
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



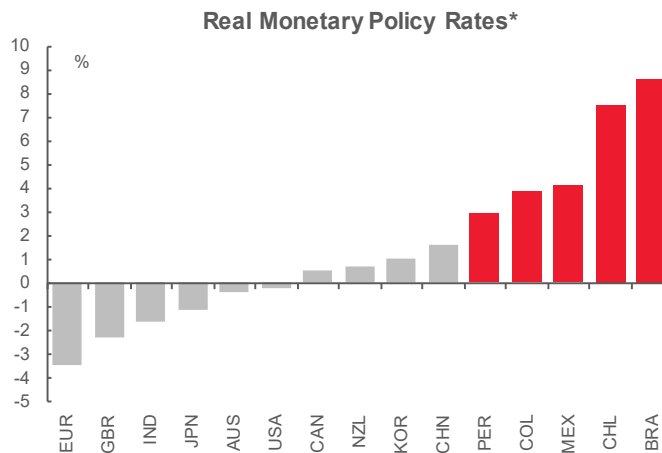
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2023, % y/y. Sources: Scotiabank Economics, Haver Analytics.

Chart 5



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2023, % y/y. Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 1

Latam Currencies Performance

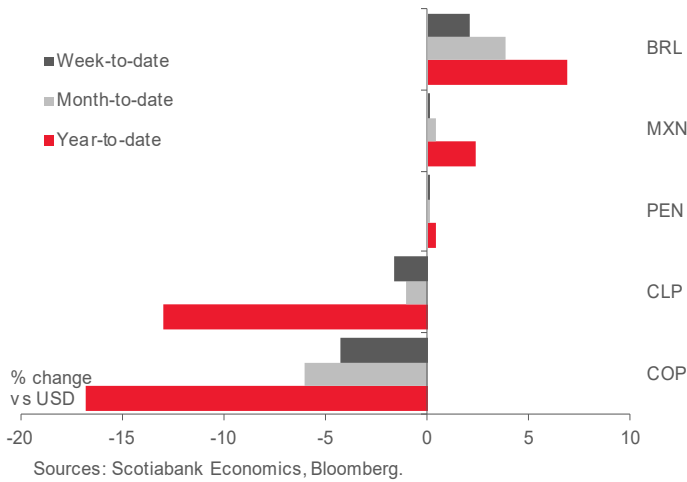


Chart 2

Latam Equities Performance

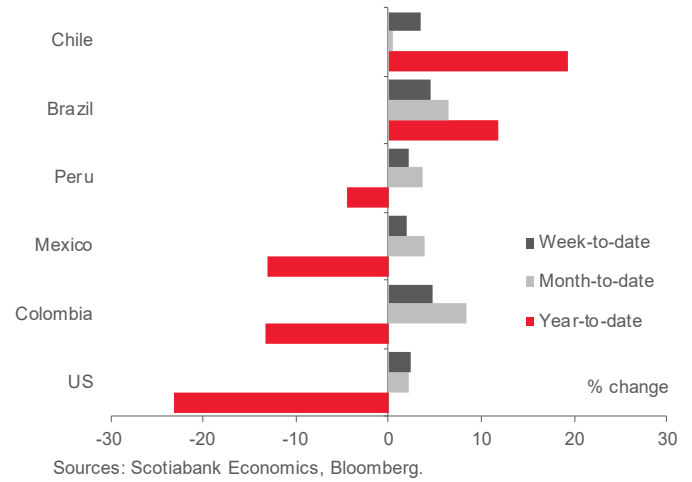


Chart 3

USD vs Latam Currencies

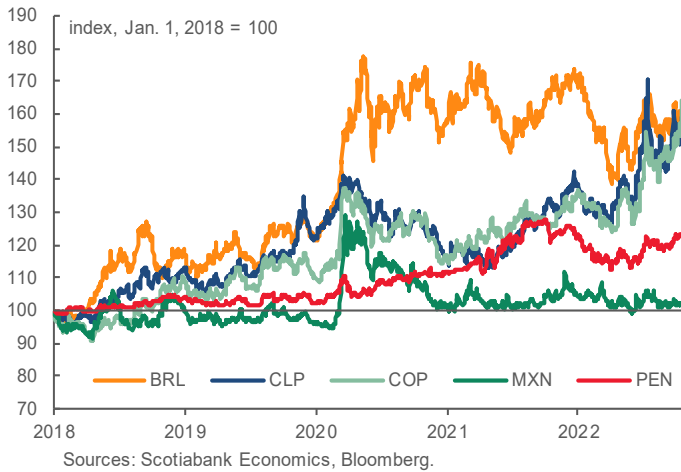
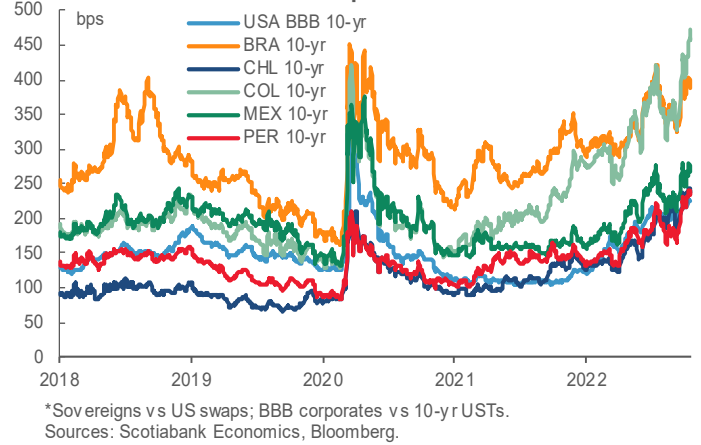


Chart 4

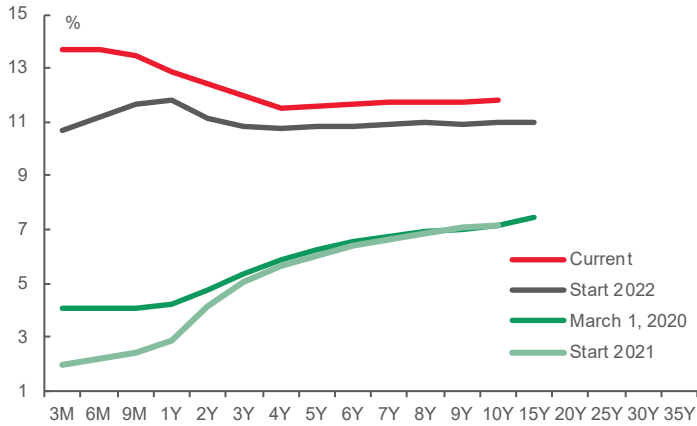
10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US\*



Yield Curves

Chart 1

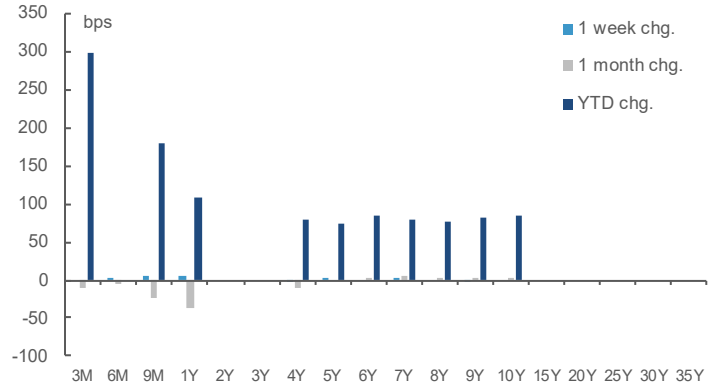
Brazil: BM&F Pre x DI Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 2

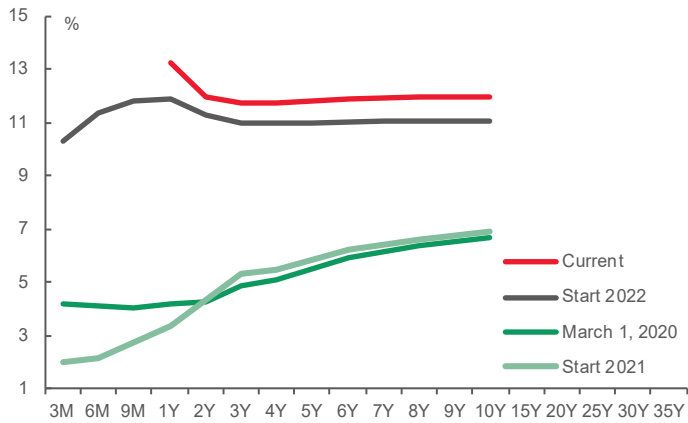
Brazil: BM&F Pre x DI Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 3

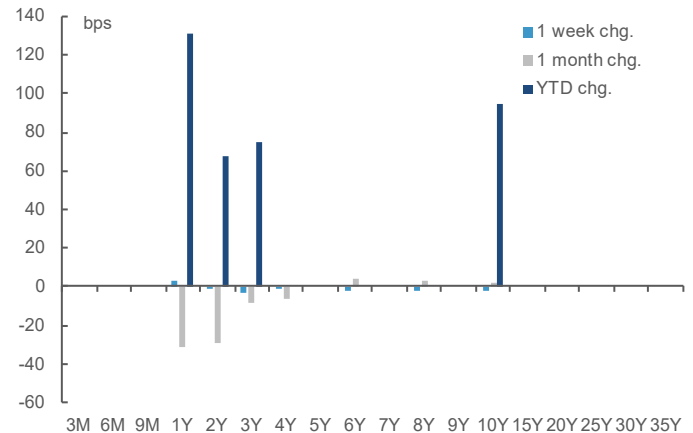
Brazil: NTN Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 4

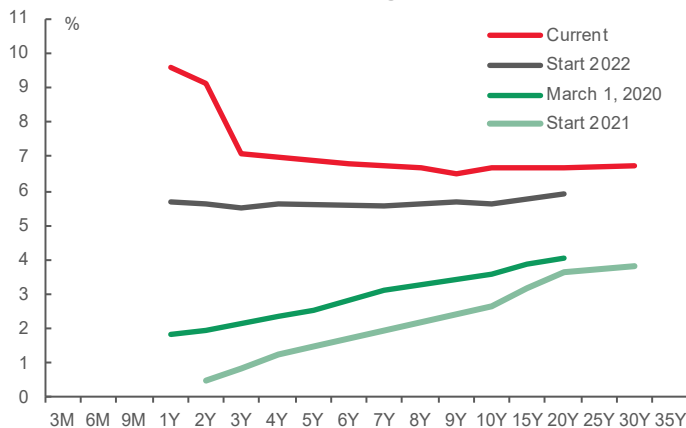
Brazil: NTN Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 5

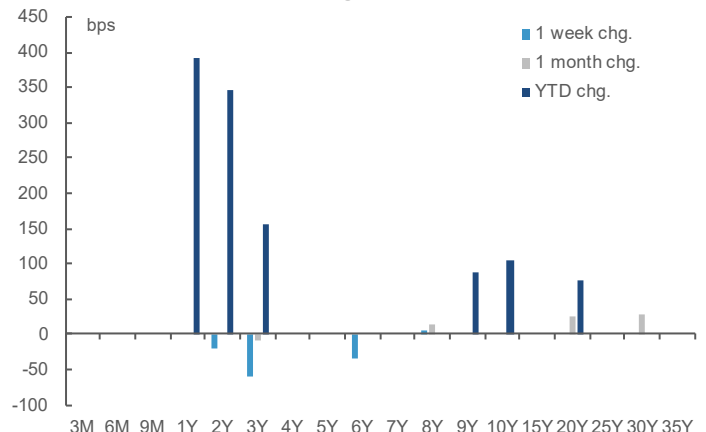
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 6

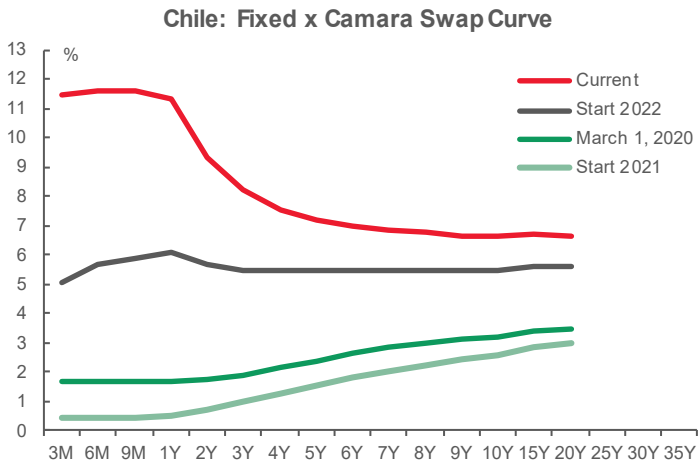
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

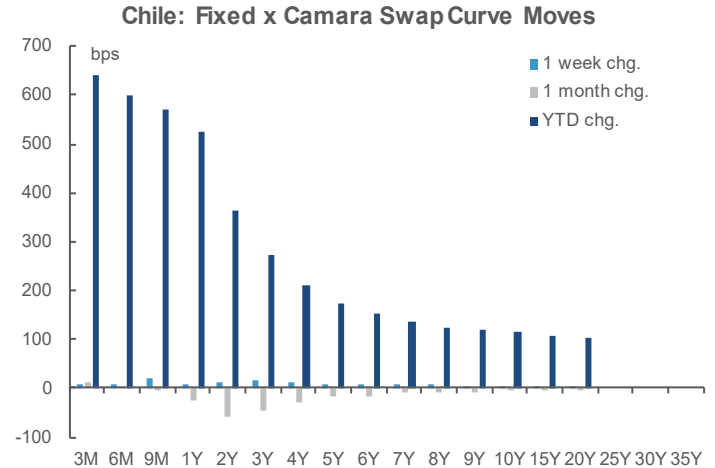
Yield Curves

Chart 7



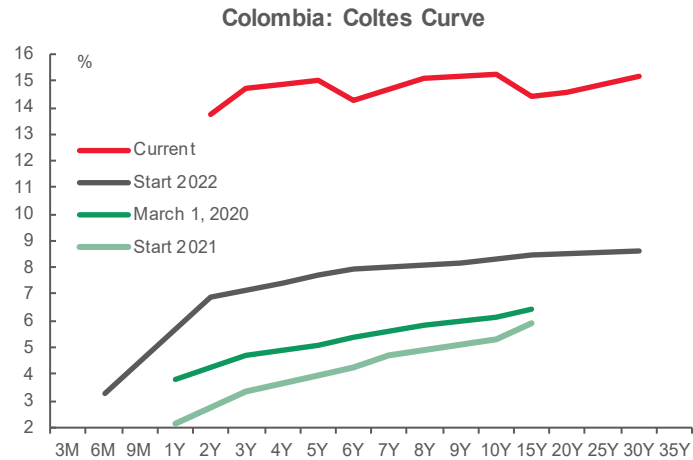
Sources: Scotiabank Economics, Bloomberg.

Chart 8



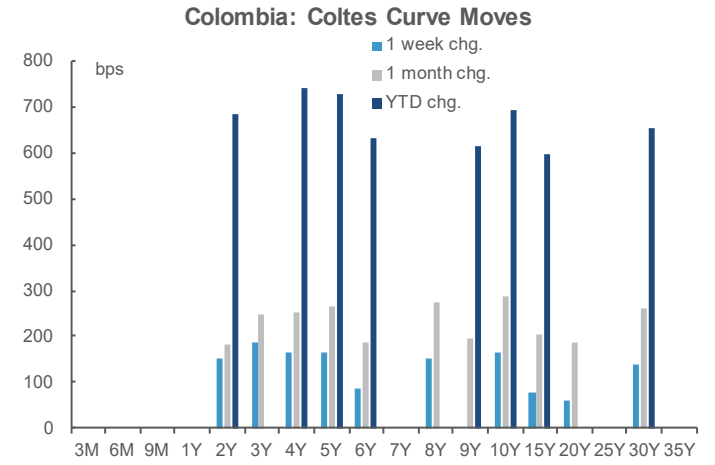
Sources: Scotiabank Economics, Bloomberg.

Chart 9



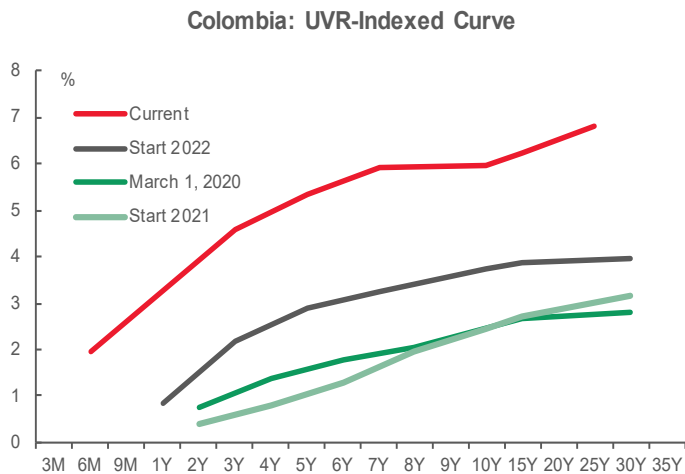
Sources: Scotiabank Economics, Bloomberg.

Chart 10



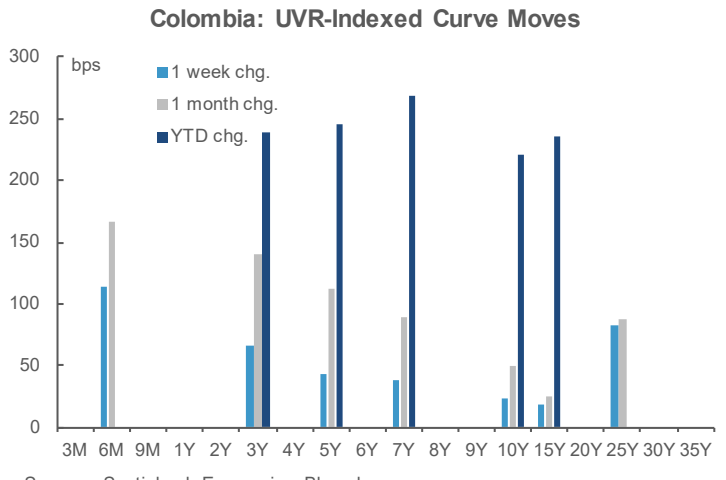
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

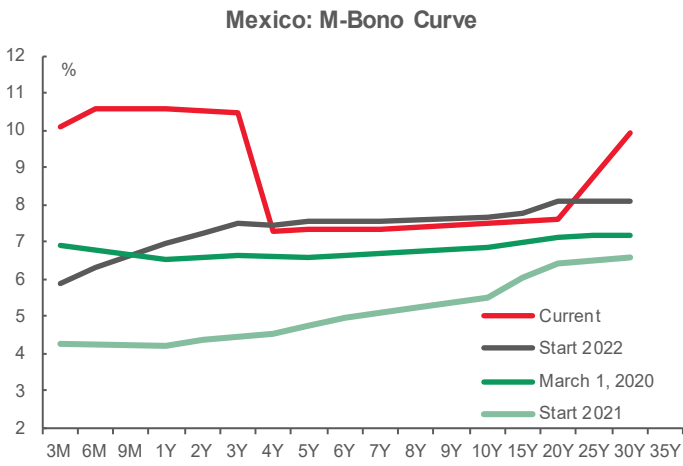
Chart 12



Sources: Scotiabank Economics, Bloomberg.

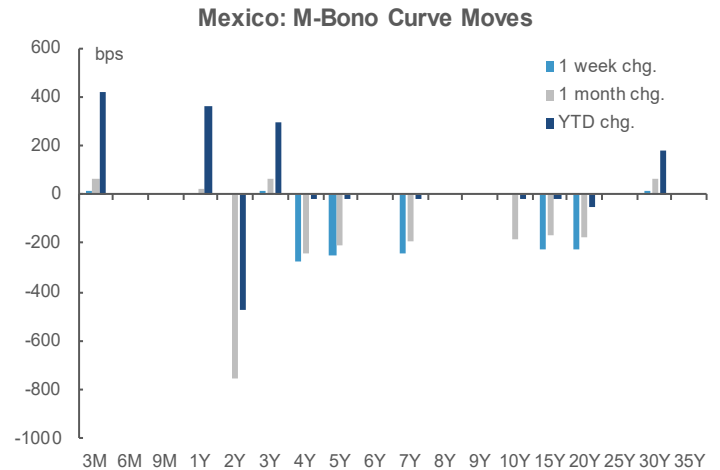
Yield Curves

Chart 13



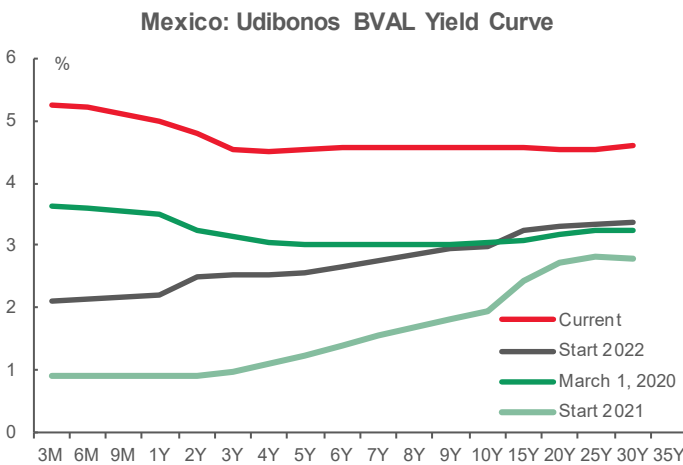
Sources: Scotiabank Economics, Bloomberg.

Chart 14



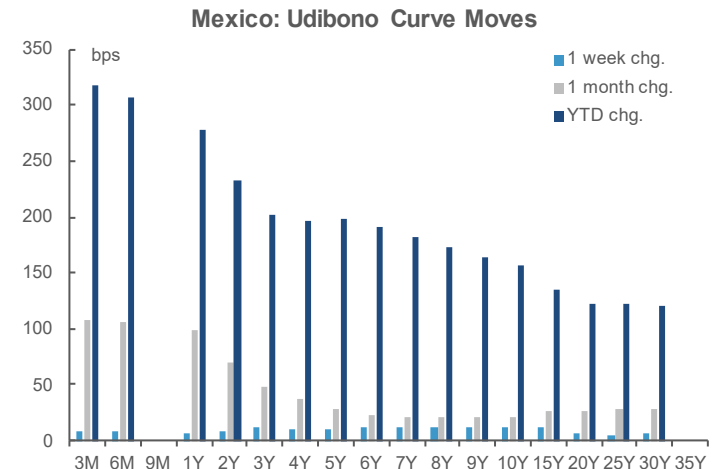
Sources: Scotiabank Economics, Bloomberg.

Chart 15



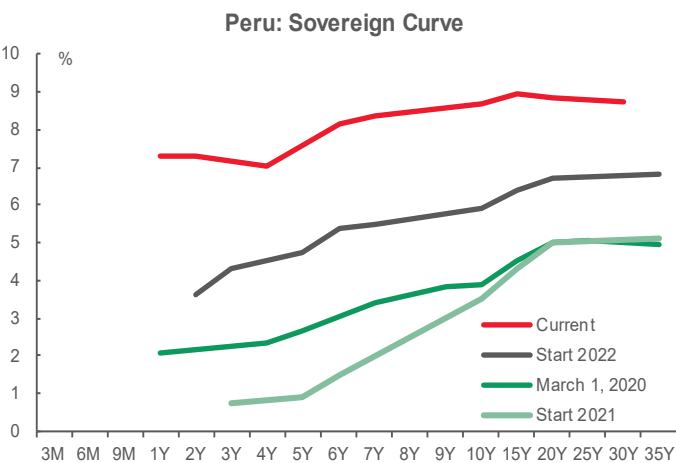
Sources: Scotiabank Economics, Bloomberg.

Chart 16



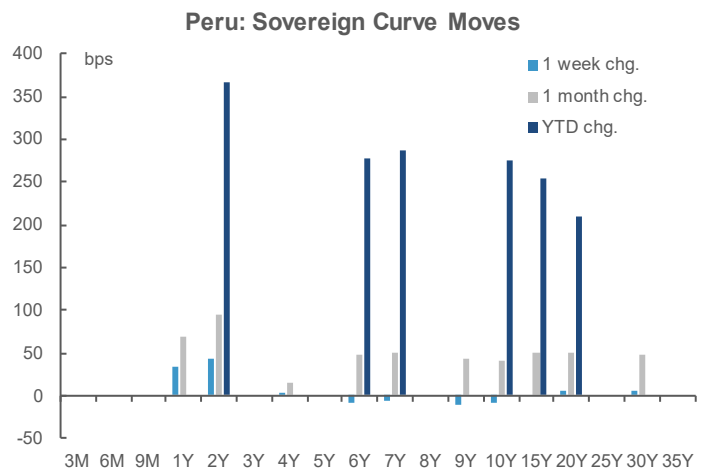
Sources: Scotiabank Economics, Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for October 22–November 4

**BRAZIL**

| Date      | Time  | Event                                | Period        | BNS          | Consensus    | Latest       | BNS Comments |
|-----------|-------|--------------------------------------|---------------|--------------|--------------|--------------|--------------|
| Oct-24    | 7:00  | FGV CPI IPC-S (%)                    | 22-Oct        | --           | --           | --           | 0.4          |
| Oct-24    | 7:25  | Central Bank Weekly Economist Survey |               | --           | --           | --           | --           |
| Oct-24    | 8:30  | Current Account Balance (USD mn)     | Sep           | --           | --           | --           | -4136.1      |
| Oct-24    | 8:30  | Foreign Direct Investment (USD mn)   | Sep           | --           | --           | --           | 7722.8       |
| Oct-24    | 14:00 | Trade Balance Weekly (USD mn)        | 23-Oct        | --           | --           | --           | 638.3        |
| Oct-25    | 4:00  | FIPE CPI - Weekly (%)                | 23-Oct        | --           | --           | --           | 0.3          |
| Oct-25    | 7:00  | FGV Consumer Confidence              | Oct           | --           | --           | --           | 89.0         |
| Oct-25    | 8:00  | IBGE Inflation IPCA-15 (m/m)         | Oct           | --           | --           | --           | -0.4         |
| Oct-25    | 8:00  | IBGE Inflation IPCA-15 (y/y)         | Oct           | --           | --           | --           | 8.0          |
| Oct-26    | 7:00  | FGV Construction Costs (m/m)         | Oct           | --           | --           | --           | 0.1          |
| Oct-26    | 13:30 | Federal Debt Total (BRL bn)          | Sep           | --           | --           | --           | 5781.0       |
| Oct-26    | 17:30 | <b>Selic Rate (%)</b>                | <b>26-Oct</b> | <b>13.75</b> | <b>13.75</b> | <b>13.75</b> | <b>13.75</b> |
| Oct 20-26 |       | Tax Collections (BRL mn)             | Sep           | --           | 167000.0     | 172314.0     |              |
| Oct-27    | 8:00  | National Unemployment Rate (%)       | Sep           | --           | --           | --           | 8.9          |
| Oct-27    | 8:30  | Total Outstanding Loans (BRL bn)     | Sep           | --           | --           | --           | 5067.4       |
| Oct-27    | 8:30  | Outstanding Loans (m/m)              | Sep           | --           | --           | --           | 1.6          |
| Oct-27    | 8:30  | Personal Loan Default Rate (%)       | Sep           | --           | --           | --           | 5.6          |
| Oct-28    | 7:00  | FGV Inflation IGPM (m/m)             | Oct           | --           | --           | --           | -1.0         |
| Oct-28    | 7:00  | FGV Inflation IGPM (y/y)             | Oct           | --           | --           | --           | 8.3          |
| Oct-28    |       | Central Govt Budget Balance (BRL bn) | Sep           | --           | --           | --           | -50.0        |
| Oct-30    |       | Brazil General Elections -- Runoff   |               | --           | --           | --           | --           |
| Oct-31    | 7:25  | Central Bank Weekly Economist Survey |               | --           | --           | --           | --           |
| Oct-31    | 8:30  | Net Debt % GDP                       | Sep           | --           | --           | --           | 58.2         |
| Oct-31    | 8:30  | Nominal Budget Balance (BRL bn)      | Sep           | --           | --           | --           | -65.9        |
| Oct-31    | 8:30  | Primary Budget Balance (BRL bn)      | Sep           | --           | --           | --           | -30.3        |
| Oct 24-31 |       | Formal Job Creation Total            | Sep           | --           | --           | --           | 280893.0     |
| Nov-01    | 7:00  | FGV CPI IPC-S (%)                    | 31-Oct        | --           | --           | --           | 0.4          |
| Nov-01    | 7:00  | Central Bank Meeting Minutes         |               | --           | --           | --           | --           |
| Nov-01    | 8:00  | Industrial Production (m/m)          | Sep           | --           | --           | --           | -0.6         |
| Nov-01    | 8:00  | Industrial Production (y/y)          | Sep           | --           | --           | --           | 2.8          |
| Nov-01    | 9:00  | S&P Global Brazil Manufacturing PMI  | Oct           | --           | --           | --           | 51.1         |
| Nov-01    | 14:00 | Trade Balance Monthly (USD mn)       | Oct           | --           | --           | --           | 3994.0       |
| Nov-01    | 14:00 | Exports Total (USD mn)               | Oct           | --           | --           | --           | 28950.0      |
| Nov-01    | 14:00 | Imports Total (USD mn)               | Oct           | --           | --           | --           | 24957.0      |
| Nov-03    | 4:00  | FIPE CPI - Monthly (%)               | Oct           | --           | --           | --           | 0.1          |
| Nov-04    | 9:00  | S&P Global Brazil Composite PMI      | Oct           | --           | --           | --           | 51.9         |
| Nov-04    | 9:00  | S&P Global Brazil Services PMI       | Oct           | --           | --           | --           | 51.9         |
| Nov 1-4   |       | Vehicle Sales Fenabrave              | Oct           | --           | --           | --           | 193951.0     |

**CHILE**

| Date    | Time | Event                          | Period | BNS   | Consensus | Latest | BNS Comments   |
|---------|------|--------------------------------|--------|-------|-----------|--------|--|
| Oct-24  | 8:00 | PPI (m/m)                      | Sep    | --    | --        | --     | -0.5   |
| Oct-27  |      | Central Bank Meeting Minutes   |        | --    | --        | --     | --   |
| Oct-28  | 8:00 | Manufacturing Production (y/y) | Sep    | --    | --        | --     | -4.0   |
| Oct-28  | 8:00 | Industrial Production (y/y)    | Sep    | --    | --        | --     | -5.0   |
| Oct-28  | 8:00 | Unemployment Rate (%)          | Sep    | 8.0   | --        | --     | 7.9 We expect a monthly increase in the unemployment rate due to higher growth of the labour force compared to employment.             |
| Oct-28  | 8:00 | Copper Production Total (Tons) | Sep    | --    | --        | --     | 422888.0   |
| Oct-28  | 8:00 | Commercial Activity (y/y)      | Sep    | --    | --        | --     | -11.9  |
| Oct-28  | 8:00 | Retail Sales (y/y)             | Sep    | -13.0 | --        | --     | -13.2 Purchases with credit and debit cards confirm a hard-landing. We forecast retail sales decreased 13% y/y (-2% m/m) in September. |
| Nov-02  | 7:30 | Economic Activity (y/y)        | Sep    | -2.0  | --        | --     | 0.0 For September, we forecast a contraction in GDP of around 2% y/y, which is consistent with our 2022 GDP growth forecast of 2.1%.   |
| Nov-02  | 7:30 | Economic Activity (m/m)        | Sep    | --    | --        | --     | 0.6  |
| Nov-02  |      | Central Bank Traders Survey    |        | --    | --        | --     | --   |
| Nov 2-8 |      | IMCE Business Confidence       | Oct    | --    | --        | --     | 43.3   |

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for October 22–November 4

COLOMBIA

| Date   | Time  | Event                             | Period        | BNS          | Consensus    | Latest       | BNS Comments  |
|--------|-------|-----------------------------------|---------------|--------------|--------------|--------------|---|
| Oct-26 |       | Retail Confidence                 | Sep           | --           | --           | 26.9         |   |
| Oct-26 |       | Industrial Confidence             | Sep           | --           | --           | 7.1          |   |
| Oct-28 | 14:00 | <b>Overnight Lending Rate (%)</b> | <b>28-Oct</b> | <b>10.50</b> | <b>11.00</b> | <b>10.00</b> | The central bank is expected to deliver a lower hike of 50bps as concerns about economic activity increased among the Board. Inflation is expected to be lower in 2023 and it could contribute to the central bank considering a pause in the hiking cycle. |
| Oct-31 | 11:00 | National Unemployment Rate (%)    | Sep           | 10.2         | --           | 10.6         | Employment creation could probably show stagnation, while the   |
| Oct-31 | 11:00 | Urban Unemployment Rate (%)       | Sep           | 10.8         | --           | 10.8         | number of people outside of the labour market is expected to remain at high levels.   |
| Nov-01 | 11:00 | Davivienda Colombia PMI Mfg       | Oct           | --           | --           | 52.8         |   |
| Nov-01 | 11:00 | Exports FOB (USD mn)              | Sep           | --           | --           | 4582.2       |   |
| Nov-01 | 18:00 | Colombia Monetary Policy Minutes  |               | --           | --           | --           |   |

MEXICO

| Date   | Time  | Event                                  | Period | BNS | Consensus | Latest   | BNS Comments |
|--------|-------|--|--------|-----|-----------|----------|--------------|
| Oct-24 | 7:00  | Bi-Weekly CPI (%)                      | 15-Oct | 0.6 | 0.5       | 0.1      |              |
| Oct-24 | 7:00  | Bi-Weekly Core CPI (%)                 | 15-Oct | --  | --        | 0.4      | 0.2          |
| Oct-24 | 7:00  | Bi-Weekly CPI (y/y)                    | 15-Oct | 8.7 | 8.6       | 8.6      |              |
| Oct-24 | 7:00  | Bi-Weekly Core CPI (y/y)               | 15-Oct | --  | --        | 8.3      | 8.3          |
| Oct-25 | 7:00  | Economic Activity IGAE (m/m)           | Aug    | --  | --        | 0.4      |              |
| Oct-25 | 7:00  | Economic Activity IGAE (y/y)           | Aug    | --  | --        | 1.3      |              |
| Oct-25 | 10:00 | International Reserves Weekly (USD mn) | 21-Oct | --  | --        | 196560.0 |              |
| Oct-27 | 7:00  | Unemployment Rate NSA (%)              | Sep    | --  | --        | 3.5      |              |
| Oct-27 | 7:00  | Trade Balance (USD mn)                 | Sep    | --  | --        | -5498.2  |              |
| Oct-27 | 7:00  | Exports (USD mn)                       | Sep    | --  | --        | 50670.0  |              |
| Oct-27 | 7:00  | Imports (USD mn)                       | Sep    | --  | --        | 56168.2  |              |
| Oct-28 |       | Budget Balance YTD (MXN bn)            | Sep    | --  | --        | -285.1   |              |
| Oct-31 | 8:00  | GDP NSA (y/y)                          | 3Q P   | 2.6 | --        | 2.1      |              |
| Oct-31 | 8:00  | GDP SA (q/q)                           | 3Q P   | --  | --        | 0.9      |              |
| Oct-31 | 11:00 | Net Outstanding Loans (MXN bn)         | Sep    | --  | --        | 5215.0   |              |
| Nov-01 | 11:00 | International Reserves Weekly (USD mn) | 28-Oct | --  | --        | 196560.0 |              |
| Nov-01 | 11:00 | Remittances Total (USD mn)             | Sep    | --  | --        | 5121.5   |              |
| Nov-01 | 11:00 | Central Bank Economist Survey          |        | --  | --        | --       |              |
| Nov-01 | 11:30 | S&P Global Mexico Manufacturing PMI    | Oct    | --  | --        | 50.3     |              |
| Nov-01 | 14:00 | IMEF Non-Manufacturing Index SA        | Oct    | --  | --        | 50.9     |              |
| Nov-01 | 14:00 | IMEF Manufacturing Index SA            | Oct    | --  | --        | 50.1     |              |
| Nov-03 | 8:00  | Leading Indicators (m/m)               | Sep    | --  | --        | -0.3     |              |
| Nov-03 | 8:00  | Vehicle Domestic Sales                 | Oct    | --  | --        | 85842.0  |              |

PERU

| Date   | Time  | Event          | Period | BNS  | Consensus | Latest | BNS Comments   |
|--------|-------|----------------|--------|------|-----------|--------|--|
| Nov-02 | 11:00 | Lima CPI (m/m) | Oct    | 0.15 | --        | 0.52   | We expect a slight rise in food prices to be partially offset by a slight fall in gasoline prices. |
| Nov-02 | 11:00 | Lima CPI (y/y) | Oct    | 8.1  | --        | 8.5    | Inflation in October could show the most visible decline in the trajectory of annual inflation.    |

Forecasts at time of publication.  
Sources: Scotiabank Economics, Bloomberg.

## Scotiabank Economics Latam Coverage

## Local Market Coverage

## CHILE

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