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Latam Weekly: Brazil Runoff Vote Aftermath; Global Focus on the Fed

ECONOMIC OVERVIEW

- The week ahead in Latin America will start with Brazil's definitive election in the rear-view mirror—or not. A very narrow margin of victory for Lula could see Bolsonaro challenge the results of the election.
- Elsewhere in the region, the focus will be on Mexican Q3 GDP, Peru Oct CPI, and Chilean Sep economic activity on the data front.
- While the Latam calendar presents several key local events to monitor, the main driver of the performance of regional (and global) assets will likely be the Fed's decision on Wednesday.

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 29–November 11 across the Pacific Alliance countries and Brazil.

Chart of the Week

Chile: Economic Growth

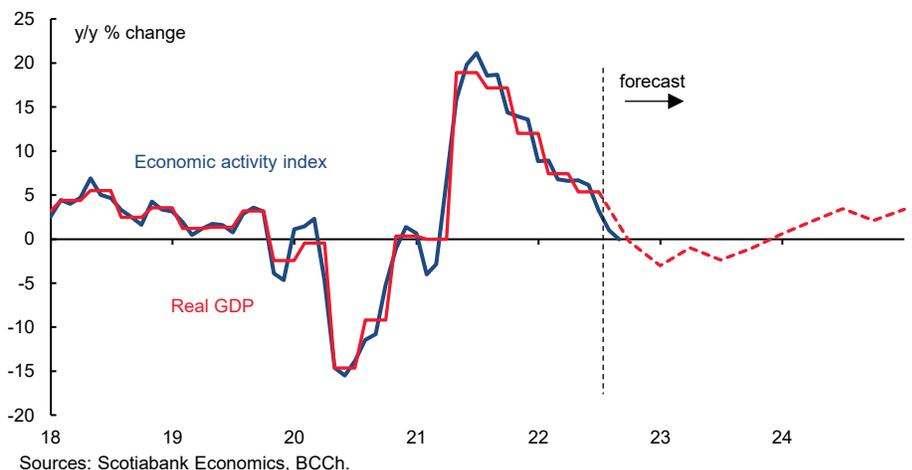


Chart of the Week: Prepared by: John Fanjoy, Economic Analyst.

Economic Overview: Brazil Runoff Vote Aftermath; Global Focus on the Fed

- **The week ahead in Latin America will start with Brazil's definitive election in the rear-view mirror—or not. A very narrow margin of victory for Lula could see Bolsonaro challenge the results of the election.**
- **Elsewhere in the region, the focus will be on Mexican Q3 GDP, Peru Oct CPI, and Chilean Sep economic activity on the data front.**
- **While the Latam calendar presents several key local events to monitor, the main driver of the performance of regional (and global) assets will likely be the Fed's decision on Wednesday.**

The week ahead in Latin America will start with Brazil's definitive election in the rear-view mirror—or not. Despite Lula's lead in the most recent polls steady around 5–6ppts over Bolsonaro (amid 'valid' votes), the vote is still too close to call convincingly. Survey error margins combined with the possibility of 'under-polling' Bolsonaro supporters means the incumbent has a solid shot at staying in power. The Brazilian stock market's ~5% decline this week owing, in part, to political anxiety could reflect this (compared to ~3% gains in Mexico and ~2% in the US). **A very narrow margin of victory for Lula could see Bolsonaro challenge the results of the election** and cause additional stress on Brazilian assets and the real.

Elsewhere in the region, the focus will be on Mexican Q3 GDP, Peru Oct CPI, and Chilean Sep economic activity on the data front (see write-ups in the country sections below). The minutes to Brazil's and Colombia's most recent central bank decisions will also be watched to refine forward guidance. This may be particularly true for the latter where markets may have forced its hand to deliver a bigger hike at its Friday meeting than it may have wanted a few weeks ago.

While the Latam calendar presents several key local events to monitor, the main driver of the performance of regional (and global) assets will likely be the Fed's decision on Wednesday. Speculation has built recently over the Fed teeing up a slowing down its pace of hikes at its December meeting, thus concluding a four-meeting streak of 75bps increases (including next week's). The hawkish message that has accompanied decisions to-date may be toned down and this has provided a tailwind for the Pacific Alliance's currencies. However, sanguine markets on a soft Fed 'pivot' may be underplaying the risk that the Fed disappoints and regional assets could resume their weakening trajectories. For those sensitive to commodity prices, continued declines in these in the background opens up additional downside room. Note that the Bank of England's policy decision follows the Fed's on Thursday, and US jobs data on Friday will also play a key role for the market mood.

Chilean and Peruvian markets are closed on the 1st day of the month, with Mexico on holidays the following day alongside Brazil. Colombia's markets are closed the following Monday.

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Pacific Alliance Country Updates

Chile—Monthly GDP to Drop Year-on-Year in September

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We expect a GDP contraction of 2.3% y/y in September. On Wednesday, November 2, the central bank (BCCh) will release economic activity data for September. In our view, non-mining GDP should continue to decline in m/m terms, mainly driven by falls in services and trade industries. Along the same lines, mining GDP is also expected to decrease versus the previous month. In this context, we reaffirm our GDP growth projection of 2.1% for 2022. For next year, we anticipate contractions in monthly GDP to last until Q3, which would lead to a decline in economic activity of 0.9% in 2023.

Colombia—BanRep MPR and Minutes; Tax Reform to be Discussed

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At writing, we assume that BanRep will continue its hiking cycle at its Friday decision as is widely expected, with economists' projections clustered on a 100bps hike. In this meeting, its main macro projections will be updated and in coming days details about the new macroeconomic scenario will come out with the **publication of the Monetary Policy Report on Monday**, and the press conference from the central bank staff on Wednesday. **The minutes for Friday's meeting will be released on Tuesday** and we'll look for clues on how soon the end of the hiking cycle is.

On the political front, minister Ocampo said that the Tax Reform will be discussed by the end of the week with Congress in the second debate, and changes in the potential rule to establish surcharges in the mining sector are expected. We expect negotiations between government and political parties to continue, which would lead to see more watering down of the reform towards its final shape.

Mexico— GDP Acceleration Expected in Q3

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In Mexico, GDP flash estimates for 2022Q3 will be released on Monday with analysts expecting year-on-year growth to accelerate from stronger momentum in both industry and services; our most recent forecast sees a 2.6% y/y pace that undershoots the median forecast of 3.3%. On a quarterly basis, growth is expected to maintain a modest pace of around 1%. The GDP monthly proxy has outperformed consensus in five of the first eight months of the 2022 calendar year, including August. With this in mind, analysts have revised their growth forecasts for 2022 higher.

In the Banxico survey also due for release this week (Tuesday), growth expectations could slightly move up to just above 2.0%. However, expectations for GDP growth in 2023 face downward pressure, with the median forecast likely to move below 1.0%, reflecting the risk of restrictive Banxico monetary policy and a weaker US economy. Other expected revisions include upward changes to year-end inflation projections for 2022 and 2023, suggesting that analysts expect 'stickier' inflation. In addition, the median interest rate forecast could slightly rise for 2022 as most analysts expect that Banxico will follow the Fed's hikes—at least until the December meeting, carrying the overnight rate to 10.50% by year-end. Views differ more broadly for end-2023 as the consensus is not clearly aligned regarding Banxico's terminal rate nor expected size of cuts during the final quarter of 2023.

Peru—Softer Inflation in October Would Not Be Enough to Prevent BCRP Hike to 7.25%

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Next week, we get preliminary September GDP data in addition to October inflation figures.

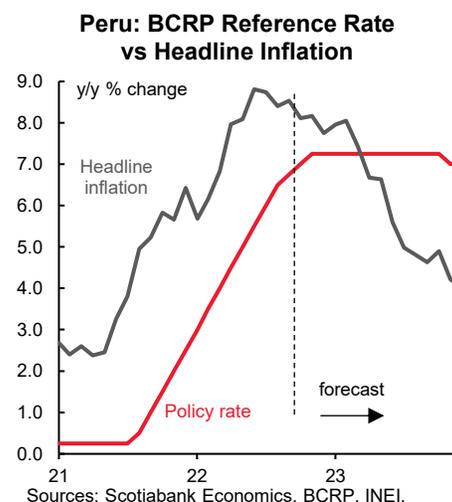
The information will help the BCRP gauge the balance between growth and inflation when making its policy decision the following week on November 10.

On Tuesday, inflation is expected to change slightly in October from the 8.5% y/y rate in September, which has proved sticky (chart 1). The key price indicators we track point to inflation of around 0.2% m/m in October. Given that this monthly figure will replace the 0.56% of October 2021 in the year-on-year readings, we expect yearly inflation to come in at around 8.1% y/y in next week's data.

There is not much room for inflation to decline again in November, but should fall in December, to end the year broadly in line with our forecast of 7.7%. The BCRP knows all of this.

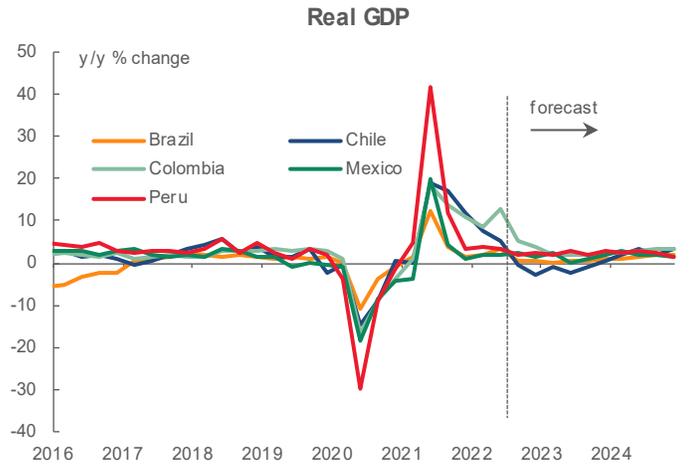
Lately, monetary authorities have been signaling greater concern for GDP growth. And concerned they should be, as GDP growth came in under 2% for the second month in August (1.7% y/y after 1.4% y/y in July). We'll get a good sense of GDP growth for September when the National Statistics Institute releases information on resource sectors and cement demand on November 1. For the time being, we expect GDP growth to creep back above 2% y/y in September and beyond but that won't fool the BCRP that knows that this would be entirely due to the Quellaveco copper mine coming online, not because of a pick-up in domestic demand. The problem is that growth is lagging at a time when inflation is stabilizing, but it is not falling, at least not with conviction. **Thus, we are inclined to hold unchanged our forecast of another 25bps increase in the BCRP reference rate in November, to 7.25%,** with which the BCRP would be ending the rising reference rate cycle. **However, we do not discount the possibility that the BCRP stays put at 7.0%. This could occur if there is a sharp enough drop in inflation expectations twelve months out, which is a key variable for the BCRP in its policy decision.**

Chart 1



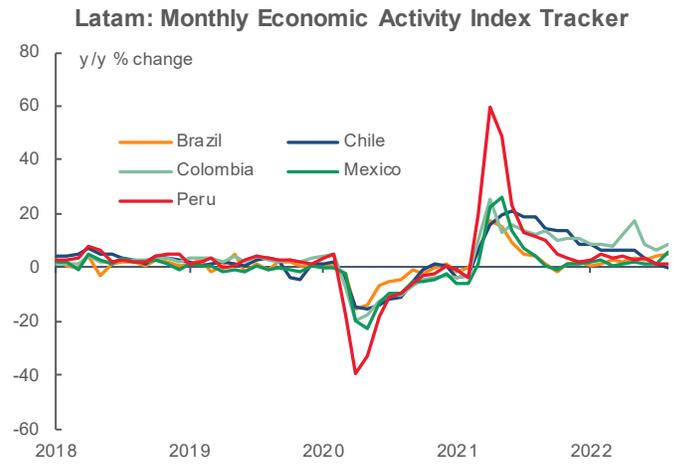
Key Economic Charts

Chart 1



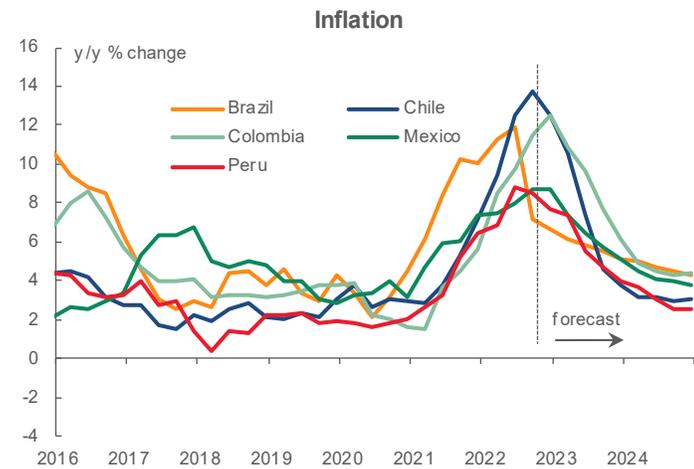
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



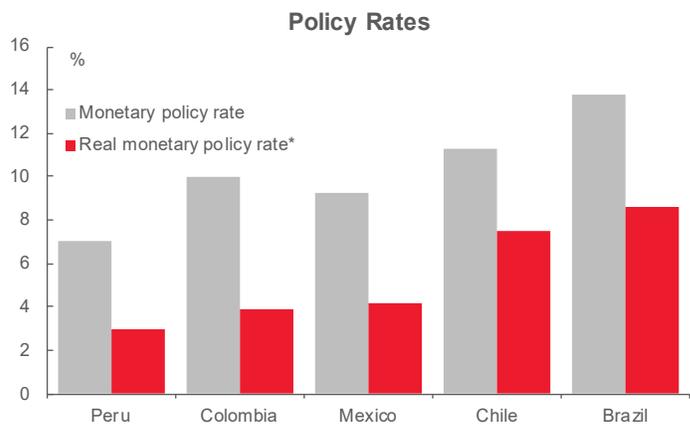
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



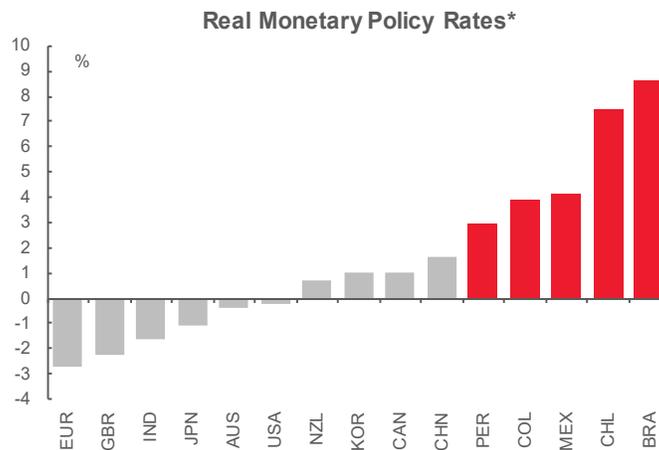
Sources: Scotiabank Economics, Haver Analytics.

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

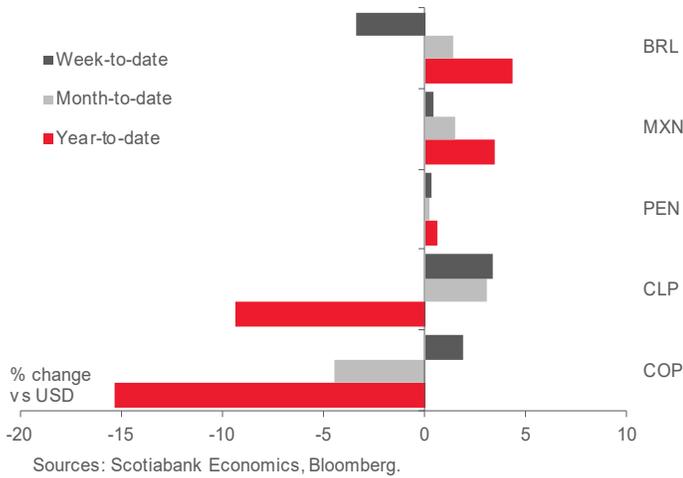


Chart 2

Latam Equities Performance

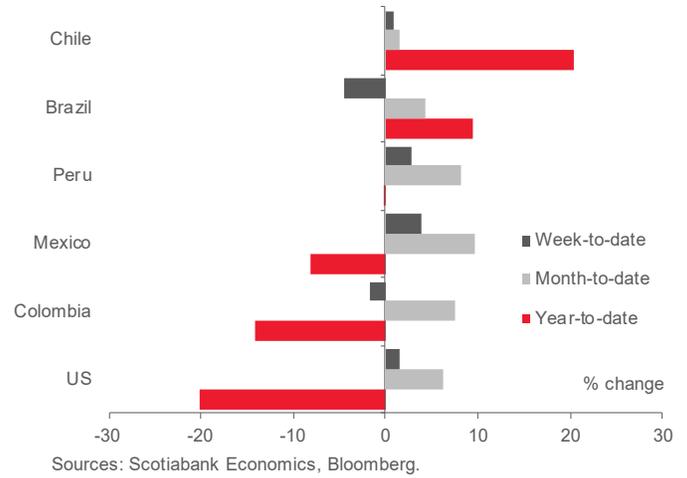


Chart 3

USD vs Latam Currencies

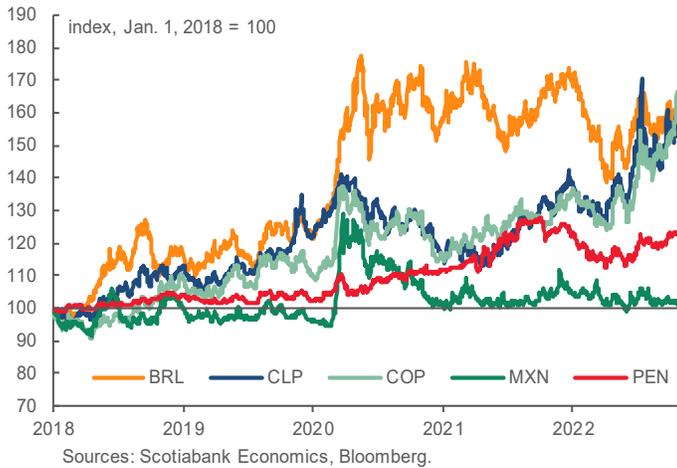
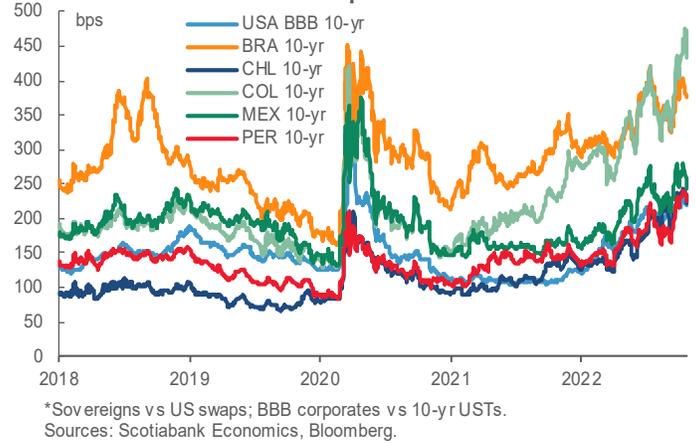


Chart 4

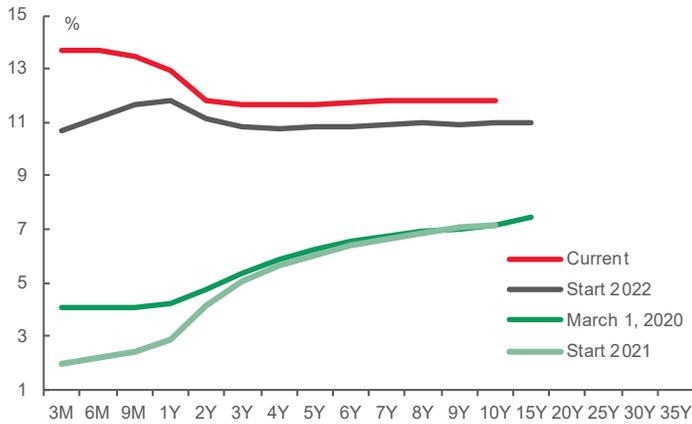
10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US*



Yield Curves

Chart 1

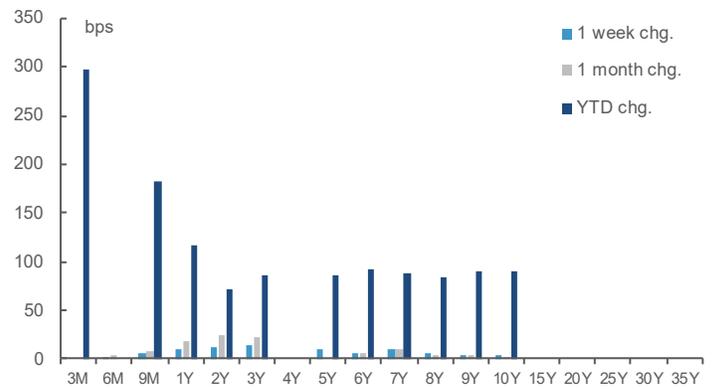
Brazil: BM&F Pre x DI Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 2

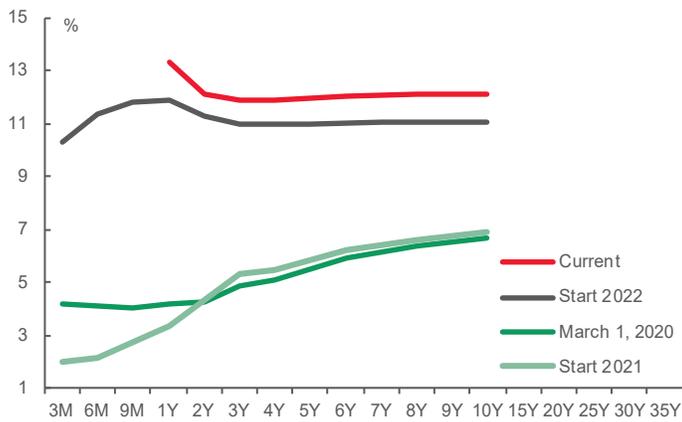
Brazil: BM&F Pre x DI Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 3

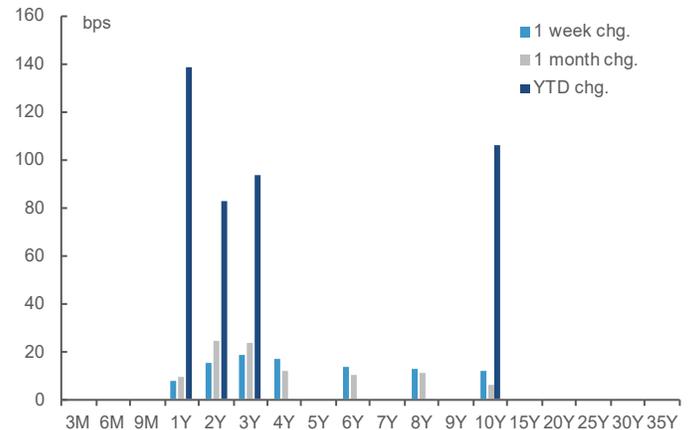
Brazil: NTN Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 4

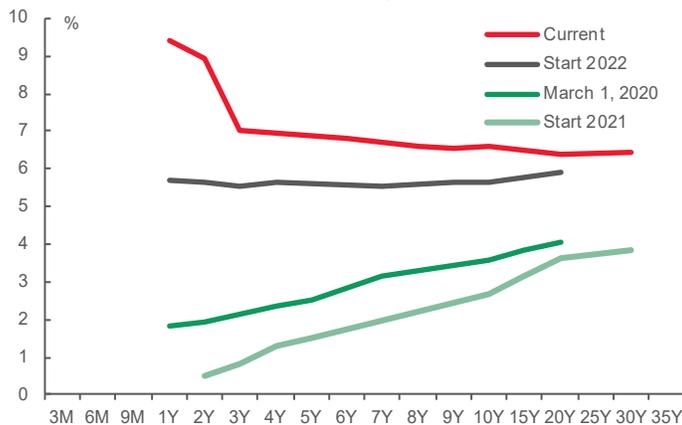
Brazil: NTN Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 5

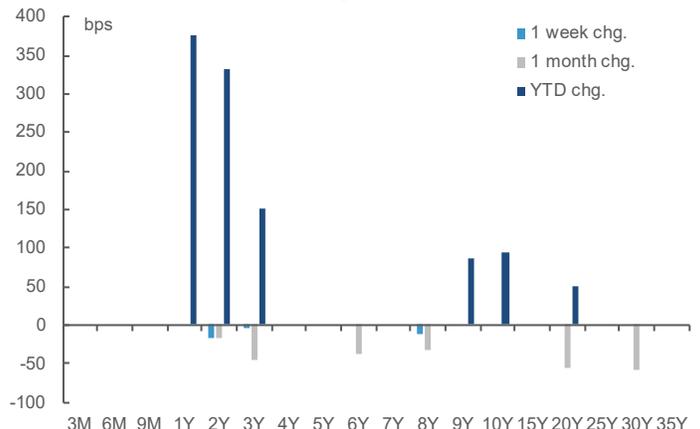
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 6

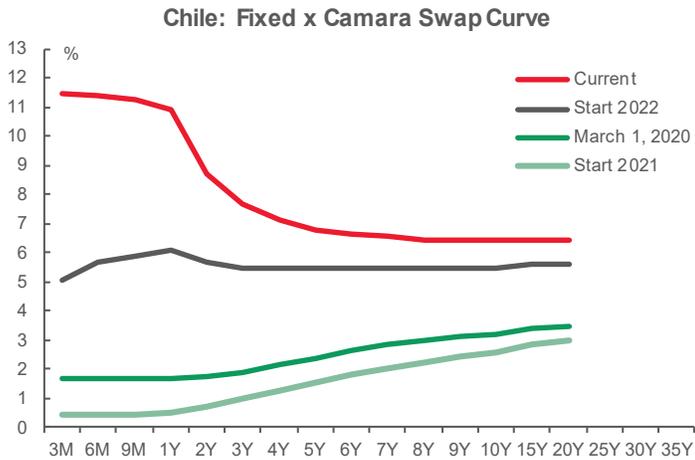
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

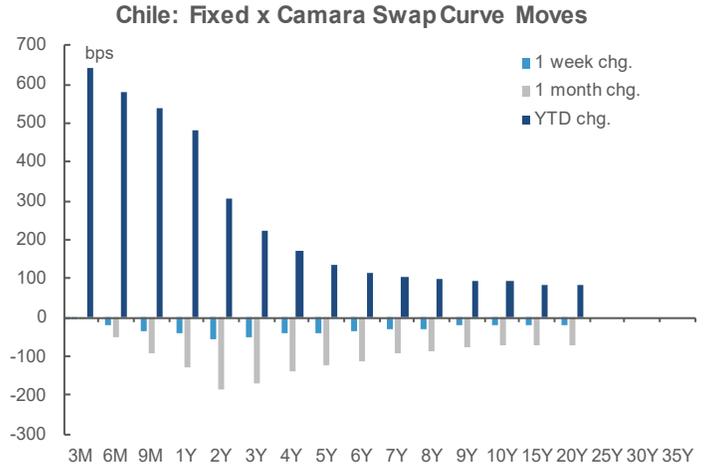
Yield Curves

Chart 7



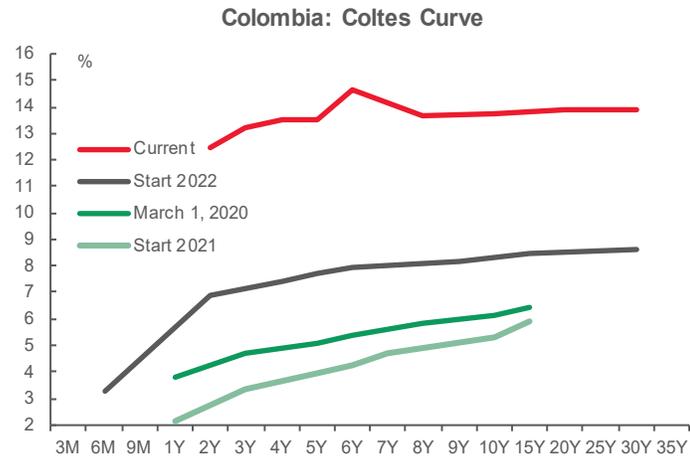
Sources: Scotiabank Economics, Bloomberg.

Chart 8



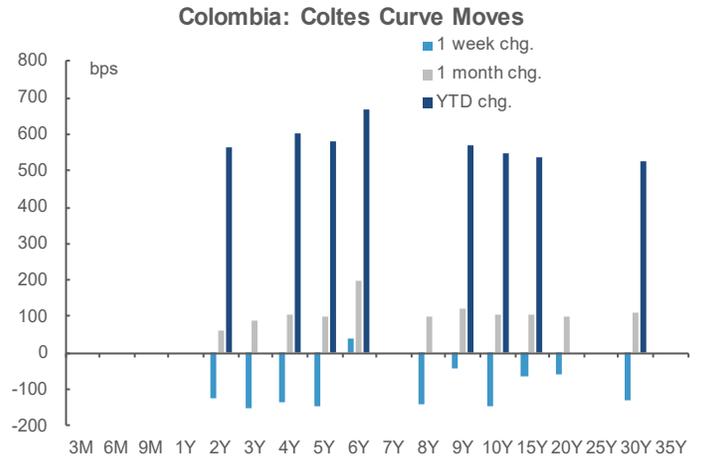
Sources: Scotiabank Economics, Bloomberg.

Chart 9



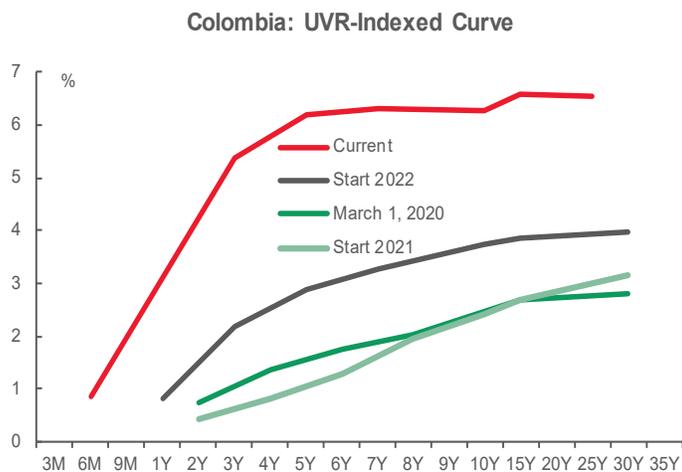
Sources: Scotiabank Economics, Bloomberg.

Chart 10



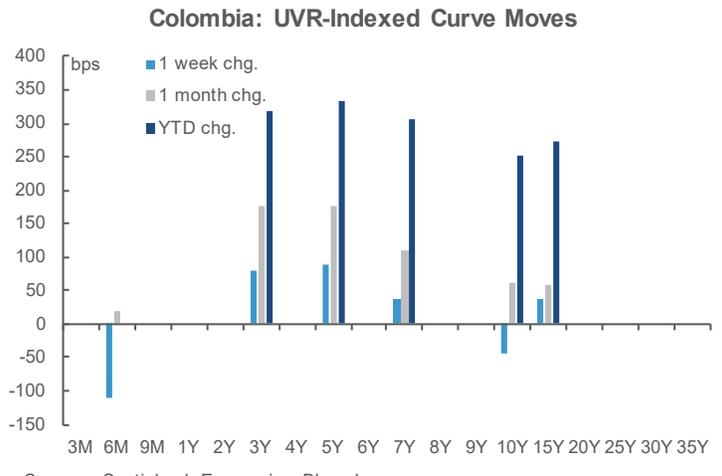
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

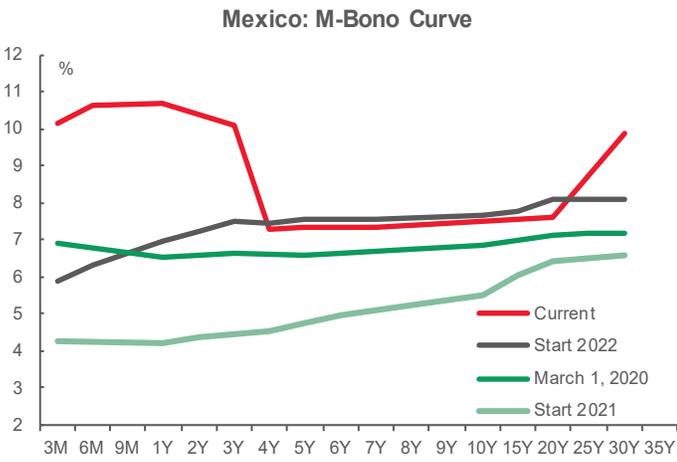
Chart 12



Sources: Scotiabank Economics, Bloomberg.

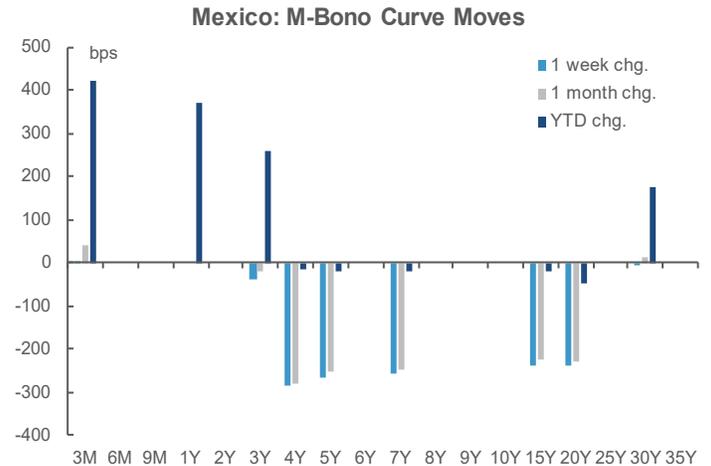
Yield Curves

Chart 13



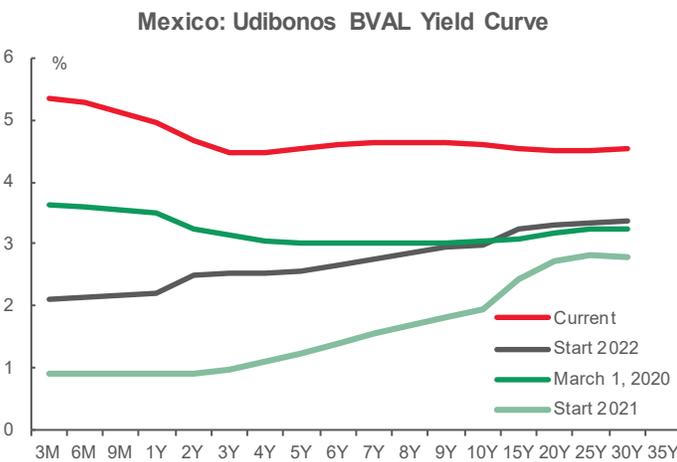
Sources: Scotiabank Economics, Bloomberg.

Chart 14



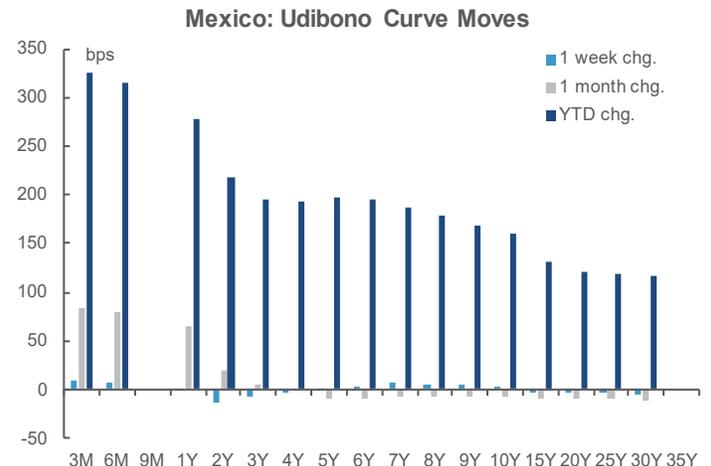
Sources: Scotiabank Economics, Bloomberg.

Chart 15



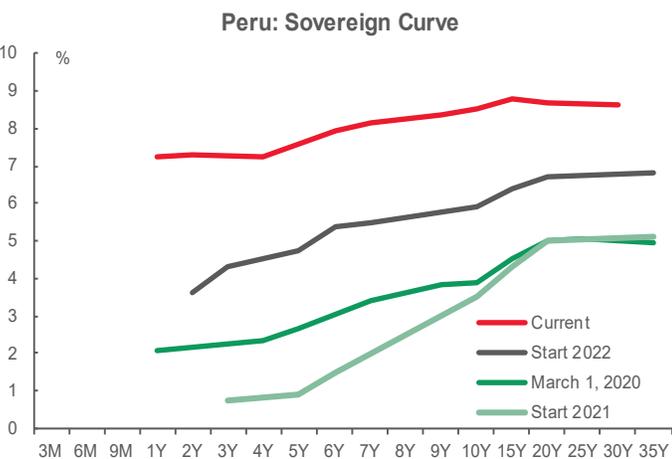
Sources: Scotiabank Economics, Bloomberg.

Chart 16



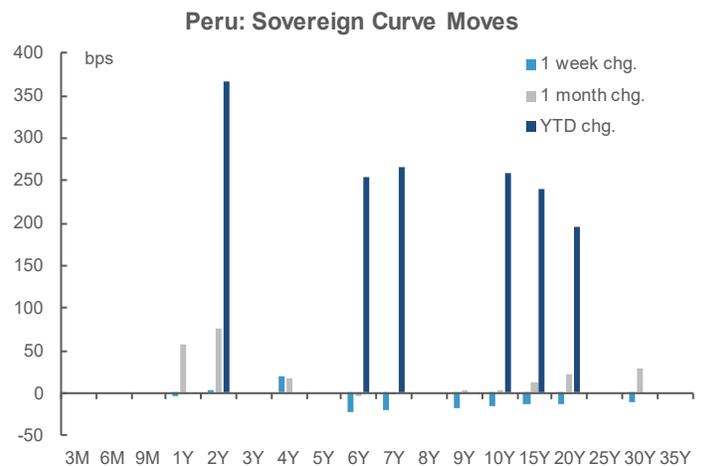
Sources: Scotiabank Economics, Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for October 29–November 11

BRAZIL

Date	Time Event	Period	BNS Consensus	Latest	BNS Comments
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	--	--	223366.0
Nov-01	7:00 FGV CPI IPC-S (%)	31-Oct	--	--	0.6
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
Nov-07	13:00 Trade Balance Weekly (USD mn)	06-Nov	--	--	1170.0
Nov-08	6:00 FGV CPI IPC-S (%)	07-Nov	--	--	0.6
Nov-08	6:00 FGV Inflation IGP-DI (y/y)	Oct	--	--	7.9
Nov-08	6:00 FGV Inflation IGP-DI (m/m)	Oct	--	--	-1.2
Nov 7-8	Vehicle Sales Anfavea	Oct	--	--	193978.0
Nov 7-8	Vehicle Production Anfavea	Oct	--	--	207762.0
Nov 7-8	Vehicle Exports Anfavea	Oct	--	--	28544.0
Nov-09	7:00 Retail Sales (m/m)	Sep	--	--	-0.1
Nov-09	7:00 Retail Sales (y/y)	Sep	--	--	1.6
Nov-09	7:00 Retail Sales Broad (m/m)	Sep	--	--	-0.6
Nov-09	7:00 Retail Sales Broad (y/y)	Sep	--	--	-0.7
Nov-10	3:00 FIPE CPI - Weekly (%)	07-Nov	--	--	0.4
Nov-10	7:00 IBGE Inflation IPCA (m/m)	Oct	--	--	-0.3
Nov-10	7:00 IBGE Inflation IPCA (y/y)	Oct	--	--	7.2
Nov-11	7:00 IBGE Services Volume (y/y) NSA	Sep	--	--	8.0
Nov-11	7:00 IBGE Services Volume (m/m) SA	Sep	--	--	0.7

CHILE

Date	Time Event	Period	BNS Consensus	Latest	BNS Comments
Nov-02	7:30 Economic Activity (y/y)	Sep	-2.3	--	0.0 We reaffirm our GDP growth projection of 2.1% for 2022. For next
Nov-02	7:30 Economic Activity (m/m)	Sep	--	--	0.6 year, we anticipate contractions in monthly GDP until Q3, which would lead to a drop in economic activity of 0.9% in 2023.
Nov-02	Central Bank Traders Survey		--	--	--
Nov-07	6:30 International Reserves (USD mn)	Oct	--	--	37782.0
Nov-07	6:30 Trade Balance (USD mn)	Oct	--	--	-513.4
Nov-07	6:30 Exports Total (USD mn)	Oct	--	--	75513
Nov-07	6:30 Imports Total (USD mn)	Oct	--	--	8064.6
Nov-07	6:30 Copper Exports (USD mn)	Oct	--	--	3335.8
Nov-07	7:00 Nominal Wage (y/y)	Sep	--	--	11.1
Nov-08	6:00 CPI (m/m)	Oct	1.1	--	0.9 We project a CPI increase of 1.1% m/m (13.4% y/y), mainly due to
Nov-08	6:00 CPI (y/y)	Oct	13.4	--	13.7 increases in transportation and foods (volatile inflation).
Nov 2-8	IMCE Business Confidence	Oct	--	--	43.3
Nov-10	Central Bank Economist Survey		--	--	--
Nov 8-11	Vehicle Sales Total	Oct	--	--	36718.0

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for October 29–November 11

COLOMBIA

Date	Time Event	Period	BNS Consensus	Latest	BNS Comments
Oct-31	11:00 National Unemployment Rate (%)	Sep	--	--	10.6
Oct-31	11:00 Urban Unemployment Rate (%)	Sep	--	10.6	10.8
Nov-01	11:00 Davivienda Colombia PMI Mfg	Oct	--	--	52.8
Nov-01	11:00 Exports FOB (USD mn)	Sep	--	4835.0	4582.2
Nov-01	18:00 Colombia Monetary Policy Minutes		--	--	--
Nov-05	13:00 CPI (m/m)	Oct	--	0.7	0.9
Nov-05	13:00 CPI (y/y)	Oct	--	12.1	11.4
Nov-05	13:00 CPI Core (m/m)	Oct	--	--	0.8
Nov-05	13:00 CPI Core (y/y)	Oct	--	--	8.3
Nov-08	Consumer Confidence Index	Oct	--	--	-11.5
Nov-11	10:00 Manufacturing Production (y/y)	Sep	--	--	9.1
Nov-11	10:00 Retail Sales (y/y)	Sep	--	--	8.1
Nov-11	10:00 Industrial Production (y/y)	Sep	--	--	7.1

MEXICO

Date	Time Event	Period	BNS Consensus	Latest	BNS Comments
Oct-31	8:00 GDP NSA (y/y)	3Q P	--	3.3	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	--	--	196227.0
Nov-01	11:00 Remittances Total (USD mn)	Sep	--	5238.0	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
Nov-07	7:00 Gross Fixed Investment (%)	Aug	--	--	2.1
Nov-07	7:00 Consumer Confidence	Oct	--	--	41.0
Nov-07	7:00 Vehicle Exports	Oct	--	--	259792.0
Nov-07	7:00 Vehicle Production	Oct	--	--	273329.0
Nov-07	Banamex Survey of Economists		--	--	--
Nov-08	10:00 International Reserves Weekly (USD mn)	04-Nov	--	--	196227.0
Nov-09	7:00 CPI (m/m)	Oct	--	--	0.6
Nov-09	7:00 CPI Core (m/m)	Oct	--	--	0.7
Nov-09	7:00 CPI (y/y)	Oct	--	--	8.7
Nov-09	7:00 CPI Core (y/y)	Oct	--	--	8.3
Nov-09	7:00 Bi-Weekly CPI (%)	31-Oct	--	--	0.4
Nov-09	7:00 Bi-Weekly Core CPI (%)	31-Oct	--	--	0.4
Nov-09	7:00 Bi-Weekly CPI (y/y)	31-Oct	--	--	8.5
Nov-09	7:00 Bi-Weekly Core CPI (y/y)	31-Oct	--	--	8.4
Nov-10	14:00 Overnight Rate (%)	10-Nov	10.50	--	9.25
Nov-10	ANTAD Same-Store Sales (y/y)	Oct	--	--	8.2
Nov-10	Nominal Wages (m/m)	Oct	--	--	8.2
Nov-11	7:00 Manuf. Production NSA (y/y)	Sep	--	--	8.1
Nov-11	7:00 Industrial Production NSA (y/y)	Sep	--	--	3.9
Nov-11	7:00 Industrial Production SA (m/m)	Sep	--	--	0.0

PERU

Date	Time Event	Period	BNS Consensus	Latest	BNS Comments
Nov-02	11:00 Lima CPI (m/m)	Oct	0.2	0.5	0.5 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	8.5 Inflation in October could show the most visible decline in the trajectory of annual inflation.
Nov-10	18:00 Reference Rate (%)	10-Nov	7.25	--	7.00 We expect an additional 25bps hike as part of the precautionary adjustments to the monetary policy stance.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

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