

Latin America 2021 outlook

Uneven recovery, uneven legacy

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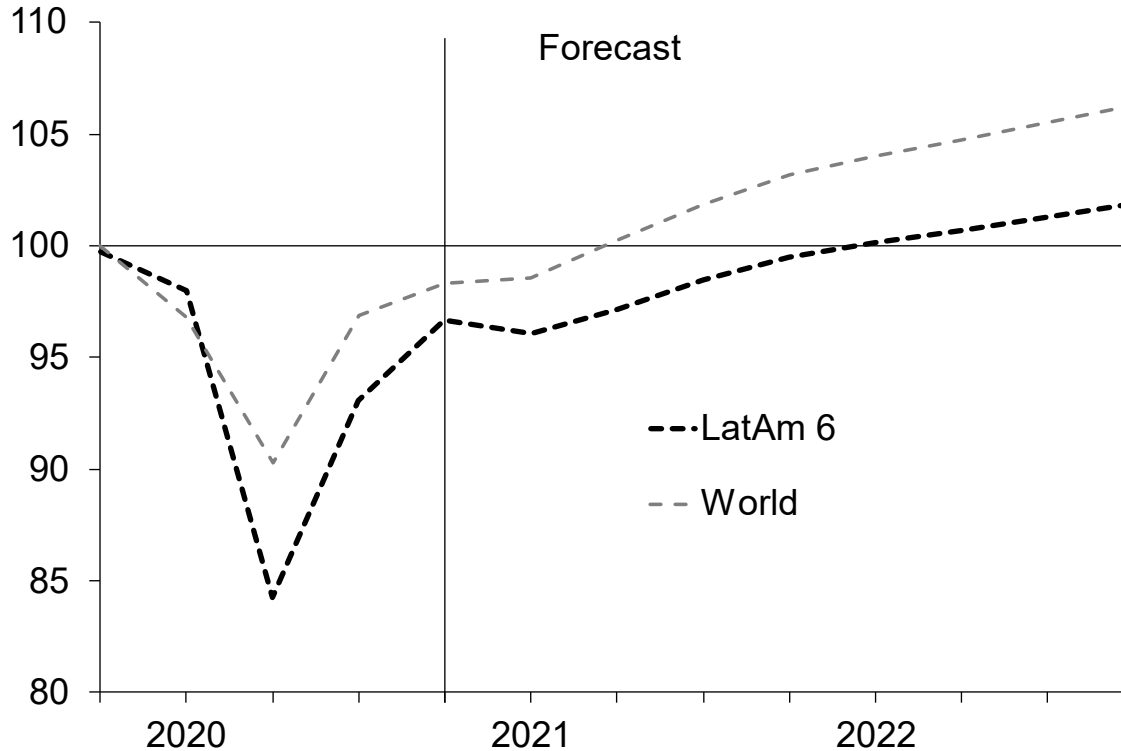
March 2021

Unimpressive, uneven recovery

LatAm was hit harder and will take longer to recover

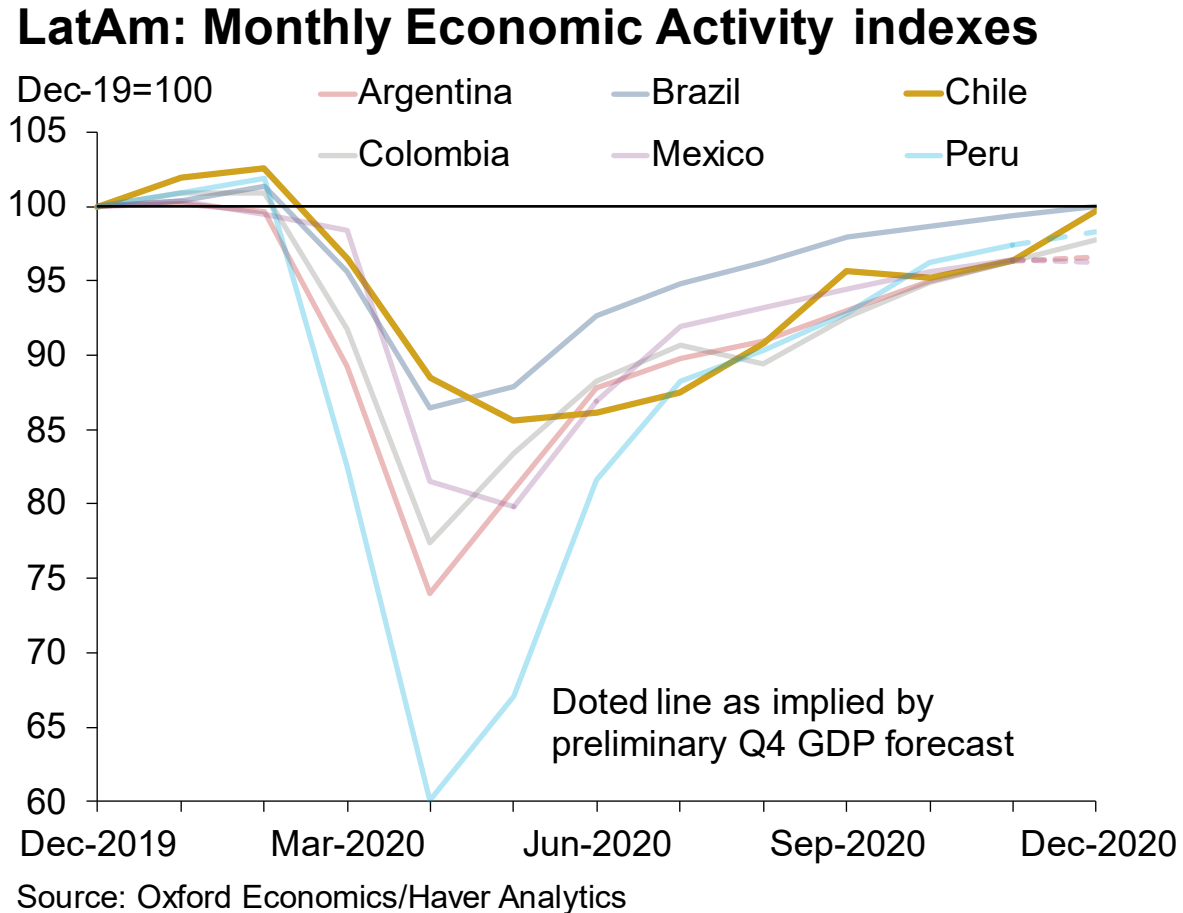
LatAm 6: Output recovery

Pre-pandemic = 100



Source : Oxford Economics

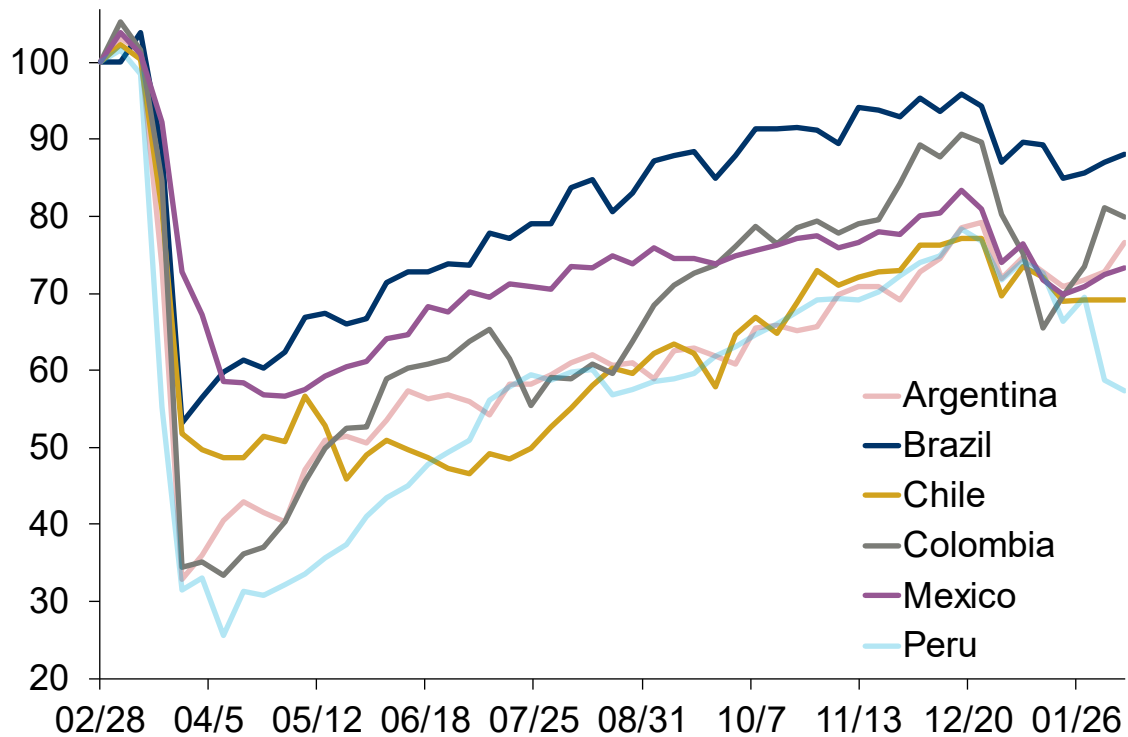
Recovery has been uneven across countries



Lockdown stringency varied in intensity and duration

LatAm: Mobility index

100=Baseline

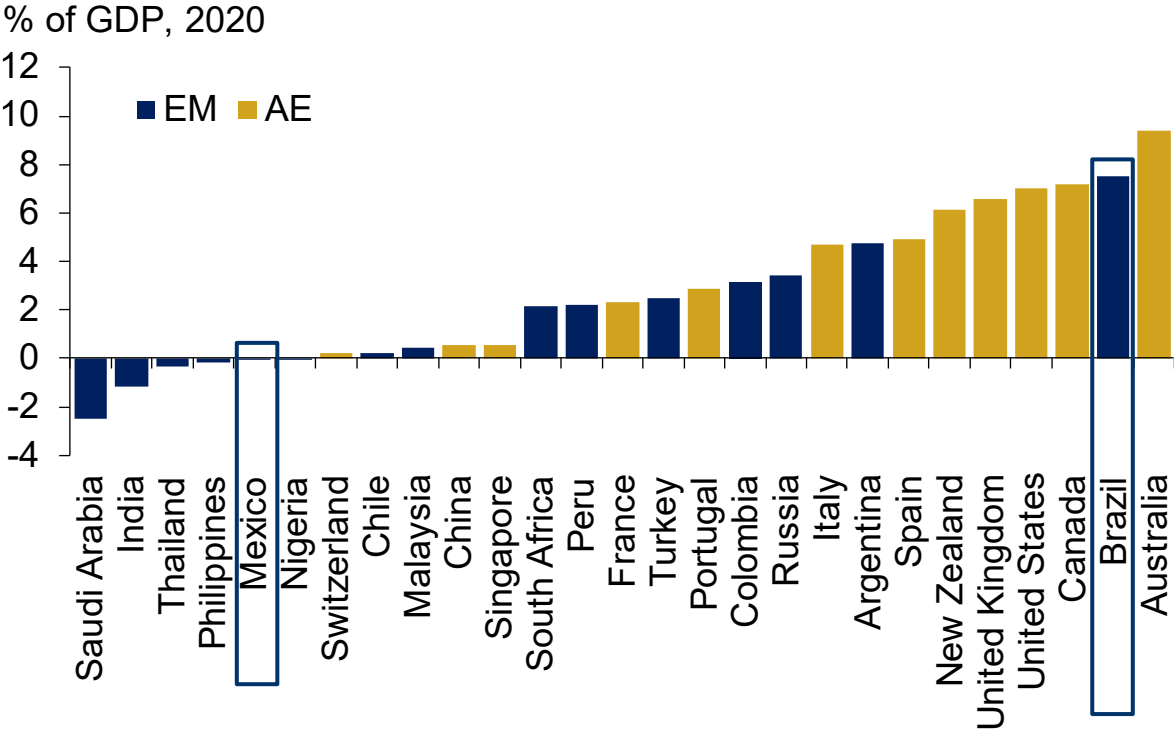


Source : Oxford Economics/Google Mobility Reports

Mobility r2 with GDP = 0.79, Services intensity r2 with GDP = 0.79

Fiscal support was uneven – Brazil vs Mexico stark contrast

Global: Primary spending forecast surprise*



*Computed as the difference between the actual data for primary spending and our forecast in Dec/19 (as % of previous year's GDP)

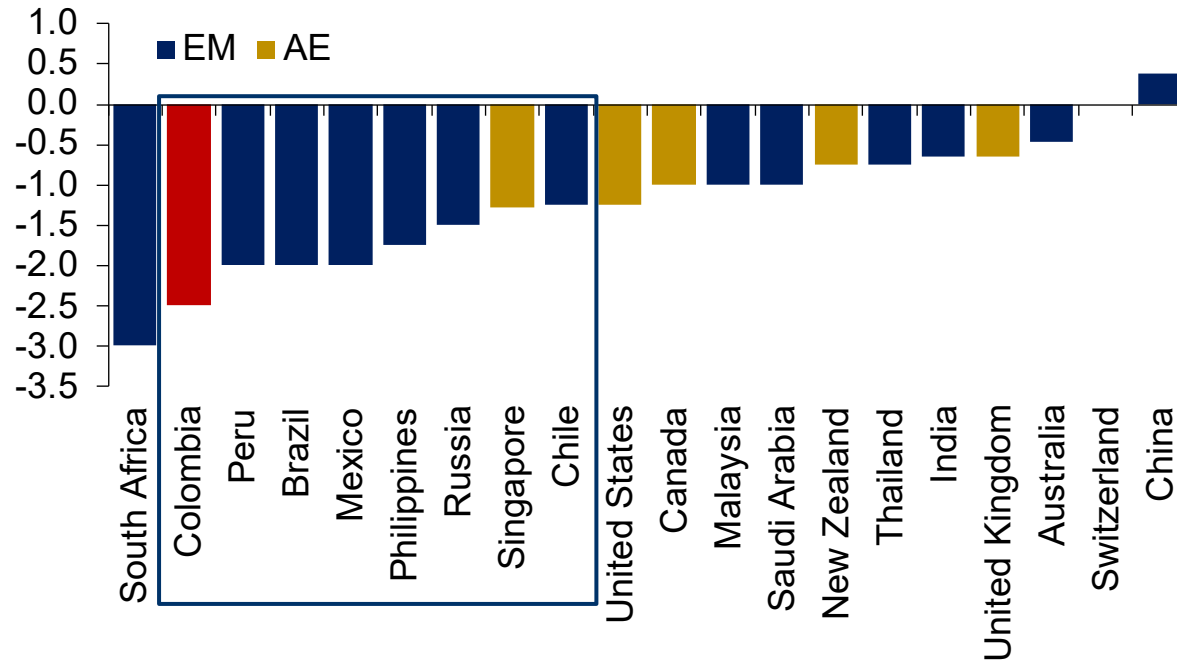
Source : Oxford Economics

Primary spending r2 with GDP = 0.18

Monetary support varied too, but was generally ample

Global: Policy rate forecast surprise*

Percentage points



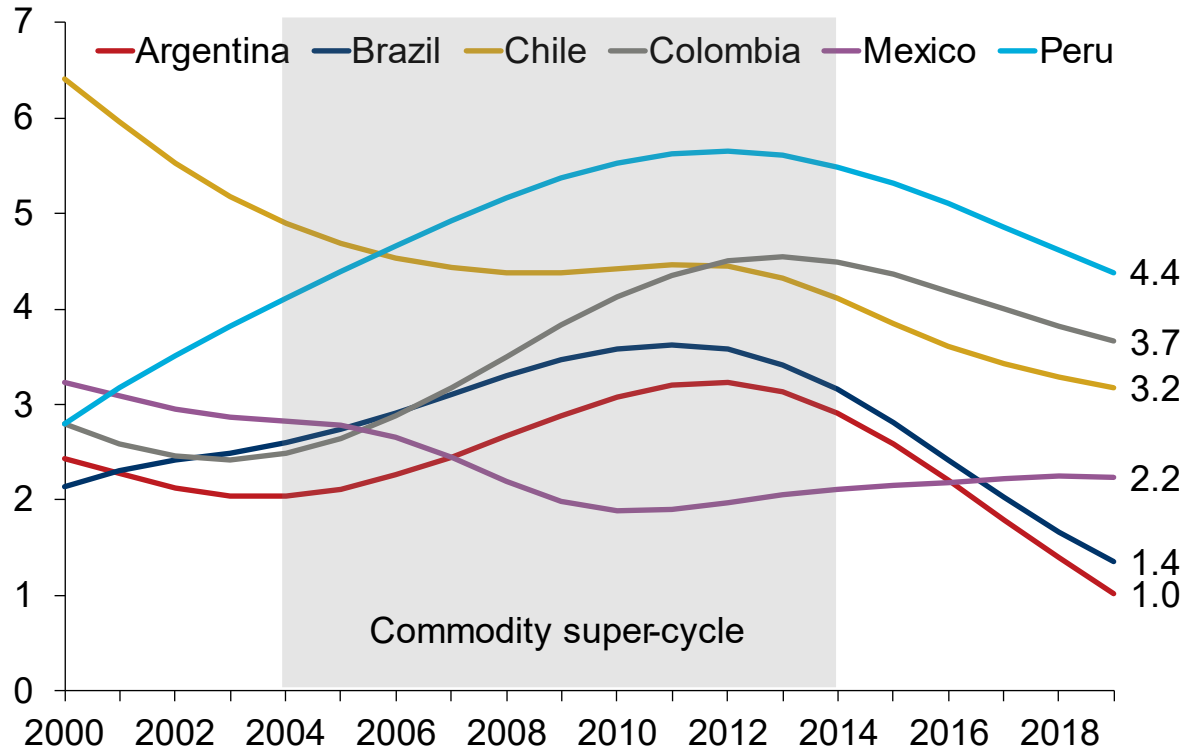
*Computed as the difference between current and Dec/19's policy rate for 2020 baseline (end of period)

Source : Oxford Economics

Potential growth was slowing well before pandemic hit

LatAm6: Trend growth pre-pandemic

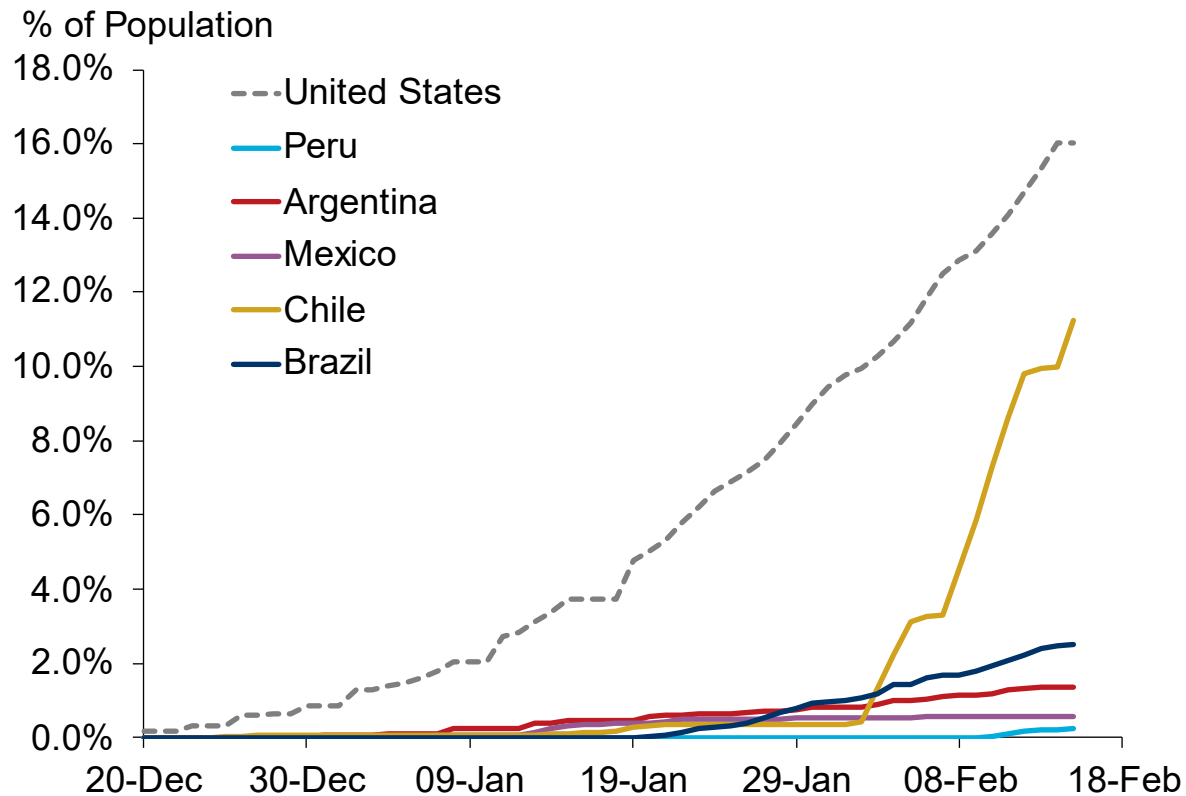
% growth (potential output, 10year moving average)



Source : Oxford Economics/Haver Analytics

Vaccine rollout slow everywhere, except in Chile

Comulative vaccine doses administered

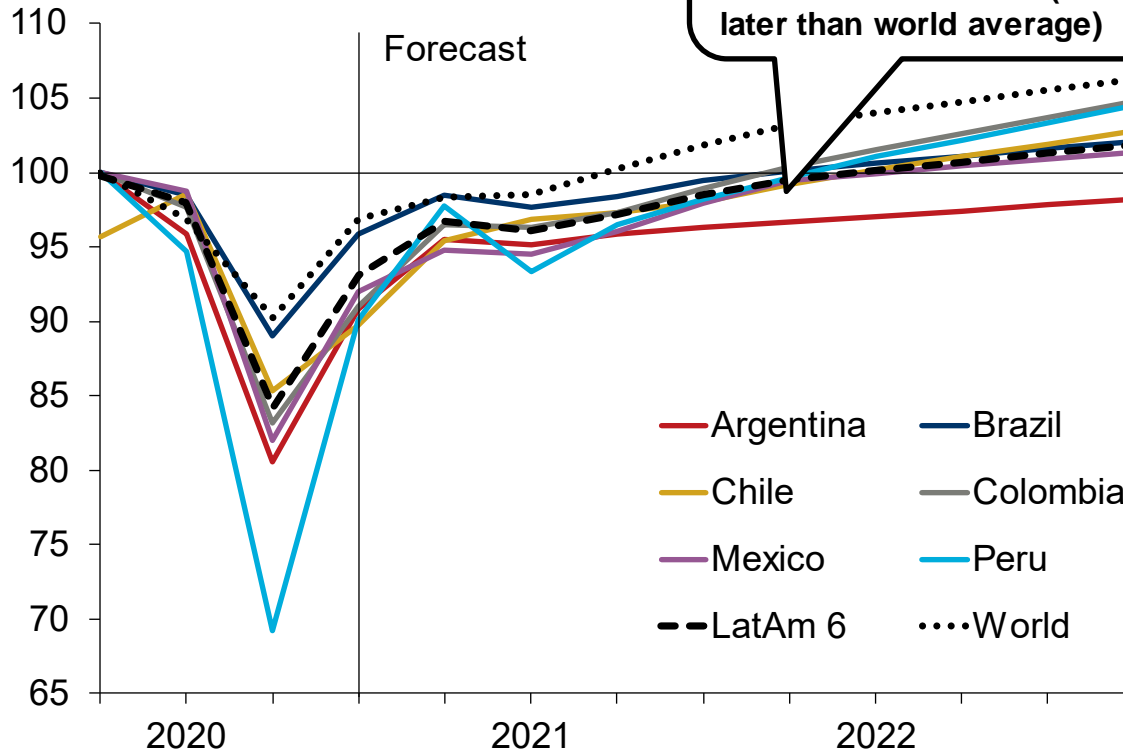


Source: Oxford Economics/Our World in Data

Resulting in an unimpressive, uneven recovery

LatAm 6: Output recovery

Pre-pandemic = 100

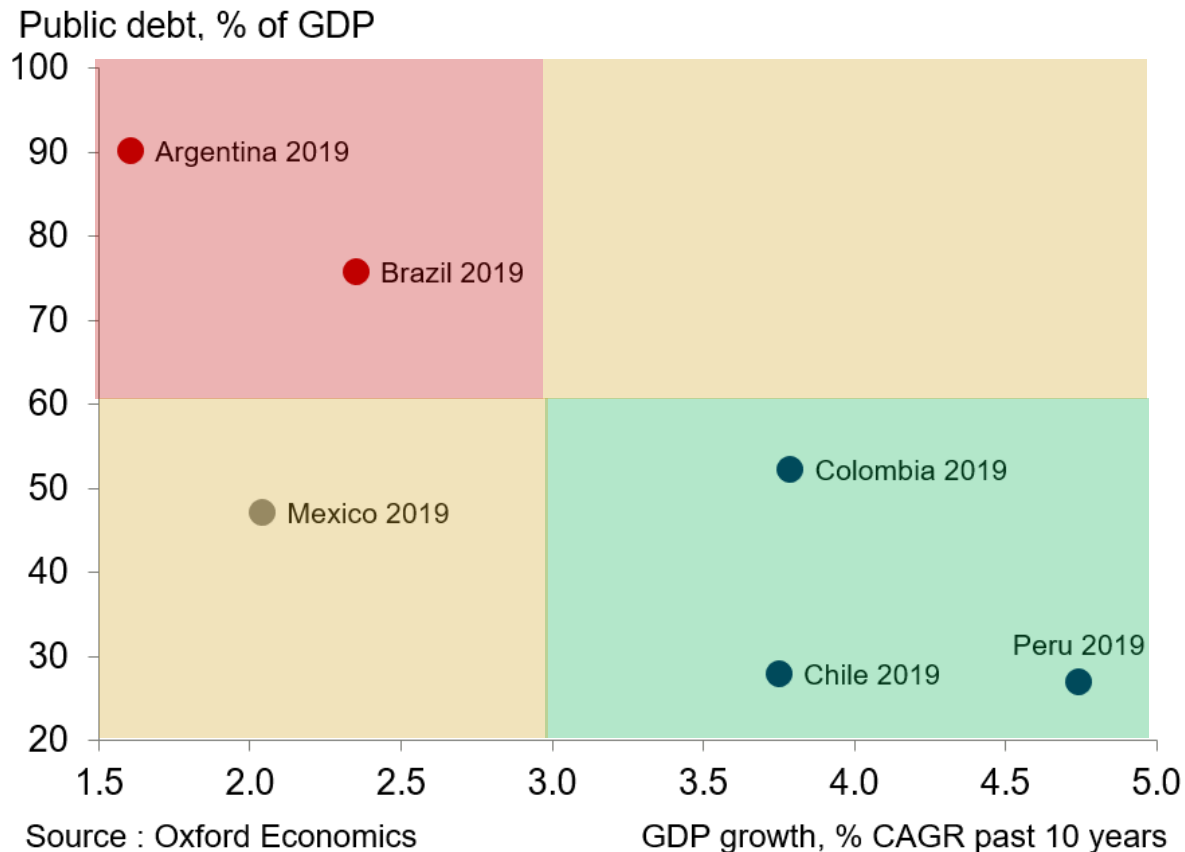


Source : Oxford Economics

Uneven legacy

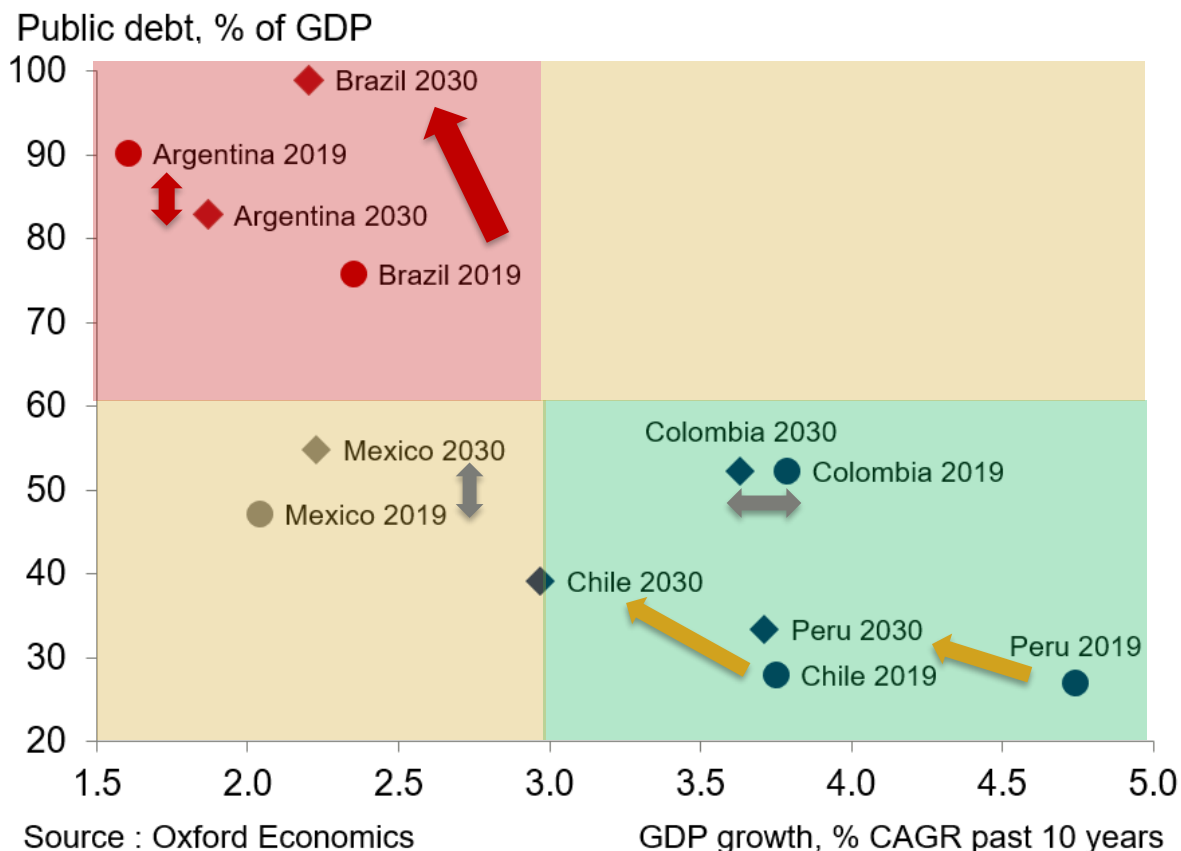
Pandemic exacerbated low growth-high debt equilibrium

Latin America's great divide: Atlantic vs Pacific

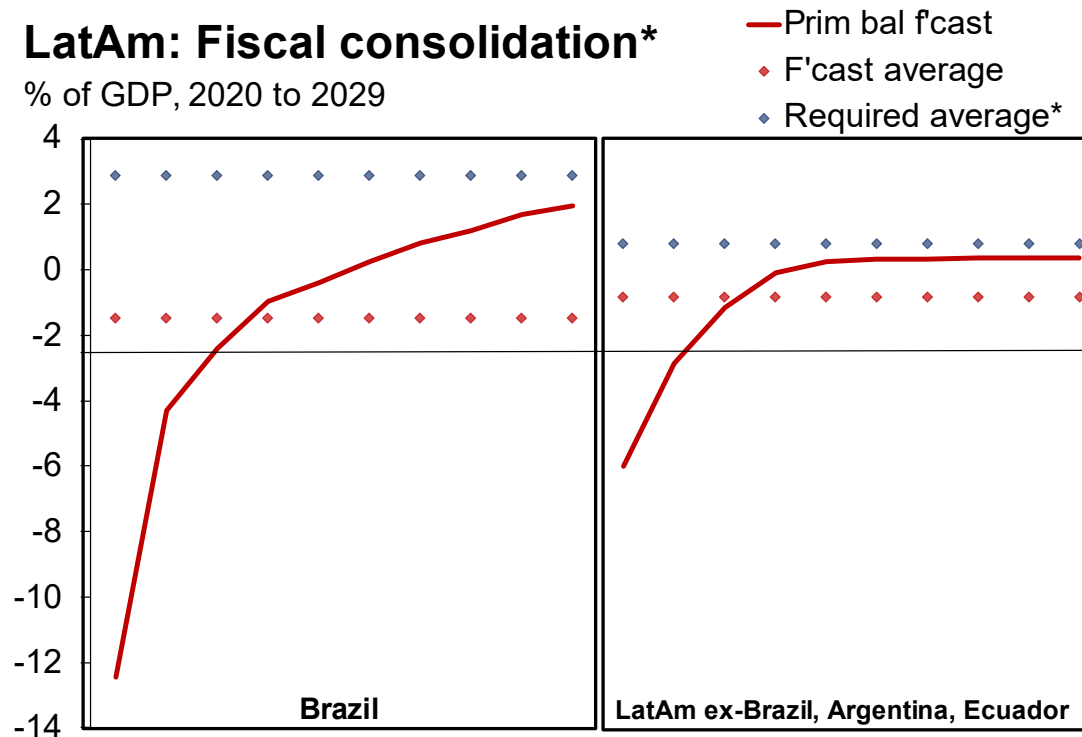


More concerning for Bra/Arg than for its Pacific neighbors

Latin America's great divide: Atlantic vs Pacific



Brazil's long fiscal consolidation is socially challenging

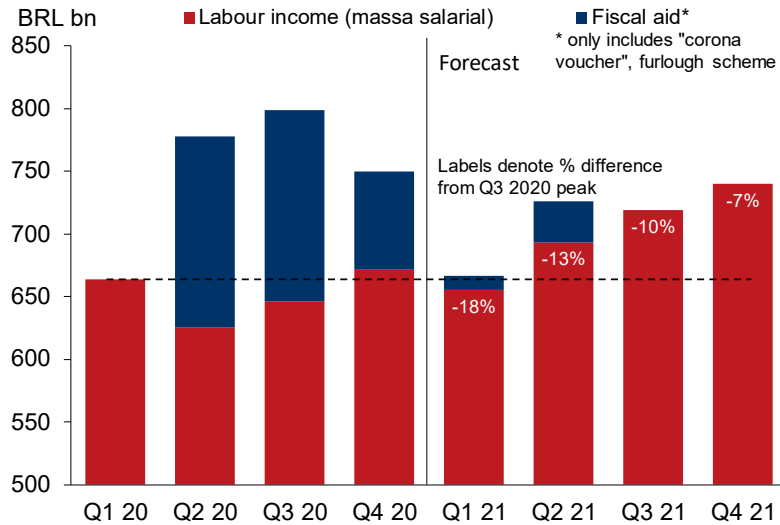


*Required average primary surplus estimated to repay 2020's debt increase in 10 years. For Ecuador, target was set at reaching debt/GDP of 45% by 2030.

Source : Oxford Economics

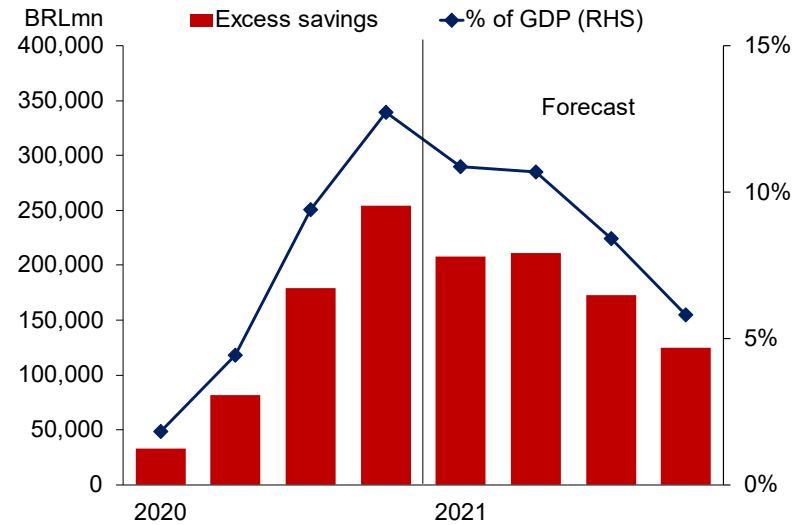
Brazilians better give good use to their savings!

Brazil: Labour income topped up by fiscal aid



Source : Oxford Economics/Haver Analytics

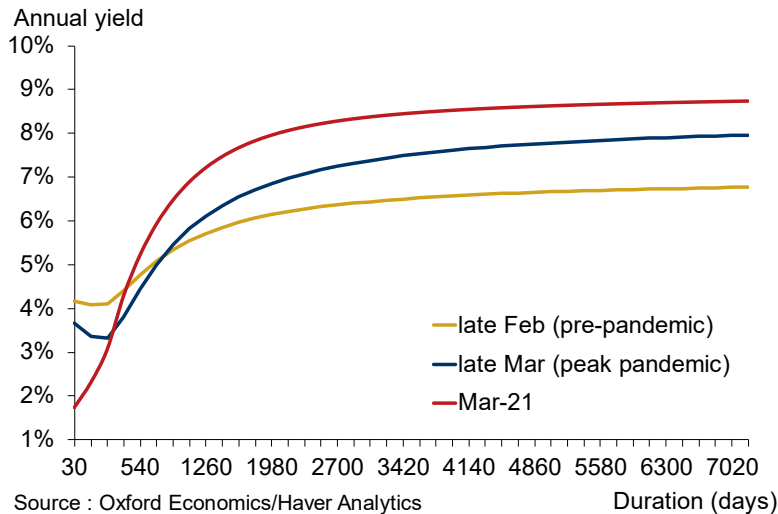
Brazil: Households' excess savings



Source : Oxford Economics/Haver Analytics

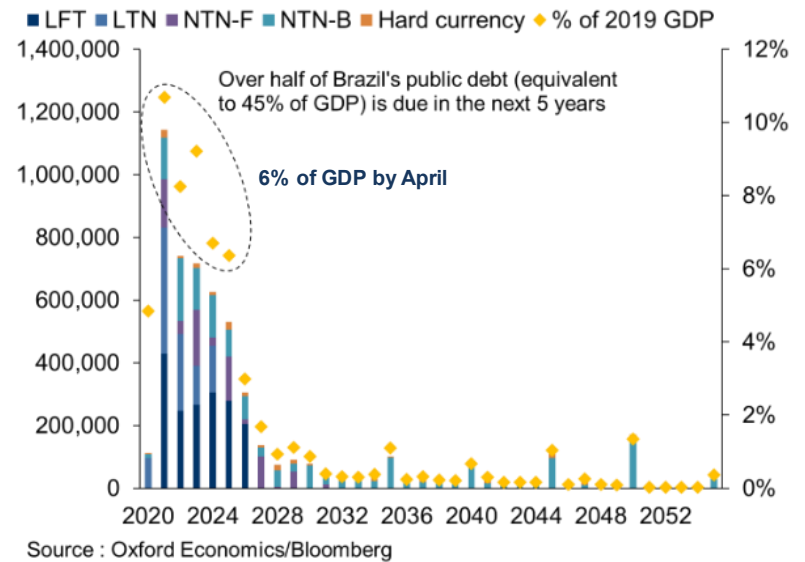
Steep yield curve matches steep maturity profile

Brazil: Yield curve



Note: curves obtained through a NSS interpolation function

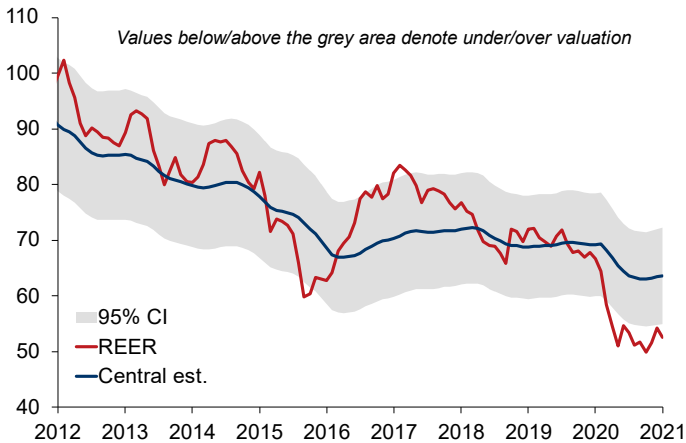
Brazil: Debt maturity profile (principal + interest)



No surprise BRL is cheapest LatAm FX vs “fair value”

Brazil: BRL fair value estimates (REER)

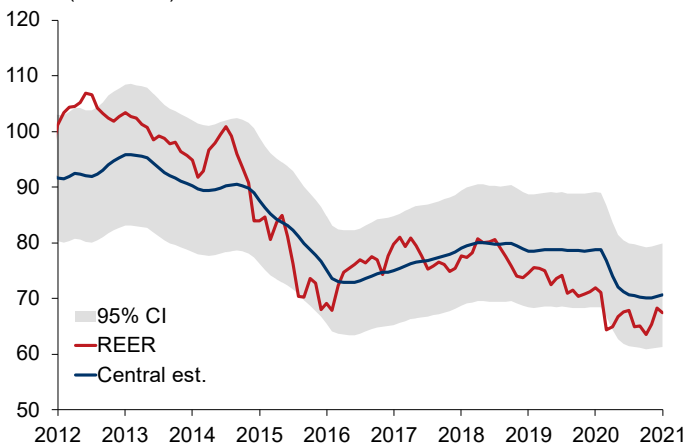
Index (2010=100)



Source : Oxford Economics/Haver Analytics

Colombia: COP fair value estimates (REER)

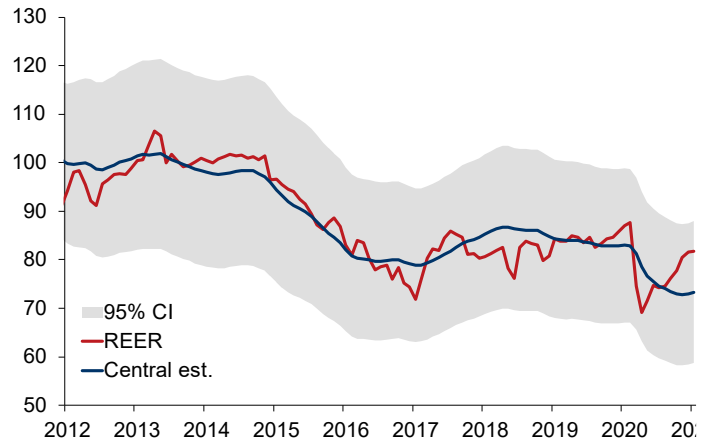
Index (2010=100)



Source : Oxford Economics/Haver Analytics

Mexico: MXN fair value estimates (REER)

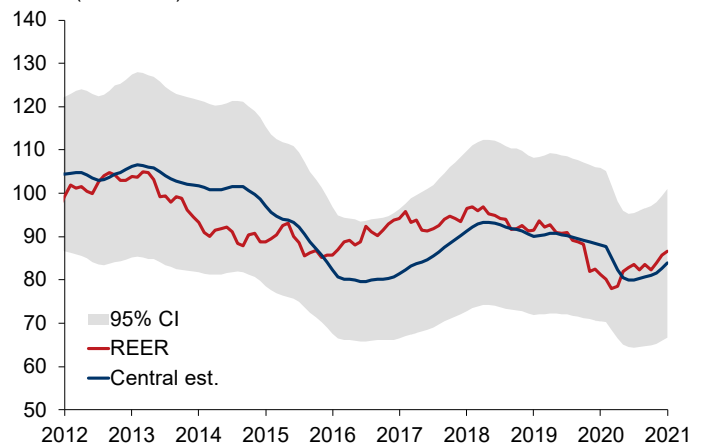
Index (2010=100)



Source : Oxford Economics/Haver Analytics

Chile: CLP fair value estimates (REER)

Index (2010=100)



Source : Oxford Economics/Haver Analytics

LatAm FX not so cheap after USD weakness and TOT boost

$$reer_{t,k} = \beta_0 + \sum_{i=1}^3 \beta_i reer_{t-i,k} + \beta_4 usreer_t + \beta_5 embi_{t,k} + \beta_6 tot_{t,k} + \beta_7 i1y_{real_{t-1,k}} + \gamma_k + \varepsilon_t$$

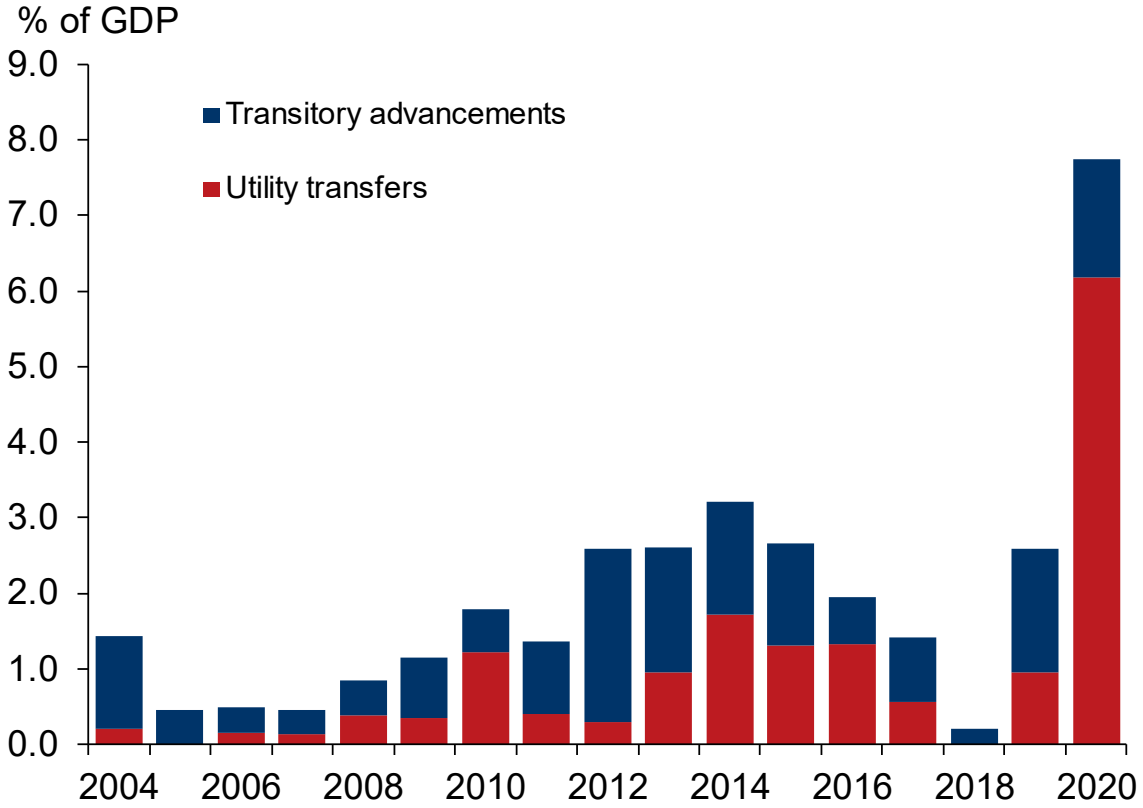
LatAm: Nominal FX misalignment

Values expressed in local currency per US\$

	Last price	Jan 2020 Av. price	Trough	Estimate		Misalignment* (%)	
				95% conf. bounds		From last price	From trough
BRL	5.37	5.35	5.89	4.56	5.12 - 4.20	-15.2	-22.6
MXN	20.2	19.9	25.4	22.5	32.7 - 18.6	11.6	-11.3
COP	3,518	3,495	4,180	3,347	3,885 - 3,026	-4.8	-19.9
CLP	718.1	723.8	866.7	748.8	1,035 - 633.4	4.3	-13.6
PEN	3.65	3.62	3.66	3.49	4.16 - 3.12	-4.3	-4.6

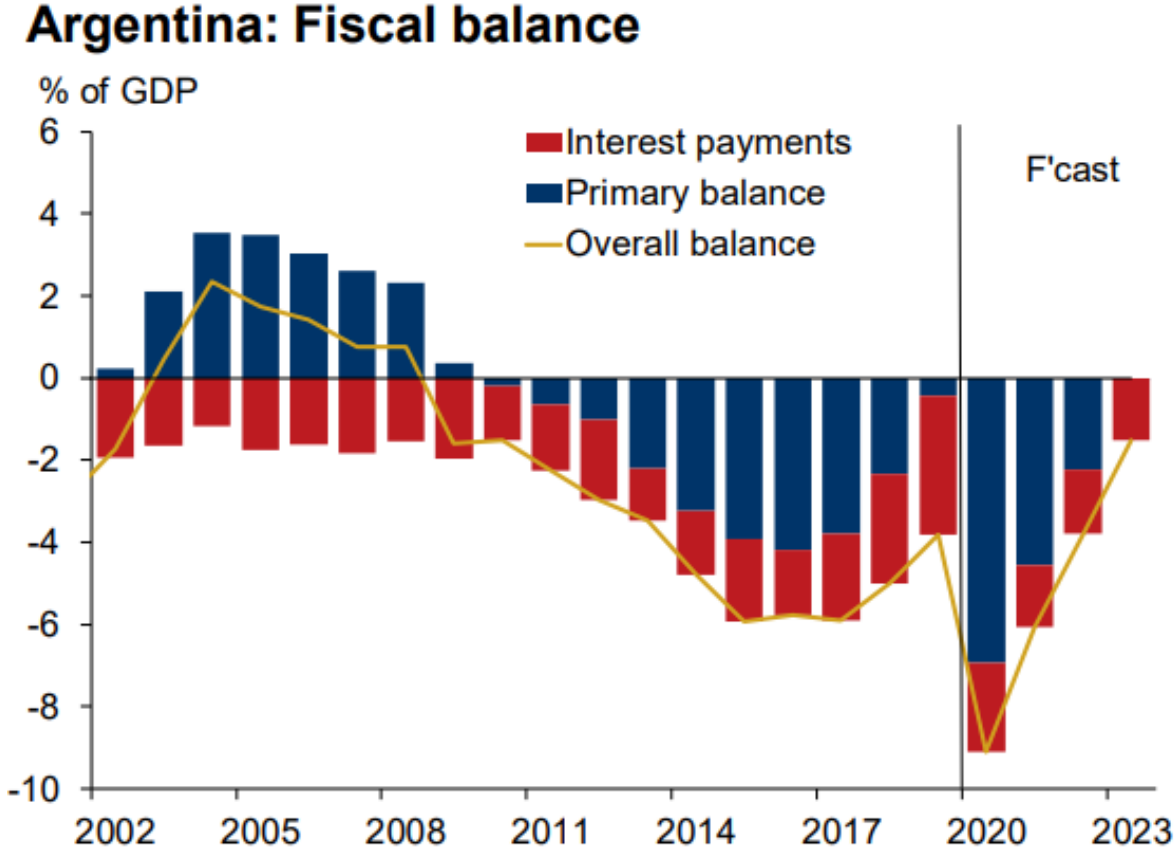
Another sad legacy is Argentina far from returning to markets

Argentina: BCRA transfers to the government



* as of December 31
Source : Oxford Economics / Haver Analytics

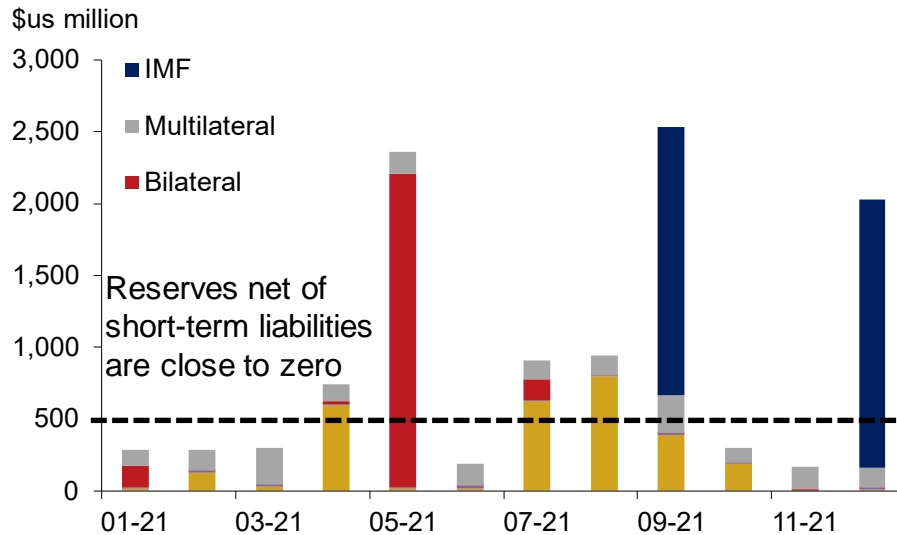
Guzman not willing to speed up fiscal adjustment



Source : Oxford Economics / Haver Analytics

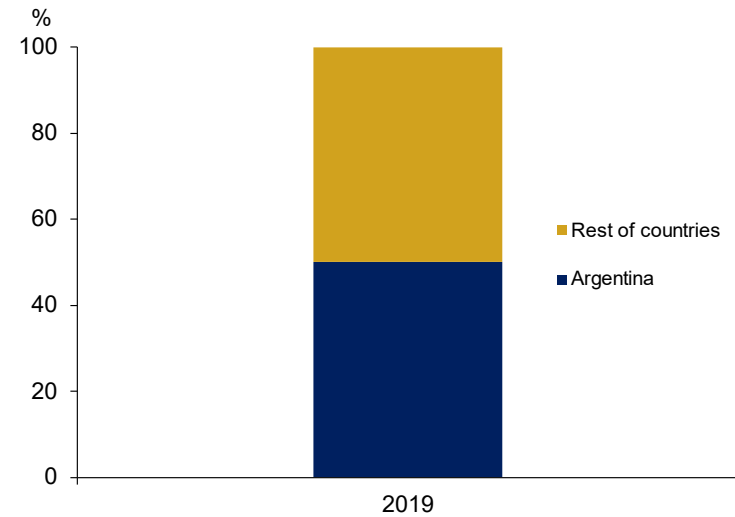
Argentina needs the IMF, and the IMF needs Argentina

Argentina: Public amortization schedule



Source : Oxford Economics/ Finance Ministry

IMF: Non-concessional outstanding loans

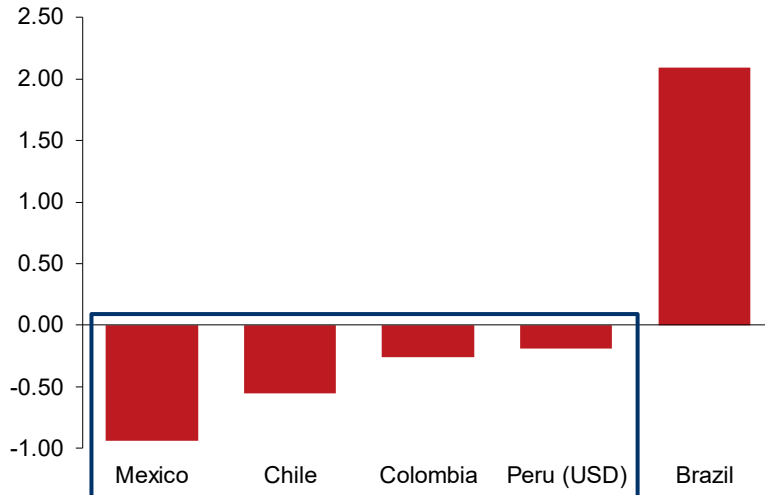


Source : Oxford Economics / IMF

What's the legacy for the Andeans?

LatAm5: Change in long-term govt bond yields

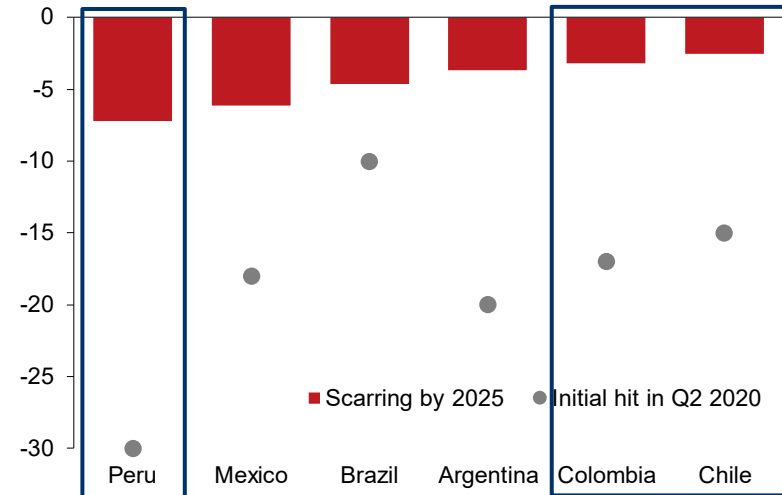
% points change since pandemic



Source : Oxford Economics/Haver Analytics

LatAm6: Long-term GDP loss vs initial hit

% loss by 2025 vs pre-pandemic baseline



Source : Oxford Economics/Haver Analytics

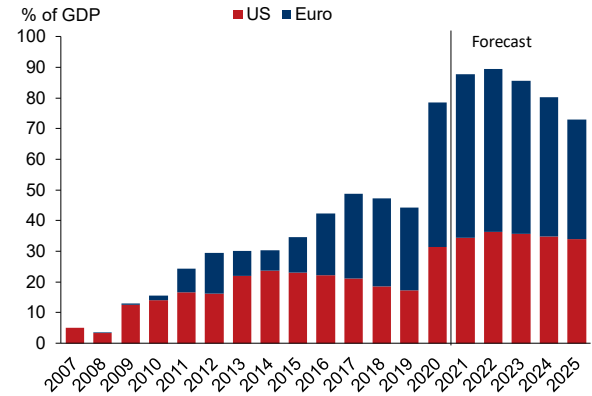
Ecuador is a reminder that populism is more alive than never



Conclusions – tail wind helps but risks are mounting

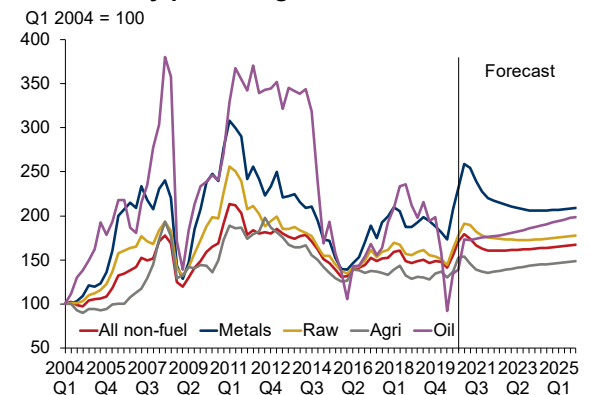
- Latin America counts on tail winds from surging commodity prices and abundant liquidity (and so, hunt for yield)
- But these will be put against a busy electoral calendar, slow vaccine rollout, and not so cheap valuations
- First electoral test (Ecuador) showed that populism is more alive than never – next in line is Peru (April)
- Growth underperformance will make it hard for governments to close fiscal deficits, making populist solutions look more appealing especially in times of rising commodity prices
- Risks to LatAm growth and FX skewed to downside. Most prominent domestic risks include austerity fatigue and return of populism. External ones include another Taper Tantrum from an inflation surprise.
- Optimism with EM and LatAm could expire soon.

ECB + Fed: Balance sheet (assets)



Source : Oxford Economics/Haver Analytics

Commodity price surge will be short-lived



Source : Oxford Economics/Haver Analytics



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