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## Latam Charts: Inflation Releases in Pacific Alliance; Elections in Brazil

- Pacific Alliance countries publish inflation figures for September next week. In Colombia, our economists anticipate a further pickup in year-in-year inflation compared to relatively flat readings out of Mexico and Peru and a slight deceleration in Chile.
- Peru's BCRP is expected to hike by 25bps next Thursday as it nears the end of its hiking cycle, a view supported by Chairman Velarde in recent comments.
- Mexico's AMLO will announce additional measures as part of his anti-inflation plan on Monday but we expect limited impact on core prices.
- Lula's lead over Bolsonaro widens in polls ahead of Sunday's elections, but a second-round showdown in late-October remains the most likely scenario.

Pacific Alliance countries will publish September inflation data this week, with key implications for policymakers in the region that are looking (or hoping) to bring their hiking cycles to an end soon (see chart below).

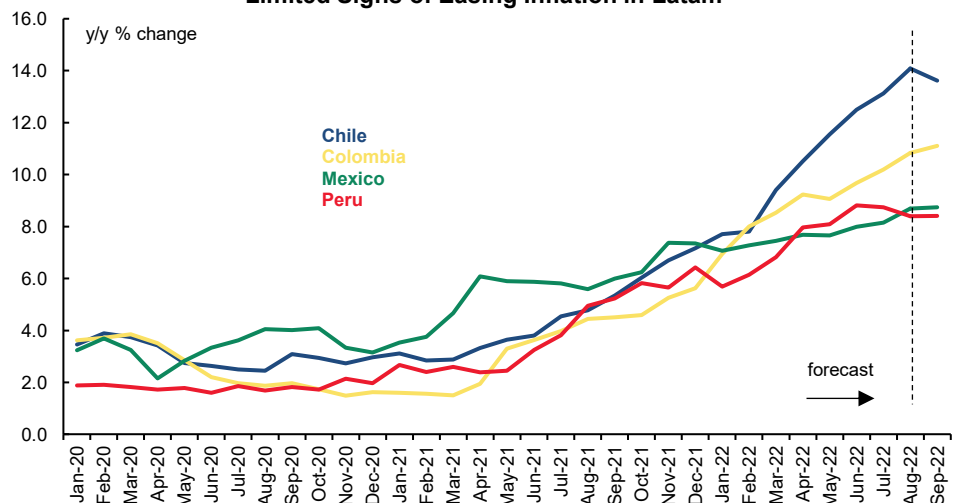
In Colombia, our economists expect an increase in headline inflation to 11%+, supporting BanRep's aggressive pace of rate increases. The projected 11.16% y/y gain (vs. 10.84% last month) follows from elevated food prices as well as continuously elevated input prices and the tailwind of higher education-related prices. Core inflation is forecast to climb by a similar margin (see Colombia section below).

Mexican inflation is showing no clear signs of decelerating, with H1-Sep CPI data showing only a marginal decline in headline prices growth. Our Mexico City team sees gains in both headline and core readings (see Mexico section below), while lingering price pressures should result in upward revisions to economists' forecasts in the upcoming Banxico survey. AMLO's anti-inflation plan, with supplementary measures to be announced on Monday, has had limited impact on the core goods basket.

As for Peruvian inflation, our economists anticipate a roughly unchanged pace of annual prices growth in September while in Chile they see a slight deceleration from 14%+.

#### Chart of the Week

Limited Signs of Easing Inflation in Latam



Sources: Scotiabank Economics, Haver Analytics.

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

September 29, 2022

**Brazilians take to the polls on Sunday for the first-round presidential election, with Lula leading Bolsonaro by double-digits in recent polls. The former president will likely fall short of an outright majority, however.** Votes will also be cast for congress, and state governorships and assemblies, among others. **Though he may not claim a majority of votes this weekend, Lula is heavily favoured in a runoff election in about a month's time.** Markets have adjusted to highly-defined odds of a Lula victory (whether it's in the first- or second-round), so near-term gains in Brazilian assets may be limited—if only thanks to political clarity—with domestic developments ceding greater influence to the global market mood.

—Juan Manuel Herrera

### CHILE: FISCAL CONSOLIDATION IN PROCESS, MINOR SLOWDOWN IN INFLATION

**Modest expansion in the public spending next year.** The Government sent the Fiscal Budget bill to Congress, who will have 60 days to discuss and approve the initiative. As expected, fiscal spending will grow at a moderate pace; while the public debt will increase by USD12bn in 2023 (see our [Latam Insights](#)).

**Economic activity is projected to have decreased 1.8% y/y in August (-0.7% m/m).** On Monday, October 3, the Central Bank will release August economic activity (Imacec) data, for which we forecast a new drop in y/y terms. With respect to the previous month, we expect a 0.7% contraction (seasonally adjusted), mainly due to a decrease in non-mining GDP. Taking into account the above, we maintain our projection of 2.1% GDP growth for 2022 and a 0.9% contraction for 2023.

The statistical agency (INE) will publish September CPI figures on Friday, October 7. **We forecast September inflation at 0.9% m/m, below market expectations at 1% m/m, mainly due to decreases in prices for air transportation and tourist packages.** Overall, the main drivers behind inflation in September will be food and transportation. In the case of food, we estimate increases in meats, vegetables and non-perishables. Transportation prices gains are explained by rises in gasolines, new cars and interurban bus fares. Within this division, we anticipate a relevant drop in air transportation fares. Overall, we estimate a large number of items with monthly increases within the basket (inflationary diffusion), representing around 69% of the basket (August: 69%). With this, **annual inflation would show a deceleration from 14.1% in August to 13.8% in September.**

—Aníbal Alarcón

### COLOMBIA: INFLATION TO REMAIN ON UPWARD TREND

**We expect prices to remain on an uptrend in September CPI data** due on Wednesday, with particular strength in food prices, as inflation continues to reflect higher input prices. Education-related prices should act as an additional tailwind to inflation. **Our forecast calls for an 11.16% y/y increase in headline CPI from 10.84% y/y in August with a similar acceleration in core inflation to 8.06% y/y (from 7.83%). However, the market is more skewed to the upside (expectation of +0.75% m/m and 11.24% y/y).**

In data for August, we expect industrial production to continue to show some deceleration due to persistent pressures in the prices of inputs and raw materials. Retail sales are expected to continue with a trend of moderation due to the effects of inflation that have limited household disposable income. This is in addition to the fact that in the reference month there are no events that can cause an upward bias.

—Sergio Olarte, María (Tatiana) Mejía &amp; Jackeline Piraján

### MEXICO: INFLATION CLIMB MAY HAVE CONTINUED IN SEPTEMBER, AS COULD YEAR-END EXPECTATIONS

**Unlike in the US and Canada, we see no signs of Mexican headline inflation decelerating in September.** In fact, in the first fortnight of the month, inflation again exceeded expectations, showing only a marginal break in its upward trajectory (8.76% vs 8.77% previous and 8.71% consensus). In the Citibanamex survey, analysts expect a 0.63% m/m CPI increase in September, which would translate to 8.71% y/y or practically no change from the 8.70% print from August. In turn, core inflation remains in an upward trajectory; as in the first half of September it rose from 8.13% to 8.27%, with no expectation of cooling over the totality of the month.

With this in mind, we consider the 8.71% to be slightly skewed to the downside, and **our expectation is that both headline and core inflation continued their ascent in September.** Banxico's economists survey for September out on Monday will most likely show upward

September 29, 2022

revisions to inflation and interest rate forecasts. In the August release, participants' inflation forecasts averaged 8.15% for Dec-2022, while the median Banxico rate projection for year-end stood at 9.50%. Amid the most recent Fed and Banxico hikes, analysts have also likely lifted their policy rate expectations. **Next week's Banxico survey results should see a higher number of respondents expecting an interest rate at least at 10.25% by the end of 2022.**

**Is also important to highlight that president AMLO will release an update to the anti-inflation plan on Monday**, with a focus on items impacting the basic consumption basket, which mostly corresponds to non-core goods (agriculture and energy, which rose 10.65% y/y in August). However, while the plan has resulted in more muted increases in energy prices, it has had practically no impact on the price of other goods—and we wouldn't expect this to change.

**Recently, GDP growth forecasts for 2022 have also been revised higher.** In the August Banxico Survey, analysts projected a 1.93% expansion in 2022, followed by 1.31% in 2023—below the 2.0% long term average. However, consumer confidence points to a moderation in spending during the second half of the year. Thus, we expect private consumption to continue to expand at only a modest pace in data for July out on Thursday. As for fixed investment figures out on Thursday as well, we expect no significant monthly advances as construction activity remains depressed well below pre-pandemic levels, yet the year-on-year pace in gross fixed investment will be supported by low-base effects.

—Miguel Saldaña

#### **PERU: PAUSE IN INFLATION DOWNTREND IS LIKELY IN SEPTEMBER. WE CONTINUE TO EXPECT A 25BPS HIKE IN THE REFERENCE RATE NEXT WEEK**

The key prices that we are monitoring in September point to a monthly inflation reading of around 0.4% m/m, similar to September 2021. This is in line with the view voiced by BCRP Chairman Julio Velarde that inflation would likely be between 0.4% and 0.5% m/m. If so, 12-month inflation would hold at 8.4%, as it was in August—resulting in a pause in the decelerating trajectory of inflation. This is in line with our inflation forecast of 7.7% for 2022.

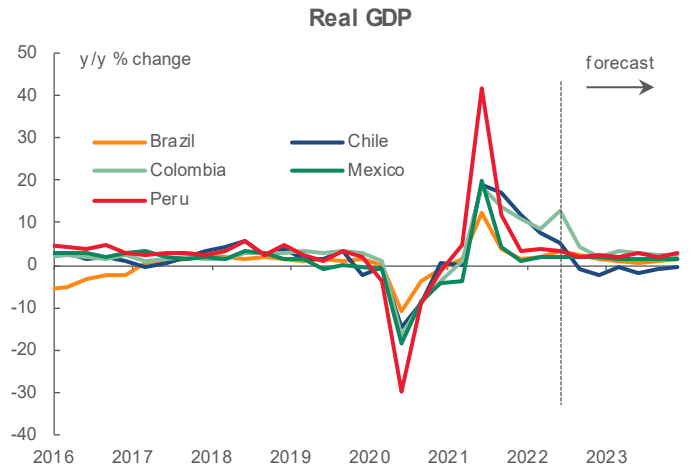
**In this scenario, the BCRP will likely continue in its normalization of monetary policy. Yesterday, Velarde noted that it's likely the bank won't have to raise the key policy rate much more.** This suggests that the BCRP is winding down its rate hiking cycle, while it simultaneously continues to consider an increase in the short term.

**We expect the BCRP to raise the reference rate at their meeting on Thursday, October 6, likely by 25bps, as they did September, to 7.00%. However, the end of the cycle is near, in line with our baseline scenario. The key variable going forward will continue to be inflation expectations.** We believe that there is a good chance that after three months of marginal declines, inflation expectations will stop falling in the very short term, perhaps even at the next reading, for October. Inflation expectations (12-months out) have fallen from 5.3% in July to 5.1% in September, which is not much of a decline. **With much of the market (as well as the BCRP) now expecting inflation to decline at a slower pace, this could actually result in a minor rise in inflation expectations**, as forecasts for the decline in inflation are stretched over a longer period. The BCRP's actions in October and November will depend crucially on this variable.

—Mario Guerrero

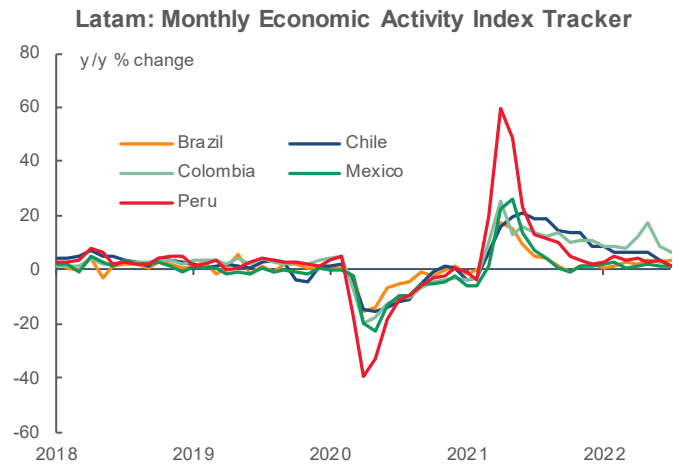
Key Economic Charts

Chart 1



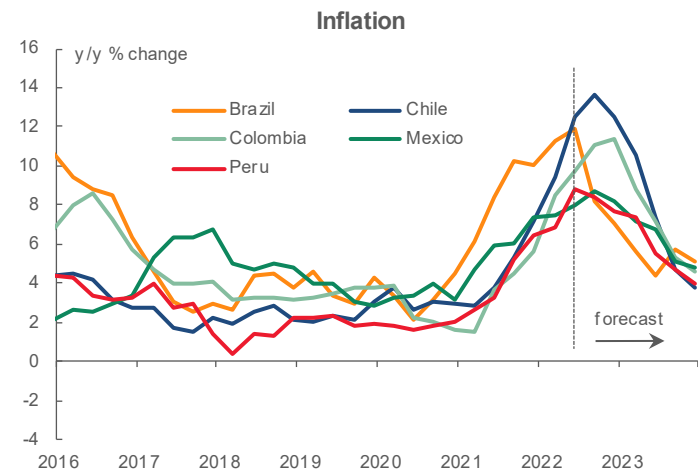
Sources: Scotiabank Economics, Haver Analytics.

Chart 2



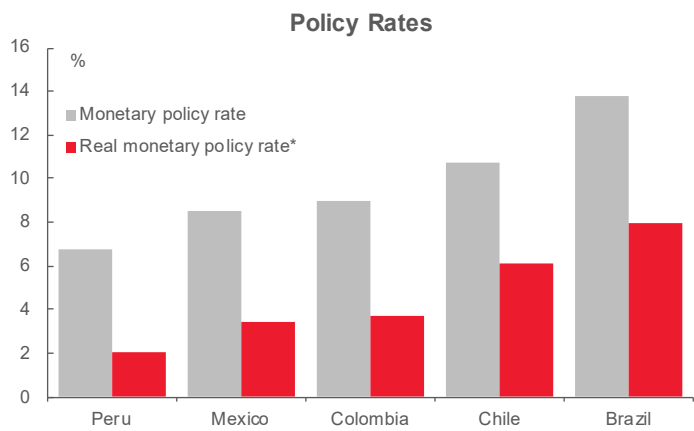
Sources: Scotiabank Economics, Haver Analytics.

Chart 3



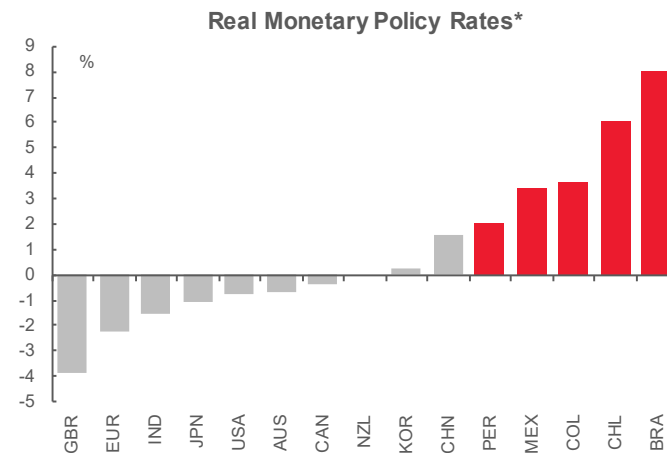
Sources: Scotiabank Economics, Haver Analytics.

Chart 4



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2023, % y/y. Sources: Scotiabank Economics, Haver Analytics.

Chart 5



\* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q3-2023, % y/y. Sources: Scotiabank Economics, Bloomberg.

Key Market Charts

Chart 1

Latam Currencies Performance

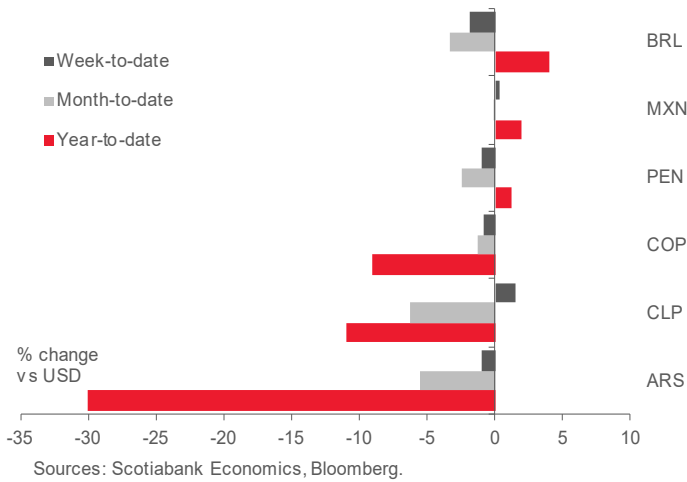


Chart 2

Latam Equities Performance

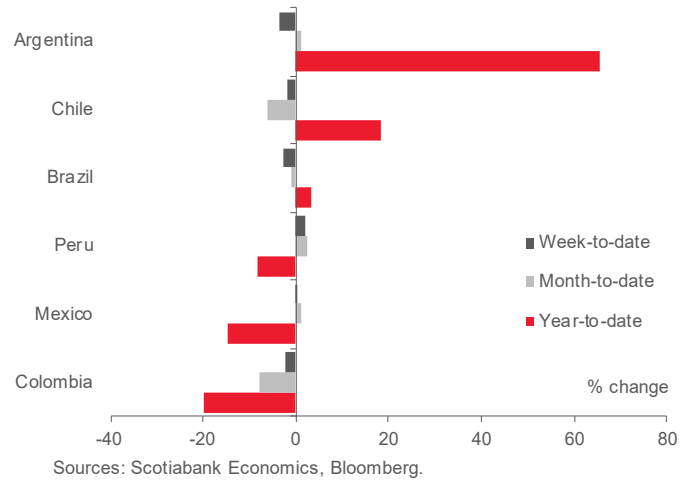


Chart 3

USD vs Latam Currencies

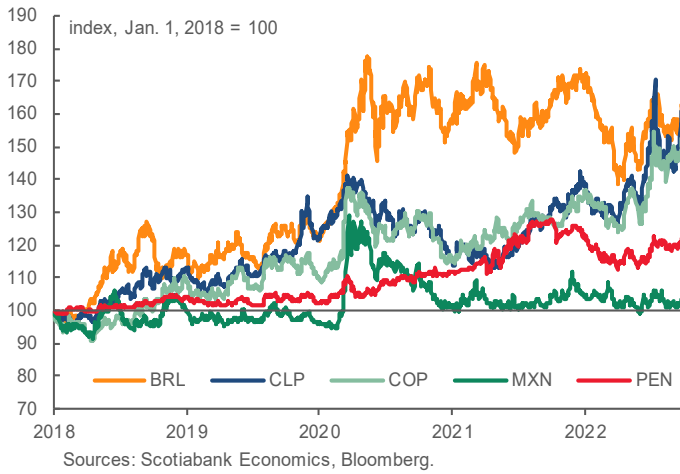
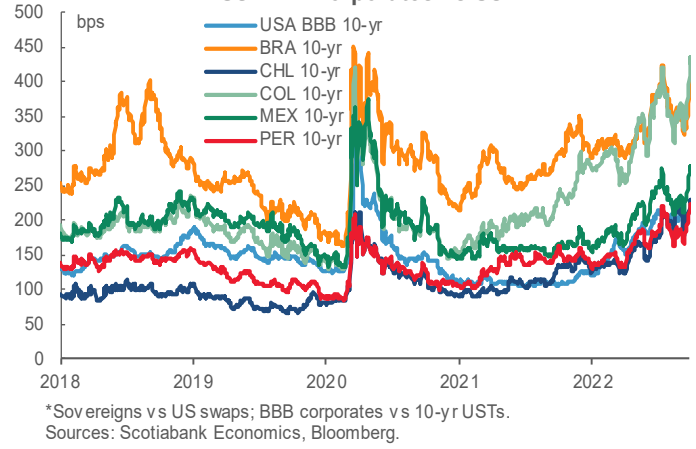


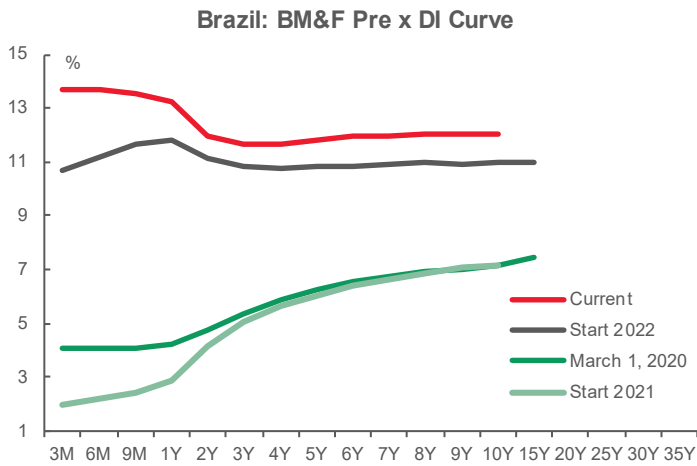
Chart 4

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



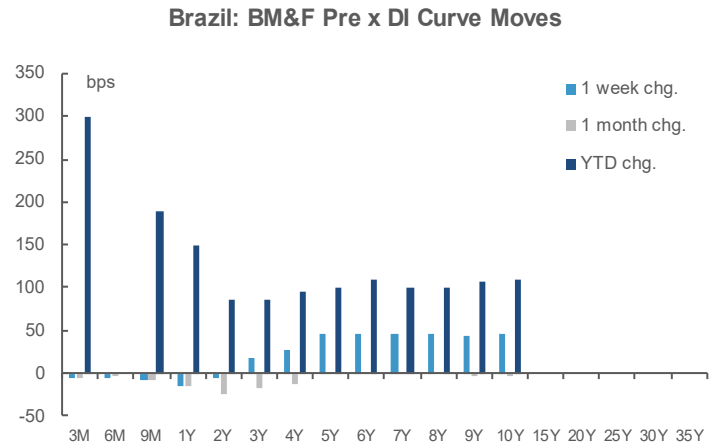
Yield Curves

Chart 1



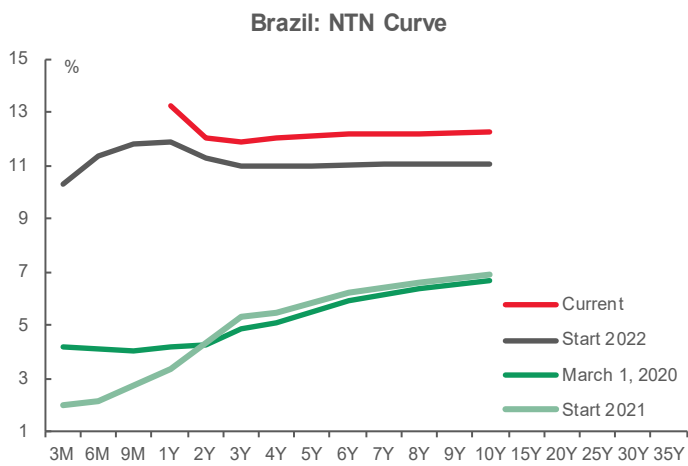
Sources: Scotiabank Economics, Bloomberg.

Chart 2



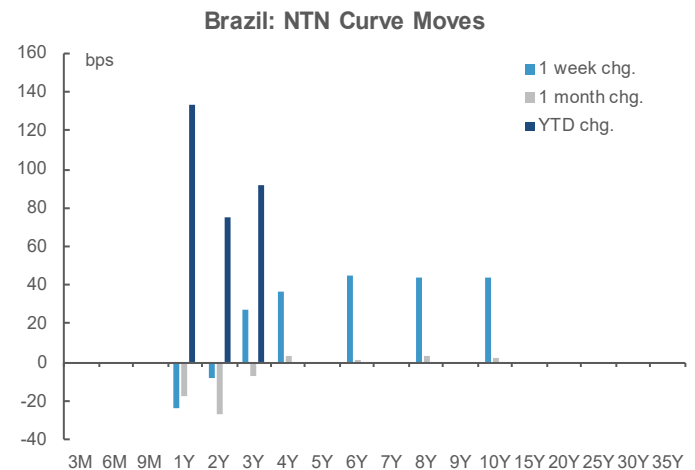
Sources: Scotiabank Economics, Bloomberg.

Chart 3



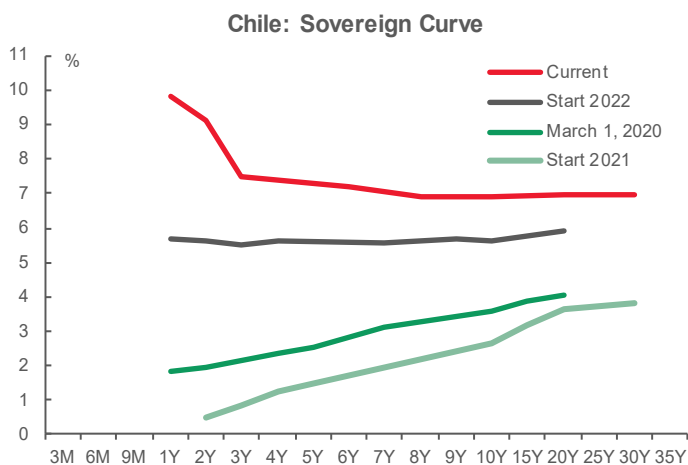
Sources: Scotiabank Economics, Bloomberg.

Chart 4



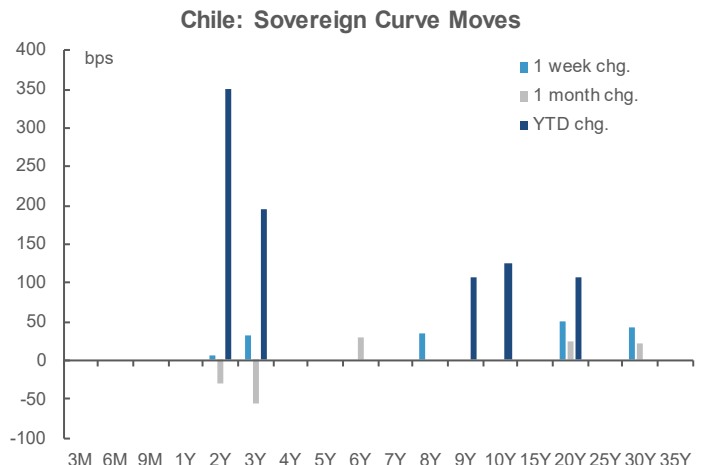
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

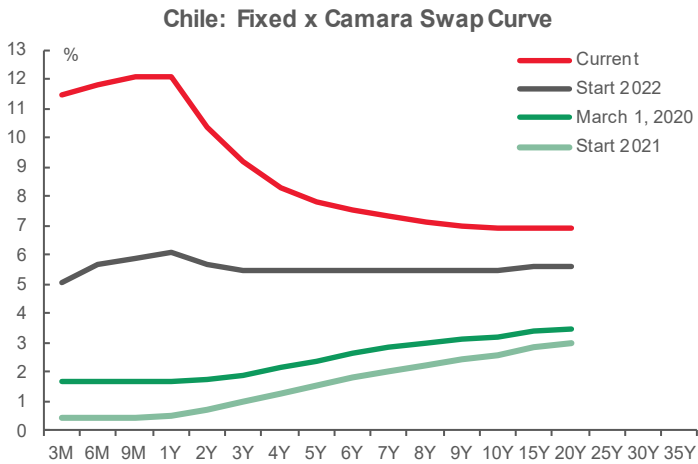
Chart 6



Sources: Scotiabank Economics, Bloomberg.

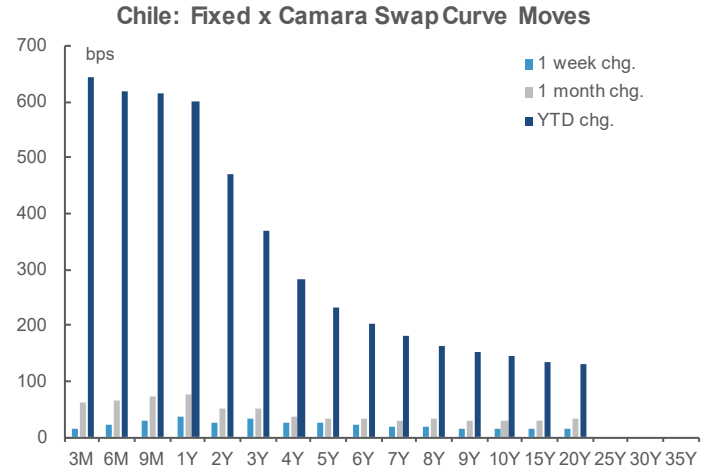
Yield Curves

Chart 7



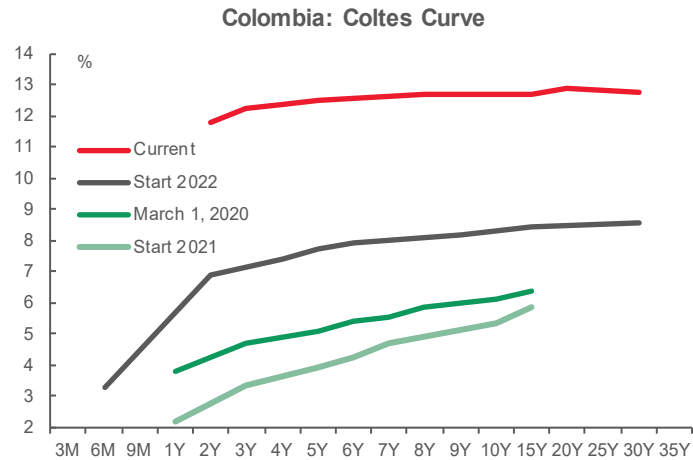
Sources: Scotiabank Economics, Bloomberg.

Chart 8



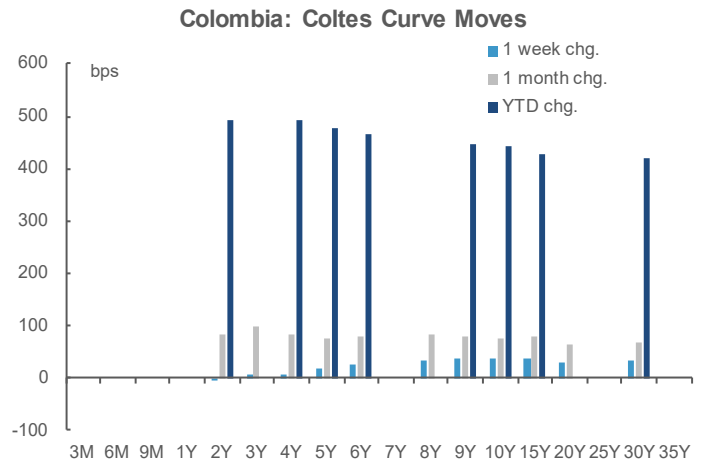
Sources: Scotiabank Economics, Bloomberg.

Chart 9



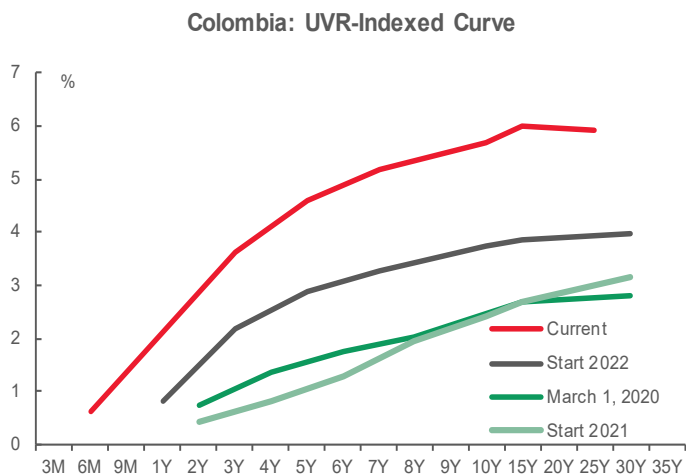
Sources: Scotiabank Economics, Bloomberg.

Chart 10



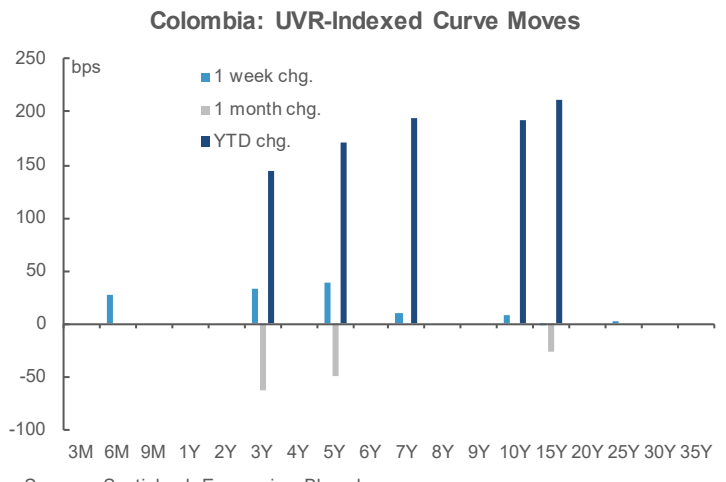
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

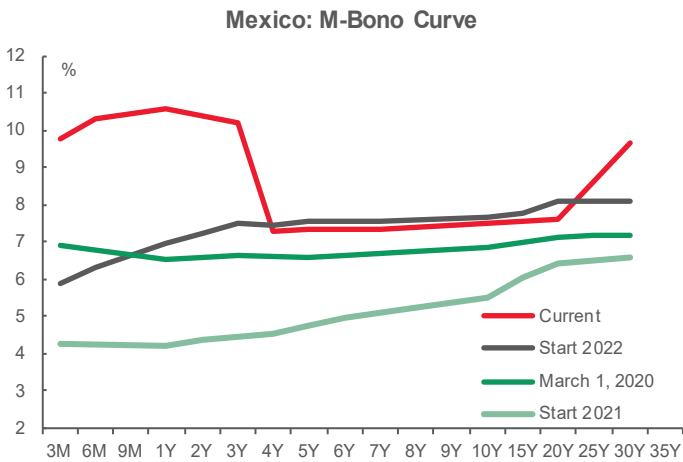
Chart 12



Sources: Scotiabank Economics, Bloomberg.

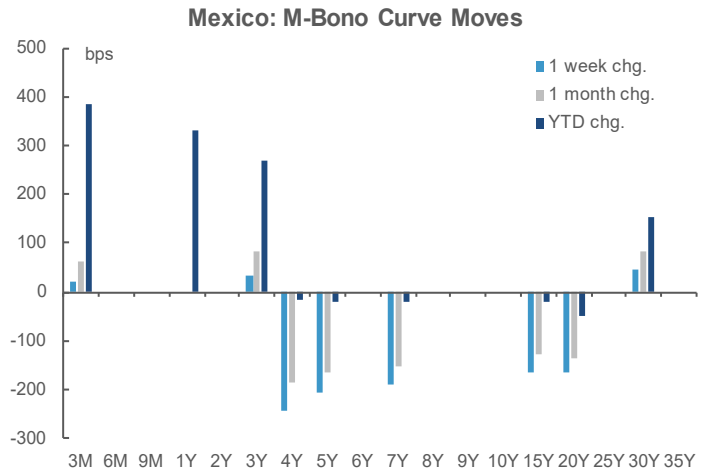
Yield Curves

Chart 13



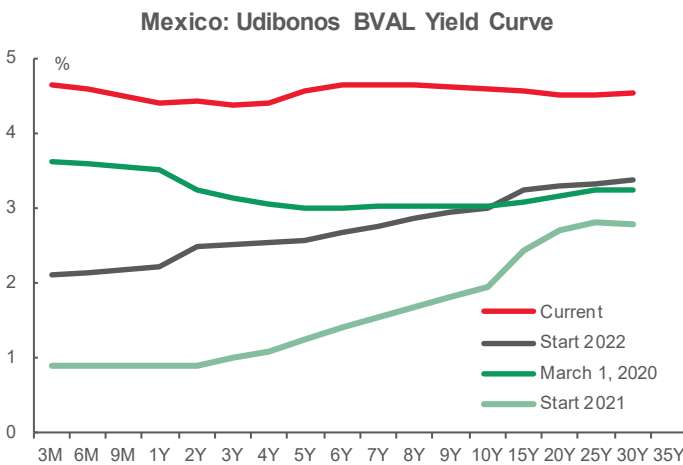
Sources: Scotiabank Economics, Bloomberg.

Chart 14



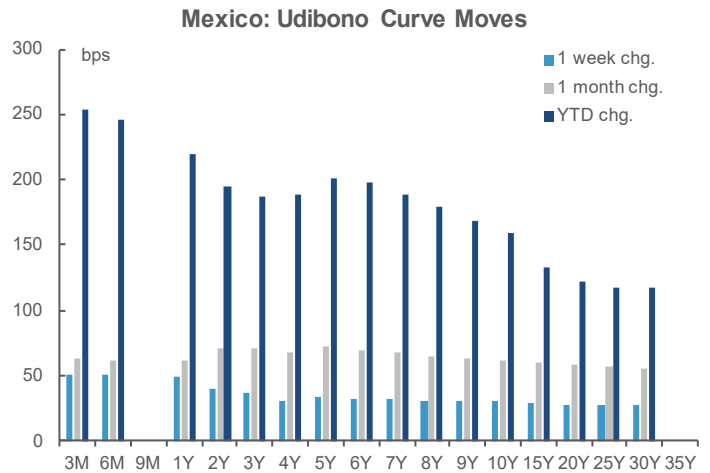
Sources: Scotiabank Economics, Bloomberg.

Chart 15



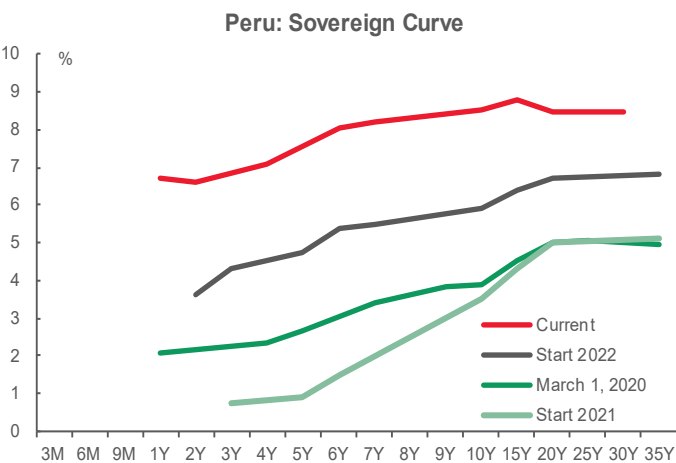
Sources: Scotiabank Economics, Bloomberg.

Chart 16



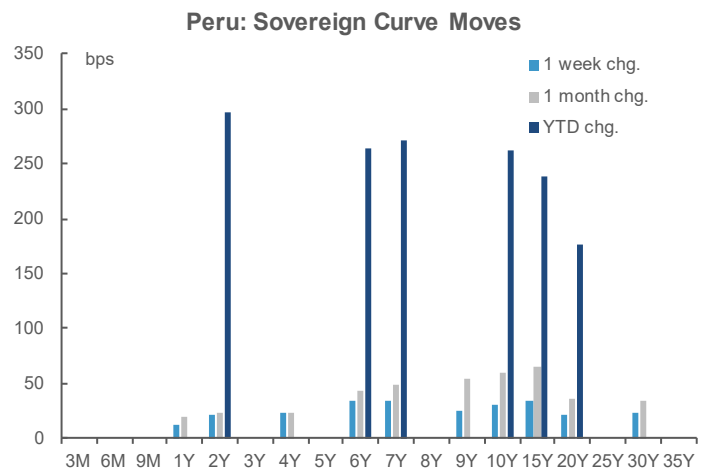
Sources: Scotiabank Economics, Bloomberg.

Chart 17



Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg.



Market Events & Indicators for September 30–October 14

**BRAZIL**

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep 23-30	Formal Job Creation Total	Aug	--	267000.0	218902.0	
Sep-30	8:00 National Unemployment Rate (%)	Aug	--	8.9	9.1	
Sep-30	8:30 Net Debt % GDP	Aug	--	57.5	57.3	
Sep-30	8:30 Nominal Budget Balance (BRL bn)	Aug	--	-71.7	-22.5	
Sep-30	8:30 Primary Budget Balance (BRL bn)	Aug	--	-28.6	20.4	
Oct-02	Brazil General Elections		--	--	--	
Oct-03	7:00 FGV CPI IPC-S (%)	30-Sep	--	--	0.0	
Oct-03	7:25 Central Bank Weekly Economist Survey		--	--	--	
Oct-03	9:00 S&P Global Brazil Manufacturing PMI	Sep	--	--	51.9	
Oct-03	14:00 Trade Balance Monthly (USD mn)	Sep	--	--	4106.7	
Oct-03	14:00 Exports Total (USD mn)	Sep	--	--	30785.4	
Oct-03	14:00 Imports Total (USD mn)	Sep	--	--	26678.7	
Oct-04	4:00 FIPE CPI - Monthly (%)	Sep	--	--	0.1	
Oct-05	8:00 Industrial Production (m/m)	Aug	--	--	0.6	
Oct-05	8:00 Industrial Production (y/y)	Aug	--	--	-0.5	
Oct-05	9:00 S&P Global Brazil Composite PMI	Sep	--	--	53.2	
Oct-05	9:00 S&P Global Brazil Services PMI	Sep	--	--	53.9	
Oct 3-5	Vehicle Sales Fenabrave	Sep	--	--	208493.0	
Oct-06	7:00 FGV Inflation IGP-DI (y/y)	Sep	--	--	8.7	
Oct-06	7:00 FGV Inflation IGP-DI (m/m)	Sep	--	--	-0.6	
Oct-07	8:00 Retail Sales (m/m)	Aug	--	--	-0.8	
Oct-07	8:00 Retail Sales (y/y)	Aug	--	--	-5.2	
Oct-07	8:00 Retail Sales Broad (m/m)	Aug	--	--	-0.7	
Oct-07	8:00 Retail Sales Broad (y/y)	Aug	--	--	-6.8	
Oct 6-7	Vehicle Sales Anfavea	Sep	--	--	208607.0	
Oct 6-7	Vehicle Production Anfavea	Sep	--	--	237961.0	
Oct 6-7	Vehicle Exports Anfavea	Sep	--	--	46793.0	
Oct-10	7:00 FGV CPI IPC-S (%)	07-Oct	--	--	0.0	
Oct-10	7:25 Central Bank Weekly Economist Survey		--	--	--	
Oct-10	14:00 Trade Balance Weekly (USD mn)	09-Oct	--	--	113.2	
Oct-11	4:00 FIPE CPI - Weekly (%)	07-Oct	--	--	0.1	
Oct-11	8:00 IBGE Inflation IPCA (m/m)	Sep	--	--	-0.4	
Oct-11	8:00 IBGE Inflation IPCA (y/y)	Sep	--	--	8.7	
Oct-14	8:00 IBGE Services Volume (y/y) NSA	Aug	--	--	6.3	
Oct-14	8:00 IBGE Services Volume (m/m) SA	Aug	--	--	1.1	

**CHILE**

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-30	8:00 Manufacturing Production (y/y)	Aug	-4.2	-3.3	-5.1	
Sep-30	8:00 Industrial Production (y/y)	Aug	--	-3.3	-5.1	
Sep-30	8:00 Copper Production Total (Tons)	Aug	--	--	430028.0	
Sep-30	8:00 Commercial Activity (y/y)	Aug	--	--	-11.2	
Sep-30	8:00 Retail Sales (y/y)	Aug	-15.0	-14.1	-10.9	We forecast a 15% y/y decrease in retail sales based on our high-frequency credit and debit card indicators, confirming a hard landing in retail spending.
Oct-03	7:30 Economic Activity (y/y)	Aug	-1.8	--	1.0	We maintain our projection of 2.1% GDP growth for 2022 and a
Oct-03	7:30 Economic Activity (m/m)	Aug	-0.7	--	-1.1	0.9% contraction for 2023.
Oct-06	8:00 Nominal Wage (y/y)	Aug	--	--	9.8	
Oct-06	Central Bank Traders Survey		--	--	--	
Oct-07	7:00 CPI (m/m)	Sep	0.9	--	1.2	We estimate inflation at 0.9% m/m, below market expectations
Oct-07	7:00 CPI (y/y)	Sep	13.8	--	14.1	at 1% m/m mainly due to expected relevant decreases in air transportation and tourist package.
Oct-07	7:30 International Reserves (USD mn)	Sep	--	--	41448.0	
Oct-07	7:30 Trade Balance (USD mn)	Sep	--	--	-989.6	
Oct-07	7:30 Exports Total (USD mn)	Sep	--	--	7840.4	
Oct-07	7:30 Imports Total (USD mn)	Sep	--	--	8829.9	
Oct-07	7:30 Copper Exports (USD mn)	Sep	--	--	3271.1	
Oct 3-7	IMCE Business Confidence	Sep	--	--	40.5	
Oct-12	17:00 <b>Overnight Rate Target (%)</b>	<b>12-Oct</b>	<b>11.00</b>	--	<b>10.75</b>	
Oct-12	Central Bank Economist Survey		--	--	--	
Oct 7-13	Vehicle Sales Total	Sep	--	--	35018.0	

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

Market Events & Indicators for September 30–October 14

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-30	11:00 National Unemployment Rate (%)	Aug	10.7	--	--	11.0 As employment levels have already surpassed pre-pandemic
Sep-30	11:00 Urban Unemployment Rate (%)	Aug	10.5	11.1	--	11.3 levels, the attention is now on the evolution of inactivity and the quality of jobs created.
Oct-03	11:00 Davivienda Colombia PMI Mfg	Sep	--	--	--	52.4
Oct-03	11:00 Exports FOB (USD mn)	Aug	--	4672.0	5913.9	--
Oct-04	18:00 Colombia Monetary Policy Minutes		--	--	--	--
Oct-05	7:00 CPI (m/m)	Sep	0.68	0.75	1.02	In September, we expect prices to continue their upward trend,
Oct-05	7:00 CPI (y/y)	Sep	11.16	11.26	10.84	especially food prices, which continue to surprise on the upside
Oct-05	7:00 CPI Core (m/m)	Sep	0.52	--	0.83	due to the context of high input prices. In addition, this month
Oct-05	7:00 CPI Core (y/y)	Sep	8.06	--	7.83	education-related prices could contribute to inflation.
Oct-10	Consumer Confidence Index	Sep	--	--	--	-2.4
Oct-14	11:00 Manufacturing Production (y/y)	Aug	--	--	--	5.2
Oct-14	11:00 Retail Sales (y/y)	Aug	5.5	--	--	7.7 In August, we expect industrial production to continue to show
Oct-14	11:00 Industrial Production (y/y)	Aug	6.4	--	--	4.3 some slowdown due to persistent pressures on the prices of inputs and raw materials. Retail sales are expected to continue with a trend of moderation due to the effects of inflation that cause restrictions on households' disposable income. In addition to the fact that in the reference month there are no events that can cause an upward bias.
Oct-14	Central Bank Economist Survey		--	--	--	--

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-30	10:00 Net Outstanding Loans (MXN bn)	Aug	--	--	--	5171.2
Sep-30	Budget Balance YTD (MXN bn)	Aug	--	--	--	-254.2
Oct-03	10:00 Remittances Total (USD mn)	Aug	--	--	--	5296.8
Oct-03	10:00 Central Bank Economist Survey		--	--	--	--
Oct-03	10:30 S&P Global Mexico Manufacturing PMI	Sep	--	--	--	48.5
Oct-03	13:00 IMEF Non-Manufacturing Index SA	Sep	--	--	--	51.9
Oct-03	13:00 IMEF Manufacturing Index SA	Sep	--	--	--	49.4
Oct-04	7:00 Leading Indicators (m/m)	Aug	--	--	--	-0.2
Oct-04	7:00 Vehicle Domestic Sales	Sep	--	--	--	91124.0
Oct-04	10:00 International Reserves Weekly (USD mn)	30-Sep	--	--	--	197200.0
Oct-05	7:00 Consumer Confidence	Sep	--	--	--	40.9
Oct-05	Banamex Survey of Economists		--	--	--	--
Oct-06	7:00 Gross Fixed Investment (%)	Jul	--	--	--	7.8
Oct-06	7:00 Vehicle Exports	Sep	--	--	--	248704.0
Oct-06	7:00 Vehicle Production	Sep	--	--	--	316815.0
Oct-07	7:00 CPI (m/m)	Sep	--	--	--	0.7
Oct-07	7:00 CPI Core (m/m)	Sep	--	--	--	0.8
Oct-07	7:00 CPI (y/y)	Sep	--	--	--	8.7
Oct-07	7:00 CPI Core (y/y)	Sep	--	--	--	8.1
Oct-07	7:00 Bi-Weekly CPI (%)	30-Sep	0.32	0.36	0.41	0.41
Oct-07	7:00 Bi-Weekly Core CPI (%)	30-Sep	0.39	0.41	0.44	0.44
Oct-07	7:00 Bi-Weekly CPI (y/y)	30-Sep	8.74	8.71	8.76	8.76
Oct-07	7:00 Bi-Weekly Core CPI (y/y)	30-Sep	8.33	8.25	8.27	8.27
Oct-10	Nominal Wages (m/m)	Sep	--	--	--	5.0
Oct-11	10:00 International Reserves Weekly (USD mn)	07-Oct	--	--	--	197200.0
Oct-11	ANTAD Same-Store Sales (y/y)	Sep	--	--	--	11.5
Oct-12	7:00 Manuf. Production NSA (y/y)	Aug	--	--	--	5.1
Oct-12	7:00 Industrial Production NSA (y/y)	Aug	--	--	--	2.7
Oct-12	7:00 Industrial Production SA (m/m)	Aug	--	--	--	0.4
Oct-12	13:00 Formal Job Creation Total	Sep	--	--	--	157.4
Oct-13	10:00 Central Bank Monetary Policy Minutes		--	--	--	--

PERU

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Oct-03	11:00 Lima CPI (m/m)	Sep	0.40	--	--	0.67 We expect a rise in food prices to be partially offset by a decline in gasoline prices.
Oct-03	11:00 Lima CPI (y/y)	Sep	8.40	--	--	8.40 The pace of annual inflation could be favored by a high base of comparison.
Oct-06	19:00 Reference Rate (%)	06-Oct	7.00	7.00	6.75	We expect the BCRP to raise the reference rate by 25 bps to 7.00% at the October 6 policy rate meeting. The Central Bank showed discomfort with the pace of deceleration of inflation and inflation expectations.

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

## Scotiabank Economics Latam Coverage

## Local Market Coverage

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