Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Banxico Minutes and Peru Rains

- **Mexico: Banxico's minutes show a slow trajectory of cuts during 2024**
- **Peru: Rain, rain, go away!**

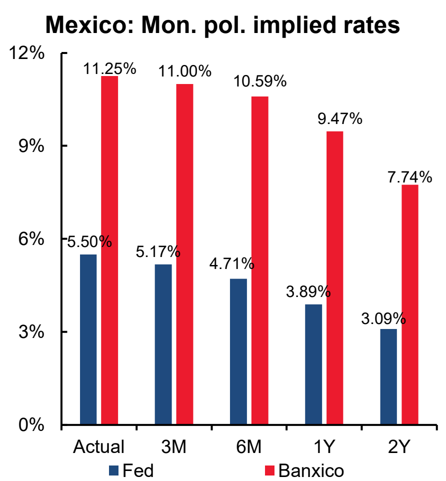
MEXICO: BANXICO'S MINUTES SHOW A SLOW TRAJECTORY OF CUTS DURING 2024

The minutes of Banxico's December monetary policy meeting showed that the members of the Board of Governors foresee fine-tuning and data-dependent adjustments in 2024. Consensus in the Citibanamex Survey expects the first interest rate cut in March. In this sense, a member of the Board pointed out that "some fine adjustment" in the reference rate should be evaluated at the end of the first quarter or in the second quarter of 2024, also commenting that the adjustment does not imply the beginning of a cycle of consecutive cuts, since the disinflationary process may not be a continuous and homogeneous process. However, its comments emphasized that it will be imperative to evaluate rate adjustments if upside risks do not materialize. Another member considered that conditions are met to begin discussing the possibility of rate cuts. This same member considered that in the next meetings, the behaviour of inflation and its balance of risks should be considered in the data dependent decisions.

Recall that, at the December meeting, the bank's inflation forecasts were again revised upwards, despite the fact that the statement highlights that the Board expects inflation to converge to target (3.0% +/-1%) in the second quarter of 2025. In this regard, another member considered that there are risk factors that could hinder the expected inflation trajectory. He also highlighted the possibility of continued resilience of economic activity, a tight labour market, persistent core inflation, inflation expectations above required levels, and a procyclical fiscal policy. With this, he considered that it is possible that the rate should remain at its current level for longer than markets expect, in addition to maintaining a data-driven monetary stance.

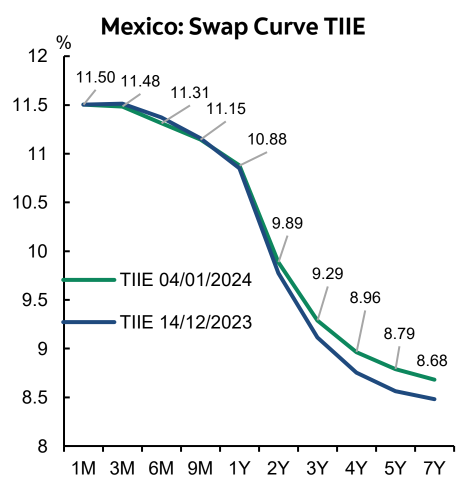
Overall, we highlight that the Board of Governors recognizes a downward trajectory for inflation in 2023. However, several comments suggest that the members consider that the balance of risks in inflation is still skewed to the upside and highly uncertain, so monetary policy decisions in 2024 should continue to be data-driven and with a communication that maintains a cautious tone in the short term and conveys flexibility at each meeting, as cuts during the year could happen in a non-consecutive way. For our part, we believe that the first cut will be in March by -25 bps, yielding a rate of 9.50% at the end of 2024, with inflation at 4.60% e.o.p, still above Banxico's target.

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

—Brian Pérez & Miguel Saldaña

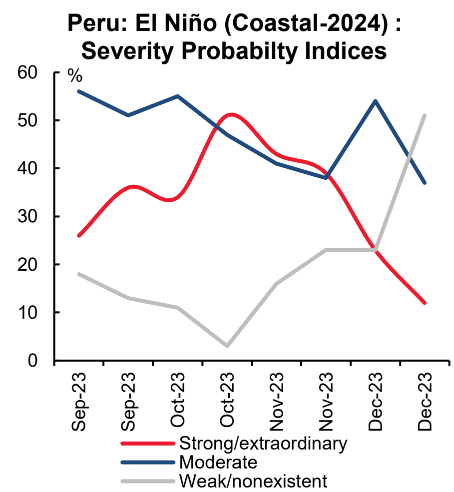
PERU: RAIN, RAIN, GO AWAY!

It's raining, and pouring at times and in certain places. Some valleys appear on the brink of flooding. And yet, there is a sense of normalcy in the rains… at least for now. The fact is, it is raining in all the right places, suggesting that the rains are seasonal and normal, rather than linked to El Niño.

So far.

The latest information ratifies the perception that El Niño off the coast of Peru is losing its edge, and that the tables have turned in terms of its likely severity. According to data provided by the local El Niño monitoring body, ENFEN, in October, the likelihood that El Niño would be severe in early 2024 was 51%. This percentage has been declining since, and stood at only 12% in the latest read (December 29th). In the same October to December time frame, the likelihood that El Niño will be weak or dissipate completely has risen from a negligible 3%, to a commanding 51% (chart 3).

Chart 3



Sources: Scotiabank Economics, ENFEN.

So, then, no Niño? Well, there's still a 49% likelihood that El Niño will be moderate or worse. But, it seems to be a good bet that El Niño will not be strong enough to greatly impact the economy in 2024. Typically, there is a 15-week period in which El Niño can wreak the greatest havoc, from mid December to early April. We are well into week three of the 15 weeks. There is still some time for El Niño to resurge, but the precedents for such a trend reversal is weak. In this case one can certainly say that the trend is our friend.

Rains will continue, and in some places they may cause some degree of flooding and disruption. But this occurs even in normal years during the rainy season. At the same time, there is now greater reason to believe that rains and flooding will be manageable. The summer may be particularly hot, but it is summer after all, so, for seasonal reasons, the heat shouldn't impact crops the way it did in Q2 and Q3 2023. The southern highlands, which had been hugely impacted by drought in 2023, have been receiving moderate-to-normal rains since mid-December, which is replenishing water supply at least incipiently.

So far, so hopeful. But then again, we still have over twelve weeks to absorb.

—Guillermo Arbe