Latam Daily: Banxico, BCRP, Mexico, Chile, and Brazil CPI; Colombia CPI Recap

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- **Colombia: Inflation continued decline in January, but showed higher prices indexation**
- **Mexico: Banxico to thread the needle ahead of (likely) March cut**

Aside from developments in China and Japan (another CPI miss, relatively dovish BoJ comments), it was a very quiet overnight session and, so far, European morning. Asia trading had a slightly rates negative mood to which EGB/gilts opened to, European traders curbed rates losses in early-dealing… but now are in sell mode. It's a choppy, erratic market. The USD is mixed to stronger (the MXN is flat), US equity futures are little changed to weaker, while oil and copper trade firmer, and iron ore rallies on Chinese support hopes for the nth time. It's a quiet day ahead in the G10 with only a couple of key ECB/BoE/Fed speakers and the release of US jobless claims followed by the US30y auction.

In contrast to the quiet G10 calendar, the Latam schedule is as busy as it gets, with Banxico and BCRP deciding on policy after a morning round of January CPI data from Mexico, Chile, and Brazil. Today's data follows yesterday's (roughly) as expected Colombian figures (see below) that showed the first sub-10% y/y print in core ex. food inflation since late-2022. Overall, Colombian inflation is expected to decelerate considerably in February, which should see BanRep consider a 75bps cut at its March meeting.

Inflation in Brazil is set to continue the downtrend it regained in Q4 after a temporary rise that owed to base effects. The focus for the BCB clearly remains services inflation, with the bank's meeting minutes out earlier this week showing the uncertainty among the COPOM around the persistence of high inflation; at the very least, that worry would suggest the bank is not ready to study 50bps cuts. Today, the median economist expects headline inflation to slow to 4.42% from 4.62% in December.

Mexican inflation for January is already well informed by the results of mid-month data released a couple of weeks ago, with some upside surprises in non-core items prices. Economists project that headline inflation accelerated to 4.9% from 4.66% in December owing to these greater than expected increases, but core inflation is expected to maintain its downtrend, at 4.7% from 5.1% in December, to print a 4-handle for the first time since September 2021. At Banxico's decision today (see preview below), we'll watch whether they shrug off somewhat the recent rebound in inflation that owes to energy/food prices and/or refine guidance around the possibility of a March rate cut.

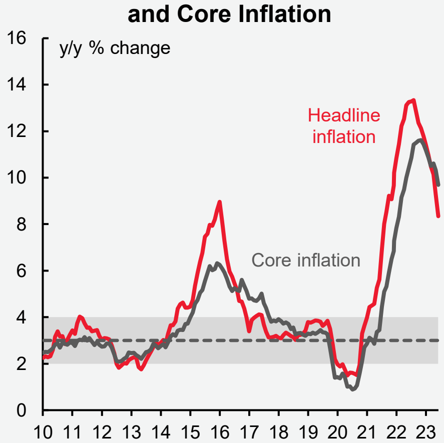
As for Chile's CPI data and the BCRP's decision, we refer you to Monday's **Latam Daily**, where our economists previewed the release and announcement. Briefly, we expect Chilean inflation at 0.4/5% m/m (in line with the median Bloomberg median) that would translate into a 3.7% y/y print, or only a small drop from the 3.9% in December; for ex volatiles inflation we see a solid decline to 4.7% from 5.4%. In the case of the BCRP, it will be a 25bps, and while there may be an avenue towards a larger hike at one of their following meetings, the bank is probably not going to guide this—and it could simply continue at a 25bps click without raising eyebrows.

—Juan Manuel Herrera

COLOMBIA: INFLATION CONTINUED DECLINE IN JANUARY, BUT SHOWED HIGHER PRICES INDEXATION

Monthly CPI inflation in Colombia stood at 0.92% m/m in January, according to DANE data released on Wednesday, February 7. The result was in line with economists' expectations of 0.93% m/m, according to BanRep's survey, but above Scotiabank

Chart 1

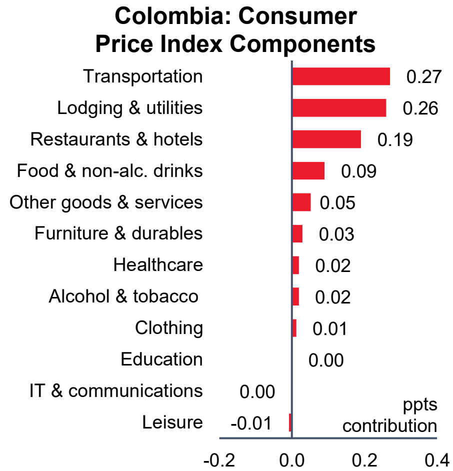


Sources: Scotiabank Economics, DANE.

Colpatria's expectation of 0.76% m/m. Annual headline inflation continued its downward path for the ninth consecutive month, registering a variation of 8.35% from 9.28% in December 2023 (chart 1), the lowest level since February 2022.

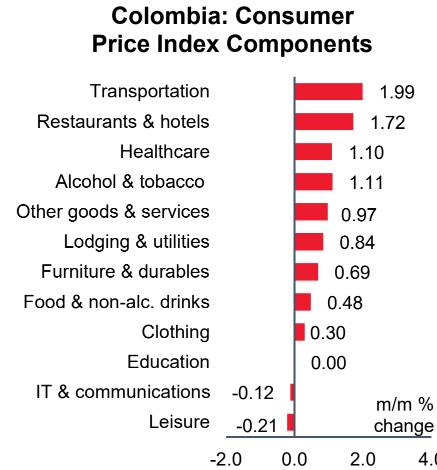
Core inflation (ex food) decreased from 10.33% y/y in December 2023 to 9.69% Y/y in January, while inflation excluding food and energy stood at 8.01% y/y. Underlying inflation metrics show a significant disinflation, mainly explained by the behavior of durable goods, going from 16.82% in January 2023 to 1.16% in January 2024, explained by a more stable ad lower exchange rate, and the domestic demand deceleration. Services inflation was 8.68% y/y in January 2024, down from the 9.33% y/y recorded in December 2023, but above the January 2023 figure (8.19% y/y).

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Transportation inflation was the item that contributed the most to total monthly inflation, explained by the increase in toll fares and an increase in transportation ticket prices. Accommodation and utilities were the second largest contributor to the total variation, with a variation of 0.84% m/m and a contribution of 26bps, due to price indexation in rents and the increase in energy tariffs, followed by restaurants and hotels, mostly explained by the increase in the prices of meals outside the home, due to seasonality effects (expected). Meanwhile, food continued with a moderate behavior, registering a monthly variation of 0.48%, explained by the increase in some fruits and vegetables.

The reduction in inflation has been significant for the headline inflation, but slower in the case of services, something highlighted by Banrep in its last monetary policy meeting, emphasizing that the higher-than-expected minimum wage increase contributes to a higher price indexation, added to a high energy inflation, which in January 2024 stood at 27.09% y/y. In any case, the BanRep is expected to continue with the path of cuts at a pace that will depend on the progress of inflation. In addition, the board will not only have two inflation readings (January and February) but also the 2023 GDP result among other macroeconomic indicators. Since statistical base effect will continue in February, we expect y/y inflation to be below 8% in February allowing Banrep to speed up easing cycle to 75bps cut in March 29th.

Other highlights:

- The transportation group was the largest contributor to monthly inflation. The group registered a month-over-month inflation of +1.99% and a contribution of +27 basis points. Although in January there were no increases in fuel prices, toll fares did increase, pushing up m/m expansion to this group; additionally, the increase in the price of urban transportation fares was also a significant contributor to the general transportation group.

- Indexation effects were reflected in the accommodation and utilities group, with a variation of 0.84% m/m, and a contribution of +26 basis points to total inflation. The increase in the price of rents was one of the components that added the most. Although it is usual that in the first quarters of each year rent prices are adjusted, January 2024 presented a quite high value in the contribution of this component (+17 bps), being higher than the contribution observed in January 2023 (+10 bps). On the other hand, utility tariffs increased by 0.89% m/m, with a significant increase in energy prices (+2.15% m/m), and a drop in gas prices (-0.77% m/m).

- Food inflation continued to moderate. The food group registered a monthly variation of 0.48%, contributing +9bps to the total. Among the food items that contributed the most were fresh fruits, vegetables, poultry meat and some milk derivatives. Meanwhile, counteracting foods were eggs, bananas, and tomatoes. In annual terms, food inflation stood at 2.96%, easing from its highest peak in December 2022 (27.81% y/y). Although the performance of food has contributed significantly to the decline in inflation, the risks of a stronger than expected El Niño phenomenon are not ruled out for the months ahead.

—Sergio Olarte & Daniela Silva

MEXICO: BANXICO TO THREAD THE NEEDLE AHEAD OF (LIKELY) MARCH CUT)

At 14ET, Banxico will release its monetary policy statement. According to this week's Citibanamex survey, most analysts continue to expect the first rate cut to occur in March; if Banxico wanted to maintain this expectation, all it would have to do is signal in the statement that they feel comfortable with the current inflation trend. However, recent data prints, indicate a possible rebound in inflation and resilient activity, as well as a change in the Fed's tone, which was reflected in the forecasts of some of the surveyed analysts. Now, the median year-end rate projection rose from 9.25% to 9.50%, with some respondents forecasting a rate of 10.25%, which implies only four 25bps moves during the year.

Recent data prints could also impact the views of Board members. In January, headline inflation surprised on the upside, rebounding due to a sharp increase in food prices and the stickiness of core components. One argument for maintaining guidance of an upcoming cut lies in the restrictive stance of the ex-ante real interest rate which, given the decline in inflation expectations, could continue to rise further in the absence of rate cuts. Another argument is that most of the recent upturn in inflation has come from more volatile items, where monetary policy has little influence. Finally, another point in favor of an dovish tone points out that core inflation showed a somewhat normal sequential print in January; however, persistence in the goods and merchandise components remains. In particular, higher demand for goods and services could lead to greater price pressures in the coming months. Nevertheless, uncertainty regarding data trends remains high; we believe that mentioning data-dependent decisions would imply a greater possibility of rate cut until the second quarter. For our part, a change in the tone would also lead to a revision in our expectations for fewer cuts during the year. In terms of exchange rate implications, we believe that the USDMXN will be sensitive to the changes in the tone of the statement; thus, in the event of a less dovish tone, we do not rule out the possibility of a return to 16 pesos per dollar during the session.

—Miguel Saldaña