Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

February 9, 2024

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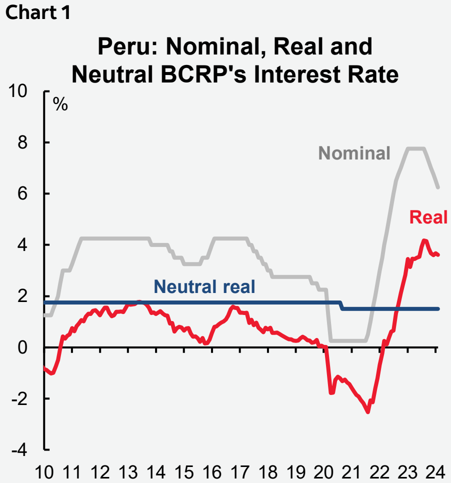
Chart 1



Sources: Scotiabank Economics, BCRP.

Latam Daily: BCRP, Chile and Mexico CPI Recap

- **Peru: BCRP cuts rate for the sixth time, inflation under control**
- **Chile: January CPI increases 0.7% m/m (3.2% y/y)**
- **Mexico: Inflation accelerated for the third consecutive month owing to increasing food prices**

PERU: BCRP CUTS RATE FOR THE SIXTH TIME, INFLATION UNDER CONTROL

The board of the Central Bank of Peru (BCRP) cut its key interest rate on Thursday, February 8th by 25bps, to 6.25%, in line with what was expected by market consensus, the Bloomberg median and our forecast at Scotiabank. In its statement, the BCRP emphasized that it forecasts that year-on-year inflation will continue its downtrend since the risks associated with climatic factors (El Niño) have been reduced. This view reduces the probability of any pause in the short term, although the BCRP was careful to keep that possibility open.

The BCRP highlighted that inflation is already at the upper limit of the target range (3%) and that core inflation (2.9%), as well as 12-month inflation expectations (2.6%), are within the target range (between 1% and 3%) for the second consecutive month. The statement reiterated that since June 2023, a more marked downward trend in inflation has been observed, as some of the transitory effects due to supply restrictions dissipate. The first inflation readings for February suggest that inflation would remain around the upper limit of the target range, after 32 months of remaining outside. At the risk level, the BCRP reiterated that risks associated with international conflicts remain and highlighted the adverse effects on fuel and freight prices.

The BCRP warned that the leading indicators showed mixed behaviour; while expectations about the economy recovered for the second consecutive month, although the majority remains in the pessimistic range. A recent BCRP survey reflects that the GDP growth forecast for 2024 stabilized for the third consecutive month, around 2.3%, reflecting a change in sentiment with respect to the downward trend observed in past surveys. The sea temperature anomaly continues to point to a weak El Niño scenario. In its statement, the BCRP stopped mentioning the risk associated with the lowering of China's growth.

Despite the cut in the policy rate to 6.25%, the real interest rate went from 3.7% to 3.6% (chart 1), maintaining the restrictive stance of monetary policy, and still well above the neutral level (2.00%), accumulating 18 months of contractionary territory. The monetary policy stance was maintained by reaffirming that, "if necessary, it will consider additional modifications to monetary policy." So far in 2024, monetary policy decisions are aligned with our vision, which is why we maintain our forecast of a 250bps cut throughout the year, up to 4.25%.

Our base case calls for recurring cuts of 25bps per meeting until Q4-24, when we expect a pause once the real rate approaches the neutral 2% level. The BCRP's survey showed that the market continues to revise its key rate expectation downward for the year-end, going from 4.6% to 4.5%, getting closer to our forecast. Monetary conditions showed a more visible recovery in December. Liquidity accelerated its expansion (+1.9% y/y, for the second consecutive month in positive territory), with a slight acceleration in loans (from +0.1% to +0.7% y/y), see chart 2. Financial savings also showed an acceleration, for the seventh consecutive month, to 7.7% y/y. The unusual recent volatility of the FX market has prompted the BCRP to resume spot sales (US$ 125 million), not seen since October 2023.

—Mario Guerrero

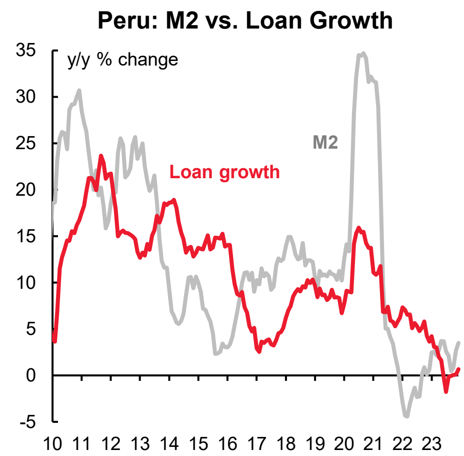
CHILE: JANUARY CPI INCREASES 0.7% M/M (3.2% Y/Y)

- **Despite the high CPI reading in January, the BCCh would arrive at the next meeting with inflation at or very close to the 3% target.**

On Thursday, February 8th, the INE released January CPI, which rose 0.7% m/m, above what was expected in surveys (Economists Survey: 0.2%; Traders Survey: 0.3%), forwards and consensus (0.4%) and closer to our 0.5% m/m expectation. Although INE publishes a year-on-year variation of 3.8%, rather for index readjustment purposes, the accumulated inflation in the last 12 months with the new basket is only 3.2% y/y. Considering the above, the Board of the Central Bank (BCCh) would arrive at the April meeting with inflation at, or very close to, the 3% target. We reaffirm our expectation that the BCCh will quickly bring the benchmark rate to its neutral level, with a cut of no less than 100bps at the next meeting.

January's CPI reveals an expected exchange rate pass-through of the recent peso depreciation, mainly on tradable products. Given the higher level of the exchange rate so far in February, we raise a note of caution on this month's inflation, which could continue to reveal exchange rate pass-through on this type of product. Nevertheless, we estimate that the convergence of year-on-year inflation to the 3% target in March would not be compromised. We continue to consider that the exchange rate pass-through is limited given the weakness of domestic demand and an adequate level of inventories.

Chart 2



Sources: Scotiabank Economics, BCRP.

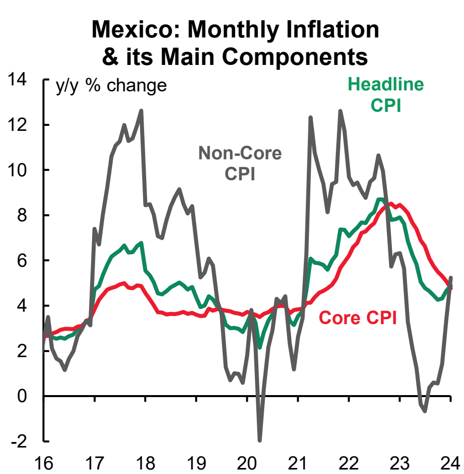
By divisions, January CPI was mainly explained by increases in the prices of food and non-alcoholic beverages (+1% m/m), among which chicken meat (+0.07 ppts), soft drinks (+0.04 ppts), tomatoes and avocados (+0.03 ppts respectively) stood out for their contribution. On the other hand, the transportation division showed a drop of 1.6% m/m, which was mainly explained by a reduction in international air transportation fares (-0.19 ppts).

—Aníbal Alarcón

MEXICO: INFLATION ACCELERATED FOR THE THIRD CONSECUTIVE MONTH OWING TO INCREASING FOOD PRICES

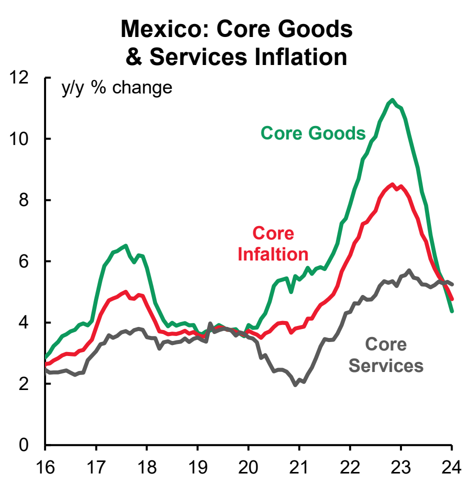
In January, headline inflation edged up to 4.88% y/y from 4.66% previously (4.85% consensus), as core inflation moderated to 4.76% y/y from 5.09% previously (4.73% consensus), derived from a slower pace in merchandise at 4.37% (4.89% previously), and services to 5.25% (5.33% previously). Non-core inflation rose 5.24% y/y from 3.39%. In its monthly comparison, headline inflation rose to 0.89% m/m (0.71% previous, 0.86% consensus), core inflation had a lower increase of 0.40% m/m (0.44% previously, 0.37% consensus), with a higher pace in merchandise. However, non-core inflation rose to 2.37% m/m (1.53% previously).

Chart 3



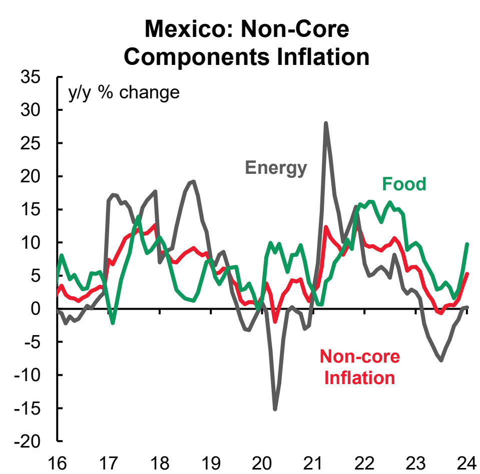
Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, INEGI.

Non-core item (food and energy) have strongly rebounded from negative annual print in July 2023 to 5.23% in January, surpassing the core item pace and adverse climate events have become one the biggest risks for inflation in 2024, Banxico's policy statement noticed. In this sense, this month, fruits and vegetables led the upsurge, reaching a 21.78% y/y increase (11.68% previously).

On the core side, stickiness remains, and it seems that the trend will not change in the short term, as demand for goods and services could put more pressure in prices in the upcoming months. We expect merchandises and services to remain sticky in the following months, with a very slow pace, and with some resistance from services as they stood above 5.0% for the last 18 months.

Looking ahead, we expect more setbacks in inflation during 2024, leading to a slower disinflation process. In line with the latest Citibanamex survey, year-end inflation consensus moved up to 4.11%, although with several possible scenarios as analyst responses are in a range of 3.50%–4.60%, signaling a still somewhat uncertain environment, which could lead to a slower pace of cuts, in case of adverse coming prices dynamics.

—Miguel Saldaña & Brian Pérez