Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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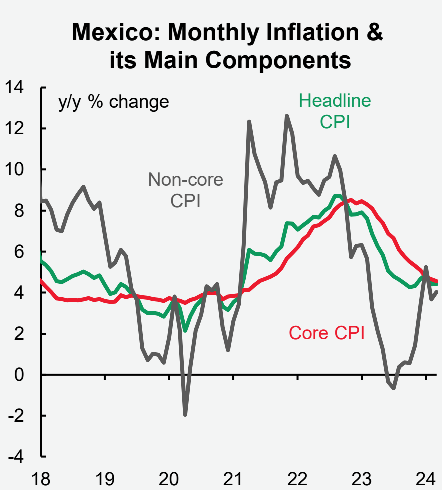
Chart 1



Sources: Scotiabank Economics, INEGI.

Latam Daily: BCCh Survey, Brazil CPI; Mexico Inflation Recap, BCRP Preview

- **Mexico: Headline inflation rose less than expected in March, but services remain sticky**
- **Peru: BCRP evaluates new pause**

Range-bound Asia markets (again) continued the trend established in post-London trading, leaving US yields around their Tuesday lows, with European traders coming in with little appetite to shake things up. A late-session surge in SPX, on nothing obvious aside from megas staging a comeback, was tracked by European equities at the open and left intact in SPX futures through overnight trading that was bare of major risk sentiment catalysts.

Most major FX are little changed against the USD, but with a slightly dollar-negative mood in European trading that is leaving the MXN 0.3% firmer to roughly net out yesterday's decline. Crude oil prices are flat to a touch stronger ahead of the US inventory report (note the API reported a larger than expected build), while copper adds 0.8% to its 10%+ rally for the year but iron ore falls close to 1%, halting a three-day streak. Global markets await the release of US CPI at 8.30ET, followed by the BoC's decision and press conference (9.45/10.30ET), and the Fed's meeting minutes at 14ET.

Brazil closes out the Latam CPI week at 8ET, with economists projecting a 4% headline inflation print for March, down from a 4.5% reading in February (0.25% m/m vs 0.83% previous). Headline inflation may show the impact of slowing food and energy prices, so the focus should remain on underlying inflation measures, especially in services. Markets still think that the BCB will still roll out a 50bps move at its May decision, but expect a downshift at the June meeting. Considering recent trends in commodity prices and a sense that the Fed may wait even longer to begin (possibly shallow) rate cuts, risks look more tilted towards a reduction in cut bets rather than an increase.

In Chile, we get the latest results to the BCCh's economists survey at 8.30ET. Coming at the same time as the US CPI data, it will be nearly impossible to gauge the impact of the survey release on Chilean assets. Still, we're watching for signs that economists are doubting their rate and inflation forecasts. The March edition had the median economist expecting a 4.50% end-2024 policy rate with a 75bps move between the expected (and realised) 6.50% BCCh policy rate set at the April 2 decision. Risks now are tilted towards a 50bps reduction instead despite the lower-than-expected inflation print on Monday.

Elsewhere in the region, Peruvian lawmakers have officially set Thursday as voting day for the seventh pension withdrawals bill—which should breeze through Congress (widely expected). Local markets seem to have already partly incorporated assimilated the withdrawal of funds as local stock indices harshly lag regional peers, and sovereign debt took a hit following the first approval of the bill in the congressional economy and banking committee on March 25. We also have officials from the BCRP, BanRep, Banxico, and the BCCh participating in a Center for Global Development seminar that kicks off at noon ET.

—Juan Manuel Herrera

MEXICO: HEADLINE INFLATION ROSE LESS THAN EXPECTED IN MARCH, BUT SERVICES REMAIN STICKY

In March, inflation edged up less than expected, to 4.42% y/y from 4.40% previously (4.50% consensus). However, core inflation moderated to 4.55% y/y from 4.64% previously (4.62% consensus), derived from a deceleration in merchandise to 3.88% (4.11% previously), although services rose for the second consecutive month, to 5.37% (5.30% previously), as they have stood above 5.0% since August 2022. Thus, non-core items (raw food and energy) drove the increase as they grew to 4.03% y/y from 3.67%. In its monthly comparison, headline inflation registered a lower-than-expected increase at 0.29% m/m (0.09% previously, 0.36% consensus), core inflation increased 0.44% m/m (0.49% previously, 0.51% consensus), with a slower pace in merchandise. Finally, non-core inflation dropped -0.16% m/m (-1.10% previously).

Inflation recorded its ninth month in the 4.0%–5.0% range, while core inflation has barely been below 5.0% for three months. This difference is partly explained by more resilient services than merchandise, and the trend is not expected to change for a while, as demand for services such as education, housing and transportation will remain strong this year, according to economic activity expectations. On the other hand, this month's headline rebound was also explained by a rebound in the most volatile components, i.e., energy, agriculture, and livestock.

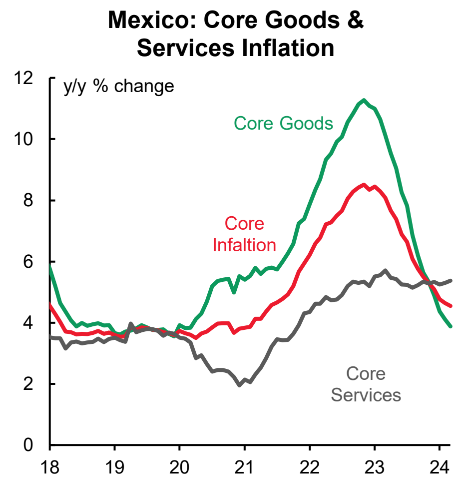
Despite the better-than-expected data in March, upside risks remain, so the market will closely monitor future prints, particularly in the core components, which are merchandise and services, where wage cost pressures and higher public spending represent some of the upside risks. It is important to keep in mind that weather disruptions during the year and an escalation in geopolitical tensions could also affect non-core inflation. On the positive side, at least in the short term, the recent appreciation of the exchange rate—that reached 16.16 USDMXN earlier this week—could help the disinflation process of imported goods, although we believe it is likely that this may not last until the end of the year.

Table 1: Mexico

Indicator	2022			2023				2024
	II	III	IV	I	II	III	IV	I
Headline	7.99	8.70	7.82	6.85	5.06	4.45	4.66	4.42
Core inflation	7.49	8.28	8.35	8.09	6.89	5.76	5.09	4.55
Goods	9.91	10.84	11.09	10.12	8.26	6.20	4.89	3.88
Food, drinks and tobacco	11.84	13.38	14.14	12.95	10.49	7.57	6.25	5.01
Non-food goods	7.78	8.00	7.68	6.93	5.70	4.59	3.28	2.53
Services	4.76	5.35	5.19	5.71	5.25	5.23	5.33	5.37
Households	2.97	3.15	3.17	3.54	3.66	3.58	3.64	3.78
Education	3.30	4.49	4.49	4.88	4.85	6.59	6.60	6.36
Other services	6.61	7.44	7.07	7.72	6.66	6.32	6.46	6.46
Non-core	9.47	9.96	6.27	3.27	-0.36	0.60	3.39	4.03
Agriculture	15.02	15.05	9.52	7.24	2.89	3.25	5.66	4.92
Fruits and vegetables	14.39	14.18	7.22	5.82	3.98	6.75	11.68	12.25
Livestock	15.51	15.79	11.50	8.37	2.05	0.33	0.68	-0.78
Energy and tariffs authorized by the government	5.22	5.88	3.66	0.16	-3.08	-1.71	1.46	3.29
Energetic	5.68	6.16	2.91	-2.26	-6.95	-4.61	0.06	3.25
Government authorized tariffs	4.12	5.23	5.48	6.35	6.26	5.14	4.82	3.38

Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

—Brian Pérez & Miguel Saldaña

PERU: BCRP EVALUATES NEW PAUSE

We see a probable new pause for the BCRP in its meeting this Thursday, April 11th, in line with what the market consensus expects according to a Bloomberg survey, since inflation is showing some resistance to continually decreasing, at least at the speed that it was during the second half of 2023.

The international environment doesn't help either. Inflation is slow to subside around the world and the US economy has been showing signs of strength in the labour market, putting upward pressure on US interest rates (UST10 years is close to 4.50%, the highest level in five months). This could delay the start of the Fed's rate cut cycle. The PEN vs. USD rate spreads now have a greater preponderance in monetary policy discussions than in the past. The BCRP expects in its base scenario that the Fed will begin the rate reduction cycle during the second half of the year.

The first readings for April inflation are favourable and suggest that inflation would be below the historical average (0.22%), making it likely that inflation will return to the target range (between 1% and 3%). But this is just a forecast. The BCRP could wait to confirm that this is the case and only resume the interest rate cutting cycle starting in its May meeting.

Twelve month inflation expectations have stabilized around 2.6% in the latest survey, within the target range for the fourth consecutive month. If the pause materializes, the real interest rate would be around 3.7%, for the sixth consecutive month, and still well above the neutral level of 2%.

—Mario Guerrero