Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mexico CPI and BCRP Recap

- **Mexico: Inflation accelerated in April due to non-core prices, mainly in agriculture**
- **Peru: BCRP continues rate cuts cycle**

MEXICO: INFLATION ACCELERATED IN APRIL DUE TO NON-CORE PRICES, MAINLY IN AGRICULTURE

(See **here** for our take on Banxico's hawkish rate hold on Thursday)

In April, headline inflation accelerated above expectations, to 4.65% y/y from 4.42% previously (4.62% consensus of the Citibanamex Survey). In contrast, the core component moderated to 4.37% y/y from 4.55% previously (4.40% consensus), being the lowest print since May 2021, derived from a slowdown in merchandise to 3.67% (3.88% previously), while services remain sticky at 5.21% (5.37% previously). Non-core inflation jumped to 5.54% y/y from 4.03%, with agricultural inflation increasing 7.35% y/y.

On a sequential basis, headline inflation registered a greater-than-expected increase of 0.20% m/m (0.29% previously, 0.17% consensus), core inflation moderated 0.21% m/m (0.44% previously, 0.24% consensus). Finally, the non-core component increased 0.18% m/m (-0.16% previously), due to a significant increase in agricultural items of +2.32%.

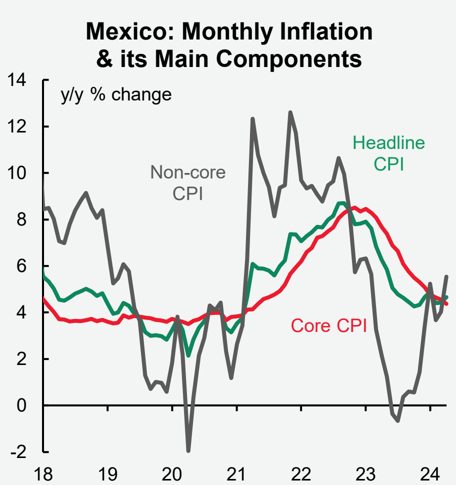
These data reinforce the perspective that services will continue to resist changing their trend, and merchandise could continue to slow down, while the most volatile components will be those that lead the increase in inflation in the coming months, affected by climatic events, as in this case were the agricultural ones in non-core inflation.

Regarding year-end expectations, mean forecasts have been revised higher since the beginning of the year, responding to the upside risks, particularly of a stickier services trend (and labour costs pressures), and higher fiscal expenditures. Now, according to the last Banxico Survey, analysts expect a 4.16% year-end headline inflation, and 4.09% for the core year-end component.

In terms of monetary policy implications, we consider that the upside biased risks and the uncertain environment, along with print (above consensus), will bring some pressure to Banxico's decisions on how many rate cuts will be delivered this year.

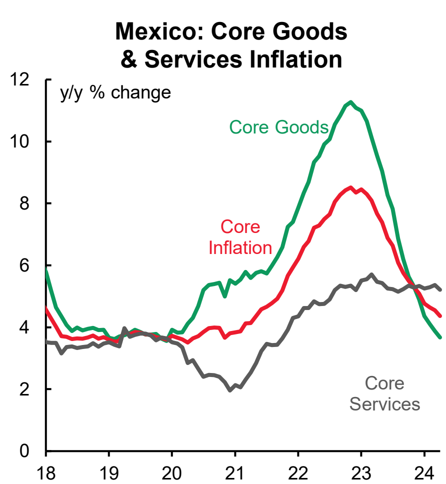
—Brian Pérez & Miguel Saldaña

Chart 1



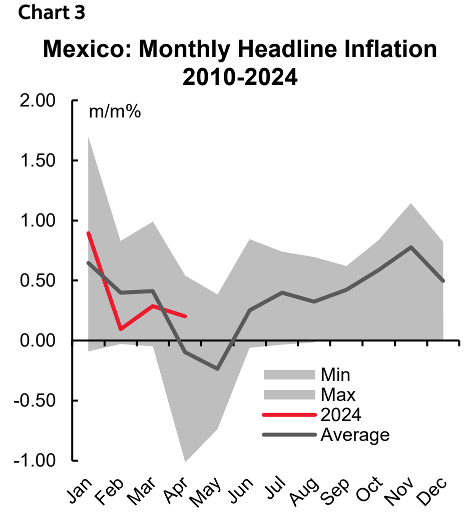
Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.

PERU: BCRP CONTINUES RATE CUT CYCLE

The board of directors of the Central Bank of Peru (BCRP) cut its policy rate on Thursday, May 9 by 25bps, to 5.75%, in line with what was expected by market consensus, the Bloomberg median and our forecast at Scotiabank.

The statement has a more dovish tone than in previous months, in that it specifies that the BCRP expects inflation to not only converge to the midpoint of the target range (2.00%) in 2024, but to do so early in the year, during the coming months. This suggests the idea that inflation could actually dip below the midpoint. On this note, yearly inflation to April came in at 2.4%, representing an unexpectedly sharp decline from 3.1% the previous months.

The key prices we follow for May suggest that monthly inflation could be below the historical average (0.15%) and below May 2023 (0.32%). This would take yearly inflation closer to the midpoint of the target range (2%) sooner than expected, possibly as soon as mid-year. No doubt the BCRP took this trend into account in its decision.

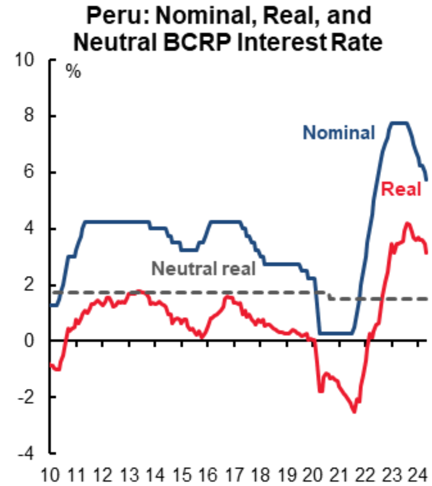
The BCRP statement also highlighted that 12-month inflation expectations remain at 2.6%, well within the target range. This figure was based on a survey taken prior to the release of the actual yearly inflation rate of 2.4% in April, which will likely motivate a further decline in inflation expectations next month.

By cutting the reference interest rate to 5.75%, the real interest rate was reduced from 3.4% to 3.1%, still far from the 2.0% considered a neutral level, accumulating 21 consecutive months (chart 4).

Our base case sees cuts of 25bps per meeting until 2024-4Q, when we expect a further pause once the real rate approaches the neutral level of 2%. The main risk factor for now is the possibility of a delay in the Fed's rate cut cycle. The BCRP survey showed that the market increased its key rate expectation for the end of the year from 4.50% to 4.75%. However, the survey does not incorporate the inflation data for April (-0.05%).

—Ricardo Avila

Chart 4



Sources: Scotiabank Economics, BCRP.

Chart 5

Sources: Scotiabank Economics, BCRP.