Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Jackeline Piraján, Senior Economist
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Latam Daily: Chile and Colombia CPI; BanRep Minutes Recap

- **Colombia: BanRep Minutes—The majority remains focused on inflation risks, while the minority is more concerned about economic growth**

Markets are holding relatively close to their late-week levels with an overall rates-negative mood to naturally undo part of Friday's strong NFP-led rally but with erratic trading in EGBs that are having trouble interpreting Sunday's French election results. The risk mood looks neutral as currencies trade mixed against the USD (with the MXN leading up 0.3%), US equity futures are flat, and on the backfoot off across iron ore, copper, and oil on everyday Chinese supply/demand news. The G10 day ahead is quiet aside from a speech by BoE hawk Haskel, while markets track French political risks.

We get the first of this week's Latam CPI releases this morning with Chile's INE releasing prices data at 8.30ET. Our team in Chile expects a 0.1% m/m decline in prices in June, somewhat below the median call for no change. Prices for certain consumer goods are expected to reverse gains made in May (that pre-empted seasonal 'discounting') and counteract a rise in services prices (see our team's preview **here**). With such a result, our economists expect that the BCCh will choose to continue cutting rates, by 25bps at its late-July announcement. At Friday's close markets were assigning a roughly 40% chance of a cut.

After markets close, Colombia's DANE releases its own inflation data at 17ET. Colombian inflation is projected to have held relatively unchanged in June from May, around 7.15%, according to our economists in Colombia and the median respondent to the Bloomberg survey; rents continue to place upward pressure on headline prices growth on a year-on-year basis with an additional tailwind from base effects in food prices. There's not a lot of progress being made on the inflation front in Colombia since headline prices growth came in at 7.4% in March (after closing 2023 at 9.3%) so it's no surprise that BanRep's latest decision threw cold water on expectations for a faster pace of rate cuts. With that, today's data won't help. To boot, we project only a minor slowdown in core inflation from 7.83% to 7.67%.

—Juan Manuel Herrera

COLOMBIA: BANREP MINUTES—THE MAJORITY REMAINS FOCUSED ON INFLATION RISKS, WHILE THE MINORITY IS MORE CONCERNED ABOUT ECONOMIC GROWTH

The central bank released the minutes to its June monetary policy meeting late on Thursday, July 4th. The minutes show that there is consensus about reducing the interest rate. However, the difference between the majority group that voted for a 50bps cut and the group who voted for a 75bps is that the majority group is more concerned about risk of inflation convergence towards the target, while the minority is more concerned about economic growth.

Having said that, the progress in inflation will be the key to speeding up the easing cycle. We expect a broadly stable annual headline inflation in June (to be released on Monday, July 8th). It significantly reduces the possibility of accelerating the easing cycle at the July 31st meeting. It makes the 50bps cut the base case scenario. For the September 30th meeting, economist consensus and our team expect a 75bps cut to be in the cards. However, it will be strongly dependent on the progress of inflation. The terminal rate of the easing cycle is still expected to be 5.50% during H2-2024.

Further details about BanRep's minutes:

- BanRep's board said that the restrictive monetary policy rate has contributed to reducing inflation and excess spending in the economy. However, board members disagree about the preference for the inflation adjustment process. For the most conservative part of the board, complying with the inflation target by mid-2025 is the main goal. On other topics, the board welcomed government efforts to reduce fiscal spending, which was a topic of concern a couple of meetings ago.
- For the majority group, inflation still faces upside risk. This group of four board members who voted for a 50bps cut (and probably the board member Jaramillo that did not assist last meeting) said that accelerating the easing cycle is not sustainable at the moment due to some upside risks in some sticky items of the inflation basket, especially services that are still sticky due to indexation effects. The board is also vigilant of the rebound on food inflation and the potential effect of the recent FX depreciation. Having said that, it is notable that this board wants to warrant that inflation will achieve the target by mid-2025, and it has driven them to maintain a restrictive stance. They would prefer not to reduce the real rate, and probably, decisions around the nominal rate will be just enough to not increase the real rate (ex-ante and export). At Scotiabank Colpatria, we believe that arguments that convince this majority group to speed up the easing cycle will come during August when we expect the disinflationary progress to resume and a clearer anchoring in the inflation expectations. Our call for the year-end monetary policy rate is 8.50%, and the terminal rate is at 5.50%.
- The two board members who voted for a 75bps cut are more concerned about the weak economic activity performance. This group thinks that upside risks on inflation are under control. On the contrary, the main concern for this group is that economic growth is very weak, not only reflecting a reduction in the excess of households' spending, but especially in a significant weak picture for investment. That said, the weakness in economic activity is an argument for having a less restrictive rate.
- All in all, the minutes affirm that the majority of the board favours a cautious approach, looking to take inflation to the target by mid-2025; in our opinion, despite the easing cycle progressing at a relatively slow pace, we think there is room to see an acceleration by the end of the year, while the terminal rate is expected to be 5.50%.

—Sergio Olarte & Jackeline Piraján