Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

July 9, 2024

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:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

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

Latam Daily: Mexico CPI; Chile and Colombia CPI Recap

- **Chile: June CPI of -0.1% m/m (3.8% y/y)**
- **Colombia: Headline inflation remained stationary in June but could resume downtrend in July**

There was not much doing overnight as a blank data and events slate leaves markets with little to trade on except checking some Monday strength in rates in North American hours. The risk mood is again so-so with US equity futures and FTSE slightly firmer while Euro Stoxx take a hit (led by autos), currencies trading mixed in narrow bands (the MXN lags slightly, drifting away from the 18.00 level), and iron ore and copper are a touch higher versus oil heading for a third daily decline. The Fed's Powell in Senate at 10ET is the main (and only) G10 event worth noting in today's calendar.

Mexican CPI data out at 8ET is today's Latam highlight. Economists expect a practically unchanged core inflation reading in the low-4s while headline inflation is seen rising to the high-4s as guided by bi-weekly data. It is not outside of the realm of possibilities that bi-weekly headline inflation prints with a 5-handle—a result that could heavily impact August cut bets and fan worries for some at Banxico of inflation expectations de-anchoring.

Banxico's latest meeting was towards the dovish end of things considering that one of the officials voted for a rate cut. The decision guided markets to price in about 15bps in cuts for the August meeting, or about 2/3 chance, as of Friday but this was trimmed to toss up odds (12.5bps) yesterday as markets may be bracing for today's inflation release. A beat in CPI today would likely translate into markets shifting to expecting a cut in September with higher odds than one in August. Banxico's minutes out on Thursday should also impact these odds.

—Juan Manuel Herrera

CHILE: JUNE CPI OF -0.1% M/M (3.8% Y/Y)

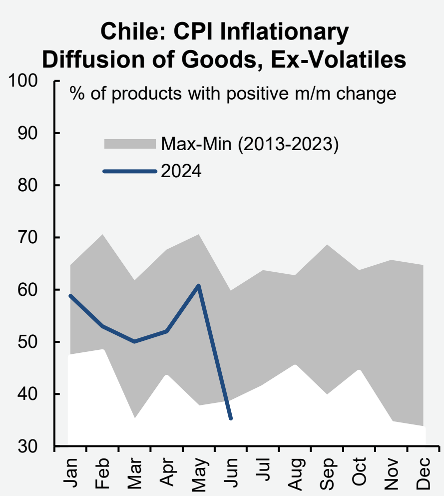
- **Electricity tariffs projected to increase again in July, but by a much smaller magnitude**

On Monday, July 8th, INE released June CPI, which declined 0.1% m/m, in line with our forecasts but below market expectations (Economist Survey: 0.1%; Bloomberg: 0%). The June CPI included a surprise 7% increase in electricity tariffs (+0.16 ppts). As a result, CPI would have been close to -0.3% m/m without that increase. This clearly indicates that inflation is far from being limited to electricity tariffs. We reaffirm our annual inflation forecast for 2024 of 4.0% y/y, which incorporates electricity hikes during the second half of the year, starting with a further electricity hike in July of between 3% and 8% m/m.

Inflation is quite muted were it not for electricity tariffs. Indeed, it confirms our view on the limited pressure on prices after a surprising inflationary record in May that captured an anticipation of Cyber-Day as we pointed out at the time. This is reflected in the fact that six of the thirteen divisions experienced declines while the ex-volatile CPI inflationary diffusion broke its historical floor for the month.

The inflationary diffusion of the total CPI is close to the floor of its range, with only 40.6% of products rising in price in the month, while for the ex-volatile CPI a historical low is reached in the month (38.5%). The goods-level indicator reveals the unusual and fairly widespread price increase in May (before Cyber-Day) and a sharp downward adjustment in the month of June. The release of the ex-food and energy goods CPI reveals this effect more clearly, which peaked in May and plummeted to its all-time series low in the month of June (21.5%). On the services side, for the first time this year, a below-average release

Chart 1



Sources: Scotiabank Economics, INE.

was observed, indicating that inflationary pressures continue to moderate, not only at the goods level (charts 1 and 2).

Not surprisingly for us, but for the market, the increase in electricity tariffs in June will leave the July CPI with a positive, but more limited, impact of the same item. Preliminarily, the increase we are projecting for July is reduced to a range between 3% and 8% (contribution between 0.07 and 0.18 ppts). In other words, July inflation would be 0.14 ppts less than previously estimated.

—Aníbal Alarcón

COLOMBIA: HEADLINE INFLATION REMAINED STATIONARY IN JUNE BUT COULD RESUME DOWNTREND IN JULY

Monthly CPI inflation in Colombia stood at 0.32 % m/m in June, according to DANE data released on Monday, July 8th. The result was slightly above economists' expectations of 0.28% m/m, according to BanRep's survey, and aligned with Scotiabank Colpatria's expectation. Annual headline inflation increased from 7.16% to 7.18% (chart 3), especially due to the acceleration in the annual food inflation that in June faced a negative statistical base. Core inflation (ex-food) decreased from 7.82% y/y in May 2024 to 7.64% y/y in June, while inflation excluding food and energy went down by 12bps to 6.01% y/y, the lowest level since May 2022, however it went down at slower pace than in recent months. In July, we expect headline inflation to resume its downward trend as negative statistical bases on food will be surpassed, which could lead the headline annual figure to break the 7% level, while by the end of the year, we expect inflation to close around 5.6%.

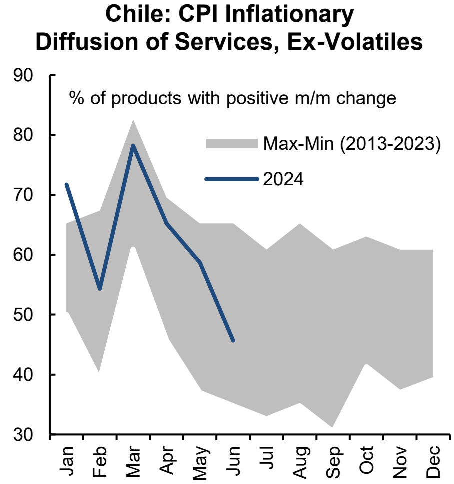
Today's inflation supports the scenario for a cautious BanRep. At the July 31st meeting, we expect a 50bps rate cut to 10.75%. However, we still see the possibility of an acceleration in the easing cycle since in September we expect inflation to resume the downward trend after July's reading (to be released on August 8th).

In June, lodging and utilities accounted for 56% of monthly inflation (charts 4 and 5). Lodging and utilities group monthly inflation was 0.58% m/m and 18bps of contribution. Rent fees increased less than in May, while the increase in utility prices inflation accelerated due to higher electricity, water, and sewerage fees, probably as a result of surcharges due to the "El Niño" phenomenon in some cities. The second main contributor was the food group, which provides a mixed picture of fresh fruits still with price reduction and acceleration in other agricultural products such as onions, potatoes, and chocolate. Mixed behaviour in food inflation could continue, however we don't expect a significant acceleration in the future as the weather is normalizing.

The mixed picture of goods and services inflation continues. Goods-related inflation decreased from 1.69% to 1.43%, below the inflation target. In the case of services, the picture is still challenging but improves at a moderate pace as inflation decreased from 7.95% to 7.89%, still well above the target for the central bank. However, we think that despite services disinflation being gradual, it is sustainable and will continue, as mainly depends on vanishing of indexation effects, which gives us confidence that the convergence towards the target rate will continue.

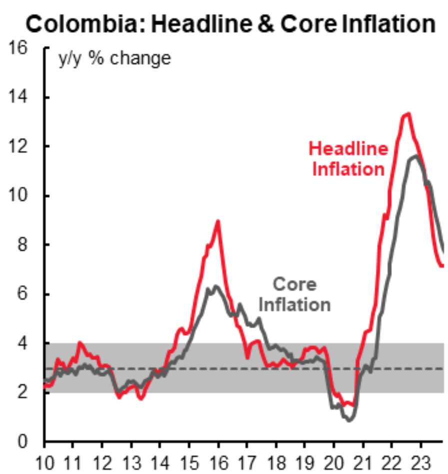
All in all, today's results are expected to continue supporting a cautious approach from the central bank. We expect BanRep will cut by the monetary policy rate by 50bps to 10.75% in a split vote again. However, as we expect inflation to resume the downward trend, we see the possibility of an acceleration in the cutting cycle at September's meeting to close the year at 8.50% and the terminal rate is still estimated to be 5.50% in the second half of 2025.

Chart 2



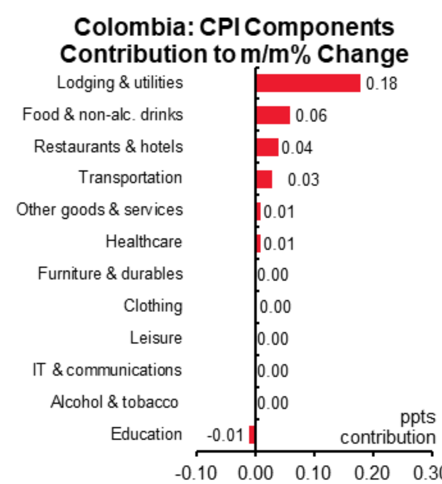
Sources: Scotiabank Economics, INE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



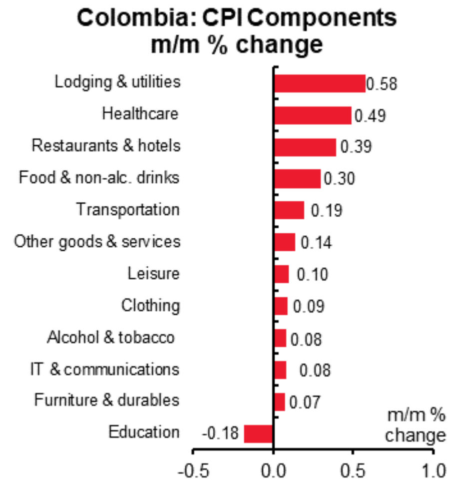
Sources: Scotiabank Economics, DANE.

Complementary highlights:

- The lodging and utilities group contributed 18bps to headline inflation (charts 4 and 5 again). Monthly rent fees diminished from 0.76% in May to 0.48% in June, which is lower relative to the June 2023 number of 0.61% m/m, which is consistent with the reduction in the indexation effects. In the case of utility fees, either way, it is demonstrated that indexation is the main headwind for inflation reduction. Regarding utility fees (0.83% m/m), electricity posted an inflation above 1%, while water fees increased by 0.97% m/m, which suggest still some lagged impact from the special tariffs after the impact of the “El Niño” weather phenomenon. Statistical base for utilities is high for the forthcoming months (+0.94% m/m in July 2023), which will give space to the y/y headline inflation to go down further.

- Food inflation (+0.30% m/m) and restaurants & hotels (+0.39%), were the second and the third main contributors to June’s inflation. In the case of food, prices are a mixed bag: fresh fruits prices (-5.92% m/m) and tomatoes (-2.6% m/m) are leading the reduction, while the upside forces came from onions (+24.10% m/m) and potatoes (+13.17% m/m). We are not anticipating significant pressures in the rest of the relevant references, which is positive since, in the forthcoming months, it reduces the possibility of having an acceleration of this group. In the case of the restaurants & hotels group, inflation is gradually converging to the target, which is good as the dynamic of this group is usually explained by the input prices (utilities, food, and minimum salary).

Chart 5



Sources: Scotiabank Economics, DANE.

- The rest of the groups exhibited moderate changes. It is worth noting that tradable goods inflation is contributing less to the annual disinflation. It is worth noting, that in July imported goods will mark twelve months in a row diminishing, which points that the disinflationary process will continue to be gradual, as statistical effects will start to matter. In the case of services, there is evidence of a consistent but slow disinflationary trend. All in all, in Colombia, inflation is normalizing at a slower pace than in the region, but we think that this process is more sustainable relative to Latam peers, which could allow the central bank to consider a modest acceleration in the easing cycle in September. The potential impact from the increase on diesel prices is low, while there is no other potential shock that could disrupt inflation convergence towards the target.

—Sergio Olarte & Jackeline Piraján