Latam Daily: Brazil CPI; Colombia Econ Survey and Peru GDP Recap

Scotiabank.

GLOBAL ECONOMICS

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- **Colombia: August Citi Survey—majority expects an acceleration of the easing cycle**
- **Peru: GDP growth in Q2—waiting for the private sector**

Monday's drift higher in yields continues today, with gilts catching up to weakened UST and EGBs (that are a touch cheaper today) after yesterday's bank holiday, while G10 markets have little to trade on today ahead of a busier second half of the week—when we'll get Euro CPIs and US PCE data. Banxico's quarterly report, Chilean, Colombian, and Brazilian unemployment figures, and a flood of Chilean macro data await over the balance of the Latam week; Peruvian markets are closed on Friday.

Risk sentiment looks in ok shape this morning as currencies trade mixed against the dollar, where the MXN's 0.3% rise is among the best, European bourses and US equity futures trade decently stronger, and commodities sit mixed, with oil falling about 0.5% off its best levels in two weeks, copper trades flat, and iron ore climbs 1.5% on reduced China pessimism. The MXN, which yesterday erased its Friday gains on Powell's dovish address, remains at risk of political anxiety after Mexico's lower house's constitution committee voted the main components of AMLO's judicial reform plan through to its next steps (debate to start as soon as next week).

Today's Latam highlight is the release of Brazilian IPCA-15 inflation for August at 8ET. After three months of acceleration from May to July, economists now expect headline prices growth to slow slightly, from 4.45% to 4.33% (with a halving of m/m gains, at 0.17% from 0.30%). In yesterday's results to the latest BCB weekly economists survey, respondents lifted their longer-term Selic rate estimates to 9.50% from 9.00% at end-2026, while holding their end-2024 projection at the current policy rate of 10.50%—in contrast to markets that are eyeing a rate increase at the early-September meeting. Today's IPCA figures, if lower than expected, may ease pressure on the BCB to hike.

—Juan Manuel Herrera

COLOMBIA: AUGUST CITI SURVEY—MAJORITY EXPECTS AN ACCELERATION OF THE EASING CYCLE

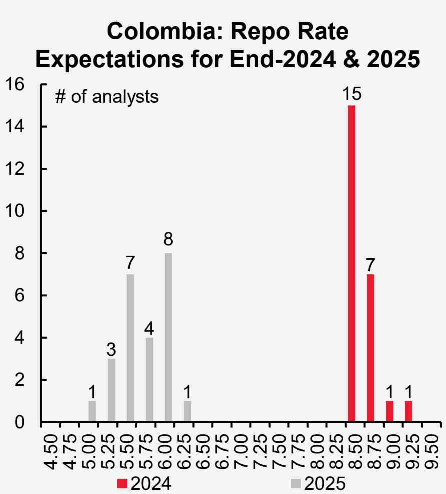
August's Citi survey results were released on Monday. BanRep uses this survey as one of its indicators for inflation expectations, the monetary policy rate, GDP, and COP.

Highlights:

- Economic growth forecast improved. For 2024, growth is expected at 1.64%, while for 2025, it is at 2.60%, 12bps and 1bp above the previous survey, respectively. For 2026, the expectation is at 2.94% (+4bps). The Q2-24 GDP growth stood at 2.1% y/y, fueled by temporary positive shocks on agriculture and public services, however the rest of the sectors are still showing weak performance; in H2-2024, our expectation is for a modest recovery that will take the 2024 GDP growth to 1.5% and 2.9% in 2025.

- Inflation expectations were stable on average. Inflation for the end of 2024 is expected at 5.66%, 4bps lower than in the previous survey, while for Dec-2025, the expectation increased by 5bps to 3.84%, but still within BanRep's target range. For August, headline inflation is expected at 0.23% m/m, which could take the annual figure from 6.86% to 6.38%, affirming the downward trend of inflation. At Scotiabank Colpatria, expectations are 0.24% m/m and 6.38% y/y, while for Dec-2024, we expect inflation to close at 5.69% and 3.35% for Dec-2025.

Chart 1



Sources: Scotiabank Economics, Citi Survey.

- Monetary policy: The majority of those surveyed expect an acceleration in the easing cycle in September. Out of the twenty-four respondents, fifteen expect a 75bps cut at September's meeting, while nine expect a 50bps cut. For Dec-2024, the monetary policy rate is expected at 8.50%, and for Dec-2025 it is expected at 5.88% on average. Scotiabank Colpatria is aligned with consensus as we expect an acceleration to a 75bps cut in September to close the year at 8.50% and reach a terminal rate of 5.5% by mid-2025 (chart 1).
- At Scotiabank Colpatria we consider the central bank has arguments to accelerate the easing cycle because: 1) the economic activity performance remains weak, and the impact in the employment market has been more material, 2) headline and core inflation resumed the downward trend, and inflation expectations remain converging towards the target, and 3) the confidence for the kick-off of a consistent easing cycle in the US has increased significantly.
- Finally, economist consensus expects the exchange rate to average 4,062 in Dec-2024, while for 2025, it is expected to be 4,043 pesos. Scotiabank Economics' projections for the exchange rate are 4,116 pesos in December 2024 and 4,150 pesos in 2025.

—Sergio Olarte & Jackeline Piraján

PERU: GDP GROWTH IN Q2—WAITING FOR THE PRIVATE SECTOR

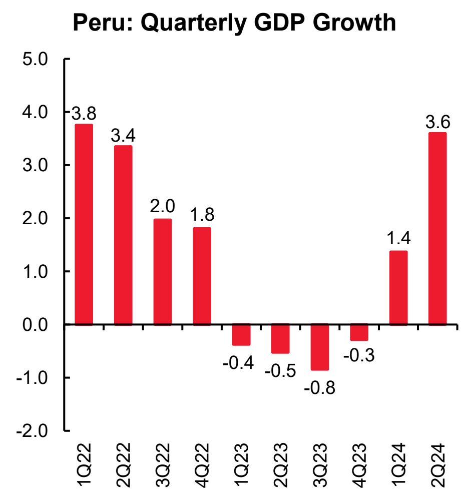
Second quarter results were released on Friday. GDP growth was 3.6%, YoY, in Q2 (chart 2). This was over double the 1.4% YoY GDP growth of Q1. Together, the two quarters represented 2.5% GDP growth for the first half of 2024, in line with our forecast of 3.0% growth for full-year 2024.

Diving into the details is revealing. The first thing of note is that the two demand components that outperformed aggregate GDP growth in both quarters were public investment and public (current) expenditure. It is clear, then, that government spending is what is driving growth, while the private sector lags.

What was particularly jarring in Q2 was the 0.2% YoY decline in private investment. We expected low private investment. However, after low but positive private investment in Q1, we had been looking for a mildly upward trend thenceforth. For private investment to have been negative is very discouraging

Private consumption did better, accelerating for a third consecutive quarter to 2.3%, YoY, in Q2. The trend is constructive, especially considering that the pension fund withdrawals had still not kicked in during this period. Private consumption growth promises to be even stronger once it does in Q3.

Chart 2



Sources: Scotiabank Economics, INEI.

At first glance, 5.0% domestic demand is very upbeat. But, look again. Domestic demand includes inventories, which added a huge 1.9 percentage points in Q2. Without this, domestic demand growth would have been 3.1%, which makes more sense. Note that one cannot do the same exercise, exclude inventories, with regard to aggregate GDP growth, because inventories was actual production on the way to the market. It so happens that, in Q2 the increase in inventories consisted largely of fishmeal production that had yet to be exported simply due to timing. This is also part of the reason why exports fell 1.8% YoY despite the strong fishmeal season in Q2. In Q3, this impact should reverse, with fishmeal adding to exports growth, and inventories being depleted (table 1).

Table 1: Peru—Quarterly GDP & Domestic Demand Growth (% y/y)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Domestic demand	**-1.9**	**-3.7**	**-1.9**	**-0.9**	**2.1**	**5.0**
Private Consumption	0.2	0.4	-0.1	0.2	1.2	2.3
Public Consumption	-0.1	5.4	3.2	9.2	3.2	5.7
Private Investment	-12.5	-8.5	-6.1	-2.2	0.3	-0.2
Public Investment	2.6	4.3	-3.9	6.4	39.9	16.1
Inventories (percentage points)	0.6	-3.1	-0.8	-2.4	-0.5	1.9
Exports	**2.6**	**10.2**	**2.3**	**4.9**	**2.5**	**-1.8**
Imports	**-3.6**	**-3.5**	**-1.8**	**3.0**	**5.4**	**3.8**
GDP	**-0.4**	**-0.5**	**-0.9**	**-0.4**	**1.4**	**3.6**

Sources: Scotiabank Economics, BCRP.

The main message of the Q2 figures is that Peru is living through a typical Keynesian fiscal stimulus situation, with public spending driving growth, but at a fiscal cost that has taken the fiscal deficit up to 4.0% of GDP. Now, it's time to put the Keynesian multiplier impact on private demand to the test. There are signs that there is at least a mild impact on private consumption. There are, however, no clear signs that there is any impact at all on private investment. Of course, one of the eternal misgivings concerning the Keynesian proposal has been that it gives little consideration to the political environment in which it takes place. And that, of course, is the what of the question for private investment in Peru.

—Guillermo Arbe