Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mexican CPI Meets, Colombia CPI and BCRP Cut (or Not?) On Tap

- **Mexico: Slight undershoot in inflation, while upside risks remain**
- **Peru: GDP maintained its momentum at the end of 2024**

Market jitters continued in overnight trading with contrasting (and some sharp) moves across the various asset classes while the overall backdrop of high yields, Trump threats, and maybe still thin trading impact sentiment at the start of the year. A four-day rise in US yields is taking a breather today with decent bull flattening gains of 3–5bps in USTs withstanding an aggressive cheapening of gilts at the UK open (10s spiked 10bps) as UK debt's rough start to the year extends. Somehow, the UK rates curve is trading slightly richer to flat at writing, though the overarching mood for sterling assets remains negative amid concerns over sluggish UK growth and that the Labour government misses fiscal targets.

Despite lower US yields, major currencies are mixed against the USD with only the JPY (up 0.4%) clearly benefitting from the rates backdrop while UK risk aversion weighs on the GBP that is the worst performer on the day with a 0.5% drop, followed by high-beta FX (MXN, AUD, and NZD) down about 0.3%. In line with the weaker GBP, FTSE 100 is posting a nice 0.7% rally given the outward looking nature of the names in the index, while Euro Stoxx are up about 0.4%. Japan's Nikkei fell almost 1% weighed by US semiconductors export restrictions and a BoJ quarterly report on branch managers noting that "sustained wage increases [are] permeating" across various industries and businesses. In commodities, crude is up about 0.5% to only marginally chip away at yesterday's 1.5% drop while copper gains about 2% but iron ore sits flat.

On the overnight data front, Chinese CPI came in line with expectations in data released last night (China's Thursday morning), with minimal headline inflation (at 0.1% y/y) that reinforces calls for more aggressive fiscal and monetary policy support by Chinese authorities to lift household spending—but don't keep your hopes up. Volatile international trade and industrial production figures out of Germany were mixed as IP posted a strong gain of 1.5% (vs 0.5% median) but imports disappointed with a large 3.3% drop that may reflect weakness in domestic demand. Eurozone retail sales were mixed as November data missed but October data were positively revised for net-net few takeaways for markets while consumption data remain soft. The G10 day ahead is now quiet as far as data are concerned, after the US Challenger jobs report came and went ahead of tomorrow's US employment report, but there are a few Fed speakers on tap that will likely reinforce the hawkish party line (Harker, Collins, Barkin, Schmid, and Bowman).

At 17ET, Peru's central bank decision is bound to surprise a decent share of economists, regardless of whether officials decide to cut 25bps or leave the reference rate unchanged at 5.00%. Of the 11 that submitted their calls to Bloomberg, 7 penciled in a 25bps cut while 4 are calling for an unchanged rate. At Scotiabank Economics, we believe that the BCRP will choose to keep settings unchanged, though CPI data released last week may have increased the odds of a cut today. December CPI decently undershot economists' forecasts, printing a 1.97% y/y rise compared to a 2.20% median projection (0.11% actual vs 0.30% m/m median). On the other hand, the BCRP highlighted in its December 20th Inflation Report that the real policy rate (2.55% at the time) was closing in on the real neutral rate of 2.0%, suggesting there's no rush to cut the reference rate so soon. Officials may also choose to wait to get a better sense of the impact of US trade policy under Trump on the global economy and markets.

Colombia's DANE publishes the last CPI print of 2024 at 17ET, which the median economist (and Scotiabank Economics) expects will show only a slight deceleration to

5.15% from the 5.20% of November, with prices seen rising by ~0.4% compared to ~0.3% the previous month. There is a bit more progress expected for core inflation, slowing to 5.6% from 5.9% with a m/m gain similar to that of headline prices. Still, a multitude of factors will be on BanRep's mind at its January 31st decision. Petro's government rolling out a huge 9.5% minimum wage increase effective January 1st means inflation may not reach BanRep's target band this year (2–4%), while ongoing fiscal risks at home and international market volatility are an important risk for the Colombian markets which may require a more cautious stance of monetary policy where even a rate hold may be favoured at month-end.

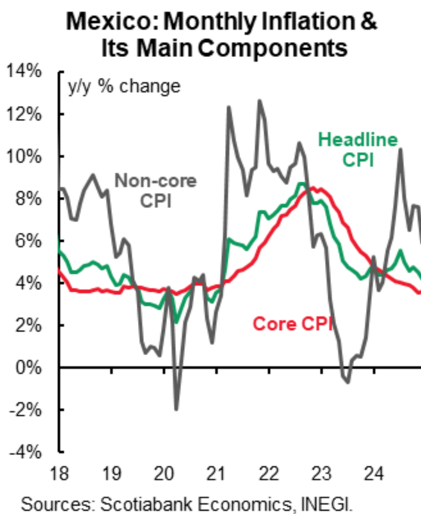
—Juan Manuel Herrera

MEXICO: SLIGHT UNDERSHOOT IN INFLATION, WHILE UPSIDE RISKS REMAIN

In December, inflation slowed more than expected, to 4.21% from 4.55% (vs. 4.27% consensus Citi Survey). However, core inflation increased to 3.65% from 3.58% (vs. 3.64% consensus). Within it, goods rose to 2.44% (2.39% previously), and services to 4.94% (4.90% previously). On the other hand, non-core inflation moderated to 5.95% (7.60% previously), highlighting agricultural products which moderated to 6.57% (10.74% previously) due to lower climatic pressures. In its sequential monthly comparison, general inflation moderated to 0.38% (0.44% previously, 0.43% consensus Citi Survey), the core component rose 0.51% (0.05% previously, 0.50% consensus) and non-core inflation fell -0.04% (1.73% previous). Looking ahead, we believe that inflation risks remain biased to the upside, highlighting the possible impact of tariff measures between Mexico and the U.S. and a possible pass-through to prices due to greater depreciation.

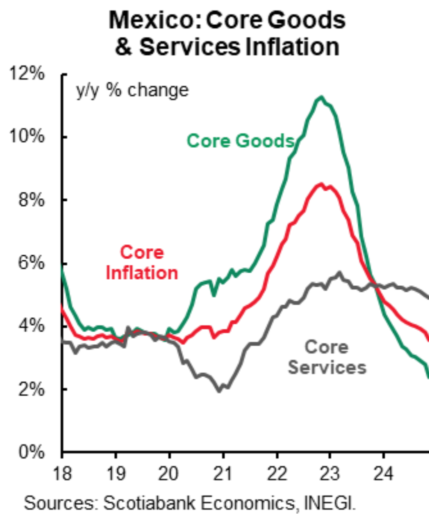
In terms of monetary policy, although some analysts foresee a 50 basis point cut due to dovish comments from some of the members, the consensus anticipates a 25 basis point cut at the February meeting. In our opinion, the uncertainty surrounding the trade relationship during Trump's term entails higher inflationary risks, so we believe Banxico will maintain a pace of 25 basis point cuts throughout the year if the board follows a data-driven approach, until reaching 8.50% by the end of the year.

Chart 1



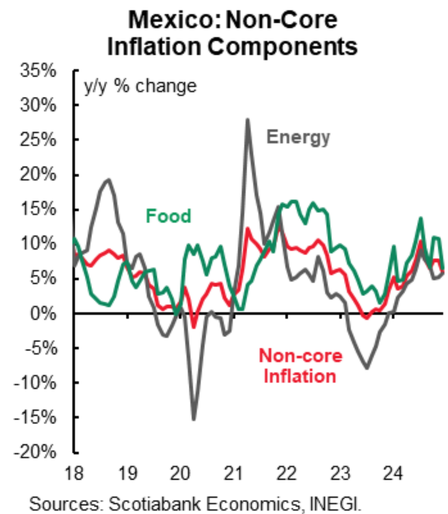
Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.

—Brian Pérez & Miguel Saldaña

PERU: GDP MAINTAINED ITS MOMENTUM AT THE END OF 2024

Economic activity would have registered an expansion of around 3.5% in November, a level similar to that of October (3.4%), according to our estimates based on advance information provided by INEI (chart 4). The positive evolution would have continued in December, with a growth of around 4%, which is in line with our estimate of a 3.2% expansion of GDP in 2024.

GDP growth in November would have been led by sectors linked to domestic demand, particularly commerce and services, which would have shown an expansion rate above GDP, due to the recovery of employment and the greater purchasing power associated with the

downward trend of inflation—it closed 2024 at 2%, in the center of the target range set by the Central Bank of Peru (BCRP).

Likewise, we estimated a recovery in non-primary manufacturing, favoured by a base effect—it fell 3.9% in November 2023—and by the acceleration of consumption and private investment that would have had a positive impact on the production of consumer goods and capital goods, respectively. On the other hand, the construction sector would have shown a fall, after four months of expansion, affected by the fall in domestic cement consumption and the moderation of public investment growth.

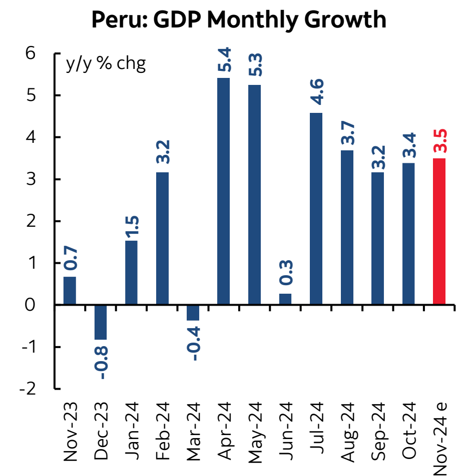
On the other hand, the fishing sector (+17.6%) benefited from the start of the second anchovy fishing season, which allowed the capture of 1.1 million tons, 41.4% higher than the same month in 2023. The above, together with the positive indirect effect on the fishmeal industry, allowed a contribution of about 0.5 ppts to GDP growth in November.

Besides, the agriculture sector (+12.4%) continued to grow in double digits, benefiting from the recovery of some agro-export crops such as blueberries, which were affected in 2023 by the negative effects of the El Niño phenomenon (chart 5). Likewise, the mango harvest was brought forward because the water deficit on the north coast during Q4-24 caused the ripening of the fruit to accelerate.

Finally, the mining sector (-2.2%) fell for the second consecutive month, highlighting lower copper production (-4.6%) affected by the lower grade of mined ore and the high comparison base due to the fact that 2023 was the first full year of operations of the Quellaveco mine. Also notable was the drop in the production of zinc, molybdenum, gold and lead.

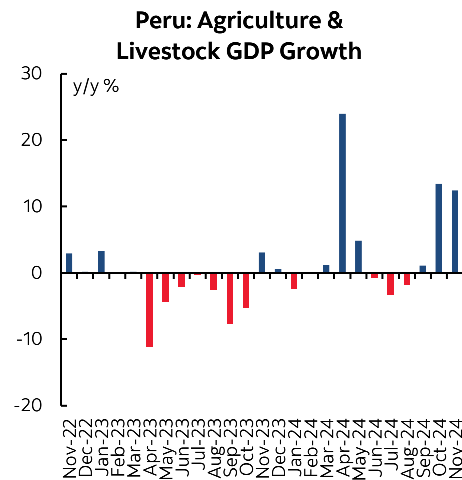
—Pablo Nano

Chart 4



Sources: Scotiabank Economics, INEI.

Chart 5



Sources: Scotiabank Economics, MIDAGRI.

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