Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Peru GDP and US CPI Await, Nearing Pension Reform Approval in Chile

- **Chile: Pension Reform could be approved by Congress in January**

Global markets are in a surprisingly good mood with practically all the key assets in the green while we wait for the release of US CPI data at 8.30ET. Strong bank earnings in the US are supporting SPX futures towards a 0.5% gain on the day while also giving an additional lift to bourses in Europe that are tracking ~0.8% gains in the main Eurozone and UK indices. Aside from flat EUR and GBP against the USD, all key major currencies are firmer on the day, although gains are relatively small outside of the JPY's 0.7% rally (with a tentative break of 157) that is leading the charge thanks to lower US yields. Oil prices are about 0.5% higher amid mixed news over a possible Israel-Hamas ceasefire, while copper posts similar gains but iron ore sits roughly flat.

USTs are taking a breather from their selloff, with all tenors richer on the day with 7-10s outperforming with 3.5bps yield declines against 1.5–2.5bps moves elsewhere on the curve. EGBs are trading in similar fashion but with the more positive risk mood seeing periphery debt doing better than Germany's. Gilts are leading in the rates space with a strong bull steepening on a 10bps+ move in the front end (and -8bps in the long end) after a miss in UK CPI data overnight. Closely watched services inflation slowed from 5.0% to 4.4% in December, against a median forecast of 4.8%, breathing some life back into February BoE cut bets that now sit at 21bps implied versus about 15bps yesterday (we forecast a cut).

While US CPI will drive global, and very likely Latam, markets for the balance of the day and possibly until President Trump's inauguration on the 20th, we do have key data out of Peru at 10ET that could see local assets diverge from their Latam peers. November GDP—and December unemployment figures to a much smaller degree—will be watched to refine 2024 growth estimates and perhaps chip away at expectations that the BCRP still has more cuts in store after last week's 25bps cut to 4.75% (that left Peru's policy rate only 25bps above the Fed's target rate upper bound). With industry-level data at hand, our local team estimates that GDP rose by 3.5% y/y in November (see **Latam Daily** for details), or about the same as the 3.4% pace recorded in October, which would result in a 3.2% expansion in 2024 when combined with the 4% that our economists have penciled in for December. As far as economic trends are concerned, the BCRP should not be in a rush to cut rates again.

Elsewhere, Mexican investment figures for October and Brazilian services activity data for November were released at 7ET. The former roughly met expectations, posting only marginal growth month-on-month (0.1%) while year-on-year declines continued (-2.6%), while the latter disappointed slightly though was accompanied by positive revisions—and still shows continued growth compared to last year. Setting aside data volatility, Mexican real fixed investment spending has sat barely unchanged since August 2023 as the highs of public capex in infrastructure projects in H2-23 are left well behind while private outlays are constrained by high interest rates as well as domestic and international political uncertainty. Soft economic growth in Mexico may tilt the balance in favour of a 50bps cut by the dovish Banxico board at their first meeting of 2025, on February 6th, but a lot may ride on Trump's first two weeks in office as well as the Fed's policy announcement on January 29th. Brazil's central bank is in a completely different boat, as strong growth (see this morning's services data) and fiscal risks alongside/prompting serious Brazilian real risks mean economists and markets think the BCB may opt for a hike of up to 100bps at its early-February decision.

—Juan Manuel Herrera

CHILE: PENSION REFORM COULD BE APPROVED BY CONGRESS IN JANUARY

At Scotiabank Economics we estimate that the Government and parliamentarians are close to reaching an agreement on the Pension Reform, which is currently before the Senate Labour Committee, thus meeting the deadline established towards the end of last year. This agreement contemplates an increase in the mandatory contribution by at least 6 ppts, within which a significant part would be destined to the individual accounts of the contributors; an increase in the Universal Guaranteed Pension (Basic Pension); greater competition in the administration of the funds, where the idea of a bidding process for the stock has increased strongly; and the change from multifunds scheme to Generational Funds, which we analyze in greater depth in the following document (see our **Report**). According to our estimates, in the coming weeks this could contribute to the reduction of the punishment shown by some local assets, especially the Chilean peso, which remains above the ceiling estimated by the Central Bank as a long-term level in real terms.

—Aníbal Alarcón