

Latam Daily: Inflation Pressures

- Mexico: November y/y headline inflation beat consensus at highest level since 2001
- Peru: BCRP raises rates for five consecutive months, but still considers inflation temporary

MEXICO: NOVEMBER Y/Y HEADLINE INFLATION BEAT CONSENSUS AT HIGHEST LEVEL SINCE 2001

According to [INEGI](#), bi-weekly headline inflation continued its upward trend, accelerating from 6.24% y/y to 7.37% y/y, its highest level since January 2001, beating the consensus of 7.24% y/y (chart 1). Core inflation rose from 5.19% y/y to 5.67% y/y. Merchandise inflation increased to 7.24% y/y (6.58% previous), while services rose to 3.92% y/y (versus 3.62% previous) (chart 2). The non-core component also accelerated, from 9.47% y/y to 12.61% y/y. Energy and tariffs rose to 11.26% y/y from 9.82%, while food accelerated from 9.02% y/y to 14.36% y/y.

In terms of a sequential monthly comparison, price increases accelerated from 0.84% m/m to 1.14% m/m, the fastest pace since January 2017.

However, core inflation moderated for the first time in eight months, from 0.49% m/m to 0.37% m/m. And merchandise prices moderated from 0.60% m/m to 0.31% m/m, reflecting the Buen Fin (Black Friday) discount season, although services accelerated from 0.38% m/m to 0.43% m/m as demand for services recovers (chart 2). The non-core component edged up from 1.87% m/m to 3.45% m/m, owing to a higher dynamic of food prices from 0.18% m/m to 4.48% m/m (chart 3), despite tariffs and energy moderated from 3.22% m/m to 2.64% m/m.

In terms of monetary policy implications, we retain our outlook for a 25 bps hike at the December 16 policy meeting to 5.25%, with risks of a higher hike, as we believe that at least one member of the Board could vote for a 50 basis point hike.

—Miguel Saldaña

Chart 1

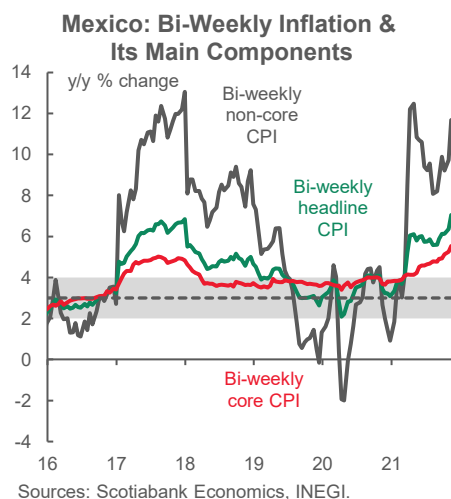


Chart 2

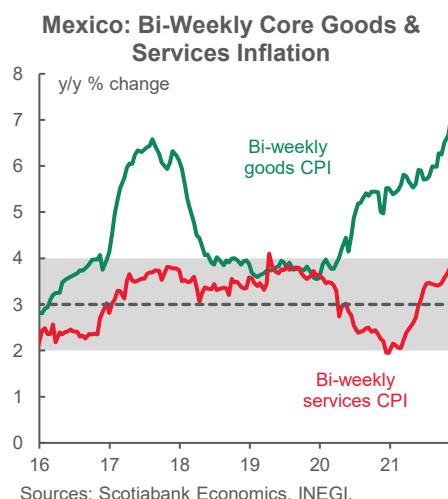
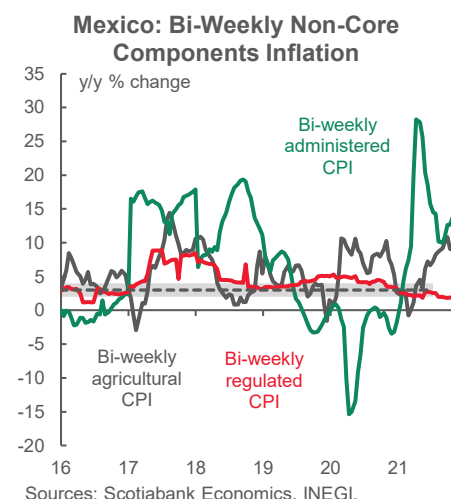


Chart 3



CONTACTS

James Haley
416.607.0058
Scotiabank Economics
jim.haley@scotiabank.com

Guillermo Arbe
+51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
+57.1.745.6300 Ext. 9166 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive
+56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
+52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Mario Guerrero
+51.1.211.6000 Ext. 16557 (Peru)
Scotiabank Peru
mario.guerrero@scotiabank.com.pe

Miguel Saldaña
+52.55.5123.0000 Ext. 36760 (Mexico)
Scotiabank Mexico
msaldanab@scotiabank.com.mx

PERU: BCRP RAISES RATES FOR FIVE CONSECUTIVE MONTHS, BUT STILL CONSIDERS INFLATION TEMPORARY

The Board of Peru's central bank (BCRP) raised its key interest rate by 50 bps to 2.50% at its meeting on Thursday, December 9, in line with market consensus (Bloomberg), the swap market of interest rate (2.7% with a term of six months), and our own forecast. Despite inflation taking a breather in November, inflation expectations continue to rise and remain above the target range, putting pressure on the BCRP to react by raising its benchmark interest rate.

In our [Latam Weekly](#) (October 22, 2021) we raised our benchmark rate forecast from 1.50% to 2.50% by the end-2021, so this move materializes the bullish bias that we have already observed in interest rates (chart 4). For 2022 we expect a hike of at least an additional 150 bps to 4.00%, as indicated in our [Latam Weekly](#) (November 5, 2021). Despite this adjustment, monetary policy would not lose its expansionary orientation, as interest rates would remain in negative territory in real terms.

Compared to other economies in the region, the benchmark rate in Peru is relatively low. The monetary policy real interest rate rose for the fourth consecutive month, but remains in negative territory, at -1.2% in December after the decision.

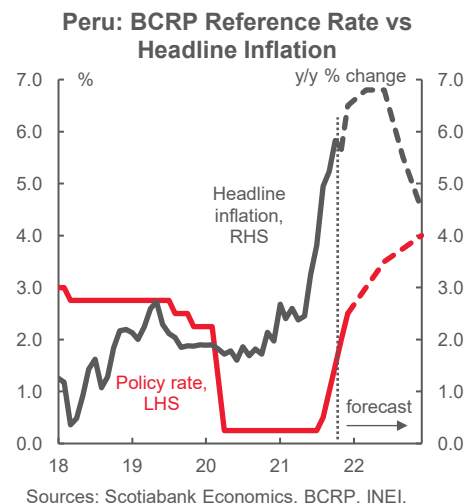
The BCRP statement retains the expectation that inflation is transitory, and reaffirms that the Board expects it to return to the target range during the second half of next year. In contrast, we forecast inflation above the target range for 2022 (4.5%).

Likewise, the BCRP's Board also indicated that it will remain attentive to new information regarding inflation expectations and the evolution of economic activity "to consider, if necessary, modifications in the monetary policy position", wording that has been used in past interest rate hike cycles. In accordance with this pronouncement, the BCRP president recently confirmed the central bank's intention to move towards monetary normalization, which would imply continuing to raise the interest rate in real terms.

The BCRP also pointed out that expectations about the economy have deteriorated in November. However, the President of the BCRP, Julio Velarde, recently pointed out that the fundamentals of the Peru's economy remain strong, but that in the short-term political uncertainty dominates, causing, for example, that the FX rate is undervalued.

—Mario Guerrero

Chart 4



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V, Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.