Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

August 10, 2023

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Latam Daily: Banxico and BCRP to Stay Put After Global Focus on US CPI

- **Colombia: Consumer confidence declines, while willingness to purchase vehicles and homes improves**
- **Mexico: Inflation slowed for the sixth consecutive month; pressure continues in core inflation**

Overnight markets have a clear USD-negative, risk-on mood on little of note that may simply reflect some retracement of yesterday's more risk-averse fee. Natural gas prices are about 5% lower in Europe after the surge yesterday on strikes at Aussie LNG plants, while remaining strong alongside flat crude oil prices, copper up 0.5%, and iron ore down 0.5%. USTs are holding in relatively narrow ranges, with 2s down 1bp versus 30s up 1bp. The MXN is flat, and by consequence lagging its major peers where the EUR's 0.4% gain stands out.

Global markets await eagerly the release of US July CPI data at 8.30ET where Scotiabank Economics sees slightly lower y/y and m/m readings—but there's a lot of data to go after this until the Fed's September decision.

In Latam, we have a quiet session from a data standpoint with only Brazilian services volumes data for June due at 8ET (seen roughly halving from 0.9% to 0.5% m/m) and the results of the BCCh's economists survey at 8.30ET that we'll watch for expectations on how fast the bank will continue its rate-cuts cycle after it surprised most economists (but not us) with a 100bps cut to kick things off.

Two more Latam central banks announce policy today, Banxico at 15ET and the BCRP at 19ET. Neither is expected to change settings today, leaving their respective policy rates at 11.25% and 7.75%. In the case of the BCRP, there may be a bit more to look forward to as very disappointing economic data points to rising odds that the bank brings forward the start of the cutting cycle to September instead of October as is our baseline forecast (see more ***here***)—there is even a small chance that the bank decides to act today (one economist surveyed by Bloomberg thinks as much).

As for Banxico, the focus will be on the bank's perception of inflation trends, but with the fight not won against core inflation (see below) it is still much too early to tee up the start of rate cuts—which is an additionally risky proposition without being sure that the Fed is done.

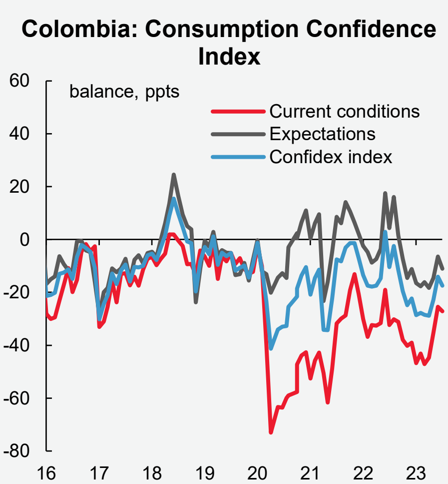
Within the broader Latam space that is not part of our core coverage, we highlight that Ecuadorian presidential candidate Villavicencio was assassinated yesterday. His strong anti-corruption and hard on drug trafficking campaign set him on a trend towards a runoff vote after the first voting round scheduled for August 20 (runoff, if needed, would take place in mid-October).

—Juan Manuel Herrera

COLOMBIA: CONSUMER CONFIDENCE DECLINES, WHILE WILLINGNESS TO BUY VEHICLES AND HOMES IMPROVES

Colombia's Consumer Confidence Index (CCI) in July stood at -17.4%, which represents a decrease of 3.3 p.p. compared to June (-14.1%). Both components of the indicator showed a deterioration compared to the previous record. The Consumer Expectations Index (CEI) went from -6.5% in June to -11% in July, which corresponds to a decrease of 4.5 p.p. while the Economic Conditions Index (ECI) had a decrease of 1.7p.p. from -25.4% in June to -27.1% in July (chart 1).

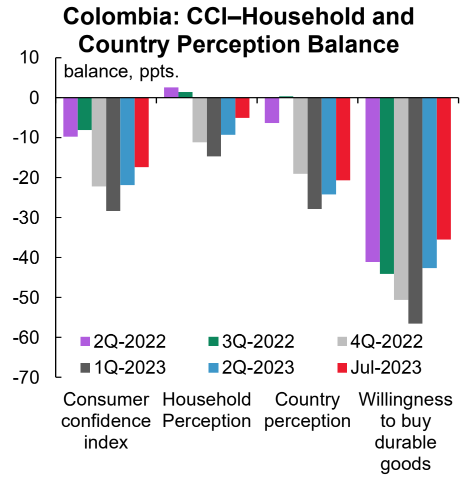
Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

The Consumer Expectations Index (CEI) was the component that presented the largest drop, explained by a significant decrease in consumers' perception of the economic conditions of their households and the country in general over 12 months. This represents a change of trend in the CEI, given that the previous month consumers' perception had improved; however, a lower dynamism of the economy could be explaining the new drop in July. On the other hand, the willingness to buy durable goods also fell from -30.9% in June to -35.5% in July, while the willingness to buy houses and vehicles increased by 3.8 p.p. and 3.6 p.p. respectively. A drop in the prices of used vehicles could explain the increase in the willingness to buy vehicles, and on the side of the willingness to buy housing, the improvement could be related to the expectation that Banco de la República will start cutting the interest rate in the short term.

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

Looking at the June details:

- **The Economic Conditions Index stood at -27.1%, a decrease of 1.7 p.p.** concerning the previous month. The exchange rate has failed to stabilize and has fluctuated in a wide range, which is not conducive to price stabilization, hence consumers' decreased willingness to purchase durable goods in the month of July.
- **Consumers' economic outlook deteriorated in July.** The expectations index stood at -11%, which represents a decrease of 4.5 p.p. concerning the previous month. Consumers' perception of the country's economic conditions remains in negative territory, which could be explained by a decrease in economic activity and a more unfavourable image of the current government.
- **The Consumer Confidence Index showed a greater drop in the city of Barranquilla.** In the previous month, Barranquilla was the city that presented the best record, even so, in July the indicator deteriorated significantly, standing at -12.9% compared to 4.5% in June, which represents a drop of 8.4 p.p. As for the other cities, Cali was the second city that presented a significant drop from -7.9% in June to -17.1% in July; finally, Medellin continues to be the city with the lowest CCI with a record of -32.2%.
- **Consumer confidence improved at the low socioeconomic level.** In the high-income group, confidence stood at -48.3%, an increase of 13.3 p.p. versus the previous month. The middle-income group showed a decrease in confidence of 12.9 p.p. to -23.2%. Finally, the low-income group was the only one that presented an increase, standing at -8.6% compared to -15% in June.

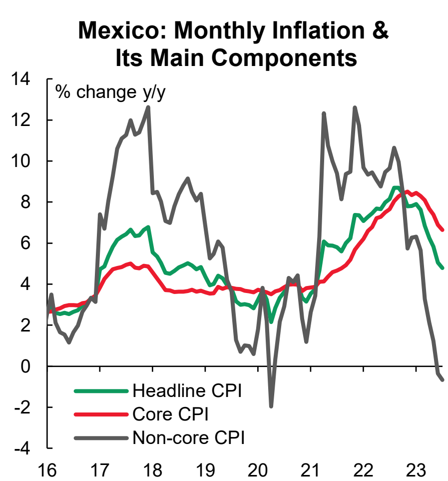
Although consumer confidence deteriorated in July compared to the previous month, it improved compared to previous quarters (chart 2). This result, coupled with the release of the July inflation figure, suggests that there is still uncertainty about a possible rate cut in September.

—Sergio Olarte, Jackeline Piraján & Santiago Moreno

MEXICO: INFLATION SLOWED FOR THE SIXTH CONSECUTIVE MONTH; PRESSURE CONTINUES IN CORE INFLATION

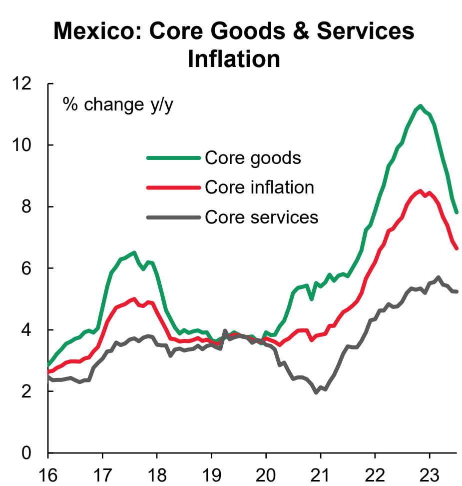
In July, inflation registered the lowest figure in 28 months, and decelerated for the sixth consecutive month to 4.79% y/y from 5.06% previous (4.79% consensus). Core inflation also moderated to 6.64% y/y from 6.89% previous (6.66% consensus), derived from a slowdown in merchandise to 7.82% (8.26% prior), and marginally in services to 5.24% (5.25% prior). Non-core fell -0.67% y/y from -0.36%, as energy fell -3.90% (-3.08% prior), although agriculture rose 3.16% (2.89% prior). In its monthly comparison, headline inflation increased 0.48% m/m (0.1% previous, 0.49% consensus), core inflation went to 0.39% m/m (0.30% previous, 0.42%

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

consensus), with increases in merchandise and services. Finally, the non-core registered a strong rebound 0.77% m/m (-0.52% previous, see chart 3).

Given this reading, we anticipate that inflation will continue to slow down, although the core component could show some persistence that could lead to a slower pace of slowdown (in headline inflation). For twelve months, services have shown positive variations that exceed 5.0%, along with risks of a rebound in non-core inflation, which has so far contributed to the downward trend in inflation this year, supported by the drop in energy (chart 4). In the last Citibanamex survey, the inflation forecast was revised slightly downwards, at this time the average stands at 4.68% for 2023, and at 3.97% in 2024. After this indicator was released, the peso reacted by appreciating against the dollar, after seeing some volatile days. The market will have in its sights the monetary policy decision by Banxico, mainly due to its comments on the path of inflation and how long rates will remain at high levels.

—Brian Pérez