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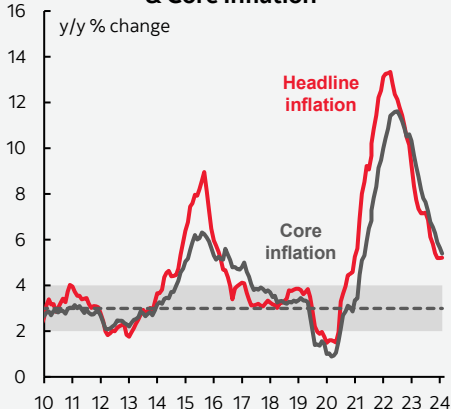
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Chart 1

Colombia: Headline & Core Inflation



Sources: Scotiabank Economics, DANE.

Latam Daily: Tariff News Are But a Scratch; Colombia and Mexico Inflation Recap

- **Colombia: January inflation was above expectations amid food inflation and had higher-than-expected indexation effects**
- **Mexico: Headline inflation beats consensus in January**

Global markets are again starting out the week on US tariff news, but with a much more modest reaction this time around when compared to last Monday's post-Canada/Mexico/China tariffs announcement. President Trump's announcement over the weekend that the US would impose 25% tariffs on steel and aluminum imports would seemingly also impact Mexico and Canada, despite last week's tariffs pause. The two countries are the US's top sellers of steel, and while Mexico is the US's #3 source of aluminum, its share of exports to the US pales in comparison to Canada's (ten times as much). We don't know when the tariffs will come into effect or which countries will be affected, just as we don't know when Trump will announce the reciprocal tariffs that he floated last week (perhaps today or tomorrow) and how this works with the 'pause' agreement that Mexico and Canada reached.

It's clear markets are taking this weekend's news in stride, as the MXN and CAD are only weaker by about 0.2/3% and the latter is the worst performing major on the day with this fairly small loss (the CNY, sensitive to trade risks, isn't doing much either). Similarly, US yields did not spike at the open as could've been the case on a possible read-through to higher US inflation, and it was a similar reaction in markets on Friday to headlines on Trump eyeing reciprocal tariffs. At writing, US yields are in fact lower by about a couple of bps across the curve with similar moves in European rates. US equities are also decently in the green tracking 0.5%+ gains that correct a good chunk of Friday's losses on a solid US employment report (European bourses are also up about 0.5% on average). Tariff news have aluminum roughly 1% stronger (so not too much, either), with no major impact on steel products prices, while copper rallies 1.5% alike gold and oil.

It's a quiet day ahead in Latam and the G10 with two possible exceptions. One being US trade headlines that take the markets by surprise, though maybe the bar for these to be impactful is now higher. The other being Colombia's cabinet reshuffle as resignations pile up after a chaotic televised cabinet meeting last week, with President Petro now requesting the resignation of all ministers. Colombia's markets also reopen to developments on Friday, with the release of mixed inflation data (overshoot in headline, roughly in-line core) and the government's Financing Plan.

—Juan Manuel Herrera

COLOMBIA: JANUARY INFLATION WAS ABOVE EXPECTATIONS AMID FOOD INFLATION AND HAD HIGHER-THAN-EXPECTED INDEXATION EFFECTS

Colombia's monthly CPI inflation stood at 0.94% m/m in January 2025, according to data published by DANE on Friday, February 7th, 2025. The result was above analysts' expectations in the BanRep survey of 0.82% m/m and above Scotiabank Colpatria's expectation of 0.87% m/m. Headline annual inflation increased from 5.20% to 5.22% (chart 1). The acceleration of annual inflation reflected the increase in food inflation, as well as an acceleration in the annual inflation of regulated transport fees and restaurants; both reflect the impact of the significant increase of the minimum wage and transport subsidies.

In Colombia, the first three months of the year account for a large part of the year's inflation due to indexation dynamics. In 2025, the increase in the minimum wage represents the main challenge for inflation convergence toward the target range. However, its effect in January was stronger than expected, and it is a challenge for the forthcoming BanRep rate decision in March.

Three groups were the main contributors to inflation. Food contributed the most to the total variation, with a contribution of 30bps, showing positive variations in 36% of the foods that make up the food and beverage category. Transportation also significantly contributed 23bps, given the increase in transportation rates and the adjustment in toll rates. Finally, the restaurant and hotel category contributed 21bps to monthly inflation, incorporating the increase in food prices and higher labour costs.

In annual terms, the acceleration of inflation from 5.20% in December to 5.22% in January implies greater caution on BanRep's part. Core inflation slowed down, but inflationary risks require greater caution from BanRep. Total inflation accelerated from 5.20% in December to 5.22%, while core inflation (ex-food) fell from 5.65% in December to 5.39%. Likewise, inflation, excluding food and regulated prices, fell from 5.15% to 5.02%. Goods inflation remained below the target range, while services inflation, despite showing a moderate decline from 6.97% to 6.79%, remained well above the 3% target and with an expectation of a slow convergence after the increase of the minimum wage.

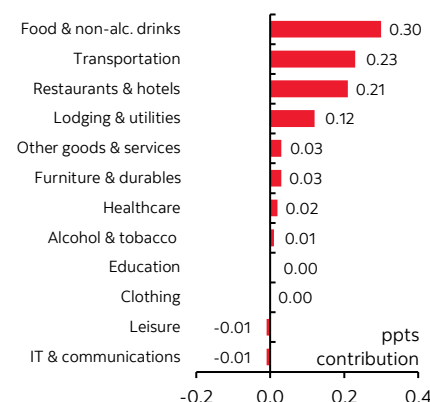
Scotiabank Colpatría estimates that inflation will remain above the target range in 2025. January's inflation showed a high indexation effect, with rental rates increasing 0.46% m/m, lower than the increase in January 2024 (+0.80% m/m), but higher than the historical average for January (+0.33%). In February, another part of the price adjustments will be consolidated, such as in the education sector, therefore, it will be relevant data to monitor before BanRep's meeting on March 31st. The majority of the Board has been emphatic about the need to act with caution given the inflationary risks; therefore, decisions would continue to be guided by the evolution of inflation. The base scenario is a 25bps cut to 9.25%. However, the rebound in inflation increases the probability of once again keeping the rate stable at 9.50%.

Complementary highlights:

- 80% of inflation was concentrated in food, transportation, and restaurants and hotels.** Food had a variation of 1.62% m/m, contributing 30bps to the total. The foods that contributed the most to the variation were tomatoes, chicken, vegetables, and soft drinks. The transportation sector registered a variation of 1.71% m/m, contributing 23bps due to an increase in urban transportation fares and the increase in tolls. The restaurants and hotels sector presented a variation of 1.90% m/m, contributing 21bps to the total, mainly due to an increase in the price of meals outside the home, since hotel services registered a negative variation of 0.71%.
- Lodging and utilities showed moderation in its contribution to inflation, however, a greater contribution is expected in the coming months.** The inflation of lodging and utilities was 0.39% m/m, contributing 12bps to the total. Rental rates increased by 0.46% m/m, while electricity registered an increase of 0.60% m/m, maintaining the upward trend of the previous month, while gas registered a negative variation of 0.52% m/m. Indexation effects on the rental rates side will continue to put pressure on inflation, although to a lesser extent than observed in 2024. However, on the utility rates side, an announced increase in gas rates of more than 30%, and the elimination of energy subsidies would generate additional inflation pressures. Scotiabank Colpatría estimates an inflation rate of 4.5% at year-end (charts 2 and 3).
- Goods could maintain a moderate variation; however, services would have a stickier inflation.** Regarding imported inflation, the positive performance of the exchange rate could support inflation of goods to remain relatively stable and below the 3% target; however, a change in trend is not ruled out given a greater reactivation of consumption and higher labour costs that are passed on to the final price. Services, which represent nearly 50% of total inflation, are expected to have a gradual reduction given a greater sensitivity to the increase in the minimum wage, which in turn would delay the convergence of inflation to the 3% target.

Chart 2

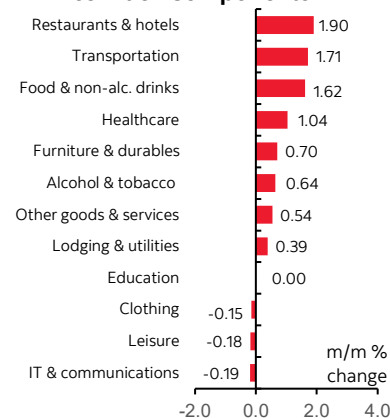
Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

Chart 3

Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

MEXICO: HEADLINE INFLATION BEATS CONSENSUS IN JANUARY

In January, inflation slowed more than expected, dropping to 3.59% y/y from 4.21% (compared to the 3.63% consensus in the Citi Survey), reaching its lowest level since December 2020. Core inflation remained relatively stable, moving from 3.65% to 3.66% (versus the 3.69% consensus). Within this, merchandise prices rose to 2.74% (previously 2.47%), while services moderated to 4.69% (previously 4.94%) (chart 4).

On the other hand, non-core inflation slowed to 3.34% (previously 5.95%), as agricultural products significantly decelerated to 0.56% (previously 6.57%), driven by a drop in fruits and vegetables of -7.73%. On a monthly basis, headline inflation rose 0.29% (previously 0.44%, 0.33% consensus), the core component moderated to 0.41% (previously 0.51%, 0.44% consensus), and non-core inflation stood at -0.14% (previously -0.04%) (charts 5 and 6).

Chart 4

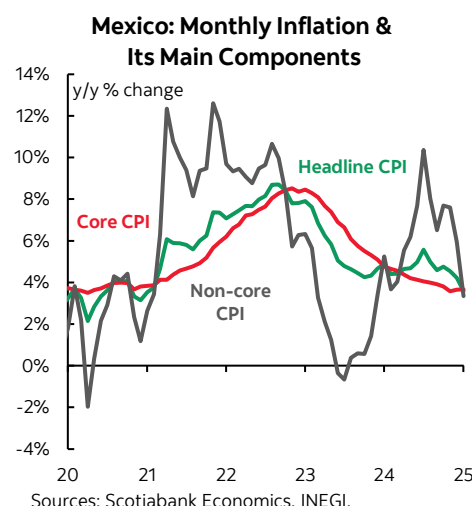


Chart 5

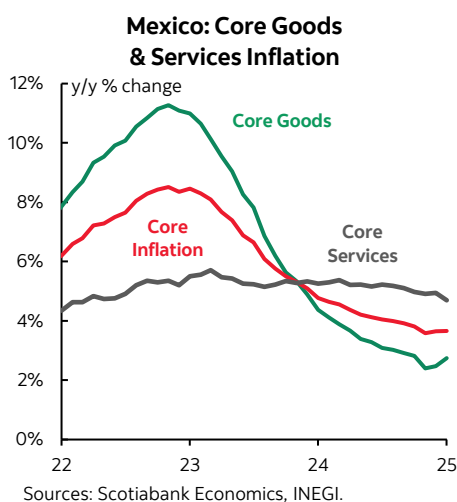
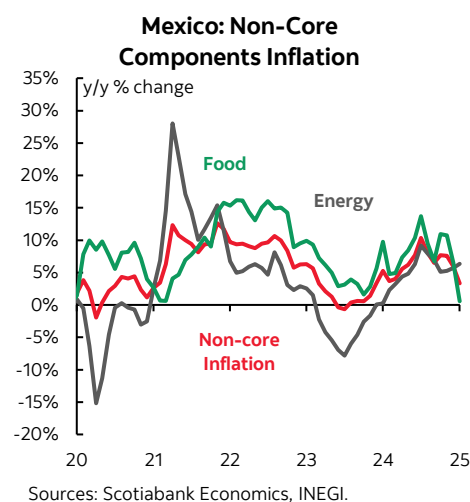


Chart 6



Looking ahead, inflation presents an upward risk balance, highlighting the potential impact of tariff measures between Mexico and the U.S., stickiness in merchandise and services items, and a possible price pass-through due to greater depreciation. However, the risk of a broader economic deceleration could push prices down due to lower demand.

In terms of monetary policy implications, judging by last week's meeting, Banxico's Board appears somewhat confident in the downward trend in inflation. They seem to be considering high downward pressures of a weaker economy and lower demand on prices, that could offset the risk of higher prices due to political uncertainties and trade-adverse policies, or a pass-through from a broader USDMXN depreciation.

—Rodolfo Mitchell & Miguel Saldaña

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