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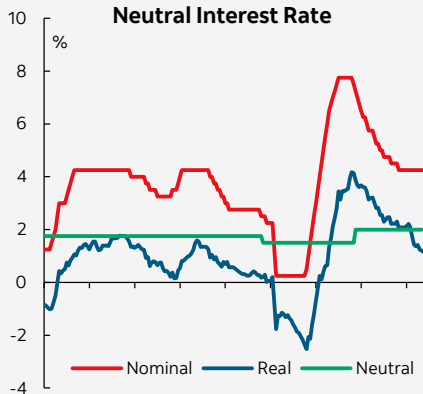
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Chart 1

Peru: BCRP's Nominal, Real and Neutral Interest Rate



Sources: Scotiabank Economics, BCRP.

BCRP Holds, Chilean CPI Undershoots, Mexican CPI Picks Up

- **Peru: BCRP surprises market consensus with a rate hold**
- **Chile: September CPI, up 0.4% m/m, keeps annual inflation at 4.1%**
- **Mexico: Inflation edges higher in September as non-core pressures rebound**

PERU: BCRP SURPRISES MARKET CONSENSUS WITH A RATE HOLD

The Board of the Central Reserve Bank of Peru (BCRP) decided to keep its policy interest rate unchanged at 4.25% in October, marking 13 consecutive months without any adjustment (chart 1). This decision was in line with our expectations but differed from market consensus, according to the Bloomberg survey. Of the 13 analysts surveyed, nine expected a 25 basis point increase, while four analysts (including ourselves) anticipated no change in the policy rate.

There are no significant differences between October's statement and September's. However, the following points stood out:

- **Inflation:** Headline and core inflation in September were 0.12% and 0.07% m/m, respectively. On an annual basis, headline inflation increased from 4.4% to 4.5%, mainly due to higher energy prices, while core inflation remained unchanged at 4.5%. Meanwhile, y/y inflation excluding food, energy, and transportation remained below the midpoint of the target range, reaching 1.8% in September.
- **Drivers of inflation deviation:** The divergence of inflation from the target range continues to be driven primarily by higher fuel prices and their impact on transportation costs during March and April.
- **Inflation expectations:** Twelve-month inflation expectations remained at 3.1%, slightly above the target range. At the same time, the BCRP expects inflation to return to the target range over the forecast horizon (2026–2027).
- **Upside inflation risks:** The risk remains that El Niño and geopolitical tensions in the Middle East could generate more persistent effects on inflation.
- **Economic expectations:** Leading indicators for economic activity in September continue to point to solid performance. Results from the BCRP's business survey were mixed: current conditions indicators showed a heterogeneous evolution relative to the previous month, while expectations indicators remained in optimistic territory, albeit with some moderation.
- **International environment:** Global risks remain elevated, as reflected in increased volatility in financial markets and oil prices.

In summary, the statement is largely unchanged from the one released in September. The BCRP continues to emphasize arguments in favour of keeping the policy rate unchanged; however, the risk of more persistent inflationary pressures remains. Our baseline scenario is for the policy rate to remain at 4.25% by the end of 2026. However, if 12-month inflation expectations continue to rise, and if higher energy prices begin to spill over into other components of the consumer basket, something that has not been observed so far, the likelihood of a BCRP rate hike would increase.

—Ricardo Avila

CHILE: SEPTEMBER CPI, UP 0.4% M/M, KEEPS ANNUAL INFLATION AT 4.1%

• A print that reflects some “calm before the storm”

September CPI rose 0.4% m/m, below market expectations embedded in forwards, surveys, and our point forecast (0.5%). Meanwhile, core CPI excluding volatile items increased 0.3% m/m, in line with our forecast, suggesting that volatile components, particularly international air transportation and insurance, once again explained the gap relative to market projections, as was also the case in August.

Inflation diffusion accelerated in September, driven by volatile items (charts 2 and 3). The share of products posting monthly price increases reached 58% of the basket, moving away from the historical median for a September reading. Within core inflation, services inflation diffusion moderated, while goods inflation diffusion rebounded, potentially reflecting the typical increase in this category ahead of a Cyber sales event. Although inflation diffusion among volatile items stood at the upper end of the historical range (63%), it was not accompanied by significant price increases in high-weight products within the CPI basket.

Insurance recorded a significant decline during the month. Indeed, the 7.7% m/m fall in insurance prices (contribution: -0.06pp) reflects lower claims frequency in the automobile segment, as well as stronger competition in the industry, which has also affected other general insurance products. We do not expect this behaviour to be repeated in coming months. Meanwhile, although international air transportation services reversed much of the increase observed in August (-18.7% m/m), we anticipate renewed increases in the months ahead, when airfares typically rise due to year-end holiday travel demand.

Our expectation is that inflation will end 2026 at 5.0%, implying inflation prints above those currently priced into forwards. Weak demand is unlikely to be sufficient to offset cost pressures stemming from labour market developments and the multilateral depreciation of the Chilean peso. Therefore, despite the mild downside surprise from volatile items in this CPI release, we expect upcoming inflation readings to reflect not only the impact of fuels but also additional price adjustments in non-volatile components. These would come on top of climate-related effects already affecting volatile items, which have begun to show price increases and, in the context of an El Niño event, would have further justification for rising during the final quarter of the year.

—Aníbal Alarcón

MEXICO: INFLATION EDGES HIGHER IN SEPTEMBER AS NON-CORE PRESSURES REBOUND

In September, headline inflation rose again, from 3.26% to 3.45%, slightly below the consensus forecast of 3.47%, and remained below 4% for a fifth consecutive month (chart 4). Core inflation declined from 3.88% to 3.75%, also below the 3.78% consensus estimate. Within the core component, merchandise inflation eased from 3.41% to 3.21%, while services inflation moderated slightly from 4.33% to 4.27%, with education at 5.84% and housing at 3.55%. Meanwhile, non-core inflation accelerated again, rising from 1.13% to 2.45%. Agricultural inflation stood at 0.79%, with fruit and vegetable prices up 8.78% and livestock products down 4.46%, while energy prices and government-authorized tariffs increased 3.81%. The products with the largest upward impact, ranked by contribution, included tomatoes, with a monthly increase of 30.25%; onions, 23.00%; domestic LP gas, 3.14%; owner-occupied housing, 0.22%; chicken, 1.78%; and primary education, 6.00%. In contrast, potato prices, professional services, bundled internet, telephone and pay-tv services, and avocados declined during the month. On a sequential monthly basis, headline inflation increased 0.42%, core inflation rose 0.20%, and non-core inflation rebounded by 1.20%.

—Rodolfo Mitchell, Miguel Saldaña & Martha Cordova

Chart 2

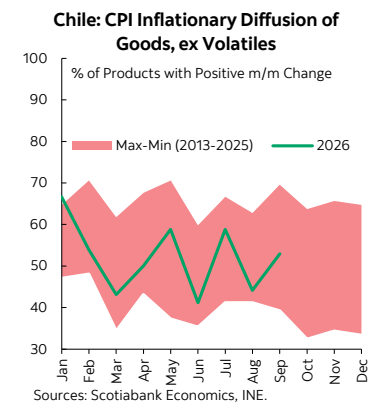


Chart 3

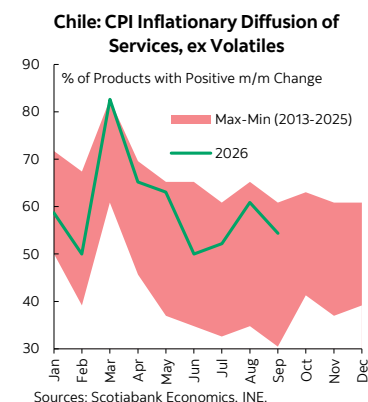
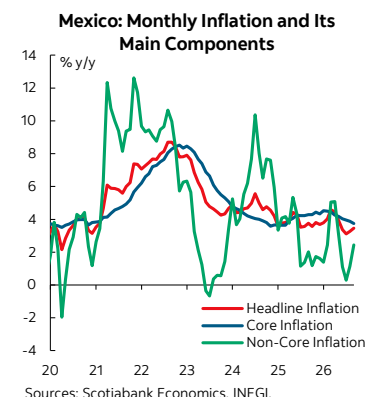


Chart 4



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