

## LATAM Market Update

- **Colombia: June's inflation surprised on the upside**
- **Mexico: Consumption and Investment deteriorated in April as high uncertainty remains**
- **Peru: Following the Central Bank's quarterly Inflation Report, we ratify our downward bias for the reference rate**

### COLOMBIA: JUNE'S INFLATION SURPRISED ON THE UPSIDE

Monthly inflation stood at 0.27% while the annual inflation rate lay at 3.43%. The figure stood above consensus, according to Bloomberg's survey (0.22%), and above ours (0.16% m/m). Foodstuff prices posted the highest result (+0.85% m/m) accounting for nearly half of the June monthly increase, some perishable goods prices rose due to a seasonal effect and higher than expected rains. CPI inflation was also influenced by increases in leisure group prices due to holiday season. Energy prices fell 2.2% m/m contributing to a moderation in housing group.

Yearly headline inflation rose for a fourth month in a row, and is expected to rise a bit more due to lower base effects, especially in foodstuff prices. We expect year end headline inflation to go back down to 3.2%. We think June inflation data will not change significantly inflation expectations, which continue within the target range for longer tenors, but it shows that headline inflation will keep at the upper level of this range (2-4%).

Food prices surprised us to the upside on the back of some perishable goods, such as meat (+1.53% m/m), bananas (+5.9% m/m), tomatoes (+7.84% m/m), among others. June perishable goods' upward behaviour, was due to a stronger rainy season that hampered harvest of some products. We think, perishable goods prices will normalize through the year once the rainy season is behind us. Worth to note that meat price inflation did not reflect an specific impact from landslides on important roads in the country, in fact, meat prices increment was fairly widespread among Colombian regions, not only Bogotá.

Core inflation measures remained under control, showing that recent increases in inflation are explained by transitory reasons associated especially with food inflation. Ex-food inflation was 3.14% y/y, while Ex-food and Regulated inflation was 2.53% y/y. It is worth saying that negative effect from blockages of a major road linking Bogotá to the southeast was reflected in transportation prices but not in food prices.

Bottom line, although June inflation came above expectations, core inflation continued close to target. Therefore we do not expect June's inflation to change BanRep's or market base case scenario of steady policy rate for the rest of 2019. However, annual inflation at 3,43%, in our opinion, makes BanRep's Board to keep the discussion of a possible monetary policy easing out of the table for the time being.

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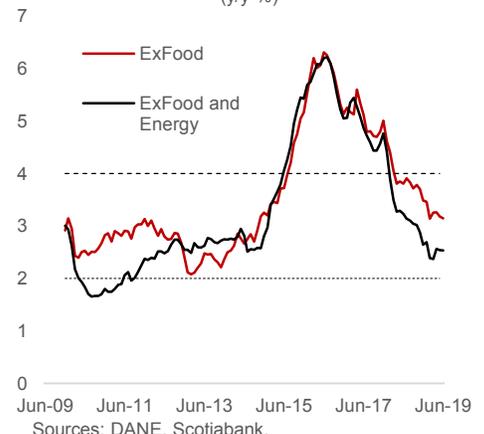
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**Colombia: Consumer Price Index**  
(y/y %)



Sources: DANE, Scotiabank.

**Colombia: Core CPI Measures**  
(y/y %)



Sources: DANE, Scotiabank.

## **MEXICO: CONSUMPTION AND INVESTMENT DETERIORATED IN APRIL AS HIGH UNCERTAINTY REMAINS**

April's n.s.a. investment indicator—composed by the expenses in goods used in the production process of at least the next 12 months—fell, for a third month in a row, 5.7% y/y in real terms. Thereby, investment printed a cumulative decrease of 2.1% y/y (vs. the +3.0 increased the previous year). Within the indicator, expenses in machinery and equipment dropped further (-7.4% y/y) and for a sixth consecutive month, while those related to the construction decreased 4.4% y/y. Clearly, business sentiment and uncertainty are significant factors denting investment activity.

Meanwhile, April's n.s.a. consumption indicator, which tracks the monthly performance of expenses in goods and services by households, decelerated, for a third consecutive month, to 0.2% y/y in real terms (vs. 4.6% a year ago), partly affected by the seasonal effect of the Easter holidays. Moreover, in the first four months, consumption exhibited an average yearly growth of 1.3% in 2019, noticeably weaker than that of 2018 (+2.6%). The softer result was driven by two components: first, domestic consumption of goods and services rose just 0.1% y/y (vs. 1.1% in March); and, second, consumption of imported goods expanded only 0.4% y/y (vs. 1.7% in March). Likely, uncertainty has been undermining consumption as households are being cautious with their expenses.

## **PERU: FOLLOWING THE CENTRAL BANK'S QUARTERLY INFLATION REPORT, WE RATIFY OUR DOWNWARD BIAS FOR THE REFERENCE RATE**

The Central Bank, led by Adrián Armas (Manager for Economic Research) and Renzo Rossini (General Manager), presented its quarterly Inflation Report on Friday. The broad view was less positive than in the past, with lower global and domestic growth expectations, weaker terms of trade forecasts, and less robust confidence levels. The CB recognized that the balance of risks had deteriorated since the past two reports, and did so when specifically asked on the possibility of the CB lowering its reference rate. However, the spokespersons also seemed to suggest that this would hinge on whether an expected increase in fiscal spending materialized or not, and whether the government will take greater action or not in ensuring progress in large-scale infrastructure and mining projects. They also pointed out that they have other instruments besides the reference rate to provide liquidity to the markets. We were left with the feeling that the CB is, indeed, giving greater consideration to lowering its reference rate, but, that that is not a sure thing, and, rather, that the CB will exercise patience for perhaps one or two more quarters before making a decision.

Other highlights include:

- The CB reduced its 2019 GDP growth forecast from 4.0% to 3.4%. We were not surprised by this, although the CB could have been more aggressive in changing their forecasts. Even so, the new CB number is now much closer to our own forecast of 3.1%.
- Somewhat surprisingly, the CB did not change its forecast of 4.0% GDP growth for 2020. This compares with our forecast of 3.7%. The CB justified 4.0% growth based on an expected pick up in exports vis-à-vis 2019 (due to greater internal supply of resource goods, rather than greater world demand), higher public investment (in line with our expectations), but also higher private sector spending, based on improved confidence. We were somewhat surprised by this latter, as there are elections in 2020. When pressed, the CB admitted that private investment in particular faced significant risks.
- The CB's expectations for terms of trade went from positive to negative for both 2019 and 2020, as it corrected metal prices sharply downward. This is important, due to the historic correlation between terms of trade and growth.
- Non-material corrections were made in fiscal accounts. The fiscal deficit forecast for 2019 was reduced from 2.3% of GDP to 2.1% (in line with our 2.0%), while the forecast for 2020 was kept at 2.1%.
- Finally, the CB saw inflation staying comfortably within its target range. According to the fan chart provided, the expectation dispersion is in a very tight range around 2.0% throughout 2019-2020. The CB also stated that inflation had a downward bias.
- All in all, the Central Bank painted a less rosy picture than in the past. But, the CB also seems keen on managing expectations, especially consumer and business confidence levels. This also suggests a CB that would try to hold off lowering its reference rate for as long as possible in order to avoid signaling concern prematurely.

In other news:

- Retail sales were up 5.3% in the first half of 2019, according to Ministry of Production figures. This is a moderately strong figure, and suggests that consumption continues robust.
- The trade surplus for May was a paltry US\$29mn, the lowest for the year, and below our expectations of US\$200mn. Both exports (-15.5%) and imports (-2.9%) fell, neither of which bode well for economic growth going forward. Some part of exports will be transferred from May to June, but probably not enough to bridge the gap with expectations. With the trade surplus at US\$1.5bn in the YTD, our full-year forecast of US\$5.3bn may be difficult to achieve.

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