

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Brazil Inflation Slows but Beats; Peru Clashes See Casualties

- **Mexico: Inflation ends 2022 below consensus, but merchandise price gains remain elevated**

Global markets traded overnight with a slight risk-off tinge, continuing some pessimism that may have built from hawkish comments by Fed policymakers

yesterday. Their views can be summarized as being open to a 25bps hike in February (if data cooperate) while affirming their expectations that the bank's policy rate will rise past 5%—and hold there for a long time. This is not new news, but markets may have lost track of this owing to constructive data of late.

The dollar is trading choppy on the day, somewhat stronger ahead of the North

American open with no highlights in terms of catalysts. Crude oil is slightly firmer alongside mixed metals (stronger iron ore, weaker copper), and equities in Europe gapped lower following US action yesterday; US equity futures are down about 0.3%. Latam currencies are mixed, and in narrow +/-0.2% ranges

Brazilian inflation extended its softening trajectory in December, but significantly beat economists forecasts, according to data published this morning. Headline prices rose by 5.79% y/y and 0.62% m/m last month, beating the median economist's forecast of 5.60% and 0.45%, respectively. On a seasonally-adjusted basis, CPI rose 0.53% after November's increase of 0.36% owing to a steep increase in housing goods, personal care products, and personal and recreational services.

The slowing of inflation in the country in recent months, most importantly in the core basket, has supported the BCB's decision to hold its policy rate steady after reaching 13.75%—and pushing back against the pressure in near-term rates owing to politically-related financial risks. Today's data, where services and core components saw a pick up in price gains could delay BCB rate cuts guidance until a clear month-on-month downtrend emerges. Still, the bank may soon be in a position to loosen monetary policy, kicking off its easing cycle in Q2 with about 200bps in cuts expected over the course of this year.

Authorities have quickly moved to secure peace in Brasilia and no notable aftershocks have taken place. Lula pledged to prosecute those who took part in the capital's riots, as over 1,500 people have been arrested in its aftermath. The protestors saw little support from officials across various levels of government, which suggests things may go back to normal relatively soon. Yesterday, Valor Economico reported that Lula has tasked Fin Min Haddad and Chief of Staff Costa with announcing new economic measures this week that will aim to reduce the country's primary deficit.

Clashes between protestors and police in Juliaca (southern Peru) left at least seventeen dead, representing the highest daily tally of casualties of Boluarte's presidency. Protesters had attempted to overtake the city's airport according to authorities. Although the events of the past few days have been concentrated in the South and have so far seemingly resulted in smaller economic losses (while we don't spot disruptions to the country's mining sector, yet), yesterday's episode may see political concerns re-intensify—after the holidays 'truce' had led to a simmering of tensions. **Boluarte's chief of cabinet Otarola**

January 10, 2023

and the rest of the cabinet of ministers is set to face Congress today for a vote of confidence. We think the cabinet will gather the required simple majority for approval, though it will be important to monitor how many members of Congress vote against the President's team.

Chile's BCCh economists survey results published this morning showed that economists expect no rate cuts at January's meeting, before a first 50bps reduction seen in April. Note, however, that 42.5% of those polled still anticipate unchanged rates then. The bank's overnight rate is seen at 7% at end-2023 which is 250bps above our own team's forecast of 4.50%. Our team believes inflation will fall faster than the median economist expects, closing this year at 3.7% vs 5% y/y in the BCCh's poll.

—Juan Manuel Herrera

MEXICO: INFLATION ENDS 2022 BELOW CONSENSUS, BUT MERCHANDISE PRICE GAINS REMAIN ELEVATED

In December, inflation rose to 7.82% y/y from 7.80% previously, although below the 7.89% consensus, while core inflation stood at 8.35% y/y from 8.51% previously (chart 1), above the 8.34% consensus in the Citibanamex Survey. Core inflation ticked lower to 8.35% y/y from 8.51% in November (chart 2).

Pressures in merchandise prices remain elevated, despite inflation in these goods moderating to 11.09% (vs 11.28% previously) while services prices also slowed, to 5.19% (vs 5.35% previously). Non-core inflation also accelerated (chart 3) to 6.27% y/y from 5.73%, with energy and government tariffs rising 3.66% (vs 3.23% previously), and agriculture and livestock at 9.52% (vs 8.89% previously).

On a month-on-month basis, headline inflation decelerated to 0.38% from 0.58% m/m previously (vs 0.45% consensus), while core inflation accelerated to 0.65% m/m from 0.45% previously (vs 0.64% consensus), owing to an increase in merchandise prices of 0.74% (vs 0.43% previously) and services by 0.53% (vs 0.48% previously). Lastly, non-core inflation fell -0.40% from 0.94% m/m previous, owing to a drop in energy and government tariffs by -1.15% (vs 2.1% previous), and food by -0.08% (vs -0.06% previous).

December data reinforce our expectation of a hike of 25bps at Banxico's February monetary policy meeting, decoupling from the Fed. Despite a moderation in headline and core inflation, uncertainty remains high, as noted in the last monetary policy minutes (see [Latam Flash](#)), highlighting both external and internal risks, and possible stickiness in core inflation at high levels. In this regard, expectations in the Citibanamex Survey also remain high, as analysts expect a year-end inflation rate of 4.98% for 2023, and 4.07% at end-2024, slightly above the 4% upper limit of Banxico's target range.

—Miguel Saldaña

Chart 1

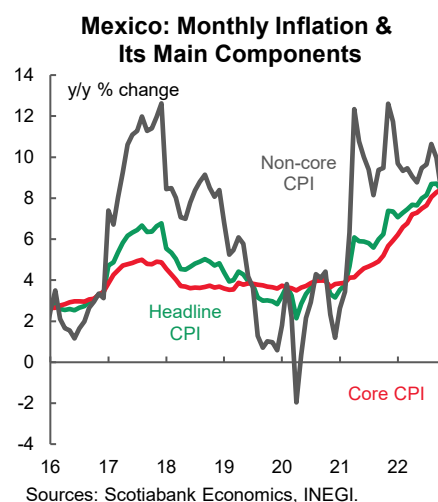


Chart 2

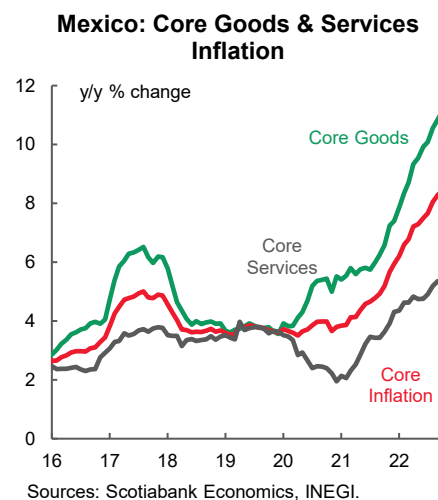
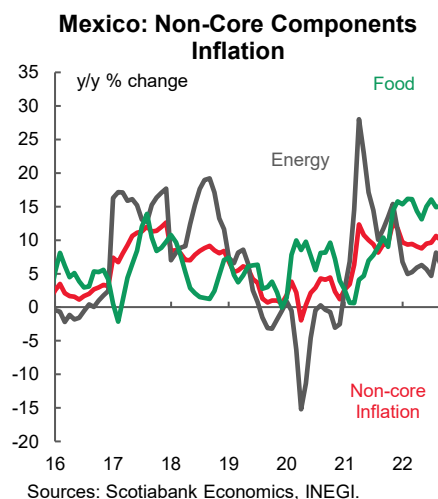


Chart 3



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.

™ 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.