Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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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**

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).

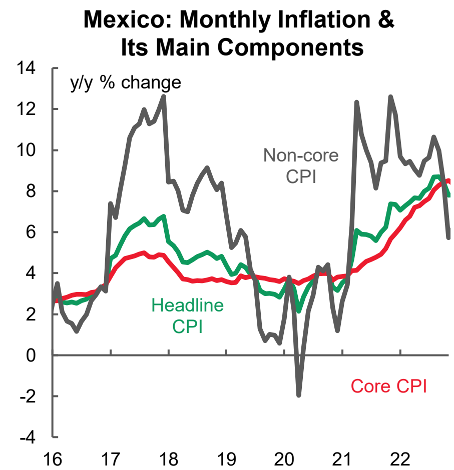
Pressures in merchandise prices remain elevated, despite inflation in these goods moderating to 11.09% (vs 11.28% previously) while services prices also slowed, to 5.19% (vs 5.35% previously). Non-core inflation also accelerated (chart 3) to 6.27% y/y from 5.73%, with energy and government tariffs rising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

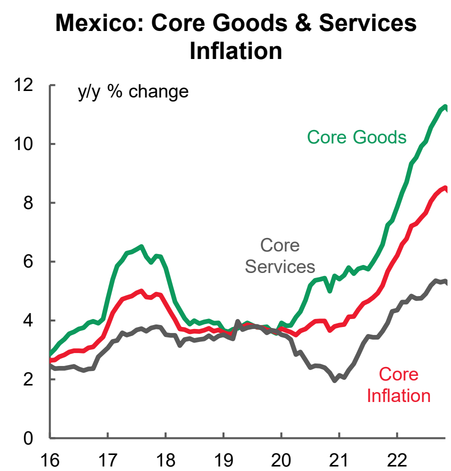
—Miguel Saldaña

Chart 1



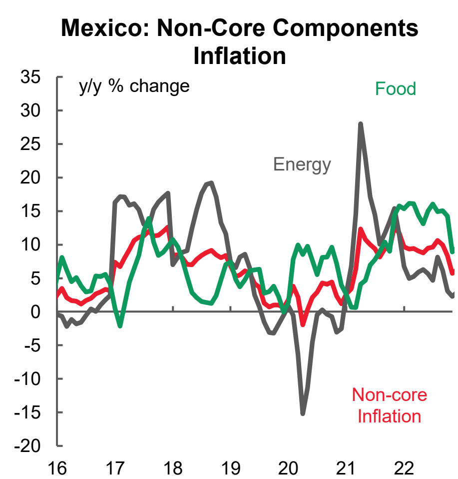
Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.