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## Latam Daily: Chile's Constitutional Council Election; Colombia Inflation Below Expectations

- **Chile: Right wing gains more than three-fifths of Constitutional Council; ability for dialogue will be key to present a Constitution that will be approved**
- **Colombia: Headline inflation peaked, and core inflation stabilized, paving the way for rate stability in June**

### CHILE: RIGHT WING GAINS MORE THAN THREE-FIFTHS OF CONSTITUTIONAL COUNCIL; ABILITY FOR DIALOGUE WILL BE KEY TO PRESENT A CONSTITUTION THAT WILL BE APPROVED

On Sunday, May 7, the election of the Constitutional Council took place, where 51 councillors were chosen under a mandatory voting system. The election pacts, or lists, formed for this election were the following: (i) Partido de la Gente (center); (ii) Todo Por Chile (moderate left): PR, PPD and DC; (iii) Partido Republicano de Chile (extreme right); (iv) Unidad Para Chile (extreme left): Socialist, Communist and Government coalition; (v) Chile Seguro (moderated right): RN, UDI and Evopoli.

Preliminary results (95% of the votes) give 33 seats to right-wing parties, of which 22 were won by the Republican Party (extreme right), gaining the ability to block proposals. On the other hand, the pro-government parties (Unidad para Chile) obtained less than the two-thirds (17 seats in total), with no veto power.

In light of these results, the parties of the government alliance have the great challenge of generating and achieving dialogue with the right-wing parties within the Constitutional Council.

In our opinion, if the necessary dialogue to discuss left-wing proposals is not achieved, the probability of having a new rejection of the Constitution in December could increase.

Overall, the Republican Party (Partido Republicano) obtained 36% of the votes, followed by Unidad para Chile with 28%. Chile Seguro obtained 22% of the total votes. Meanwhile, Indigenous Peoples obtained 1 seat in the Council. Thus, the Constitutional Council will be composed of 51 members. Also noteworthy is the absence of the People's Party (Partido de la Gente) in the Council, as well as the traditional moderate left (Todo por Chile) and the independents, all without participation in the Constitutional Council.

The elected Council will begin its work on June 7, considering the final draft issued by the Commission of Experts. Finally, the exit referendum will take place on December 17.

Market reaction: due to the high vote in favor of right-wing parties (obtaining 33 seats), we anticipate favorable impacts on local assets: CLP appreciation, stock market gains and falling short-term interest rates. In our opinion, the positive evolution of local assets in the medium-term will depend on the ability of the Constitutional Council to draft a Constitution that can be approved in the next electoral process.

—Aníbal Alarcón

### COLOMBIA: HEADLINE INFLATION PEAKED, AND CORE INFLATION STABILIZED, PAVING THE WAY FOR RATE STABILITY IN JUNE

Colombia's pace of monthly CPI inflation was 0.78% m/m in April, according to DANE data released on Friday, May 5. The result was below expectations of the BanRep survey (0.87% m/m) and came well below Scotiabank Economics' projection of 1.16% m/m. Food inflation was the game changer this time. It posted the first monthly contraction since June 2021, replacing a high statistical base of 2022 (2.75% m/m), making the headline inflation finally peak.

Year-on-year headline inflation finally fell from its highest level since 1999, from 13.34% in March to 12.82% in April (chart 1), the lowest since November 2022. But additionally, Friday's data included a positive surprise since core inflation metrics showed more moderate increases. Ex-food inflation stood at 11.51% y/y, vs. 11.42% in the previous month, while ex-food and regulated inflation stood at 10.48%, falling from the last month's figure of 10.51% y/y. On that front, we observed some tradable goods decelerating, and other relevant services, such as hotels, also pointing to more moderate inflation.

Friday's results are very positive, and we think this is the right signal BanRep expected to consider to pause the hiking cycle. Our call is for rate stability in the June meeting, at a 13.25%, lasting until October, when we expect BanRep would start to discuss rate cuts. On the other side, the signal we received from food inflation is encouraging since it finally reflects the moderation of input prices and the recent dynamic by the PPI. If it continues, it increases the probability of seeing lower-than-expected inflation by the end of 2023.

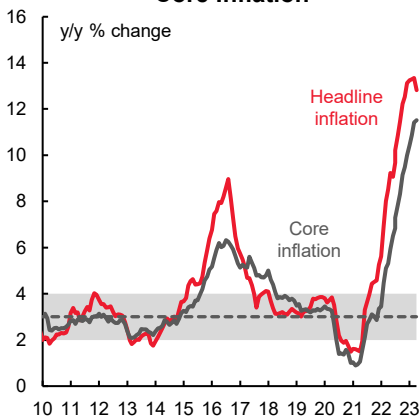
Looking at April's numbers in detail, food inflation was the only group that showed monthly contractions (charts 2 and 3).

The highlights are:

- Foodstuff inflation posted the first contraction (-0.7% m/m) since June 2021, which is very positive news. In April, potatoes (-8.75% m/m), fresh fruits (-3.42% m/m), tomatoes (-2.18% m/m), and onions (-2.33% m/m) price contractions offset the gains in other prices, either way we observe that other items within the food group are showing deceleration. If inflation continues showing more moderate inflation in forthcoming months, the headline inflation could fall faster since the statistical base effects from 2022 were very high. The only risk to the upside that we are facing is a materialization of a strong El Niño Phenomenon that affects the food supply for the second half of the year.
- The lodging and utility group was the main contributor to the upside to monthly inflation (+1.15% m/m, and +35 bps of contribution). Rent fees continued increasing significantly (+1% m/m) due to indexation effects to December 2022 inflation. Utility fees increased again (+1.62% m/m), which strong contribution from water fees (+3.1% m/m), and electricity fees (+1.69% m/m).
- The second most significant contributor to headline inflation was the transportation group, showing a 1.28% m/m figure and a contribution of 0.17 ppts to overall inflation. Gasoline prices (3.36% m/m), vehicle prices (0.98% m/m), and air tickets (+1.98% m/m) are leading to the still strong upside pressure of the group. It is worth noting that vehicles sales are moderating significantly, showing double-digit contraction vs 2022, which could contribute to moderate inflation in the vehicles sector. In the case of gasoline prices, those are expected to continue increasing since the current price is at 11767 pesos, and the finance minister is talking about taking it to 16000 pesos per gallon.
- In April, goods inflation decreased from 15.08% m/m to 14.32% m/m, signaling the moderation of food prices and some tradable items. In the case of services inflation, it increased from 8.73% y/y to 8.98% y/y, which is related to the indexation effects observed in some items that are labour intensive.

Chart 1

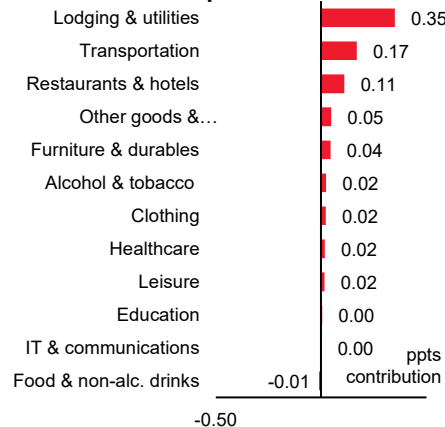
Colombia: Headline and Core Inflation



Sources: Scotiabank Economics, DANE.

Chart 2

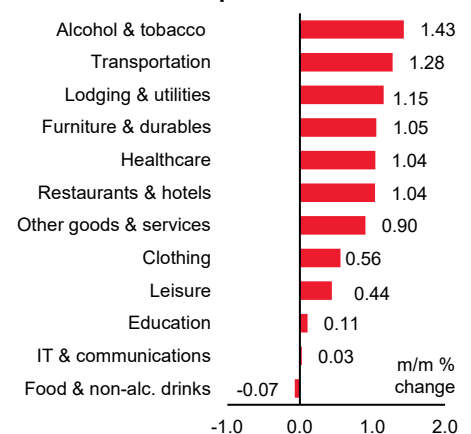
Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

Chart 3

Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

—Sergio Olarte, Jackeline Piraján & Santiago Moreno

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