Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: BCRP Preview; Unchanged Rate but Change in Tone?

- **Colombia: Consumer confidence and willingness to buy durable goods increases in June**
- **Peru: BCRP would keep pause for the sixth month, future cut would be on the horizon; mining investment continued to fall in May**

USD losses and UST gains continued in Asia hours and deepened in European dealing as the late-Jun/early-Jul selloff in the US front-end is erased following Wednesday's lower than expected inflation print; 2s are trading at their lowest point since mid-June around 4.65% thanks to an 11bps drop today. Global curves are following Treasurys, bull steepening.

US equity futures are adding to cash gains with a 0.3% move higher overnight, that mirrors the gains in WTI/Brent and copper, lagging a bit the 1% rise in iron ore. The USD is down 0.3% on a broad basis (BBDXY) with the MXN lagging as it sits unchanged—which fair enough considering its gains to the 16.80 area yesterday. The release of US PPI and jobless claims at 8.30ET is the G10 highlight of the day alongside a couple of Fed speakers (Waller and Daly) and the ECB's June meeting minutes at 7.30ET.

We have a very quiet day ahead in Latam until the after-market BCRP rate decision at 19ET where an unchanged reference rate at 7.75% is practically guaranteed. In today's report, our Lima economists preview the decision and what to expect, with the economy underperforming forecasts so far in the year possibly prompting a slight change in tone by the central bank. Maybe a cautious stance that would raise the odds of a Q3 rate cut may act to unwind part of the PEN's massive rally over the past three sessions which yesterday took it to its best levels since late-2020 (~3.575 soles per USD).

—Juan Manuel Herrera

COLOMBIA: CONSUMER CONFIDENCE AND WILLINGNESS TO BUY DURABLE GOODS INCREASES IN JUNE

Colombia's Consumer Confidence Index (CCI) in June stood at -14.1%, which represents an increase of 8.7 ppts over May (-28.8%). The improvement was driven by an increase in both components of the CCI. The Consumer Expectations Index went from -14.5% in May to -6.5% in June, which corresponds to an increase of 8ppts, similarly, the Economic Conditions Index showed an increase of 9.8 ppts, placing the ECI at -24.4% (chart 1).

The Consumer Expectations Index had an important increase thanks to the fact that consumers think that the economic conditions of their homes and of the country in general will improve next year. This may be related to the favourable performance of the CPI recorded in the last 3 months. Willingness to buy also improved significantly. The disposition to buy durable goods improved by 13.2 pp from -44.1% in May. The disposition to buy vehicles went from -66.7% to -57.4%, an increase of 9.3 pp. On the other hand, high interest rates and high prices in the construction sector did not significantly favour the disposition to buy housing (-43.5%). Households' perception of the country's future remains negative; however, it shows a significant improvement explained by a currency revaluation and slowing inflation.

Looking at the June details:

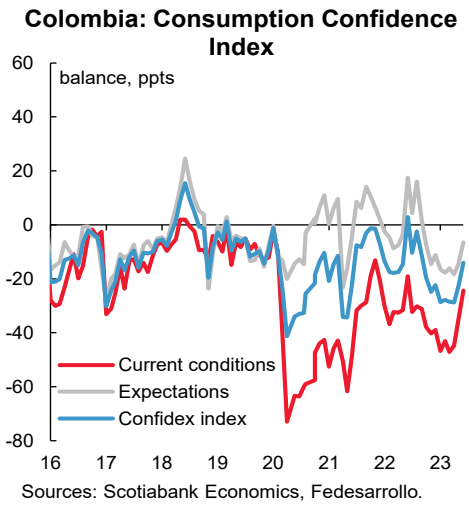
- The Economic Conditions Index stood at -25.4%, increasing by 9.8 pp from the previous month. Even though the prices of capital and consumer goods continue at

high levels, the exchange rate is leveling off upside pressures. That said, price stabilization could be the reason why now households are showing a better willingness to buy durable goods, this index increase by 13.2ppts with respect to the previous month.

- The expectations index stood at -6.5% which represents an improvement of 8 p.p. vs. the previous month. In the next 12 months, households expect their economic situation to improve. A decline in economic activity and inflation slowing down to 12.13% YoY, added to the pause in the hiking cycle by BanRep reflects a better economic scenario, however, the uncertainty about the impacts of the El Niño phenomenon for the second half of 2023 and 2024 could generate new pressures on prices and economic growth.
- The Consumer Confidence Index entered positive territory in Barranquilla, going from -16.3% in May to 4.5%, which represents an increase of 20.8 p.p. Additionally, the other cities analyzed (Bogota, Medellin, Bucaramanga, Cali) also presented an increase in the CCI.
- Consumer confidence increased across all socioeconomic levels. In the high-income group, confidence stood at -35% which represents an increase of 21.3 p.p. compared to the previous month. In the middle-income group, the CCI increased by 10.3ppts to -10.3%. The low-income group increased the least from -21.1% in May to -15.1% in June as high prices impact this group the most.

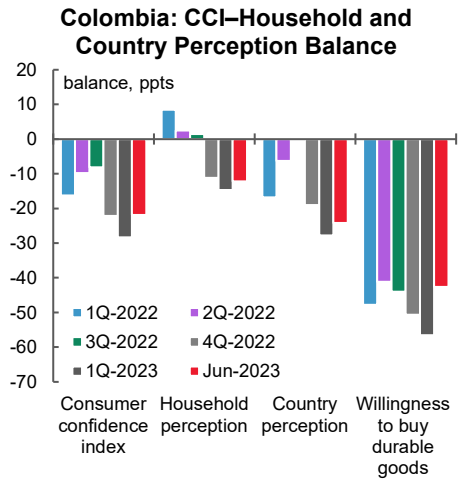
Despite consumer confidence remaining in negative territory, June data showed an improved perception of the economic outlook for households. Inflation dynamics and FX appreciation could be the reason for the increasing disposition to buy durable goods and vehicles (chart 2). We expect the central bank to keep the interest rate stable until October and that inflation will continue to decelerate. The easing cycle will strongly depend of the inflation dynamic, that said, despite consumer sentiment improving, the effect on consumption could be contained as interest rates remain at high level.

Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

—Sergio Olarte, Jackeline Piraján & Santiago Moreno

PERU: BCRP WOULD KEEP PAUSE FOR THE SIXTH MONTH, FUTURE CUT WOULD BE ON THE HORIZON

We expect the BCRP to leave its reference rate unchanged at 7.75% at its meeting this Thursday, July 13th, a move that is in line with the market consensus according to a Bloomberg survey. Inflation y/y fell visibly in June, although poultry prices accounted for most of the decline, as well as a high base for comparison. However, it was enough for inflationary expectations to also fall. The reading of inflation and its expectations for July will be key to confirming the rate of decline in inflation.

Inflation expectations for 12 months fell from 4.2% to 3.8%, according to the latest BCRP survey, a visible decrease, although still above the target range (between 1% and 3%). The survey also showed that 24-month forward inflation expectations were lowered from 3.1% to 2.9%, reflecting that the consensus still sees that the return of inflation to the target range could take time. Our inflation forecast remains at 5.00% for 2023 and 3.5% for 2024.

Economic activity indicators stagnated in May, and business expectations showed a visible deterioration in June, remaining in a pessimistic territory. The economic indicators have not been recovering as expected. Although the BCRP revised its forecast for 2023 economic growth from 2.6% to 2.2% in June, the consensus has continued to revise its forecast downwards (from 1.9% to 1.8% according to a Focus Economics survey in July).

Recently, BCRP's chairman, Julio Velarde, pointed out that several engines of the economy are off, that private investment will continue low due to a lack of confidence and that public investment is contracted due to the change of management—in subnational governments. In this context, we hope that in today's statement the BCRP will make its concern about the weak economic performance more visible. This could be interpreted as a sign that the BCRP would be open to a possible advance in the cycle of interest rate cuts.

This decision does not seem so simple and the BCRP would evaluate it with caution. Although the economic weakness is a factor to consider, the BCRP will prioritize the performance of inflation—which so far in July seems to be a bit high, with some recovery in poultry and perishable food prices, as well as future risks on food prices, mainly derived from an El Niño Phenomenon with increasing probabilities.

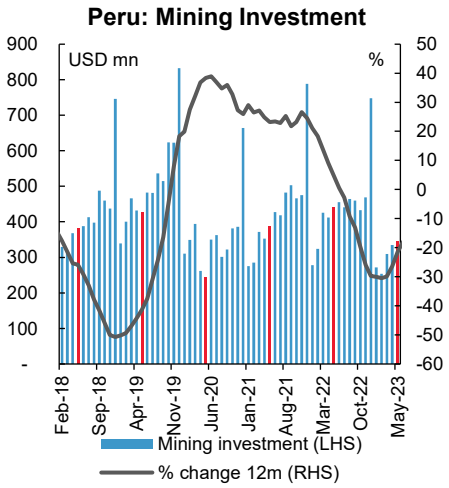
—Mario Guerrero

PERU: MINING INVESTMENT CONTINUED TO FALL IN MAY

Peru's local mining investment fell 21.7% y/y in May, according to data from the Ministry of Mining. In the cumulative January–May period, mining investment falls 19.8% y/y, almost in line with our forecasts (chart 3). The lack of projects that give continuity to the sector is being minimally offset by minor projects that were already under construction in previous years. To date in 2023, of the four projects in the pipeline, none has started construction.

Antamina led the mining investment in April (table 1). The company is still waiting for the approval of the changes of the Modified Environmental Impact Study (MEIA-d), which they now expect to obtain by the end of 2023. Antamina raised the investment of the brownfield project from US$1,600 to US$2,000 million and intends to continue the operations of the Antamina mine and extend operations until the year 2036. In addition, the mine is evaluating options to reduce greenhouse gas emissions from its operations in Quebrada Antamina, with the potential to reduce 30 trucks between 2028 and 2036. The other three projects that have not started operations yet are Romina y Magistral (due to lack of EIA approval) and Corani (in limbo due to social unrest at the beginning of the year). Other companies that led the investment were Anglo American and Southern Peru.

Chart 3



Sources: Scotiabank Economics, Minem.

Table 1: Peru - Top 20 Mining Companies by Investment Amount (USD)

Company	May			January - May			
	2022	2023	y/y % change	2022	2023	y/y % change	Share
COMPAÑIA MINERA ANTAMINA S.A.	30,073,799	25,272,297	-16.0%	127,582,672	171,857,763	34.7%	11.3%
ANGLO AMERICAN QUELLAVECO S.A.	92,322,041	26,100,463	-71.7%	518,852,611	151,696,819	-70.8%	10.0%
SOUTHERN PERU COPPER CORPORATION SUCURSAL DEL PERU	28,693,114	21,399,133	-25.4%	109,528,485	137,835,645	25.8%	9.1%
MINERA YANACOCHA S.R.L.	21,675,984	22,114,422	2.0%	102,951,876	99,436,621	-3.4%	6.6%
SOCIEDAD MINERA CERRO VERDE S.A.A.	14,240,747	21,059,574	47.9%	67,294,751	95,565,250	42.0%	6.3%
SHOUGANG HIERRO PERU S.A.A.	15,556,040	20,343,373	30.8%	63,852,311	62,304,704	-2.4%	4.1%
MINERA CHINALCO PERU S.A.	10,242,920	12,175,841	18.9%	58,737,934	56,533,004	-3.8%	3.7%
COMPAÑIA DE MINAS BUENAVENTURA S.A.A.	7,957,249	11,597,002	45.7%	36,200,513	51,744,989	42.9%	3.4%
COMPAÑIA MINERA PODEROSA S.A.	7,130,151	9,188,510	28.9%	41,487,607	51,360,633	23.8%	3.4%
MINSUR S.A.	66,634,287	20,944,616	-68.6%	121,296,262	46,672,368	-61.5%	3.1%
MINERA LAS BAMBAS S.A.	13,290,578	17,241,778	29.7%	73,999,711	44,582,770	-39.8%	2.9%
VOLCAN COMPAÑIA MINERA S.A.A.	12,393,216	8,101,740	-34.6%	47,269,395	40,898,242	-13.5%	2.7%
HUDBAY PERU S.A.C.	4,816,816	11,895,610	147.0%	23,612,922	38,168,723	61.6%	2.5%
MARCOBRE S.A.C.	10,987,008	8,724,003	-20.6%	48,798,630	33,479,502	-31.4%	2.2%
COMPAÑIA MINERA ARES S.A.C.	8,692,248	6,527,280	-24.9%	34,594,795	30,918,981	-10.6%	2.0%
ALPAYANA S.A.	2,918,056	14,235,271	387.8%	12,525,975	27,520,207	119.7%	1.8%
NEXA RESOURCES EL PORVENIR S.A.C.	1,928,514	3,657,204	89.6%	8,421,425	20,087,923	138.5%	1.3%
SOCIEDAD MINERA EL BROCAL S.A.A.	1,752,043	3,194,015	82.3%	8,388,323	19,655,572	134.3%	1.3%
COMPAÑIA MINERA ANTAPACCAY S.A.	6,061,548	4,608,719	-24.0%	20,424,308	18,575,625	-9.1%	1.2%
SHAHUINDO S.A.C.	3,247,346	3,405,587	4.9%	11,823,623	16,223,428	37.2%	1.1%
Others	79,876,910	73,157,706	-8.4%	350,750,085	300,070,723	-14.4%	19.8%
Total investment	**440,490,615**	**344,944,144**	**-21.7%**	**1,888,394,214**	**1,515,189,492**	**-19.8%**	**100.0%**

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

Regarding mining output, the sector continued to perform well mainly due to strong copper output (+34.7%). The output also rose for zinc (+8.2%), lead (+5.3%), tin (+6.5%), and molybdenum (+17.1%). While production fell in gold (-7.4%), silver (-4.7%), and iron (-3.7%, table 2).

Table 2: Peru - Mining Output

	Copper MT	Gold oz	Zinc MT	Silver oz	Lead MT	Iron MT	Tin MT	Molybdenum MT
May 2023, y/y % change	34.7	-7.4	8.2	-4.7	5.3	-3.7	6.5	17.1
Jan-May 2023, y/y % change	19.7	-3.5	-0.4	-6.6	-0.2	18.2	-39.2	-2.9

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

The increase in copper output in May had the same factors seen in April: i) the low base of comparison of Las Bambas (MMG) which continued to be paralyzed due to social unrest in May 2022, and ii) Quellaveco had not yet started operations in May 2022. The base factor will remain in force until August of this year, since Quellaveco started operations in September 2022. On the other hand, molybdenum output also stood out, because Quellaveco and Las Bambas also produce the metal.

—Katherine Salazar

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