Scotiabank™

GLOBAL ECONOMICS

LATAM DAILY

October 9, 2023

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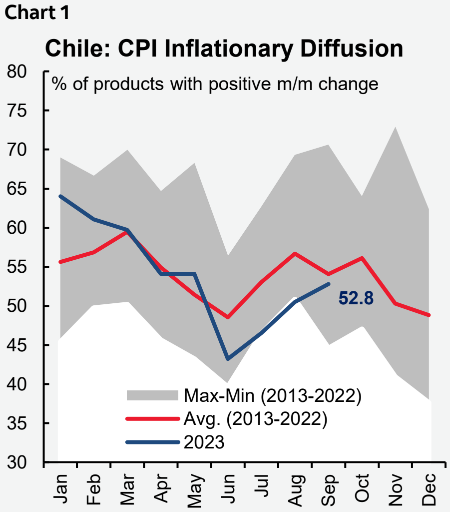
Chart 1



Sources: Scotiabank Economics, INE.

Latam Daily: Mexico Inflation On Tap; Chile and Colombia CPI Recap

- **Chile: September CPI at 0.7% m/m and 5.1% y/y driven by supply shocks**
- **Colombia: Inflation met expectations and continued its gradual decline; a rate cut in December is still possible**

Overseas markets began the week (and reopened in China from holidays since late-Sep) with sharp moves in reaction to Hamas attacks on Israel over the weekend. With US, Canadian, Japanese, and Chilean markets closed today and with no real data of note outside of Mexican CPI later this morning (see below), Israel-Hamas headlines will likely be the focus of thin markets that await the Fed's minutes on Wednesday and US CPI figures on Thursday.

Crude oil gapped about $2/bbl at the open and added a couple more dollars that were later unwound to track a 3%/$2.5/bbl gain on the day. On the flip side, risk-off sentiment has currencies quite a bit lower against the dollar (with only a few exceptions like the JPY), with the MXN standing as the worst performing major today, shedding 0.6/7%—but still within Friday's range. Global curves are well bid across the maturity spectrum (3/4bps in Germany and the UK), while SPX futures are down around 0.6%, and oil's gains are accompanied by a 0.8% increase in copper and a 1% haven bid in gold that contrasts with a 2% drop in iron ore.

At 8ET, Mexican headline inflation is seen slowing marginally to 4.48% from 4.64% in August, against a more respectable slowdown in still-elevated core inflation to 5.75% from 6.08% (both in line with H1-Sep data). Prices growth is closing in on Banxico's 2–4% target band, but progress has somewhat stalled of late given less favourable base effects and upward pressure from energy and government-regulated prices, and we see little change in y/y headline inflation over the balance of the year.

Still, though today's print is highly unlikely to greatly influence opinion within Banxico's board, we'll watch the results of services inflation which remains sticky above 5% and is a key reason for the bank remaining hawkish for longer (which should be evident in Thursday's September meeting minutes). The trend for this basket could be a better guide to when officials may begin reducing rates, which we don't see starting until late-Q1 and risks are tilted towards later rather than sooner.

—Juan Manuel Herrera

CHILE: SEPTEMBER CPI AT 0.7% M/M AND 5.1% Y/Y DRIVEN BY SUPPLY SHOCKS

September inflation: three products explained 55% of the monthly increase

Last Friday, Chile's statistics agency (INE) released October CPI figures, which showed an increase in prices of 0.7% m/m, above consensus and our expectations (forwards: 0.5%; Bloomberg: 0.6%) but with a composition largely explained by volatile items. Indeed, the CPI ex volatiles (SV) stood at 0.19% m/m in line with our expectation and below its historical monthly average for a September month. This becomes clearer when we see that only three products (gasoline, potatoes and tourist packages), which are very reactive to the recent rise in the exchange rate or affected by the August floods, explain 55% of the total monthly increase of the CPI.

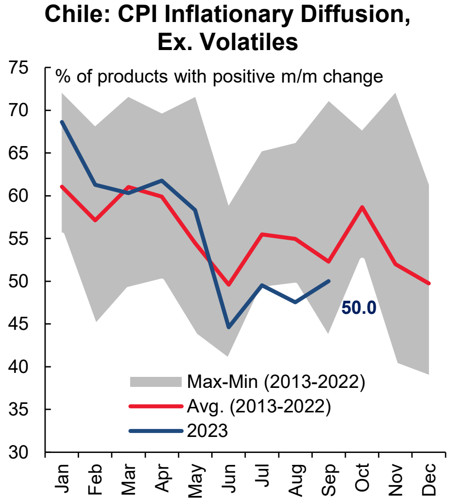
As mentioned above, the monthly increase of 0.7% in the headline index is explained by the rise in the prices of volatile items and the increase in services (ex-volatile), which despite these increases continues to fluctuate around its historical average, indicating that the second-round effects have dissipated.

As for the goods CPI, the exchange rate weakening that started in July has not yet significantly affected prices. This is evident when looking at the total diffusion of the CPI basket and, in particular, that of goods (ex-volatile), see charts 1 and 2. However, the impact of the exchange rate, which should manifest itself in the short term in Q4-23 CPIs, is still pending. On a year-on-year basis, goods inflation fell to 4.9% (ex-volatile), while excluding food from this underlying measure, inflation stood at 1.5%.

For the central bank (BCCh), the September CPI will be read in conjunction with that of August, reflecting a muted basket of demand-related factors. Indeed, core CPI increased by a modest 0.1% between August and September. However, we also believe that the BCCh will be cautious about the recent CLP depreciation and its impact on prices during the last months of the year. We see no reason (for now) not to proceed with a further 75bps cut at the October 26th meeting, the magnitude of which would only be questioned if the peso's depreciation continues to accentuate in the coming weeks.

—Aníbal Alarcón

Chart 2



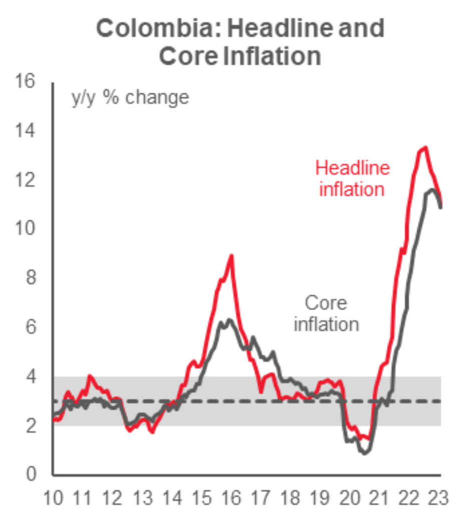
Sources: Scotiabank Economics, INE.

COLOMBIA: INFLATION MET EXPECTATIONS AND CONTINUED ITS GRADUAL DECLINE. A RATE CUT IN DECEMBER IS STILL POSSIBLE

Monthly CPI inflation in Colombia stood at 0.54% m/m in September, according to DANE data released on Friday, October 6th. The result was aligned with expectations of 0.53 m/m, according to BanRep's survey, and slightly below Scotiabank Colpatria's expectation of 0.60% m/m. The main monthly contributor to the monthly inflation was food inflation, which stood at 0.74% m/m, and is relatively high given the usual seasonality, while housing and transport were the second and the third main contributors, respectively. The good news came from tradable items, such as vehicles with significant negative monthly inflation, which is an important signal of the effect of the COP appreciation and weak demand.

Headline inflation declined for the sixth month, from 11.43% in August to 10.99% in September (chart 3), the lowest since August 2022 (10.84% y/y). According to our projections, the headline inflation could reach a single digit around November. Core inflation fell for the third consecutive month; non-food inflation fell from 11.19% to 10.88%, while inflation ex-food and regulated prices were 9.51% y/y, also down from the previous number of 9.92% y/y in August, mainly due to a moderation in tradable goods inflation.

Chart 3



Sources: Scotiabank Economics, DANE.

In any case, both headline and core inflation remain well above BanRep's 3% target; however, both affirmed their downward trend. In y/y, food and restaurant inflation was much lower than September 2022. They accounted for the 50% of the reduction in the headline annual inflation, while clothing and furniture groups accounted for 30%. The only group that partially offset the downtrend of headline inflation was education, that still reflects higher indexation effects.

Former results affirm our expectation that there is no room for rate cuts in the October 31st BanRep meeting; however, if inflation continues its progress according to our projections and the government proves no intentions of setting the minimum wage increase for 2024 well above inflation, we think BanRep could still consider kicking off the easing cycle in December 2023.

In forthcoming months, it will be relevant to see how COP strengthened vs. one year ago could support lower tradable prices and if the El Niño weather phenomenon impact is material in key prices.

Looking at the September figures in detail, food inflation is the group that generated the greatest upside pressure on inflation during the month (charts 4 and 5).

The highlights are:

- Food inflation remained elevated and again was the main contributor to the monthly inflation, recording inflation of 0.74% m/m and contributing to the headline by 14 bps. There were significant increases in food items such as tomatoes (+39.8% m/m), onions (+13.5% m/m), and fresh fruits (+3.91% m/m). On the negative side, the main price reductions were on plantains (6.99% m/m), tree tomatoes (13.55% m/m) and oranges (-14.98% m/m); it is worth noting that 17 out of the 59 food items are showing price reductions, similar to the previous month dynamic of 14 out of 59. In the forthcoming months, the main challenge remains the El Niño weather phenomenon. Having said that, we estimate that the possible upside impact on food prices could be reflected in H1-2024 if this phenomenon turns out to be intense.

- The lodging and utilities group was the second contributor to the rise in monthly inflation. The group recorded +0.40% m/m inflation and +12 bps contribution. Rent fees continued to rise at a similar pace compared with previous months (0.58% m/m), showing that indexation effects are still present. Utility fees decreased by 0.18% m/m due to a significant reduction in gas prices (-2.13% m/m).

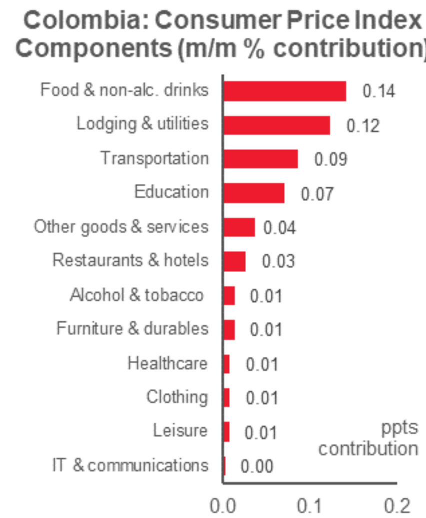
- Transportation was the third largest contributor to headline inflation, with a 0.67% m/m and a contribution to headline inflation of 9 bps. Gasoline inflation rose by +3.43% m/m due to a COP 400 increase. It is relevant to note that tradable goods, such as vehicles, partially offset the upside pressure from gasoline in the transportation group. In that regard, vehicle inflation posted a -1.47% m/m inflation, the most significant reduction, at least, since 2009. Vehicle price reduction reflects the COP appreciation and the effect of weak demand.

  The government maintained stable gasoline prices in October; however, Minister Bonilla said that increments will be resumed in November, and by February 2024, diesel prices are expected to increase, which could have spillovers to other key elements of the CPI basket.

  Inflation by major groups: goods inflation continued decreasing, going down from 11.83% y/y to 10.44% y/y, while services prices remained relatively stable at 9.14% vs. the previous 9.16%, reflecting still some robust demand in that sector, but also the effect of indexation. Tradable goods, excluding food, posted a 9.51% y/y inflation, lower than the previous month's 9.92% figure. It is worth noting that clothing, home appliances and vehicles are the items that are contributing the most in the tradable goods inflation reduction.

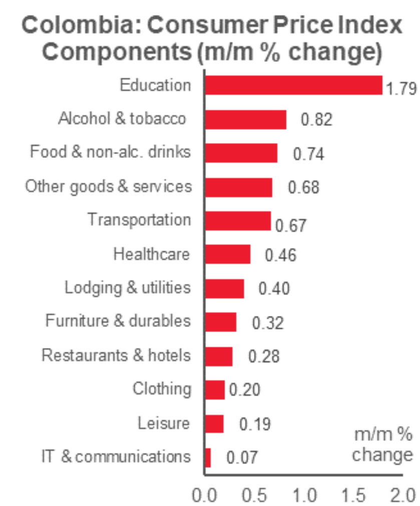
—Sergio Olarte, Jackeline Piraján & Santiago Moreno

Chart 4



Sources: Scotiabank Economics, DANE.

Chart 5



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