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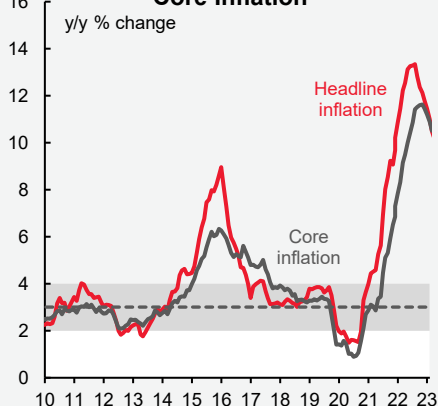
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Chart 1

Colombia: Headline and Core Inflation



Sources: Scotiabank Economics, DANE.

Latam Daily: Awaiting Central Banks; Colombia CPI Recap

- **Colombia: Headline inflation was in line with expectations, while core inflation reflects a divergent dynamic between goods and services prices**

It was a mostly uneventful start to the week in Asia and Europe, and the day ahead is equally quiet ahead of a busy schedule of central bank decisions and key data releases. An early-Europe Bloomberg report on BoJ insiders saying officials aren't pressed to end negative rates on the 19th woke up trading but had limited after-effects. Over the weekend, Chinese inflation was a solid miss, reflecting steep declines in pork prices but also muted services inflation reflecting weak domestic demand.

In the G10, we'll only have the NY Fed's survey of consumers on tap in terms of data, while the UST auctions of 3s and 10s at 11.30ET and 13ET are the main on-calendar risk for markets. The US also sells 30s on Tuesday, which may mean that supply disproportionately weighs on the long-end in the first half of the week while the remainder of the week could be a drag on the front-end as central bankers attempt to stop rate cut bets in their tracks. The US publishes CPI data tomorrow and the Fed announces policy on Wednesday.

USTs are slightly bear steepening, in contrast to bull flattening German rates and bull steepening gilts. WTI and Brent are down 0.3/4%, sliding off their best levels about two hours ago, while iron ore tracks a 0.5% decline and copper drops 0.9% with both possibly impacted by disappointing Chinese data. US equity futures are little changed as is ESX cash while FTSE trades 0.3% lower. The BoJ news triggered a move higher in the USDJPY of about 100 pips, to shed 0.8/9% as the worst major today. Most other majors are also trading weaker against the USD although the EUR and GBP are little changed, while the MXN sits in the middle of the pack, down 0.2%.

The Latam day ahead doesn't have much to get local markets going, although Brazil's, Colombia's, Chile's, and Peru's reopen after Friday's holidays. Moves in Colombia will likely be outliers as traders will also react to the post-trading release of November CPI last Thursday (see below). Today, there's only the weekly BCB survey results to watch and central bankers will be quiet ahead of their respective decisions.

This week (see [Latam Weekly](#)), we'll get policy updates from the BCB, Banxico, and the BCRP but there may be little room for surprise. The BCB is very clearly on track for 50bps cuts this week and at their February meeting. In Peru, downside surprises in inflation and a weak economy could motivate a 50bps cut according to some, but caution will likely overpower dovish inclinations, resulting in the 25bps that we project. Banxico already surprised us at their previous meeting by opting for less hawkish guidance, so markets may already be going into the decision thinking that the bank could somewhat tee up a February start to cuts.

—Juan Manuel Herrera

COLOMBIA: HEADLINE INFLATION WAS IN LINE WITH EXPECTATIONS, WHILE CORE INFLATION REFLECTS A DIVERGENT DYNAMIC BETWEEN GOODS AND SERVICES PRICES

Monthly CPI inflation in Colombia stood at 0.47% m/m in November, according to DANE data released on Thursday, December 7th. The result was broadly in line with the economist's expectations of 0.46% m/m, according to BanRep's survey, while it was above Scotiabank Colpatria's expectation of 0.41% m/m.

Annual headline inflation declined for the seventh month, from 10.48% in October to 10.15% in November (chart 1), the lowest since June 2022 (9.67% y/y). Core inflation delivered an unexpected spike, interrupting four consecutive months of reduction; non-

food inflation is now at 10.61% y/y, 0.10 percentage points higher versus the previous month' figure; however, inflation ex-food and regulated fell significantly from 9.20%y/y in October to 8.86% y/y in November. That said, the upside surprise in ex-food inflation came from electricity prices, which increased by 5.89% m/m. On the other side, inflation ex-food and regulated price reduction was explained again by lower tradable goods inflation (especially vehicles). In contrast, core services inflation remains sticky at 9.03%, resulting from indexation effects, especially in rent fees.

November CPI gives arguments to both sides of BanRep's board. On the dovish side, some members could see the headline inflation reduction as enough progress to start the easing cycle, as projections point that inflation could close at a single-digit levels in December. However, hawks will point to persistently sticky core inflation, which is an argument to wait a bit more before starting the easing cycle. In Scotiabank Colpatría economics, we continue to think that the recent economic activity deceleration plus the current account deficit coming in well below BanRep expectations are arguments to start a very gradual easing cycle and cut the benchmark rate by 25bps at the December 19th meeting. However, we know that it will be a close call.

A reason for the board to delay the rate cut is that inflation remains more than three times above BanRep's target of 3%. There is a pending negotiation of the minimum salary, and other sources of upside risk on inflation could potentially materialize in forthcoming months. Before the December 19th meeting, BanRep will have, as a final input, the economic activity indicators for October and the Federal Reserve meeting; we think both are critical in defining this debate about the start of the easing cycle.

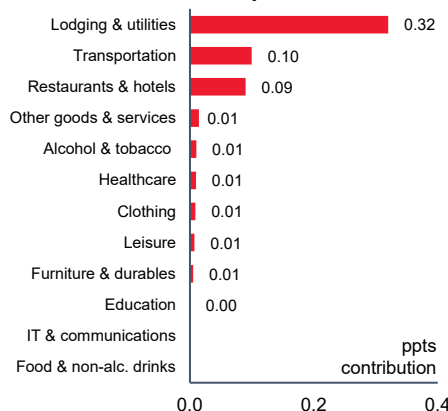
Looking at November's figures in detail, food inflation is the group that generated the greatest upside pressure on inflation during the month (charts 2 and 3).

Complementary highlights:

- The lodging and utilities group was the main contributor to monthly inflation. The group recorded +1.05% m/m inflation and +32 bps contribution. Rent fees accelerated, posting a monthly figure of 0.47% m/m. However, it remains below the average 0.69% m/m inflation recorded in 2023. Either way, indexation effects remain a concern for 2024; in that regard, minimum wage negotiations will be critical for BanRep in assessing inflation risk. Utility fees increased by 2.85% m/m due to significant increases in electricity prices (+5.89% y/y) as a result of higher prices derived from speculation for the "El Niño" weather phenomenon in market electricity prices; we expect this effect to moderate as some of those upside pressures are vanishing.
- The transport group recorded a 0.72% monthly inflation, reflecting the increase in gasoline prices (+3.6% m/m), which offset the reduction in tradable items such as vehicles (-0.7% m/m) and airfare (-3.78 % m/m). In the medium term, a source of uncertainty came from the potential increase in diesel prices and toll fees. The government already said they will pursue increases in both in 2024, which could delay the inflation convergence towards the target of 3% even more.
- Food items inflation recorded a -0.45% m/m inflation and subtracted to the headline 9bps. In November, fresh fruits (-6.02% m/m), tomatoes (-18.52% m/m), and onion (-11.52% m/m) contributed to the lower inflation, while on the upside side, processes met prices increased by 7.26% m/m in anticipation of the holiday season by the end of the year. Either way, food inflation is normalizing, and despite the forthcoming months, we are vigilant of the effect of the "El Niño" weather phenomenon; we only expect a material impact on prices if this phenomenon lasts longer than current projections.
- Inflation by major groups: goods inflation decreased significantly, going down from 9.51% y/y to 8.45% y/y, while services prices decreased in a lower magnitude to 9.03% vs. the previous 9.07% y/y, and compared with the peak recorded in July, services inflation has gone down only by 16 bps.

Chart 2

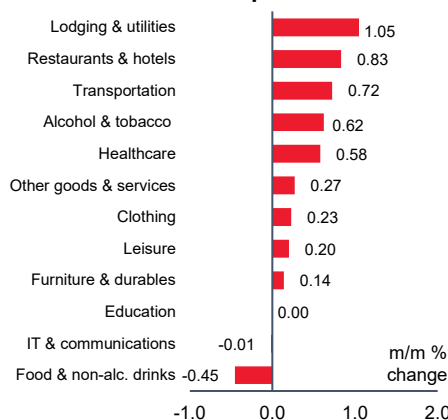
Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

Chart 3

Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

—Sergio Olarte & Jackeline Piraján

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