Latam Daily: A Trio of Rate Decisions This Week

- **Central banks & macro data: BCCh, BCB, & BCRP on deck; more November inflation numbers**
- **Argentina: Wealth tax approved by Senate**
- **Colombia: November prices undershot expectations as the VAT holiday drove inflation down to a new record at 1.49% y/y**
- **Mexico: Consumer confidence lost momentum in November**
- **Peru: One-year Inflation expectations ticked up in November, but still far from being a concern**

CENTRAL BANKS & MACRO DATA: BCCh, BCB, & BCRP ON DECK

I. A trio of central-bank interest-rate decisions

- **Chile. The BCCh Board will deliver its next monetary-policy decision on Monday, December 7, where our team in Santiago, the consensus of analysts, and market pricing anticipate another hold at 0.5% (chart 1).** However, we do expect a more dovish tone in the Board's forward guidance, given that we project the recent spike in inflation to be transitory (chart 2), and a possible revisiting of the 0.5% technical minimum. The December *Monetary Policy Report* follows on Wednesday, December 9, where we anticipate seeing the BCCh upgrade its GDP growth forecasts to reflect the impulse from the imminent second round of pension-fund withdrawals. The minutes of the December 7 rate decision are due to be published on Wednesday, December 23. Our Chile economists project the BCCh to stay on hold until Q2-2022, but markets have been pricing a first hike in late-2021.

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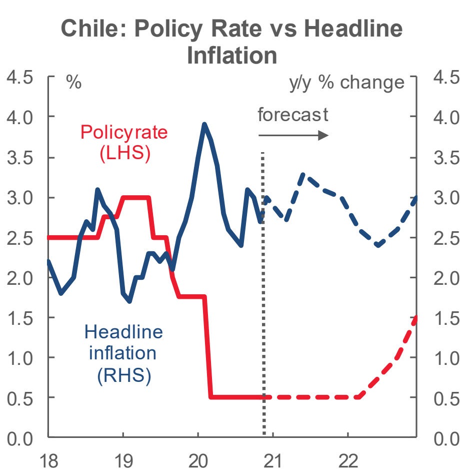
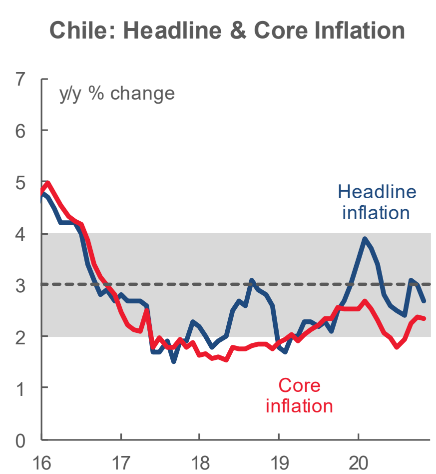
Chart 1



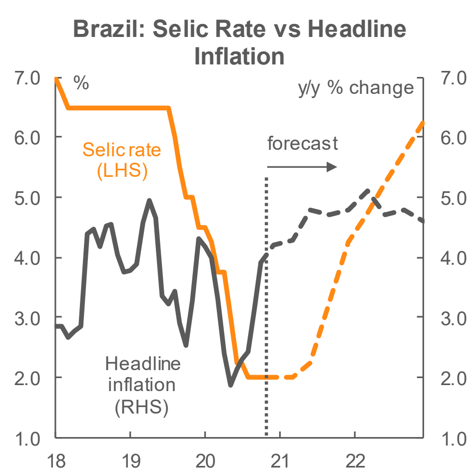
Sources: Scotiabank Economics, BCCh, INE.

Chart 2



Sources: Scotiabank Economics, INE.

Chart 3



Sources: Scotiabank Economics, BCB, IBGE.

- **Brazil. The BCB's Copom is next scheduled to meet on Wednesday, December 9, where our Brazil economist expects the Selic rate to be held at 2.00% for a fourth meeting in a row (chart 3).** In view of recent boost to our growth and inflation projections, we no longer see a strong chance of additional easing at this stage, but there is a material risk that hikes could be brought forward earlier than the first move we anticipate in Q2-2021 in an effort to shore up the BRL and respond to rising inflationary pressures (chart 4). While markets have been pricing a hold on December 9, they do anticipate a first hike in Q1-2021. Following its usual calendar, the minutes from the Copom's meeting are due to be published on Tuesday, December 15.

- **Peru. The BCRP Board will make its last planned rate decision for 2020 on Thursday, December 10, where we expect the headline policy rate to be held again at 0.25% (chart 5).** The meeting is likely to be uneventful, with the BCRP focused on efforts to mitigate volatility in the PEN and ensure major sectors of the economy continue to be able to access adequate liquidity. We forecast inflation, currently at 2.1% y/y (chart 6), to end-2020 at 2.0% y/y.

II. More November inflation numbers

- **Argentina.** October industrial production and construction activity (Dec. 9) are expected to remain at and pull level with, respectively, numbers from a year ago.

- **Brazil.** We expect monthly IPCA inflation (Dec. 8) to accelerate from 3.9% y/y in October to 4.3% in November.

- **Chile.** November inflation (Dec. 7) is projected to come down just below the 3% y/y BCCh target.

- **Colombia.** In a quiet week, November consumer confidence (Dec. 7) is the only planned data release.

- **Mexico.** Our team in CDMX expects headline inflation to slow from 4.1% y/y in October to 3.4% y/y in November, but they don't see this as the leading edge of a broader deflationary trend.

- **Peru.** October's trade surplus (Dec. 9–11) is expected to expand on stronger mining output and higher metals prices.

See our November 28 *Latam Weekly* for our detailed forecasts.

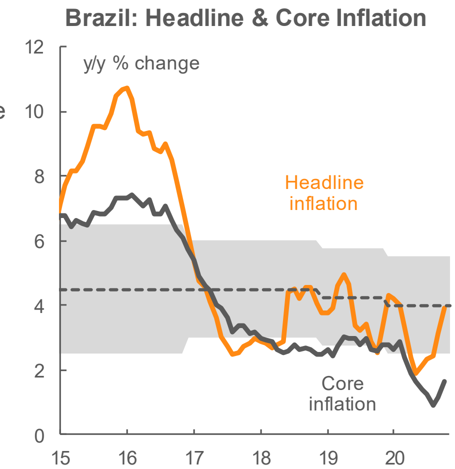
—Brett House

ARGENTINA: WEALTH TAX APPROVED BY SENATE

Late on Friday, December 4, Argentina's Senate approved the Congressional proposal to impose a one-off wealth tax that would target individuals with assets of more than ARS 200 mn (around USD 2.4 mn). The tax is intended to hit between 1% and 3% of individuals' total wealth, with a 50% tax premium on assets held abroad. Similar wealth taxes have been abandoned in much of the world as they violate the principle of not taxing the same income twice, they rarely produce the revenues expected, they generate incentives to keep capital offshore, and they may discourage foreign investment. We don't expect this move to plug the fiscal holes created by this year's lockdowns and it may distract from and delay more meaningful fiscal reform.

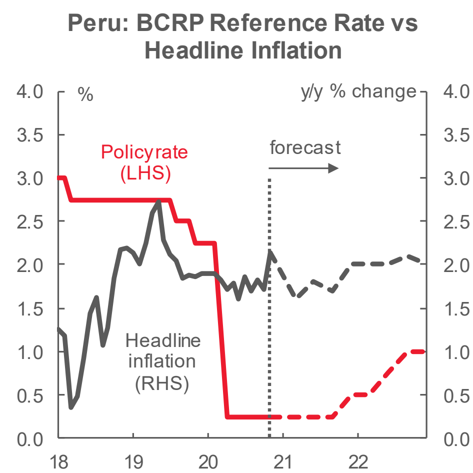
—Brett House

Chart 4



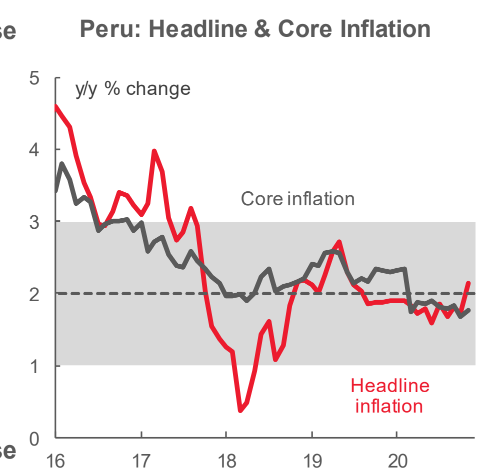
Sources: Scotiabank Economics, IBGE.

Chart 5



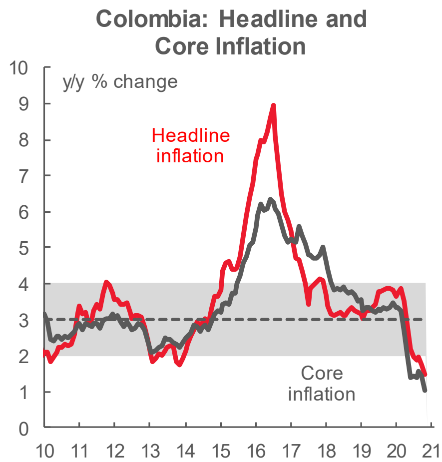
Sources: Scotiabank Economics, BCRP, INEI.

Chart 6



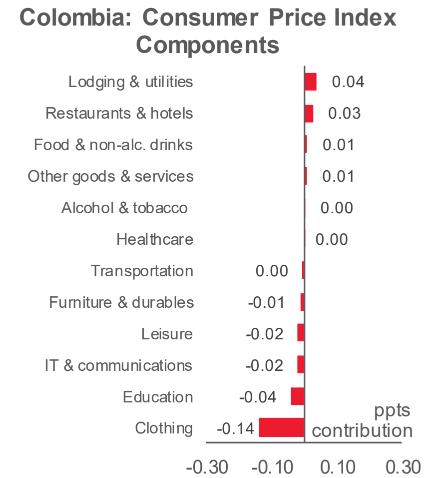
Sources: Scotiabank Economics, BCRP, INEI.

Chart 7



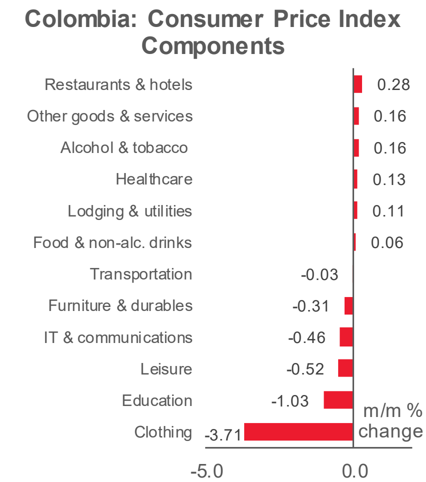
Sources: Scotiabank Economics, DANE.

Chart 8



Sources: Scotiabank Economics, DANE.

Chart 9



Sources: Scotiabank Economics, DANE.

COLOMBIA: NOVEMBER PRICES UNDERSHOT EXPECTATIONS AS THE VAT HOLIDAY DROVE INFLATION DOWN TO A NEW RECORD AT 1.49% Y/Y

November inflation decelerated further from October in data published late on Saturday, December 5, by DANE. In sequential monthly terms, deflation deepened from -0.06% m/m in October to -0.15% m/m in November, well below expectations (i.e., 0.06% m/m in the Bloomberg survey and 0.08% m/m in the BanRep survey) and our projection of 0.08% m/m. November's soft print pulled annual inflation down by -26 bps from 1.75% y/y in October to 1.49% y/y, well below the Bloomberg survey's 1.71% y/y consensus expectation; similarly, core inflation came down from 1.42% y/y in October to 1.01% y/y in November (chart 7).

November's downside surprise reflected significant effects from the most recent VAT holiday and an unanticipated reduction in tuition fees for universities and technical colleges (charts 8 and 9).

Table 1
Colombia: Monthly Inflation, Main Groups Affected by VAT Holiday

m/m % change	June	July	November
Traded clothing	-2.12	-0.10	-3.81
Cellphone services	-0.77	-0.23	-6.73
Leisure goods	-0.41	0.07	-1.13

Sources: Scotiabank Economics, DANE.

- **Colombia's third VAT holiday this year had much stronger effects in November than the previous two VAT sabbaticals in June and July.** The clothing sector (-3.71% m/m, chart 9 again) provided the largest negative contribution (-14 bps) to the headline inflation rate in November, mainly stemming from a large decline in prices on clothing goods (-3.81% m/m, table 1), where the price drop was 1.8x greater than the one we observed during the first VAT holiday. Additionally, the IT & communications group contributed negatively to headline inflation (-0.02 ppts, chart 8 again) owing to reductions in prices for cellphone services (-6.73% m/m, table 1 again). Finally, leisure-goods prices (-1.13% m/m) posted a strong decline compared with the previous two VAT holidays.

- **Tuition fees at universities and technical education institutes fell again by -1.03% m/m, which meant education pulled headline inflation down by -0.04 ppts (chart 8, again).** This was a residual effect of an atypical month where these institutions implemented price reductions to reduce desertion. DANE indicated that the negative effect of education prices on headline inflation would continue into December.

- **On the other side, rental fees and restaurants registered price gains that reflected the consolidation of the economy's re-opening (charts 8 and 9, again).** Housing-related sectors also contributed positively to November's headline inflation as utility fees (up 0.22% m/m) and rental fees (up 0.09 m/m) turned positive again and posted the fastest expansion in six months, a signal of a mild demand recovery. We think that December will see further signs of recovery in the tourism sector.

Looking at broad categories, goods inflation fell by -102 bps to 0.01% y/y, services inflation fell from 1.75% y/y to 1.55% y/y, and regulated-price inflation fell by -33 bps to 0.58% y/y. Monthly foodstuff inflation was almost flat (0.01% m/m) in November despite the fact that wholesale prices pointed to huge increases from two months ago.

Core inflation measures also dropped: ex-food inflation came in at 1.02% y/y (down -40 bps from October), while ex-food and regulated inflation fell by -42 bps from October to 1.13% y/y in November.

Altogether, November's drop in CPI inflation represented a significant downward surprise. However, we could see further soft price prints in the short term due to an extraordinary measurement of school fees. We also anticipate that base effects could dampen year-on-year inflation numbers in Q1-2021, but annual inflation rates are expected to begin rising again by Q2-2021.

We still forecast next year's annual inflation rate to converge to a level (i.e., 2.8% y/y) slightly below BanRep's 3% y/y target by the end-2021. For now, we believe November's headline inflation reading supports keeping the policy rate at 1.75% for the rest of 2020 and into H1-2021 as we project inflation expectations to remain anchored in the target range of 1% y/y to 3% y/y.

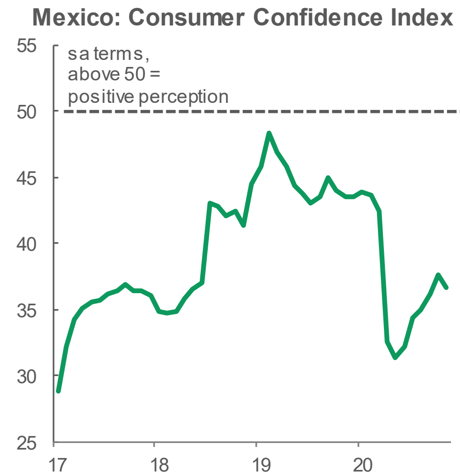
—Sergio Olarte & Jackeline Piraján

MEXICO: CONSUMER CONFIDENCE LOST MOMENTUM IN NOVEMBER

The results of the National Survey on Consumer Confidence (ENCO) for November, released on Friday, December 4, showed that sentiment weakened in seasonally-adjusted terms for the first time since June (chart 10), when the gradual re-opening of various activities started. The November reading, combined with rising COVID-19 new case numbers and ongoing uncertainty around the pandemic, likely foreshadowed a slowing in consumer spending in the coming months. Digging into the details:

- **In November, the Consumer Confidence Index (CCI) came in at 37.1 points in nsa terms, -6.8 points lower than in November 2019,** which marked a 12th straight month of year-on-year declines;
- **In seasonally adjusted terms, the CCI decreased in November from 37.6 to 36.7,** it's first monthly decline after five consecutive months of increases; and
- **All five components of the CCI (nsa) remained down compared with their levels in November 2019.** These included assessments of the current and expected situation of households and the country, as well as evaluations of consumers' current capacity to acquire durable consumer goods. **In the same vein, all five of the components also fell in seasonally-adjusted month-on-month terms**, with the greatest declines in those sub-indices related to current and expected perceptions of the economic situation of households, followed by those related to perceptions of the current and expected economic situation.

Chart 10



Sources: Scotiabank Economics, INEGI.

—Paulina Villanueva

PERU: ONE-YEAR INFLATION EXPECTATIONS TICKED UP IN NOVEMBER, BUT STILL FAR FROM BEING A CONCERN

The BCRP reported on Thursday, December 3, that market expectations of inflation over the next 12-month period had risen from 1.6% y/y in October to 1.7% y/y in November. The BCRP obtains this reading from a monthly survey of research analysts and financial institutions. The BCRP uses this information to determine its current estimate of the real interest rate (i.e., the interest rate minus the expectation for inflation 12 months from now), which is a key input for the central bank's formulation of monetary policy. Thus, the real reference rate now stands at -1.45% versus -1.35% previously. However, so long as one-year inflation expectations remain within the BCRP target range (1% y/y to 3% y/y), we expect the BCRP to remain focused on stimulating the economy and will keep the reference rate at 0.25%. That said, we do expect inflation expectations to continue drifting up toward 2% y/y, following inflation itself which hit 2.1% y/y in November. Note that market inflation expectations are mildly lower than our forecast of 2.0% for November-December 2021.

—Guillermo Arbe