December 16, 2020

Latam Daily: Banxico Independence in Focus; Peru October GDP Beat

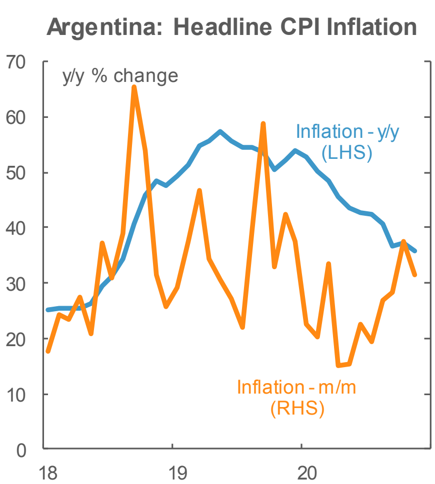
- **Argentina: November inflation stayed above 3% m/m**
- **Colombia: December's Citi survey showed inflation expectations remain anchored**
- **Mexico: Moody's warned of cuts to sovereign rating if central bank's autonomy is infringed**
- **Peru: October GDP growth—a slimmer contraction, in line with our full-year forecast**

ARGENTINA: NOVEMBER INFLATION STAYED ABOVE 3% M/M

In national price data published by INDEC on Tuesday, December 15, monthly inflation slowed a touch, from 3.8% m/m sa in October to 3.2% m/m sa in November—just below the 3.5% m/m sa in both our forecast in the most recent *Latam Weekly* and the Bloomberg consensus (chart 1). This brought headline annual inflation down from 37.2% y/y in October to 35.8% y/y in November—the lowest rate since August 2018—versus the 36.25% y/y anticipated by analysts. Regulated prices, which are concentrated in the utilities and transportation segments, continued artificially to pull down headline inflation: at 16.9% y/y (1.2% m/m) in November, they ran well below price gains in the rest of the economy (chart 2). In contrast, core inflation at 37.8% y/y (3.9% m/m) remained above headline price gains. Tradable goods prices reflected pass-through effects from the weak Argentine peso: for instance, clothing and footwear prices were up 58.1% y/y (3.68% m/m) in November. November's print keeps annual headline inflation on track to close 2020 at about 36% y/y—well below end-2019's 53.8% y/y reading owing to base effects. We expect sequential monthly inflation to remain above 3% m/m sa deep into 2021.

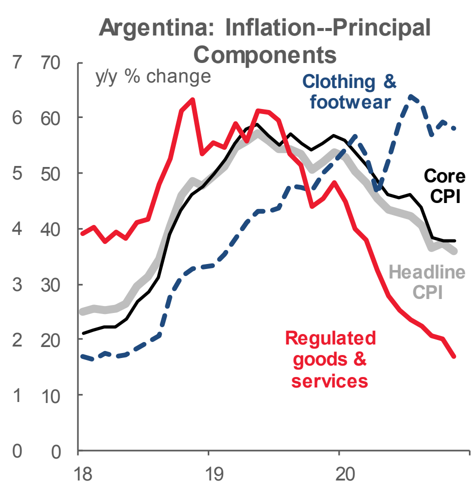
—Brett House

Chart 1



Sources: Scotiabank Economics, INDEC.

Chart 2



Sources: Scotiabank Economics, INDEC.

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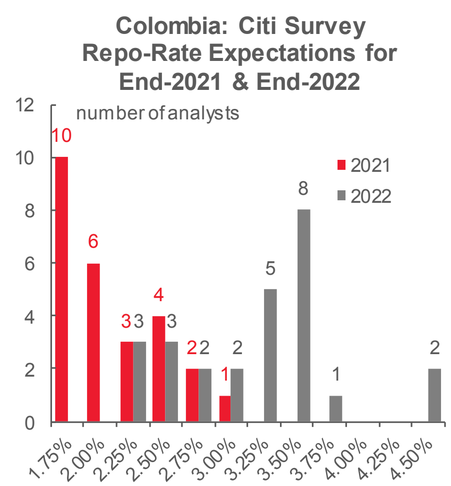
COLOMBIA: DECEMBER'S CITI SURVEY SHOWED INFLATION EXPECTATIONS REMAIN ANCHORED

December's Citi Survey, which BanRep uses as one of its measures of expectations of inflation, the monetary policy rate, GDP, and the COP, came out on Monday, 14 December.

Key points included:

- **Growth forecasts were mildly revised.** For 2020, a contraction of -7.20% y/y, -2 bps below last month's survey reading of -7.18% y/y, is now expected. In 2021, the recovery is now forecast to hit a pace of 4.73% y/y, above the previous survey's 4.54% y/y consensus. We expect -7.5% y/y in 2020 and a rebound to 5.0% y/y in 2021;
- **Inflation expectations fell in 2020, but remained anchored in 2021.** December's monthly inflation rate is, on average, anticipated to be 0.20% m/m and 1.43% y/y; we forecast 0.19% m/m and 1.42% y/y on the back of deflation in education prices and increases in food prices, along with a partial normalization of prices after the third VAT holiday's effects. For December 2021, the survey's average projection for headline inflation is 2.74% y/y, lower than the previous survey's expectation (2.80% y/y) due to November's inflation downside surprise. Having said that, by December 2022, the survey looks forward to inflation hitting 3.18% y/y, just above the central bank's target;
- **Market consensus points to policy rate stability.** A full 100% of analysts surveyed expect the BanRep's key monetary-policy rate to be held at 1.75% at the December 18 meeting; in 2021, consensus projects one 25 bps hike; although analysts' views are dispersed between stability and up to 125 bps in hikes (our call is for 100 bps), the mode is at 1.75%. In 2022, the mode is at 3.50% (chart 3); and
- **The USDCOP forecasts point to a relatively stable currency through December 2021.** On average, respondents expect a level of USDCOP 3,487 by the end of 2020 and USDCOP 3,497 by end-2021. In 2022, USDCOP is projected to reach 3,456.

Chart 3



Sources: Scotiabank Economics, Citi Survey.

—Sergio Olarte & Jackeline Piraján

MEXICO: MOODY'S WARNED OF CUTS TO SOVEREIGN RATING IF CENTRAL BANK'S AUTONOMY IS INFRINGED

On Wednesday, December 9, the Mexican Senate fast-tracked the approval of a bill that would modify the law that governs Mexico's central bank, Banxico. The initiative would obligate Banxico to buy "excess" cash in foreign currency that domestic banks cannot place with correspondent banks abroad. The monetary authority and several analysts considered that this proposal would put the autonomy of the central bank at risk. Banxico has expressed its concerns about the proposed change, noting that it must absolutely avoid the risk of engaging in operations involving resources of illicit origin. The fear is that such exposure could affect, among other things, the free availability and control of the international reserves that it administers, to the detriment of Banxico's objectives, and the country's broader aims. The bill is now with the Chamber of Deputies (the lower house of Congress) for further discussion and a vote when Congress begins a new session in February 2021.

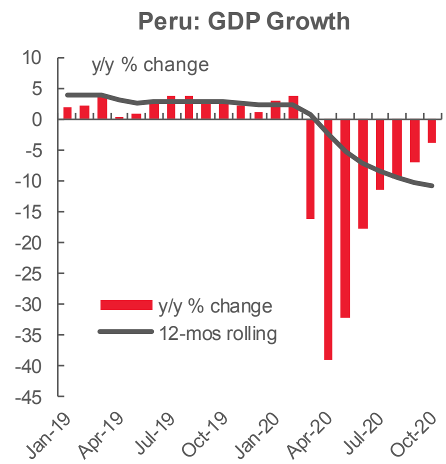
In a commentary posted late on Monday, December 14, Moody's, the rating agency, warned that Mexico's credit profile (issuer rating Baa1) could be at risk if Banxico's autonomy is infringed through, *inter alia*, the passage of the bill under discussion. Furthermore, the measure could weaken Mexico's compliance with international anti-money laundering standards by transferring the risk of handling cash whose origin may be unverifiable to the central bank, potentially exposing its balance sheet to litigation. Such a development could have negative implications for the financial system as a whole.

—Paulina Villanueva

PERU: OCTOBER GDP GROWTH—A SLIMMER CONTRACTION, IN LINE WITH OUR FULL-YEAR FORECAST

In data released by the INEI on Tuesday, December 14, GDP growth for October came in at -3.8% y/y, up from 6.9% y/y in September (chart 4). This is just above the range we were expecting (-4.5% y/y to -5.5% y/y). More importantly, the print is well aligned with our expectation of -3.3% y/y growth in Q4 2020 and, thus, with our full-year forecast of -11.5% y/y. We had been a bit anxious that the contraction in GDP during 2020 would go beyond our forecast, but the result for October has laid our concerns to rest. With 12-month growth to October at -10.8% y/y (chart 4, again), a feasible -3.0% y/y growth would be needed for November–December to hit our -11.5% y/y full-year forecast.

Chart 4



Sources: Scotiabank Economics, INEI.

One pleasant surprise lay in agriculture, which was up 2.4% y/y in October (table 1), which marked a positive turn in annual growth for the first time in five months. Construction performed strongly, but this was expected. The 21.3% y/y increase in financial services was a reflection of the Reactiva program, but October will also be the last month with this magnitude of growth. All other sectors were either in line with, or mildly better than, expectations.

In sequential terms, October GDP was up 3.2% m/m, an acceleration from the 1.47% m/m pace recorded in September (table 1, again). Of particular note, all sectors except fishing (a seasonal anomaly) rose in month-on-month terms.

The figures for October basically tell us that GDP is rebounding as expected. October was a month in which most of the lockdown had been lifted, but consumers were still behaving cautiously. Perhaps one-third of the year-on-year decline in October reflected that part of the economy still under restrictions of some sort (e.g., education and entertainment) and the remaining two-thirds would have been linked to weakened domestic demand coming out of the lockdown.

—Guillermo Arbe

Table 1

Peru: October GDP Growth

	y/y % change	m/m % change
GDP	**-3.8**	**3.2**
Agriculture	2.4	5.4
Fishing	12.4	-1.4
Mining	-2.8	7.4
Manufacturing	-3.2	n/a
Resource processing	-3.8	n/a
Electricity	0.0	1.8
Construction	8.8	5.4
Commerce	-3.8	3.3
Transportation	-23.1	2.9
Hospitality	-44.4	11.9
Telecom	6.7	0.8
Financial services	21.3	0.2

Sources: Scotiabank Economics, INEI.