Latam Economic Update

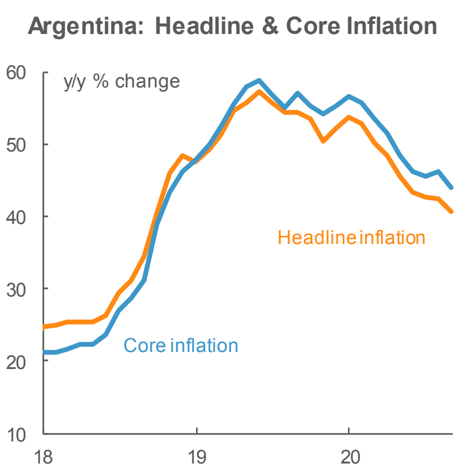
- **Argentina: August inflation accelerated despite containment efforts**
- **Brazil: Copom holds Selic at 2.00%**
- **Colombia: BanRep's survey consensus thinks the easing cycle is over**
- **Peru: Cement demand returned to pre-COVID-19 levels in August**

ARGENTINA: AUGUST INFLATION ACCELERATED DESPITE CONTAINMENT EFFORTS

In monthly data released by INDEC on Wednesday, September 16, base effects continued to bring headline inflation down to 40.7% y/y (chart 1) even as monthly sequential inflation accelerated from 1.9% m/m in July to 2.7% m/m in August (chart 2). This was faster than the 2.0% m/m we projected in our most recent *Latam Weekly*, but just below the more recently updated 2.8% m/m consensus. Core inflation also sped up, from 2.5% m/m in July to 3.0% m/m in August. The decline in headline annual inflation is unsustainable within the current policy framework: price controls are playing a major, but temporary, role in pulling down year-on-year inflation (chart 3) even though Argentina's monetary base is expanding rapidly. While price controls and base effects should continue to push headline inflation down to around 27% y/y by end-2020, we expect it to rise again to above 40% y/y in 2021.

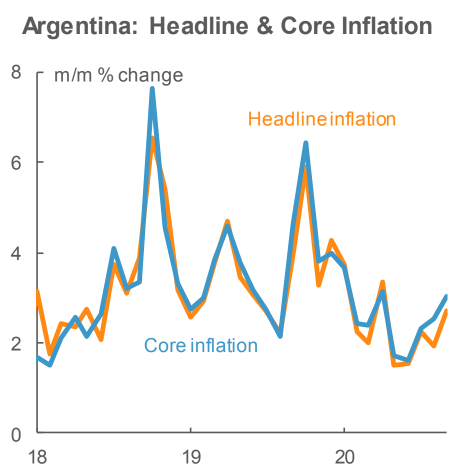
—Brett House

Chart 1



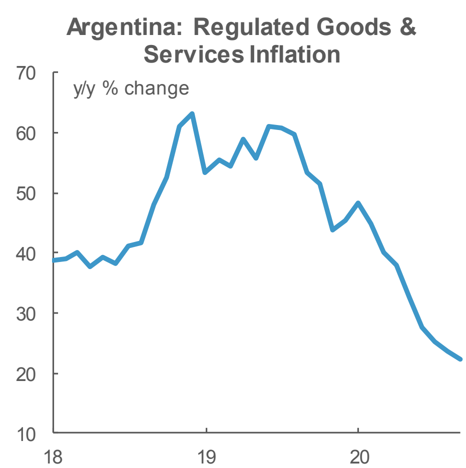
Sources: Scotiabank Economics, INDEC.

Chart 2



Sources: Scotiabank Economics, INDEC.

Chart 3



Sources: Scotiabank Economics, INDEC.

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BRAZIL: COPOM HOLDS SELIC AT 2.00%

In a unanimous decision on Wednesday, September 16, the BCB's Copom decided to hold the Selic rate at its all-time low of 2.00%, in line with consensus, and kept its forward guidance broadly unchanged. Our Brazil economist had seen a possibility of a final -25 bps cut to 1.75% at this meeting. Although this was not realized, there were some dovish elements in the Copom statement. The Committee maintained its view that inflation risks remain tilted to the upside, but it reiterated that it does not intend to reduce its monetary stimulus unless inflation expectations and the BCB's projections see inflation "sufficiently close" to the target over the forecast horizon. Further analysis of the Copom's decision will follow in our next *Latam Weekly*, out at the end of the week.

—Brett House

COLOMBIA: BANREP'S SURVEY CONSENSUS THINKS THE EASING CYCLE IS OVER

According to September's BanRep survey of macroeconomic expectations, economists think the central bank's easing cycle is done.

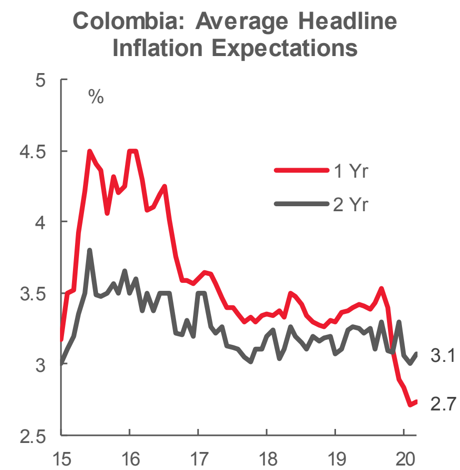
- **Analysts' consensus points to inflation at 1.77% y/y for December 2020, 8 bps lower than last month (table 1).** Inflation expectations for longer tenors, however, did not change much: the 1Y tenor stood at 2.75% (previous: 2.72%), and the 2Y tenor was at 3.09% (chart 4). For December 2021, inflation is expected to remain below 3%, on the back of weaker demand: the rebound is likely to be offset by the withdrawal of some government assistance.

Table 1
Colombia: Headline inflation expectations

	Average	Change vs previous survey, bps
Sep-2020 m/m % change	0.11	…
Dec-2020 y/y % change	1.77	-8
Sep-2021 y/y % change	2.75	…
Dec-2021 y/y % change	2.84	-3
Sep-2022 y/y % change	3.09	…

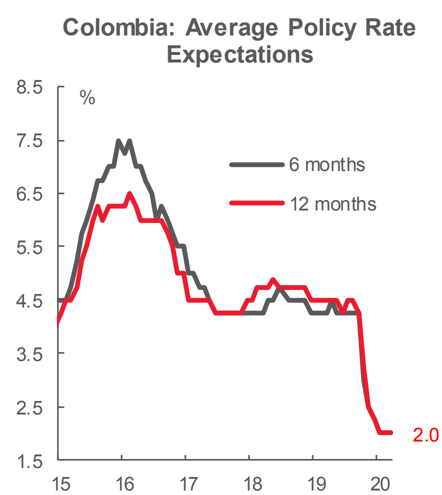
Sources: Scotiabank Economics, BanRep.

Chart 4



Sources: Scotiabank Economics, BanRep.

Chart 5



Sources: Scotiabank Economics, BanRep.

- **On average, September's monthly inflation is expected at 0.11% m/m (our expectation is 0.17% m/m), which would leave annual inflation at 1.76% y/y this month.** It is worth noting that during September some local governments will continue withdrawing support for utility fees. Additionally, the resumption of the application of the VAT on cell phone plans will imply upward pressure on inflation. However, tuition fees for universities and schools will be revised, which should dampen inflation pressures.

- **USDCOP forecasts for 2020-end stood at 3,701 (up 10 pesos from the previous survey).** For December 2021, respondents think (on average) that the COP will end at 3,570. We believe that volatility will continue and our FX models point to an equilibrium level around 3,600–3,700 by the end of the year.

- **BanRep's repo rate is expected to close 2020 around 2.00% (chart 5), according to the median of respondents, which implies that market consensus is not expecting further rate cuts.** The first hike of 25 bps is expected by November-2021, later than the previous survey anticipated. The monetary policy rate is expected to hit 2.25% by the end of 2021. For the coming September 25 meeting, analysts' consensus points to a hold from the BanRep Board; however, some analysts, including ourselves, expect a -25 bps cut. On the other side, the lowest projection among analysts in the forecast window is 1.50%.

BanRep's survey showed that analysts' expectations see inflation below the target range (defined as 2%–4%) at end-2020. However, inflation expectations remained anchored near the 3% target over the longer term. September's CPI inflation should again show offsetting effects between higher utility fees and lower education tuition fees. Because the balance of risks tilt toward a more moderate recovery in economic growth, and upside pressures on inflation are low for now, we expect a -25 bps cut in the monetary policy rate at the September 25 Board meeting.

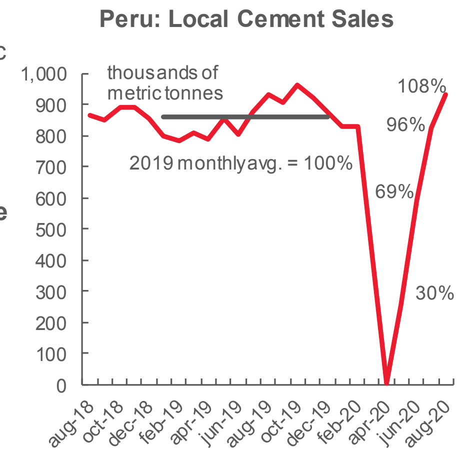
—Sergio Olarte & Jackeline Piraján

PERU: CEMENT DEMAND RETURNED TO PRE-COVID-19 LEVELS IN AUGUST

Cement sales returned to pre-COVID-19 levels in August (chart 6). Sales reached 933,000 mt for the month, which was on par with August 2019, and about 8% higher than the monthly average for 2019. This is in spite of continual sub-par private and public investment. We understand that this unexpectedly strong performance stems mainly from a huge increase in home-improvement construction, which, to some extent, may be linked to greater stay-at-home time due to the pandemic.

—Guillermo Arbe

Chart 6



Sources: Scotiabank Economics, INEI.