

## Latam Daily: Chile BCCh Minutes; Colombia Forecast Survey; Peru Politics & Cement

- **Chile:** BCCh minutes from March 30 imply it could start normalizing its policy stance before ending its non-conventional measures
- **Colombia:** BanRep's April survey showed inflation expectations closer to target; first rate hike expected in January 2022
- **Peru:** Candidates search for the centre; second-round polls favour Castillo; March cement sales

### CHILE: BCCh MINUTES FROM MARCH 30 IMPLY IT COULD START NORMALIZING ITS POLICY STANCE BEFORE ENDING ITS NON-CONVENTIONAL MEASURES

The central bank published on Thursday, April 15, the [minutes](#) from its meeting on March 30. In that meeting, the Board unanimously voted again to hold the benchmark rate at its technical minimum of 0.5%, where it has been since March 30, 2020, at the outset of the pandemic.

The main highlight of the minutes was that the Board clarified that a return to a more normal monetary policy stance would not require the extraordinary measures taken during the pandemic (i.e, FCIC credit line and asset purchase program, among others) to be extinguished. In other words, the BCCh could start the normalization process even with some non-conventional measures still in place. The Board also noted that the benchmark rate would remain at its minimum level for several more quarters, consistent with the baseline scenario analyzed in the [Monetary Policy Report](#) published in late March, which did not anticipate increases during 2021. Recently imposed new mobility restrictions and their effects on the economy rule out, in our view, any hikes in the benchmark policy rate before January 2022.

The risks associated with the increase in long-term interest rates in other economies and their effect on local rates were also discussed by the Board. Although higher rates have been associated with a perception that the economic outlook is improving, the Board noted that a possibility of abrupt movements in long rates continued to be a latent risk in the country. We believe that this reveals a concern amongst Board members regarding the levels and recent movements of local rates at a time when the 10-year bond rate in Chile is around 3.7%, up about 100 basis points since February 2021.

The next BCCh meeting will be held on May 12 and 13, and we do not expect major changes in the Board's outlook for the economy at that time.

—Carlos Muñoz, & Waldo Riveras

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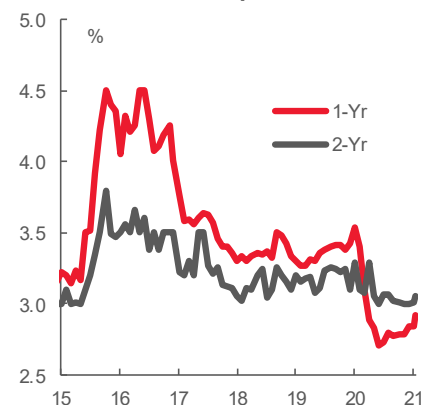
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Chart 1

#### Colombia: Average Headline Inflation Expectations



Sources: Scotiabank Economics, BanRep.

**COLOMBIA: BANREP'S APRIL SURVEY SHOWED INFLATION EXPECTATIONS CLOSER TO TARGET; FIRST RATE HIKE EXPECTED IN JANUARY 2022**

BanRep's April survey of economic analysts, published late on Thursday, April 15, showed inflation expectations converging closer to the central bank's 3% y/y target, with a first hike expected in January 2022. We look at the key aspects of the survey's results in detail below.

- Medium-term inflation.** Consensus expected inflation at 2.84% y/y by December 2021, 10 bps higher than last month (table 1). Inflation expectations for longer tenors also increased in the April survey. In fact, the 1Y tenor stood at 2.92% y/y, above last month's survey reading (2.87% y/y), and the 2Y tenor stood at 3.12% y/y, which underscored that expectations remained anchored over the monetary policy horizon (chart 1). Scotiabank Economics expects CPI inflation to close 2021 at 3.13% y/y and end 2022 around 3.0% y/y (see April 9 [Latam Weekly](#)).
- Near-term inflation.** On average, April's monthly inflation was expected to come in at 0.34% m/m, which would put annual inflation at 1.69% y/y in the month. In April, Colombian inflation should again reflect upside pressures from education fees, gasoline prices, some utility fees, and food; we additionally anticipate higher indexation effects as some sectors are normalizing their prices and also making some adjustments they couldn't implement in 2020 due to the COVID-19 crisis. Scotiabank Economics projects 0.29% m/m and 1.64% y/y, highlighting that, from April 2021, annual inflation will start to accelerate toward the 3% y/y target and above.
- FX.** USDCOP forecasts for end-2021 stood at 3,514 (up 37 pesos from the previous survey). For December 2022, respondents thought, on average, that the peso will end the year at USDCOP 3,470 (55 pesos above the previous survey). We believe that USDCOP cross rate is currently above its short-term fundamental level, which we estimate at around 3,450. Discussion regarding fiscal reform will likely help the COP reduce its gap versus fundamental levels. We forecast USDCOP 3,450 for end-2021 and USDCOP 3,400 for end-2022.
- Policy rates.** BanRep's repo rate is expected to stay at 1.75% in the April 30 meeting and also to close 2021 at 1.75%, according to the median of the survey's respondents (chart 2); the first hike of 25 bps is expected in January-2022, the same month indicated in the previous survey's consensus. On average, the policy rate is projected to hit 3.00% by the end of 2022. Our forecast is more front-loaded, with hikes starting from Sept-2021.

	Average	Change vs previous survey, bps
Apr-2021, m/m % change	0.34	...
Dec-2021, y/y % change	2.84	10
1Y ahead, y/y % change	2.92	5
Dec-2022, y/y % change	3.12	3
2Y ahead, y/y % change	3.12	4

Sources: Scotiabank Economics, BanRep.

To sum up, BanRep's survey indicated that inflation expectations remained anchored close to the central bank target, leading to higher monetary policy rates by the end of 2021 or early in 2022. We anticipate headline inflation will rise and close 2021 slightly above the central bank's 3% y/y target as we could see a stronger reversal in 2020's low levels of education fees and utility subsidies, among others. Additionally, the gradual recovery in economic activity should help inflation converge back to the 3% y/y target by 2022. The balance of risks tilts toward a near-term normalization in the economy, which leads us to continue to expect a first hike from the Board at the end of Q3-2021.

—Sergio Olarte & Jackeline Piraján



## PERU: CANDIDATES SEARCH FOR THE CENTRE; SECOND-ROUND POLLS FAVOUR CASTILLO; MARCH CEMENT SALES

### I. Presidential candidates search for the elusive centre

**Pedro Castillo (Perú Libre)** announced that he would begin talking with other political organizations this week to rally support for his run-off presidential campaign. Castillo noted that he had already made contact with the centre-right party Avanza Perú (Hernando de Soto) and that he will meet soon with the leftist Juntos por el Perú (Verónica Mendoza). More interestingly, Castillo extended an invitation for talks to the National Industrial Society (Sociedad Nacional de Industrias, SNI), which brings together a large number of businesses; the SNI accepted the invitation. Meanwhile, Renovación Popular (López Aliaga) completed its about-face, calling Castillo a dictator in the making.

**Castillo has otherwise transmitted rather mixed messages in recent days.** He stated that, if elected, his government would remove isolation measures and restrictions linked to COVID-19, which at the moment is a politically neutral stance in Peru. He rejected accusations that PL had links with terrorism (i.e., Sendero Luminoso), stating that “hunger, misery, abandonment, and inequality is the real terrorism”. Castillo also promised that the mining projects Conga and Tía María would never be approved during his tenure.

**Candidate Keiko Fujimori (Fuerza Popular), for her part, sparred last week with the prosecuting attorney José Pérez who is pursuing the case on her alleged misuse of campaign funds in 2016.** Pérez had voiced his concern over the “unprecedented” possibility that someone accused of a “serious crime” could be elected president. Fujimori, who had previously stated that she would honour the independence of the Attorney General’s office, replied that Pérez’s declarations were “political”. Fujimori also stated that she would avoid using scare tactics, such as identifying Castillo with terrorism, in her second-round campaign. She even apologized to Castillo for untoward phrases she may have used against him in the first-round campaign. At the same time, she asked Castillo to halt his campaign “based on division and hate”, which sort of contradicted her message.

**Both candidates are, thus, attempting to move toward the centre, as expected.** Moreover, both are trying to change the perception that voters have of them to help them reduce the contingent of voters that dislike each of them. Fujimori is working to be viewed as a new, much more tolerant, person, which would counter the view that her *intolerance* brought down the Kuczynski regime and generated tension in Congress during most of the 2016–19 period. Castillo is working to create an impression that he is an open person, seeking the best for the country, albeit without betraying his grassroots base.

### II. Polls give Castillo an 11 point lead over Fujimori in the second round

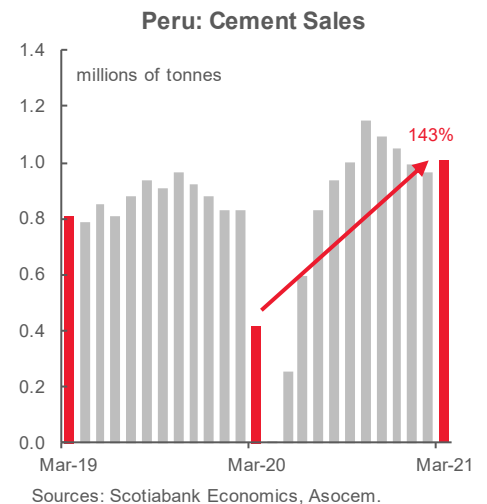
**An Ipsos poll released to the media on Sunday had Pedro Castillo (Perú Libre) garnering 42% of votes, to 31% for Keiko Fujimori (Fuerza Popular); another 16% would submit a blank ballot (voting is mandatory in Perú), while 11% are undecided.** This is an uncomfortably large gap for Fujimori to try to close. Having said this elections in Peru are unpredictable, and, in the same poll, 29% stated that they did not feel that they were well-informed enough for a firm decision. Fujimori has the challenge of swimming against the immense tide of her father’s controversial legacy and her own role in stimulating the political turbulence that has roiled the country since 2016.

**Castillo has had the benefit of being the newcomer and, thus, has much less baggage.** This is likely to change as he and his platform become better known, but to what degree this will alter voter perceptions is the question. Meanwhile, Castillo is now in an interesting position. He will need to decide whether he should move further toward the centre, or whether his lead is comfortable enough for him to campaign on a more heartfelt version of his platform. One wonders if we might not gain a clearer view of his true colours, and just what those colours are, in the coming weeks.

### III. Cement sales up 143% y/y in March as year-on-year comparisons with 2020 lockdown begin to generate large growth numbers

According to figures for March [released](#) on Thursday, April 15, by Asocem (the chamber of cement companies), March was a fairly normal month for cement sales in terms of volumes, but sales soared 143% y/y given the comparison with

Chart 3



**the lockdown that began in March 2020 (chart 3).** The driver for cement sales is, however, shifting a bit: toward government-linked infrastructure projects, with a relatively lighter emphasis on private sector-real estate. Since cement sales are a major component of construction GDP, its annual growth figure for March should come in near a triple-digit figure.

—Guillermo Arbe

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