Latam Daily: Colombia Inflation; Strong Growth Signals in Peru; Chile's Assembly

- **Chile: Process to draft a new constitution gets underway**
- **Colombia: Annual inflation stood at 3.63%; still showing impact from the nationwide strike; Scotiabank's annual projections unchanged**
- **Mexico: Banxico Survey of Private Sector Analysts: Higher expectations across the board (GDP; CPI; and benchmark rate)**
- **Peru: Early indicators for May point to another month of strong GDP growth**

CHILE: PROCESS TO DRAFT A NEW CONSTITUTION GETS UNDERWAY

On Sunday, July 4th, Chile held the inaugural session of its Constitutional Convention that was elected in May. Elisa Loncón (age 58), a political independent and indigenous representative of the Mapuche people, was elected as president of the constitutional body, obtaining 96/155 votes in a two-rounds vote.

The voting strategy of the various political coalitions revealed what had been widely anticipated: that no political group will have secured the minimum (103 members) two-thirds majority required to approve each article in the new constitution. The session was the first indication on how the various coalition forces within the diverse and fragmented organism will work. As the process unfolds, it is clear that negotiations and concessions will be needed from both the left- and right-wing coalitions. Our preliminarily assessment suggests that the group of non-neutral Independents (11 members) who did not join coalitions will act as centrist "swing voters", key to achieving the 2/3 majority.

Also in Sunday's session, constitutional lawyer Jaime Bassa (independent delegate supported by the left's Frente Amplio coalition), was elected as vice president of the Convention after three rounds of votes. The constitutional assembly members will have nine months (extendable to 12 months), to draft the new constitution, which will be approved or rejected in a national Exit Referendum in the first half 2022.

—Anibal Alarcón & Waldo Riveras

COLOMBIA: ANNUAL INFLATION STOOD AT 3.63%; STILL SHOWING IMPACT FROM THE NATIONWIDE STRIKE; SCOTIABANK'S ANNUAL PROJECTIONS UNCHANGED

Monthly CPI inflation was -0.05 m/m in June, according to DANE's price data published on Saturday, July 3. The result came below the median forecast in BanRep's survey (0.10% m/m) and Bloomberg's survey (0.05%), and above Scotiabank Economics' projection (-0.22% m/m). Foodstuff inflation subtracted 17 bps to the overall figure as some prices partially normalized after main roads blockades were lifted; however, other items such as restaurants pushed prices up in processed foods and meat. June's CPI result brings annual headline inflation up from 3.30% y/y in April to 3.63% y/y (chart 1), which is in the upper half of BanRep´s target range (2%–4%). Thus, this tilts our current 3.5% forecast for Dec -2021 to the upside, but our inflation expectation continues anchored close to the 3% in 1y and 2y horizons.

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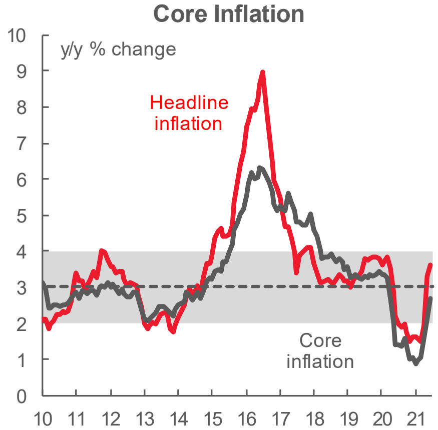
Chart 1 **Colombia: Headline and Core Inflation**



Sources: Scotiabank Economics, DANE.

June's core inflation stood at 0.15% m/m, below the BanRep market survey consensus of 0.20% m/m and unchanged from May's figure. Core inflation showed upside effects from restaurant services due to higher prices in essential products such as meats and cooking oil. Other key prices, such as rental fees and utilities, continued normalizing with the reopening at a moderate pace. IT & Communication inflation, meanwhile, continued tilting the core number to the downside (more on this below). Taking the above into account, annual core inflation increased from 2.11% y/y in May to 2.70% y/y in June (chart 1, again); while inflation exclusive of food and regulated prices increased by 32 bps from 1.56% to 1.87% y/y, still below the 3% target.

Looking at the June numbers in detail, 2 out 12 sectors contributed negatively to the monthly inflation print (charts 2 and 3). The main highlights are:

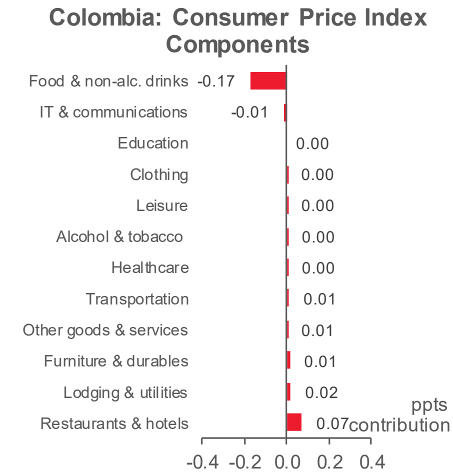
- **Food and non-alcoholic beverage prices made the strongest negative contribution to month-on-month inflation with 17 bps on a sectoral price contraction of 1.02% m/m. However, this correction was moderate if we take into account the historical inflation of 5.37% (+88bps) of the previous month due to the nationwide strike. Over the coming months, we expect further corrections as the situation normalizes.** In June, items such as chicken (+4.9%m/m), meat (+2.4%m/m), and eggs (+7.7%) led ithe ncreases, showing the long-lasting effect on the supply chain from the nationwide strike and pass-through effect from high international prices in raw materials. On the prices such as fruits (-8.61%m/m), potatoes (-27.58% m/m), and tomatoes (-27.8%m/m) normalized as social unrest and road blockades eased and supply gradually normalized.

- **The restaurant and hotels group inflation remained elevated as prices of main inputs such as meat and cooking oil remained high. We think that the total reopening started on June 8 in main cities will continue pressuring those services prices up.**

- **The lodging and utility group made a moderate contribution to the inflation (+2bps and 0.06% m/m).** Rent fees inflation slowed down again at 0.06% m/m, while utility fees were broadly unchanged (+0.02%m/m).

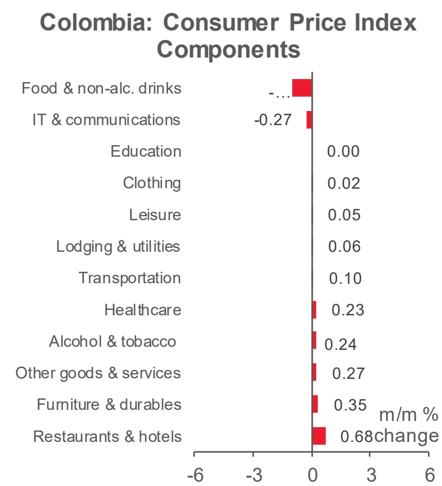
- **As stated above, IT & Communications inflation fell (-1 bps and -0.27% m/m) due to better mobile plans fees.** As in previous months, the entry of a new player in the sector continued pushing prices to the downside.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Looking at annual inflation across major categories, price gains accelerated across the board. For example, goods inflation increased to 2.57% y/y (versus 1.77% y/y in May), services inflation rose by 14 bps from 1.48% y/y to 1.61% y/y, and regulated-price inflation accelerated by 171 bps to 5.93% y/y, the highest point since May 2019, as a result of normalization after the pandemic effect which froze relevant prices.

June's inflation showed a partial normalization in prices impacted by the nationwide strike. However, food prices reduction was only equivalent to about 20% of the total increase in May, making us expect a further correction in the coming months. Upside pressures will nonetheless remain, as the economic reopening consolidates. These results are unlikely to have come as a surprise to the central bank, hence we reaffirm our expectation of rate stability at the July 30 meeting as current inflation has transitory effects and shouldn't significantly impact longer-term inflation expectations. Our projection therefore remains for the first hike to be implemented by September/October 2021.

—Sergio Olarte & Jackeline Piraján

MEXICO: BANXICO SURVEY OF PRIVATE SECTOR ANALYSTS: HIGHER EXPECTATIONS ACROSS THE BOARD (GDP; CPI; AND BENCHMARK RATE)

According to the July 1st Expectations Survey by Mexico's Central Bank (Banxico), private sector analysts have revised upwards their estimates for GDP growth in 2021 from 5.16% to 5.80%. Expected inflation at the end of the year also saw a strong revision to 5.58% (from 5.02% previously), while the average forecast of core inflation rose from 3.96% to 4.38%. As for the benchmark interest rate, most respondents now foresee a rate of at least 4.75% by the end of the year, and of 5.00% by the end of 2022.

—Miguel Saldaña

PERU: EARLY INDICATORS FOR MAY POINT TO ANOTHER MONTH OF STRONG GDP GROWTH

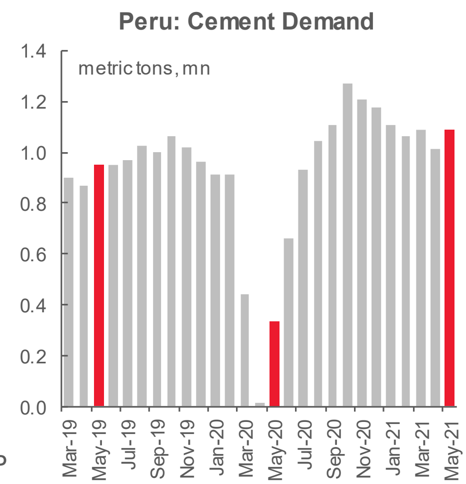
The National Statistics Institute (INEI) published initial indicators for May GDP growth, showing strongly positive figures y/y. Based on these indicators we estimate a 42% y/y GDP growth for May 2021, lower than the 58% y/y GDP growth in April, which was the month of 2020 that felt the fullest brunt of the COVID-19 lockdowns.

The published May indicators included cement demand (up 227% y/y), equivalent to a 15% increase over the pre-COVID level of May 2019 (chart 4). Cement demand, a proxy for construction GDP, has been outperforming pre-COVID levels since late 2020.

Fishing GDP rose 102% y/y, in May. The April–June fishing season for fishmeal is proving to be a strong one, so far.

Mining finally proved its mettle, beating expectations and reaching 82% y/y. Key metals copper and gold rose 54% y/y and 92% y/y, respectively. Oil & Gas was much more moderate, rising 6.7% y/y, led by oil production, up 30% y/y, while gas output fell -7.3% y/y.

Chart 4



Sources: Scotiabank Economics, INEI.

The bottom line is that GDP growth continues to outperform our expectations of 9.9% GDP growth for 2021. Thus, we see upside to our figure, although we feel that it is best not to revise our forecast until we get a clearer view of the profile of the next government. We are especially awaiting cabinet announcements and policy guidelines at the July 28 inauguration speech. It would also be helpful to get a better feel for the likelihood that incumbent Julio Velarde would get ratified at the helm of the central bank (BCRP), or replaced by someone who inspires similar level of confidence, although this might take some time.

—Guillermo Arbe

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