Latam Daily: Mexico Biweekly Inflation Up; Chile Issues New USD 3.75 bn in Debt

- **Chile: Government issued debt for USD 3.75 bn in foreign currency—the second issuance this week; an additional USD 2.2 bn remains**
- **Mexico: Biweekly inflation surprises upwards again; upside risks for year-end estimate (5.73% y/y)**

CHILE: GOVERNMENT ISSUED DEBT FOR USD 3.75 BN IN FOREIGN CURRENCY—THE SECOND ISSUANCE THIS WEEK; AN ADDITIONAL USD 2.2 BN REMAINS

Following Wednesday's (July 21) debt issuance of 1.75 bn euros (USD 2.06 bn), Chile's Ministry of Finance reported a further issuance of USD 3.75 bn on Thursday (July 22) of treasury bonds in international markets. Including the most recent issuance, Chile has now issued public debt for a total of USD 21.93 bn in 2021, of which USD 13.65 bn were bonds in foreign currency.

This week's issuances are part of the updated financing plan for this year, which allows additional debt issuance for up to USD 8 bn in foreign currency, authorized by the Transitory & Emergency COVID-19 Fund. All in all, of the USD 8 bn mentioned above, there are approximately USD 2.2 bn remaining in debt issuances for this year, which is expected to be mostly in foreign currency denominated bonds.

—Anibal Alarcón

MEXICO: BIWEEKLY INFLATION SURPRISES UPWARDS AGAIN; UPSIDE RISKS FOR YEAR-END ESTIMATE (5.73% Y/Y)

Per data released on July 22 by Mexico's statistical agency, the country's consumer inflation increased 0.37% bi-weekly in the first half of July (chart 1), above our estimate of 0.27% m/m and that of the consensus estimate in the latest analysts' survey of 0.26% m/m. Annually, headline inflation stood at 5.75% y/y, up from 5.74% y/y the previous fortnight. While the effects of energy prices that impacted heavily in the second quarter of the year have begun to fade, economic reactivation along with increases in agricultural and food commodity prices have added pressures over headline inflation.

As we noted in our earlier coverage on Mexico's policy rate decision-making, we think that these above-target inflation dynamics, combined with continued increases in inflation expectations are the main reasons for the central bank's early tightening in June. Both of those factors deteriorated in the latest prints.

- **Core prices increased 0.31% biweekly, lower than our projection of 0.44% but higher than consensus expectation of 0.22%.** This growth was mainly driven by a 0.37% increase in merchandise prices, notably food products. Services prices rose 0.24%, largely due to higher prices of food and tourism services. At an annual rate, core inflation stood at 4.64% y/y, slightly higher than the 4.58% y/y rate registered in the previous fortnight (chart 2).

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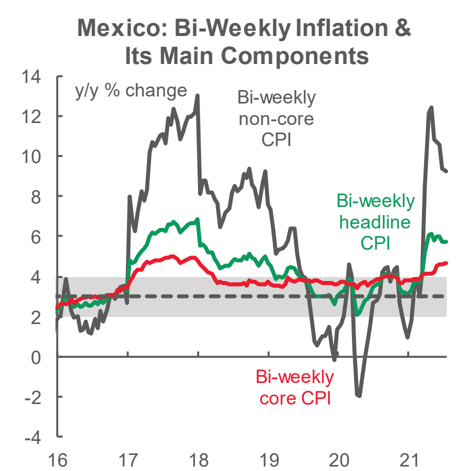
Chart 1



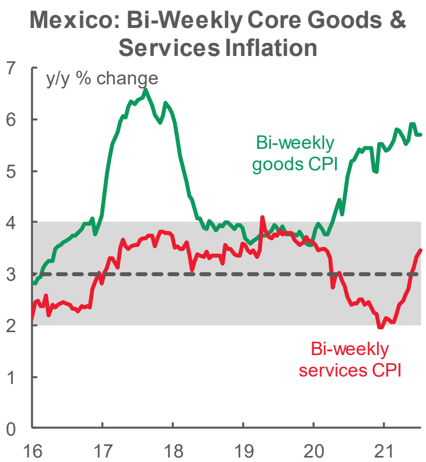
Sources: Scotiabank Economics, INEGI.

- **Non-core inflation was 0.55% biweekly (up from a previous 0.18%).** Energy prices accounted for most of the biweekly increase, with a 1.02% rise derived mainly from higher LP gas prices. Agricultural prices rose by 0.33% (from an earlier -0.21%) driven by onion, beef and zucchini prices. At an annual rate, non-core inflation stood at 9.24% y/y (chart 3), down from the 9.40% y/y rate registered the previous fortnight.

Our forecast for the coming months incorporates higher inflations in merchandise and services in a less constrained economy as the rollout of vaccination continues to advance. For the time being, we maintain our year-end estimate at 5.73% y/y, but we acknowledge that this forecast has potential upside risks. As for monetary policy, we are expecting a 25 bps rate hike by the Board on August 12 from 4.25% to 4.50%.

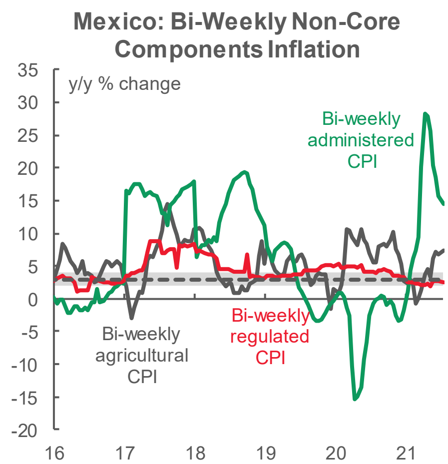
—Paulina Villanueva

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.