

Latam Daily: Chile Pensions Debate; Mexico Inflation and Upcoming Rate Decision

- **Chile: Senate rejects fourth pension funds withdrawal; tone moderates and congressional commission to debate changes**
- **Mexico: Headline inflation above market expectations in October; we expect a 25 bps policy rate increase Thursday**

CHILE: SENATE REJECTS FOURTH PENSION FUNDS WITHDRAWAL; TONE MODERATES AND CONGRESSIONAL COMMISSION TO DEBATE CHANGES

On Tuesday November 9, Chile's Senate rejected the pension funds withdrawal bill that the lower house had [approved](#). As a result, a mixed commission of deputies and senators will now be formed to study and modify the bill. Several of the senators indicated that the bill would have to include adjustments and restrictions to be approved. Some takeaways:

The restrictions, which we have discussed in earlier *Latam Dailies* (on [October 6](#), and [October 26](#)) would go along the lines of reducing the maximum withdrawal amount. These would include levying taxes on the withdrawal but more importantly, several senators indicated that an agreement would have to be reached to ensure this is the last withdrawal.

The bill's defeat is especially challenging for presidential candidate Ms Yasna Provoste (centre-left), a current Senator and supporter of the bill who had hoped to see it succeed, boosting her chances of advancing to the second presidential round (December 19).

The timing for an eventual fourth withdrawal bill "with restrictions," would be after the first round of the presidential election. Therefore, the speed of the mixed commission to dispatch the new bill will depend not only on the members of said commission but also on electoral dynamics surrounding the eventual candidate running on the political left. At the moment, polls would seem to favour Gabriel Boric as the candidate representing the left at the presidential second round vote.

There is little doubt that the fourth pension funds withdrawal defeat generates a greater appetite for Chilean assets, since it would show political moderation in Congress, as well as a withdrawal with restrictions that would mitigate the negative effects.

—Jorge Selaive

MEXICO: HEADLINE INFLATION ABOVE MARKET EXPECTATIONS IN OCTOBER; WE EXPECT A 25 BPS POLICY RATE INCREASE THURSDAY

Headline inflation in October landed above expectations again, accelerating [from 6.00% y/y](#) the previous month to 6.24% y/y (versus 6.19% y/y consensus), according to data by statistical agency, [INEGI](#), released yesterday (November 9) (chart 1). Core inflation also accelerated, from

CONTACTS

Adriana Vega
613.564.5204
Scotiabank Economics
adriana.vega@scotiabank.com

Guillermo Arbe
+51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
+57.1.745.6300 Ext. 9166 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

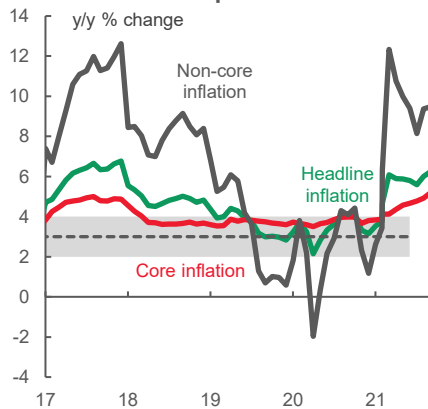
Jorge Selaive
+56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
+52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

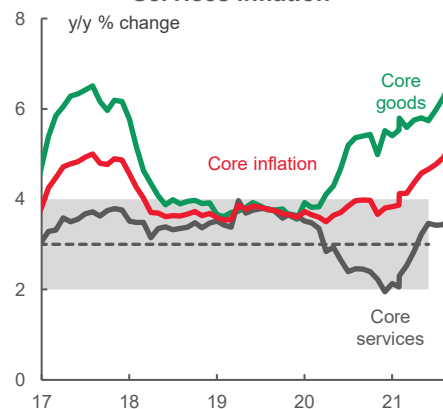
Miguel Saldaña
+52.55.5123.0000 Ext. 36760 (Mexico)
Scotiabank Mexico
msaldanab@scotiabank.com.mx

Chart 1

Mexico: Headline Inflation & Its Main Components


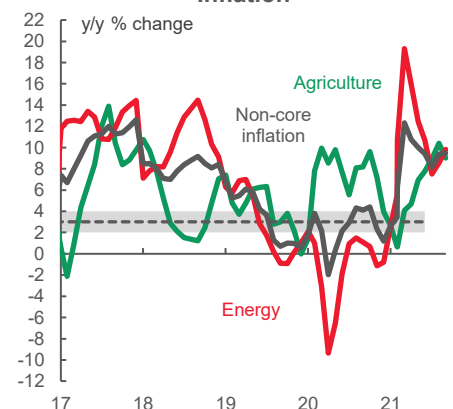
Sources: Scotiabank Economics, INEGI.

Chart 2

Mexico: Core Goods & Services Inflation


Sources: Scotiabank Economics, INEGI.

Chart 3

Mexico: Non-Core Components Inflation


Sources: Scotiabank Economics, INEGI.

4.92% y/y to 5.19% y/y (chart 2), as merchandise prices rose from 6.26% y/y to 6.58% y/y, and services prices increased from 3.43% y/y to 3.64% y/y. Non-core inflation rose from 9.37% y/y to 9.47% y/y (chart 3), as energy prices accelerated from 11.69% y/y to 13.44% y/y, while food prices moderated from 10.41% y/y to 9.02% y/y.

In its sequential monthly comparison, headline inflation accelerated from 0.62% m/m to 0.84% m/m, exceeding the 0.75% m/m of the consensus. Its core component maintained upward pressures, rising from 0.46% m/m to 0.49% m/m. Merchandise moved from 0.68% m/m to 0.60% m/m, while services accelerated from 0.21% m/m to 0.38% m/m. Non-core inflation also accelerated, from 1.10% m/m to 1.87% m/m, energy soared from 1.13% m/m to 4.59% m/m, while food moderated from 1.38% m/m to 0.38% m/m. Thus, inflation maintains an upward trajectory at a faster pace than expected by analysts.

In terms of monetary policy implications, we maintain our expectation of a 25 basis point increase at the Bank of Mexico's policy meeting tomorrow (Thursday). However, the composition of board votes could change, taking into account that a majority (but not all) members consider the decision to raise rates a useful signal of commitment to the inflation target, therefore it is possible that at least one member could vote for a 50 bps hike. However, all board members seem to agree that the increase might not be effective in tackling down inflation given its mainly supply-side nature.

Headline expectations for the end of the year remain on the rise, as consensus in the Citibanamex survey moved up from 6.46% y/y to 6.67% y/y at the end of 2021, with a higher grade of dispersion, as most of the respondents maintain an expectation of a 5.25% by the end of 2021.

—Miguel Saldaña

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