Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Strong Inflation Beat in Post BCCh; BCB, BCRP, and Castillo Trial Ahead

- **Chile: Benchmark rate stays at 11.25%; BCCh awaits confirmation to cut**

Markets are trading with a mixed tone with only minor support from COVID-19 policy tinkering in China against weak macro data for the country showing a depressed economy. Chinese imports fell 10.6% y/y in November (even contracting in CNY terms) while exports were also very soft which may reflect issues in production related to virus restrictions on industry but also a weakening global growth picture—something that was echoed by heavyweight US CEOs yesterday.

Crude oil prices are softer after the API reported a sizable draw in crude inventories but also a large increase in gasoline and distillate stocks. **Iron ore and copper prices are down on the day** on the back of soft Chinese data. Meanwhile, the USD is mixed with no clear sense of direction as the one-week countdown to the Fed decision begins; the North American data and events run is limited to the BoC's announcement at 10ET.

Chilean CPI data for November released this morning sharply beat economists' (and our) expectations, recording increases of 13.3% y/y and 1.0% m/m (versus median estimates of 12.9% and 0.5%), accelerating from 12.8% y/y and 0.5% m/m in October. Prices excluding volatile items also rose 0.9% after a very slight 0.1% increase in the previous month. Today's print will sting the BCCh, which yesterday announced an unchanged policy rate accompanied by cautious comments on the economic outlook (see Chile section below).

The CLP has opened practically unchanged on the day as markets decide whether today's data means the BCCh will keep rates higher for longer—or if an erosion of real rates is on the horizon.

The BCCh published its quarterly *Monetary Policy Report* shortly before writing, which shows a higher expected inflation for end-2023 (3.6% vs 3.3%) versus its September release.

Peru's BCRP and Brazil's BCB have policy announcements this evening, with only the former expected to adjust policy rates higher by 25bps. This may not be the final increase in the BCRP's cycle as they maintain a data-dependent approach that could see more hikes early next year. **However, the main event in Peru today will be the impeachment proceedings against Castillo**, with the president's opposition expected to fall short of the two-thirds majority required to remove him from office.

As for the BCB, it is expected to leave rates unchanged while likely pointing to elevated core inflation as well as the risks that additional public spending would pose to the inflation picture. On that note, we're watching developments on the fiscal plans front after Brazil's Senate's constitution and justice committee approved a BRL145bn fiscal cap exclusion for social spending (down from BRL175bn); a vote is due later today. The 'watered-down' amendment was already expected by markets.

—Juan Manuel Herrera

CHILE: BENCHMARK RATE STAYS AT 11.25%; BCCH AWAITS CONFIRMATION TO CUT

We continue to see a cut of “no less” than 100bps at the January meeting, if modest inflation is confirmed in the near term.

On Tuesday, December 6, the central bank (BCCh) maintained the benchmark rate at 11.25%, which was not only broadly expected, but also consistent with its message from the meeting last October. The focus of this meeting was on the bias rather than the decision regarding the policy rate, given the release of the *Monetary Policy Report* (December 7). **For now, the BCCh is not giving signs of a change in the bias of monetary policy, but it shows that it is trying to fully anchor inflation expectations** two years ahead (currently at 3.5%) as a crucial indicator to determine a change of course.

Regarding the meeting held on October 12, the BCCh has found signs that the work of monetary policy is on the right track. In our view, the relevant discussion for monetary policy in Chile is “when” to make the adjustment. Since we raised our early policy rate easing call, the market has internalized a 440bps cut in the benchmark rate one year ahead, with a 50bps cut seen at the January meeting. **We continue to believe that the market has not yet fully incorporated the withdrawal of restrictiveness in monetary policy in the very short term.**

By the January 26 meeting, the BCCh will have a new monthly activity record (November) and two inflationary records (November and December), together with the usual battery of conjuncture indicators. In this scenario, **we reaffirm our call for a cut in the benchmark rate of “no less” than 100bps** which would be aligned with normal inflationary records, especially the CPI for December.

If our view materializes, 2-year inflation expectations would continue towards 3%, giving enough room to cut the reference rate. For its part, activity would continue its convergence towards sustainable growth.

—Aníbal Alarcón