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# Latam Daily: Mexico Inflation; Peru's New Cabinet and Mining Output

- Mexico: Headline inflation slows in January; core hits highest level since 2001
- Peru: A new Cabinet—again; mining output down in December but up for 2021

## MEXICO: HEADLINE INFLATION SLOWS IN JANUARY; CORE HITS HIGHEST LEVEL SINCE 2001

According to **INEGI**, headline inflation was **7.07% y/y** in January, slightly above market expectations (**7.01%y/y consensus**) and down from last month's **7.36% y/y** (chart 1). Core inflation continued its upward trend, however, rising to **6.21% y/y** (from **5.94% y/y** a month earlier), the highest rate since October 2001 (chart 2).

**Goods prices led January's inflation, increasing from 7.40% y/y to 7.86% y/y, while services went from 4.30% y/y to 4.35% y/y.**

**Non-core inflation moderated from 11.74% y/y to 9.68% y/y, as energy price inflation moderated (11.50% y/y versus 6.75% y/y last month) along with fruits and vegetables (21.73% y/y versus 18.44% y/y last month) (chart 3).**

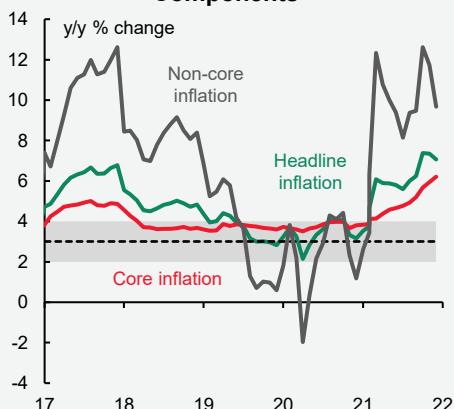
**On a monthly basis, headline inflation rose from 0.36% m/m to 0.59% m/m (consensus 0.55% m/m).** Core inflation moderated from **0.80% m/m to 0.62% m/m** (consensus **0.55% m/m**), with an increase from **0.91% m/m to 0.99% m/m** in goods prices more than offset by a decrease in services from **0.68% m/m to 0.19% m/m**. Non-core items rebounded from **-0.90% m/m to 0.52% m/m**, with increments in energy and government tariffs (**-1.56% m/m to 0.83% m/m**) and agriculture and livestock (**-0.08% m/m to 0.14% m/m**). Significant increases were recorded in the price of lemons (**68.77% m/m**), potatoes and other tubers (**15.49% m/m**), and bananas (**12.07% m/m**).

**Given the price dynamics observed in January, market participants' upward revisions to expectations for 2022 (please see our comment on [Banxico's expectations survey](#)), and signs of persistence, we reaffirm our call for a 50 basis point hike by Banxico on February 10.** The market will be watching the new Governor Rodriguez Ceja's stance and assessing the tone of the statement with respect to inflationary pressures, growth, and the monetary stance relative to other countries.

—Luisa Valle & Miguel Saldaña

Chart 1

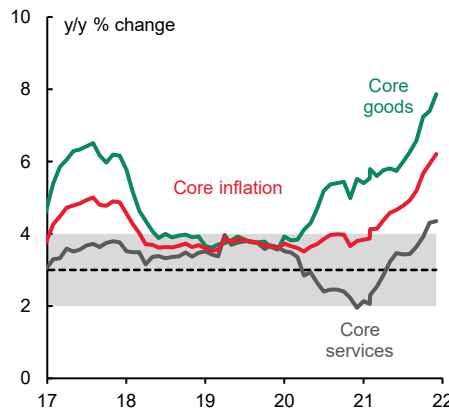
Mexico: Headline Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Chart 2

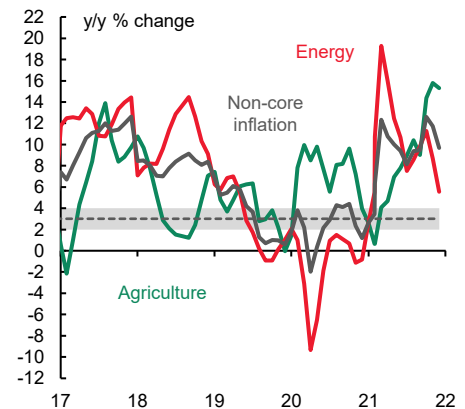
Mexico: Core Goods & Services Inflation



Sources: Scotiabank Economics, INEGI.

Chart 3

Mexico: Non-Core Components Inflation



Sources: Scotiabank Economics, INEGI.

**PERU: A NEW CABINET—AGAIN; MINING OUTPUT DOWN IN DECEMBER BUT UP FOR 2021**

**I. President Castillo appoints his fourth Cabinet**

**President Castillo appointed his fourth Cabinet in seven months, chaired by Anibal Torres, Minister of Justice of the previous Cabinet.** Torres was part of the legal team that pursued allegations of electoral fraud against Fujimori and has been in favour of calling a referendum to change the constitution. As a minister, he has had confrontational relationships with his political opponents, so his appointment as Prime Minister was not expected and could result in continuing frictions with the Congress, which after four Cabinets seems to be the one constant of the Castillo Administration.

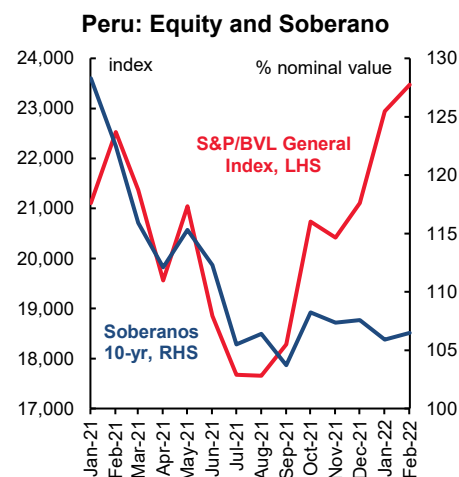
**Although his nomination is likely to secure the required vote of confidence by Congress, it is not certain.** Several members of Congress have already questioned the appointment of some ministers. In total, 12 of the 18 ministers that make up the ministerial Cabinet were ratified, with new ministers in the portfolios of Health, Environment, Justice, Energy and Mining, Agrarian Development and Women.

**Another sign of friction is the replacement of ministers identified with the moderate left-wing by a greater presence of Peru Libre party in the cabinet, especially the appointment of Carlos Palacios as Minister of Energy and Mining.** Palacios is a member of the Peru Libre party and oversaw the Mining Director of the Regional Government of Junin, a bastion of the Peru Libre party. President Castillo also kept Juan Silva as Minister of Transportation and Communications, with responsibilities for around 50% of the national government’s public investment budget, who had been questioned for lack of experience in public administration that could affect the pace and quality of project execution.

**A key positive is that Oscar Graham continues as Minister of Finance.** In this regard, the market reaction has been favourable, with a rise in the stock market (+1.3%, +12.6% YTD), PEN appreciation (+0.7%, +4.8% YTD), lower global bond yields (-2 bps, +43 bps YTD at 10Y), sovereign bonds (-2 bps, +19 bps YTD at 10y) and CDS (-2 bps, +14 bps YTD at 5y) (chart 4).

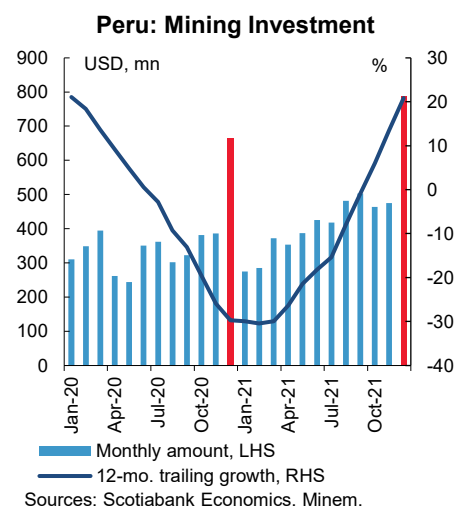
**The new Cabinet has the challenge of calming the tense political environment and will have to deal with an agenda that includes an environmental emergency resulting from a massive oil spill, improving citizen security, continuing the vaccination program, and providing a business environment that stimulates private investment.**

Chart 4



Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Minem.

—Mario Guerrero

**II. Mining data fell in December 2021**

**In a context of high global metal prices, Peru’s mining output was adversely affected by stoppages and blockades in December 2021, while year-over-year output comparisons reflect base effects.** Copper production fell 5.5% y/y in December, with Minera Las Bambas reducing its production by two-thirds owing to a 12-day stoppage due to blockades by the communities. Other mining companies also reduced output, including Southern Peru (-13.2%), Chinalco (-5.3%) and Antapaccay (-11.4%). Production increased at Antamina (+6.4%), Cerro Verde (+5.9%), Hudbay (+15.1%) and El Brocal (+61.0%). Zinc production fell 5.4% y/y in December due to lower production at Antamina (-27.9%), Nexa Perú (-40.8%), Minera Los Quenuales (-77.3%) and Minera Shouxin (-52.3%). Gold production decreased 5.4% y/y in December, remaining below pre-pandemic levels owing to mine depletion, while silver production increased 1.2% y/y.

**Mining output ended 2021 in positive territory on the year, however, reflecting the low base for comparison in 2020 in the wake of pandemic-related closures.** Economic recovery together with the rebound in metal prices—many reaching record highs—stimulated mining output in 2021. Output increased year-on-year with respect to copper (+6.9%), gold (+9.7%), zinc (+14.8%), silver (+21.5%), lead (+9.3%), iron (+36.6%), tin (+30.7%) and molybdenum (+6.1%).

**Mining investment increased 18.7% y/y in December, according to official data (chart 5).** Investment was driven by Anglo American’s Quellaveco project and the Toromocho expansion project, which are 80% and 66% complete, respectively, with both projects expected to

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be completed in 2022. By category, investment was driven by “exploration” (+75.7% y/y), as companies increased exploration investment in response to high metals prices, “mining equipment” (+65.1% y/y), “development and preparation” (+53.4% y/y) and “infrastructure” (+42.6% y/y). For the year, investment increased 21.1% in 2021, still below 2019 levels (table 1).

**Table 1: Peru—Top 20 Mining Companies by Investment Amount**

| USD<br>Company                                       | December           |                    |              | January-December     |                      |              | Share         |
|--|--------------------|--------------------|--------------|----------------------|----------------------|--------------|---------------|
|  | 2020               | 2021               | y/y % change | 2020                 | 2021                 | y/y % change |               |
| 1 ANGLO AMERICAN QUELLAVECO S.A.                     | 139,206,110        | 197,157,307        | 41.6%        | 1,313,791,350        | 1,312,065,022        | -0.1%        | 25.0%         |
| 2 COMPAÑIA MINERA ANTAMINA S.A.                      | 75,393,183         | 81,556,769         | 8.2%         | 318,545,121          | 481,445,304          | 51.1%        | 9.2%          |
| 3 SOUTHERN PERU COPPER CORPORATION SUCURSAL DEL PERU | 41,634,253         | 49,030,340         | 17.8%        | 240,049,615          | 338,708,773          | 41.1%        | 6.5%          |
| 4 COMPAÑIA MINERA ANTAPACAY S.A.                     | 23,106,148         | 61,907,032         | 167.9%       | 61,214,596           | 263,988,438          | 331.3%       | 5.0%          |
| 5 MINERA CHINALCO PERU S.A.                          | 52,963,869         | 27,068,291         | -48.9%       | 307,259,541          | 234,489,325          | -23.7%       | 4.5%          |
| 6 MINERA LAS BAMBAS S.A.                             | 42,317,241         | 26,911,066         | -36.4%       | 205,684,173          | 231,518,557          | 12.6%        | 4.4%          |
| 7 MINSUR S.A.  | 28,785,098         | 45,274,139         | 57.3%        | 83,388,797           | 217,806,849          | 161.2%       | 4.2%          |
| 8 MARCOBRE S.A.C.                                    | 55,480,970         | 19,963,151         | -64.0%       | 497,324,053          | 192,467,028          | -61.3%       | 3.7%          |
| 9 MINERA YANACOCHA S.R.L.                            | 28,484,164         | 40,619,239         | 42.6%        | 107,990,402          | 168,914,379          | 56.4%        | 3.2%          |
| 10 SHOUGANG HIERRO PERU S.A.A.                       | 11,751,510         | 21,568,164         | 83.5%        | 57,864,468           | 165,436,157          | 185.9%       | 3.2%          |
| 11 SOCIEDAD MINERA CERRO VERDE S.A.A.                | 13,520,167         | 23,299,273         | 72.3%        | 152,260,594          | 163,409,952          | 7.3%         | 3.1%          |
| 12 HUBBAY PERU S.A.C.                                | 16,430,169         | 23,002,074         | 40.0%        | 72,241,483           | 142,558,578          | 97.3%        | 2.7%          |
| 13 VOLCAN COMPAÑIA MINERA S.A.A.                     | 13,349,141         | 17,764,621         | 33.1%        | 54,259,853           | 105,667,974          | 94.7%        | 2.0%          |
| 14 COMPAÑIA MINERA PODEROSA S.A.                     | 5,547,508          | 7,490,270          | 35.0%        | 65,278,299           | 79,313,724           | 21.5%        | 1.5%          |
| 15 COMPAÑIA MINERA ARES S.A.C.                       | 7,474,680          | 7,919,928          | 6.0%         | 53,526,208           | 70,570,209           | 31.8%        | 1.3%          |
| 16 COMPAÑIA DE MINAS BUENAVENTURA S.A.A.             | 10,391,707         | 8,326,326          | -19.9%       | 54,622,512           | 63,276,405           | 15.8%        | 1.2%          |
| 17 NEXA RESOURCES PERU S.A.A.                        | 7,757,246          | 10,339,687         | 33.3%        | 43,531,732           | 57,676,664           | 32.5%        | 1.1%          |
| 18 MINERA SHOUXIN PERU S.A.                          | -                  | 11,740,165         | +            | 24,000               | 53,570,556           | +            | 1.0%          |
| 19 GOLD FIELDS LA CIMA S.A.                          | 10,553,529         | 5,762,064          | -45.4%       | 51,672,482           | 52,598,955           | 1.8%         | 1.0%          |
| 20 COMPAÑIA MINERA CHUNGAR S.A.C.                    | 10,457,170         | 9,714,384          | -7.1%        | 42,238,206           | 47,532,474           | 12.5%        | 0.9%          |
| Others   | 69,583,597         | 91,883,901         | 32.0%        | 542,611,777          | 795,335,291          | 46.6%        | 15.2%         |
| <b>Total investment</b>                              | <b>664,187,460</b> | <b>788,298,191</b> | <b>18.7%</b> | <b>4,325,379,262</b> | <b>5,238,350,614</b> | <b>21.1%</b> | <b>100.0%</b> |

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

—Katherine Salazar

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