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Latam Daily: BCRP to Hike 25bps; Quiet Before the US CPI Storm

- **Peru: BCRP to hike 25bps again**
- **Colombia: Confidence improved slightly in December**

It was a quiet overnight session with erratic trading as markets wait for US CPI data at 8.30ET. The USD is mixed against the majors with the JPY leading strongly on BoJ ultra-dovish exit speculation, while the MXN has held the move below the 19 pesos per USD level—as it trades at its strongest point since the pandemic shock of March 2020.

European equities opened tracking the strong performance in US equities yesterday while US futures are practically unchanged at writing. Commodity prices are mixed, energy is stronger (oil up 1%) against softer copper (easing from a seven-month-high) and firmer iron ore. Chinese PPI came in significantly softer than expected which may be buoying iron ore sentiment on loose wagers the Chinese government considers measures to boost the economy.

Clashes between protesters and authorities continue in Peru, with one civilian death reported yesterday in Cusco in defense of the city's airport frequented by multitudes of tourists on their way to Macchu Picchu. Boluarte's cabinet was ratified by Congress yesterday in a mostly expected development in Lima that did not distract from the events in the south of the country where we continue to see a minority of Peruvians charge with demands for the resignation of the President and the Legislative.

For now, we don't see a clear end game, nor do we see these protests spreading to the capital region. Disruptions to the natural resources sector also seem limited this time around when compared to December.

On a related note, Brazilian authorities remain on high alert on reports that extremist groups are planning new protests after the storming of government buildings in Brasilia last Sunday.

Yesterday, an initial vote on bills presented by lawmakers that would allow self-borrowing from pensions failed its first test in Chile's lower house. A constitutional committee ruled 8-2 against the three proposals that will still be put up for a vote in the lower house, though they're bound to be rejected in their current form. Note that this is a different proposal than the one put forward by the government that is much narrower in scope, yet is being pushed as part of the government's pension reform plans—much to the chagrin of BCCh Gov Costa.

—Juan Manuel Herrera

PERU: BCRP TO HIKE 25BPS AGAIN

We expect the BCRP to raise its reference rate by 25bps to 7.75% at today's decision, a move that has already been discounted by markets. Although inflation has already shown signs of slowing, the pace of deceleration is not yet convincing and the central bank wants to make sure inflation returns to the target range (1–3%).

We believe that we are close to the end of the BCRP's interest rate hiking cycle, so today's would be one of the final adjustments in this cycle. The BCRP's statement will be key to in regards to guidance, although we believe that the tone from previous statements will be maintained. That is, **leaving the door open to another increase.**

Next month's BCRP decision (Feb 9) will once again be data-dependent, particularly around the speed of deceleration in inflationary expectations. Inflation in January will likely pick up again, due to higher food prices amid social protests and road blockades, but also owing to a low base of comparison (inflation in January 2022 was only 0.04% m/m). Therefore, the current month's print may not materially help to lower inflation expectations, at least at the speed that the BCRP would like.

Twelve-month inflation expectations went from a record of 5.35% in June 2022 to 4.30% in December 2022 according to the latest BCRP survey, still well above the target range. Our inflation forecast was revised in December from 4.00% to 4.50% for 2023, although the central bank kept its projection at 3% in its December report but biased to the upside. **The BCRP fears that this episode of above-target inflation could exceed the previous record of 21 months. The current streak counts 19 months above target.**

—Mario Guerrero

COLOMBIA: CONFIDENCE IMPROVED SLIGHTLY IN DECEMBER

Colombia's Consumer Confidence Index (CCI) came in at -22.3ppts in December, showing a m/m improvement of 2.5ppts. This follows three consecutive months of declines. This increase is mainly due to a better performance in the future conditions expectations component, which went up from -14.5 to -11.2ppts (chart 1). The current conditions component also showed an improvement from -40.2 to -39.0ppts.

Despite this improvement, consumer expectations regarding the economic outlook remain on the negative side; households continue to be affected by the effects of rising inflation and the perception of a slowdown in economic activity.

However, it is worth noting that private consumption remains robust despite the negative balance in consumer confidence indicators.

That said, given that inflation is expected to take longer before reaching the target range again, BanRep will continue its hiking cycle with a 100bps hike to 13% at the January 27 meeting.

The expectations index showed a slight improvement but continued to show a more negative perception of the country's economic conditions and households during the year. On a related note, the willingness to buy houses fell 5.4 percentage points compared to the previous month (-42.7 to -48.1ppts), while the willingness to purchase vehicles showed a favourable balance compared to the last month, increasing 18.5ppts (-70.1 to -51.6ppts).

Likewise, the willingness to buy durable goods rose by 1.3ppts versus the previous month, from -52.9 to -51.6ppts (chart 2). While showing a somewhat more positive balance, probably explained by the holiday season, the indicator remains very negative, reflecting uncertainty about economic activity, especially persistent price pressures.

Details:

- The Current Conditions Index rose -39.0ppts from November's figure of -40.2ppts. Households remain vigilant as inflation continues to surprise to the upside and gives no apparent signs of stabilizing, maintaining negative sentiment on willingness to buy goods.
- The expectations index increased to -11.2ppts in December from -14.5ppts in November (chart 1, again). Household expectations about the economic future were the component that contributed to the improvement of the CCI and remained in positive territory (up 5.4 to 5.5ppts). The evolution of expectations for the country's economy showed a more favourable balance and contributed to the improvement of the CCI by standing at -10.8 from -12.8ppts.

Chart 1

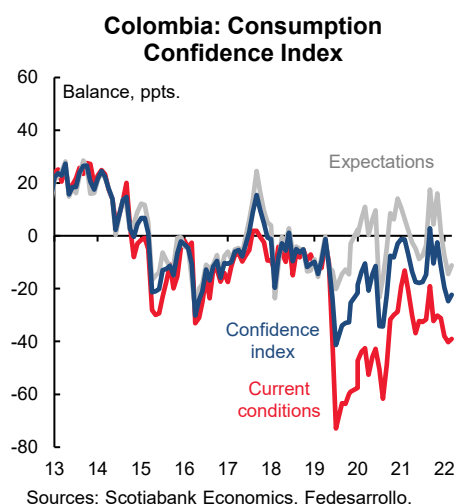
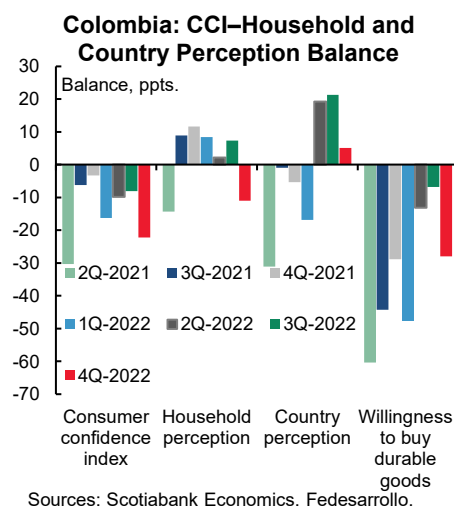


Chart 2



January 12, 2023

- The recent signs of moderating activity, coupled with expectations of much lower growth, may affect perceptions in the coming months. Therefore, consumer credit is expected to slow amid tighter monetary policy, which is necessary for the economy to return to healthier growth with moderate inflationary pressures.
- Cities' consumer confidence improved in four of the five cities in the sample. In Bogota, confidence decreased from -25.3 to -27.1ppts, explained by a more profound drop in the willingness to buy housing. In Medellin, confidence improved from -32.4 to -27.1ppts, and the same behaviour was perceived in Barranquilla, Cali, and Bucaramanga.
- Confidence fell more in high-income households. In high income, confidence fell from -34.3 to -81.2ppts. The perception of middle-income families worsened from -42.2 to -59.6ppts, and low-income families' confidence improved from -44.2 to -33.0ppts. Explaining this behavior to the intense pressures on prices, more expensive consumer credits, and somehow the uncertainty in the economy's performance in the coming months given the moderations in the growth of the different economic sectors and the expectation of lower world growth.

—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján

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