# Latam Daily: BCCh Expected to Hold; Recoveries Slowing, Prices Rising

- **Central banks & macro data: Another hold expected in Chile; inflation rising and GDP healing**
- **Argentina: Realignment of interest rates**
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## CENTRAL BANKS & MACRO DATA: ANOTHER HOLD EXPECTED IN CHILE; INFLATION RISING AND GDP HEALING

### I. Central banks: Another hold expected from Chile's BCCh

**The BCCh's Board meets this Wednesday and Thursday, October 14–15, and is widely expected to keep its benchmark monetary policy rate on hold at its "technical minimum" of 0.5% in its announcement at 17:00 ET on Thursday (chart 1).**

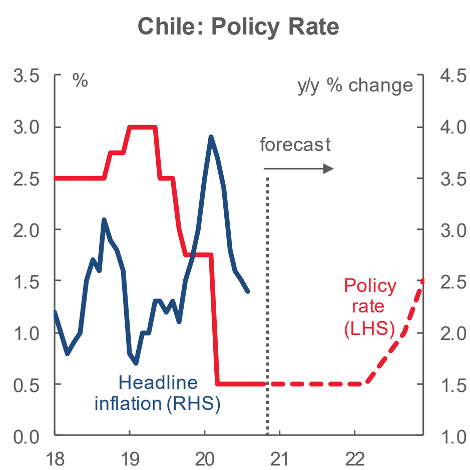
**At its last meeting on September 1, the Board unanimously decided to maintain the policy rate at 0.5%, where it has been since the Board's -50 bps cut on March 31.** In its statement, the Board observed the emerging stabilization in growth after the June–July bounce, and noted its concern with the labour market's deterioration and the slowdown in consumer credit growth. In line with its confidence in the underlying durability of the recovery and more muted disinflationary pressures, the Board indicated that the policy rate would remain at its technical minimum "for a large part" of its forecast horizon, somewhat tighter than its previous indication that it would stay on hold for a "prolonged period". This could have indicated some improvement in the Board's reading of Chile's data, but it didn't augur for any immediate change in its stance given ongoing risks.

**The ensuing publication of the September *Monetary Policy Report* (*IPoM* in Spanish) confirmed an upgrade in the BCCh staff's growth forecast range for 2020 from -7.5/-5.5% y/y to -5.5/-4.5% y/y.** However, our team in Santiago sees the better part of this range as hard to reach after August's weaker-than-expected economic activity reading on October 1. Growth in the IMACEC index went from 1.7% m/m (-10.7% y/y) in July to 2.8% m/m (-11.3% y/y) in August, massively undershooting the consensus expectation of 5.0% m/m (-8.5% y/y).

**The most recent *IPoM* also anticipated September's inflation surprise that was driven by the spike in spending touched off by pension-account withdrawals and the middle-class bonus.** September inflation came in at 0.6% m/m (3.1% y/y, chart 2), up from 0.1% m/m (2.4% y/y in August and well above the 0.3% m/m (2.8% y/y) rate expected in the Bloomberg consensus. The BCCh had already moved its forecast for end-2020 inflation from 2.0% y/y in the June *IPoM* to 2.4% y/y in the September edition—which remains consistent with the September CPI print.

**All in all, the BCCh has largely anticipated recent macro indicators and we don't expect material changes in its communications around this week's rate decision.** We still expect the central bank to stay on hold until 2022.

Chart 1



Sources: Scotiabank Economics, BCCh, INE.

## II. Macro data: Inflation rising, GDP healing

- **Argentina.** September inflation, out on Wednesday, October 14, should come in between 2% m/m and 3% m/m, in line with August's 2.7% m/m reading. The actual print hinges on the impact of controlled and monitored prices. Base effects from last year's high CPI levels imply that headline annual inflation will come down either way, from 40.70% y/y in August to between 35.5% y/y and 36.8% y/y (chart 3).

- **Brazil.** Last Friday, October 9, saw an upside surprise in the September IPCA inflation print, which rose from 0.24% m/m (2.44% y/y) in August to 0.64% m/m (3.14% y/y, chart 4), above a consensus expectation of 0.54% m/m (3.04% y/y). The acceleration in inflation was driven mainly by prices for food and consumer durables, while much slower inflation in services prices provided some dampening effect. The BCB should look through this blip as inflation ought to be contained by the economy's abundant spare capacity and well-anchored expectations.

  August's economic activity index follows on Thursday, October 15, and our Brazil economist expects the monthly GDP proxy to register some further repair, rising from -4.89% y/y in July to -2.10% y/y in August.

- **Chile.** No substantial macro data releases are scheduled this week aside from the BCCh's monetary policy decision on Thursday.

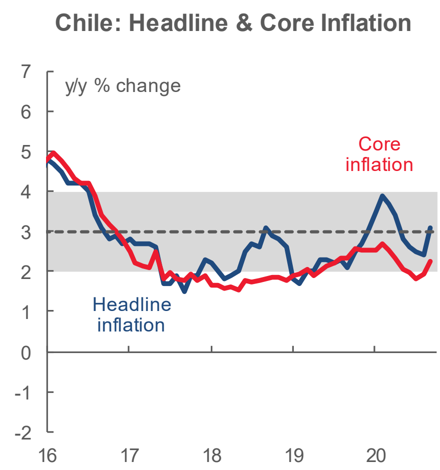
- **Colombia.** August manufacturing production and retail sales figures, due on Thursday, October 15, are both expected to show improvements. Our team in Bogota estimates that manufacturing output improved from -8.5% y/y to -4.2% y/y—better than the -6.6% y/y expected by the consensus. Our Colombia economists are also more optimistic than the market on retail sales, where they expect a rise from -12.4% y/y to -8.1% y/y, versus the consensus estimate of -10.8% y/y. The differing estimates reflect distinct views on the impact of the re-opening process, specific restrictions in major cities, and the roll-off of government subsidies and VAT holidays.

- **Mexico.** August industrial production (see write-up below) was the only major data point scheduled for this week.

- **Peru.** The August monthly GDP proxy is due for release on Thursday, October 15, and should show some further healing, up from -11.7 % y/y in July to -10.0% y/y in August, according to our Lima economists' estimation. Consensus has moved from -12.6% y/y a week ago to -10.3% y/y today, reflecting greater optimism that the economic recovery is accelerating along with the re-opening process.

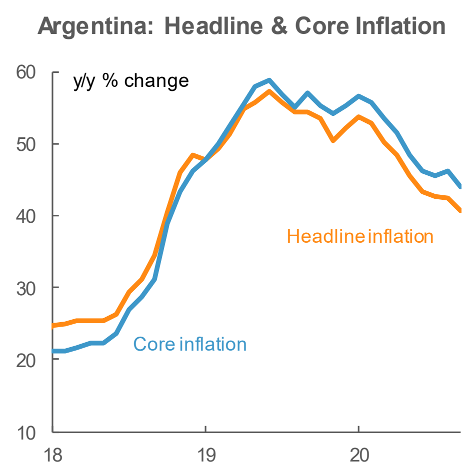
**—Brett House**

Chart 2



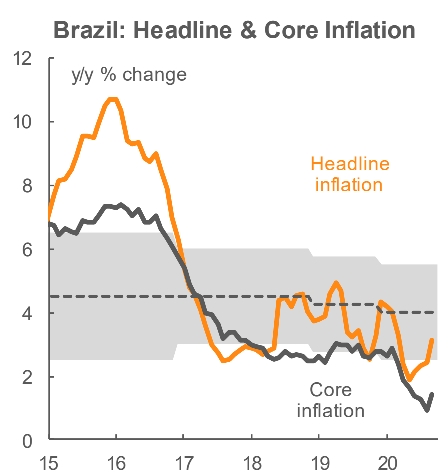

Sources: Scotiabank Economics, INE.

Chart 3




Sources: Scotiabank Economics, INDEC.

Chart 4




Sources: Scotiabank Economics, IBGE.

## ARGENTINA: REALIGNMENT OF INTEREST RATES

**Late last week, the BCRA announced a realignment of some key interest rates with a view toward making monetary policy more consistent and coherent.** On Thursday, October 8, the central raised the one-day reverse repo rate from 24% to 27%, following on from an earlier hike from 19% to 24% the week before. Both moves were intended to provide some support to the sliding ARS. An additional measure cut the 28-day Leliq rate from 38% to 37%, while keeping the main monetary policy rate at 38%. The central indicated that the changes were intended to reduce the space between the main benchmark interest rates while making government notes relatively more appealing in an attempt to reduce the need for the BCRA to monetize the government's deficits by increasing local financing of the budget.

**While these changes are likely being undertaken as a precursor to an agreement with the IMF on a new policy framework, they are unlikely to achieve their stated aims unless they're accompanied by a more sustainable approach to fiscal policy.**

**—Brett House**

## MEXICO: INDUSTRIAL GROWTH SLOWED IN AUGUST; FORMAL JOB CREATION ROSE FOR SECOND STRAIGHT MONTH IN SEPTEMBER

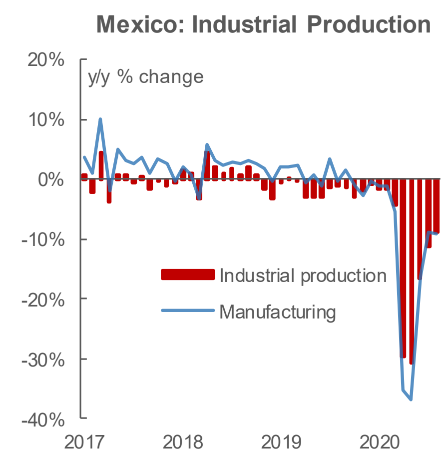
### I. Industrial activity growth slowed in August

**In data released on Monday, October 12, growth in industrial activity slowed from 7.1% m/m sa (revised from 6.9% m/m) in July to 3.3% m/m sa in August, which was a bit better than the 2.4% m/m sa expected by consensus. This still managed to improve the annual comparison from -11.4% y/y in July (revised from -11.3% y/y) to -9.0% y/y (versus consensus of -10.3% y/y), as shown in chart 5.**

- By components **manufacturing** slowed sharply from 11.3% m/m (-8.9% y/y) in July to 0.8% m/m (-9.2% y/y) in August, marking an eleventh consecutive month in which monthly manufacturing production was down from a year before (chart 5, again).
- In contrast, **construction** improved from 1.3% m/m (-23.5% y/y) to 11.2% m/m (-13. 7% y/y).
- Additionally, **utilities** output growth accelerated slightly from 5.5% m/m (-8.9% y/y) to 5.7% m/m (-4.5% y/y).
- Finally, **mining** edged back from 1.0% m/m (-3.1% y/y) to 0.8% (-3.5% y/y).
- In the **January–August cumulative numbers**, industrial production contracted -13.1% YTD (versus -1.5% in the same period of 2019), its weakest result for this eight-month period since the start of this data series in 1994.

**The slowing pace of the US industrial recovery, particularly in the auto sector, represents a significant challenge for Mexico's manufacturing concerns.** The August data also point to some generalized weakness in domestic demand that could persist for the rest of year owing to the degree of uncertainty in the prevailing economic outlook.

Chart 5



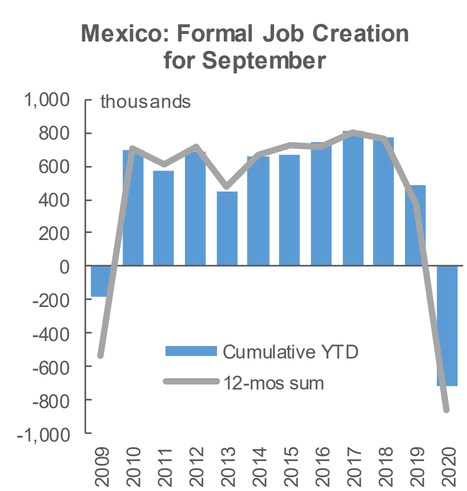

Sources: Scotiabank Economics, INEGI.

### II. Formal employment rose for a second straight month in September

**September formal job creation rose for the second consecutive month in data released Monday, October 12, by the IMSS (National Institute for Social Security). New jobs added rose from 92.4k in August to 113.8k in September, after five successive months of declines between March and July.** The number of workers affiliated to the IMSS totalled 19.702 mn in September, below the 20 mn threshold for a sixth consecutive month.

**In the first nine months of 2020, 719.3k positions were lost and in the last twelve months 865.3k jobs were eliminated, the worst numbers for these periods in at least 23 years (chart 6).** In annual terms, job growth ebbed a touch from -4.1% y/y in August to -4.2% y/y in September, which marked six consecutive months of annual contractions for the first time since 2008–09. Similarly, the number of employers

Chart 6




Sources: Scotiabank Economics, IMSS.

affiliated with the Institute (i.e., 1,002 mn) fell marginally in the month (i.e., by -650 employers) after three months of increases. Annual growth in the number of IMSS-affiliated employers softened from 0.6% y/y in August to 0.3% in September.

IMSS also reported that the base salary of IMSS-insured workers was MXN 402.8/day as of September 30, equivalent to a nominal annual increase of 7.6% y/y, "which is the highest rate registered in September at any point the last ten years, and since January 2019...salaries have registered nominal annual growth of over 6.0%," according to the IMSS statement. In real terms, salary growth accelerated from 2.3% y/y in August to 3.4% y/y in September.

For the rest of the year, formal employment forecasts remain weak, although the latest Banxico *Survey of Private-Sector Expectations* slightly improved the mean projection for end-2020 from 1.059 mn to 981k jobs lost.

**—Miguel Saldaña**