

## Latam Daily: Colombia Price Expectations Up; Peru Cement Sales Soar; Quiet Week Ahead

- **Central banks & macro data: A quiet week ahead**
- **Colombia: Inflation expectations rose; August imports contracted**
- **Peru: Cement sales soared in September; 12-month fiscal deficit hit 6.5% of GDP to September; Q3 unemployment at 16.5%**

### CENTRAL BANKS & MACRO DATA: A QUIET WEEK AHEAD

The week ahead does not feature major scheduled central bank activity. We will be watching for any further impromptu announcements from Argentina's BCRA after two rate adjustments over the last two weeks. We don't expect to see further cuts in the benchmark 28-day Leliq reference rate from the current 36.00% level.

Across the Latam-6, there are no key data releases planned for Monday, October 19 to Wednesday, October 21.

- **Argentina.** Thursday, October 22, sees a cluster of releases: the August monthly GDP proxy, September trade data, and October consumer confidence. All three are expected to mark a gradual waning in the pace of the recovery under the shadow of rising COVID-19 numbers. We expect monthly GDP growth to slow a touch from 1.1% m/m to 0.9% m/m, which would continue to raise the annual comparison from -13.2% y/y to -9.6% y/y.
- **Brazil.** Inflation for the first half of October, due on Friday, October 23, is expected to accelerate from 2.7% y/y in late-September to 3.3% y/y. September FDI and the current account surplus are also both expected to firm up further in data to be released the same day.
- **Chile.** The week ahead is quiet, with only September PPI on Friday, October 23.
- **Colombia.** August's monthly GDP proxy, out on Thursday, October 22, is expected to show some further modest gains despite the month's regional lockdowns.
- **Mexico.** Perhaps the most closely watched data release across Latam will be Mexico's bi-weekly inflation for the first half of October, out on Thursday, October 22. Our team in CDMX is aligned with consensus and expects sequential inflation to rise from 0.0% 2w/2w to 0.5% 2w/2w, which would nudge annual headline inflation up from 3.9% y/y to 4.0% y/y. Sequential core inflation is also expected to rise from 0.1% 2w/2w to 0.2% 2w/2w.
- **Peru.** No key data releases are scheduled for the week ahead.

For additional details, see the October 18 edition of the [Latam Weekly](#).

—Brett House

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Table 1

Colombia: Headline inflation expectations		
	Average	Change vs previous survey, bps
Oct-2020, m/m % change	0.14	...
Dec-2020, y/y % change	1.92	15
Oct-2021, y/y % change	2.80	...
Dec-2021, y/y % change	2.86	2
Oct-2022, y/y % change	3.09	...

Sources: Scotiabank Economics, BanRep.

Chart 1

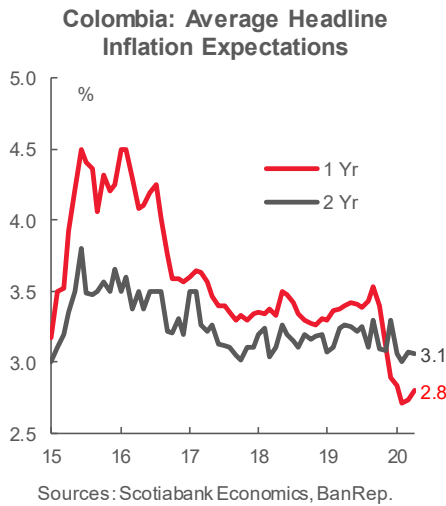


Chart 2

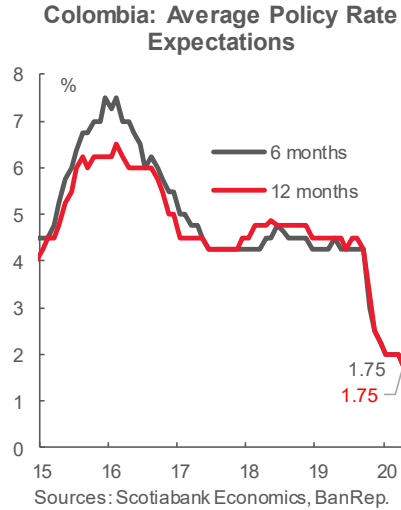
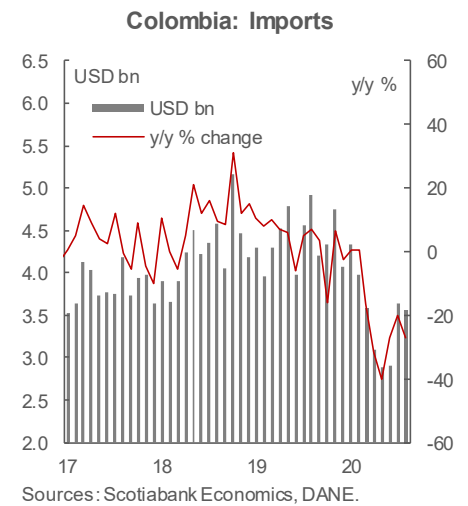


Chart 3



**COLOMBIA: INFLATION EXPECTATIONS ROSE; AUGUST IMPORTS CONTRACTED**

**I. Inflation expectations increased, but remain broadly anchored in medium term**

- According to BanRep’s October survey of macroeconomic expectations, analysts’ consensus expects inflation at 1.92% y/y in December 2020, 15 bps higher than in last month’s survey (table 1). Inflation expectations (IE), for longer tenors, did not change much. The 1Y tenor stood at 2.80% y/y (previous: 2.75%), and the 2Y at 3.09% y/y (chart 1). For December 2021, annual inflation is expected to be below 3% y/y on the back of weaker demand, which would partially offset the rebound effect coming from the withdrawal of government aid, biosecurity costs, and FX pass-through.
- On average, October’s monthly inflation is expected at 0.14% m/m (n.b., our expectation is 0.16% m/m), which would put annual inflation at 1.95% y/y. In October, some major cities are set to continue withdrawing support to utility fees; however, softer tuition fees for universities would partially offset rises in utility fees. Additionally, we anticipate positive inflation in foodstuffs.
- USDCOP forecasts for 2020-end stood at 3,728, up 27 pesos from the previous survey. For December 2021, respondents think, on average, that USDCOP will end up at 3,589. We believe volatility will continue, although our FX models point to an equilibrium level around 3,600–3,700 by the end of the year.
- BanRep’s repo rate is expected to close 2020 at 1.75%, according to the median of the respondents, which means that market consensus is not expecting further rate cuts (chart 2). The first hike of 25 bps is expected by October-2021, earlier than in the previous survey. The monetary policy rate is expected to remain at 2.00% at the end of 2021. For October’s meeting, analysts’ consensus points to a hold; however, some analysts expect a -25 bps cut, which would take benchmark rate to the lowest expectation among analysts in the forecast window at 1.50%.

BanRep’s survey showed that the recent inflation surprise led to an upward revision in inflation expectations for December 2020, but they remained

Chart 4

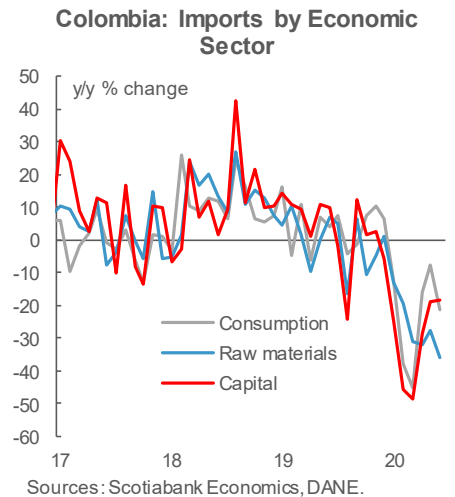
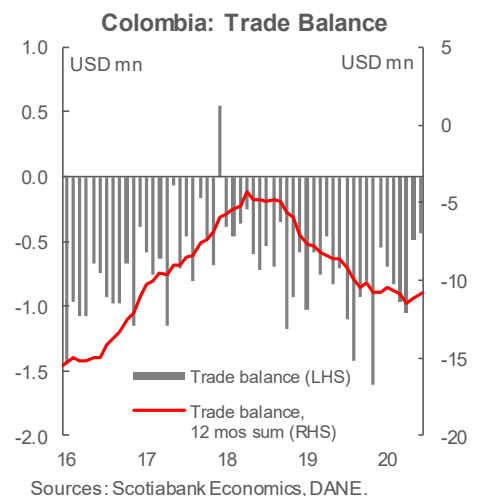


Chart 5



**anchored near the target of 3% for the longer term.** October's CPI inflation should show offsetting effects from utility fees and education tuition. However, we expect positive contributions from foodstuff prices, some tradeable items, and biosecurity costs in services.

**The balance of risks still tilts toward a more moderate recovery in economic growth, with upside pressures on inflation remaining low for now.** We expect the BanRep Board to keep the monetary policy rate on hold at the October 30 meeting.

## II. August imports fell by -27.3% y/y, trade deficit narrowed by -10% YTD

**August's import data, released on Friday, October 16, came in at USD 3.57 bn, down -27.3% y/y and slightly lower than July's exports (USD 3.64 bn, chart 3).** Manufacturing-related imports fell by -22.2% y/y and accounted for most of the year-on-year decline. Year-to-date, imports were still down by -20.9% y/y. The trade deficit narrowed by 40% y/y in August and 10% y/y YTD.

**From the perspective of imports by use, there were declines in all three major segments (chart 4).** Capital imports were down -18.6% y/y due to contractions in transportation-related sub-sectors (-25.6% y/y) and industrial sector (-11.21% y/y), but was the only one of the three major segments that showed an improvement in annual terms. Consumption-goods imports fell by -21.2% y/y, owing mainly to a significant decline in durable goods imports (-32.2% y/y), which were at levels equivalent to those observed ten years ago; non-durable goods imports contracted by -27.3% y/y. Raw materials imports were down by -20.7% y/y, mainly due to a drop in fuel oil imports (-48.4 % y/y) and imports for the industrial sector (-15.6% y/y).

**The trade deficit came in at USD -827.9 mn in August (chart 5), a -41.7% y/y narrowing, which took the YTD deficit to USD -6.89 bn, down -10% y/y.** The narrowing in the YTD trade deficit compared with last year was in line with domestic demand weakness and reflected the fact that imports weakness offset the deterioration in exports dynamics. All of these factors should help maintain the current account deficit below -4% of GDP in 2020.

—Sergio Olarte & Jackeline Piraján

## PERU: CEMENT SALES SOARED IN SEPTEMBER; 12-MONTH FISCAL DEFICIT HIT 6.5% OF GDP TO SEPTEMBER; Q3 UNEMPLOYMENT AT 16.5%

**Cement sales soared in September, rising 10.4% y/y—not only easily surpassing pre-COVID-19 levels, but totaling the highest monthly figure since 2015, according to data released on October 15 by the local cement-producer society, Asocem (chart 6).** The magnitude of the increase was a surprise. True, cement sales had been outperforming since July, but the September print was extraordinary. In July–August cement sales had been driven by what in Peru is called “self-construction”, largely consisting of informal home building and improvement. At the same time, government investment had not been contributing to sales to this point; in September, this changed. Government investment finally turned (mildly) positive, giving an additional boost to cement sales, and construction GDP. In August, construction GDP fell -6.5% y/y, due to lack of government investment. For September, we can be fairly confident that construction GDP will show moderately positive growth.

**The cumulative 12-month fiscal deficit widened to -6.2% of GDP in September, from -5.6% in August, according to information released by the BCRP last week (chart 7).** This was not surprising, and was in line with our expectation of an -8.6% deficit by year-end. Low fiscal revenue, down -19.6% y/y, continues to be the main factor weighing on the fiscal balance. Government expenditure is starting to play a greater role, however, and was up 15% y/y. Overall, the fiscal account trends are behaving as expected. The fiscal deficit was -1.6% of GDP at the end of 2019.

Chart 6

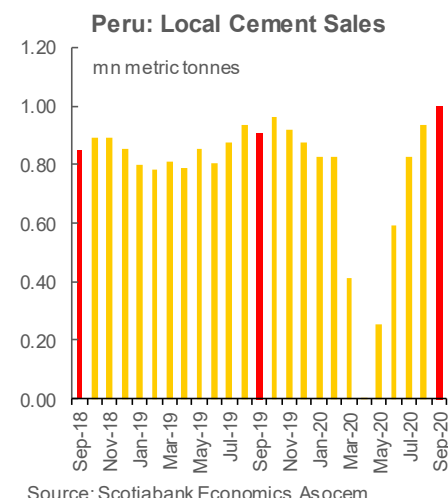
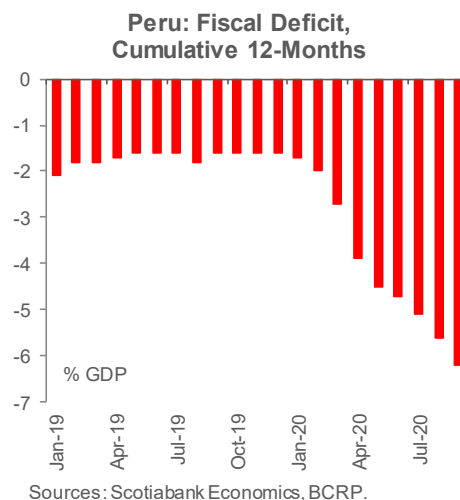


Chart 7



**The third quarter unemployment rate came in at 16.5%, according to data released on October 15 by the National Statistics Institute.** Employment in Lima was down -24% y/y, but the underlying trends were very divergent. Formal employment was off by -47% y/y, whereas informal employment (or underemployment), was up 18% y/y. The COVID-19 lockdown and its aftermath is clearly skewing the labour market, with more productive formal jobs being lost, and individuals being pushed to look for a livelihood in the informal economy. In all, nearly 1.2 million jobs have been lost in year-on-year terms to September owing to the pandemic. The silver lining is that this is an improvement over Q2-2020, when total jobs numbers were down by 2.7 million compared with 2019. Thus, the economy has regained 1.5 million jobs from Q2 to Q3.

—Guillermo Arbe

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