Latam Daily: Colombia Exports; Peru Inflation Up, Rate Hike Likely, CB Governor

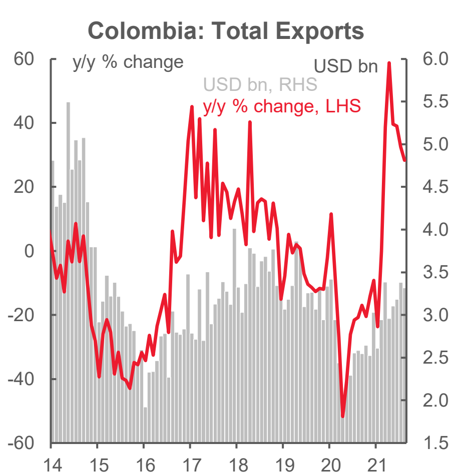
- **Colombia: Exports improved again boosted by high prices; though volume of traditional exports remain subdued**
- **Peru: Inflation continues on the rise prompting likely rate hike on Thursday; Central Bank President Velarde ratified**

COLOMBIA: AUGUST EXPORTS IMPROVED AGAIN BOOSTED BY HIGH PRICES; THOUGH VOLUME OF TRADITIONAL EXPORTS REMAIN SUBDUED

According to statistical agency DANE's data release on Friday, October 1, August's monthly exports stood at USD 3.32 bn (up 28.4% y/y, chart 1), slightly lower by value than the final figures for July, which amounted to USD 3.81 bn (we had initially reported USD 3.25 bn but figures were later revised). Oil and Mining led the gains rebounding by 26.6% y/y. Additionally, manufacturing-related exports and Agricultural-related exports expanded 50.7% y/y and 35.7% y/y, respectively.

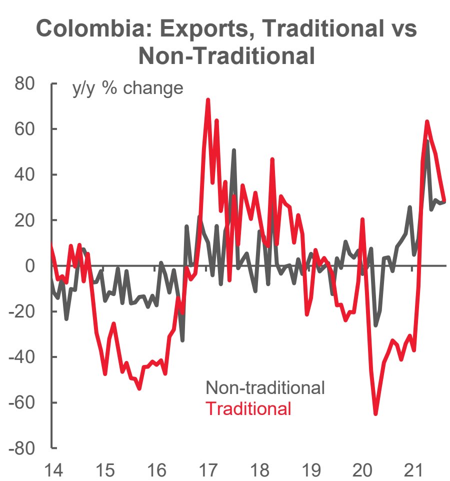
Traditional exports as a whole were up 28.8% y/y in August (chart 2), compared to July's 27.5% y/y, again benefitting from higher commodity prices, since oil and coal productions remained below from 2020 levels. Oil-related items represented 27% of August's total exports, still below the average of 40% in 2019. Similarly to the previous month, better international oil prices offset Colombia's lower production resulting in a dollar-terms increase of 6.2% y/y, despite the sector's export volumes being down by -32.2% y/y (in July, volumes were down by -30.42% y/y). The value of coal exports contributed the most to traditional exports expansion increasing by 77.52% y/y, also owing to higher prices, while by volume it contracted by -6.46% y/y. Coffee exports also strongly rebounded by 62.66% y/y in August, showing recovery and normalization in operations since in the previous month, exports in the sector were negatively hit by the nationwide strike and logistic issues.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

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The value of non-traditional exports was USD 1.59 bn in August, an increase of 28.0% y/y (chart 2 again). Manufacturing exports drove the overall advance in non-traditional goods exports with an expansion of 26.6% y/y, on the back of chemical products (an 18.7% y/y rise), in the same way, transport equipment rose strongly (+75.5% y/y). On the other side, Agricultural products such as flowers (+23.1% y/y gain) and bananas and other fruits (+32.9% y/y) contribute to the overall rebound.

All in all, August's exports are showing a positive dynamic on rising international commodity prices but also from improved demand for some manufacturing products. It is worth noting that, despite positive results, traditional exports remain below 2020 levels, especially due to losses in oil and coal-related products, showing that Colombia is not fully benefited by international price rebound since production lack this recovery. On the other side, non-traditional exports are on their best levels since 2012, showing that demand from main trading partners keeps improving. We expect a current account deficit of about -5.2% of GDP in 2021, compared against our earlier view of -4.4%, and larger than the -3.3% deficit observed in 2020 as exports rebound are lagging the imports recovery.

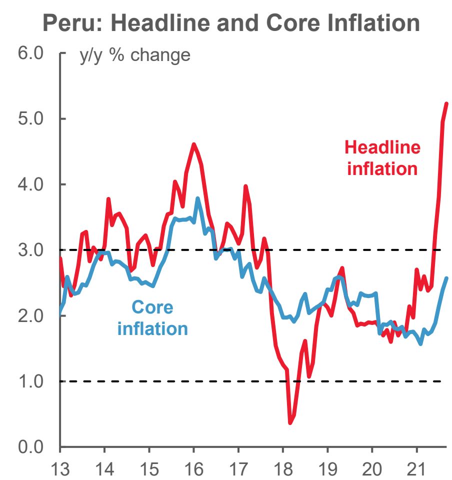
—Sergio Olarte & Jackeline Piraján

PERU: INFLATION CONTINUES ON THE RISE PROMPTING LIKELY RATE HIKE ON THURSDAY; CENTRAL BANK PRESIDENT VELARDE RATIFIED

I. Inflation continues to rise above levels not seen since 2009; rate hike expected on Thursday evening

Peru's inflation increased by 0.40% m/m in September, lower than in the previous month (0.98% m/m in August) and than our forecast of 0.54% m/m, but above the Bloomberg consensus of 0.16% m/m. Headline yearly inflation jumped from 5.0% y/y in August to 5.2% y/y in September (chart 3), above the upper limit of the central bank's target range (between 1% and 3%) for the fourth consecutive month, the highest figure since 2009. This pace also exceeds the recent update of the BCRP's inflation forecast from 3.0% to 4.9% for this year. These results are in line with our inflation forecast of 6.5% for the full year in 2021 and 4.5% for 2022.

Chart 3



Sources: Scotiabank Economics, BCRP.

Core inflation also continued to creep upward, going from 2.4% y/y in August to 2.6% y/y in September, exceeding the 2% y/y target for headline inflation and rising.

Rising production costs have become more widespread, as higher raw materials and energy prices are compounded by higher global shipping costs. Wholesale inflation, linked to production costs, continues to rise, up 13% y/y, the highest rate in 27 years. These sources of pressure on prices have not fed through fully locally and are likely to persist for the rest of this year and into the next.

Given the risk of an incipient inflation-depreciation spiral, the BCRP needs to put the brakes on both, quickly. Although the depreciation of the PEN lost some speed in August (13% y/y), it picked up again in September (15% y/y) in response to persistent political uncertainty. The carry-over effects of the FX on inflation could persist in the coming months, effecting growing concerns at the BCRP. Over the last two months, the central bank has raised its reference rate by 75 basis points to 1.00% and strongly increased its reserve requirements for bank PEN deposits, thereby withdrawing PEN liquidity from the system. We see the BCRP likely to increase its benchmark rate again at its meeting on Thursday (October 7) by at least 25 bps.

—Mario Guerrero

II. Central Bank President Julio Velarde ratified by government

Incumbent Central Bank President, Julio Velarde, has been ratified by Peru's administration, along with three board directors—a decision that will be published in the country's official government gazette and later submitted to Congress for approval. Mr Velarde, who has been at the helm of Peru's central bank since 2006, would remain at his post for another 5-year term. The government, through statements by Minister of Finance Pedro Francke, had previously communicated its intent to ratify Mr Velarde, however, the long two-month delay to do so had stoked uncertainty. Congress will now need to appoint three more board directors to complement the four government appointees (including Mr Velarde).

—Adriana Vega