Scotiabank.

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# Latam Daily: Inflation in Chile and Mexico; Mexico's Autos; Peru's BCRP Hikes

- **Chile: June CPI of 0.9% m/m (12.5% y/y) defers inflation inflection**
- **Mexico: Inflation continues to rise in June in line with consensus; auto sector's June results**
- **Peru: BCRP raises policy rate and maintains hawkish stance**

## CHILE: JUNE CPI OF 0.9% M/M (12.5% Y/Y) DEFERS INFLATION INFLECTION

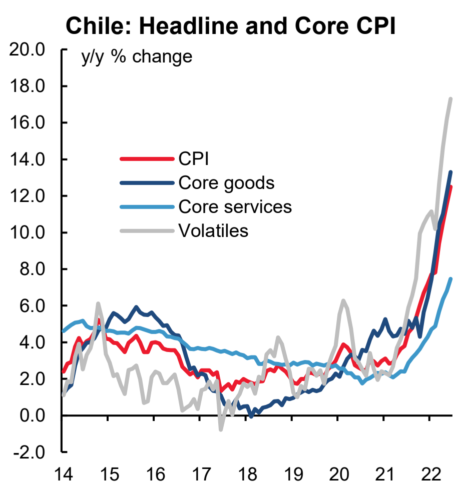
**July CPI will reflect recent CLP depreciation; we expect 100 bps rise in the benchmark rate next week, up to 10%**

**On Friday, July 8, the statistical agency (INE) released July's CPI, which rose 0.93% m/m (12.5% y/y), below consensus (1.1%), but close to Scotiabank's projection of 1.0% (chart 1).** While the outcome represents the first downward surprise with respect to expectations priced into asset prices, given the recent depreciation of the Chilean peso (CLP), according to our estimates, it will probably be followed in July by a CPI reading of around 1% m/m. **Year-over-year inflation will only peak in August, when it is likely to reach 14%, with the result released just days after the referendum to approve or reject the new constitution (on September 4).**

**By components, the June increase is largely explained by the contribution of volatile items (chart 2).** As we anticipated, food and transportation were the main contributors to the m/m inflation.

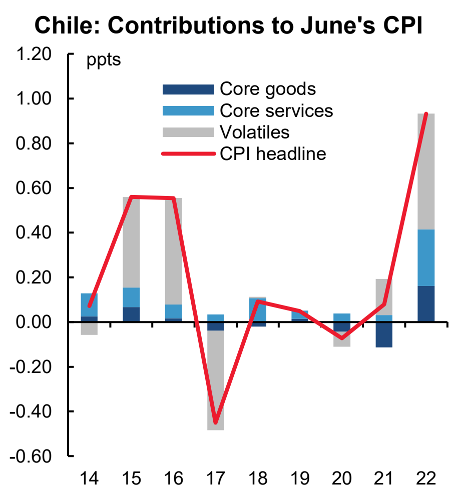
**The diffusion of price increases within the basket fell to 56%, still above its historical range.** In accordance with seasonality, diffusion registered its lowest level of the year in June, which was accompanied by lower inflation than in previous months, both in goods and services. The diffusion of non-volatile goods prices increases fell, though it remains at the top of its historical range. After re-accelerating in May, the number of products with m/m price increases represented 57% of the total, mainly owing to the drop in diffusion within the clothing and footwear category, which was also accompanied by larger falls in these prices. These effects could reflect the lower demand that this sector is facing, which led to lower real sales in May. In contrast, the diffusion of services (without volatile elements) increased in line with seasonality, remaining above historical levels. Overall, 62% of these services experienced m/m price increases, reflecting adjustments in the prices of food, transportation, recreation, and financial services, among others.

Chart 1




Sources: Scotiabank Economics, INE.

Chart 2




Sources: Scotiabank Economics, INE.

**June's inflation does not represent an inflationary surprise relative the BCCh's baseline scenario. However, the recent depreciation of the CLP could inject around one percentage point more inflation in the next 6 to 12 months given its multilateral origin.** Moreover, although a slowdown in consumption has been observed, May GDP growth was above its implicit projection in the June Monetary Policy Report, suggesting a somewhat less pronounced closing of the activity gap than expected. **In this context and given the recent depreciation of CLP against other currencies, we expect the BCCh to increase the policy rate 100 bps next week, maintaining the short-term restrictive tone, but mapping out an interest rate corridor that would allow for more pronounced cuts towards 2023, given the lower external impulse and deterioration of the terms of trade. Consistent with this scenario, we now project a 1% GDP contraction by 2023.**

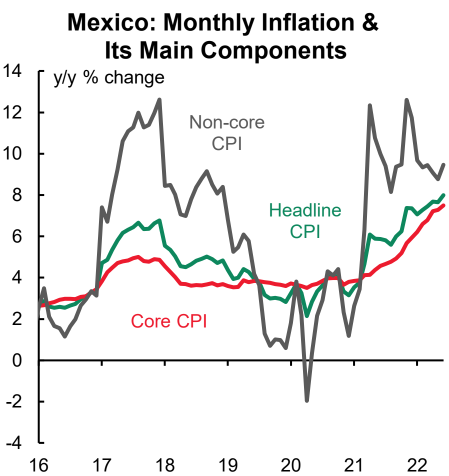
**—Jorge Selaive, Anibal Alarcón, & Waldo Riveras**

## MEXICO: INFLATION CONTINUES TO RISE IN JUNE IN LINE WITH CONSENSUS; AUTO SECTOR'S JUNE RESULTS

### I. Inflation continues to rise in June in line with consensus

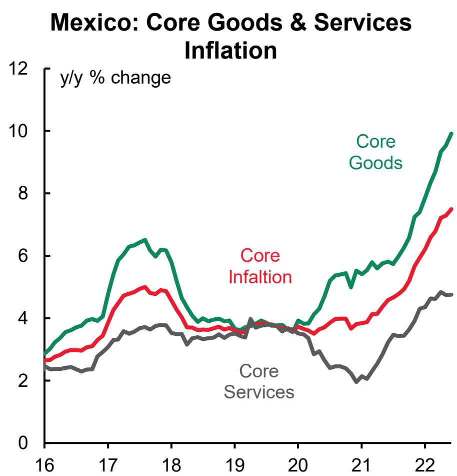
According to INEGI, **inflation in June kept to its upward trend, coming in at 7.99% y/y (7.65% previously) in line with consensus (7.98%), its highest level since 2001 (chart 3).** Core inflation also edged up (chart 4), to 7.49% y/y from 7.28% previously (slightly below 7.54% consensus), with increases in both the merchandise item (9.91% compared to 9.53% previously), and in services (4.76% compared to 4.74% previously). Non-core inflation likewise accelerated in June (chart 5), from 8.77% to 9.47% y/y, with increases in food prices (15.02% y/y from 13.24%), and a slight moderation in energy and government tariffs (from 5.44% to 5.22%.

Chart 3



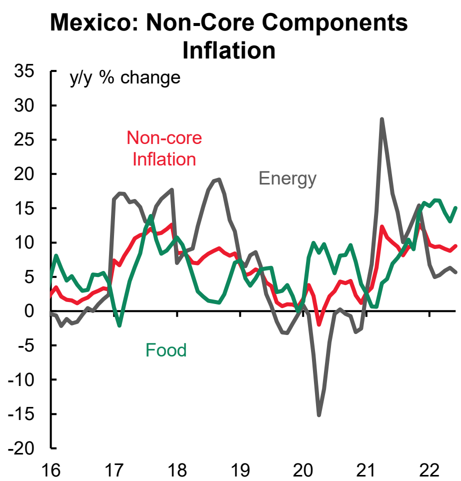
Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, INEGI.

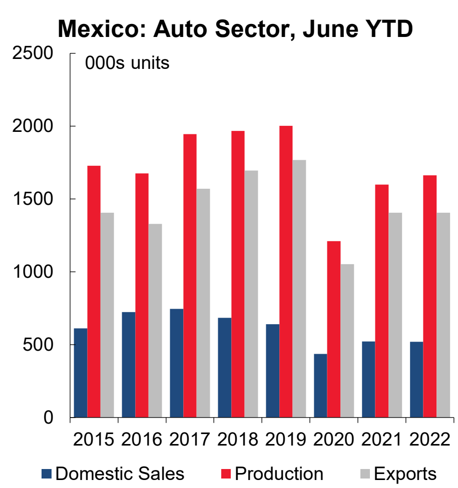
**On a monthly basis, headline inflation increased to 0.84% m/m from 0.18% m/m previously, slightly beating the consensus of 0.81%.** Core inflation also increased 0.77% m/m from 0.59% m/m previously (below consensus 0.79%) with upsurges in merchandises (1.0%), and services (0.50%). Non-core items rose 1.07% m/m with surges in food (1.76%), while energy and government tariffs rose 0.49%.

**Recent surveys reveal that end of year inflation forecasts have further deteriorated.** In particular, the Citibanamex Survey results again showed upward revisions for 2022 and 2023, now at 7.55% and 4.55% for headline inflation, respectively, and 7.05% and 4.33% for core inflation. We maintain our outlook for an additional 75 bps hike at Banxico's August meeting, and 50 bps hikes at subsequent meetings during the year, raising the policy rate to 10.00% by end of 2022, with upside risks depending on the persistence of inflation and the pace of hikes at the Fed and other central banks.

### II. Auto sector's June results

Domestic auto sales moderated in June from 5.2% y/y in May to 1.9%, with 90,368 units sold in the month (chart 6). Auto production also moderated, from 15.2% y/y to 6.0%, with 285,318 units assembled. In contrast, exports accelerated marginally, from 1.1% y/y to 1.4%, with 237,674 units exported.

Chart 6



Sources: Scotiabank Economics, INEGI.

In the January–June period, domestic sales showed a cumulative annual decline of -0.4% YTD, at similar levels to those observed in 2014, with 518,424 units sold, while production advanced

3.9% y/y, with 1,66,346 units produced (also close to 2014 numbers). Meanwhile, exports showed no annual cumulative gains on year-to-date basis (0.0%), with 1,404,595 units.

Going forward, we maintain an outlook of moderate advances in the industry as supply chain disruptions related to covid and the conflict in Ukraine begin to normalize. In this regard, bottlenecks are expected to gradually disappear over the year, though risks of new disruptive developments remain. Furthermore, on the demand side, with tight domestic and foreign inventories, sales recovery are expected as production recovers. Significant downside risks remain in domestic and foreign sales, however, owing to rising prices and higher interest rates, both in Mexico and in its trading partners, as well as a deceleration in overall economic activity.

**—Miguel Saldaña**

## PERU: BCRP RAISES POLICY RATE AND MAINTAINS STANCE HAWKISH

**The Board of Peru's central bank (BCRP) raised its key interest rate by 50bps to 6.00% on Thursday, July 7, in line with the market consensus (Bloomberg).** The likelihood of a hike of this sizeincreased after the results of June's inflation (the highest for the month of June in 29 years), with Scotiabank's forecast initially contemplating an increase of 25bps.

**The rise in inflation in June (8.8% y/y) spilled over to inflation expectations, which jumped from 4.89% in May to 5.35% in June.** Expectations have now been above the inflation target range for 12 consecutive months, a material consideration for the BCRP's policy rate decision. The central bank, like us, also considers the possibility that inflation may have peaked in June, but maintained a hawkish stance in the statement accompanying the rate decision, emphasizing the global nature of inflation and that it is significantly higher than the inflation targets of central banks, in both advanced economies and in the Latam region.

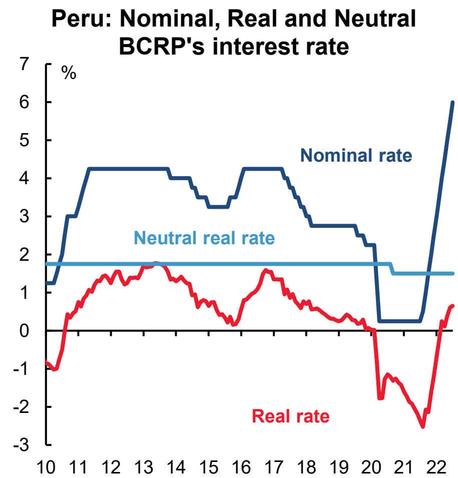
**Following this decision, we will be revising our policy rate forecast upwards.** We continue to believe a pause in the rate hike cycle is likely, but any pause would be conditional on the reversal of inflationary expectations. Recent corrections in international prices make it likely that this will happen, though we assume that the central bank will wait for clear evidence of easing price pressures. The key will be the speed at which inflation expectations moderate.

**The BCRP statement considers that the downward path of year-on-year inflation will begin this July, reflecting a moderation of international food and energy prices and an economy still below its potential level.** We agree with that assessment, to which we add the moderating influence of statistical base effects. The BCRP maintained its expectation that inflation will return to the target in 2Q-2023 and 3Q-2023, for the fourth consecutive month.

**The increase in inflation expectations was slightly less than the 50bp jump in the policy rate, so the real rate went from 0.61% to 0.65%, maintaining the direction of monetary normalization.** Despite this, the monetary policy stance remains expansionary, as the real policy rate is below the real neutral rate of 1.5% (chart 7).

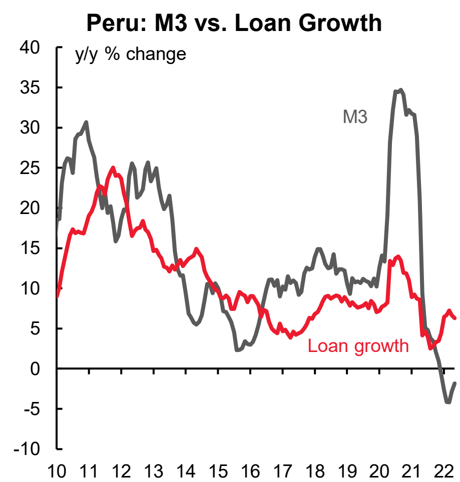
**In its statement, the BCRP reiterated that it will remain attentive to new information on inflation expectations and the evolution of economic activity, indicating that it is prepared to consider additional measures to ensure that inflation returns to the range goal.** This wording suggests that the BCRP could evaluate an additional increase in the reference rate at its meeting on August 11. That said, to the extent that we expect inflation to peak in June, we see the BCRP possibly moderating the pace of monetary policy normalization, conditional on inflation expectations reversing.

Chart 7




Sources: Scotiabank Economics, BCRP.

Chart 8




Sources: Scotiabank Economics, BCRP.

**On the quantitative side, the growth of the quantity of money (M2) remained in negative territory (-1.8% y/y in May) for the sixth consecutive month, although the rate of decline has moderated in the last two readings, which could reflect greater comfort of the central bank with the current level of liquidity (chart 8)**. Loan growth maintained its dynamism in May, with a nominal rate of over 6% y/y for the fifth consecutive month.

**—Mario Guerrero**