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Latam Daily: Chile's BCCh Hikes; Peru's Mining Data

- Chile: Central Bank raises the policy rate 75 bps to 9.75%
- Peru: Mining data in May 2022

CHILE: CENTRAL BANK RAISES THE POLICY RATE 75 BPS TO 9.75%

Benchmark rate on track to reach 11%, subject to inflationary setbacks.

On Wednesday, July 13, the Central Bank (BCCh) hiked the Monetary Policy Rate (MPR) 75 basis points, to 9.75% (chart 1), in a move that may have been intended to get ahead of market expectations. Since BCCh's last meeting, economic activity came in slightly above expectations owing to the resilience of services and the recovery of mining activity. Likewise, June inflation was somewhat lower than expected but still high at 12.5% y/y, while indications point to 14% for August, according to Scotiabank Economics' estimates. Meanwhile, attention has focused on the exchange rate after the peso depreciated by 17% against a basket of currencies last month, the inflationary impact of which is already reflected in market surveys and in our projection of annual inflation for 2022 (now revised to 11.8% y/y). A failed verbal intervention added to an intense week for local financial markets. And just to confirm the complexity of the scenario facing the BCCh, the government introduced new fiscal stimulus equivalent to 0.4% of GDP, with a component linked to private consumption (targeted Emergency Family Income).

In this context, the BCCh's 75 bps hike in the benchmark rate by 75 bps, was less than the 100 basis points increase we at Scotiabank expected and priced-in by asset prices, but above the consensus expectation implied in surveys (50 bps). In this respect, the central bank may have been hoping to surprise market expectations. In our view, however, that is likely far from the actual outcome. Going into the meeting, the market and Scotiabank expected an acceleration in the convergence to the maximum MPR of this cycle, which we estimate at 11%. Consequently, a deterioration in short-term inflation outlook and an additional depreciation of the CLP can be expected in the wake of this decision, which assign more importance to the deterioration of the international scenario.

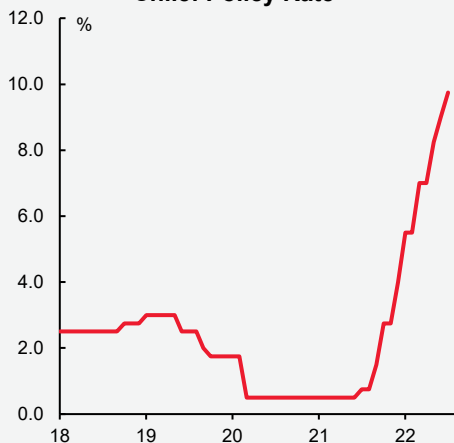
The BCCh "discovered" an abrupt deterioration in the international scenario in the June's meeting, and now repeatedly refers to it, noting most recently that the external situation has deteriorated more than expected in the June's Monetary Policy Report base case scenario. The statement makes explicit a tightening of financial conditions for developed and emerging economies, as well as a greater than expected fall in the prices of commodities.

While the statement continues to be biased to aggressive action, as we anticipated, the BCCh will wait for the review of the base scenario in the September Report to revise the corridor of the MPR. In our view, the MPR is likely to continue to rise to between 10.75% and 11% in October's meeting. It should be noted that the phrase that the next increases will be of "lesser magnitude" was eliminated, which reflects the complex inflationary scenario that has led to the recent depreciation of the CLP. Consequently, we do not rule out another 75 bps hike in September. Rate declines could start towards the beginning of 2023, conditional on a stabilization of the CLP and inflation (since the macro deterioration is almost guaranteed with a drop in GDP of around 1% in 2023), with the MPR around 3.5% towards the end of next year in this scenario.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

Chart 1

Chile: Policy Rate



Sources: Scotiabank Economics, BCCh, INE.

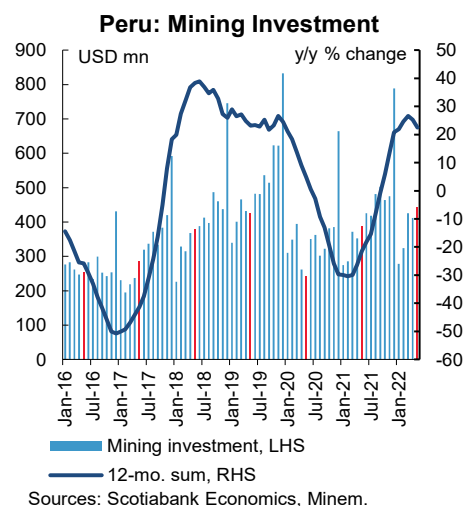
PERU: MINING DATA IN MAY 2022

Mining investment increased 14.0% y/y in May according to data released by the Ministry of Mining. In the cumulative January–April period, mining investment increased 12.0% y/y (chart 2). Mining investment continues to be driven by Anglo American’s Quellaveco copper project, which we expect to be completed in the third quarter of this year. The next two companies leading investment were Antamina and Minsur, reflecting investments at their existing operations. Meanwhile, we expect investment in the Toromocho (Chinalco) expansion to accelerate in the second half of the year.

Quellaveco has just announced its first production of copper concentrate, and is preparing to complete its construction phase and begin commercial operations. This is in line with our expectations of production coming on stream in 3Q22, with full capacity in 4Q22. The project was 90% complete as of May. Investment in exploration continued to increase, up 60.5% y/y in May, accumulating an increase of 35.6% in the first five of the year.

According to Anglo American, once Quellaveco operates at full capacity, it will increase Peru’s copper production by about 10%, raise tax revenues and create 2,500 direct

Chart 2



| | Copper MT | Gold oz | Zinc MT | Silver oz | Lead MT | Iron MT | Tin MT | Molybdenum MT |
|----------------------------|-----------|---------|---------|-----------|---------|---------|--------|---------------|
| May 2022, y/y % change | -11.2 | -2.0 | -17.9 | -11.1 | -15.9 | -3.7 | 6.0 | 3.5 |
| Jan-May 2022, y/y % change | -0.3 | -1.7 | -15.4 | -7.1 | -6.4 | 0.1 | 5.0 | 3.1 |

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

| USD Company | May y/y % change | Jan-May y/y % change | Share |
|---|------------------|----------------------|---------------|
| 1 ANGLO AMERICAN QUELLAVECO S.A. | -9.3% | 16.9% | 27.5% |
| 2 COMPAÑIA MINERA ANTAMINA S.A. | -10.7% | -16.8% | 6.8% |
| 3 MINSUR S.A. | 326.5% | 129.1% | 6.4% |
| 4 SOUTHERN PERU COPPER CORPORATION SUCURSAL DEL PERU | -8.1% | 1.0% | 5.8% |
| 5 MINERA YANACOCHA S.R.L. | 132.7% | 221.3% | 5.5% |
| 6 MINERA LAS BAMBAS S.A. | -48.3% | -25.9% | 3.9% |
| 7 SOCIEDAD MINERA CERRO VERDE S.A.A. | 10.4% | 39.0% | 3.6% |
| 8 SHOUANG HIERRO PERU S.A.A. | 9.1% | 20.4% | 3.4% |
| 9 MINERA CHINALCO PERU S.A. | -29.4% | -30.9% | 3.1% |
| 10 MARCOBRE S.A.C. | 2.3% | -53.9% | 2.6% |
| 11 VOLCAN COMPAÑIA MINERA S.A.A. | 86.0% | 66.1% | 2.5% |
| 12 COMPAÑIA MINERA PODEROSA S.A. | 12.9% | 25.2% | 2.2% |
| 13 COMPAÑIA DE MINAS BUENAVENTURA S.A.A. | 43.8% | 82.6% | 1.9% |
| 14 CERRO DE PASCO RESOURCES SUBSIDIARIA DEL PERU S.A.C. | 112.8% | 155.7% | 1.9% |
| 15 COMPAÑIA MINERA ARES S.A.C. | 46.6% | 47.6% | 1.8% |
| 16 MINERA SHOUXIN PERU S.A. | 35.6% | 94.6% | 1.3% |
| 17 HUDBAY PERU S.A.C. | -35.3% | -48.4% | 1.3% |
| 18 COMPAÑIA MINERA ANTAPACAY S.A. | 64.5% | 12.6% | 1.1% |
| 19 COMPAÑIA MINERA CHUNGAR S.A.C. | -11.3% | 20.0% | 0.9% |
| 20 CONSORCIO MINERO HORIZONTE S.A. | 30.9% | 5.9% | 0.9% |
| Others | 4.4% | 7.1% | 15.7% |
| Total investment | 14.0% | 12.0% | 100.0% |

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

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jobs. The project will also increase the demand for local services and sources of water for human consumption and irrigation as well as reinforce digital connectivity and expand agricultural areas. Quellaveco is expected to produce an annual average of 300,000 tons of copper during the first 10 years of operations.

Mining production fell in May in most metals (table 1): copper (-11.2%), gold (-2.0%), zinc (-17.9%), silver (-11.1%), lead (-15.9%) and iron (-17.9%). -3.7%, only tin (+6.0%) and molybdenum (+3.5%) grew.

Copper production fell 11.2% due to the complete stoppage of Las Bambas, which halted production in May, while Southern production fell 17.0% (Cuajone operated at full capacity since May 3). Operations at Chinalco (-2.8%), Antapaccay (-14.3%), Hudbay (-11.6%), and El Brocal (-24.6%) also reduced their production as they are now operating in lower grade areas after operating in higher grades areas in 2021 owing to record high prices (table 2). The same is happening with the other metals.

—Katherine Salazar

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