Latam Daily: Colombia CPI Recap

- **Colombia: Inflation reaches new 23-yr high but the data surprise was more moderate than previous months**

China reopening hopes took a hit over the weekend with the country's officials reasserting their intention to adhere to current COVID-19 policies. Markets weakened as Asia opened for business but have since moved into modest gains for the day that are taking US equity futures to near Friday's intraday high.

In the FX space, the USD is trading generally weaker after sharply falling around the European open and holding around those levels amid limited developments. **The MXN is modestly better bid on the day, up 0.2/3%, while the CLP opens with a solid ~1% gain** to its strongest level since mid-September.

Chile reported a USD457mn trade surplus in data released this morning for October, flipping the sign on the USD513mn deficit recorded in September. The surplus resulted mainly from a significant decline in imports to their lowest point since mid-2021, while on a year-on-year basis there was a sharp 22% decline in copper exports.

Colombian markets are closed today after Saturday's slight inflation beat that may pressure BanRep to roll out another big hike at its final meeting of the year in December (see below).

It's a quiet day in the Latam calendar as we look ahead to Thursday's decisions from Banxico and BCRP where we see respective hikes of 75bps and 25bps. While the former is likely to keep pace with the Fed in the near term, the Peruvian central bank may deliver its final hike of the cycle this week. The US CPI release that same day will keep global markets enthralled and is likely to drive the broad trading mood this week.

—Juan Manuel Herrera

COLOMBIA: INFLATION REACHES NEW 23-YR HIGH BUT THE DATA SURPRISE WAS MORE MODERATE THAN PREVIOUS MONTHS

Colombia's pace of monthly CPI inflation was 0.72% m/m in October, according to DANE data published on Saturday, November 5. The result was well above the BanRep survey's (0.62% m/m) and slightly below the Scotiabank Economics projection (0.76% m/m). Monthly inflation was 24 times the average inflation observed for the typical October since 2016. **Year-on-year inflation stood at 12.22%, increasing from 11.44% in September, and reaching its highest point since March 1999** (chart 1). Colombia is the only PAC country that hasn't yet seen a peak in inflation during the current cycle.

Core inflation rose again, to 9.15% y/y from 8.32%, and ex-food and regulated goods inflation accelerated to 8.48% y/y from 7.49%. Core inflation is accelerating more than food inflation, reflecting the impact of FX depreciation as tradable inflation increased from 11.82% to 12.26%. But, it also reflects a robust performance of the domestic economy.

October's CPI results continue to dash BanRep's hope of an earlier peak in inflation. Upside risks to inflation in 2023 are increasing as the minimum wage negotiations (which start on November 30) will call for a higher adjustment. Inflation expectations deviating from target in the medium term would again place inflation worries among BanRep's top concerns.

Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

November 7, 2022

Contributors

Juan Manuel Herrera
Senior Economist/Strategist
+44.207.826.5654
Scotiabank GBM
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

María (Tatiana) Mejía, Economist
+57.1.745.6300 (Colombia)
Maria1.Mejia@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

With this in mind, our forecast for the December meeting is now tilted towards a 100bps hike, and a potential pause will likely be delayed until an inflation peak is confirmed which may not happen until Q1-2023.

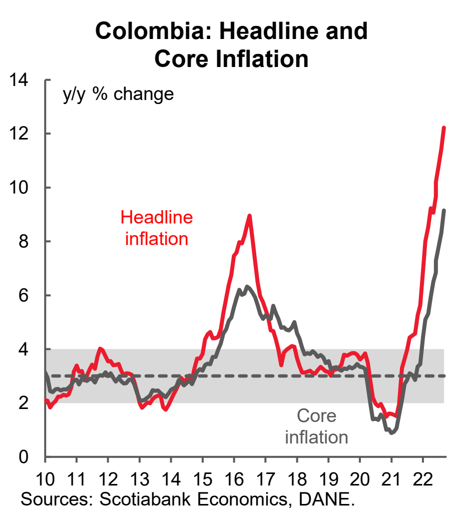
Looking at October's numbers in detail, eleven out of the twelve components of the CPI basket contributed to higher inflation (charts 2 and 3), **and the food group was again the main contributor.**

The highlights of the release are:

- Foodstuffs inflation was again elevated with prices growth at 1.21% m/m, resulting in a contribution of 0.23ppts to overall inflation. In October, potatoes led the gains (+14.09% m/m), interrupting five consecutive months of declining prices; the end of the harvesting season is leading to higher prices. The other main contributors in the food group were rice (+2.42% m/m), fresh fruits (+2.27% m/m), and eggs (+2.25% m/m). All reflecting higher input prices, but also the effect of the FX depreciation.
- The second biggest contributor to headline inflation (+0.14 ppts) was the transport group (+1.09% m/m). Within this group, the main contribution came from vehicles (+2.19% m/m), its strongest monthly expansion this year, which not only reflects higher international costs but also the depreciation of the COP. Gasoline prices contributed 0.04ppts to inflation, while other items such as airfares (+2.88% m/m), reflected still strong domestic demand.
- Housing was the third main contributor to October's inflation (rising 0.40% m/m and contributing 0.13ppts). Rent (+0.22% m/m), continued showing strong increases, while utility fees are still an important contributor to inflation, especially electricity prices (+1.61% m/m). It is important to highlight that the government has reached an agreement to moderate energy prices, though this was not yet in October's data. In any case, we expect it to have only a modest negative impact given that leading inflationary pressures more than offset the impact of the electricity fee agreement.
- Note that the remaining CPI groups also contributed to October's inflation, which is seasonally atypical. This shows that despite supply shocks being the main source of inflation, strong domestic demand is also being reflected in higher domestic prices, especially in services-related goods.
- Goods inflation increased from 11.57% to 13.0% y/y reflecting the effect of higher international prices but also COP weakness. Services prices increased but at a slower pace of 6.62% y/y from 5.93% y/y. The asymmetrical response of goods and services prices could reflect the difference between supply and demand sources of inflation. Regulated prices inflation rose 0.58ppts to 12.04% y/y.

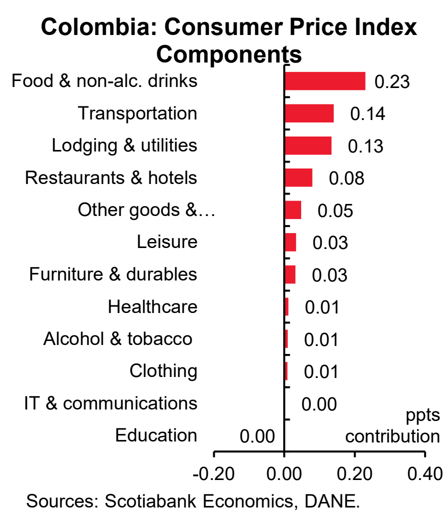
To conclude, October CPI data show that inflation should still be the main concern for BanRep. Ahead of 2023 not only indexation effects but also significant FX depreciation will continue to pull inflation expectations from the target range. Ahead of the December 16 monetary policy meeting our bias is towards a 100bps hike. Calls for rate hike pause will have to wait for a peak in inflation which according to our projection will not come until Q1-2023. It is also relevant to highlight that continued large hikes are needed to restore confidence in financial markets to prevent recent risk premium shocks embedded in Colombian assets to become entrenched.

Chart 1



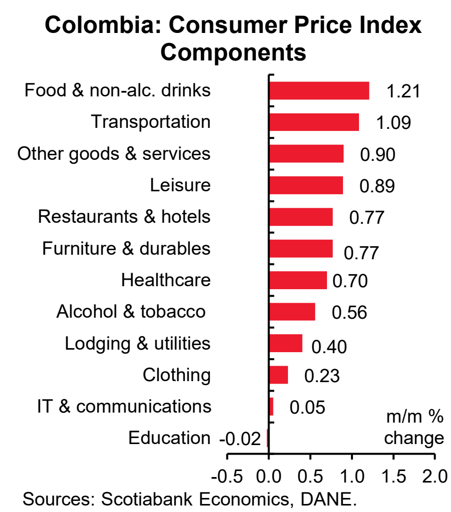
Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján