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GLOBAL ECONOMICS

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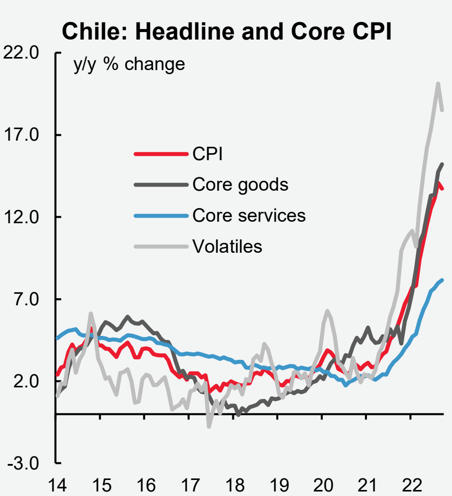
Chart 1



Sources: Scotiabank Economics, INE.

Latam Daily: Inflation Steadies in Mexico, Ticks Lower in Chile; BCRP Hikes 25bps

- **Chile: Inflation slows in September; expect 25 or 50bps hike next week**
- **Mexico: Headline inflation was unchanged and below consensus in September, but core inflation remains on an uptrend**
- **Peru: BCRP hikes 25bps, maintains guidance pointing to another increase**

Chilean inflation data released this morning broadly met expectations with a marginal decline in year-on-year terms while matching the month-on-month forecast. **On the other hand, Mexican CPI decelerated more significantly than anticipated in the second half of September**, resulting in a full-month miss in both headline and core y/y terms.

Peru's BCRP met economists' expectations of a 25bps hike at its policy announcement yesterday, while leaving the door open to more small hikes at upcoming meetings and as it keeps a watchful eye on incoming data.

—Juan Manuel Herrera

CHILE: INFLATION SLOWS IN SEPTEMBER; EXPECT 25 OR 50BPS HIKE NEXT WEEK

Chile's CPI rose 0.9% m/m in September in data published this morning by the INE, **matching our expectations as well as the Bloomberg forecast median** but below projections the latest central bank survey (1% m/m). With this, **annual inflation slowed to 13.7% y/y in September, from its maximum level of 14.1% y/y reached in August** (chart 1).

In our view, annual inflation will continue to slow in coming months, down to 12.5% y/y at the end of 2022. **Next year, lower domestic and external pressures would bring annual inflation towards the central bank's objective**, ending 2023 at 3.7 % y/y.

For the central bank, today's data do not allow a clear diagnosis of a slowdown in inflation beyond the ratification of the drop in year-on-year inflation. The CPI without volatiles remains high while the diffusion (% of goods with m/m increases) at the level of goods and services remains at worrying levels. **Consequently, we expect an increase in the benchmark rate next week, where once again the Board will assess whether to approach the terminal rate little by little or move quickly. In our view, the alternatives to be evaluated would be a dose of 25bps or 50bps, respectively.**

—Aníbal Alarcón

MEXICO: HEADLINE INFLATION WAS UNCHANGED AND BELOW CONSENSUS IN SEPTEMBER, BUT CORE INFLATION REMAINS ON AN UPTREND

Mexican inflation stood at 8.70% y/y in September, below the 8.75% consensus. Core inflation edged up, from 8.05% to 8.28%, but also below analysts' expectations of 8.34% (chart 2). Merchandise prices went up 10.84% y/y, and services 5.35% (chart 3). The non-core component moderated from 10.65% to 9.96% (chart 4), owing to a lower increase in energy prices, from 8.14% to 6.16%, yet raw food prices remain on the rise, to 15.05% (14.90% previously).

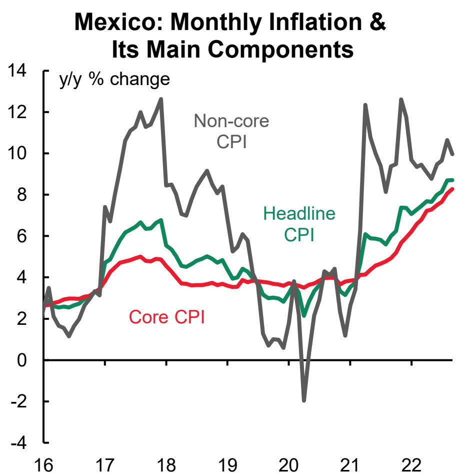
On a month-on-month basis, headline inflation moderated from 0.70% to 0.62% (vs 0.66% consensus). **The core basket also cooled, from 0.80% to 0.67%** (vs 0.72% consensus). Non-core basket inflation rose from 0.39% to 0.47% as food items inflation accelerated from 0.98% to 1.51% yet energy inflation dropped from 0.11% to -0.42%. In particular, the minimum consumption basket price index stood at 9.60% y/y and 0.77% m/m.

With this in mind, President AMLO recently released the anti-inflationary plan update that aims to stop increases in the prices of the minimum consumption basket. While we still don't think that this could have a significant impact on food items prices (as the first version of it didn't either), **we do believe this plan could have some impact on food imports by relaxing tariffs and regulations**. However, energy subsidies had a muted impact on prices, and we expect them to continue in the new plan at the expense of public finances. **For the months to come, we will follow the minimum wage increase debate,** with it being increased by close to 20% annually since 2018 in an attempt to give purchasing power back to workers. **Thus, we consider higher labour costs as one of the upside risks for inflation.**

Inflation expectations also went up. Analysts in the Citibanamex Survey now expect inflation at 8.50% y/y (on average) at the end of 2022 (vs. 8.36% previously), and 4.84% (vs. 4.60%) at the end of next year. Banxico's forecasts see no further increases in inflation this year, seeing 8.6% in Q4-2022, and returning to its objective of 3.0% at the end of 2024. **Whether price dynamics have really reached a peak in September or not remains yet unclear, as the core inflation—that contributes with slightly more than 2/3 of price dynamics prices—remains on an uptrend**.

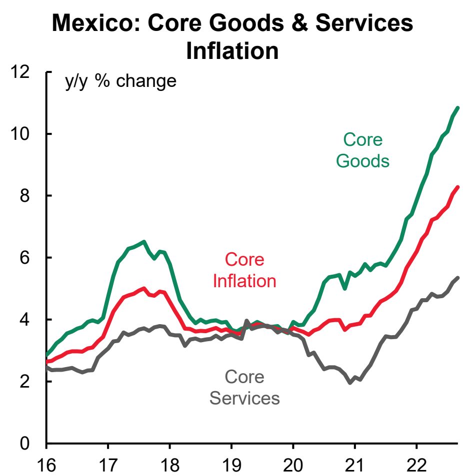
As for monetary policy implications, we believe Banxico will keep its pace of 75bps hikes in November, and raise by 50bps the rate in December, ending the year at 10.50%, which also broadly in line with consensus.

Chart 2



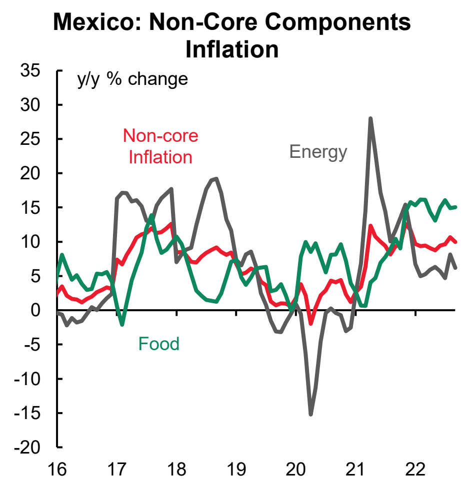
Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

—Miguel Saldaña

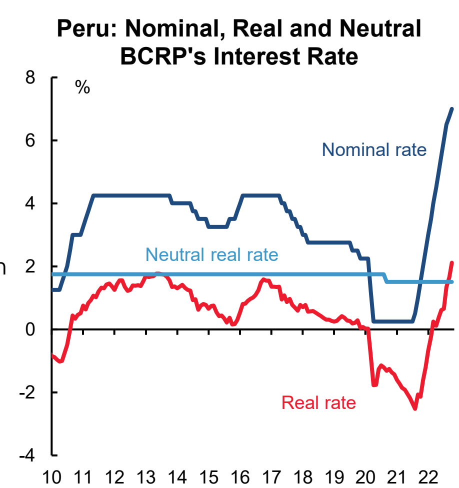
PERU: BCRP HIKES 25BPS, MAINTAINS GUIDANCE POINTING TO ANOTHER INCREASE

The Board of Peru's central bank (BCRP) raised its key interest rate by 25bps to 7.00% on Thursday, in line with our expectation and the market consensus, but above what 3-month swaps indicated (6.85%).

This is the second consecutive time that the BCRP has raised its key interest rate by 25bps, after having hikes of 50bps at each of the previous 12 decisions. We believe that this slowdown in rate hikes suggests that the end of the interest rate hike cycle is near. The key will continue to be the speed with which inflation expectations moderate. The wording of the statement is similar to the previous statement, which suggests that although data are heading in the right direction, it is probably not convincing enough yet. **We assume that the central bank will wait for clear evidence of easing of price pressures, and until then it is pre-emptively opting for additional interest rate hikes.**

Inflation peaked in June (8.8% y/y) and has slowed down since then, but without conviction. A reflection of this is that headline and core inflation where practically unchanged in September at 8.5% y/y and 5.5% y/y, respectively. However, other price indices, such as wholesale prices

Chart 5



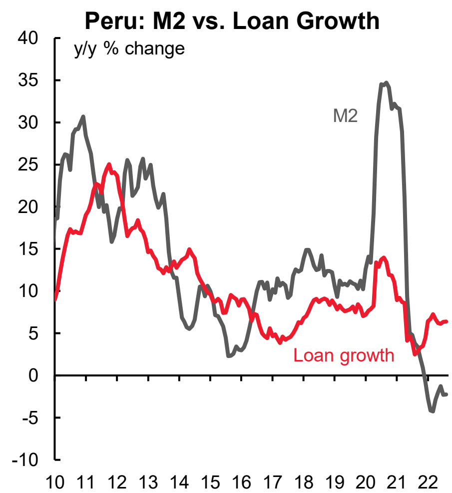
Sources: Scotiabank Economics, BCRP.

and those linked to construction materials and machinery, continue to slow. In geographical terms, the data are also encouraging. Only 4 of the 26 largest cities in the country registered year-on-year inflation greater than 10% in September. This represents half of the 8 cities above 10% in August, also down from 16 cities in July.

The change in monetary policy stance is now more visible. The real interest rate has risen from 1.65% to 2.11%, standing for the second consecutive month above 1.50%, a level considered neutral by the BCRP (chart 5). It is likely that, due to this, the BCRP statement no longer mentioned that the hike continued the "normalization of monetary policy", now emphasizing that "it continues with the adjustments of the monetary policy position".

The BCRP kept the forward guidance used in previous statements, which leaves open the possibility of new hikes, depending on how the inflation drivers evolve. We consider a new precautionary interest rate increase of 25bps likely for the next meeting on November 10, which would reach a terminal rate of 7.25%.

Chart 6



Sources: Scotiabank Economics, BCRP.

Like us, the central bank forecasts a downward trend in year-on-year inflation, maintaining its expectation of a return to the target range during the second half of 2023, both due to the moderation of the effect of international food and energy prices, as well as declining inflation expectations. However, the global price environment is still unstable, so the central bank may continue to make further adjustments. To reflect this precautionary stance of the BCRP, we raised our benchmark interest rate forecast to 7.25% as the terminal rate for the year-end, expecting it to remain at that level for most of 2023, according to our ***Latam Weekly*** edition of September 9, 2022.

The statement maintains its pessimistic outlook for global and local economic activity, emphasizing the drop in global growth expectations for this year and next. In terms of drivers, it replaces "expected unwinding of stimulus in advanced economies" with "expected policy interest rate hikes in advanced economies" reflecting the firm position of major central banks against inflation. It also removed "persistent global supply bottlenecks" and introduces "lower growth in China". It also points out that, although most of the leading indicators and expectations for Peru's economy recovered in September, most remain in pessimistic territory.

On the quantitative side, growth in the quantity of money (M2) remained in negative territory (-2.2% y/y in August) for the ninth consecutive month, although maintaining a low intensity (chart 6). Loan growth remained robust, with a pace 6%+ y/y for the eighth consecutive month.

—Mario Guerrero