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Latam Daily: Peru Political Update; Chile International Trade

• Peru: Political update

The broad tone in markets steadied in overnight trading with regional pockets of action (hawkish RBA hike) and limited follow through from a Bostic (Fed) interview yesterday afternoon reinforcing the adjustment in Fed hikes pricing of the past couple of sessions. Global markets are looking ahead to a speech by Fed Chairman Powell at noon ET with his take on Friday's strong jobs report the focus; Bostic yesterday and Kashkari this morning are delivering a more hawkish tone than the Chairman at last week's decision presser.

US equity futures are unchanged while the USD trades flat against the majors, but notably on the backfoot against the MXN, CLP, and BRL in early dealing. Crude oil is tracking a strong gain of ~1.5%, buoyed by Saudi Aramco unexpectedly increasing prices to international clients across the board, but most notably to its Asian customers—reflecting its confidence in demand from China. Metals prices, meanwhile, are weaker: iron ore down 1.5-2% and copper a touch lower (0.1/2%).

Chile published international trade data for January this morning showing an increase in the country's trade balance to USD2.60bn (in line with estimates). This represented an increase from December's USD1.85bn surplus but, more importantly, continues to mark a notable turnaround in the country's external position—as tailwinds for the CLP mount (though we think recent moves have been in excess of fundamentals). In January 2022, Chile ran a USD1.0bn surplus that moved to a USD1.1bn deficit in August 2022.

With households reining in expenditures amid elevated rates (and no more sugar-rush from pension fund withdrawals), Chilean imports fell to USD6.33bn (from USD7.00bn in December) while exports climbed only marginally to USD8.92bn (from USD8.90bn)—with non-copper exports driving the charge, as exports of the metal fell from USD4.28bn to USD2.98bn. The weakening domestic backdrop is heading in a direction that will eventually allow the BCCh to cut rates. For that, however, we need to see a pronounced deceleration in inflation, our economists think Chilean CPI gains fell to 12% y/y in January according to data due for release tomorrow.

Brazil's central bank minutes reaffirmed the bank's steadfastness in hitting its inflation goal, highlighting the recent increase in long-term inflation expectations (as we noted in Friday's [Latam Weekly](#)). The bank again noted the uncertain fiscal outlook. A deanchoring of expectations means the central bank must remain especially committed to elevated rates for longer—as much as it troubles President Lula who yesterday called on companies to complain about high interest rates. Markets may keep rate hikes on the table (and act as an offset to BRL against Lula-driven risks) given that inflation seems to be flattening out at high levels, all the while expectations are being pressured higher.

—Juan Manuel Herrera

PERU: POLITICAL UPDATE

Congress has now voted against a number of initiatives for early elections and, as a result, the only legal election date continues to be April 2026, as established by the Constitution. The strongest alternative seems to be early elections in April 2024. This is the only initiative that has gathered a favourable vote, one of two needed for the Constitutional change required. Although it was challenged by other proposals for even earlier elections, in 2023, these have not prospered, putting April 2024 back on the table.

February 7, 2023

The main groups in Congress that are voting against the early election proposals are the extreme right, and moderate-to-extreme left. The stance on the right favors upholding the current institutional framework on principle. But the bulk of the votes against early elections are on the left, and what much of this segment is allegedly really seeking is a Constitutional Assembly. That is, early elections will only be accepted if a vote for a Constitutional Assembly is part of the package. This sine-qua-non for the left is a deal breaker for the center-right.

At the core of disagreements within factions in Congress are both incompatible priorities, and, perhaps even more so, deep mutual distrust.

On the face of it, this impasse would suggest that the only avenue for early elections is that President Boluarte resign. Here again, Congress is divided, with a segment of members favouring her resignation while others consider that this would create even more instability.

Meanwhile, there is a low intensity power struggle regarding the permanence of the current congressional presiding table, with leftist factions calling for an immediate change in congressional leadership that would give more weight to the left. The tug-of-war caused one member of the Congressional presiding board, Digna Calle, to resign after her party, Podemos Perú, positioned itself on the side of those demanding that President Boluarte resign.

Meanwhile, the government extended the State of Emergency for 60 days throughout much of the south, including Cusco, Puno, Arequipa, Tacna, Moquegua, Apurímac and Madre de Dios. In Puno, there will also be a curfew starting at 8pm. Puno is where the bulk of the roadblocks are located, and are apparently under the control of illegal segments of the economy, mainly illegal miners. A handful of organizations have called for a strike on February 9, although at the time of writing, it is not clear how meaningful it will be.

—Guillermo Arbe

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