

Latam Daily: Colombia Inflation; Banxico Minutes; BCRP Expected to Hold

- **Colombia:** March inflation came in above consensus, again
- **Mexico:** Minutes from Banxico's March 25 hold due on Thursday, April 8
- **Peru:** Another hold at 0.25% expected on Thursday, April 8

COLOMBIA: MARCH INFLATION CAME IN ABOVE CONSENSUS, AGAIN

March inflation, [published](#) late on Monday, April 5, by DANE, stood at **0.51% m/m**, once again above both market consensus (BanRep survey: **0.41% m/m**) and our projection (**0.42% m/m**). Foodstuffs inflation contributed the most to the positive surprise, but core inflation at 0.39% m/m was also above the market consensus of 0.36% m/m. This reflected further upward price pressures amongst core components—a signal of the strengthening economic environment and further normalization of prices. That said, annual headline inflation dropped from 1.56% y/y in February to 1.51% y/y in March, close to a record low; at the same time, annual core inflation increased from 0.93% y/y in February to 1.06% y/y in March (chart 1).

Looking at the March numbers with greater granularity, **10 out of 12 sectors contributed positively to the monthly inflation print (chart 2)**. Some prices, such as education fees, which usually remain unchanged in March, continued rising in the month; similarly, rental fees and utility charges also pointed to some additional normalization in prices.

- **The lodging and utilities sector made the strongest monthly contribution of 23 bps on a sectoral price gain of 0.69% m/m (chart 3);** utility charges accounted for 15 bps of this contribution owing to some prices resuming their mandatory adjustment rules after an atypical year during which fees were frozen and subsidized, while rental fees added 7 bps, closer to their regular monthly contribution to inflation.
- **The food and non-alcoholic beverages group was the second-largest sectoral contributor to March inflation (18 bps on a 1.14 % m/m rise in prices);** potatoes and fruits led the sector's price gains amid their usual harvest cycles, while meat prices rose owing to supply shortfalls versus rising domestic demand.
- **Other sectors, such as transport (0.43% m/m), restaurants & hotels (0.40% m/m), and clothing (0.46 % m/m), contributed positively too.** On the negative side, prices for IT and communications fell (-0.85% m/m) owing to better fees on mobile plans; in the same vein, leisure group prices softened (-0.53% m/m) amid price reductions on vacation plans bought during the month.

Looking at annual inflation across major categories, goods inflation remained broadly unchanged at 1.05% y/y (versus 1.07% y/y in February), services inflation fell -2 bps from 0.91% y/y to 0.89% y/y, and regulated-price inflation increased by 68 bps to 1.52% y/y, the highest print since May 2020.

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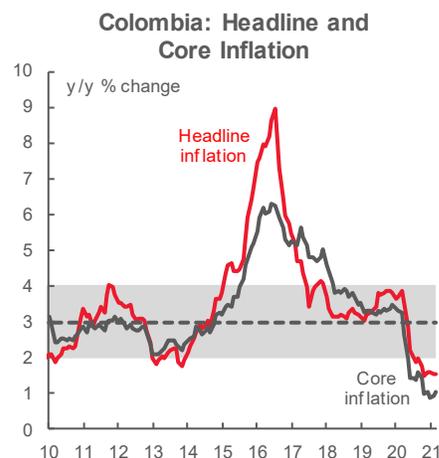
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Chart 1



Sources: Scotiabank Economics, DANE.

As previously noted, core inflation rebounded: ex-food inflation came in at 1.06% y/y (up about 13 bps from February), while ex-food and regulated-price inflation fell by -2 bps from February to 0.94% y/y in March. Low-income households continued facing greater annual inflation (1.94% y/y) than high-income households (1.0% y/y).

Although March's inflation surprise was mainly driven by food prices, the overall result continued pointing to normalizations in key sectors that were strongly affected by the worst phase of the pandemic. March's price numbers combined with better economic activity data for recent months affirmed our baseline forecasts that anticipate the beginning of a normalization path in monetary policy rates in the latter part of 2021. We still expect the headline annual inflation rate to converge to the BanRep's 3% y/y target by end-2021.

For now, we expect the BanRep Board to keep its benchmark policy rate on hold at 1.75% until at least September-2021, when we look for a first hike.

—Sergio Olarte & Jackeline Piraján

MEXICO: MINUTES FROM BANXICO'S MARCH 25 HOLD DUE ON THURSDAY, APRIL 8

Banxico is due to release the minutes of its March 25 Board meeting where the Bank's Governors voted unanimously to hold the target rate at 4.00%, as expected by analysts and priced by the market (chart 4). As we noted in our [Latam Daily](#) from March 26, however, the unanimity of the vote and the Board's tone together surprised markets on the hawkish side. The Board's statement explained that both domestic and international factors underpinned the decision: the spike in core inflation to 4.09% y/y in early-March (chart 5), risks connected to depreciation in the MXN, and the need to ensure orderly adjustments in markets. Forward guidance remained relatively neutral and data-dependent, and there was no mention of this hold being a "pause" on a path of further easing.

We will look to the minutes for further insights on slight differences in views amongst Board members that may have been obscured by their unanimous vote on March 25. The [statement](#) following February 11's 5-0 decision to cut the target rate by -25 bps to 4.00% saw the removal of (1) a statement that the balance of risks for inflation is uncertain: and (2) a warning that economic activity faces downside risks. The minutes from the subsequent March 25 meeting may provide some additional colour on how the Governors' outlooks for inflation and growth have changed, particularly given Mexico's high beta to US fiscal stimulus and ensuing demand.

Although the room for further easing has clearly narrowed, we maintain our narrow call for another -25 bps cut in Q3-2021. Banxico is then expected to begin raising its policy rates in Q1-2022 (chart 4, again).

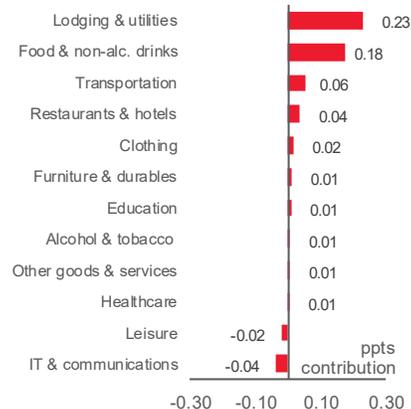
—Eduardo Suárez & Brett House

PERU: ANOTHER HOLD AT 0.25% EXPECTED ON THURSDAY, APRIL 8

The Board of Peru's BCRP is due to make its next policy-rate decision at its meeting scheduled for Thursday, April 8, and a hold at the current record low of 0.25% is widely expected by analysts and ourselves (chart 6). The BCRP's reference rate has been at 0.25% since April 9, 2020 at the onset of the pandemic and it was reaffirmed at this level by a unanimous vote of the Board at its March 11 meeting, in line with the consensus of projections.

Chart 2

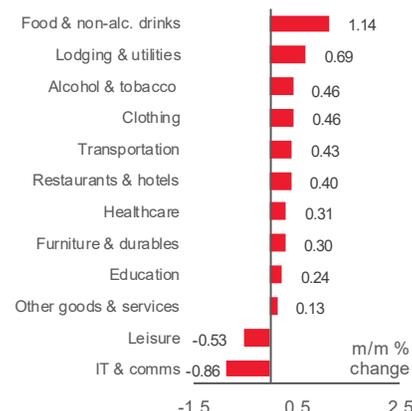
Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

Chart 3

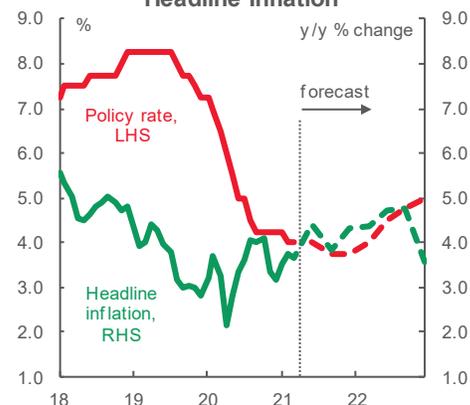
Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

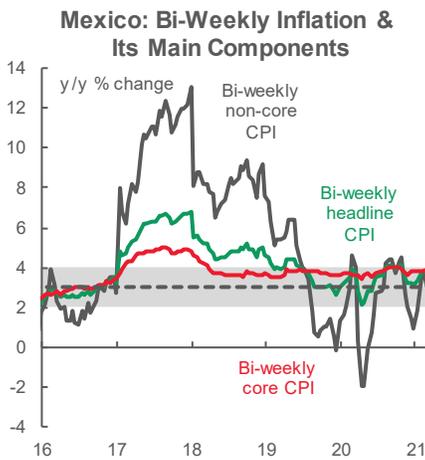
Chart 4

Mexico: Overnight Rate vs Headline Inflation



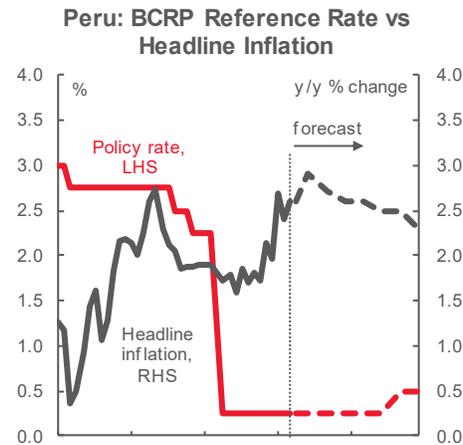
Sources: Scotiabank Economics, Banxico, INEGI.

Chart 5



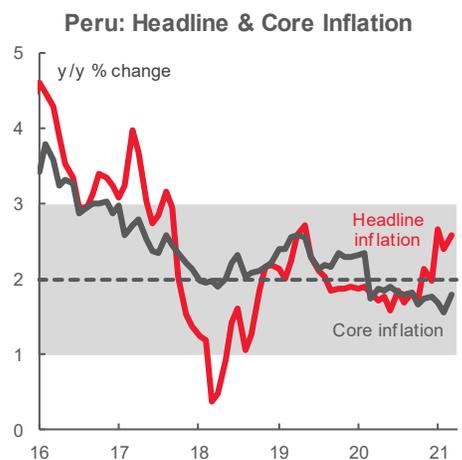
Sources: Scotiabank Economics, INEGI.

Chart 6



Sources: Scotiabank Economics, BCRP, INEI.

Chart 7



Sources: Scotiabank Economics, BCRP, INEI.

In the [statement](#) issued following the last rate decision the Board reiterated its forward guidance from previous months (see our [Latam Daily](#) from March 12). It advised that the reference rate would remain low for an extended period and for so long as the pandemic's effects on inflation and its determinants persist. The statement did not comment on the recent volatility in international markets, but it did repeat its commitment to using “diverse instruments” to support the monetary stimulus it is providing, should this prove necessary. The current policy mix seeks to strengthen long-term interest rate transmission mechanisms with a focus on mortgage rates.

Inflation in Q1-2021 has been above both the BCRP's 2% y/y target and expectations, but it remains in line with our forecast of 2.6% y/y for end-2021 (chart 6, again). After January saw a surprising 2.7% y/y print, headline inflation came down to 2.4% y/y in February before rising again to 2.6% y/y in March on the back of a strong 0.84% m/m sa sequential gain in prices. The gradual depreciation of the sol from around USDPEN 3.62 at the beginning of 2021 to USDPEN 3.74 at the end of last week could add some inflationary impulse, but most recent price pressures have come from non-core and fuel prices. Core inflation still rose from 1.57% y/y in February to 1.79% y/y in March, but it remains below 2% y/y target for headline inflation (chart 7). In its March [Inflation Report](#), the BCRP revised its inflation forecast for 2021 from 1.5% y/y to 2.0% y/y as the Bank's survey of inflation expectations moved from 1.7% y/y to 2.1% y/y for this year. Still, slack is expected to persist in the Peruvian economy well into 2022. As a result, there is little immediate rationale for the Board to change its stance even though level effects are expected to push headline inflation close to 3.0% y/y in the coming months (chart 6, again).

Taking recent developments into account, we reconfirm our forecast that the BCRP Board will keep its reference rate on hold at 0.25% until Q3-2022. An eventual rate increase would be preceded by a gradual shift in the Board's forward guidance toward a less data-dependent line.

—Mario Guerrero & Brett House

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