

Latam Daily: Colombia November Inflation; Possible Closure of Las Bambas in Peru

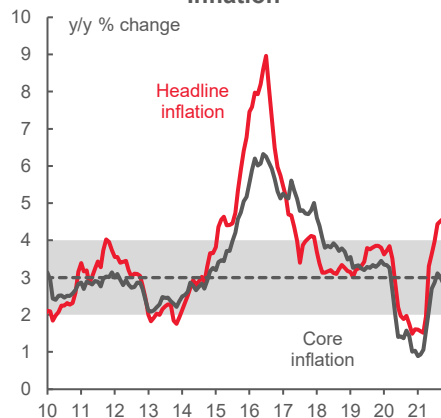
- **Colombia: November inflation surprised to the upside with a 5.26% y/y headline CPI; 50 bps rate hike expected in December**
- **Peru: Las Bambas warns on possible indefinite closure**

COLOMBIA: NOVEMBER INFLATION SURPRISED TO THE UPSIDE WITH A 5.26% Y/Y HEADLINE CPI; 50 BPS RATE HIKE EXPECTED IN DECEMBER

Monthly CPI inflation was 0.5% m/m in November 2021, according to DANE data published on Saturday, December 4. This result is well above the median forecast in BanRep's survey (0.18% m/m), Bloomberg's survey (0.21% m/m), and Scotiabank Economics' projection (0.20% m/m). Food prices remained under pressure from higher meat exports and input prices and growing demand due to economic activity recovery. November's CPI result brings annual headline inflation to 5.26% y/y, up from 4.58% y/y in October (chart 1), above the ceiling of BanRep's target range (2%–4%) for the fourth month in row, and the highest since January-2017. On the other hand, core inflation also increased from 2.86% y/y to 3.36% y/y, while ex-food and regulated goods inflation came in at 2.54% y/y (up from the 2.02% in the previous month), which, although still below BanRep's target, it increased 52 bps and supports a more aggressive pace of policy rate normalization.

Our base-case scenario remains of a 50 bps rate hike at the December 17 monetary policy meeting, however, financial markets could discount up to a 75 bps hike due to the upward surprise of November's CPI. Additionally, inflation expectations would increase and probably surpass 5% by the end of the year, which put pressure to the minimum wage negotiations that are taking place in December since annual inflation is a key variable for the 2022 minimum wage adjustment. Furthermore, it will be crucial for BanRep to see what happens with the longer run inflation expectations to fine-tune the policy rate normalization.

Chart 1

Colombia: Headline and Core Inflation


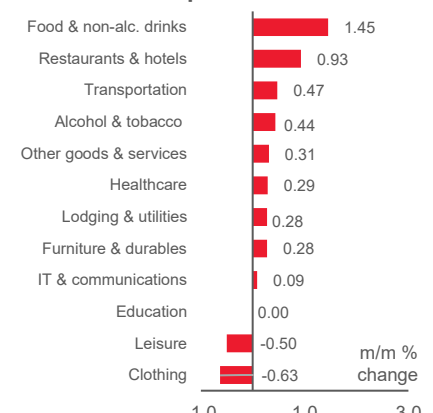
Sources: Scotiabank Economics, DANE.

Chart 2

Colombia: Consumer Price Index Components


Sources: Scotiabank Economics, DANE.

Chart 3

Colombia: Consumer Price Index Components


Sources: Scotiabank Economics, DANE.

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Looking at the November numbers in detail, only 2 out of 12 sectors decreased (charts 2 and 3). Once again, foodstuff inflation posted the highest gains. The main highlights are:

- Foodstuff sectors had the largest contribution (+25 bps). Inflation of +1.45% m/m, with the main gains coming from meat (+2.31% m/m), milk (+3.18% m/m), and eggs (+2.55% m/m). Although we continue to expect foodstuff inflation to moderate in the forthcoming months, rising input prices are making food prices to remain high for longer, especially imported commodities such as soy and corn. Restaurant & hotel inflation in November contributed 9 bps again on the back of higher input prices but also due to the economic activity recovery given the near 100% capacity in the hospitality sector.
- On the lodging & utilities sector, the main positive contribution to utility fees (+0.95% m/m) were: gas (+2.83% m/m), and electricity (+1.03% m/m). Rental fees increased by 0.08% m/m, while tradable housing goods increased by 2.44% m/m.
- The only negative contributions came from leisure services (-0.5% m/m and -2 bps) and clothing (-0.63% m/m, and -2 bps), on the back of the VAT holiday and black Friday days.

It is worth noting that food inflation and regulated prices continued leading inflation. Although core prices remained under control they are increasing at the margin and help the hawkish wave on BanRep's Board.

Looking at annual inflation across major categories, goods inflation increased to 3.79% y/y (versus 2.63% y/y in October), while services inflation increased by 28 bps from 1.79% y/y to 2.07% y/y. Regulated-price inflation jumped 43 bps to 6.56% y/y, following the normalization on utility fees as some subsidies expired compared to the previous year.

All in all, November inflation results surprised upwards, especially on the back of higher than expected food prices.

Having said that, core inflation also showed increments due to better domestic demand and still some bottle necks in the external distribution channels. We think that December inflation will continue to face some base statistic pressures and food prices will continue above 13%, therefore headline inflation will end above 5%. That said, in terms of monetary policy, our base case scenario is still a 50 bps rate hike for the December 17 BanRep meeting. However, a split decision would prevail with two out of seven Board members likely to continue voting for a 25 bps increment. In fact, some Board members have underscored that the recent spike in annual inflation is due to supply factors therefore the pace of policy rate normalization should be more gradual.

—Sergio Olarte & Jackeline Piraján

PERU: LAS BAMBAS WARNS ON POSSIBLE INDEFINITE CLOSURE

MMG Limited (China), which operates the Las Bambas mine, released a statement to the Hong Kong Stock Exchange on Friday, December 3, advising that it has been forced to progressively wind down its mining operations as ongoing blockades by local communities have led to “a lack of key consumables” needed to operate. MMG expects to cease operations and production at Las Bambas by mid-December.

The announcement comes after the Chumbivilcas communities started new blockades, interrupting the access to the port of Matarani, on November 20. The company has been in talks with community organizations, and claims that the latest talks, held on November 30, were not successful due to “what the Company vies as excessive commercial demands”.

In a previous meeting, Las Bambas had agreed to hire “communal companies” from Chumbivilcas to provide services to the mine, such as transporting minerals and maintaining the road, also financial compensation to the communities that make a living from agriculture and another compensation due to the environmental damage caused by the passage of heavy vehicles on the unpaved road.

MMG said in its statement that copper production, at the end of November, was approximately 278,000 tonnes and the stockpiles at the site have increased to around 50,000 tonnes. This is in line with the level of exports in October, which fell around 50% compared to the average volume of the last five months, because part of the production has not been able to be transported to the port due to the blockade. The weight of Las Bambas in the national copper production, in the accumulated January-October, is 13.3%. During 2020, the participation was 14.6% (table 1).

Output (TMF)	Jan-Oct 2021	2020
Las Bambas	251,521	312,776
Total copper	1,893,486	2,149,246
% Las Bambas	13.3%	14.6%

Sources: Scotiabank Economics, Minem.

What are the implications? In our view, these would include:

- Daily losses of around USD 8.5 mn in sales.
- The updated production guide would not be reached in its Q3-2021 results, that was between 305,000–310,000 tonnes. Production for 2021 would be below this level since production in November was 278,000 tonnes and also because the company announced that it would be suspending its production in mid-December due to the lack of key inputs.
- Production in 2021 would be the lowest since Las Bambas began operations (2016) despite a year with significantly higher prices. Peak production was in 2019 with 414,394 tonnes.
- Lower level of copper exports in November and December (tables 2 and 3).
- There will be a reduction in royalties as the company's income is reduced due to lower exports.
- Las Bambas copper production represents approximately 0.8% of the national GDP, so temporary stoppages at the mine would affect the growth of economic activity.

Exports (USD)	Jan-Oct 2021	2020
Las Bambas	2,533,460	1,908,530
Total copper	12,296,325	11,110,472
% Las Bambas	20.6%	17.2%

Sources: Scotiabank Economics, Minem.

Exports	Jan-Oct 2021	2020
Las Bambas	957,854	897,690
Total mining	24,215,009	19,625,687
% Las Bambas	4.0%	4.6%

Sources: Scotiabank Economics, Minem.

So far, in 2021 to December 3, the number of days of protests have totaled 83. The protests of the Chumbivilcas communities come after the protests of the Cotabambas communities which, after more than 20 days of blockades, reached a negotiated agreement. According to this agreement, Las Bambas promised to continue financing local greenhouse projects, which allow the communities to diversify their agricultural production, among other things. In addition, the company had agreed to meet with officials from the Ministry of Labour to seek greater job opportunities.

—Katherine Salazar

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