

Latam Daily: Peru Election Still Undecided; Mexico's Midterms Rebalance Congress

- **Mexico:** Preliminary midterm results deliver rebalancing of congressional power
- **Peru:** Election results statistically tied
- **Colombia:** Monthly inflation surpasses May expectations, stays within target annual range

MEXICO: PRELIMINARY MIDTERM RESULTS DELIVER REBALANCING OF CONGRESSIONAL POWER

Mexico's midterm election appears to have delivered a rebalancing of power in congressional politics, securing a majority for AMLO's ruling coalition but falling short of a two-thirds majority. According to [early official results](#), with nearly 90% of votes counted, the ruling party MORENA would have secured the largest share of votes at 34%, or more than 45% combined with current coalition parties. The opposition's coalition, meanwhile, formed by traditional parties PRI-PAN-PRD, recovered ground, reaching close to 41% share of votes at the expense of smaller and independent parties, which suffered the greatest losses. Congressional seats, however, are allocated in a mix of relative majority and proportional representation. With MORENA in the leading position, the president's ruling coalition would appear set to secure a majority of lower chamber seats (between 265–292 seats out of 500); and the opposition's bloc could reach between 181–213. At current trends, the president's ruling coalition would fall short of the two-thirds majority (334 seats) needed to push through constitutional changes. Local elections reveal a split-ticket voting, as MORENA appears to have made greater gains at the local level, seemingly winning 11 of the 15 governorship races. Our report from June 4 on the [Mexican election](#) provides more detail.

—Adriana Vega

PERU: ELECTION RESULTS STATISTICALLY TIED

With approximately 90% of votes counted, the official vote has Keiko Fujimori with a slight lead of 50.3% to 49.7% over Pedro Castillo. However, the gap has been narrowing as new data released by the elections board (ONPE) delivers outcomes in rural areas. Of the approximately 10% of votes still left to be counted, the outcome is uncertain as rural areas would favour Castillo, while overseas voters which would likely favour Fujimori. The final count could tilt either way.

Given how close the election results are, the final count may not be known today, although it would appear that the ONPE is doing a quicker job in getting the votes counted this time than in the past. In the 2016 presidential elections, which Pedro Pablo Kuczynski won by 40,000 votes, a final official tally was not given until two weeks after the elections. However, it had become relatively clear that Kuczynski had won three days after the elections, when 98% of votes had been counted.

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Last night, a quick count of votes released three hours after voting ended had Pedro Castillo obtaining 50.2% of valid votes, to 49.8% for Keiko Fujimori. This is a difference, that is well within the 1% margin of error of the count. The quick count is based on a sample of voting booths, which is the reason why there is a margin of error. It is normally reliable, except when elections results are very close, as is currently the case. In 2016, the quick count favoured Kuczynski over Keiko Fujimori by 50.5% to 49.5%, versus a final count that favored Kuczynski by 50.12% to 49.88%.

The elections results so far have ratified the deep divide that exists between Lima and the northern coast which favoured Keiko Fujimori by a wide margin, with the south and the highlands, which had an equally strong bias in favour of Pedro Castillo.

—Guillermo Arbe

COLOMBIA: MONTHLY INFLATION SURPASSES MAY EXPECTATIONS, STAYS WITHIN TARGET ANNUAL RANGE

May price data, published on Saturday, June 5, by DANE, put inflation at 1.0% m/m, once again well above both market consensus (BanRep: 0.50% m/m) and Scotiabank Economics' own projection (0.89% m/m). Foodstuff inflation contributed 88 bps to the overall figure amid the impact of the nationwide strike; the only group on the negative side was IT & communications due to a reduction in mobile plan fees. The May results bring headline inflation up from 1.95% y/y in April to 3.30% y/y in May (chart 1), which is in the upper half of BanRep's target range (2%–4%) and affirms our 3.5% y/y forecast for end-2021.

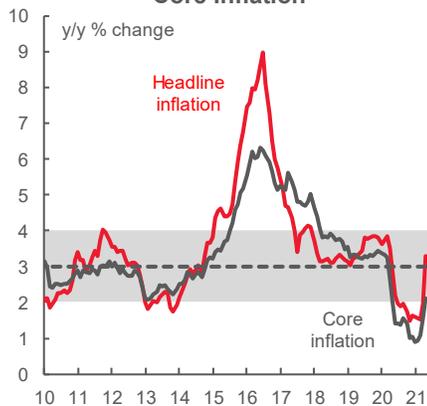
Core inflation stood at 0.15% m/m, below the BanRep market survey consensus of 0.26% m/m and lower than the 0.30% m/m in April. This reflected moderate upward price pressures amongst key components of Colombia's consumer basket. Having said that, core inflation increased from 1.56% y/y in April to 2.11% y/y in May (chart 1, again).

Nearly all categories (charts 2 and 3) pushed up the inflation print, with food prices contributing the most with an increase of 5.37% m/m. Some prices, however, continued normalizing, pointing to a consistent re-setting of markets affected by the pandemic, notably utility fees.

- **Food and non-alcoholic beverage prices made the strongest contribution to month-on-month inflation with 88 bps on a sectoral price gain of 5.37% m/m:** meat (17 bps and 8.15% m/m); potatoes (9 bps and 31.17% m/m); chicken (6 bps and +5.03% m/m), tomatoes (+25.66% and 5 bps) and fruits (8 bps and 10.75% m/m) were the main contributors of the group. The steep increase in food prices is attributed to the scarcity resulting from May's nationwide strikes. With the lifting of some blockages in key national roads in June, we expect normalization in some food prices, leading to negative headline inflation next month.
- **The restaurant and hotels group** was the second-largest sectoral contributor to May's inflation reading (8 bps and 0.86% m/m), in response to higher food prices.

Chart 1

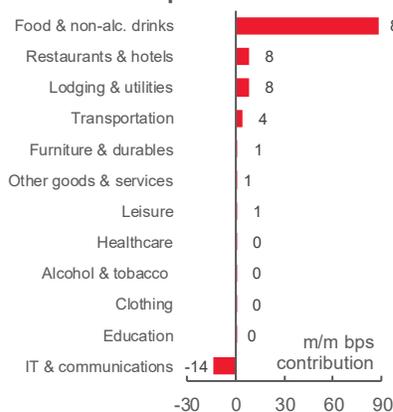
Colombia: Headline and Core Inflation



Sources: Scotiabank Economics, DANE.

Chart 2

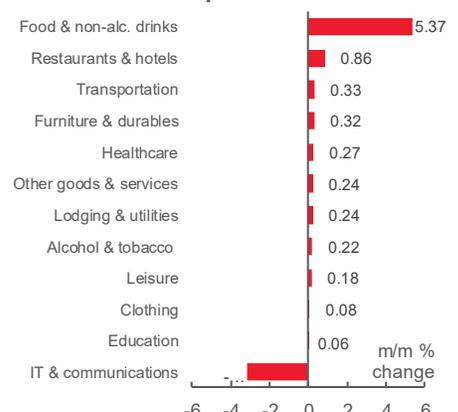
Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

Chart 3

Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

- **The lodging and utilities group** added 8 bps to the 0.24 % m/m rise in prices. **Rental inflation** slowed down, in part due to the national strike, however the group increased a healthy 0.14% m/m. On the other side, **utility inflation** stood at 0.62% m/m, showing that those prices continued normalizing.
- **Transport** (4 bps and 0.33% m/m), also added to May's price gains, especially on higher gasoline prices.
- **IT and communications** moderated price pressures (-13 bps and -3.17% m/m) owing to lower fees on mobile plans. As in the previous month, the entry of a new player in the sector continued pushing prices to the downside.

Looking at annual inflation across major categories, price gains accelerated across the board. Goods inflation increased to 1.77% y/y (versus 1.21% y/y in April), and services inflation rose by 23 bps from 1.25% y/y to 1.48% y/y, and regulated-price inflation accelerated by 142 bps to 4.22% y/y, the highest print since March 2020. As previously noted, core inflation rebounded: ex-food inflation came in at 2.11% y/y (up about 54 bps from April), while inflation exclusive of food and regulated prices increased by 33 bps from 1.24% to 1.56% y/y in May. Vulnerable households face greater annual inflation (4.07% y/y) than high-income households (2.27% y/y).

Despite May inflation being impacted by the nationwide strike, in y/y terms core inflation signalled a normalization in key prices. For now, we affirm our 3.5% y/y of expected inflation by the end of 2021, although risks are tilted to the upside. We anticipate that policymakers will keep the benchmark rate on hold at 1.75% until at least September 2021, when we project a first hike to be implemented.

—Sergio Olarte & Jackeline Piraján

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