

Latam Daily: Chile BCCh Minutes; Colombia Citi Survey; Mexico Domestic Activity

- **Chile:** BCCh minutes from June 8—Board held rate at 0.5% but discussed gradual increase
- **Colombia:** June's Citibank survey—Majority of analysts expect at least one rate hike in 2021; growth forecasts improved
- **Mexico:** Domestic commercial activity setback (m/m) in April; annual data affected by base effects

CHILE: BCCh MINUTES FROM JUNE 8—BOARD HELD RATE AT 0.5% BUT DISCUSSED GRADUAL INCREASE

On Wednesday, June 23, Chile's central bank (BCCh) published the [minutes](#) from its June 8 Monetary Policy Meeting. The document's main takeaway is the Board's approach to gradually begin withdrawing stimulus and return to a more traditional way of managing (and communicating) monetary policy. At the meeting, the BCCh Board unanimously voted to keep the Monetary Policy Rate (MPR) at 0.5%, but it discussed the option of increasing it by 25 basis points to 0.75%—a comment that was interpreted as hawkish by the market.

This shows that, given Chile's robust economic conditions, the Board no longer considers maintaining the MPR at 0.5% as the only possible option. It is nonetheless aware that a normalization process must be gradual since there is still a high degree of uncertainty surrounding the COVID-19 pandemic and that the labour market remains far from its pre-pandemic levels. We maintain our view that the first increase of 25 basis points in the MPR will occur at the meeting of October 13, 2021 (chart 1).

Robust domestic growth in 2021 could help close the wide output gaps that resulted from COVID-19, decreasing the need for monetary impulse to support economic recovery, according to the latest economic data gathered for the BCCh meeting. In addition, along with a strong external scenario and good performance of the local economy at the beginning of the year, a substantial increase in private spending could have a positive impact on aggregate demand. This, further to a set of fiscal measures and the implementation of a third retirement of pension funds, are setting the stage for optimism.

Conversely, some risks remain. A surge in new COVID-19 cases led to the re-imposition of quarantines in the Santiago metropolitan region right after the BCCh's meeting of June 8, delaying the above-mentioned narrowing of output gaps. Copper prices have also seen a setback in recent weeks, deteriorating the terms of trade in the margin.

All in all, we note that these short-term uncertainties are likely to deter any MPR changes at the July and August meetings, supporting our view that the first hike of 25 basis points will occur in October.

—Carlos Muñoz & Anibal Alarcón

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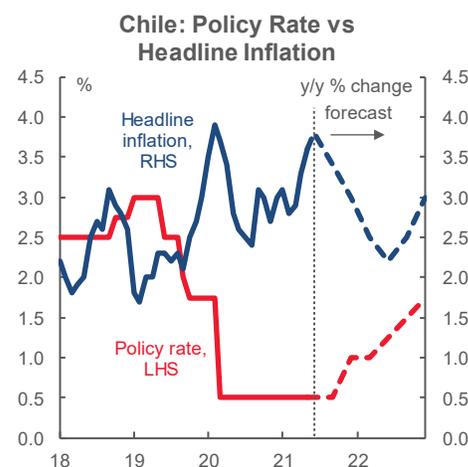
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Chart 1



Sources: Scotiabank Economics, BCCh, INE.

COLOMBIA: JUNE'S CITIBANK SURVEY—MAJORITY OF ANALYSTS EXPECT AT LEAST ONE RATE HIKE IN 2021; GROWTH FORECASTS IMPROVED

Colombia's central bank (BanRep) uses this survey as one of the expectations measures on inflation, monetary policy rate (MPR), GDP, and COP.

Key points from June's Citi survey released on June 22 include:

- **Growth forecasts improved.** In 2021, GDP recovery is now expected to reach 6.08% y/y, higher than in the previous survey's 5.53% y/y consensus. This is the second continuous upside revision. In Q1-2021, the economy surprised to the upside and, in April, activity showed resilience despite lockdowns in main cities. In 2022 and 2023, economic growth is expected at 3.51% y/y (previous: 3.52% y/y) and 3.36% y/y (previous: 3.32% y/y), respectively.
- **Inflation expectations increased again in 2021, but remained anchored for 2022.** June's monthly inflation rate is, on average, expected to be 0.01% m/m and 3.70% y/y; we expect -0.22% m/m and 3.46% y/y as we anticipate a reduction in food prices. For December 2021, the survey's average projection is 3.70% y/y, well above the previous survey expectation (3.31% y/y). It is notable that 100% of analysts now expect inflation to end 2021 above the 3% target. By December 2022, inflation is forecast to hit 3.21% y/y, slightly above the central bank's target.
- **Market consensus points to rate stability over the short term, as 100% of analysts surveyed expect the monetary policy rate to hold at 1.75% at the upcoming June 28 meeting.** A majority of surveyed analysts now expect at least one hike in 2021: In June's survey, only 6 out of 25 respondents expect rates to remain unchanged in 2021 (compared to 11 out of 25 in the previous survey); the rest now expect between one and three 25 bps rate hikes. For 2022, the median policy rate expected is 3.50% (chart 2), above the previous survey's 3.25%.
- **The USDCOP forecasts point to a slight appreciation in the currency through December 2021.** On average, respondents expect a level of USDCOP 3,592 by the end of 2021 (previous survey: 3,584) and USDCOP 3,515 in 2022.

—Sergio Olarte & Jackeline Piraján

MEXICO: DOMESTIC COMMERCIAL ACTIVITY SETBACK (M/M) IN APRIL; ANNUAL DATA AFFECTED BY BASE EFFECTS

According to [data](#) released by statistical agency (INEGI) on June 23, Mexico's retail sales in April saw a modest setback, printing at -0.4% m/m sa (chart 3) in real terms after two consecutive expansions in February (2.6% m/m), and March (3.5% m/m). Wholesale sales also fell, from 2.7% m/m to -0.4% m/m. The annual comparison was highly distorted by base effects as retail sales posted an expansion of 30.1% y/y, and wholesale sales rose 27.3% y/y (chart 4). Compared to pre-pandemic (March 2020, before the economy shut down), retail sales are up 1.17%, while wholesale sales are down -1.68% in real terms.

Negative risks remain over the coming months as COVID-19 cases increased nationwide last week after a period of consecutive declines, posing a growing risk of lockdowns into the summer. We nonetheless remain positive for the annual economic performance outlook, as vaccination efforts progress and economic activity reactivates, leading us to expect strong activity in Q3 and Q4.

—Miguel Saldaña

Chart 2

Colombia: Repo Rate Expectations for End-2021 & 2022

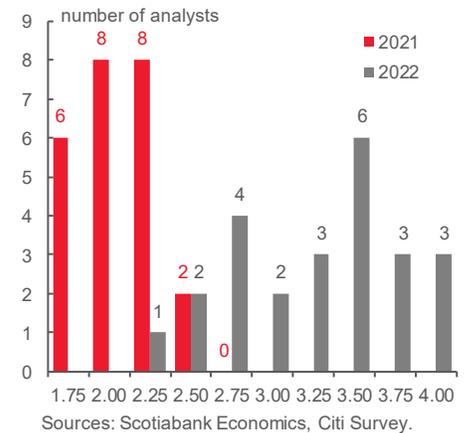


Chart 3

Mexico: Domestic Commercial Activity

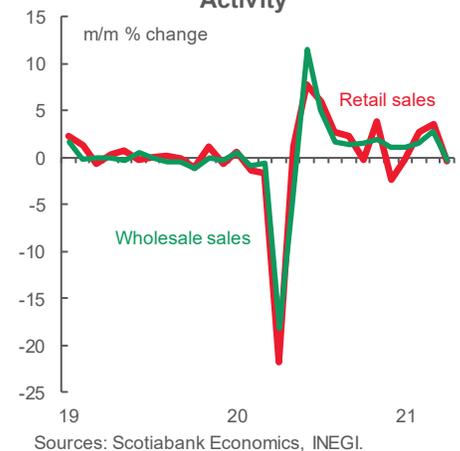


Chart 4

Mexico: Domestic Commercial Activity



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