

Latam Daily: Peru's BCRP Holds; Mexico Suspends Electricity Reform

- **Mexico:** Temporary suspension of the recently-approved Electrical Industry Law
- **Peru:** The BCRP held at 0.25%, updated forecast sees slower decline in inflation

MEXICO: TEMPORARY SUSPENSION OF THE RECENTLY-APPROVED ELECTRICAL INDUSTRY LAW

On Thursday February 11, a federal judge temporarily suspended the application of the recently-approved Electric Industry Law that has been promoted by President Lopez Obrador. The ruling, made in response to a filing by renewable energy companies, found that the law could be anti-competitive and cause damage to the environment because it would advantage traditional energy sources over renewable ones. As we noted in our February 22 [Latam Weekly](#), the law prioritizes in the national grid electricity generated by the state-owned Federal Electricity Commission (CFE) using fossil fuels and hydro facilities over energy produced by private and other renewable sources. This structure would be both economically inefficient by emphasizing relatively high-cost production and environmentally sub-optimal. Although the suspension granted is provisional, the legal challenge that prompted it is expected to be part of a broadly-based campaign against the law by private-sector electricity producers that would be harmed by the new regime.

—Miguel Saldaña

PERU: THE BCRP HELD AT 0.25%, UPDATED FORECAST SEES SLOWER DECLINE IN INFLATION

At its monthly meeting on Thursday, March 11, the BCRP's Board kept its benchmark interest rate unchanged at its record-low 0.25% for an eleventh consecutive month, as expected by both Scotiabank Economics and market consensus. The BCRP Board's [statement](#) reiterated its forward guidance from previous months that the reference rate will remain low for an extended period and so long as the pandemic's negative effects on inflation and its determinants persist. The statement did not comment on the recent volatility of long-term yields in international bond markets. We continue to forecast that the BCRP will stay on hold until the second half of 2022 (chart 1).

The decision came in a context where inflation has been higher than expected, at 2.7% y/y in January and 2.4% y/y in February. These prints seem to have had an impact on the BCRP's thinking: in the statement, the Board pushed out the date from end-2021 to end-2022 that it projects inflation to converge toward the lower half of the 1–3% y/y target range—even though core inflation has remained stable. The BCRP's new thinking may reflect concerns about still-high growth in money supply and credit (chart 2). We maintain our end-2021 inflation forecast at 2.6% y/y (see our March 9 [Latam Weekly](#)).

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive
56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

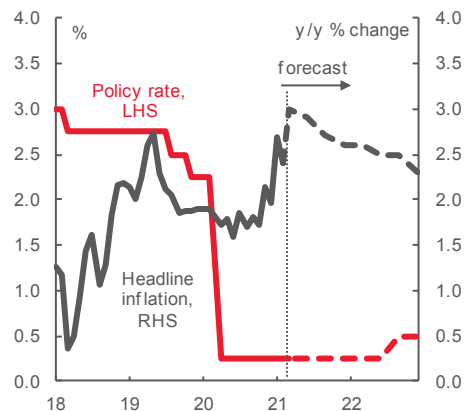
TODAY'S CONTRIBUTORS:

Miguel Saldaña
52.55.5123.0000 Ext. 36760 (Mexico)
Scotiabank Mexico
msaldanab@scotiabank.com.mx

Mario Guerrero
51.1.211.6000 Ext. 16557 (Peru)
Scotiabank Peru
mario.guerrero@scotiabank.com.pe

Chart 1

Peru: BCRP Reference Rate vs Headline Inflation



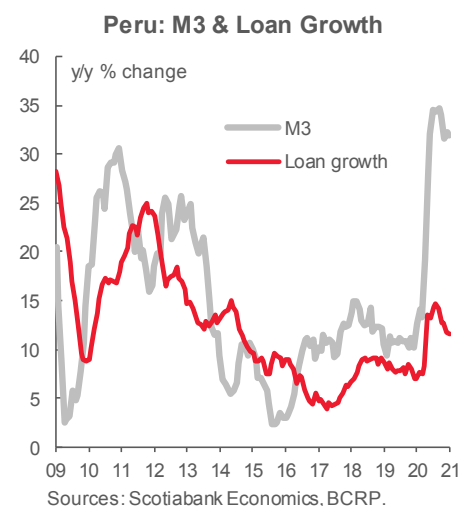
Sources: Scotiabank Economics, BCRP, INEI.

The statement highlighted that business expectations rebounded in February, but still remain in pessimistic territory. The BCRP kept unchanged its forecast that real GDP growth will hit 11.5% y/y in 2021, an ambitious figure that is well above our 8.7% y/y projection. We believe that the BCRP's number will be revised downward when its outlook is updated in the next [Inflation Report](#), which is set to be published later this month.

With respect to FX, the BCRP has sold USD 219 mn in the spot market so far in March. This has not been enough to stop the PEN from weakening against the USD from 3.65 to 3.70, a record level. The BCRP has sold a total of USD 1.4 bn in the spot market in 2021. The derivatives offer has reached USD 2.7 bn in March alone, almost four times the net offer posted in February. The imbalance in the spot FX market worsened in March, reaching a record deficit of USD 3.6 bn, which added to pressure on the PEN.

—Mario Guerrero

Chart 2



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.