

## Latam Daily: Mexico Biweekly Inflation; Peru Cabinet; Chile CB Governor Reappointed

- **Mexico:** Annual inflation slightly above expectations in first half of October; consensus for year-end CPI now higher
- **Peru:** New cabinet to seek confidence vote on Monday (October 25)
- **Chile:** President Piñera reappoints Mr Mario Marcel as Governor of the Central Bank

### MEXICO: ANNUAL INFLATION SLIGHTLY ABOVE EXPECTATIONS IN FIRST HALF OF OCTOBER; CONSENSUS FOR YEAR-END CPI NOW HIGHER

According to statistical agency **INEGI**, in the first fortnight of October, annual headline inflation stood at **6.12% y/y** from a previous **6.13% y/y** (chart 1), slightly above the **6.10% y/y** of the Bloomberg consensus. Core inflation continued facing upward pressures, going from **4.93% y/y** to **5.12% y/y**. In particular, merchandise prices rose to **6.51% y/y** from **6.25% y/y** previously (chart 2), and services came in at **3.58% y/y** from **3.46% y/y** previously (chart 2, again). Non-core inflation decelerated from **9.89% y/y** to **9.21% y/y**, as the increase in energy prices from **12.61% y/y** to **12.67% y/y** was offset by some moderation in food items from **10.81% to 9.10%** (chart 3).

In its sequential biweekly comparison, price dynamics maintained an upward trend, going from **0.21% 2w/2w** to **0.54% 2w/2w** (versus **0.51% 2w/2w** consensus in the Citibanamex survey). By components, core inflation exceeded the **0.22% 2w/2w** consensus, by rising from **0.13% 2w/2w** to **0.33% 2w/2w** owing to increases in both merchandise (**0.37% 2w/2w**) and services items (**0.28% 2w/2w**). Non-core inflation rose strongly, from **0.44% 2w/2w** to **1.18% 2w/2w**, as energy edged up sharply to **3.77% 2w/2w**.

We also highlight a strong increase in inflation expectations for the end of the year, which the consensus estimate is now at **6.46% y/y**, up from **6.29% y/y** previously. In terms of monetary policy, we maintain our outlook of

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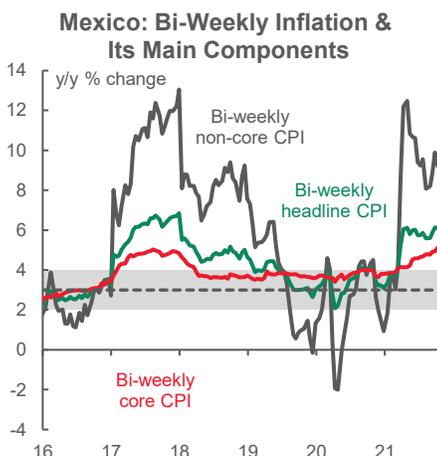
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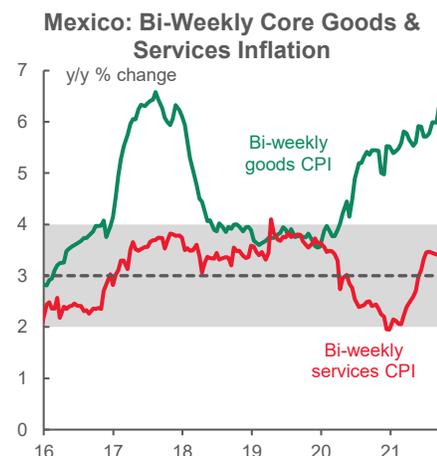
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Chart 1



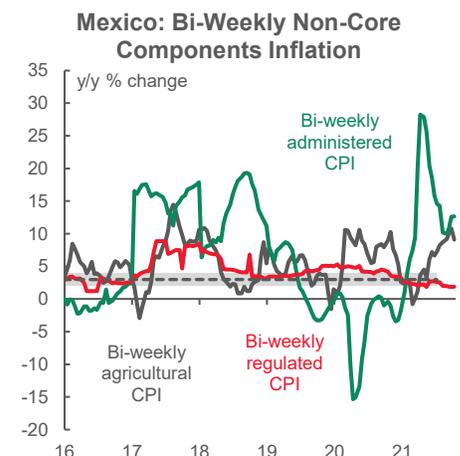
Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.

25 basis point increases at the central bank's upcoming two meetings in 2021, to end the year at a rate of 5.25% (current is 4.75%) and conclude the hiking cycle in 2022 with a terminal rate of 6.00%. With some risk of a more aggressive pace of hikes, our view could change, depending on the upcoming data on inflation for the rest of the year.

—Miguel Saldaña

### **PERU: NEW CABINET TO SEEK CONFIDENCE VOTE ON MONDAY (OCTOBER 25)**

**Peru's new Cabinet headed by Ms Mirtha Vásquez will formally address Congress on Monday, October 25.** The procedure is a requirement whenever there is a change of cabinet. The new Vásquez Cabinet was sworn in on [October 6](#). The cabinet presentation before Congress tends to be more than just a formality. In the past the event has helped clarify the new cabinet's agenda, and has shed light on the type of relationship the government may expect to have with Congress. Both issues are in play now as well.

**The priorities of the new cabinet have already been outlined in a [list](#) made public on October 16.** This list does not differ significantly from President Castillo's inauguration speech or former Cabinet Head Bellido's address to Congress. The focus continues to be on health and COVID-19; getting the economy back on track; maintaining fiscal and monetary stability; creating a new Ministry of Science and Technology; digital access and inclusion; giving priority in State resources to regions outside of Lima; strengthening the democratic system, promoting cultural diversity, and fighting corruption, among other issues. Although the cabinet address is not likely to go into too much depth, it could shed new light on what to expect in terms of State management and policy.

**Although the cabinet has frequently helped clarify the relationship between the government and Congress, a positive vote of Confidence by Congress was, for a long time, largely a foregone conclusion.** This has changed over the last five years, and now, once again, to give or not to give the cabinet a vote of Congress will be a Shakespearian dilemma for many members of Congress. The main point of contention revolves around the new Minister of the Interior, Luis Barranzuela, who was evicted from the police service on the basis of disciplinary action and more recently worked as an attorney defending Mr Vladimir Cerrón, the leader of ruling party Peru Libre, as well as a number of other party members, whom he would now be in charge of detaining if so instructed by the courts. Members of Congress are calling foul due to a conflict of interest. The vexing dilemma they face is deciding whether or not to give their backing to Ms Vásquez, widely seen by political stakeholders as an improvement over former Prime Minister Bellido, and at the same time have to accept Barranzuela as a result.

**Meanwhile, social conflicts are multiplying.** Three major conflicts involving blocking roads and highways have erupted in recent days: 1) at the Las Bambas copper mine; 2) in communities in the rainforest protesting against oil production activities; and 3) among coca leaf producers. The latter is a new development unlike the former two conflicts which have been recurring, however, it is unusual that three major protests should occur simultaneously and some analysts argue this could reflect an expectation among some that the Castillo Government presents an opportunity to obtain greater concessions. However, the conflicts appear to have caught the government off guard, and it is not clear just how the government will deal with these situations.

—Guillermo Arbe

### **CHILE: PRESIDENT PIÑERA REAPPOINTS MR MARIO MARCEL AS GOVERNOR OF THE CENTRAL BANK**

Earlier today (Friday, October 22), through a [press release](#), President Piñera reappointed Mr Mario Marcel as Governor of the Central Bank to a new 5-year term, a position he has held since December 2016 when he replaced Mr Rodrigo Vergara. The appointment does not require consultation with the Senate.

**Although part of the market awaited the appointment of current Board member Rossana Costa to become the first woman Governor of the Central Bank in replacement of Mr Marcel, the decision to extend his mandate has been positively valued by the market, in a context where the independence of the Central Bank will be discussed by the body in charge of drafting the new Constitution.** In February 2022 the mandate of Board member Joaquín Vial is due to end.

—Anibal Alarcón

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