

LATAM Market Update

- **Colombia: Medium term inflation expectations remain anchored; The first rate hike is expected in Dec-2020; December's imports contracted due to lower raw-material imports**

Colombia: Medium term inflation expectations remain anchored; The first rate hike is expected in Dec-2020

- According to BanRep's survey of macroeconomic expectations for February, analysts expect inflation at 3.33% y/y for December 2020, 8bps lower than last month. Long-term inflation expectations were broadly unchanged. 1Y tenor stood at 3.40%, and 2Y at 3.10%. We expect headline inflation to remain at current, or slightly, higher levels in the coming months due to higher foodstuff inflation and higher adjustments on regulated prices compared to a year ago. By the end of the year, we are aligned to consensus that inflation will converge to a level close to the target (3.3%).
- January's monthly inflation, on average, is expected at 0.62% (our expectation 0.70% m/m), which brings annual inflation to 3.67%, 5 bps higher than January's y/y inflation.
- USDCOP forecasts for 2020-end stood at 3325.46 (+26.64 pesos). For December 2021, respondents think (on average) that the COP will end at 3294.49.
- BanRep's repo rate will remain at 4.25% in the forthcoming months, according to the median of the respondents; the first rate hike is expected by Dec-2020 (previous survey Oct-20). We expect a rate hike in April-2020.

February BanRep's surveys showed that inflation expectations continue anchored. Lower than expected inflation results in February has helped to reduce Dec-2020 inflation expectations and also to postpone the first rate hike expectation. In 2020 we expect risks on headline inflation to be contain due to low pass-through effect, low risk of high indexation to the minimum wage increase, and moderate food inflation. Having said that, our bias is slightly to the upside. In this scenario, with a GDP gap closing up and higher current account deficit, we think that a rate hike would be within BanRep's Board discussion as soon as 1H-2020. Instead, the survey showed that another possible debate is keeping MPR at 4.25% for longer, despite the recent central bank's staff scenario released in the Monetary Policy Report, which points to a rate hike taking place before year-end.

December's imports contracted due to lower raw-material imports

December's imports data came in at US\$4.1bn, below the YTD average (US\$4.3bn), which meant a contraction of 2.5% y/y. Raw materials explained most of y/y imports variation in December-2020. In fact, fuel-related imports contracted 29% y/y, offsetting the expansion of consumption (1.7%/y/y) and capital goods (1.4%/y/y) imports. Capital imports grew 1.4% y/y, especially on the back of industrial imports (+10% y/y), which offset the contraction in transportation imports (-18.9% y/y).

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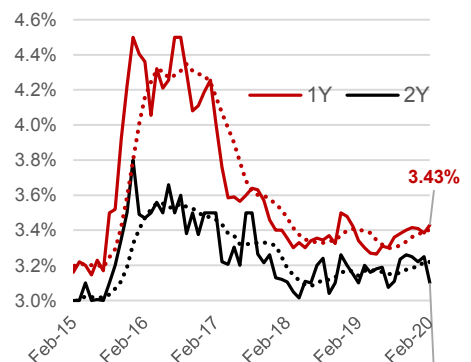
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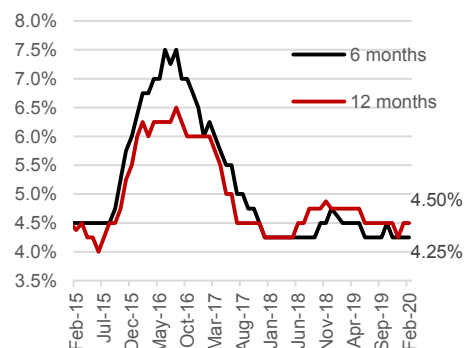
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Colombia: Headline Inflation Expectations
(Average)



Sources: BanRep, Scotiabank.

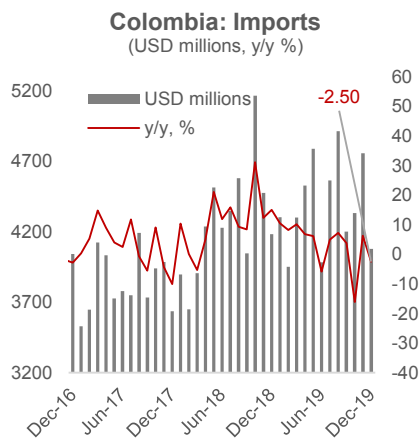
Colombia: Policy Rate Expectation
(Average)



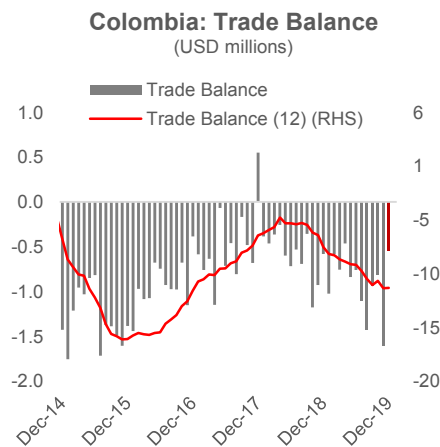
Sources: BanRep, Scotiabank.

Consumption imports expanded by 7.4% y/y due to durable goods imports (+9.9% y/y), and non-durable goods imports (+5.4% y/y). In 2019, total imports grew 2.9%; it is worth to note that full year import's level in USD remained strong due to fuel-related (+28.3% y/y) and transport equipment imports (10.4% y/y); in contrast, industry-related imports and agriculture sector imports contracted during the year. Additionally, although consumption imports increased, durable goods imports were relatively weak, which could be partially associated with the FX depreciation effect.

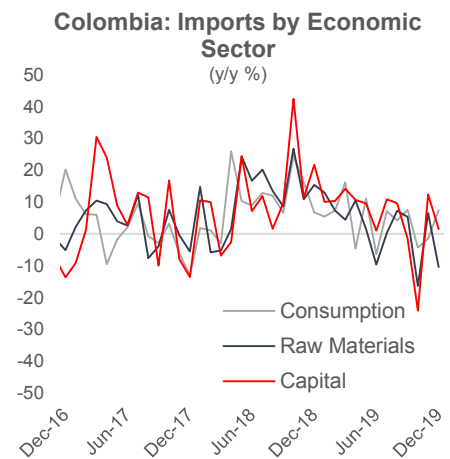
The external deficit continues to be a significant concern since the current account deficit could remain above 4.0% for longer, although the deterioration rate has diminished, and so far, the external deficit has been financed via a healthy FDI. In 2020 we expect a moderation on imports compared with the previous year, because in 2019 we had a higher impact of the Financial Law stimulus to capital goods imports and, additionally, the renewal of public transport buses, which probably won't be repeated in 2020.



Sources: DANE, Scotiabank Economics.



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—Sergio Olarte & Jackeline Piraján

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