Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

February 7, 2024

Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Jackeline Pirajá n, Senior Economist
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Mario Guerrero, Deputy Head Economist
+51.1.211.6000 Ext. 16557 (Peru)
mario.guerrero@scotiabank.com.pe

Latam Daily: Colombia CPI; BanRep Minutes Recap and BCRP Preview

- **Colombia: BanRep board expects to accelerate the easing cycle if current sources of uncertainty dissipate**
- **Peru: BCRP goes for a sixth rate cut**

It was narrow rangebound trading across the key asset classes in Asia hours, with markets broadly ignoring Moody's—somewhat expected—downgrade of NYCB to junk (which triggered a 17% drop in after-hours trading). Yesterday's slide in the bank's shares, which dragged the broad regional banks complex lower, helped US yields fall to around their opening levels on Monday. The past hour has seen a bit more activity in rates markets, with US, UK, and Eurozone debt weakening across the curve by a few bps, while US equity futures slip a touch and the USD trades mixed. Crude oil is up about 0.5%, but copper and iron ore are little changed.

The G10 calendar only has second-tier data on tap, US and Canadian international trade and the EIA's oil report, but a flood of Fed speakers this afternoon (Kugler, Collins, Barkin, Bowman) and the BoC's summary of deliberations (discount minutes). Overnight, New Zealand's employment report beat expectations across all lines, with jobs growth, wages, and the unemployment rate all coming in better than expected. Comments this morning by the BoE's Breeden and the ECB's Schnabel were along party lines, counselling caution on lowering policy rates too soon.

At 18ET, we get Colombian CPI data for January that us, and the economist median, expect will show a ~0.8–1.0ppts decline in year-on-year headline inflation as well as the first single-digits core inflation reading since late-2022. Our team in Colombia projects that inflation fell from 9.28% in December to 8.17% last month in headline terms (Bloomberg median: 8.37%) and from 10.33% to 9.47% in core terms (median: 9.69%). The steep deceleration from December owes to favourable base effects in food, merchandises, and indexed prices that will be evident over the balance of Q1, which we expect will end with a 6.6% y/y inflation pace in March. The rapid drop in inflation in today's data and February figures out on March 7 should prompt a larger cut by BanRep at its March 22 meeting.

Over the course of the morning, Chile publishes January international trade and December wages data, and Brazil releases December retail sales and fiscal balances and also January international trade. These data should have limited influence on local markets that are better off waiting for the release of January CPI in both countries, accompanied by Mexican prices data. Note that yesterday's Citibanamex survey results showed that analysts still expect Banxico to start cutting rates next month, by 25bps, but the median now thinks that the overnight rate will end the year at 9.50%, 25bps higher.

—Juan Manuel Herrera

COLOMBIA: BANREP BOARD EXPECTS TO ACCELERATE THE EASING CYCLE IF CURRENT SOURCES OF UNCERTAINTY DISSIPATE

The central bank released the minutes for January's monetary policy meeting on Monday, February 5th. BanRep's board agreed that there are conditions to continue reducing the repo rate, especially amid the headline inflation reduction and the economic activity deceleration that reflects a weaker labour market performance. However, the split vote in which five board members voted for a 25bps rate cut and two members for a 50bps cut is explained by the uncertainty around the medium term for headline inflation, especially in the core services inflation. The minority group, who voted for a 50bps cut, showed a higher concern about economic activity and employment. The majority group also said that they would speed up the easing cycle if the source of uncertainty dissipated.

That said, in Scotiabank Colpatria Economics, we think that CPI inflation in January and February and the GDP to be released on February 15th will be key data for the central bank to decide to go for a higher rate cut in the March 29th meeting. Our base case scenario is that inflation will go down significantly in the forthcoming months, which could open the possibility of seeing a rate cut between 50 or 75bps in the March and April meetings. For now, we affirm our expectation of the monetary policy rate closing at 7% in 2024.

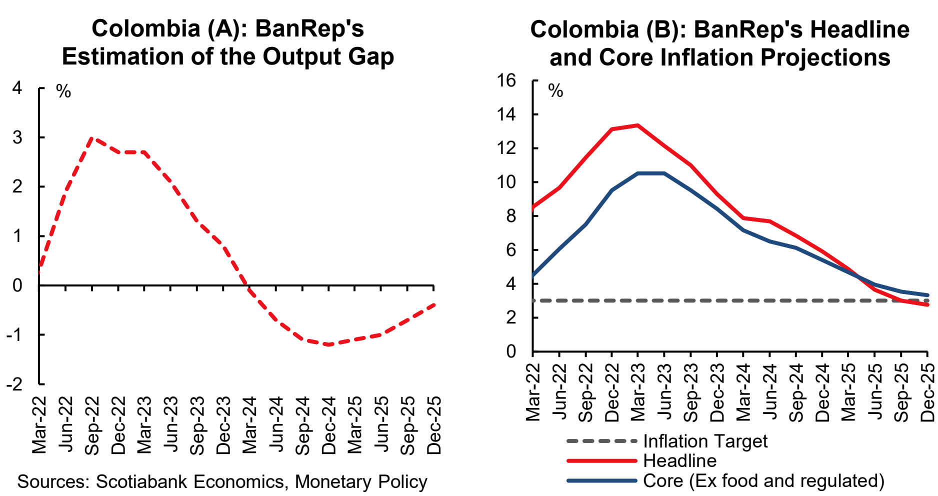
Further details about BanRep's minutes:

- The minutes reflect that there is consensus about continuing with the easing cycle; however, in January, the debate about the size of the rate cut relied on the assessment of inflation and economic growth risk. Regarding inflation, the majority group (5 members who voted for a 25bps cut) is concerned about indexation effects that could arise after the increase in the minimum wage, which was higher than their projection. On the other hand, they highlighted that the risk of speeding up the easing cycle is losing credibility in the commitment to the inflation target. They said that if uncertainty dissipates, they could consider going for stronger cuts in forthcoming sessions.

- In the case of the minority group (two members who voted for a 50bps cut), the main concern was around economic activity, pointing to a significant weakening in consumption and investment. That said, they consider the 25bps cut insufficient and imply maintaining a contractive real rate, which could impact the economic activity recovery.

- In addition to the minutes, the Central Bank staff released the Monetary Policy Report on Friday, February 2nd. In the report, the economic staff said that inflation remains well above the 3% target and the expected headline inflation for the year-end at 5.90%, while they project the economic activity will continue weakening in 2024, expanding by 0.8%, before resuming an acceleration path in 2025 with an expected expansion of 3.5%. That said, BanRep's macro scenario involves having a rate path above the median expected by economists' consensus, which currently points to a year-end rate between 8% and 8.5% (chart 1, panel B). The path suggested by BanRep's staff is compatible with inflation achieving the 3% target in around 18 months, however, it could imply further economic activity deceleration, as they assumed Colombia's output gap will be negative in forthcoming quarters (chart 1, panel A.).

Chart 1: BanRep's Projections of Output Gap and Inflation



Sources: Scotiabank Economics, Monetary Policy Report January 2024.

Sources: Scotiabank Economics.

- The key word in both BanRep's publications is uncertainty, particularly around indexation effects. In that regard, we think the two forthcoming CPI readings are critical to increase the confidence in BanRep to pursue a faster easing cycle. The impact of climate events such as the "El Niño" weather phenomenon is difficult to anticipate. Still, in any case, if there is some impact, it probably won't affect the H1-2024 inflation. Our base case scenario shouldn't prevent BanRep from speeding up the easing cycle on forthcoming meetings.

- Real rates matter more: in the Monetary Policy Report, staff calculation points to a neutral rate of 2.4% in 2024 and 2025; having said that, we think the central bank will try to maintain the real monetary policy rate slightly above the neutral rate, but if inflation eases faster, the nominal policy rate will decrease faster. Again, the critical piece of information is how fast inflation decreases.

—Sergio Olarte & Jackeline Piraján

PERU: BCRP GOES FOR A SIXTH RATE CUT

We expect the BCRP to continue its interest rate cut cycle for the sixth time at its meeting this Thursday, February 8th, by 25bps, to 6.25%, a level expected by the entire market consensus, according to a Bloomberg survey.

The first readings for inflation in February suggest that inflation would be close to the historical average (0.30%), meaning inflation would remain close to the upper limit of the target range (3%). February inflation would be higher than the practically zero variation in January (0.02%), due to seasonal factors and the impact of a higher FX rate and higher local fuel prices.

Food prices are reversing the supply shocks of previous months. The weakness of the economy would keep core inflation within the target range for the third consecutive month.

Twelve-month inflation expectations fell from 2.83% to 2.64% in the latest survey, within the target range for the second consecutive month. Despite this, if the rate was cut by an additional 25bps this Thursday, the real interest rate would go from 3.7% to 3.6%, still well above the neutral level of 2%.

—Mario Guerrero