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Latam Daily: Colombia Previews Monetary Policy; Peru's Mining Investment Grows

- **Colombia: Monetary Policy Preview**—Inflation and growth dilemma will define the speed of the easing cycle
- **Peru: Mining investment grew 4.3% in January**

COLOMBIA: MONETARY POLICY PREVIEW—INFLATION AND GROWTH DILEMMA WILL DEFINE THE SPEED OF THE EASING CYCLE

Tomorrow, BanRep will hold the second monetary policy meeting of 2024. In January, the central bank board kept the pace of the easing cycle to 25bps, which was a surprise given that a significant group of analysts, including us, forecasted the possibility of a 50bps rate cut. After January's meeting, macro data showed a weaker than expected performance of the economic activity with GDP growth of 0.6% in 2023, while inflation continued going down from 9.28% in Dec 2024 to 7.74% in February, which shows remarkable progress in the y/y headline despite the fact that the inflation level is still well below the 3% target. Both arguments support speeding up the cutting cycle in March, in fact, after the GDP release, some board members in public speeches highlighted that the monetary policy rate can go down faster.

The question is, how fast can rates go down? Market consensus points for a 50bps rate cut, while a minority of analysts (four, according to Citibank's survey) think that a 75bps cut is on the table; Scotiabank Colpatria is in this group. That said, we expect the March meeting to be an interesting one; a split vote is predicted as we expect to see some board members tilted towards the cautious side, while others, including the finance minister, could aim for having lower rates to support economic growth.

As mentioned before, at Scotiabank Colpatria, we forecast a 75bps rate cut, mainly thinking that the central bank should prevent the real rate from increasing more in the context of a negative output gap. The neutral real rate, according to BanRep, is around 2.4%, and according to our estimation, the current average (ex-post and ex-ante real rate) is around 6.5%. Since January, inflation has gone down, while the inflation expectation has moved up moderately, which according to our calculation gives the space for the central bank to cut the monetary policy rate by 75bps to maintain stability in the real rate, which in absolute terms is the highest real rate in more than 20 years, while economic activity is showing significant weaknesses.

The inflation dynamic suggests that indexation effects reduce price elasticity in the economic cycle, which means that the cost of taking inflation to the target in terms of economic growth is high, and we think that, in current conditions, it is even higher given that the private sector is not only dealing with regular economic issues but also political uncertainty. In that sense, we expect the board to have a significant discussion around the inflation and growth dilemma, which is far from easy to solve.

Another piece of important information for BanRep is the recent Federal Reserve message that affirms the expectation of having the start of the easing cycle in 2024. Calm international markets contribute to the Colombian central bank continuing the easing cycle. A 50bps cut probably won't surprise the market, while a 75bps cut could move the FX moderately to the upside, but we don't think it could trigger a strong depreciation that causes an inflation spike.

Talking about the medium term, at Scotiabank Colpatria, we project the central bank will take the monetary policy rate to 7.50% by the end of 2024, an upside revision versus our previous expectation of 7%. We think BanRep's board approach will be cautious, which will prevent them from moving the interest rates at erratic paces; having said that, our best case scenario is a projection of rate cuts of 75bps for each remaining meeting in 2024. The end of the easing cycle is still estimated at 5.50%.

—Sergio Olarte & Jackeline Piraján

PERU: MINING INVESTMENT GREW 4.3% IN JANUARY

Mining investment grew 4.3% y/y in January 2024, almost in line with our estimates. We estimate mining investment will grow 6.0% y/y to around US\$ 5,000 million in 2024, although this would still be below pre-pandemic levels (chart 1). The investment will benefit not only from the low base of the previous year but also because this year construction will begin on mostly brownfield projects (projects that are developed in the same place and parallel to the ongoing production process).

Currently, there are four projects in the pipeline: San Gabriel (Buenaventura), Toromocho Expansion Phase II (Chinalco), Yumpag (Buenaventura), Inmaculada Replacement (Ares), and Antamina Replacement (Antamina). In addition, for this year we foresee that other potential investments are Corani (Bear Creek) and Chalcobamba Phase I (Las Bambas).

In March 2024, the Ministry of Mines released an update of its portfolio of mining projects with a total of 51 projects worth US\$ 54,556 million. According to the report, it hopes to see the green light for the projects: Raura Replacement (Raura), Tantahuatay Replacement (Coimolache), Romina (Chungar), and Hauncapetí Expansion (Lincuna). However, they could still require the approval of some permits since several are practically new to the project portfolio.

The metals prices such as gold and copper that we forecast for this year and 2025 are at levels that would normally promote mining investment.

Chart 1

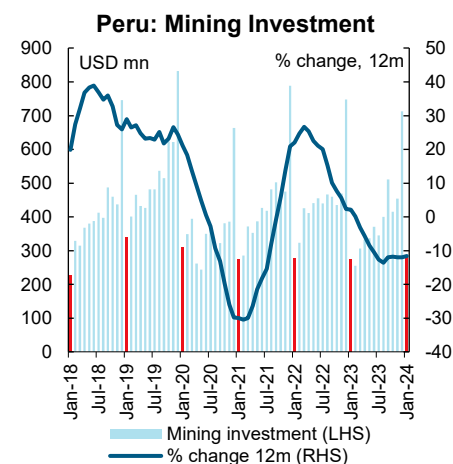


Table 1: Peru - Top 20 Mining Companies by Investment Amount (USD)

Company	January			
	2023	2024	% change y/y	Share
ANGLO AMERICAN QUELLAVECO S.A.	30,498,422	37,353,312	22.5%	13.1%
MINERA CHINALCO PERU S.A.	9,053,957	27,764,023	206.7%	9.8%
MINERA LAS BAMBAS S.A.	7,587,387	24,290,806	220.1%	8.5%
SOCIEDAD MINERA CERRO VERDE S.A.A.	14,845,859	23,493,507	58.2%	8.3%
SOUTHERN PERU COPPER CORPORATION SUCURSAL DEL PERU	29,358,257	17,686,081	-39.8%	6.2%
COMPAÑIA MINERA ANTAMINA S.A.	45,778,527	17,600,250	-61.6%	6.2%
COMPAÑIA MINERA PODEROSA S.A.	14,618,218	15,175,932	3.8%	5.3%
MINERA YANACOCOA S.R.L.	16,784,695	7,975,696	-52.5%	2.8%
NEXA RESOURCES EL PORVENIR S.A.C.	1,239,749	7,633,290	515.7%	2.7%
SHOUGANG HIERRO PERU S.A.A.	1,206,459	7,385,623	512.2%	2.6%
COMPAÑIA MINERA ARES S.A.C.	6,221,897	7,150,895	14.9%	2.5%
MINSUR S.A.	3,416,261	5,989,643	75.3%	2.1%
VOLCAN COMPAÑIA MINERA S.A.A.	5,588,728	5,733,159	2.6%	2.0%
HUDBAY PERU S.A.C.	5,977,256	5,615,992	-6.0%	2.0%
MARCOBRE S.A.C.	5,766,368	5,352,129	-7.2%	1.9%
PAN AMERICAN SILVER HUARON S.A.	728,753	5,290,544	626.0%	1.9%
COMPAÑIA MINERA ANTAPACCAY S.A.	2,996,344	3,019,452	0.8%	1.1%
CATALINA HUANCA SOCIEDAD MINERA S.A.C.	786,710	2,979,855	278.8%	1.0%
ALPAYANA S.A.	3,381,482	2,965,330	-12.3%	1.0%
MINERA AURIFERA RETAMAS S.A.	2,418,729	2,872,168	18.7%	1.0%
Others	64,573,865	51,215,822	-20.7%	18.0%
Total Investment	272,827,923	284,543,509	4.3%	100.0%

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

March 21, 2024

Regarding mining output, in January 2024 most metals posted a positive performance. Output increased for gold (+25.9%), zinc (+4.6%), silver (+16.6%), lead (+15.9%), molybdenum (+8.8%) and tin (+179.7%), while output fell in copper (-1.2%) and iron (-6.6%).

In detail about copper output, Southern Perú (+16.2% y/y) and Antapaccay (+35.5%) began January with significant increases, while Antamina (+1.4%) and Quellaveco (+2.6%) were more moderate. While output fell for Cerro Verde (-13.4%), Las Bambas (-17.0%), Chinalco (-21.8%), Marcobre (-20.4%), and Hudbay (-8.4 %). The fall was due to an adjustment of output levels in 2023 by Minem.

Table 2: Peru - Mining Output								
	Copper MT	Gold oz	Zinc MT	Silver oz	Lead MT	Iron MT	Tin MT	Molybdenum MT
January 2024, y/y % change	-1.2	25.9	4.6	16.6	15.9	-6.6	179.7	8.8
Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.								

—Katherine Salazar

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