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GLOBAL ECONOMICS

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# Latam Daily: BanRep and Chile GDP Preview

- **Chile: March GDP close to 0% y/y, but April between 4% and 5% y/y**
- **Colombia: Monetary Policy Preview: BanRep will continue with cautious steps**

Sharp quick JPY gains suggestive of intervention are the Monday market highlight while constructive Spanish and German CPI figures kicked off a key data and events week. The risk mood is in solid shape with small gains in US equity futures, broad-based currency strength versus the USD, rates well bid in flattening fashion, and mixed commodities (oil and iron ore lower, copper stronger).

Global curves carried a small bid through Asia hours (in futures as Japanese markets were closed) that then extended in cash markets in Europe on the release of German regional CPI data showing steady declines in underlying inflation—which followed encouraging Spanish prices figures.

The G10 and Latam data and events week is packed (see below our previews of BanRep's decision and Chilean GDP data), but today's schedule is relatively bare—especially once we move past the German national HICP data at 8ET. The US' Dallas Fed Manufacturing print at 10.30ET and the UST's financing estimates at 15ET will be worth a look.

**—Juan Manuel Herrera**

## CHILE: MARCH GDP CLOSE TO 0% Y/Y, BUT APRIL BETWEEN 4% AND 5% Y/Y

We project March GDP will be between 0% and 0.5% y/y, sharply below market expectations, but compatible with a surprising 8% SAAR. This projection is part of our baseline scenario but is on track to become a very negative surprise for consensus. The BCCh's recent Economists Survey shows a median expected March GDP of 2% y/y (63% of respondents expect 2% or more). The bringing forward of Holy week to the end of March meant a total of three working days less compared to last year (Wednesday, Thursday and Friday), which will subtract a large part of the positive carry-over effect accumulated in the months of January and February. According to recent estimates of the BCCh, the effect of one working day less subtracts about 0.5 p.p. to the GDP growth, so the calendar effect during March would have been around -1.5 p.p. of lower growth.

On the other hand, excluding calendar and carry-over effects, our nowcast models point to a lower dynamism of the non-mining GDP than that observed in February. The electricity generation figures as well as the trade balance indicate that the dynamism of March could be null or even slightly negative, which leads us to project an expansion between 0% and 0.5% y/y for March. This could be the worst year-on-year record of the year and would be markedly below expectations.

Preliminarily, we expect April's GDP to be between 4% and 5% y/y, which could be the best year-on-year record of the year. The positive calendar effect provided by the three additional working days (Monday, Tuesday and Friday), together with the carry-over effect provided by the positive records of January and February (which could be partially offset during March) ensure a strong year-on-year expansion of the GDP in April, which could even occur with a drop in the monthly rate. All in all, we maintain our GDP growth projection of 3% for this year, above the 2.6% recently adjusted by the BCCh in its latest IPoM.

**—Aníbal Alarcón**

### COLOMBIA: MONETARY POLICY PREVIEW: BANREP WILL CONTINUE WITH CAUTIOUS STEPS

Tomorrow, BanRep will hold the third monetary policy meeting of 2024. We anticipate that most of the board will continue favouring cautious steps in the easing cycle. In March, the central bank accelerated the easing cycle by cutting the monetary policy rate by 50bps in a split vote, with five members supporting the decision and two members voting to accelerate even more, one member voting for a 75bps cut, and the finance minister voting for a 100bps cut. Despite the board highlighting the inflation reduction, they continued with some fears around the convergence to the target rate being slow, and, in the communique and in minutes, they emphasized their compromise to take the inflation within the target range by mid-2025, which shows that they are very concerned about credibility.

For April's meeting, we forecast a 50bps rate cut to 11.75% in a split vote, probably maintaining very cautious wording in the statement and during the press conference. In April, the central bank's staff is expected to present a new Monetary Policy Report, which will be interesting to monitor how the balance of risk has evolved, especially in terms of economic growth.

**Key points about April's BanRep meeting:**

- Since the March meeting, economic activity data delivered a better than expected performance. In February, the economy grew by 2.5% y/y, well above market expectations due to some one-off effects but putting concerns about the economic slowdown to rest. In the case of inflation, March's results were closer to expectations, and the expectation for forthcoming months is of a more gradual disinflationary process. In the board's discussion, recent results probably won't motivate a significant trade-off debate between GDP and inflation, which is compatible with expecting a 50bps rate cut.
- Inflation stood at 7.36% in March, while inflation expectations remained unchanged. In forthcoming months, inflation reduction is expected to be slower as high statistical base effects are vanishing, while other sources of uncertainties, such as the impact of the El Niño weather phenomenon, have surged. BanRep's board has emphasized their commitment to complying with the inflation target by mid-2025, and in that regard, as the headline inflation is still more than twice above the 3% target, we expect the board to continue with the cautious assessment of the inflation progress.
- In the March Minutes, the central bank highlighted a very unusual concern about political and fiscal uncertainty. The board said Colombia's international position is fragile, saying that if political risks materialize, it could trigger an increase in risk premium and FX depreciation. We read this remark as a concern for a potential shock in FX that could become a headwind for tradable goods inflation reduction. That being said, since March's meeting, the political scenario has evolved with the approval of the Pension Reform in the Senate Plenary, the second out of the four debates required; however, previous developments haven't represented an increase in risk premiums, but probably the central bank will prefer to stay vigilant around political risk, which is the second reason why we favour a 50bps cut at tomorrow's meeting.
- New macro forecasts are in the spotlight. During April's meeting, the board will have the new Monetary Policy Report, estimations from the staff. From this report, it will be relevant to pay attention to the new forecasts about GDP and the output gap. In Colombia, there is a huge debate about how the slowdown has impacted the potential GDP as the investment activity has been very weak; in that sense, it is relevant to see how the output gap estimation has evolved to have a sense if, eventually, weak economic performance could trigger an acceleration in the easing cycle.
- Inflation forecast and the assessment about ongoing risk. The El Niño phenomenon impacted the reservoirs levels significantly, and during April in the capital city (Bogota), there were restrictions in the water service, while the electricity system is now relying heavily on thermoelectric plants; despite utility fees not being impacted yet, there is a potential risk for upcoming months. The increase in diesel prices is still pending to be defined. The staff's assessments of previous risks are also interesting points to monitor in the monetary policy report.

All in all, local developments support continuing the central bank's cautious approach. The delay in international markets' expectations about Federal Reserve rate cuts also supports continuing the 50bps rate cut pace. In the medium term, in the second half of 2024, we see BanRep possibly speeding up the easing cycle with 75bps rate cuts that could take the monetary policy rate to 8.25% in December. For 2025, we expect the rate to reach 5.25%.

**—Sergio Olarte & Jackeline Piraján**