

LATAM Market Update

- **Colombia: March Monetary Policy Decision—BanRep in “wait-and-see” mode**
- **Mexico: Consumer prices stayed below consensus and within the Central Bank’s target range**

COLOMBIA: MARCH MONETARY POLICY DECISION—BANREP IN “WAIT-AND-SEE” MODE

BanRep kept its monetary policy rate (MPR) constant at 4.25% in a unanimous decision, in line with market consensus. The communiqué, again, was factual and did not give much information on future scenarios for the policy rate. BanRep is confident that inflation will remain under control and inflation expectations dropped in March and are close to 3%. On economic activity, BanRep did not change its 2019 GDP growth of 3.5% which will start to close the negative output GAP. Governor Echavarría said in the press-conference that he wants to keep policy rate at a slightly expansionary stance as long as inflation is under control to boost economic activity.

According to the communiqué, headline inflation and core inflation measures in February 2019 dropped and are very close to target. In fact, headline came in at 3.01% and average core inflation measures came in at 2.8% last February.

In a different communiqué, Governor Echavarría announced that BanRep will auction next April 1st put-options of international reserves accumulation for US\$400mn (expected) in continuity with the program that started in September last year.

Bottom line, the March monetary policy meeting confirmed that BanRep is in a “wait-and-see” mode and will try to keep the MPR in expansionary mode as long as they can to boost economic activity. Stable inflation and inflation expectations, COP stability also help BanRep to be patient and leave the MPR constant for the time being. Due to lower inflation, possible supply shocks vanishes, COP stability and FED dovishness that lower neutral rate in Colombia, we revised down our call of policy rate to only one hike in 2H19 instead of three hikes last month.

MEXICO: CONSUMER PRICES STAYED BELOW CONSENSUS AND WITHIN CENTRAL BANK’S TARGET RANGE

Headline inflation was 0.26% in the first fortnight (1H) of March (vs. +0.28% consensus and +0.29% a year earlier), being its lowest variation for a similar period since 2015. Core inflation was 0.18% biweekly (vs. +0.21% expected and +0.24% a year ago), as the merchandise component advanced 0.19% (vs. +0.15% the previous year) and that of services grew 0.17% (vs. +0.31% a year earlier). Meanwhile, headline consumer price index increased 3.95% y/y in March’s first half (vs. +5.17% a year earlier), remaining within Banxico’s target range for a third fortnight in a row, with its core component advancing at 3.51% y/y and the non-core component at 5.39% y/y. As inflation remains within the Central

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Bank's target range and the Mexican peso has recently appreciated, it is likely for Banxico to adopt a more dovish stance at next week monetary policy meeting and further analysts consider a lower year-end benchmark interest rate than the current one (+8.25%); although inflation's upside biased balance of risks should lead the Central Bank's Board to hold the policy rate in the short term.

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