

LATAM Market Update

- **Colombia: June Citi survey—No policy rate changes expected; Light recovery in consumer confidence; June monetary policy meeting preview**
- **Mexico: In May, formal job creation recorded its slowest growth pace in more than 9 years**

COLOMBIA: JUNE CITI SURVEY—NO POLICY RATE CHANGES EXPECTED; LIGHT RECOVERY IN CONSUMER CONFIDENCE; JUNE MONETARY POLICY MEETING PREVIEW

June Citi survey came out. This survey is used by BanRep as one of the expectations measures on inflation, monetary policy rate (MPR), GDP and COP.

Bottom line

Rates: Analysts do not expect any changes in the repo rate at the next Banrep meeting (this Friday). 60% of respondents expect Banrep will end 2019 at 4.25%.

Inflation: Analysts think (on average) June headline inflation will come in at 0.21% m/m, slightly above our own forecasts of 0.16% m/m. For 2019 average projection is 3.40%, 2bps higher than last month.

GDP growth: Consensus for 2019 GDP growth forecasts is 3.12%, below our own forecast of 3.3%. For 2020 economic activity, analysts think GDP growth will be 3.32%.

COP: Citi survey has an average of USDCOP3215 for 2019 (eop) and USDCOP3197 for 2020, slightly higher than our projections.

Fedesarrollo released May's consumer confidence index (CCI). It came in at -5%, improving from the previous month but still in negative territory. Recovery from the previous month was mostly explained by the component of current economic conditions; however, we emphasize that the component of economic expectations has a better balance (-4.0% vs -6.5%).

Coincident indicators have not been in line with the signals from the confidence survey overall; however, some components such as purchase disposition of durable goods have improved and we believe that this is a positive signal for domestic demand recovery. We think today's results reinforce the expectation that the Central Bank will likely leave its policy rate constant for some additional time.

This Friday (June 21st) BanRep will hold its sixth meeting of 2019. We (and market consensus) expect BanRep to keep the monetary policy rate (MPR) at 4.25% in a unanimous decision. Economic growth below expectations and inflation expectations rising slightly but still within target range, support policy rate stability for longer.

Although we expect BanRep to keep the policy rate at 4.25%, recent Echavarría's

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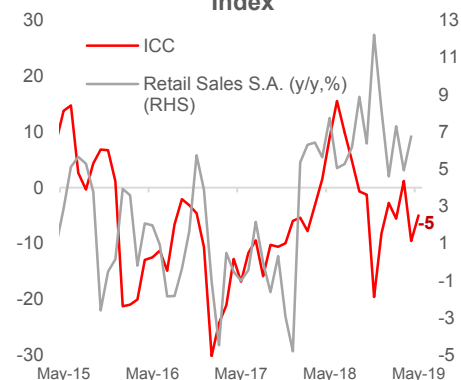
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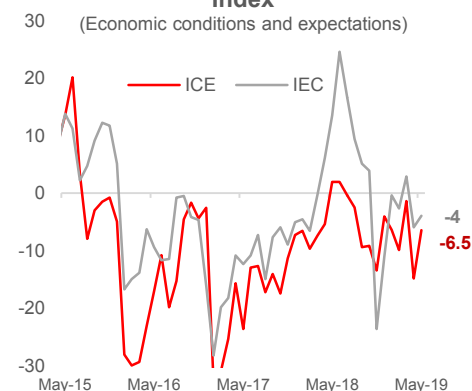
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Colombia: Consumption Confidence Index



Sources: DANE, Fedesarrollo, Scotiabank.

Colombia: Consumption Confidence Index (Economic conditions and expectations)



Sources: Fedesarrollo, Scotiabank.

comments about 1Q19 GDP growth that implies a much lower economic activity growth and higher negative output gap, can make the Board change the tone from neutral to dovish, and send a message of stability in the policy rate for much longer time.

We believe that the possibility of a policy rate changes in the coming months is unlikely; first, the rate is already slightly expansionary, annual inflation in the short term may have slight upward pressures (base effects) and the external imbalance are arguments against rate cuts. Secondly, dovishness from main developed economies central banks (Fed and ECB), reduce the need for the Colombian central bank to normalize monetary policy rate, since international rates will be low in the medium term according to new market expectations.

Additionally, we think BanRep will not announce new FX put options. In the last meeting BanRep decided to postpone international reserves accumulation due to a higher than expected level of COP. Currently, the COP continues to be close to 3300 which, in our opinion, is an uncomfortable level for BanRep due to a possible FX pass-through effect to domestic prices.

Bottom line, conditions remain aligned to keep the policy rate constant for the time being while inflation is close to target, economic activity is still below potential and international rates continue low.

MEXICO: IN MAY, FORMAL JOB CREATION RECORDED ITS SLOWEST GROWTH PACE IN MORE THAN 9 YEARS

According to the Social Security Ministry database, the number of insured workers grew 2.4% over the last twelve months, which represent its lowest gain in more than 9 years. In this respect, net new jobs creation decelerated for a 10th month in a row, registering an annual increase of 475k. On its monthly comparison, the number of new insured workers were 4k, down from 30k registered in April and 34k a year ago. These figures confirm that formal job creation continues to decelerate amid a less buoyant economic outlook, while higher cost of production might also be affecting employment. In this respect, nominal wage growth accelerated in May to 5.9% y/y, up from 5.0% in April, which may also add cost pressures to inflation.

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