

## LATAM Market Update

- **Colombia: The FARC guerrilla all over again. Do markets care?**
- **Colombia: July's unemployment rate increased but with positive signals on urban employment creation**

### COLOMBIA: THE FARC GUERRILLA ALL OVER AGAIN. DO MARKETS CARE?

- We see little short-term impact for markets
- This new insurgent outbreak drug –related rather than a resurgence of an anti-establishment sentiment
- Military expenditures will not increase

On Thursday night, top ex-guerrilla FARC commanders announced that they will return to insurgency. In a video, Ivan Marquez and Jesus Santrich said that due to what they called several breaches on peace accords they have decided to resume their fight against the establishment.

It is very important to recall that a couple of months ago, Santrich was accused of continuing to commit crimes (especially drug dealing) after the peace accord was signed, which is a clear violation of that accord. Additionally, it is worth noting two important facts: i) Venezuela is the most important ally of this “new” guerrilla, thus we think that the strength of this insurgent outbreak depends in a great deal on the possible continuity of Maduro’s government; ii) recall that coca crops have increased in the past five years from 69.000 hectares in 2014 to 208.000 hectares in 2019 which implies that drug dealing business is growing. Therefore, we think that this new move from the ex-guerrilla top guys is more to take care of their drug dealing business, rather than a real anti-establishment call. This is important because under current circumstances it is harder for the international community to support this new group and is easier for the Colombian government to treat them as terrorists.

From the market perspective one question that arises is the fiscal impact of a resumption of hostilities. The military budget has been roughly unchanged for the last eight years despite having signed the peace accord. Thus, we think military expenditure will remain at this level (~3.5% of total budget) if hostilities resume. This is particularly likely given that the international community will not support them, combined with the fact that a good part of the ex-guerrillas that are demobilized have said that is a shame that Marquez and Santrich did not fulfill the peace accord.

Will the conflict imperil Colombia’s economy recovery?. This question is a bit more difficult since there is uncertainty about where this group will operate geographically. If this guerrilla only has influence in the drug-dealing territories, we do not think it will have much impact on the Colombian economy. In fact, the outlaws already are in those territories. However, if the new guerrillas decide to try

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to extend the territories of influence or try to get into cities, risk aversion can rise and affect economic activity recovery. We do not think that, for now, this guerrilla has enough power to expand and since we think that is more a drug dealing business we believe that they initially will try to stay at the original territories of influence (El Catatumbo).

Finally, the last question is if international risk rating agencies will react to this new insurgent outbreak. We do not think international agencies see this outbreak as significant enough to downgrade Colombia. If the risk of lower growth materializes and Duque's governability continues to deteriorate, a downgrade is possible next year.

### COLOMBIA: JULY'S UNEMPLOYMENT RATE INCREASED BUT WITH POSITIVE SIGNALS ON URBAN EMPLOYMENT CREATION

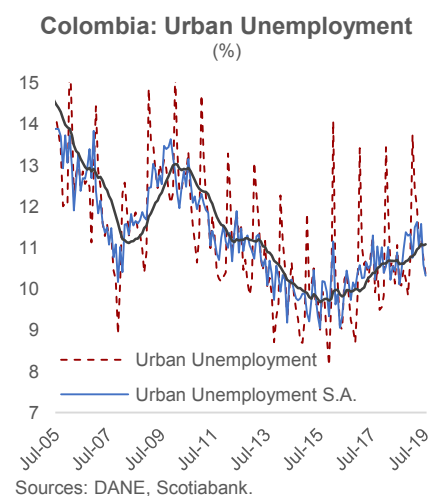
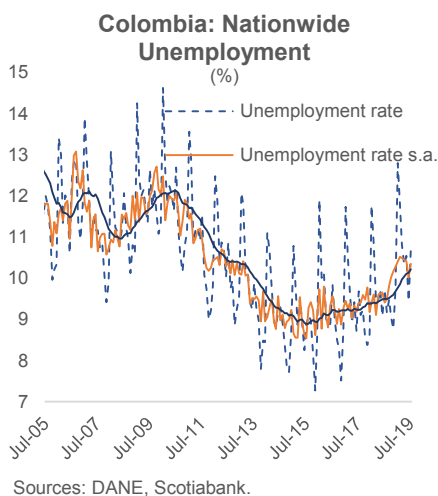
Unemployment deteriorated again in July for nationwide and urban figures. Nationwide unemployment came in at 10.7% (July-18 was 9.7%), while urban unemployment (13 cities) came in at 10.3% (July-18, 10.1%). Labor force participation fell to 63.0% (July-18, 63.6%) for nationwide and fell to 66.4% from 67.1% for urban reference.

Unemployment data have strong seasonality. Therefore it is better to analyze seasonally adjusted series. This measure showed a positive behaviour for the urban figure (10.3% vs 10.6% on June-19 for nationwide, and 10.3% vs 10.6% on June-19 for urban). Seasonally adjusted data shows a more precise view on the labour market dynamics, and it is showing that labour data is finally improving, on the back of services and construction sectors in urban areas, while nationwide employment recovery is slower due to some effects on the agriculture sector.

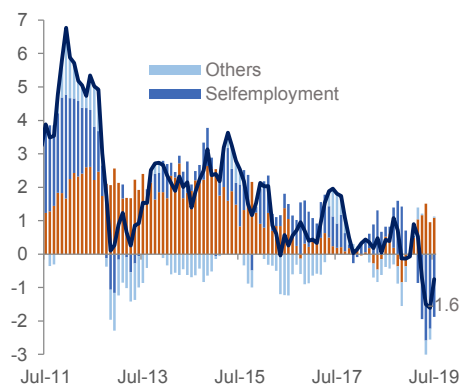
The employed population increased (for the urban measure) in sectors such as personal services, construction, and transport, while employment was reduced in manufacturing activities, commerce, and real estate activities. On the other hand, the employed population in the rural sector deteriorated, due to a fall in sectors such as commerce, real estate, and agriculture. Although agricultural employment contracted in y/y basis, YTD showed recovery. The positive trend should continue since climatic normalization is expected.

Having said that, although employment growth was -0.7% y/y, it is interesting that wage employment continues with robust growth (1.1% y/y in July) while informal employment (self-employment) is falling at a 1.9% y/y pace. Formal employment dynamics throughout the year are positive news and let us anticipate an improvement in labour quality and in the end, better employment data.

On monetary policy, employment data support our call that BanRep will not hike the monetary policy rate (MPR) in 2019 to boost economic activity, and will wait for more economic activity information while keeping its neutral-dovish tone.

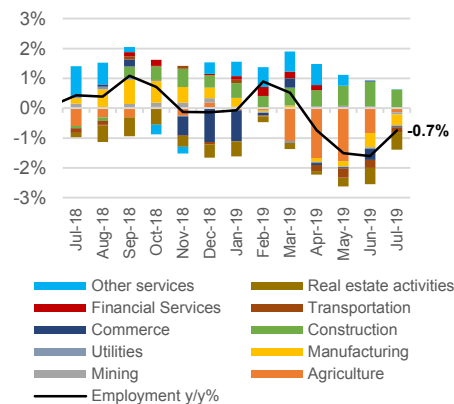


**Colombia: Employment Growth**  
(y/y, %)



Sources: DANE, Scotiabank.

**Colombia: Employment y/y % Contributions by sector**



Sources: DANE, Scotiabank.

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