LATAM Market Update

- **Colombia: In an extraordinary meeting, BanRep announced new liquidity measures**
- **Peru: Fitch forecasts 3.0% GDP growth; We reiterate our new 2.4% forecast; The Central Bank kept the reference rate at 2.25%**

COLOMBIA: IN AN EXTRAORDINARY MEETING, BANREP ANNOUNCED NEW LIQUIDITY MEASURES

In an extraordinary meeting BanRep joined by Superintendencia Financiera, announced measures to provide additional liquidity in local and FX market. The strategies are:

1. Defining mechanisms of FX hedge through 30 days non-delivery Forwards (NDF) under the following conditions: a) Uniform price auction; b) Amount: USD 1 billion.
2. Allow the use of private debt as a collateral instrument in the repo market.
3. Increase the number of entities allowed to participate in the repo market: stockbrokers, trust companies and investment management companies.
4. Increasing the amount on liquidity auctions from COP 12tn to COP 17 tn: COP 12tn are Repos with public debt and COP 5trn Repos with private debt.

In the press conference, the head of BanRep's staff, Hernando Vargas, emphasized that current FX depreciation has been explained by deterioration on fundamentals such as oil prices and risk premiums, and with the recent measures, the central bank wants to provide liquidity to market agents.

OUR TAKE:

Central Bank sends a message of calm since economic authorities haven't seen any critical disruption in the credit market. However, given the current conditions in financial markets, they decided to give more flexibility in liquidity and extend repo operation to other local participants. We don't expect any rate movement or FX intervention in the short term, given that balance of risk could point to upward risk on inflation, and the depreciation is following an international trend which is hard to fight against.

—Sergio Olarte & Jackeline Piraján

PERU: FITCH FORECASTS 3.0% GDP GROWTH; WE REITERATE OUR NEW 2.4% FORECAST

Fitch Ratings came out with a forecast of 3.0% GDP growth for 2020. Although they mentioned COVID-19 as the main risk, they do not seem to be taking into account its likely impact seriously. We reiterate our new growth forecast of 2.4% for 2020.

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THE CENTRAL BANK KEPT THE REFERENCE RATE AT 2.25%

The Central Bank kept the reference rate at 2.25%. This was not totally surprising. Lowering the rate was never more than an option. The key appears to have been timing. In its statement, the Central Bank held that the board would be giving careful consideration to "new information on inflation and its determinants to expand monetary stimulus at an opportune time". The mention of "opportune time" is new, and seems to suggest that the Central Bank felt that, although it was too soon to lower rates this month, it is leaning in that direction somewhere down the road. Very possibly in a month's time. Parsing the message further, the CB seems to still be waiting to see how public sector investment performs, stating that there have been signs of greater public investment, and overall GDP growth, in January–February. For the time being, this is balancing the risks that they explicitly see in terms of COVID-19 affecting growth, volatility of global financial markets, and a recent deterioration in business expectations.

—Guillermo Arbe