

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Latam Daily: Calmer Markets; Banxico's Heath Reaffirms Bank's Stance

- **Chile: Negative one-off effect in services in Q4-2022; we reaffirm our forecast for GDP growth and current account deficit for 2023**

The quieter news backdrop around the stability of the global financial system is resonating positively in markets with decent gains in US equity futures (+0.6%), higher global yields across most majors, but in contrast to a mixed USD and mixed commodities (oil +1%, iron ore -1.7%, copper +1.5%). The main development overnight was a report that the FDIC is looking at how they may expand coverage to all bank deposits, not just those at USD250k and under. This looks still far from happening, but they are looking at options in case a situation arises where they may need to guarantee this support.

The MXN is taking this market optimism in its stride, with its 0.7% gain on the day to 18.70, which is building some distance from the 19 pesos level, has it outperforming most major currencies. Note that Colombian and Mexican markets reopen today after yesterday's holidays closure.

A normalization of Fed expectations is bound to support the peso, with Banxico looking like it will again hike next week. Dep Gov Heath said yesterday that the bank must persevere with its stance, "precisely to continue trying to placate inflation." Markets are roughly pricing in an 80% chance that the Fed hikes 25bps tomorrow, and we think Banxico will likely follow with a same-sized increase.

Later today, we get the results for the latest Citibanamex survey that we're watching for possible changes to economists' expectations for rates; this is the only noteworthy release in the region today. Our view for Mexico's central bank is unchanged, seeing a terminal rate of 11.75%, holding there until Q1-2024. Of course, this remains subject to changes were the current situation to considerably worsen.

From a global markets perspective, developments around the stability of US regional banks may continue to result in sharp intraday action in Latam, while secondary US data (Philly Fed and Existing Home Sales) are unlikely to influence markets significantly. A normalization of US yields after the sharp swing lower (partly on short-covering) exaggerated the shift in Fed expectations—in our opinion—and this could see the USD better supported.

—Juan Manuel Herrera

CHILE: NEGATIVE ONE-OFF EFFECT IN SERVICES IN Q4-2022; WE REAFFIRM OUR FORECAST FOR GDP GROWTH AND CURRENT ACCOUNT DEFICIT FOR 2023

On Monday, March 20, the central bank (BCCh) released GDP data for Q4-2022, which showed a 2.3% y/y contraction. With this, GDP expanded 2.4% in 2022, below both market expectations and the preliminary estimates published by the BCCh (2.7%).

By economic sector, the negative surprise came from services due to a one-off effect in transportation services, which would not have a negative impact on 2023 GDP. In fact, the BCCh revised upwards the monthly GDP growth for January 2023, mainly due to a lower base of comparison in transportation services. All in all, the downward adjustment of GDP for 2022 by the BCCh would not impact our projection of a 0.8% contraction for this year.

Similarly, the current account balance accumulated a deficit of 9.0% of GDP in Q4-2022, explained by the same one-off effect in the services balance, surprising downwards our forecasts. The good news came from the income balance, which registered a USD5bn deficit in Q4-2022 thanks to the inflow of foreign direct investments. Despite a higher-than-expected current account deficit, we reaffirm that the adjustment is underway.

—Aníbal Alarcón

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