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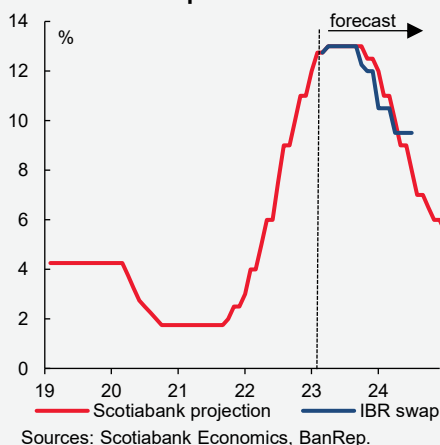
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Chart 1

#### Colombia: Monetary Policy Rate Expectations



## Latam Daily: BanRep Preview; Latam FX Tracks Strong March

- Colombia: Monetary Policy Preview—BanRep to hike 25bps amid economic slowdown and moderated inflation expectations**

It was a risk-on overnight session with no obvious catalysts for upbeat trading that is seeing SPX futures 0.8% higher on the day alongside a mixed USD. Strength in Chinese tech shares is being assigned the role of market cheerleader but even there the reason for gains seems relatively thin. Crude oil is stronger (1%) on the API's inventory report (crude and gasoline inventories down sharply), iron ore is up 1.4%, and copper is gaining 0.5% in line with the optimistic mood.

The MXN is happy to ride the risk-on sentiment's coattails to post a majors-leading appreciation of 0.5% and stringing five days of gains as it sets its eyes on the 18 pesos level. The MXN is ignoring (not unreasonably so) the resignation of Mexico's electoral institute executive secretary yesterday, who left in protest of AMLO's electoral reform (which called for his dismissal and placed him in the spotlight). Another day, another clash in the AMLO-INE saga. The market will keep its focus on tomorrow's Banxico decision where a 25bps is widely expected while guidance around continued hikes will likely be the most relevant item for traders.

Currency strength is not unique to the MXN among its peers in the region, as all Pacific Alliance FX and the BRL have done well since mid-month. In fact, despite the noise in markets, the core Latam currencies we track have gained against the dollar in March from the COP's top performance of 4.2% vs the USD to a still respectable gain of 0.8% in the PEN (despite impeachment noise); March-to-date, the CLP, BRL, and MXN are 3.7%, 1.4%, and 0.9% higher, in that order.

On the topic of Peruvian politics, prosecutors announced yesterday that they have opened an investigation into Pres Boluarte and former Pres Castillo (who ran together in 2021) on accusation of money laundering. This is in addition to an investigation (launched in early-January) of Boluarte regarding "homicide or genocide" due to civilian casualties during the latest period of social unrest. Note that Presidents in Peru may be investigated, but not charged, while in office. Still, the vote later this week on whether to allow a debate on impeaching the President in Congress may have got a slight additional tailwind—though numbers still look tilted against the proposal. We think this is all mostly noise.

—Juan Manuel Herrera

#### COLOMBIA: MONETARY POLICY PREVIEW—BANREP TO HIKE 25BPS AMID ECONOMIC SLOWDOWN AND MODERATED INFLATION EXPECTATIONS

Tomorrow, BanRep is expected to deliver a 25bps hike to take its policy rate to 13%. Despite inflation not having reached a strict peak, inflation expectations 1Y and 2Y ahead are decreasing. In the meantime, the economy is showing signs of slowing, especially in formal sectors. Both fundamentals could contribute to the central bank affirming the end of the hiking cycle. A split vote signaling some members voting for stability and a communiqué revealing that the board is comfortable with the level of the interest rate would reinforce our base case scenario of a pause.

According to a recent survey, the economic analysts' consensus expects a 25bps hike. The IBR market is pricing also a final 25bps hike and stability until August (chart 1). The Scotiabank Economics scenario is of stability after the March hike with cuts starting in October.

March 29, 2023

Key points ahead of Thursday's BanRep vote:

- At January's meeting, the board hiked by 75bps, below the market's pricing and the economists' consensus. It was in a split vote, two members voted for 25bps, and the rest (five members) voted for a 75bps hike.
- In the minutes, the majority group said that a 75bps hike sends a message of compromise against inflation expectations and contributes to COP strengthening. The moderate group expressed stronger concerns about the economic activity slowdown, adding that the stickiness of inflation at high levels is due to supply shocks that are reducing.
- Inflation hasn't reached a peak, however. January and February data confirms that inflation is transitioning towards a ceiling of ~13.3%. Statistical base effects are high and from our perspective it's very difficult to see significantly higher inflation during the year.
- The good news regarding inflation comes from inflation expectations. In the past two expectations surveys from the central bank one-year-ahead inflation expectations have decreased to now sit at 7.21%, while two years ahead is at 4.01%.
- On the economic activity side, the ISE index showed an upside surprise in January, expanding by 5.9% y/y (above expectations of 2.5%), reflecting high regional public spending in regions, which is common before local elections. However, the private side of the economy is slowing faster, credit expansion decelerated from 18% y/y to 15%, while other indicators such as vehicle purchases are contracting.
- Despite volatility in international markets, Colombian assets have been resilient. The COP has appreciated by 4% since mid-month, while the COLTES market is reflecting better liquidity and price action. Both components reduce pressure on the central bank.

We affirm our expectation of a 25bps hike that leaves the policy rate at 13%; however, a split vote tilted towards the dovish side could take place. In terms of market effect, we think that a 25bps hike is a consensus, but sending a signal of potential future stability would affirm the steepening mode in the curve as well as calm in the currency.

**—Sergio Olarte & Jackeline Piraján**

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