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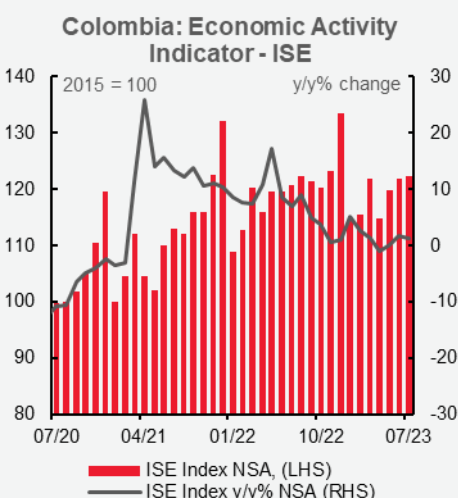
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Chart 1



Sources: Scotiabank Economics, DANE.

## Latam Daily: Economic Activity Due in Brazil, Recap of Colombia's

### Colombia: Economic activity in July comes in slightly below our forecast

Another Asia session, again rangebound trading, with little on tap today in ex-Latam aside from Canadian CPI and US housing starts/building permits (8.30ET) while markets count down the hours to the Fed's decision tomorrow. Treasuries held to a narrow range overnight before yield moves picked up a bit ahead of European hours, slightly cheapening, with limited spillovers in other markets. The USD began to lose ground around 2.30ET with its weakness particularly favouring high-beta FX (NOK +0.4%, CAD/MXN +0.2/3%).

US equity futures are up marginally, copper and iron ore are down bad (-1% and -1.5%), but the latter is still in solid footing around its best levels since late-March/early-April. Brent reached another new high in the cycle this morning, breaching the \$95/bbl level and tracking a ~0.6% gain today to trade overbought through most of September (its longest stretch here since early-2021).

In Latam, Chilean markets are again closed for the holidays and elsewhere we have Brazilian economic activity figures for July at 8ET and Colombian imports and international trade data at 11ET.

Brazil's data are seen showing a muted economic expansion of 1% y/y by the Bloomberg median—in a wide -0.3% to 2.6% band of estimates. Industry/sector level data released over the past few weeks showed a decline in industrial output (-1.1% y/y), strong services volumes growth (+3.5% y/y), and a decent gain in retail sales (+2.4% y/y). The print likely won't have much influence on the BCB's decision tomorrow where anything but a 50bps cut with mostly unchanged guidance would be a surprise.

—Juan Manuel Herrera

### COLOMBIA: ECONOMIC ACTIVITY IN JULY COMES IN SLIGHTLY BELOW OUR FORECAST

On Monday, the National Statistics Institute (DANE) published the latest data on the economic activity indicator (ISE) for July 2023. The indicator showed an expansion of 1.2% y/y (chart 1), slightly above the expectations of analysts surveyed by Bloomberg and slightly below our projections (1.1% y/y and 1.3% y/y, respectively), showing a further moderation compared to the 1.7% y/y of the previous month. In seasonally adjusted terms, the monthly decline was -0.7% m/m.

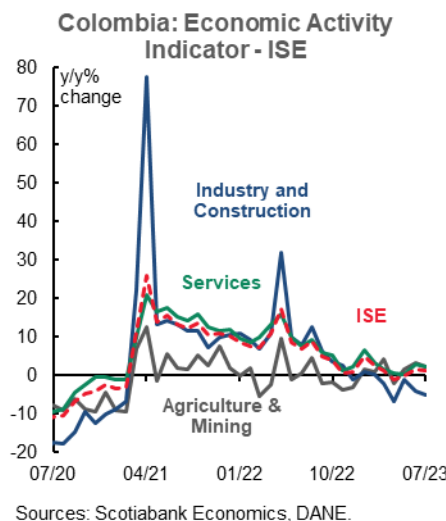
In terms of year-on-year growth, the increase in July continued to be driven by primary and tertiary (services) activities, which recorded positive annual variations of 2.2% and 2.3%, respectively. Within tertiary activities, public administration, health services and arts and entertainment expanded on a year-on-year basis. In contrast to the growth of these two sectors, secondary activities (manufacturing and construction) continued to decline, reaching -5.2% y/y in July. In seasonally adjusted terms, all three sectors contracted, with the tertiary sector showing the smallest decline at -0.3% m/m, while the primary and secondary sectors recorded monthly decreases of -1.0% m/m and -1.8% m/m, respectively.

Therefore, given the recent economic results, combined with the latest inflation data and an increase in inflation expectations, we believe that the BanRep board will keep interest rates unchanged at the September 29 meeting and will only start the cycle of cuts in December.

### Key Highlights include:

- Primary activities (agriculture and mining) recorded an annual growth of 2.2% y/y in July (chart 2), while in seasonally adjusted terms, they contracted by 1.0% m/m. In the agricultural sector, producer price moderation, partly due to fertilizer price moderation, continued to alleviate food production, due to exchange rate appreciation. On the mining side, oil and coal production is also contributing to better sector performance.
- Secondary activities (manufacturing and construction) showed a contraction of 5.2% y/y in July 2023, and in seasonally adjusted terms, experienced a moderation of 1.8% m/m. According to data published by DANE on Friday, July 15<sup>th</sup>, manufacturing contracted for the fifth consecutive month in July (-7.2% y/y), indicating that this fall, along with lower construction sector performance, led to this slowdown in secondary activities. However, on the industries related to vehicle body manufacturing and trailer manufacturing along with coking, oil refining, and fuel blending the data showed positive variations in July.
- As for tertiary activities (which include trade and service-related activities), they recorded a growth of 2.3% y/y in July. Growth was driven by the public administration sector, education, and entertainment sector (+8.9% y/y), followed by financial and insurance activities (+3.3% y/y), and real estate activities (+1.9% y/y). In seasonally adjusted terms, there was a decrease of 0.3% m/m, with the commerce, transport, and hotel component having the highest growth with +1.5% m/m, the best growth recorded so far in 2023 for this subsector.

Chart 2



### Final Remarks:

The activity data for the first month of the second half of 2023, was slightly below the market consensus (+1.4% year-on-year) and our forecast of +1.3% y/y. While today's data is weaker than we expected, the slight rebound presented in the commerce, transport, and hotel subsectors hints at slight signs of recovery, which we expect to continue gradually in the second half of 2023.

However, we believe that this result will not significantly affect market expectations regarding monetary policy decisions at the end of this month, given that the most recent inflation data have skewed the probability towards a later start of the central bank's easing cycle. At Scotiabank Colpatría, the official call is for a rate cut to begin in December due to the slower pace of inflation deceleration.

—Sergio Olarte, Jackeline Piraján & Santiago Moreno

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