Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia's Monetary Policy Rate Preview; Mexico's August Trade Balance

- **Colombia: Monetary Policy Preview—BanRep is expected to hold in a split vote**
- **Mexico: Trade balance is set to close the year in deficit**

COLOMBIA: MONETARY POLICY PREVIEW—BANREP IS EXPECTED TO HOLD IN A SPLIT VOTE

On Friday, September 29th BanRep will hold its regular monetary policy meeting, market and economist consensus, and our expectation is that BanRep's board will keep the policy rate at 13.25%, however, this time the consensus can be broken. Since the last meeting in July, activity data continued showing a mixed picture: a weak performance in goods-related sectors and still-resilient services sectors. On the inflation side, the slowdown continued, however, August inflation surprised to the upside reflecting a reversal in food prices.

Finance Minister Bonilla has emphasized that he will vote for a rate cut, but some board members, including Governor Villar, remain concerned about inflation and probably will be tilted to the stability side.

Economists and market consensus are both anticipating rate cuts until October 2023. In Scotiabank Economics the first cut of 50 bps is expected in December 2023 (chart 1), however, it strongly depends on inflation affirming a downward trend, especially core inflation. In any case, our bias is towards having the later start of the easing cycle but at a faster pace, either way by the end of 2024 we expect the monetary policy rate to close at 6.75% and the potential end of the easing cycle between 5.50% and 6%.

Key points to keep in mind ahead of BanRep's vote:

- In July, BanRep maintained the monetary policy rate stable at 13.25% in a unanimous vote. In this session, the board remarked on inflation progress, however, they also highlighted that inflation and inflation expectations remain well above the target of 3%. Additionally, they said uncertainty remains high amid the potential effect of the "El Niño" weather phenomenon, supply shocks amid the Russian invasion of Ukraine, and gasoline price increases.
- Since the last monetary policy meeting, economic activity data continued weakening. Domestic demand slowdown continues with mixed signals among sectors. Credit continued decelerating and consumer credit passes from expanding 5% in July to 2.0% in recent data. Manufacturing and retail sales continued reflecting the economic slowdown, however, services sectors remained expanding. That said, despite the economy slowing down, the positive side is that households are reducing their financial burden, which is the main purpose of the monetary policy tightening.
- Inflation surprised to the upside in August, proving that inflation convergence towards the target could take longer than expected. In August, inflation came in at 0.70% m/m, well above market expectations and despite headline inflation continued the downtrend, it remains at a double-digit level (11.43% y/y). Core inflation stood at 11.19% ex-food and 9.92%, excluding food and regulated prices. In that context inflation expectations increased by the end of the year to 9.55% and one and two years ahead are at 6.05% and 4.14%, still above BanRep's target range (between 2% and 4%).

All in all, BanRep's discussion could become harder by the minute. The board is now facing a mixed picture in which a dilemma is starting to surge: the slowdown in the economic

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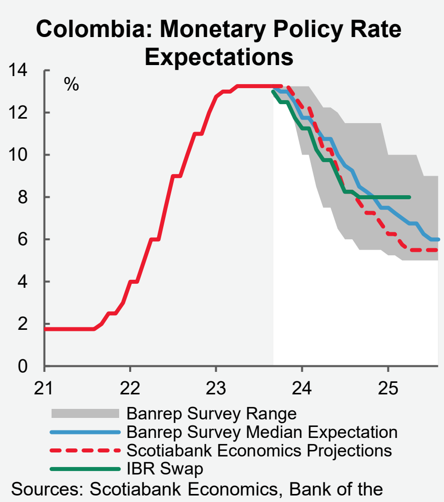
Chart 1



Sources: Scotiabank Economics, Bank of the Republic, DANE.

activity is motivating requests from some sectors for a rate cut, and also is a concerning issue for the government since it limits the potential tax collection in the future. On the other side, inflation correction proved to be fragile and still with high uncertainty due to weather phenomena, setting of the minimum wage increase, and gasoline prices increment among other issues that could make inflation convergence slower than expected.

In Scotiabank Economics, the base case is for rate stability in September and October and a rate cut in December, which will strongly depend on inflation dynamics. As mentioned before, if uncertainty remains significantly high for inflation, the bias is towards later but the strongest rate cuts will come in 2024.

—Sergio Olarte, Jackeline Piraján & Santiago Moreno

MEXICO: TRADE BALANCE IS SET TO CLOSE THE YEAR IN DEFICIT

In August, the trade balance reported a deficit of -$1.377 billion dollars (bd), from -$881.2 md previously. Imports fell -4.3% y/y (-7.7% previous), highlighting the deceleration of capital imports 18.2% (23.3% previously), while consumer imports rose 7.4% (-9.1 previously), but intermediate goods fell -8.6% (-10.4% previous). Exports accelerated 3.8% y/y (2.9% previously). Two details, manufacturing exports moderated by 4.3% (6.8% previously), and automotive exports by 11.0% (35.7% previously). On the other hand, the oil trade balance registers a deficit of -$1.731 bd, since exports fell -4.6% y/y, being the seventh negative print, and imports once again drop -37.1% y/y (-50.8% previously). In the cumulative period from January to August, the trade balance recorded a deficit of -$8.602 billion, exports have grown by 3.8% YTD and imports have fallen by -0.5% YTD compared to the same period in 2022 (table 1).

Table 1: Mexico—Trade Balance

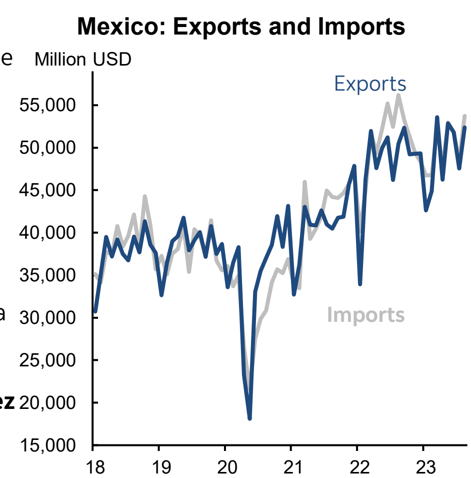
Concept	Million of dollars					
	Jun			Jan- Jun		
	2022	2023	% y/y	2022	2023	% y/y
Trade Balance	**-5,704.0**	**-1,377.1**	**-75.9**	**-24,741.0**	**-8,602.1**	**-65.2**
Total Exports	50,464.2	52,359.9	3.8	377,606.5	391,878.9	3.8
Oil	3,189.8	3,042.4	-4.6	27,594.6	21,533.9	-22.0
Crude	2,492.7	2,629.5	5.5	22,477.4	17,703.8	-21.2
Others	697.1	412.9	-40.8	5,117.2	3,830.1	-25.2
Non-oil	47,274.5	49,317.5	4.3	350,011.9	370,344.9	5.8
Agricultural	1,388.9	1,388.0	-0.1	14,621.3	15,039.0	2.9
Extractive	687.7	774.4	12.6	6,060.8	6,354.9	4.9
Manufactures	45,197.8	47,155.1	4.3	329,329.8	348,951.0	6.0
Automotive	15,245.6	16,924.4	11.0	105,295.9	122,279.0	16.1
Non Automotive	29,952.2	30,230.7	0.9	224,033.8	226,672.0	1.2
Total Imports	56,168.2	53,737.0	-4.3	402,347.6	400,481.0	-0.5
Oil	7,584.6	4,773.7	-37.1	52,274.1	36,917.7	-29.4
Non-oil	48,583.6	48,963.3	0.8	350,073.5	363,563.3	3.9
Consumption	7,682.9	8,254.9	7.4	53,910.1	57,105.6	5.9
Oil	2,505.8	1,745.3	-30.3	17,661.2	12,935.8	-26.8
Non-oil	5,177.1	6,509.6	25.7	36,248.9	44,169.8	21.9
Intermediate	44,082.1	40,277.1	-8.6	317,632.3	305,631.3	-3.8
Oil	5,078.8	3,028.3	-40.4	34,612.9	23,981.9	-30.7
Non-oil	39,003.3	37,248.8	-4.5	283,019.3	281,649.4	-0.5
Capital	4,403.2	5,205.0	18.2	30,805.2	37,744.1	22.5
T. Balance without Oil	-1,309.1	354.1	-127.1	-61.6	6,781.6	-11,115.0

Sources: Scotiabank Economics, INEGI.

These data reflect the solid external demand for Mexican products through exports, despite an economic slowdown that has been less pronounced than anticipated in many economies. It is important to highlight that exports of automotive products have experienced a moderation in their growth, pending possible delays in the sector in coming months owing to the workers' strike in the United States. On the other hand, regarding imports, negative prints have been observed for intermediate goods during the last six months (chart 2). This has been partially offset by a steady increase in imports of capital goods, which have seen growth for 31 consecutive months, as they are essential for the operation and development of companies. We expect the trade balance to close the year with a deficit, since, to date, surpluses have only been recorded in the months of March and June. This is partly due to the influence of the exchange rate, which can curb exports if strength continues, while for importers, the absence of currency hedging can be a challenge in the event of a depreciation in the medium-term.

—Brian Pérez

Chart 2



Sources: Scotiabank Economics, INEGI.

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