Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Better Market Mood; BanRep Preview

- **Colombia: Monetary Policy Preview—BanRep is expected to hold due to still high inflation and international volatility**

Again, we have Monday's markets reversing part of Friday's risk-off moves, opening to a smaller than feared Israeli offensive in Gaza. Soft German regional and Spanish national CPI data helped a decline in European yields at the market open that has slowly been unwound since; USTs are bear flattening against still –bid EGBs.

The less negative mood has SPX futures up 0.6%, in line with cash gains in the main UK and the Eurozone indices. WTI oil is down 1.2%, opposite to iron ore's 1.7% rise and copper's 1.1% increase; Vale's CEO noted the iron ore market is very balanced, according to Bloomberg. The USD is weaker against practically all majors, with the MXN, up 0.5/6%, leading the top currencies alongside high-beta peers AUD and NZD, at the other end of the CHF's slight risk-on decline (gold also down 0.5%).

A very busy global week awaits full of key data releases and central bank decisions, with month-end flows likely to drive price action too. Monday is relatively quiet, however, both in Latam and in the G10 (after this morning's German GDP and CPI data). Overnight, the BoJ's decision is a risky one for markets given the chance of YCC changes, which could move markets more than the Fed's announcement on Wednesday—itself possibly less important than the Treasury's quarterly refunding announcement that same day.

This week in Latam (see ***Weekly***), we have a collection of Chilean macro data, Mexican GDP, and BanRep's policy decision tomorrow (see below), followed by Peruvian inflation and the BCB's decision on Wednesday as the highlights. Chile's markets reopen today after Friday's holidays, to react to the BCCh's surprising decision to 'only' hike by 50bps last Thursday; IPSA futures rose 0.9% and UDSCLP NDFs fell 2.8% on Friday. Colombian markets also have the weekend's regional election results (showing defeats for Petro's allies) to react to; in Bogota, there will not be a runoff vote, surprisingly, as Galan took nearly 30ppt more of votes than the runner-up.

—Juan Manuel Herrera

COLOMBIA: MONETARY POLICY PREVIEW—BANREP IS EXPECTED TO HOLD DUE TO STILL-HIGH INFLATION AND INTERNATIONAL VOLATILITY

On Tuesday, October 31st BanRep will hold its regular monetary policy meeting. Markets and the economists consensus, including us, expect that BanRep's board will keep the policy rate at 13.25%, again in a split decision. For this meeting, the board will have a fresh update on the medium-term macro perspective from the staff, which will be released to the public on Monday in the Monetary Policy Report. In that regard, it is relevant how is the current staff balance of risk between inflation and growth. Last meeting (September), the board emphasized BanRep's main mandate is price stability and during the press conference, Governor Villar said that economic deceleration was not a big concern. However, recent economic activity indicators were significantly lower than expected and it could increase the debate among the board.

October has been a volatile month for international assets as the Federal Reserve was very emphatic about the "higher rates for longer" call, which we think is a relevant input that supports rate stability in this month's BanRep meeting. All in all, in October, despite the weak economic performance, we think conditions are not granted yet for having a rate cut.

Instead, we think in December there is a better chance of having a discussion about kicking off the easing cycle. In December, the board will have the Q3 GDP data and a

couple more inflation prints. The discussion about the minimum wage should be on its way, and probably the board could have a better picture of the risk map to decide. Our base case scenario is for a rate cut of 50 bps in December, however, there is a good chance of having a later start of the easing cycle by Q1-2024, however, if BanRep delays the decision it could imply a faster start with a no least than 100 bps cut in March.

Although there are arguments for both sides, we think the policy rate stability decision will prevail due to still-stubborn inflation, economic activity that is similar to BanRep's projections, although a bit lower in the margin, and the external environment generates higher uncertainty.

Key points ahead BanRep's vote.

- In September, BanRep maintained the monetary policy rate stable at 13.25% in a split vote (two members voted for a 25bps cut, while five members voted for the stability of the policy rate). All the board members agreed that inflation is still concerning high, and uncertainty around is still elevated. However, the two members who voted for a rate cut argued concerns about investments and the potential impact of the economic deceleration in household disposable income in the medium term.
- Macro indicators in October pointed to inflation aligned with expectations but a very weak balance for economic growth. The economic activity grew at a 0.2% y/y pace in August, well below expectations amid significant contractions in manufacturing (-8.6% y/y) and retail sales (-10% y/y). However, some service sectors especially the public sector maintain decent performances.
- Despite inflation didn't provide strong surprises in October, the minimum wage discussion is critical for the 2024 inflation. The Finance Minister has said that the minimum wage could increase at a double-digit pace. If the increment is well above 2023 inflation it could lead to a significant indexation effect for 2024 and delay even more the CPI inflation convergence to the target of 3%. That is why we think that BanRep will avoid starting the easing cycle before having information about the minimum wage number.
- In an interview with Bloomberg, Olga Lucía Acosta didn't provide signals of being in favour of a rate cut, which challenges our vote counts about who were the two members that voted for a 25 bps cut. Acosta is the board member appointed by president Gustavo Petro and she was a potential vote for the rate cut in September along with Minister Bonilla, however, if she wasn't the second vote for a cut, it opens the possibility that the discussion within the board is closer to a cut, which makes us think that the split voting distribution will continue in October's meeting and December as our base case scenario for the easing cycle kick-off.

—Sergio Olarte, Jackeline Piraján & Santiago Moreno

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