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## Latam Daily: Chile and Colombia Inflation

It looks like a sell-everything mood in markets this morning with front-end USTs and EGBs on the backfoot, the dollar stronger against all major currencies, and minor losses in US equity futures versus European bourses doing a bit worse, with only iron ore gains a standout in contrast to losses in most other commodities. It's a very quiet G10 day ahead where the highlight will be central bank speeches, notably Fed Chmn Powell at 9.15ET, and a USD42bn auction of US10s at 13ET.

The clearest move in markets is the continued strengthening of the dollar with some strong trends over the past 48 hours against key currencies like the CAD, JPY, GBP, CHF, and the EUR. The MXN was holding up decently until around the European open when it caught up to its peers' losses to now track a 0.3% decline on the day (like the EUR and GBP). The US curve is bear flattening, with 3s underperforming up 4bps in what is a partial reversal of a rally on a successful auction on Tuesday. EGBs started the day strongly but a big increase in year-ahead inflation expectations in the ECB's September survey of consumers triggered a sharp selloff in the front-end in the past ninety minutes or so.

Oil slid through the \$77/bl level in WTI just a few minutes ago to trade near its lows at midnight after a sharp 4% decline yesterday to which it is adding about 1% today; copper is flat to weakening ahead of North American trading while iron ore rises 1.2% aided by hopes of support for Chinese developers. SPX futures are off 0.1% in line with UK cash equities while Euro Stoxx falls 0.3%.

Twelve hours stand between today's main Latam data releases, Chilean inflation out at 6ET and Colombian inflation at 18ET. In between, Brazilian monthly budget and retail sales data are on tap, with the former figures likely to be of higher importance for local markets that are a bit more anxious about Lula's government straying from fiscal targets.

Scotiabank Economics, and the Bloomberg median, expect headline inflation to hold unchanged in Chile at 5.1% y/y in data out at 6ET. At first glance, this may be interpreted as a lack of progress and a factor that would support more BCCh caution when it comes to cut sizes. However, the 0.5% m/m increase in prices that our team in Santiago projects matches the pre-pandemic average for an October month, reflecting at least some normalization of prices growth. We do think ex volatiles inflation will accelerate slightly to 6.8% to 6.6% y/y, but blame base effects for this uptick as the 0.3% m/m rise that we expect is also on par with its long-term seasonal change. BCCh President Costa will present their Financial Stability Report to Congress today at 8ET, where we may get some colour on what to expect for the bank's upcoming meetings.

In the case of Colombia, we're aiming for marginally lower headline and core inflation than the Bloomberg median, but both our and the median's forecast round to a 10.6% y/y reading for both baskets. Our 0.32/31% m/m headline/core estimates are somewhat below the consensus' 0.36/35%. Progress made in inflation in Colombia is clearly very slow as another month passes with double-digit year-on-year increase that will give way to another likely double-digit minimum wage increase for 2024, and a large pass-through into next year's prices growth due to indexation practices. We're holding to a forecast of rate cuts to start in December, but risks may be tilted towards an early-2024 beginning instead.

—Juan Manuel Herrera

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