Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

February 20, 2024

Latam Daily: Mexico Survey, Petroperu Watch; BanRep Survey Recap

- **Colombia: BanRep Survey: economist consensus expects BanRep to cut 50bps in March**

The risk mood is mixed today as US equity futures slip, the USD trades mixed to weaker, commodity prices falter, and rates markets strengthen. Treasurys are reopening post long weekend with a twist steepening bias, joined by bull flattening EGBs and gilts outperforming on a dovish interpretation of remarks by BoE officials. The MXN is trading into the low 17s on a small 0.1% gain alongside other major peers. SPX futures are down 0.4%, while Brent oil is down 0.9% and copper falls 0.4%.

Overnight, the broad rates market was supported by a larger-than-expected 5-yr prime lending rate cut by Chinese banks, and successful German and UK auctions. An unchanged 1-yr rate, however, was disappointing for some, as Chinese markets remain hungry for greater support from authorities. Iron ore's 5% drop today to a three-month low reflected the market's disappointment as well as soft demand after the Lunar New Year break.

Today's Latam calendar is somewhat quiet, with only the release of the bi-weekly Citibanamex survey of economists in Mexico and industrial and retail confidence readings out of Colombia. In the G10, the US calendar has little of relevance on the return from the long weekend, but Canada's includes the release of Jan CPI at 8.30ET.

Prior to Banxico's February decision, the median economist lifted their end-2024 policy rate forecast by 25bps to 9.50%. Now, after Banxico's hawkish hold, there's a chance that we see another revision higher to rates forecasts and possibly a greater share shifting their first rate cut call to May. Since the start of the year, Mexican economic activity data for the latter part of 2023 have disappointed while inflation data have surprised to the upside (even if mainly due to non-core prices), so it's tough to be fully confident about our (and the median's current) call for a March start for rate cuts.

We're keeping an eye on the outcome of discussions in Peru's cabinet regarding Petroperu, coming after last week's cabinet reshuffle—with new Econ/Fin and Mining/Energy ministers sworn in. We don't think that Econ/Fin Min Arista will deviate materially from his predecessor's pledge that Petroperu bondholders will be repaid. Arista recently said that he supports providing state guarantees for the company so that it can raise debt. With public finances strained, Arista said yesterday in an interview that he will propose in the next few months the implementation of an austerity rule in order to meet the 2% fiscal deficit rule for 2024 (compared to the 2.8% result for 2023).

Yesterday, the BCCh published the results to its post-decision traders survey. Chilean market participants now see a 100bps cut at the bank's April meeting, to 6.25%, or 25bps lower than the 6.50% median in the pre-decision poll. The survey's results may have been tighter were it not for last week's dovish BCCh meeting minutes corresponding to the late-January 100bps cut. Markets are now fully primed for another full point cut in April, but are biased towards a 50bps at the May decision. With the CLP closing in on a 10% depreciation for the year, the BCCh may have to soon talk up external risks to inflation again.

—Juan Manuel Herrera

COLOMBIA: BANREP SURVEY: ECONOMIST CONSENSUS EXPECTS BANREP TO CUT 50BPS IN MARCH

The Central Bank (BanRep) released the economist's expectation survey for February. Inflation expectations increased for Dec-2024 to 5.33% while moving down for 1y and 2y horizon to 4.67% and 3.69%, respectively. For the monetary policy rate, market consensus

Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

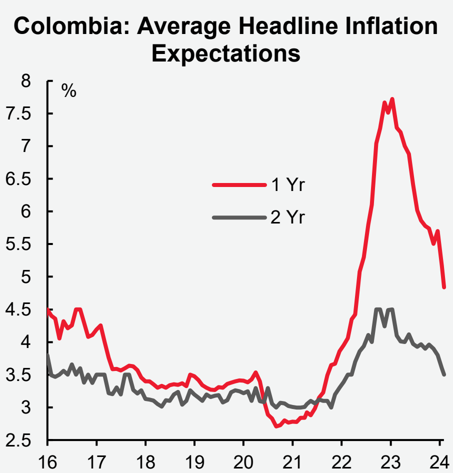
Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Jackeline Piraján, Senior Economist
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Chart 1



Sources: Scotiabank Economics, BanRep.

projects a 50bps cut at the March 22nd meeting; however, it is worth noting that the survey's responses were collected before the release of the GDP figure. That said, it is important to monitor if the March survey shows a change in expectations given the weak economic activity performance in 2023. For the year-end, the monetary policy rate is expected at 8.25%, above Scotiabank Colpatria's projection of 7% (chart 1).

Table 1: Colombia—Headline Inflation Expectations	Average	Change vs previous survey, bps
Feb-2024, m/m % change	0.95	…
Dec-2024, y/y % change	5.33	16
1Y ahead, y/y % change	4.67	-6
Dec-2025, y/y % change	3.80	-12
2Y ahead, y/y % change	3.69	-22

Sources: Scotiabank Economics, BanRep.

In the short-term, the inflation expectation for February is at 1.0% m/m, which could take annual inflation below 8% from the current 8.35%. Scotiabank Colpatria's projection is 0.96% m/m. During February, the main contributor to inflation is expected to be education; however, in 2024, the increase is predicted to be lower versus 2023. In addition to education, the rest of the indexed services will continue contributing to the annual inflation deceleration in February. Food inflation is expected to be moderate, which will also replace a high statistical base of 1.60% observed in 2023. We also project a moderate inflation in utilities.

All in all, the debate about the speed of the easing cycle continues; economist consensus bet again for a modest acceleration given inflation progress; the new piece of information is the very weak economic performance reported in 2023. Either way, BanRep will have one more month to observe further economic data before the next rate decision. At Scotiabank Colpatria, we project a 75bps rate cut at the March 22nd meeting and we affirm our expectation of the monetary policy rate closing around 7% by the end of 2024.

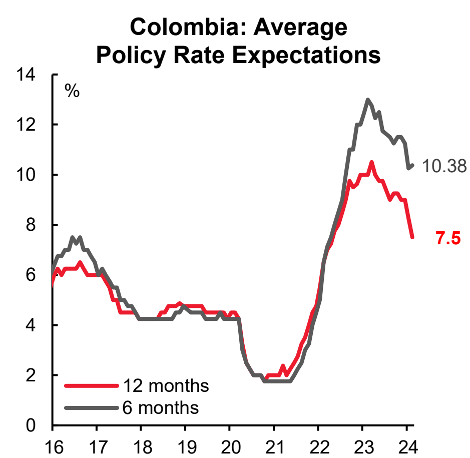
Key points from the survey:

- **Short-term inflation expectation.** For February, the consensus is 1% m/m, which implies an annual inflation rate of 7.65% y/y (down from 8.35% in January's survey). The maximum expectation is 1.45%, and the minimum is 0.77%. Scotiabank Economics forecast is 0.96% m/m and 7.61% y/y. In February, the usual main contributor to inflation is the education group, and we expect education inflation to be lower by around 200bps versus 2023. However, we project that the food group will be the main source of disinflation in the headline inflation. One year ago, food inflation was 1.66%, which is a very high statistical base. Gasoline prices will contribute less to the inflation as the government said that the stabilization fund gap is already closed and is now moving the gasoline prices according to international prices.

- **Medium-term inflation showed an encouraging picture.** Inflation expectations for December 2024 increased by 16bps to 5.33% y/y (table 1). However, the headline inflation expectations for the one-year horizon were at 4.67% y/y, while the two-year outlook fell significantly to 3.69% y/y, which is closer to the central bank's target of 3%.

- **Policy rate.** The median expectation points to a 50bps rate cut at March's meeting. It is worth noting that the expected monetary policy path, on average, was unchanged. For Dec -2024, the monetary policy rate is expected to be 8.25%, while for the 2025 end, it is expected to be 5.50%. Scotiabank Colpatria's projection is 7% for Dec-2024 and 5.5% for Dec-2025 (chart 2).

Chart 2



Sources: Scotiabank Economics, BanRep.

- **FX.** The projections for the USDCOP exchange rate for the end of 2024 averaged 4041 pesos (107 pesos above the previous survey). For December 2025, respondents, on average, expect the peso to settle at USDCOP 4004 pesos.

—Sergio Olarte & Jackeline Piraján