Scotiabank

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Latam Daily: Colombia Exports and BanRep Minutes Recap

- **Colombia: Exports fell in June amid a significant decline in coal exports; BanRep minutes: the majority group favours prudent rate cuts as risks around inflation persist**

COLOMBIA: EXPORTS FELL IN JUNE AMID A SIGNIFICANT DECLINE IN COAL EXPORTS

DANE released export data on Monday, August 5th. Monthly exports in June stood at US $3.82 billion FOB, recording a 5% y/y contraction (chart 1), the main contraction was on coal exports due to lower exported volume. That said, traditional exports fell -8.46% y/y, while non-traditional exports fell by -0.6% y/y. The total exports level is similar to the levels observed by the end of 2021. Compared to the previous month, exports fell by -14.1%, the steepest drop since January 2024; the contraction was evenly split between traditional and non-traditional exports.

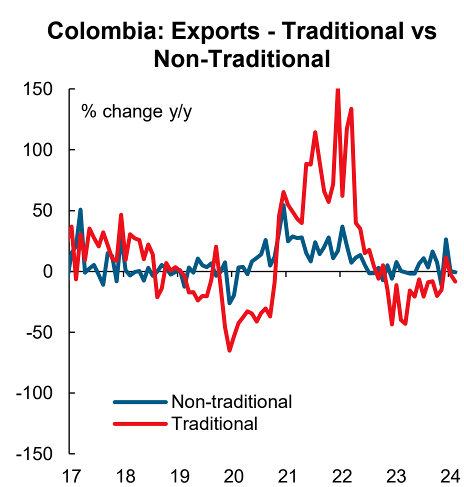
The results for June showed a setback in exports of non-traditional products. In April and May, non-traditional exports had maintained a turnover above US $2 billion (historically high); however, in June, they fell again to a value of US $1.78 billion. On the other hand, traditional exports were mainly affected by a lower exported volume, especially of coal. Exports are expected to remain oscillating around current levels in forthcoming months, which, coupled with higher imports due to higher international transport costs and the rebuilding of some inventories, will turn into a slightly higher current account deficit.

- **Traditional exports totaled US $2.04 billion FOB, a fall of -8.46% year-on-year.** The fall was influenced by a lower export volume of coal, while in terms of prices, the dynamic was better. The value of oil exports maintained the positive dynamic with a total of US $1.28 billion (+7.4% y/y), thanks to a favourable international price, given that the volume was lower than the previous year (-6.5% y/y). Coffee, on the other hand, maintained a positive dynamic, closing the second quarter with an average export growth of 18.2% y/y, which reflects a positive contribution from production and international prices.
- **Non-traditional exports lost the momentum of the last two months.** Non-traditional exports stood at US $1.78 billion FOB, falling slightly compared to the previous year (-0.6% YoY), however, compared to May they fell -14.1%. Exports from the agricultural sector (excluding coffee) contracted 7% y/y, while exports of manufactured goods fell -7.8% year-on-year, contributing most to the negative result of non-traditional exports (chart 2).

Chart 1

Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

—Jackeline Piraján & Daniela Silva

BANREP MINUTES: THE MAJORITY GROUP FAVOURS PRUDENT RATE CUTS AS RISKS AROUND INFLATION PERSIST

The central bank released minutes regarding July's monetary policy meeting late on Monday, August 5th. As has been the case in recent minutes, the board has seen a consensus about reducing the interest rate; however, this time, the board has considered there are conditions to turn the monetary policy to a less contractionary stance. In our opinion, it suggests that forthcoming meetings will be focused on at least maintaining the current level of real rate and that the nominal rate will move, mirroring inflation progress. The main source of debate, as usual, is about the pace of the easing cycle, and again, five members voted for a 50bps cut, while two voted for a 75bps cut. The majority group argued that risks of inflation persist and that, for now, a more accelerated easing cycle is not sustainable, while the minority group is more concerned about the deterioration in the labour market, highlighting that inflation expectations reflect the probability of achieving the inflation target next year.

Similar to previous minutes, we identify that the inflation progress in forthcoming months will be key for the board to consider speeding up the easing cycle. Our base case scenario is still for a 75bps rate cut at September's meeting because we expect headline inflation to resume its downward trend in July and core inflation to continue going down, which will require the nominal rate to go down at a faster pace to at least maintain the current real rate level. Additionally, at September's meeting (September 30th), the board will have a couple of CPI inflation readings, economic activity, and employment figures, which will probably show the weak stance and inflation expectations evolving consistently toward the target range. Additionally, according to our projections, the effect on the FX would be lower since the Fed will begin its easing cycle on September 18th. According to recent economists' surveys, economist consensus expects a 75bps cut to be on the table. In contrast, the terminal rate of the easing cycle is still expected to be 5.50% during H2-2025.

Further details about BanRep's minutes:

- **BanRep's board emphasized that there are reasons to take the monetary policy to a less contractionary stance.** Among the reasons are the downward trend for headline and core inflation, the moderate performance of economic activity, and the easing of international financial conditions. However, they also agree that it is necessary to maintain prudence in the easing cycle as some risk of inflation persists. Specifically, they see risk in regulated prices, the stickiness of service prices, and potential FX volatility due to conditions in the international markets.
- **For the majority group, an acceleration in the easing cycle was not sustainable, and they preferred to maintain the cut pace at 50bps.** This group of five board members considers that speeding up the easing cycle could compromise the continuity of the easing process as it could reduce the probability of achieving the inflation target in the expected terms (in July's minutes, they were not explicit, but the board has emphasized they want to achieve the inflation target by mid-2025). Either way, this group considers that a 50bps cut is taking the real rate lower even if compared with Latam peers such as Brazil and Mexico, which currently have lower inflation rates. In our opinion, this suggests that if inflation reduction is stronger in forthcoming months, this group is willing to engage in faster and sustainable rate cuts.
- **The two board members who voted for a 75bps cut are more concerned about the weak economic activity and employment performance.** They highlighted the progress on inflation and diverse inflation expectations. On the other side, they highlighted that the labour market is pointing to weak signals, especially in terms of informality and instability in jobs in key sectors. They also said that Colombia is showing a weak economic expansion compared to the region, while the commitment to comply with the fiscal rule is a positive fundamental to accelerate the easing cycle.
- **Our take:** Minutes affirm that the majority of the board favours a cautious approach, however there were some clues about what could allow the board to think about the acceleration in the easing cycle. In forthcoming months, we expect the inflation to continue with a downward trend, and it will give enough space for the board to consider a 75bps cut in September.

—Sergio Olarte & Jackeline Piraján