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GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Econ Activity, BCB and Fed to Go in Opposite Directions

Global yields are drifting slightly higher through overnight markets that were clear of major developments. The couple of data releases that we got—UK CPI in line and weak Japanese exports and imports—are not doing much for the broad market mood ahead of the Fed's uncertain decision at 14ET. Slightly bear steepening USTs and EGBs are in contrast to bear flattening gilts where traders are trimming already small BoE cut expectations for tomorrow's decision (2bps from 4bps yesterday).

The risk mood looks somewhat mixed as US equity futures are flat but Eurozone and UK indices are down about 0.5% on average, while in the currency space the fact that the JPY and CHF (havens) but also the NZD and AUD (high-beta) are all outperforming reflects mixed sentiment. Crude oil and iron ore are down about 1.5%, but copper is tracking a 0.5% rise.

It's a quiet G10 day ahead with US housing starts and building permits out at 8.30ET practically irrelevant for Fed wagers that at writing roughly show toss-up odds of a half-point reduction (38bps priced in); we think a dovish 25bps cut is likelier. The Latam day ahead is a bit busier, though one can imagine that local assets will also keep their cool in the lead-up to the Fed.

At 12ET, Colombia's DANE releases July economic activity data expected to show a decent 2% y/y expansion to follow the soft 1.1% drop in June. Earlier this week, the stats agency published a mixed set of industrial/manufacturing production (much stronger than expected) and retail sales (fairly weaker than expected) data slightly nudged expectations higher for today's activity print—though overall economic trends remain weak and support a 75bps BanRep cut next Monday. Keep an eye on budget discussions as well, as Congressional commissions canceled yesterday's budget debate—with one week left until a decision to approve or reject the government's COP523bn proposal.

At the opposite end of the spectrum as the Fed and BanRep, we have the BCB. If the US central bank delivers a 50bps cut today, we may have in one fell swoop a 75bps narrowing of policy rate differentials versus Brazil, with the BCB widely expected to raise its Selic rate by 25ps to 10.75% at 17.30ET. After a five-month pause in its cutting cycle—during which the BCB cut 325bps since August 2023—officials are due to deliver a 25bps hike today amid BRL risks, rising inflation (mainly due to tradable goods, read food mostly, and fuels), and firmer than expected growth. This would also be an opportunity for Galipolo, who takes over the back in January replacing BCB Pres Campos Neto, to show a strong hand against inflation, not succumbing to pressure by the man who appointed him to ease policy, President Lula.

—Juan Manuel Herrera