Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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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

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@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:

Daniela Silva, Economist
+57.601.745.6300 (Colombia)
daniela1.silva@scotiabankcolpatria.com

Latam Daily: BCCh (and ECB) Decision; BanRep Survey Recap

- **Colombia: BanRep Survey—Inflation expectations improve, but interest rates are expected to close at a higher level**

A strong Aussie jobs report was a small negative for the global rates complex overnight that was then followed by steadily rising yields since the European open. There has been little on tap to drive trading while markets wait for the ECB's 8.15ET decision, US retail sales and jobless claims at 8.30ET, Lagarde's presser at 8.45ET, and US industrial production at 9.15ET. The ECB is widely expected to lower its policy rates by 25bps today and likely strike a more worrying tone regarding economic conditions that would point to another 25bps move in December (though don't expect this to be made explicit). US jobless claims may end up being the biggest market mover as a surprising jump in initial claims on Hurricane Helene/auto layoffs may reverse in today's data.

Aussie rates closed weaker by 4–6bps with a small flattening bias while we have about half of those losses in German and UK rates, and ditto for USTs with the exception of the front end that is only about 1bp weaker. It's a bit of a mixed market mood this morning, as all major currencies except the AUD (only a bit firmer) are tracking losses—albeit small—versus the USD, but US equity futures are about 0.5% higher thanks to encouraging results from chipmaker TSMC that offset the less optimistic ASML results earlier this week.

Oil prices are about 0.5% stronger, which is great in comparison to a 1.5% drop in copper and 5% slide in Singapore iron ore futures as—here we go again—Chinese officials disappointed at another presser this morning, announcing greater support to complete unfinished housing that means little for actual steel (iron ore) demand. As for oil, there's been no real developments on the Israel-Iran front but there's always a headline around the corner to trigger sharp moves.

Along these lines, Trump headlines are also having intraday impacts on Mexican assets amid the former President's rising victory odds, with his recent comments that Mexico will not sell a single car to the US and that he will bring back tariffs weighing on the MXN this week, leaving it just shy of the 20 pesos level (at 19.95, at writing).

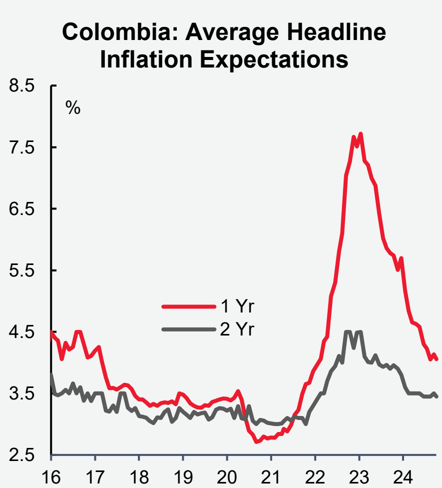
We have a fairly quiet Latam day ahead with no key data on tap during market hours while we wait for the BCCh's policy announcement at 17ET. Like the ECB, Chile's central bank is almost universally expected to roll out a 25bps cut, to 5.25%, but (like our Santiago colleagues outline **here**) it may show a more guarded tone regarding upcoming meetings amid external risks and possible upside inflationary pressure from loose fiscal policy. Somewhat counterintuitively, S&P upgraded its outlook for Chile from negative to stable yesterday, staying at A. The ratings agency notes "We think the government's commitment to fiscal consolidation will stabilize its debt ratios in the coming years."

—Juan Manuel Herrera

COLOMBIA: BANREP SURVEY—INFLATION EXPECTATIONS IMPROVE, BUT INTEREST RATES ARE EXPECTED TO CLOSE 2024 AT A HIGHER LEVEL

The central bank (BanRep) released a survey on economists' expectations for October. Inflation expectations show an encouraging outlook, in line with a continued reduction in inflation. Inflation expectations for the end of 2024 were revised downwards, from 5.56% in the September survey to 5.47% in October, a figure like that projected in February 2024 (5.48% YoY). For the 1-year horizon, the expectation stood at 4.13%, and for 2 years at 3.44%, both expectations showing a decrease compared to the previous survey of 6 and 5 basis points, respectively (chart 1). As for short-term inflation expectations for October,

Chart 1

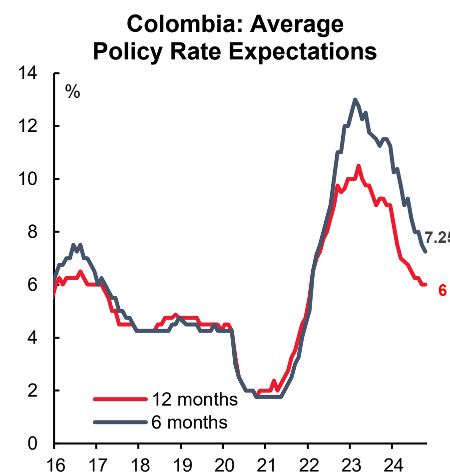


Sources: Scotiabank Economics, BanRep.

the expectation stands at 0.17% m/m, which could lead to inflation falling to 5.73% from the current 5.81%. Scotiabank Colpatria's projection is 0.11% m/m and 5.67% y/y. Food and public services are expected to support the decline in inflation, while the other items would maintain moderate variations.

In the case of monetary policy, the average expectation moved upwards, despite consensus maintaining the expectation of a 75bps cut at October's meeting. At the last BanRep meeting (September 30th), the bank did not comply with the economists' expectations of a 75bps cut, cutting the rate by only 50bps, which resulted in a higher rate for the end of the year than anticipated. For the end of 2024, the expectation increased by 25bps, going from 8.75% in September to 9.0% in December, while for the end of 2025, the expectation remains at 6% (chart 2). At Scotiabank Colpatria, the projection is for a 50bps cut in October and a 75bps cut in December to close 2024 at 9.0%, while for 2025 the rate is expected to reach 5.50%.

Chart 2



Sources: Scotiabank Economics, BanRep.

According to what was stated by the board of directors at its last monetary policy meeting, we believe that the outlook will not change enough to ensure a higher pace of cuts. Fiscal uncertainty would persist for the rest of the month. At the same time, the discussion of the adjustment of the minimum wage for next year begins to generate another uncertain variable that could impact the disinflationary path if a salary increase well above inflation materializes at the end of the year. That said, the majority of the board could continue to advocate for a moderate rate cut, in anticipation of interrupting the easing cycle.

Survey highlights :

- **Short-term inflation expectations.** For October, the consensus is 0.17% m/m, which would imply an annual inflation rate of 5.73%, lower than the 5.81% in September. The maximum expectation is 0.41% and the minimum is 0.05%. Scotiabank Economics' projection is 0.11% m/m and 5.67% y/y. Core inflation, excluding food, projected by analysts is 0.17% m/m.

- **Medium-term inflation expectations are improving.** Inflation expectations for December fell 9bps to 5.47% y/y (table 1). Similarly, expectations for the 1-year horizon fell by 6bps to 4.13%, and the expectation for 2 years by 5bps to 3.44%.

- **Monetary policy rate.** The median expectation is for a 75bps rate cut at the October 31st meeting, but for December the expectation is for a 50bps cut, a path that is not compatible with the central bank's traditional approach. For 2025, the end-of-year expectation remains at 6%.

Table 1: Colombia—Headline Inflation Expectations

	Average	Change vs previous survey, bps
Sept-2024, m/m % change	0.17	...
Dec-2024, y/y % change	5.47	-9
1Y ahead, y/y % change	4.13	-6
Dec-2025, y/y % change	3.89	-5
2Y ahead, y/y % change	3.44	-5

Sources: Scotiabank Economics, BanRep.

- **FX.** Projections for the US dollar exchange rate for the end of 2024 averaged 4,125.3 pesos (18 pesos more than the previous survey). For December 2025, respondents, on average, expect an exchange rate of 4,108 pesos.

—Daniela Silva