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GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Econ Activity to Beat?; Chile Rate Cut Recap

- **Chile: External risks may cool further cut in December**

Range-bound USTs through Asia trading came out of their shell around the Asia-Europe crossover with a small 2bps or so cheapening across the curve around the release of a UK retail sales beat that held until a recent leg lower in yields amid a dovish ECB 'sources' report by Reuters. The data has gilts lagging USTs that are twist steepening and EGBs that are bull steepening) but overall net moves are small across the board in most asset classes outside the 5bps rally in the European front end. It's a very quiet G10 day ahead where the release of US housing starts and building permits data should not do much for markets but maybe the Fed's Kashkari and Bostic, both hawkish, will when they speak later today. .

It's a sea of green against the USD, going from just about unchanged EUR, CAD, and CHF to roughly 0.3% and 0.5% gains in the MXN and NOK that reflect a more risk-on/high-beta positive tone in FX markets—and in the case of the peso, a bit of relief from the breach of the 20 pesos level yesterday. The USD is giving back just a bit of its gains yesterday on the stronger than expected retail sales, Philly Fed, and initial jobless claims data that briefly took 2s to trade above 4%. Today's move in the Bloomberg Dollar Index (BBDXY) would only be its third decline over the past fifteen trading days, with the drive higher to its best levels since early-August coinciding with the paring back of overdone Fed cut bets (now at 42bps by year-end, evenly split between the Nov and Dec meetings).

Oil is fractionally higher, after yesterday's volatility around the news that Israel had killed Hamas' leader, while copper and iron ore are ~1.5% and ~2.0% higher, respectively, as they continue to trade with China 'vibes.' Some mixed to stronger than expected Chinese data came and went, with y/y GDP growth for Q3 printing a touch higher than forecast at 4.6% vs 4.5% median but q/q growth disappointed at 0.9% vs 1.1% expected and the previous quarter's rise was trimmed by 0.2ppts (bunch of revisions). Meanwhile, retail sales, industrial production, and jobless rate data for September were a bit better than expected but overall there were no real cares in currency or equity markets. However, the PBoC's Gov flagged more support is coming (we'll see) and the bank rolled out today its equity market support tools that triggered as high as 5% gains in the main Mainland indices before these ended the day about 3.5% stronger after a late-session slide.

The Latam day ahead only gives us the release of Colombian economic activity data at 12ET. The median economist polled by Bloomberg expects a 1.6% y/y reading for output growth in August, coming after a 3.7% rise in September. Industrial production data out on Tuesday were a touch weaker than expected with a 1.9% contraction) but retail sales strongly overshot the median estimate of 2.3% with a 5.2% print (see **here**) that tees up a beat in today's August economic activity release (with stale submissions to Bloomberg). In Colombia, we also had the government's labour reform make it through the second of four debate rounds yesterday, to now go to the Senate's seventh commission and then the chamber where the proposal may be further watered down or made easier to digest by markets.

—Juan Manuel Herrera

CHILE: EXTERNAL RISKS MAY COOL FURTHER CUT IN DECEMBER

- **Decision and risks in line with our expectation**

On Thursday, October 17th, the central bank (BCCh) decided to cut the benchmark rate by 25bps, in line with our expectation and the September IPoM's corridor, which also considers a 25bps cut for December. Developments since the September IPoM pointed in somewhat opposite directions, as hinted at in the statement's description. On the one hand, the Board encountered a downside surprise in the level of total (ex-volatile) inflation, a lower level for the price of oil and a significant reduction in ocean freight rates. On the other hand, the increase in copper prices occurred in a context of significant depreciation of the peso, while risks in the external scenario are increasing and the market has reduced the probability of seeing two additional cuts of the Federal Funds Rate by the Fed. In addition, fiscal spending expansion in 2025 would be almost double that assumed in the IPoM (2.4% based on the Q2-24 Public Finance Report vs. 3.8% proposed in the Budget).

An explicit cautious bias in the statement is not present but makes it clear that the external situation would be monitored with particular attention. This bias is relatively neutral, but the Middle East is mentioned twice, which paves the way to use, in case this risk materializes, such argumentation for a maintenance of the policy rate in December. Indeed, the resurgence of risks from the external scenario was one of the main elements of concern raised in the September IPoM. In view of this, long-term interest rates in Chile have reacted upwards, following the movements of international markets, while the exchange rate depreciated. Although this would not imply deviations of the policy rate with respect to the baseline scenario, it could be part of the arguments to proceed with greater caution and make a technical pause.

Developments since the September IPoM: downward surprise in headline inflation and CLP depreciation. The main news since the September meeting was the downward surprise in headline CPI, although in line with the projection for the ex-volatile CPI of the IPoM. However, the exchange rate is 4% above that observed at the September IPoM statistical close, contrary to the "real exchange rate appreciation" assumed in the same report (estimated spot RER: 105) and at the high end of the estimated range for the long-term RER (between 93 and 106). Although not emphasized in the statement, this would have been an element of concern in the discussion within the Board due to its possible consequences for inflation.

If the BCCh had cut by 50bps, the decision was compatible with a policy rate at the lower edge of the corridor, reflecting a negative assessment on consumption and investment and a prolongation of the weakness shown by activity and demand in the second quarter. Arguments in favour of this decision would find support in the downward surprise in the September CPI (at headline level) and in the significant reduction in ocean freight rates since the close of the IPoM (between a 30 and 40% drop). However, considering that the August GDP was in line with the IPoM baseline scenario, a 50bps cut scenario we believe was assessed but quickly discarded. In fact, we project September's GDP to grow between 1.5 and 2.5% y/y, which would surprise upwards the IPoM projection for Q3-24. Our expectation, for now, is that a further 25bps cut in December is still far from guaranteed. Better GDP figures, higher public spending and eventual intensification of external risks could justify a technical pause, especially in view of the behaviour dependent on short-term figures that has characterized the central bank.

—Aníbal Alarcón