Latam Daily: Resolution Between the U.S. and Colombia

- **Colombia: Facts and takes around diplomatic shock and resolution with the US**

On January 26th, the Colombian government refused to accept two planes with people deported from the US, which generated discontent on the part of President Donald Trump, who then announced a series of measures against Colombia.

The announced measures included:

- The imposition of 25% tariffs on all products entering the US from Colombia, which could possibly reach 50%.
- Travel bans and visa revocation for government officials.
- Visa sanctions for all members of the current governing party.
- Customs inspections and border protection for Colombian citizens.
- Tax, banking and financial sanctions under the IEEPA Act (International Emergency Economic Powers Act).

What worried analysts most were the sanctions related to the treasury, banking and finance sanctions of the IEEPA, given the impact on the freezing of assets, the restriction of capital financial transactions against individuals and companies, and the total prohibition of commercial relations. If these measures are implemented, we could end up very isolated from the US and limited in using US deposits.

In trade terms, Colombia represents ~0.80% of total US imports (~USD 13.5 billion in 2024), while the US represents 30% of Colombia's imports (~USD 16 billion). The impact of a higher tariff will be directly on input costs rather than final goods. Therefore, sanctions would imply a drop in GDP, higher inflation, exchange rate depreciation, and higher interest rates, with the magnitude of the impact strongly dependent on the lasting of the sanctions.

Main impacted industries:

Table 1: Colombia

Exports to the US (share of total exports)	Imports from the US (share of imports from the US)
41% oil	39% fuel oil
17% vegetables	11% cereals
13% flowers	6.3% machinery
11% precious metals and stones	6.1% chemicals
9% coffee	5.4% plastics

Sources: Scotiabank Economics, DANE.

In any case, the Colombian government finally accepted Donald Trump's migration terms, avoiding the imposition of sanctions. The arrival of the deported Colombians is expected to put an end to the tension between the parties and the normalization of the bilateral relationship. However, it will be necessary to maintain a diplomatic relationship consistent with the country's economic needs, avoiding any retaliation by the US, given Colombia's high commercial dependence.

Market reaction:

International markets opened with a risk-off environment due to Donald Trump's measures and the rise of artificial intelligence in China that could threaten technology projects in the United States. In addition, assets in Colombia suffered an increase in volatility at the beginning of the day due to the political risks. The initial depreciation of

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1.8% vanished throughout the day to close the day with an upside movement of just 20 pesos closing at 4196 pesos. It is worth noting that despite the FX market staying under control, macroeconomic models favour a fundamental value around 4350 pesos in the long term.

Fixed income in the US opens the week with appreciations of 7bps on average, with 10-year treasuries at 4.55%, being the security with the highest value. In contrast, in Colombia, COLTES opened with average widening of 13bps and it remained around that level throughout the day, with the 10-year COLTES above 11.547%. The Colombian 5-year CDS risk indicators increased by 5 points (+2.8%), opening the day above 199 and remaining at that level throughout the day (table 2).

Table 2: Colombia—Summary of Relevant Colombian Assets

Colombia Indicators	Close at 27/01/2025	Change (bps) 1D	1M	YTD
COLTES Nov 2026 (%	8.875	7.0	-37	-43
COLTES Feb 33 (%)	11.170	11.2	-59	-58
COLTES May 42 (%)	11.929	8.4	-64	-62
USD/COP	4196	0.48%	-4.9%	-4.7%
CDS 5Y	199	2.8%	-4.7%	-6.3%

Sources: Scotiabank Economics, Bloomberg.

It is important to note that after the diplomatic shock with the US, many government officials have emphasized that President Petro's posts on X are one thing, and the government's actions are another. This kind of quote is bittersweet since the noise from the President's X account could continue despite his team continuing to work to contain any adverse situation, and in the end, it will continue being reflected in high premiums in Colombian assets.

Trade risks are likely to dissipate throughout the week, putting the focus back on the fiscal outlook. The MoF is still pending publishing relevant data, such as the Financing Plan for 2025 and the expected declaration for fiscal rule compliance. Meanwhile, the monetary policy decision on January 31st could have an additional tone of caution, given the new risks incorporated into local assets and inflation expectations that will not reach the target range in 2025. At Scotiabank Colpatria, we believe that the board will pause at 9.50%, given a high degree of uncertainty regarding international and fiscal issues.

—Jackeline Piraján, Valentina Guio & Daniela Silva