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GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Econ Activity Post BanRep Survey

- **Chile: The Government will issue USD3bn in the local market**

At the halfway mark of the week, the global risk tone is negative, as bourses in most of Asia and in Europe post losses that track Tuesday weakness in the US that is compounded by a decline in SPX futures. Heightened risk aversion owes to various drivers, namely a rocket strike on a Gaza hospital (of uncertain origin), but also the possible default of Chinese developer Country Garden as well as the weight of Tuesday's surge in US yields on strong retail sales data.

The UST curve is twist steepening while EGBs are bear steepening and in the UK the 7-10yr space underperforms after a slight inflation data beat this morning. Shutdown risks in the US may also keep Treasury markets on edge, as House Republicans struggle to settle on their choice of Speaker. The FX world seems relatively unfazed by global developments as the USD sits mixed to weaker—an echo of yesterday's price action where currencies recovered versus the dollar despite the spike in US yields on retail data.

The MXN is moving back from 18+ pesos levels thanks to a 0.2/3% appreciation today that is little only a correction of around a third of yesterday's 0.7% drop. We'll also keep an eye on the CLP's performance today after the BCCh replied to comments by e-mail (after the close) that, among other things, the important depreciation of the peso will be evaluated at the next monetary policy meeting (though this may just be par for the course); the CLP and COP led the Latam FX yesterday with gains of 0.9% and 1.1%, respectively.

Oil prices are incorporating Middle East risks to gain ~3% on the day, to the benefit of Mexico's Hacienda who is reportedly executing its yearly oil-hedging operations. Oil gains are followed by copper's 1.2% rise that may reflect better Chinese Q3 GDP growth data (4.9% vs 4.5% y/y expected) while iron ore's 1.5% fall seems to follow the weakened mood regarding Country Garden and a decline in Chinese steel output last month.

A very quiet day ahead awaits as far as on-calendar G10 risks are concerned. Only the release of US and Canadian housing starts data is on tap through the European session while a collection of scheduled Fed speakers does not begin until 12ET—all in the lead-up to Powell at 17UK tomorrow. Of course, Israel headlines pose the greatest risk to global markets, as do those related to Country Garden.

In Latam, we have Colombian economic activity data at 12ET which are expected to show a mediocre 0.5% y/y expansion in August after an already soft 1.2% gain in July. Weak retail sales and industrial production figures out last Friday point to downside risks in today's release versus consensus expectations. The results of BanRep's survey of economists published yesterday showed an increase in expected inflation at end-2023 (median from 9.48% to 9.59%) and end-2024 (median from 5.00% to 5.32%), and the median economist sees the first rate cut taking place in December, to 12.75% from 13.25% currently; under 15% of those surveyed expect policy easing to begin this month.

—Juan Manuel Herrera

CHILE: THE GOVERNMENT WILL ISSUE USD3BN IN THE LOCAL MARKET

On Tuesday, October 17th, the Ministry of Finance announced the issuance of two sovereign bonds in the local market, for a total amount of USD 3 bn. This issuance will include a 15-year UF-denominated bond equivalent to USD 1 bn and a 10-year CLP-denominated bond equivalent to USD 2 bn. With this, the government would have completed the issuance plan for 2023 with USD 15 bn, of which USD 3 bn were in USD-denominated bonds and the remaining USD 12 bn in local currencies (CLP and UF).

Although the 2023 budget law authorized debt issuance of up to USD 17 bn, we believe that this year's financing needs would be covered with the issuance of USD 15 bn, in line with Ministry of Finance estimates. In any case, the government has dollar assets of close to USD 2 bn in cash, which could help cover the fiscal deficit resulting from lower tax revenues than those projected by the treasury. Our view is that the government would continue to face difficulties in executing the fiscal budget (mainly public investment), while tax revenues could surprise on the downside in 2023. This could deteriorate the effective fiscal deficit of 2.3% of GDP projected by the MoF for 2023.

—Aníbal Alarcón