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Latam Daily: BanRep and BCCh; Colombia and Peru Macro Recap

- **Colombia: BanRep Preview: Slowing economy versus inflationary risks dilemma; Economic activity contracts for third consecutive month; BanRep Survey: Consensus discards rate cuts today, eyes January start**
- **Peru: Mining investment decline continued, but at a slower rate, in October**

The BoJ's unsurprisingly unchanged settings but with no guidance tweaks and with a dovish Ueda presser are helping long-end yields return to their pre-selloff levels area on Monday. Little else happened overnight, while oil has steadied around \$1/bbl higher than where it traded 24hrs ago before rallying on attacks in the Red Sea. The G10 day ahead has another stretch of central bank speakers, who have generally pushed back against cut expectations but perhaps somewhat unsuccessfully/sufficiently, US housing starts, and Canadian CPI as the highlights.

Rates markets are well-bid in flattening fashion, oil is a bit weaker on the day, off 2.2% from the Monday peak, and iron ore is flat compared to copper's 1% rise. US equity futures are flat-ish compared to small gains in cash UK and Eurozone indices. The JPY is down 1.5%, while the MXN strengthens 0.3% (there may be some FX carry effects here) to its best levels of the month in the low-17s; other FX are little changed or range-bound in +/-0.2/3%.

We have two key central bank decisions in Latam today, BanRep at 13ET and the BCCh at 16ET. The rate announcements are today's main events in the region, following the minutes to the latest BCB meeting just a few minutes ago which didn't give too much away on expectations for Q2 BCB decisions (the two Q1 meetings look like a done deal at 50bps cuts in each). There remains some uncertainty going into the meetings, as there's still low odds that the BCCh may opt for a 75bps reduction while BanRep could choose to hold today; we expect 50bps and 25bps cuts, respectively. Yesterday's weak economic activity print in Colombia (see below) has increased the chance that the central bank kicks off its cutting cycle today, but it should still be a split vote.

In Chile, we'll also have the government presenting its lithium plan to congress and we're also watching Boric's administration pension reform push as the president leaves the constitutional rewrite behind after the rejection vote on Sunday. The bi-weekly Citibanamex survey in Mexico could show a shift in rate cut expectations after last week's more hawkish than expected Banxico decision.

—Juan Manuel Herrera

COLOMBIA: BANREP PREVIEW: ECONOMIC ACTIVITY DECELERATION VERSUS INFLATIONARY RISKS DILEMMA

Today, BanRep will hold its last monetary policy meeting of the year. Surveys show that economic analysts are split between a modest 25 bps rate cut and stability, demonstrating that December's discussion will be tough for BanRep. At Scotiabank Colpatria, the base case scenario is a rate cut of 25 bps. However, we expect this decision to be a split vote. Since the last meeting (October), recent inflation results were broadly aligned with economist consensus, economic activity weakened significantly, the current account narrowed, and international financial conditions softened.

However, risks of inflation, especially due to indexation effects, remain a concern, especially because of the lack of consensus on the minimum wage increase for 2024. That said, there are arguments for both sides, for rate cuts and for stability; either way, the macro view is consolidating towards potentially lower rates in forthcoming months.

December 19, 2023

Although a rate cut in December remains a close call, we think that in the medium term, the monetary policy rate could be lower versus what current market and economist consensus project. We think that in Q1-2024, inflation will decrease at a faster pace, and by this time, BanRep could affirm the possibility of having a more aggressive easing cycle, closing 2024 at a 7% rate, below market and economists' consensus expectations around 8.25%–9%.

Key points ahead of BanRep's vote:

- In October, BanRep held the monetary policy rate at 13.25% in a split vote (two members voted for a 25bps cut, while five members voted for the stability of the policy rate). The board argued that there are not enough arguments to start a sustainable easing cycle, and they recognized that the central bank is facing a challenging dilemma between inflation and economic growth.
- In October's meeting, BanRep revised to the upside GDP growth projections for 2023 from 0.9% to 1.2%, however after that, DANE reported a GDP contraction of 0.3% y/y in Q3-2023 and a 0.4% y/y contraction in the economic indicator for October, both probably were below BanRep's expectation. Governor Villar's assessment about that is that Colombia is normalizing to more sustainable activity levels. That said, recent weaker economic data probably is not the major concern for the central bank.
- The current account deficit narrowed significantly and stood at 1.7% of GDP in Q3-2023. This result reduced significantly a macro risk in the external sector, however is also mirroring the huge domestic demand reduction, especially in the investment front that is reflected in lower imports of raw materials and capital goods.
- October's meeting minutes include a unanimous request of prudence in minimum wage negotiation. In that regard, BanRep highlighted that inflation reduction contributes to increasing real wages. From our perspective, it was a message suggesting negotiators to have in mind that inflation is expected to decrease in 2024 to fix the minimum wage.
- Recent developments in this topic haven't been encouraging for now. The first deadline for having an agreement was on December 15th, however negotiation struggle in finding consensus since labour unions request a 18% increase (well above current and expected inflation), while business association avoided to make an offer. Minimum wage increase remains a critical variable for BanRep, since it could prevent inflation from going down faster. In that case, the lack of consensus regarding minimum wage could reduce BanRep's confidence in starting an easing cycle.
- The division would prevail. In September and October's meetings, BanRep held the monetary policy rate in a split vote, with two members voting for cuts and five voting for stability. In regular moments, divided votes were a signal that anticipated the change in the monetary policy instance, but we are not sure this is the case now. We expect division will prevail in tomorrow's decision, affirming that the board faces a significant dilemma between inflation and economic slowdown.
- The international financial condition has improved. However, the Federal Reserve is warning about expectations for rate cuts that are too optimistic. In contrast with the observed in October's meeting, international financial markets are no longer a headwind. However, uncertainty remains elevated. The previous context could encourage BanRep to consider a rate cut; however, in that regard, the board assessment could be mixed, too.

—Sergio Olarte & Jackeline Piraján

COLOMBIA: ECONOMIC ACTIVITY CONTRACTS FOR THIRD CONSECUTIVE MONTH

On Monday, December 18th, DANE published the latest Economic Activity Indicator (ISE) data for October 2023. The indicator showed a contraction of 0.4% (chart 1), in contractionary territory for the third month, a result slightly below our expectations and the expectations of analysts surveyed by Bloomberg (-0.3% and 0.3% in October, respectively). The seasonally adjusted growth rate was -1.0% m/m, deteriorating from -0.1% m/m in the previous month.

In the annual figure, October showed a positive balance in primary activities, which grew by 5.4% y/y. On the other hand, secondary activities (manufacturing and construction) and tertiary activities (services) recorded negative annual variations of -5.2% y/y and -0.4% y/y respectively in October. This marks the end of eight consecutive months of contraction in the manufacturing and construction sectors. Within the tertiary sector, trade, transport, accommodation, and professional activities were the sub-sectors that showed negative variations. Meanwhile, information and communication, public services finance, and insurance were the ones that offset the decline.

In seasonally adjusted terms, all three sectors recorded a decline compared to the results for September, with the secondary sector recording the strongest contraction with a fall of 2.3% m/m in October, followed by the primary and tertiary sectors with monthly variations in the tenth month of the year of -0.6% m/m and -0.2% m/m, respectively.

These results reflect the adjustment process that the economy continues to face from the high levels of activity recorded in 2021 and 2022, which in some sectors even exceed the pre-pandemic levels and their long-term trend. At the same time, lower investment and a decline in the demand for durable and semi-durable goods, in a scenario of inflation well above the target range, and monetary tightening, have favoured the narrowing of the current account deficit gap.

Nevertheless, economic activity will continue to produce results in line with BanRep's expectations: a weak impulse in the coming quarters, with annual growth rates below 2% in 2023 and 2024, as domestic demand adjusts to more sustainable levels in a context of low consumer and business confidence, high household indebtedness, credit contraction and a contractionary orientation of monetary policy. Looking ahead to tomorrow's BanRep meeting, we believe that the slowdown in economic activity will be the main point of disagreement among the BanRep board. A rate cut in December is still possible, as, despite the slowdown in economic activity, this slowdown is something that BanRep wanted. On the other hand, the risk of inflation remains open, as the negotiations on the minimum wage for 2024 have not been concluded, and starting an easing cycle with a "freedom degree" in this variable could be a challenge for some board members.

Highlights:

- Primary activities (agriculture and mining) grew at an annual rate of 5.4% y/y in October (chart 2) but contracted by 0.6% m/m in seasonally adjusted terms. On the agricultural side, the moderation in producer prices continued to ease food production due to the appreciation of the exchange rate relative to its level and the statistical base. On the mining side, oil and coal production also contribute to a better sector performance.
- Secondary activities (manufacturing and construction) ended eight consecutive months in negative territory, with a contraction of 5.2% y/y and a seasonally adjusted decline of 2.3% m/m. According to data published by DANE on Friday, December 15th, the manufacturing sector ended eight months of decline (-5.9% y/y), with transport equipment, clothing, chemical products and non-metallic mineral products being the main contributors to the fall in October. This decline, combined with the worst performance of the construction sector, has led to this slowdown in secondary activities.
- As for the tertiary sector (which includes activities related to trade and services), an annual decrease of 0.4% was recorded in October. This result was due to the decline in trade, transport and accommodation activities (-5.4% y/y) and professional activities (-0.7% y/y). On the other hand, the decline was offset by information and communication activities (+9.5% y/y), the provision of public services (+3.9% y/y) and financial activities (+3.1% y/y). In seasonally adjusted terms, a slight decrease of 0.2% y/y was recorded, with the trade, transport and accommodation (-1.6% m/m), public administration, education and entertainment (-0.5% m/m) and professional activities (-0.2% m/m) components being the sub-sectors with negative variations in the margin.

—Santiago Moreno

COLOMBIA: BANREP SURVEY: CONSENSUS DISCARDS RATE CUTS TODAY, EYES JANUARY START

Late Friday, December 15th, the central bank (BanRep) released the economist's expectation survey for December. Inflation expectations showed mixed movements (chart 3). For Dec-2023, inflation expectations remained broadly stable, while expectations for Dec-2024 increased. For Dec-2025, the market expects inflation within BanRep's target range (between 2% and 4%). Dec-2023 inflation is expected now at 9.49%, one and two-year expectations stood at 5.61% y/y and 3.85% y/y, respectively. The monthly inflation for December is expected

Chart 1

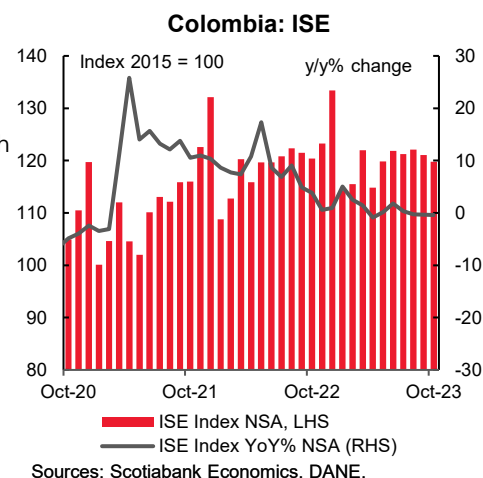
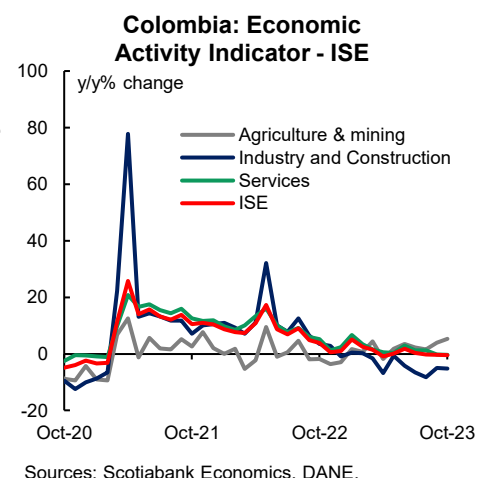


Chart 2



to be 0.64% m/m, which could take headline annual inflation down to 9.49% y/y from the current level of 10.15% y/y. Scotiabank Economics' forecast is below consensus at 0.47% m/m.

Market consensus discards a rate cut in tomorrow's meeting. Despite weak economic activity indicators, it seems economist consensus is not finding enough arguments for betting for a rate cut in December. Instead, consensus move forward for a 50 bps rate cut expectation in January 2024. By the end of 2024, the monetary policy rate is expected to be 8.25%, while for 2025, the end is expected to be 5.75%. In Scotiabank Economics, the base case scenario is for a rate cut in December; we think it will be a tough meeting in which economic activity indicators probably give some space for a rate cut; however, the uncertainty about the minimum wage negotiation (which is critical for defining indexation effects), could make the board wait a little bit more before to start the easing cycle.

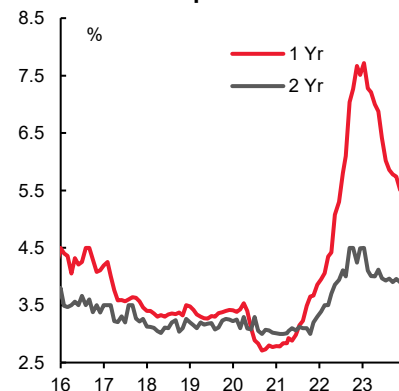
By the end of 2024, our rate projection is at 7.0%, well below market consensus, as we expect inflation to start to coming down significantly during the H1-2024, which will also reflect a weakness in the economic activity that could make the central bank act faster to take the monetary policy rate to a more neutral stance.

Key points from the survey:

- Short-term inflation expectation.** For December, the consensus is 0.63% m/m, which implies an annual inflation rate of 9.49 % y/y (down from 10.15% in November). The maximum expectation at 0.64% and the minimum at 0.35%. Scotiabank Economics forecast is 0.47% m/m and 9.3% y/y. In December, utilities fees could continue pointing north, while usual indexation effects will continue offsetting the negative contributions expected from tradable goods. It is worth noting that gasoline prices remained stable in December.
- Medium-term inflation showed a mixed picture.** Inflation expectations for December 2023 went down by 2 bps to 9.49% y/y. The headline inflation expectations for the one-year horizon were at 5.61% y/y (-11 bps vs the previous survey), while the two-year outlook fell by 12 basis points to 3.85% y/y, within central bank target range.
- Policy rate.** The median expectation points to rate stability at December's meeting. It is worth noting that the expected monetary policy path on average was revised to the upside compared with the previous survey. The next rate cut is now expected in January 2024, for Dec-2024 rate expectation remained at 8.25% (chart 4).
- FX.** The projections for the USDCOP exchange rate for the end of 2023 averaged 4088 pesos (69 pesos below previous survey). For December 2024, respondents, on average, expect the peso to settle at USDCOP 4081 pesos.

Chart 3

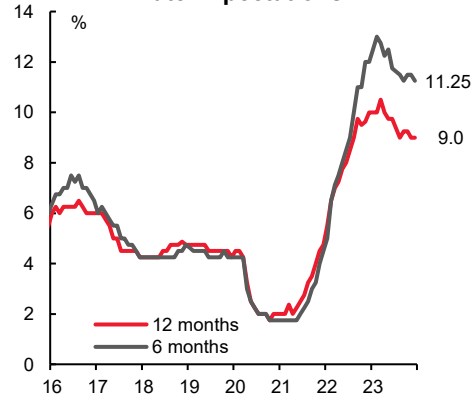
Colombia: Average Headline Inflation Expectations



Sources: Scotiabank Economics, BanRep.

Chart 4

Colombia: Average Policy Rate Expectations



Sources: Scotiabank Economics, BanRep.

—Jackeline Piraján

PERU: MINING INVESTMENT DECLINE CONTINUED, BUT AT A SLOWER RATE, IN OCTOBER

Mining investment fell 2.6% y/y in October (chart 5), while in the cumulative January–October period, mining investment fell 13.5% y/y, almost in line with our estimates of a 16.3% drop for 2023 (table 1).

Monthly investment fell 17.7% in October, after an investment peak in September attributed to Quellaveco, which had just completed the construction of a new plant to increase copper recovery. The plant required a total investment of USD 200 million (table 2).

	Copper MT	Gold oz	Zinc MT	Silver oz	Lead MT	Iron MT	Tin MT	Molybdenum MT
October 2023, y/y % change	1.9	10.0	10.0	4.2	10.0	-10.9	5.2	-3.8
Jan-Oct 2023, y/y % change	14.3	1.3	6.3	-2.7	6.1	13.9	-12.8	4.7

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

During the last quarter of this year the construction of the Toromocho Expansion-Phase II (Chinalco) began, while construction of the San Rafael gold mine (Buenaventura) continues.

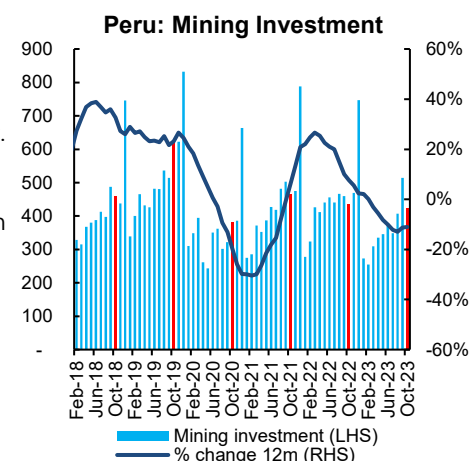
In other news, Antamina announced that it hopes to begin its Reposición Antamina project next year. The project aims at extending the operations of the Antamina mine to 2036. The company expects to receive approval for their Environmental Impact Study (EIA) before the end of the year.

Mining output rose for most metals, including copper (+1.9% y/y), gold (+10.0%), zinc (+10.4%), silver (+4.2%), lead (+10.0%), and tin (+5.2%). Output fell only for iron (-10.9%) and molybdenum (-3.8%).

Looking at major copper operations in October, output continued to increase at Cerro Verde (+1.0% y/y), Southern (+6.6%), and Quellaveco (+5.5%). These operations represent close to 40% of copper output. Meanwhile, output fell at Antamina (-1.4%), Las Bambas (-2.2%) and Chinalco (-20.2%).

Operations at the large Quellaveco copper mine began in September 2022. As a result, the favourable year-on-year base has dissipated since September, leading to lower growth figures. This will continue until well into 2024. Between January and October, copper output increased 14.1%.

Chart 5



Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

Table 2: Peru - Top 20 Mining Companies by Investment Amount

USD Company	2022	October 2023	y/y % change	2022	January - October 2023	y/y % change	Share
1 COMPAÑIA MINERA ANTIMINA S.A.	30,029,552	58,377,977	94.4%	328,204,999	447,005,648	36.2%	12.4%
2 ANGLO AMERICAN QUELLAVECO S.A.	63,826,188	13,582,676	-78.7%	925,972,698	344,617,675	-62.8%	9.6%
3 SOUTHERN PERU COPPER CORPORATION SUCURSAL DEL PERU	24,588,918	30,065,888	22.3%	249,882,695	267,811,322	7.2%	7.5%
4 MINERA YANACOCHA S.R.L.	38,059,152	27,228,087	-28.5%	284,368,978	231,318,520	-18.7%	6.4%
5 SOCIEDAD MINERA CERRO VERDE S.A.A.	22,014,070	26,091,089	18.5%	161,154,871	221,867,325	37.7%	6.2%
6 SHOUGANG HIERRO PERU S.A.A.	10,685,172	28,250,182	164.4%	119,545,707	181,332,020	51.7%	5.0%
7 MINERA LAS BAMBAS S.A.	24,336,108	29,450,654	21.0%	174,751,281	174,734,751	0.0%	4.9%
8 MINSUR S.A.	30,151,796	24,695,111	-18.1%	233,747,820	136,906,373	-41.4%	3.8%
9 COMPAÑIA DE MINAS BUENAVENTURA S.A.A.	13,407,542	19,250,661	43.6%	86,975,332	130,666,469	50.2%	3.6%
10 MINERA CHINALCO PERU S.A.	15,282,381	13,403,299	-12.3%	146,247,920	117,211,577	-19.9%	3.3%
11 COMPAÑIA MINERA PODEROSA S.A.	10,830,458	11,162,204	3.1%	88,522,055	105,442,640	19.1%	2.9%
12 VOLCAN COMPAÑIA MINERA S.A.A.	11,787,869	9,544,338	-19.0%	110,800,693	89,166,763	-19.5%	2.5%
13 COMPAÑIA MINERA ANTAPACCAI S.A.	9,476,953	20,670,458	118.1%	73,903,500	85,261,129	15.4%	2.4%
14 HUBBAY PERU S.A.C.	8,124,750	6,681,359	-17.8%	67,665,220	82,643,134	22.1%	2.3%
15 MARCOBRE S.A.C.	13,428,232	8,427,810	-37.2%	117,868,224	81,406,289	-30.9%	2.3%
16 COMPAÑIA MINERA ARES S.A.C.	8,049,877	7,393,378	-8.2%	74,342,690	65,336,870	-12.1%	1.8%
17 SHAHUINDO S.A.C.	4,725,789	3,687,579	-22.0%	34,795,188	46,442,139	33.5%	1.3%
18 ALPAYANA S.A.	2,805,084	3,679,182	31.2%	26,910,404	44,857,466	66.7%	1.2%
19 NEXA RESOURCES EL PORVENIR S.A.C.	4,115,634	3,355,620	-18.5%	23,945,170	42,702,247	78.3%	1.2%
20 SOCIEDAD MINERA EL BROCAL S.A.A.	3,894,013	3,507,944	-9.9%	24,070,941	41,985,096	74.4%	1.2%
Others	85,257,715	75,233,267	-11.8%	798,093,036	652,759,761	-18.2%	18.2%
Total investment	434,877,253	423,738,763	-2.6%	4,151,769,422	3,591,475,214	-13.5%	100.0%

Sources: Scotiabank Economics, Peru Ministry of Energy and Mines.

—Katherine Salazar

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