Latam Daily: BanRep Minutes; Q3/October GDP

- **Central banks & macro data: BanRep minutes; Q3/October GDP**
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CENTRAL BANKS & MACRO DATA: BANREP MINUTES; Q3/OCTOBER GDP

I. Central banks: BanRep minutes

No central bank monetary-policy decisions are scheduled for this week, but today is set to see the publication of the minutes of the Friday, November 27, decision by the Board of Colombia's BanRep to hold its headline policy rate at 1.75%. After the Board's unusually short statement following the meeting, the minutes may not provide much more insight on members' thinking as they remain in data-dependent, "wait-and-see" mode with rates expected to stay on hold into H2-2021 in our forecasts (chart 1 and the November 28 *Latam Weekly*).

Next week will bring a series of policy-rate decisions in Chile (Dec. 7), Brazil (Dec. 9), and Peru (Dec. 10), where holds are expected in all three cases.

II. Macro data: Q3/October GDP prints

- **Argentina.** September wage gains (Tuesday, Dec. 1) are likely to match recent 3% m/m inflation prints and add to the authorities' stabilization challenges. Growth is expected to have levelled off in November in both government tax revenue (Wednesday, Dec. 2) and auto-sector activity (Thursday, Dec. 3).
- **Brazil.** Q3 GDP (Thursday, Dec. 3) should see economic activity up substantially from -11.4% y/y in Q2 to -2.7% y/y. November PMIs out the same day are expected to remain in positive territory, but pull back a touch from October's readings.
- **Chile.** October sectoral activity data (Monday, Nov. 30) and the IMACEC GDP proxy (Tuesday, Dec. 1) are set to reflect boosts from the pension withdrawals. October wage data (Friday, Dec. 4) may show some acceleration in growth.
- **Colombia.** Q3 current account data (Tuesday, Dec. 1) are likely to show a wider external deficit, but November inflation (Saturday, Dec. 5) is set to remain below the BanRep target range at 1.7% y/y.
- **Mexico.** Bank credit (Monday, Nov. 30) leads off a busy week of secondary data releases.
- **Peru.** November inflation (Tuesday, Dec. 1) is expected to slow slightly from 1.7% y/y to 1.6% y/y, and continue down to 1.5% y/y at year end.

—Brett House

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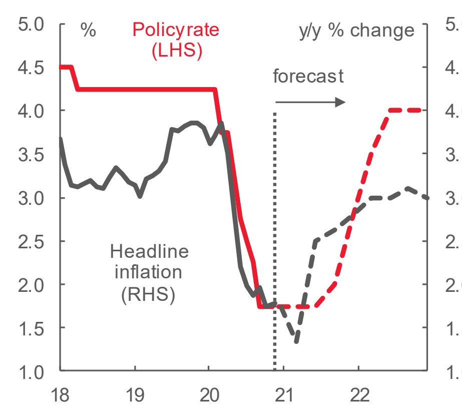
Chart 1

Colombia: BanRep Policy Rate vs Headline Inflation



Sources: Scotiabank Economics, BanRep, DANE.

ARGENTINA: MIN. GUZMAN NOT IN A RUSH TO CONCLUDE IMF DEAL

Economy Minister Martin Guzman poured cold water on any speculation about early agreement on a new IMF deal in an interview published Sunday, November 29 by the *Financial Times*. Min. Guzman noted that it "would certainly be acceptable" if a new program were to be concluded in March or April, in line with our own expectations (see the Argentina Country Update in our November 28 *Latam Weekly*). He argued that the country would not need additional external financing from non-traditional sources such as China owing to next year's relatively light calendar for amortizations on public debt to foreign creditors. He further contended that a devaluation in the Argentine peso isn't in the offing, though he conceded that the gap between the official and parallel ARS markets is a problem. Min. Guzman projected that Argentina would be able to rebuild foreign reserves next year with the balance of payments under lighter pressure from debt-service obligations.

—Brett House

COLOMBIA: BANREP BOARD HELD AT 1.75% IN A UNANIMOUS DECISION

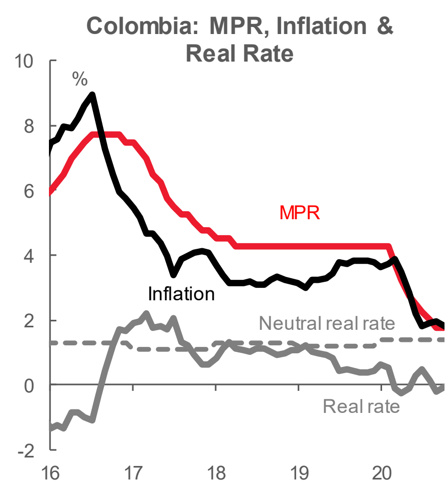
On Friday, November 27, the BanRep Board left the monetary policy rate (MPR) at 1.75% in a unanimous decision (chart 2), as expected by market consensus. In the communiqué, the Board emphasized that the economic recovery is aligning with its forecasts, while inflation expectations remain anchored around 3% y/y. However, the labour market remains a concern. In the press conference, Governor Echevarria stressed that Colombia has structurally high unemployment and that informality will remain a big challenge for the long run.

Governor Echavarría also emphasized that future rate decisions will depend on growth and inflation dynamics. He highlighted that the neutral rate—1.4% for 2020 and 1.5% for 2021 in real terms, according to the staff—remains critical to assess the expansionary stance of monetary policy (chart 2, again). He added that, under current circumstances, the MPR would remain stable in the forthcoming months. Echavarría also said that the international environment has improved, as positive results on vaccine trials have reduced uncertainty. Nevertheless, Echavarría projected that discussions on monetary policy would evolve next year.

Additionally, BanRep confirmed its inflation target at 3% y/y in 2021, an announcement that is usually made at November's meeting to comply with regulatory mandates. The Bank has not yet announced the renewal of the NDF program, which currently amounts to USD 133.5 mn in outstanding commitments.

All in all, the BanRep's decision met market expectations as the Board underscored prospects for rate stability with a unanimous vote. We don't expect a first rate hike until H2-2021, at which time the economic recovery should be consolidated and inflation ought to be on track to converge to the 3% y/y target.

Chart 2



Sources: Scotiabank Economics, BanRep, DANE.

—Sergio Olarte & Jackeline Piraján

MEXICO: ANOTHER RECORD TRADE SURPLUS IN OCTOBER

According to the figures published by INEGI on Friday, November 27, the October trade balance surprised (as it has done most months since the resumption of activities) with a record surplus of USD 6.2 bn versus the USD 3.6 bn expected. This was well above the deficit of USD -688 mn we saw in October 2019 (chart 3) and put the trade balance for the first 10 months of 2020 at a strong USD 25.1 bn.

The October result was driven by a second month of annual increases in exports, though the year-on-year pace moderated from 3.7% y/y to 2.9% y/y. October also saw a stronger annual decline in imports, from -8.5% y/y to -13.8% y/y. Looking at the details:

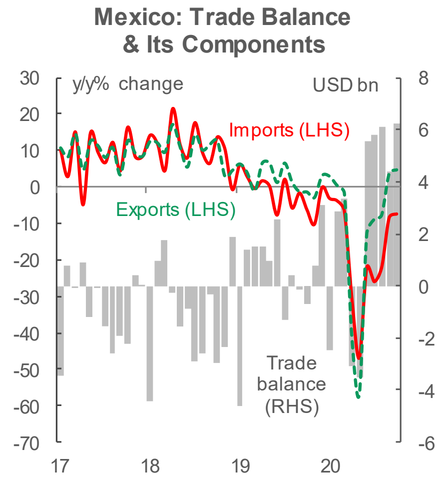
- **Within exports,** the annual rise in non-oil exports stands out, with a mild slowing from 5.0% y/y in September to 4.4% y/y (versus 0.5% in October 2019), as annual manufactured exports growth moved from 4.3% y/y in September to 3.5% y/y (versus -0.1% a year earlier). Annual growth in oil exports pulled back from -22.1% y/y in September to -30.2% y/y (versus -29.7% y/y a year earlier; and

- **Among imports,** capital goods imports were down from -8.4% y/y in September to -18.3% y/y in October (versus -13.1% y/y a year earlier), which made for 19 months of consecutive year-on-year declines. Annual growth in intermediate goods imports slowed from -5.9% y/y in September to -9.2% y/y (versus -6.3% y/y a year earlier), as did growth in consumer goods imports, which came down from -23.8% y/y in September to -34.4% y/y (versus -2.4% in October 2019).

In conclusion, the October trade data reflected a persistent recovery in external demand for Mexican products with weak domestic demand for foreign goods. We expect this to persist through the end of the year.

—Paulina Villanueva

Chart 3



Sources: Scotiabank Economics, INEGI.