Scotiabank.

GLOBAL ECONOMICS

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# Latam Daily: Colombia's BanRep Poised to Move; Mexico's Trade Deficit Deepens

- **Colombia: Monetary Policy Preview—Is BanRep close to the end?**
- **Mexico: Trade deficit deepened in June, with robust imports and exports**

## COLOMBIA: MONETARY POLICY PREVIEW—IS BANREP CLOSE TO THE END?

**BanRep will hold the fifth monetary policy meeting of the year on Friday, July 29.** In June's meeting, the central bank, in a unanimous vote, increased the policy rate by 150 bps, the largest increase in history, to 7.50%. In justifying their decision, the Board emphasized the strong performance of economic activity and persistent upside pressures on inflation. It also highlighted that its decision is not indicative of future moves, affirming their data-dependent approach. Since then, incoming information has been more mixed, while central banks abroad have maintained hawkish stances. All of the above, and fresh macroeconomics scenarios provided by the staff, will be key for anticipating a terminal rate. **Our current projection for the July 29th meeting is a 100 bps hike. Given recent developments, however, there is a strong skew to a 150 bps increase.**

**Key points ahead of Friday's BanRep vote include:**

- **The previous meeting's unanimous decision sent a strong message that there is concern about inflation expectations, while the Board sees stronger-than-expected economic activity.** In fact, in the minutes, one Board member pointed to the possibility of even higher increases if inflation expectations deviated further from the central bank target.
- **Despite inflation coming in close to consensus forecasts, inflation expectations increased again.** Inflation expectations two years ahead deviated further from the central bank's target range by the end of 2022, with expected inflation at 9.32%, while December 2023 inflation is expected to be 5.33%. In the case of financial markets, breakeven inflation metrics are showing some stability.
- **The May economic activity indicator (ISE) reading suggests that economic growth continues, but is moderating, which is healthy for the economy's overall growth.** However, consumer credit growth is still high and has accelerated since the last meeting.
- **On the international side, the Federal Reserve signaled the possibility of reaching the 4% terminal rate, while some Latin American central banks are delaying their expectations about the end of their current hiking cycles.**
- **The USDCOP reached historical highs a couple of weeks ago, mainly on international factors.** Despite that, the central bank emphasized that FX intervention is off the table. That said, it would be interesting to follow the Board's assessment regarding recent events in the FX market.
- **The central bank staff will release a new *Monetary Policy Report*, including an assessment of the output gap, inflation risks, and the neutral rate, all of which will be relevant to projecting a potential terminal rate level.** We expect the staff to be positive with respect to economic growth, but signal more balanced risks on inflation.
- **The vote distribution is important to assessing the likelihood of a future pause.** Despite BanRep having said that its previous decision is not a signal of future movements, a unanimous vote for a new hike would point that the end of the hiking cycle is still some ways off. A split decision skewed to the dovish side would signal that the central bank is approaching its terminal rate.

**All in all, we anticipate a 100 bps hike coming out of the upcoming meeting.** However, there is a strong bias towards a 150 bps move. Although inflation is expected to hover around 10% in coming months, and then start to decrease, indexation effects will impede the central bank's efforts to return inflation to target over the next couple of years. This effect may motivate a hawkish stance by the Board. New staff projections will be relevant to assessing the end of the cycle, and we expect the Board to affirm its data-dependent approach. **For now, we expect the current tightening cycle to end at 9.0%, with the policy rate remaining at this level for around one year. However, if inflation increases more than anticipated the rate would go higher but for a shorter period.**

**—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján**

## MEXICO: TRADE DEFICIT DEEPENED IN JUNE, WITH ROBUST IMPORTS AND EXPORTS

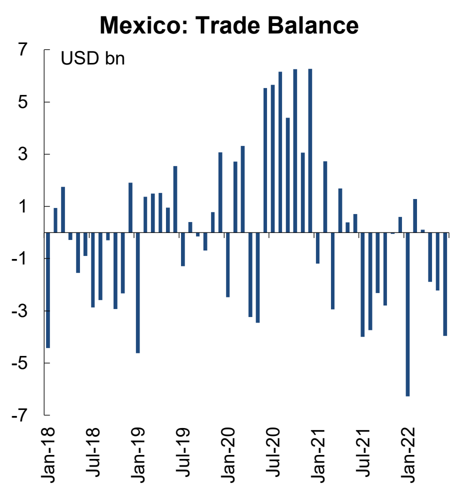
**According to INEGI statistical agency, the trade balance deficit deepened in June to USD -3.957 bn compared to USD -2.215 bn previously (chart 1).** Exports grew by 20.2% y/y (22.4% previously), totalling USD 51.234 bn in June, resulting from a 57% y/y increase in oil exports value and a 19.9% y/y increase in manufacturing exports. Imports totalled USD 55.191 bn for the month (chart 2), equivalent to a 31.7% y/y rise (2.91% previously), led by a 49% y/y rise in imports of consumption goods, followed by imports of intermediate goods (29.7%) and capital goods (23.8%).

**In the cumulative January–June period, imports totalled USD 293.715 bn, equivalent to a year-to-date increase of 25.0%,** while exports summed USD 260.771 bn, equivalent to an 18.8% YTD increase, resulting in a trade balance deficit of USD -12.944 bn.

**On a monthly seasonally adjusted basis, exports rose 1.33% m/m from 1.31% m/m, and imports accelerated from 0.56% m/m to 5.95% m/m.**

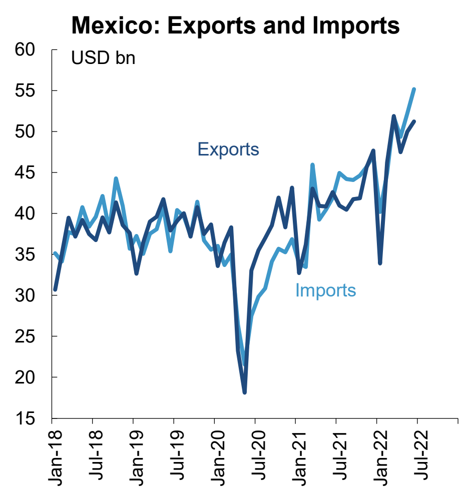
**Looking forward, we expect trade to remain robust** as domestic demand continues to recover at a modest pace, allowing for an increase in imports, and value chains start to normalize, leading to greater exports, which have led activity since the first lockdown of the pandemic. **A slowdown in the US economy represents the main downside risk for exports given that 82% of manufactures were sent to the northern neighbour in the cumulative period of 2022.**

**Chart 1**




Sources: Scotiabank Economics, INEGI.

**Chart 2**




Sources: Scotiabank Economics, INEGI.

**—Miguel Saldaña**