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Latam Daily: Markets on China Watch; Economists See 100bps Hike from BanRep

- **Colombia: Analysts expect a 100bps hike by BanRep in Dec; Inflation expectations rose again, while growth outlook weakened**
- **Peru: Low cement sales in October point to weak private construction, to be offset by public investment**

The Tuesday overnight session was quiet as global markets mostly monitor COVID-19 developments in China with cities tightening restrictions and Beijing reporting its highest number of new cases since 2020.

The mood is modestly risk-on in thin trading despite the virus backdrop, as US equity futures tee up minor gains alongside stronger European bourses are mixed. On the commodities front, iron ore is weaker given the demand outlook out of China while copper is in the green with buying interest likely picking up after an 8%+ decline over the previous six sessions; BHP has also averted, for now at least, a strike at its Escondida copper mine in Chile. Oil is modestly higher as it reverses (and then some) a steep drop yesterday after headlines on a possible OPEC+ output increase were dismissed by Saudi officials.

The USD is broadly weaker amid falling yields following comments from Fed officials Daly and Mester yesterday reinforcing the view of a 50bps hike in December; though the latter said she doesn't think "we're anywhere near to stopping." Commodity/risk-sensitive currencies, with the exception of the MXN which is trading flat, are outperforming among the majors. **The CLP is leading the expanded majors with a 1% gain thanks to gains in copper prices** as well as continuing its rejection of the 950 pesos zone yesterday.

Mexican retail sales released this morning missed the median forecast, rising 3.3% y/y but falling 0.2% m/m in September in real terms (consensus at 3.9% y/y and 0.1% m/m, respectively). Non-seasonally-adjusted data show that weakness was relatively broad across consumer goods, with only the (choppy) supermarkets and department stores category showing a faster pace y/y versus August. We see the data having little impact on Banxico's decision-making in the near-term. **Mexican markets reopen today after yesterday's Revolution Day.**

Yesterday, Mexico's President AMLO said that they are looking at "various options" in "government or in Mexican representation abroad" for Banxico's Dep Gov Esquivel, after he lost the IADB presidency election to Brazil's Goldfajn. AMLO also said that the Pacific Alliance summit running from Wednesday to Friday this week will very likely be cancelled after Peru's President Castillo was barred by Congress from travelling to Mexico City.

The day ahead is quiet in Latin America with headlines posing the main risk to the performance of local assets in a quiet week with US markets closed on Thursday. Political developments are again the main thing to watch in the region. Note that Peru's statistics agency publishes Q3 GDP data today, though the country's central bank released national accounts data last week that showed a 1.7% y/y expansion in the quarter (see [here](#)).

—Juan Manuel Herrera

COLOMBIA: ANALYSTS EXPECT A 100BPS HIKE BY BANREP IN DEC; INFLATION EXPECTATIONS ROSE AGAIN, WHILE GROWTH OUTLOOK WEAKENED

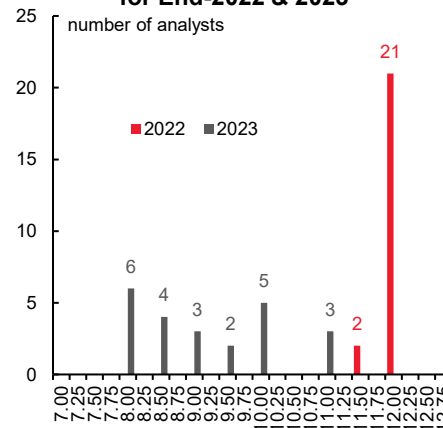
The October Citi survey, which BanRep uses as one of its measures of inflation expectations, monetary policy rate, GDP, and the COP exchange rate, was published on Monday, November 21.

Key results:

- **Economic activity in Colombia will slow in 2023.** Economic growth for 2022 is expected at 7.89%, above the previous survey’s forecast (7.69%). By 2023, GDP growth expectations fell to 1.25% (previously 1.65%), representing a soft landing for the economy. Looking ahead to 2024, economic growth is expected to be 2.56%, down from the previous expectation of 2.71%.
- **Near-term inflation expectations deviated further from BanRep’s target range.** November’s monthly inflation is expected at 0.57% m/m and 12.30% y/y. Scotiabank Economics is above consensus with 0.67% m/m and 12.42% y/y. In November, food prices will continue to generate upward pressure on inflation. However, other components, such as utilities fees, are expected to moderate, which would contribute to seeing lower inflation compared to previous months.
- **By the end of 2022, consensus expects inflation to close at 12.27% slightly above the previous expectation of 12.19%.** The upside revision came despite the announcement of a VAT holiday, which usually results in a moderation of prices. **In 2023, inflation is expected to close at 7.62%**, which is 2.5 times the central bank’s inflation target, and also up from the previous survey’s expectation of 7.22%.
- **For the December monetary policy meeting, most analysts expect a 100bps move to 12.00%.** Only two analysts expect a move of 50bps. For end-2023, the bank’s policy repo rate is seen at 9.0%, remaining well in contractionary territory (chart 1).
- **Scotiabank Economics’ official published call is a 50bps increase in December. However, given recent developments, we see a 100bps move as the more likely result, while we don’t rule out a 50bps move in January.**
- USDCOP forecasts point to a mild appreciation through December 2022. On average, respondents expect a USDCOP level of 4,873 by the end of 2022 and 4,788 by end-2023.

Chart 1

Colombia: Repo Rate Expectations for End-2022 & 2023



Sources: Scotiabank Economics, Citi Survey.

—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján

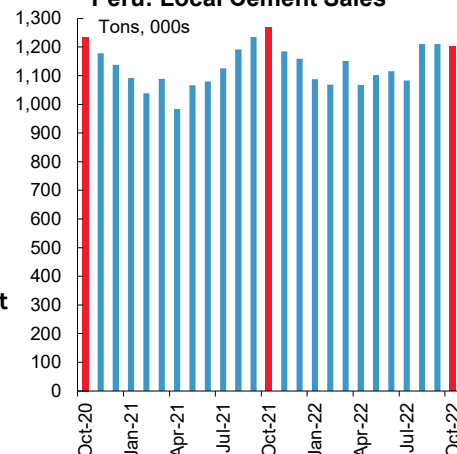
PERU: LOW CEMENT SALES IN OCTOBER POINT TO WEAK PRIVATE CONSTRUCTION, TO BE OFFSET BY PUBLIC INVESTMENT

Cement sales were weak in October, down 5% y/y with a second consecutive decline after a 2% y/y drop in September (chart 2). Considering that public investment rose 53% y/y in October, the decline in sales would have reflected lower private construction, both in infrastructure and in residential housing projects. Year-to-date, cement sales have risen 1.2%, with most of the growth taking place during the first half of 2022. Strong public investment growth will likely outweigh the decline in cement sales to the private sector, and we expect construction GDP growth in October to mildly surpass the 3.1% y/y recorded for September.

For the remainder of 2022 we do not expect a significant drop in construction indicators, and maintain our construction GDP growth forecast for full-year 2022 at 1.2%.

Chart 2

Peru: Local Cement Sales



Sources: Scotiabank Economics, ASOCEM.

—Carlos Asmat

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