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## Latam Daily: Brazil Inflation Slowdown Continues; Chilean & Colombian Markets Reopen

- **Colombia: Consumer confidence deteriorated in September**

**Negative market sentiment continued in overnight trading with little help from another BoE intervention announcement as the focus remains on a risky US CPI inflation print on Thursday.** The USD is nevertheless mixed amid comments from Japanese policymakers warning against excessive yen moves as well as the People's Bank of China reiterating its goal to prevent 'big fluctuations' in exchange rates. The GBP is, however, among the best performing major currencies today, with a 0.4% gain.

Crude oil prices are about 1.5% weaker today, coming back from an intraday low that had erased the bulk of the gains made on the back of the OPEC+ supply cut decision last week; news that China is sticking to its COVID-19-zero policy may be impacting the medium-term demand outlook.

**Later today, the IMF will publish updated macroeconomic forecasts in its World Economic Outlook** after the fund's Managing Director Georgieva and the World Bank Head Malpass warned of a "real danger" of global recession in comments yesterday.

**Banxico's Deputy Governor Espinosa noted yesterday that "high inertia" in inflation requires keeping monetary policy restrictive over the coming months** while noting that additional challenges may still emerge that could necessitate hiking "even more rapidly or more forcefully". **For now, we see an additional 150bps in Banxico rate increases by year-end**, to 10.50%—in line with market pricing and the economists' consensus. Espinosa also highlighted the benefit of having a relatively resilient MXN as a buffer. In political news, recently-departed Mexican Economy Minister Clouthier said in an interview to la Jornada published yesterday that Mexico's Energy Secretary Nahle is unwilling to make any concessions on the energy front in USMCA negotiations. Watch this space.

**September CPI data for Brazil released at 8ET slightly beat economists' expectations though nevertheless showed a significant deceleration in headline inflation** to 7.17% y/y from 8.73% y/y in August (7.17% y/y consensus). The steep slowdown from a pace of 12.13% in April will comfort the BCB ahead of its policy decision on October 26, where we expect it will leave its policy Selic rate unchanged at 13.75%—ahead of the second-round vote for the presidency on the 30<sup>th</sup>. Lower fuel prices and tax cuts are helping drive headline inflation lower, while core prices are still only showing signs of plateauing. **Markets have positioned for an unchanged policy rate in Brazil for at least the next six months with cuts over the remainder of the year exceeding 200bps.** Forward contracts currently see the BRL weakening in line with its regional peers between current levels and end-2023. As for the runoff vote, polls continue to show Lula beating Bolsonaro.

**Chilean and Colombian markets reopen today after yesterday's holidays**, looking ahead to the BCCh's decision on Thursday where economists are leaning towards a 50bps hike while we await Colombian economic data out on Friday. Consumer confidence figures published yesterday showed that Colombians, on the basis of the expectations gauge, are at their most pessimistic since May.

—Juan Manuel Herrera

**COLOMBIA: CONSUMER CONFIDENCE DETERIORATED IN SEPTEMBER**

**Colombia’s Consumer Confidence Index (CCI) stood at -11.5ppts in September, showing a decrease of 9.1ppts m/m.** The drop in consumer sentiment is due to a decline in the expectations component that fell from 14.5 to 1.6ppts (chart 1), and while the current conditions gauge fell from -30.2 to -31.1ppts.

**The expectations index fell the most.** Consumers think that their household will not be in as good of a shape in the coming year, with a worsening of expected economic conditions in Colombia as well. Home buying intentions fell by 0.2ppts compared to the previous month (-29.1 to -31.1ppts) and the willingness to buy vehicles registered a negative balance of 10.7ppts, worsening compared to the previous month to -66.6ppts. On the other hand, the willingness to buy durable goods increased slightly. While households’ outlook for the economy registered a more negative sentiment compared to the previous month, the government’s announcements and the new tax reform bill will influence private consumption in the months ahead.

**Looking at the details of the month of September (chart 2):**

- The Current Conditions Index reached -31.1ppts, worsening slightly from -30.2ppts in August. Households remain vigilant due to inflation that continues to surprise to the upside and international volatility. Willingness to buy durable goods increased by 2.4ppts compared to the previous month.
- The Expectations Index fell to 1.6ppts in September from 16.1 ppts in August (chart 1, again). Household expectations about the economic future were the component that contributed most to the down in the CCI (from 5.0ppts to -14.6ppts). Along this line, the assessment of the country’s economy also showed a lower balance and stood at 4.1ppts from 13.4ppts. Recent signs of a moderation in activity coupled with expectations of much lower growth may be affecting perception in the coming months. That said, it will be relevant to continue monitoring the dynamics of growth and consumption in the coming months, added to inflation at its highest since 1999 and which will continue to be pressured next year by indexation effects. Therefore, the expectation that consumer credit will slow down with higher interest rates makes us think that private consumption will feel these pressures and slow down especially next year.
- By cities, consumer confidence increased in one of the five cities in the sample. In Bogota, confidence decreased from -2.0 to -11.8ppts, in Medellin, confidence worsened from -16 to -21.7ppts. In Cali and Bucaramanga this same behaviour is evident. Meanwhile, Barranquilla was the only city where confidence improved from 8.9 to 12.7ppts, explained by a less sharp fall in the willingness to buy durable goods and housing.
- Consumer confidence dropped across all socioeconomic levels. In high incomes, confidence fell from -26.1ppts to -30.3. The perception of middle-income households worsened from -4.2ppts to -10.1 and low-income confidence moved into negative territory from 1.6 to -11.5ppts. Explaining this behaviour to the strong pressures on prices and in some way to the uncertainty in the performance of the economy in the coming months due to stronger tax burdens.

Chart 1

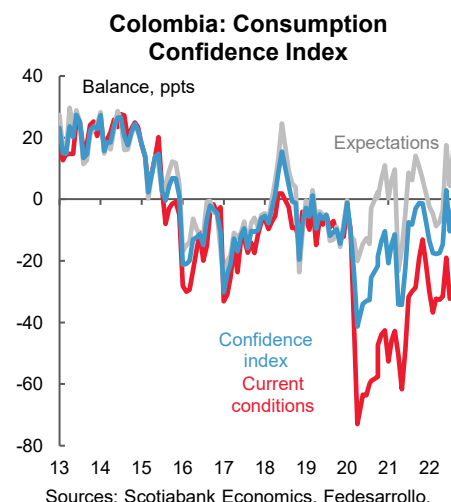
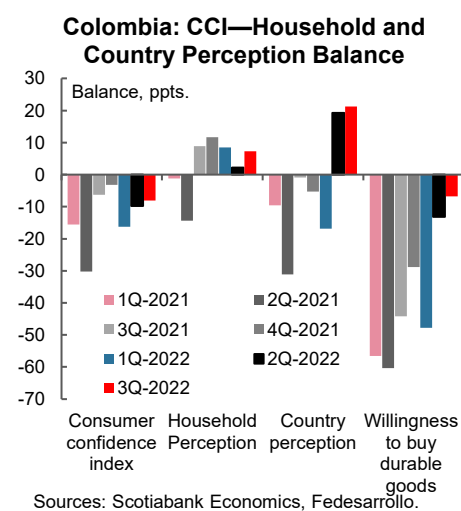


Chart 2



**Consumer confidence in September showed that economic expectations have worsened, households continue to be impacted by the effects of higher inflation and perceived slowdown of economic activity.**

It remains relevant to follow these metrics and see if inflation surprises well above analysts’ estimates. In addition, the fact that rates are already at high levels and possibly rise a little more and last longer in these should see effects on consumer credit and slow down, in our opinion. In fact, we have recently changed our expectation about the October monetary policy meeting, and now we expect a hike of 50bps to reach 10.5%. The central bank, at its latest meeting, was more concerned about growth and expressed that the economy should continue to show signs of moderation in order to have healthier long-term growth.

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

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