

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
+44.207.826.5654
Scotiabank GBM
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

María (Tatiana) Mejía, Economist
+57.1.745.6300 (Colombia)
María1.Mejía@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Economists Lift BanRep Forecasts Ahead of Friday's Decision

- **Colombia:** Citi survey showed that a 100bps hike is expected at Friday's meeting; inflation expectations rose again
- **Mexico:** IGAE beats consensus in August, owing to a higher pace in services and primary activities

Risk-off trading overnight after weak tech earnings in the US is having no notable impact in the FX space as declines in US yields drive a bid for currencies against the USD. Commodities are moderately stronger, providing an additional offsetting tailwind for high-beta assets. The MXN is about 0.2% stronger while the CLP widens its gap to the 1,000 pesos level thanks to a 1% gain in early dealing, and the BRL has unwound yesterday's weakening (+0.5% today).

Brazil's central bank is expected to hold its policy rate unchanged at today's policy decision. Although H1-Oct inflation surprised to the upside in data published yesterday, headline y/y inflation remains on a negative trajectory. The BCB is also highly unlikely to deliver a surprise rate increase ahead of Sunday's election. A PoderData poll released this morning showed Lula's lead over Bolsonaro increasing to 53% vs 48% from 52% vs 48% a week ago (among valid votes), working to reduce the chance of a victory by the incumbent—after polls released last week showed building momentum.

Chile's Costa said at an event yesterday that inflation has begun a declining trend, reiterating that the bank's policy rate has reached its maximum level and it will remain stable to see inflation converge to target. **Costa speaks again at 9.30ET** on the bank's household finances survey for 2021, with results due for release today. The Boric Government submitted a new mining royalty bill to the Senate's Mining and Energy Committee yesterday, with the proposal including a 1% ad valorem tax on large-scale copper miners and higher effective tax rates among other measures that are expected to raise an additional 0.6% of GDP in royalties from the sector.

President Petro announced yesterday a new modification to the proposed fiscal reform in Colombia that drops proposed taxes on large pensions (above COP10mn per month) as well as a more gradual introduction of an income tax surcharge on oil and coal companies. The change partly reflects Congressional pressure to rein in measures 'unfriendly' to financial markets. With that, additional tax revenues are now seen around COP5bn lower than under previous plans (COP20bn from COP25bn).

Aside from the BCB's decision and Costa's address, it's a quiet day in the region while global markets await the Bank of Canada's policy decision at 10ET (where we expect a 75bps hike, as do markets).

—Juan Manuel Herrera

COLOMBIA: CITI SURVEY SHOWED 100BPS HIKE EXPECTED AT FRIDAY'S MEETING; INFLATION EXPECTATIONS ROSE AGAIN

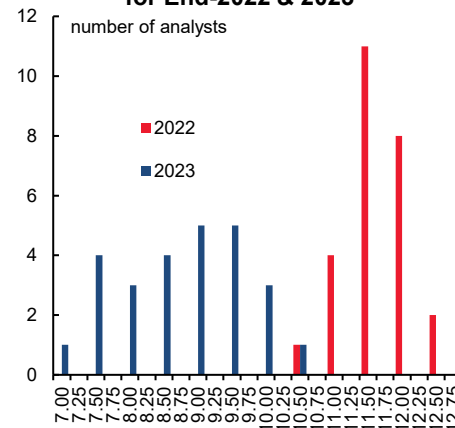
October's Citi Survey, which BanRep uses as one of its measures of inflation expectations, the monetary policy rate, GDP growth, and the COP, was published on Tuesday, October 25.

Key points included:

- **Economic projections point to a strong 2022 but a weaker 2023.** Economic growth for 2022 is expected to reach a pace of 7.69% y/y, above the previous survey's forecast (7.31% y/y). For 2023, economic growth expectations fell to 1.65% y/y (previously 1.98% y/y). Looking ahead to 2024, economic growth is expected to be 2.71% y/y, vs the previous expectation of 2.77% y/y.
- **Inflation expectations deviated further from BanRep's target range.** September's monthly inflation rate is seen at 0.67% m/m and 12.19% y/y, on average. Scotiabank Economics is above consensus with 0.76% m/m and 12.27% y/y. In October, food inflation will maintain upside pressure on inflation while gains in other prices such as utility fees are expected to moderate, which would contribute to seeing lower inflation vs previous months.
- **By end-2022, consensus expects inflation at 12.19% well above the previous projection of 11.46%** (chart 1). In 2023, inflation is expected to stand at 7.22%, still well above the central bank's target range, and also increasing from the previous survey expectation of 6.79%.
- **Ahead of the October monetary policy meeting, the majority of analysts expect a 100bps move to 11%, and only two analysts from offshore research houses expect a 150bps move.**
- **Scotiabank Economics' call is a 50bps hike this week, but given recent developments we are leaning towards a 100bps move, which would come with some FX volatility-control measures from the central bank.**
- **By the end-2022, the key rate is expected at 11.50% by the median economist, while the highest forecast is 12.50%.** For the end-2023 consensus, economists see the rate falling to around 9%, showing that the rate will remain well above historical average levels as inflation shock is more persistent than anticipated.
- **USDCOP forecasts point to currency appreciation through December 2022. On average, respondents expect a level of USDCOP4,666 by the end of 2022 and 4,543 by 2023.**

Chart 1

Colombia: Repo Rate Expectations for End-2022 & 2023



Sources: Scotiabank Economics, Citi Survey.

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

MEXICO: IGAE BEATS CONSENSUS IN AUGUST, OWING TO A HIGHER PACE IN SERVICES AND PRIMARY ACTIVITIES

In August, the monthly GDP proxy IGAE rose above consensus again, to 1.0% m/m (vs 0.5% in July and 0.1% expected) in seasonally adjusted monthly figures (chart 2). The advance was driven by services, as the sector grew 1.2% m/m, doubling the previous month's gain of 0.6%, and primary activities expanded 3.6% m/m (from 0.7%). Industrial activity, however, held unchanged (0.0%).

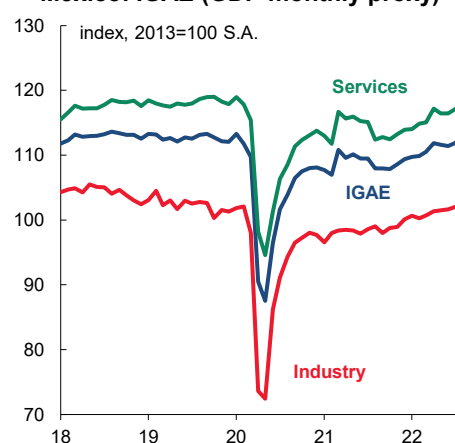
In year-on-year terms, the index's growth rate accelerated from 1.3% to 5.7% y/y, above the median consensus at 3.3% (non-seasonally adjusted). By sector, industry picked up from 2.6% to 3.9% y/y, with manufactures advancing 8.1% y/y (5.1% previously), while construction deepened its decline by -4.0% y/y (-1.3% previously). Services advanced 6.6% y/y from 0.8% previously, with increases of 14.2% and 6.2% in wholesale and retail trade, respectively, and 23.5% in hospitality services. In the year-to-date, the IGAE has averaged 2.1% y/y growth.

The gap in GDP vs pre-pandemic levels has almost closed, but services continue to lag despite recent pick in activity owing to lower COVID-19 related risks and mobility restrictions, while industrial activity is just above February 2020 numbers.

Analysts estimate that the economy will grow by 2% in 2022 after IGAE data have beat consensus in five of the eight first months of 2022. However, for 2023, consensus estimates have recently fallen, with significant downside risks owing to the effects of restrictive monetary policy and a weaker outlook for the US economy.

Chart 2

Mexico: IGAE (GDP monthly proxy)



Sources: Scotiabank Economics, INEGI.

—Miguel Saldaña

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