

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

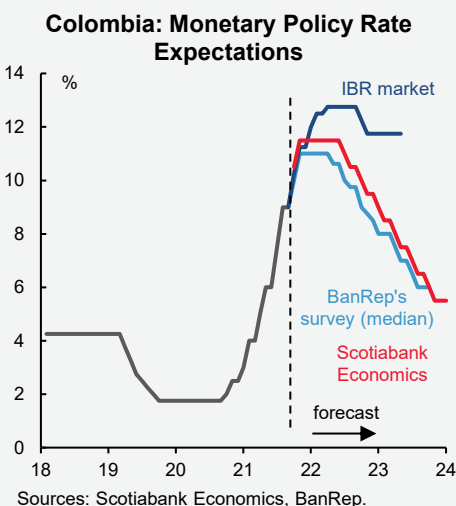
Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

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

Chart 1



Latam Daily: Colombia—BanRep Preview

- **Colombia: Monetary Policy Preview—A third 150bps hike is expected, but again in a split decision**

COLOMBIA: MONETARY POLICY PREVIEW—A THIRD 150BPS HIKE IS EXPECTED, BUT AGAIN IN A SPLIT DECISION

BanRep will hold its sixth monetary policy meeting of the year on Thursday, September 29. The central bank is expected to hike its monetary policy rate by 150bps again, but will likely show a more divided vote than at the July decision. A split vote from BanRep is usually a sign that the Board is prepared to change its stance in the future. However, despite the split vote in July, information since has suggested that private consumption remains strong, while core inflation metrics have increased more than expected. Both elements, plus a more hawkish environment from central banks in developed countries, will lead the Board to remain in a hawkish mood and a data-dependent approach.

That said, after Thursday’s meeting Colombia’s monetary policy rate will be at its highest point since the beginning of the inflation-targeting regime in 1999. For now, we affirm our expectation of a final 100bps move at the October meeting to reach a terminal rate of 11.50%. However, elevated rates could last longer than usual, maintaining negative pressure on Colombian fixed-income markets in the medium-term.

The IBR market is pricing a cumulative move of 225bps by October, and a terminal rate at 12.75% by March 2023 (chart 1). We disagree with the market’s opinion as we expect BanRep to end its hiking cycle sooner, and we see the policy rate at 9% at end-2023 with inflation projected to be lower by then. In the case of the Colombian peso, we do not expect any intervention by the central bank.

Key points ahead of Thursday’s BanRep vote:

- **In July’s meeting, we had a split vote of 6 vs 1.** The dissenting vote for a 100bps hike argued that the economy is currently experiencing a crowding out effect and the hiking cycle has had an asymmetrical impact on households and enterprises.
- **Although a split vote usually signals a change of stance in forthcoming meetings, this time would be different.** Since July, inflation continued to surprise to the upside, while international financial conditions tightened more than expected. These factors should again see a split vote from the board, with the majority still supporting the larger 150bps move. Additionally, as uncertainty regarding inflation remains high, we don’t expect the data-dependent approach to be removed.
- **Inflation expectations deviated further from BanRep’s target according to recent surveys.** In BanRep’s latest survey, one- and two-year ahead inflation expectations are at 7.05% and 4.59%, while by the end of 2022 and 2023 inflation is expected at 11.22% and 6.47%, respectively. Expected increases in gasoline prices are a thing to keep an eye on since, although the initial impact could be moderate (per +1% in gasoline prices = +6bps in headline inflation), the second round effects would be higher in the future, especially ahead of 2023.
- **As always, it will be relevant to monitor signals that the hiking cycle is reaching a terminal phase.** In October’s meeting, the staff will release a fresh set of macroeconomic projections and it would affirm the expected pause. However, in the September’s meeting a more split vote with more members in favour of a lower hike would be a good signal.
- **On the FX side, the COP remains under pressure originating from international developments. The BanRep probably won’t react.** Governor Villar emphasized that the floating regime is appropriate and that intervention is not effective to fight against global trends. That said, we don’t expect any announcement on that front.

September 28, 2022

All in all, we anticipate again a 150bps hike to leave the rate at 10.50%. Increasing inflation expectations and tighter international financial conditions will continue to support a hawkish move. The yield curve will continue under pressure until the central bank signals a pause. However, even if we reach the terminal rate, a discussion about future cuts would take time, which would make it difficult to ease pressures in the short and the belly of the curve. In terms of the FX a 150bps move could be enough to contain volatility that would come from rate differentials vs the US. That said, the currency would continue oscillating around the 4,500 pesos level. The end of the hiking cycle is expected at 11.50% but it will continue to depend on the inflationary developments in the forthcoming months.

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

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.