

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

Luisa Valle, Deputy Head Economist
+52.55.5123.1725 (Mexico)
lvallef@scotiabank.com.mx

Latam Daily: Banxico and BanRep On Tap While Market Mood Remains Fragile

- Markets partially fade yesterday's BoE-driven improvement in risk sentiment through quiet overnight trading. China readies sizable FX intervention.
- CLP leads Latam peers thanks to slight recovery in risk mood and BCCh FX forwards rollover.
- Colombia: Monetary policy preview—A third 150bps hike is expected, but again in a split decision.
- Mexico: Monetary policy preview—75bps hike repeat expected in split decision.

Yesterday's risk-on boost to markets from the BoE's announcement on gilt purchases partially faded during European trading this morning, albeit with limited catalysts behind a resumption in risk aversion—still very high yields and global growth pessimism remain a key concern, however.

The BoE may have arrested the steep selloff in bond markets but the fire is still burning and the next few days will show whether yesterday's move only marked a pause in this selloff or a trend reversal is in the works (we're inclined towards the former).

Reports that China's PBoC has asked state-owned banks to prepare for large dollar sales to bolster the yuan has helped currencies record gains against the dollar ahead of the North American open.

The positive risk backdrop helped the CLP to a strong 3.1% gain on Wednesday, its strongest one-day showing since mid-July when the BCCh announced FX intervention plans. The bank's early-week decision to roll-over USD9.1bn in forwards while ending its intervention programme on Friday, as scheduled, has helped the CLP outpace its regional peers since Friday's close; the MXN is up 0.4% since, a 1ppt+ underperformance, while the COP and PEN have lost about 1% and the BRL around 2%. Chile's INE publishes unemployment figures for August this morning, which are expected to show a minor increase of 0.1ppts in the jobless rate to 8%.

Banxico's and BanRep's policy decisions this afternoon are the stand-out events in the Latam calendar today with our local economists expecting the central banks to roll out respective hikes of 75bps and 150bps (see below). Broadening price pressures and limited signs that inflation has clearly crested remain upside risks to our medium-term central bank forecasts.

—Juan Manuel Herrera

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

See full preview in yesterday's [Latam Daily](#).

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.

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

MEXICO: MONETARY POLICY PREVIEW—75BPS HIKE REPEAT EXPECTED IN SPLIT DECISION

We expect another 75bps hike from Banxico at today's policy announcement. Considering the latest inflation print above consensus, incessant increases in inflation expectations (at least for 2022), and the Fed's latest 75bps hike and "higher-for-longer" guidance, **we have no doubt that Mexico's central bank will increase its policy rate to 9.25%.**

We also anticipate another revision to its inflation forecasts. In the latest communiqué, Banxico expected inflation would reach a peak in Q3 2022 of 8.5% to slowly converge to 3.1% in Q1 2024. We have seen annual inflation exceed expectations every month, pushed higher by the core basket which hasn't shown any signs of receding. In this regard, the country's consumer protection agency (PROFECO) indicated that in the coming days, President López Obrador will release an update to the anti-inflation plan (PACIC), with which the government plans to curb further increases in food and energy items. However, the plan has only been successful in slowing increases in energy prices. As for the prices of other goods, the effectiveness has been quite limited.

Regardless of these factors, we wouldn't be surprised if the decision is not unanimous. One reason for this is that at the August meeting the Board removed the word "*forceful*" from the statement regarding the measures to be taken as conditions require. In addition, the minutes revealed not only the Board's concerns about de-anchoring expectations but also about growth, including worries related to weather events such as summer droughts in northern states.

At this point, the TIE swap curve shows the market expects a 75bps increase in September and November and likely a final 50bps in December, leaving a spread of around 600bps with the Fed, undoubtedly crucial for the peso's performance so far. **For now, we maintain our call for 10.25% at the end of 2022, with upside risks coming from Banxico's guidance and September's inflation figure due next Friday.**

—Luisa Valle

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.