Scotiabank™

GLOBAL ECONOMICS

LATAM DAILY

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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

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

We expect another 75pbs 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 TIIE 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