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GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
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)
Maria1.Mejia@scotiabankcolpatria.com

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

Latam Daily: Strong Core Mexican Inflation Justifies More Hikes

- **Colombia: S&P affirms Colombia's rating thanks to pragmatic and predictable economic policies that are expected to continue**

The overnight trading mood was shaped by PMI data in Europe that showed an improvement in the Eurozone's economic backdrop (which nevertheless remains frail) while UK growth problems deepen. The USD is broadly stronger with the exception of the JPY that is clawing back some of yesterday's losses, while crude oil records a slight 0.3% gain in contrast to a comparable decline in US equity futures—in spite of lower global yields, led by the UK. Copper and iron ore prices are practically unchanged on the day,

Mexican H1-Jan CPI data released this morning beat economists' forecasts with a notable pick-up in core prices on a bi-weekly basis that should keep Banxico in a hiking mood. Compared to H2-Dec, core prices rose 0.44% against the median submission of 0.32% (and no economist above 0.40%, from 0.19%) while the overall basket saw a 0.46% gain (vs 0.39% consensus, from 0.10%). In year-ago terms, inflation in Mexico has also accelerated over the past three bi-weekly releases (today at 7.94% from 7.86%) and core inflation is showing no signs of letting up as it remains around 8.3-8.5% since H1-Sep (today at 8.45% from 8.34%).

We don't think today's print will pull Banxico away from a 25bps hike at its upcoming policy announcement on February 9 (to instead chose a half-point hike), but persistently high core inflation does keep additional hikes on the table towards our forecast of an 11% terminal rate. The MXN barely reacted to the print, and is holding on to a 0.2% decline on the day in line with the dollar tone, as markets remain somewhat skeptical that Banxico has much more left in the chamber.

—Juan Manuel Herrera

COLOMBIA: S&P AFFIRMS COLOMBIA'S RATING THANKS TO PRAGMATIC AND PREDICTABLE ECONOMIC POLICIES THAT ARE EXPECTED TO CONTINUE

S&P affirmed Colombia's credit rating at BB+ and its outlook as "Stable". S&P expects continuity in fiscal and monetary pro-growth policies, compatible with fiscal consolidation and the stabilization of the country's debt ratio at under 60% of GDP.

Macro picture:

- S&P highlighted that Colombia had maintained stable democratic and political institutions. The ratings agency also stressed that the inflation targeting regime and flexible exchange rate are key buffers against external shocks.
- On the negative side, S&P said Colombia has low fiscal flexibility. In fact, it highlighted that despite the approval of the fiscal reform, the government would face a shortfall in revenues in 2024 due to lower growth and commodity prices.
- The current account deficit is also an issue in Colombia's investment position. S&P said Colombia had limited success in expanding non-traditional exports. S&P forecast net external debt to represent 140% of current account receipts in the medium term.
- S&P highlighted growth resilience; they expect Colombia to grow 8% in 2022 and 1% in 2023. They said that higher than expected growth, coupled with a more diverse external sector and a contained growth of the general government debt, could conduct a rating upgrade in a 12–24 month horizon.

Our take:

S&P's assessment of Colombia's economy coincides with Fitch's announcement in December (table 1). Both agencies highlighted that strong political and economic institutions grant continuity in pro-growth policies and fiscal responsibility. That said, Colombia's weak points remain the external deficit and debt burden. We don't expect a ratings or outlook change soon; that said, Colombian assets will continue to reflect a premium due to the country's non-investment grade status.

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

Table 1: Colombia—Credit Rating

	Rating	Outlook
Fitch	BB+	Stable
S&P	BB+	Stable
Moody's	Baa2	Stable

Sources: Scotiabank Economics, Bloomberg.