Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombian Macro Data; Chile's BCCh Survey; US CPI

- **Chile: Ministry of Finance—issuance plan considers USD15bn, of which USD3bn will be in foreign currency**
- **Colombia: Confidence remains weak**

Markets mostly traded narrowly overnight ahead of the week's main event, US CPI at 8.30ET. The USD is generally weaker, with losses picking up at the Asia session close and its intraday low on a DXY basis falling just short of Friday's. SPX futures also perked up since the European open, but are only up 0.1/2% on the day. WTI crude oil is weaker by about ~1.5% (weighed by mandated US strategic reserve sales plans), copper is a touch stronger (0.3–5%), and iron ore is retracing around half of yesterday's decline.

Chile's central bank published the results of its post-decision traders' survey this morning, showing a pushing out of expectations of a first rate cut to the May meeting. This compares to the pre-meeting poll (on January 20) where the median saw a 50bps reduction in the BCCh's policy rate in April, falling by a cumulative 275bps by the July announcement—traders now only see 175bps in cuts by then. For the April meeting, only 8 of 51 see a rate cut, compared to 38 of 59 previously. An important share of traders also don't see a reduction in May, almost half at 24 of 51.

Last Wednesday's stronger than expected CPI print (released ahead of the survey) alongside the BCCh's decision clearly had an impact on the outlook for rates among traders. While February inflation forecasts were left unchanged at 0.3% m/m, the median for March rose to 1% from 0.9%; the twelve-months-ahead inflation median fell slightly to 4.50% from 4.60% forecasts (though that may just relate to base effects from the stronger January 2022 print). Risks have tilted towards a rate hold by the bank in April, but February CPI data as well as January and February macroeconomic figures that should show a clearly weaker economy may motivate the bank to cut then—as our economists expect.

The Latam session presents little else aside from a collection of Colombian macro prints at 10ET ahead of tomorrow's Q4 GDP release in the country. Retail sales, manufacturing/industrial production, and trade balance data out at 15UK for December will give us a final look into the state of the Colombian economy at year-end, in the face of an 1,100bps increase in BanRep's policy rate since Q4-2021. Our economists estimate that Colombian GDP expanded by 4.0% y/y in the quarter, slightly above the median forecast of 4.0%. Petro's government presented its Health Reform plan to Congress yesterday, which preserved the country's Health Promoting Entities (EPS), as expected, but may face some adversities under the reform's mandates. The Bogota team thinks the health reform transition process may prove long and costly as the government wants to build adequate infrastructure in rural areas, with a cost of about 1–1.5% of GDP over the next four years. The next steps for the Reform are the conventional legislative processes through Congress given that it will not be submitted with urgency, and it would therefore take at least 5 months to become law—of course, with all the changes that may occur during this process.

—Juan Manuel Herrera

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CHILE: MINISTRY OF FINANCE—ISSUANCE PLAN CONSIDERS USD15BN, OF WHICH USD3BN WILL BE IN FOREIGN CURRENCY

On Friday, February 10, Chile's Ministry of Finance (MoF) announced its 2023 issuance plan, which considers issuing Treasury bonds for a total of USD15bn during 2023, below the debt limit authorized in the 2023 Budget Law (USD17 bn). The 2023 debt issuance plan considers the issuance in local and foreign currencies.

According to the MoF, local currency issues are planned in the order of USD12bn, and foreign currency issues are estimated at USD3bn. The local currency financing plan considers issuance of short-term notes of approximately USD4.7bn in Q1-2023, of which USD1.5bn will increase the stock of debt. With this, the Chilean economy consolidates a sustainable path of public debt, which increased slightly in 2022.

—Aníbal Alarcón

COLOMBIA: CONFIDENCE REMAINS WEAK

Colombia's Consumer Confidence Index (CCI) came in at -28.6ppts in January, showing a drop of 6.3ppts, continuing with the weakening trend. This behaviour is mainly due to a worse performance of current conditions, which dropped from -39 to -46.8ppts. Likewise, the future expectations component dropped from -11.2 to -16.5ppts (chart 1).

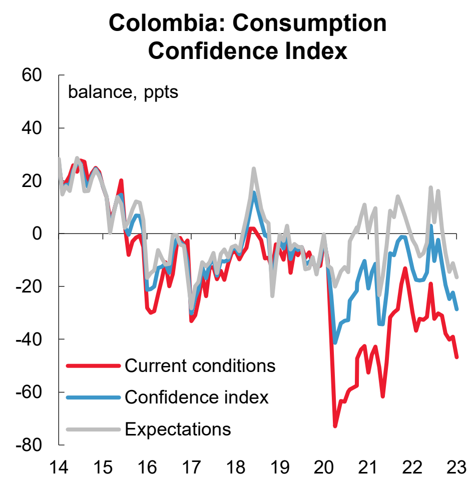
The expectations index worsened and continued to weigh on a more negative perception of the country's economic conditions and household sentiment during the year (chart 2). Along the same lines, the willingness to buy houses fell 2.9 percentage points with respect to the previous month (-48.1 to -51ppts), and the willingness to buy vehicles showed a negative balance with respect to the previous month, dropping 1.7ppts (-64.8 to -66.5ppts).

Likewise, the willingness to buy durable goods decreased by 7.7ppts versus the previous month, from -51.6 to -59.3ppts. This more negative balance was probably explained by persistent price pressures as inflation hasn't peaked yet.

Looking at the details for the month of January:

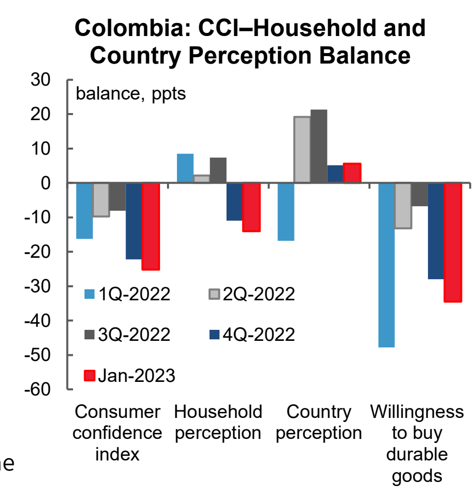
- The Current Conditions Index is down -46.8ppts from December's figure of -39ppts. Households remain vigilant as inflation continues to surprise to the upside and shows no apparent signs of stabilizing, maintaining negative sentiment on willingness to purchase goods
- The expectations index declined to -16.5ppts in January from -11.2ppts in December (chart 1, again). Household expectations about the economic future were the only positive component to the ICC. In fact, it remained in positive territory (5.5 to 5.9ppts). On the contrary, the evolution of expectations for the country's economy showed a further deterioration that contributed to the negative ICC balance at -16.5 from -10.8ppts.
- Recent signs of moderating activity, coupled with expectations of much lower 2023 growth, may affect sentiment in the coming months. Therefore, consumer credit is expected to continue to slow down amid tighter monetary policy, which is necessary for the economy to return to healthier growth with moderate inflationary pressures.
- Consumer confidence worsened in all five cities in the sample. Cali and Barranquilla had the largest declines. In Cali, confidence worsened from -9.4 to -19.4ppts. In Barraquilla it declined from -1.9 to -18.5ppts and in Bogota from -27.1 to -32.5ppts. Meanwhile, Medellin was the city with the smallest drop.

Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

- Confidence fell across all income levels. In high incomes, confidence fell from -31.1 to -40.3ppts. The perception of middle-income families worsened from -27.1 to -28.1ppts, and the confidence of low-income families worsened from -16.7 to -27.8ppts. This behaviour can be explained by the intense pressures on prices, given the effects of indexation and food prices, which continue to be under upward pressure, added to a greater increase in the cost of consumer credit, and somehow the uncertainty in the performance of the economy in the coming months, given the moderation in the growth of the different economic sectors.

In January, Consumer Confidence showed further deterioration due to consumers' expectations about the economic future remaining negative; households continue to be affected by the effects of rising inflation and the perception of a slowdown in economic activity. That said, this reflects that private consumption is moderating due to an inflationary scenario that may be more persistent than expected with a slowing of the economy. Despite the weaker consumer outlook, we still expect monetary policy tightening to continue, with a 25bps increase at March 31 BanRep meeting to 13%, keeping it there for several quarter. However, we can not rule out that the board will leave the door open to further adjustments if upward inflation pressures continue.

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