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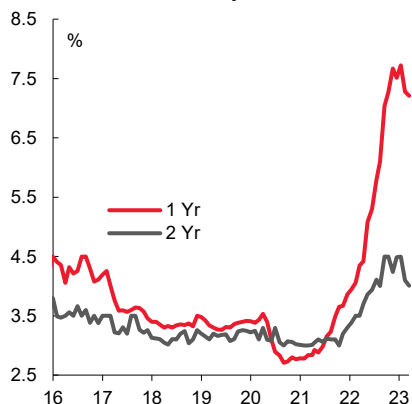
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Chart 1

Colombia: Average Headline Inflation Expectations



Sources: Scotiabank Economics, BanRep.

Latam Daily: Markets Steady; BanRep Survey Sees 25bps Hike

- **Colombia: Economist consensus suggests inflation will continue its transition through a ceiling, while a 25bps hike is expected for March meeting**

Markets are holding a more optimistic feel following yesterday’s rally on support provided large US banks for First Republic. SPX futures are a touch lower but the decline is doing little against the 1.8% climb in cash markets, while the more positive risk mood is more clearly seen in the weaker dollar.

The USD is recording losses against all major currencies (BBDXY down 0.3/4%), with high-beta FX mostly outperforming—the CAD and MXN being the exception, recording marginal gains of 0.1%. Commodity prices are slowly coming back after steep losses in recent days (WTI up 1.5%, copper up 2%, iron ore up 1.4%)—which also may have got a helping hand from the PBOC’s RRR cut to 10.75% from 11.00%.

After a volatile and eventful week, we’re heading into the weekend with limited on-calendar risk from both a Latam and a global perspective. We’re looking for a period of stability to provide Latam assets with some upward momentum after getting dragged by the broad risk mood. US industrial production and U Mich sentiment/inflation expectations data out at 9.15ET and 10ET is unlikely to significantly alter the Fed’s perception ahead of its meeting next week.

The main release of the Latam day ahead is Colombian international trade and economic activity data at 11ET and 12ET, respectively. The median economist expects an acceleration in the country’s economy to 2.5% in January after closing 2022 with a 1.3% expansion. Our team in Colombia anticipates a smaller gain of 1.7% with services sector activity moderating and a softer performance of the manufacturing sector.

BanRep co-director Villamizar said yesterday that the bank now thinks that “we’re at a sufficiently contractive monetary policy stance to reach the target in the medium term”. Though he did complement this with a view that this opinion does not “necessarily mean that we’re done hiking”, it does support the view that the central bank will likely hike one final time at the end of the month, by 25bps, as we expect.

In Peru, Fin Min Contreras said that the country’s economy could grow as much as 4% next month, leaving behind the impact of social unrest that saw the first year-on-year decline in activity in two years in January (-1.1%). Government stimulus programmes are bound to have a positive impact on the economic trajectory of the country, with output from the recently opened Quellaveco copper mine also contributing a high share of the expected growth in Peruvian GDP in 2023.

—Juan Manuel Herrera

COLOMBIA: ECONOMIST CONSENSUS SUGGESTS INFLATION WILL CONTINUE ITS TRANSITION THROUGH A CEILING, WHILE A 25BPS HIKE IS EXPECTED FOR MARCH MEETING

Late on Wednesday, March 15, BanRep released its monthly survey of economic expectations. Inflation expectations (IE) for the end of 2023 increased by 0.36 ppts (table 1), despite the fact that in February there wasn’t a material upside surprise in inflation. Now, expectations for Dec-2023 are at 9.26% y/y. However, the good news is that inflation expectations one- and two-years-ahead remains showing a convergence toward the target range (chart 1). For end-2024, expectations stand at 5.15% y/y, still above the central bank target.

Monthly inflation for February is expected at 0.99% m/m, which is broadly the same as the observed in February of 2022 (1.00% m/m), which would result in annual headline inflation

falling by 0.01ppts. At Scotiabank Economics, we expect 1.02% m/m; by year-end, we project 9.30%, followed by 5.04% at end-2024—slightly above the previous forecast.

In accordance with inflation expectations, the market consensus expects a 25bps hike in the monetary policy rate to 13%, however, the terminal rate is expected at 13.25%. Scotiabank Economics Colombia is aligned with the expectation of a 25 bps hike in March, however, we favour rate stability after the March move. By the end of the year, market consensus sets the monetary policy rate at 11% compared to our call of 12%.

- Short-term inflation expectation. For March, the consensus is 0.99% m/m, which puts annual inflation at 13.27% y/y (from 13.28% in February); this would point to a stabilization of headline inflation. Response dispersion in the survey remains high, with the lowest at 0.78% m/m and the highest at 1.40% m/m. Scotiabank Economics expects March monthly inflation at +1.02% m/m and 13.31% y/y. In March, indexation effects are expected to continue to materialize amid food that continues to contribute but at more moderate rates.
- Medium-term inflation expectations showed a slightly more constructive outlook. Inflation expectations rose to 9.26% y/y by December 2023, 0.36 ppts above last month's survey (table 1), showing the inertia that indexation effects are generating in inflation. However, the positive news is that EI for the 1-year horizon stands at 7.31% y/y stable vs. the previous survey while the 2-year outlook falls 14 bps to 4.44% y/y. The relative stability of long-term inflation expectations would help the BanRep board to further slow the hiking cycle.
- Policy rate. The median expectation (chart 2) points to a rate hike of 25 basis points at the March 30 meeting to leave the rate at 13% (from the current 12.75%); in addition, a further 25 bps hike is being incorporated, which places the terminal rate at 13.25% that would last until July and from there gradual cuts are perceived to close at 11%. Scotiabank Economics expects this month's decision to be the last central bank move, keeping the rate at 13% until October.
- FX. The USDCOP projections for the end of 2023 were located at 4737 pesos on average. By December 2024, respondents think, on average, that the peso will end at USDCOP 4606 pesos. The USDCOP for the end of March is expected around 4794 pesos.

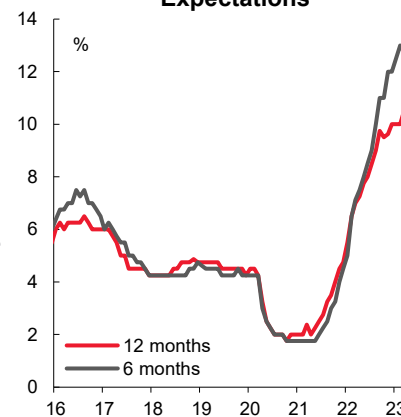
Table 1: Colombia - Headline Inflation Expectations

	Average	Change vs Previous Survey, bps
Mar-2023, m/m % change	0.99	...
Dec-2023, y/y % change	9.26	36
1Y ahead, y/y % change	7.32	1
Dec-2024, y/y % change	5.15	17
2Y ahead, y/y % change	4.44	-14

Sources: Scotiabank Economics, BanRep.

Chart 2

Colombia: Average Policy Rate Expectations



Sources: Scotiabank Economics, BanRep.

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

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