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Latam Daily: Colombian Q3 GDP, Peru Sep Econ Activity, Banxico 'Decoupling' Chatter

- **Peru: Fiscal and trade accounts remain solid, but off best levels**

Falling US yields following comments from Fed dove Brainard yesterday are supporting risk sentiment in markets, bolstering currencies globally and in Latin America against the USD. Meanwhile, China's sixteen-point plan to prop property developers is supporting metals prices today and acting as a tailwind for the CLP that opened 0.9% stronger, near Friday's high.

Yesterday, Banxico's Dep Gov Borja said that if variables improve, such as inflation decelerating, the bank "will have to see" about decoupling from the Fed and that it does not "mechanically" follow the US central bank. Borja's comments were not as 'dovish' as Bloomberg headlines suggest but she does add her voice on decoupling odds to Esquivel—whose term ends next month. The Dep Gov also noted that core inflation persistence is worrying with non-core prices also pressuring it.

The MXN has been the second-to-worst performing major currency (after the BRL) since Wednesday, prior to last week's US CPI miss, also lagging most of its Latam peers. Talk of a decoupling from the Fed and the possible fading of the MXN's exceptionality on the volatility and rates front (as it had tracked the hawkish Fed) may be weighing while currencies hard done by hawkish US rates policy are enjoying solid gains. Continued Fed pivot talk may continue to weigh on the peso, though we think markets have overplayed their hand in response to the inflation data and comments from US policymakers. The Fed is still "a ways away" remains the overarching message.

Colombia publishes Q3 GDP data this morning, as local markets reopen after yesterday's holiday. Our team estimates that Colombian economic growth more than halved last quarter while maintaining a strong expansion of 5.3% y/y (from 12.6% previously), a more negative projection than the Bloomberg and BanRep surveys median of 6.6% y/y. In the words of our Bogota economists in the latest ***Latam Weekly*** "continued economic strength reflected in data will reinforce forecasts of an additional rate hike by BanRep at its December meeting". We're also paying attention to developments in Congress regarding the country's tax reform which is expected to include a wealth tax, among other measures. On a semi-related note, **the Petro Government (which celebrates 100 days today) will present this morning the first draft of the National Development Plan** for the next four years, with the final document due to Congress in February.

Peru also releases September economic activity figures today, where we expect a 2.2–2.5% y/y expansion to close the quarter ahead of Q3 GDP data out in a few days. The September gain would represent an improvement over the August and July increases of 1.7% and 1.4%, respectively.

Chile's 2023 Budget discussions kick off in Congress today after the proposal was approved with an aim to finalize its approval before the end of the month—which would be followed by the legislative process for tax reform, a new constitution, and pension reform in busy months ahead in Chilean politics.

Lula's transition team is reportedly targeting a more 'conservative' spending plan, possibly pressured by the pronounced aversion in markets to the prospect of excessive spending. The new plan would 'only' separate BRL130bn from next year's public spending cap, i.e., BRL175bn than the amendment proposal currently under discussion that the team has floated to fund Lula's social spending ambitions. The cap would then be replaced in 2024, according to reports. A final draft of the amendment bill is expected tomorrow. While these discussions proceed, we continue to monitor developments on who Lula will choose to his Cabinet's key roles. **Brazilian markets are closed today for the Proclamation of the Republic.**

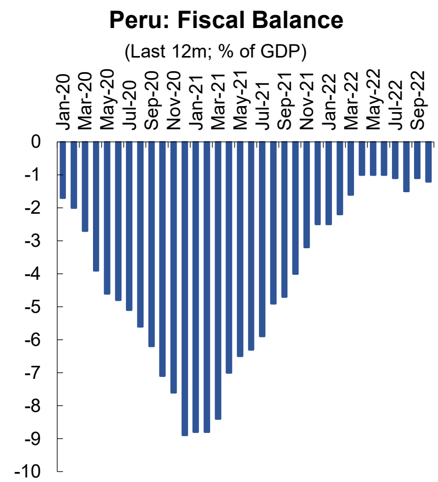
—Juan Manuel Herrera

PERU: FISCAL AND TRADE ACCOUNTS REMAIN SOLID, BUT OFF BEST LEVELS

Encouraging fiscal accounts

The fiscal deficit in the twelve-months to October came in at 1.2% of GDP (chart 1). This is an encouraging reading, only a touch above 1.1% in September. The bottom-line is that, although the fiscal deficit is rising as expected from its low of 1.0% in June–July, it is doing so at a pace that is much more moderate than we were expecting. On the face of it, this could put our full-year forecast of 2% of GDP at risk, but there are two issues to consider before we jump the gun. One is that fiscal spending tends to soar in December. The second is that October does not yet incorporate the USD1bn capital increase for the state oil company, Petro-Perú, which was recently determined by the government.

Chart 1



Sources: Scotiabank Economics, Minem.

Government spending has been volatile. While public investment soared 16% y/y in the year-to-October, and 53% y/y in October alone, non-investment spending declined 1.3% YTD, and 9.4% y/y in October. Both reflected special circumstances, to an extent. Non-investment spending includes government transfers linked to the COVID-19 lockdowns of 2020–2021, but much less so in 2022. On the flip side, large part of the increase in investment has been linked to the 2022 regional and local elections. Neither factor will be as relevant in 2023. In 2023, government spending will hinge significantly on how capable the government is in increasing its investment trajectory.

Altogether, government spending rose 14.3% YTD and 6.2% y/y in October. This compares with fiscal revenue which rose by 17.7% YTD (13.9% y/y in October alone). Outside of extraordinary resources, which may have added a couple of points to growth, the real factor behind the increase were metal prices. Mining and to an extent agroindustry were the powerhouses behind the 88% increase in income tax revenue YTD. Such high levels will not be sustainable in 2023.

Taking everything into account, fiscal accounts continue to pin a nice merit badge on Peru's credibility. We're not quite ready to change our forecast of 2.0% of GDP fiscal deficit, but we do see the risk of error as being on the downside.

—Guillermo Arbe

Trade surplus remains positive, but weighed by decline in metals prices

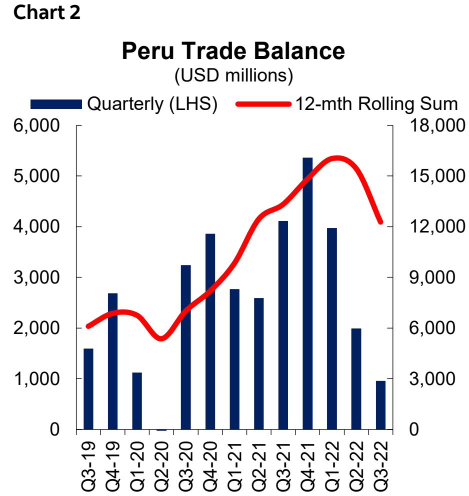
Peru's trade balance recorded a USD955 million surplus in Q3-22, its lowest level since Q2-20 when trade was depressed by COVID-19 (chart 2).

Exports fell 3% y/y, while imports rose a sizable 21%y/y. The decline in exports reflected lower metal prices, especially copper, molybdenum, and iron linked to Russia's invasion of Ukraine, a strong dollar, higher interest rates, the slowdown in the Chinese economy which has continued with on-and-off lockdowns, and generalized global growth malaise.

The strong increase in imports was also mostly price related, in this case driven by higher global fuel and soft-commodity prices. Once again, the war in Ukraine played an important tole. Unfortunately, the imports that did not increase were capital goods, which remained stagnant in line with soft private investment.

For Q4-22, we anticipate a greater the trade balance surplus as the new Quellaveco copper operation comes online, plus the additional incentive of a mild recovery in metal prices by a recently weaker dollar.

Chart 2



Sources: Scotiabank Economics, BCRP.

—Pablo Nano