Scotiabank™

GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist/Strategist
+44.207.826.5654
Scotiabank GBM
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: Markets Pare Gains; Colombian Inflation Surprises

- **Colombia: Inflation beats expectations, pressures BanRep**

Global markets are unwinding some of the strong gains of the past few days with limited catalysts for a selloff that began around the beginning of London trading. Overnight developments were limited to the RBNZ hiking by an expected 50bps but with a hawkish decision that noted that a 75bps hike was discussed, amid secondary economic data.

The morning release of September ADP employment figures in the US failed to surprise markets (roughly coming in on consensus) as we await the ISM services report at 10ET—after a strong miss in yesterday's ISM manufacturing.

Crude oil prices are roughly unchanged today (up 12% over the past two weeks) as markets await a final decision from OPEC+ on supply cuts. Reports over the past few days put the size of the reduction at 1.5 to 2.0mn barrels per day starting in November.

The MXN and BRL are middle-of-the-pack performers among the majors with a 0.5% decline on the day with the negative trading mood. **The CLP reached its strongest level in about two weeks yesterday but is underperforming today with a 0.8% depreciation.** The currency mostly shrugged off mixed comments yesterday from BCCh Chief Acosta who said in a **speech** the country is in a challenging economic situation but noted that the weaker peso adds to short-term price pressures.

It's a quiet day ahead in Latin America after the release of Colombian September CPI data this morning. The country's statistics agency reported stronger-than-expected inflation that may put pressure on BanRep to extend its hiking cycle or consider a larger increase (see our Colombia team's write-up below). **The COP is following its peers lower, off 0.6% in early dealing.**

—Juan Manuel Herrera

COLOMBIA: INFLATION BEATS EXPECTATIONS, PRESSURES BANREP

Colombian inflation came in at 0.93% m/m in September, once again well above economists' expectations that called for a 0.75% print. Headline y/y inflation reached its highest level since 1999 at 11.44%. Food inflation and housing explained half of the total increase in prices over the month. In terms of the core basket, inflation ex-food accelerated from 7.83% to 8.33%.

The data are likely very surprising for the central bank, as at the latest meeting officials sounded more confident in saying that inflation would slow down in September. The debate between inflation and economic deceleration should intensify at the October meeting, which could again see a split vote on the size of the rate increase of 100bps vs 50bps. **For now, our economists expect a 50bps move, the odds of which could be firmed up if economic growth indicators continue slowing down**. In terms of forecasts, inflation could continue oscillating between 11.50%–12% until year-end, which would make minimum wage negotiations more difficult as well as impact indexation effects ahead of 2023.

On the political front, the MoF presented the Tax Reform bill to debate in Congress. Additional fiscal income is now estimated at COP22tn instead of COP25tn. The government dropped a tax proposal on oil and coal exports and, instead, they want to implement an income tax surcharge of 10% in the first year, 7.5% in the second, and 5% in the third. The proposal also includes a 5% on the financial system and a surcharge of 3% on hydroelectric companies. VAT holidays were also eliminated. A proposal to eliminate some corporate tax exemptions was also broadly left intact. According to the new congressional calendar, the first debate on the bill will take place tomorrow, where the MoF expects to obtain final approval.

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