Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia's Acosta Notes Lower Issuance in 2023; Econ Activity Beats

- **Colombia: Economic activity surprises to the upside with a stronger growth trend**

Risk-off trading amid relatively limited developments are weighing on the Latam region currencies in early-trading with weak metals prices contrasting with a marginal recovery in crude oil prices (WTI fell ~2.5% yesterday). The UK published slightly stronger than expected September inflation data, though it had little immediate impact on international markets, while UK political risks remain the focus.

In the day ahead, Colombia publishes international trade data for August with little else of note in the other countries in the region. Global markets will likely centre their attention on Fed speakers ahead of the bank's communications blackout starting on Saturday.

Following the government's announcement on Monday that TES auctions have concluded, Colombia's credit Director Acosta said yesterday that the country will reduce bond sales next year. With COP37.5tn originally planned for issuance next year (which has been reduced to COP33.5tn), it is not yet clear what the final amount will be in 2023—simply that it will be less than that of the original 2022 plan. Acosta also indicated that the government is trying to limit foreign currency debt to about 30% of the total (from roughly 38% currently)—though his personal preference is 20%. The country's financing plan is scheduled for release in December.

The yield on 10-yr TES fell 32bps yesterday—though this only corrected part of the nearly 80bps increase on Friday. The announcement provided little assistance for the COP, which weakened nearly 1% yesterday, as it remains weighed by a relatively dovish BanRep and reduced offshore appetite amid recent comments from Petro floating a tax on "hot money flows". **In comments to reporters yesterday, Fin Min Ocampo said that "there won't be any exchange controls",** whether markets will be comforted by this remains to be seen.

Mexico's Deputy Fin Min Yorio noted yesterday that the government has implemented an oil hedging programme that would protect the country's revenues if the benchmark price falls below USD68.70/bbl. It is unclear whether the hedging has been completed or if the arrangements are ongoing. Yesterday, AMLO announced that US Pres Biden and Canadian PM Trudeau will travel for a tripartite summit in December—while claiming that US-Mexico relations have not been impacted by USMCA trade disputes.

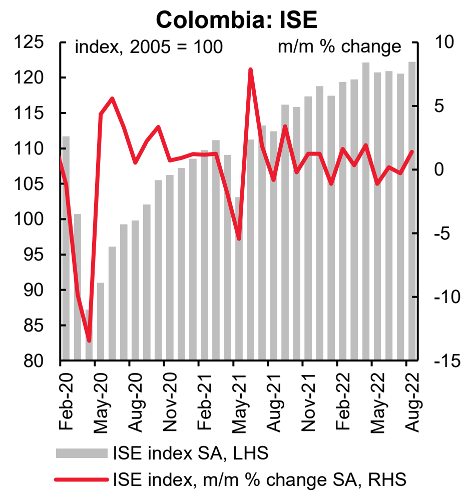
In a podcast released this morning, Banxico Board member and known dove Esquivel said that the Bank could start talking about decoupling from the Fed. Banxico's parallel hikes have supported the MXN against the USD in contrast to most majors recording losses versus the greenback. He also said they need to think about when to end Mexico's hiking cycle. With markets on edge, seeing a very hawkish Fed, dovish comments or guidance have resulted in significant punishment to currencies. Following the Esquivel headlines, the MXN weakened by about 0.2%.

—Juan Manuel Herrera

COLOMBIA: ECONOMIC ACTIVITY SURPRISES TO THE UPSIDE WITH A STRONGER GROWTH TREND

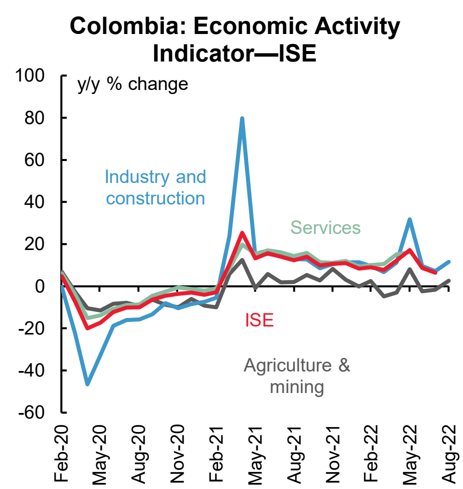
On Monday, the statistical agency (DANE) published the Economic Activity Indicator (ISE) for August 2022, the main GDP proxy, which shows that economic activity expanded by 8.6% y/y (chart 1), above the Bloomberg consensus of 7.5% y/y. The sectors that contributed to the positive annual reading in August were the secondary sector and services, but there was also a significant recovery in the primary sector. In monthly terms, economic activity expanded +1.4% seasonally adjusted (sa, chart 2), mainly due to an improvement in the primary and services sectors. Economic activity so far this year has grown by 9.6% y/y.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Key Highlights include:

- **Primary activities** (13% of the economy) **expanded 2.6% year-on-year**, improving from the figure observed in July (-0.3% year-on-year), and registering an expansion of 3.2% month-on-month sa that is its second best this year since February (3.9% m/m). According to comments during the DANE press conference, the agricultural and mining sector as a whole contributed 1.28% of the total expansion. Specifically, the agricultural sector contributed 1.7%, mainly explained by a better performance in the fruits and flowers subcategory. In the mining sector, although it has been favored by international prices, oil production is lagging, while coal has helped boost this activity.
- **Secondary sector activity** (17% of the economy) **increased by 11.5% year-on-year** and expanded 3.4% month-on-month, rebounding from -0.1% in July. Overall, manufacturing and construction continue to perform strongly. This result can be explained by a good performance of manufacturing that is aligned with the recent industrial production data that showed a monthly expansion of +1.05%. Construction has faced the most challenges in the recovery but has been contributing to growth, however, there are factors such as pressures on construction costs and higher interest rates that can affect housing demand. Nevertheless, it is expected that this sector will continue to be buoyed and have a healthy performance in the long term.
- **Services related activities** (70% of the economy) increased by 9.0% y/y, growing 0.9% m/m compared to the -0.5% m/m contraction in July. On a more detailed basis, financial and insurance activities rose 2.6% m/m, while public administration, education, health and recreation rose 2.0% m/m (and contributed the most to the broad category's expansion) which could be explained to a greater extent by education due to the school season. On the other hand, the category of commerce, accommodation and transport had a contraction of -0.3% m/m, continuing a softening trend though this decline was smaller than the previous month's, but which may explain a lower willingness of households to consume due to elevated inflation. This behaviour is likely to continue in the coming months given the persistence of price pressures.

The August ISE reading suggests that economic growth continues, albeit with moderations in services sectors such as commerce and hotels, which is healthy for overall economic growth. The recovery of the construction sector is expected to be strong for the remainder of the year, especially in civil works. The services sector remains strong, but to a lesser extent, and we expect this trend to continue as inflationary pressures persist, the cost of consumer credit rises, and statistical base effects fade. That said, we now expect 7.6% growth by 2022. **In terms of interest rates, we expect an increase of 50bps at the October meeting but with an upward bias of 100bps given that activity continues to show a solid performance.**

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