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Latam Daily: Colombia's BanRep in the Spotlight

The market mood has been marred by more disappointing earnings releases from tech giants overnight, with the fragile tone propelling the USD to close out the week in the final trading day of the month. The Bloomberg Dollar Index (BBDXY, 10 major currencies) seems to have bounced off the 50-day moving average area after a 2.25% drop in the week to Wednesday.

Despite the dollar rebound of the past two days, **all four Pacific Alliance currencies are heading for weekly gains with the CLP and COP leading the group** as they pull away from anxiety-inducing psychological levels of 1,000 and 5,000 pesos, respectively. The BRL, on the other hand, is recording a significant loss of 3–3.5% over the period with some anxiety brewing ahead of Sunday's runoff election as well as a reported unwinding of long BRL, short CLP/COP positions that had delivered handsome returns for Brazilian traders in recent weeks. **The latest Brazilian election polls have steadied around a 6ppts advantage for Lula** among valid votes after an apparent minor shift in Bolsonaro's favour last week.

Today, the main event in the region will be BanRep's decision this afternoon where our Bogota team now expects a 100bps hike to 11.00% (see yesterday's [Latam Daily](#)). This new call represents a 50bps increase from their previous projection. Depreciatory pressures on the currency following the bank's hike size disappointment at the previous meeting (alongside offshore concerns of public interference in financial flows), as well as admittedly still well above target inflation, have put the bank in a position where it cannot afford to let down markets pricing in another big hike. Comments from BanRep officials on the currency will also be closely monitored after **Finance Minister Ocampo said yesterday that he has asked that the central bank discusses the liquidity of currency futures markets**. Ocampo also said that Congress will vote on the tax bill on Wednesday and Thursday and that on whether new oil exploration contracts are needed "no decision has been made yet"; these will depend on the government's financial needs.

Chile's INE will publish manufacturing, unemployment, retail sales and copper production data for September today with the figures generally expected to show a weak economic backdrop. This continued decline in Chilean economic activity supports our Santiago team's expectation that the BCCh will do a big rate cut at its January meeting next year (the only meeting of the quarter).

AMLO said yesterday that "we'll see in the future" whether Banxico's Esquivel will remain in his post once his current term expires in December. Though the President may prefer a known dove to tilt the balance of risks towards less rather than more hikes, Esquivel came under fire from AMLO last year after he stood against the use of the IMF Special Drawing Rights to pay down Mexico's debt. For now, we await news on whether Esquivel will stay and if not where his replacement will stand on the dove/hawk spectrum. **Banxico is set to hike by 75bps at its November 10 meeting, following the expected same-sized move from the Fed next week**—though Esquivel will be sure to let markets know that he expects smaller hikes going forward and a nearing end to the tightening cycle.

—Juan Manuel Herrera

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