



LATIN AMERICA ECONOMICS WEEKLY

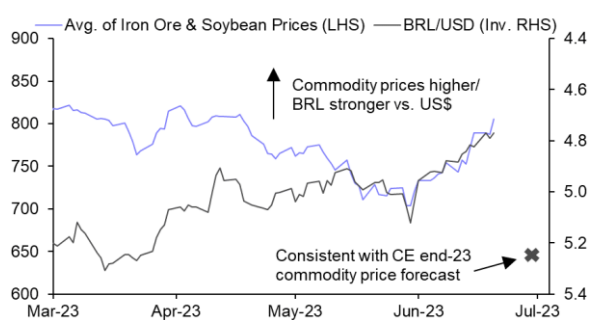
BRL on a tear, monetary policy divergence

BRL rally for real?

The Brazilian real's recent rich vein of form has continued this week, with the currency appreciating by a further 1.5% against the dollar, to 4.8/\$. Several factors have supported this, including improvements in Brazil's trade balance (we'll be taking a closer look at this after the June data are published on 3rd July) and progress on the new fiscal framework.

But these factors don't seem to tell the whole story. After all, Brazil's [export figures](#) have been strong for some time, while it became clear that the new [fiscal measures](#) had strong political support back in May. Instead, the most immediate driver of the real's rally this month appears to be the recent rise in iron ore and soybean prices. As Chart 1 shows, the real has moved hand-in-hand with the prices of these two commodities over the past few weeks. That, in turn, appears to be a result of hopes for China stimulus and dry weather in the US.

Chart 1: BRL/USD & Iron Ore & Soybean Prices



Sources: Refinitiv, Capital Economics

We're still waiting for more details on what policymakers in China will do (see our [China service](#) for more). But with supply of iron ore and soybeans set to rise, we think the prices of both commodities will fall by year-end, which would be consistent with a renewed leg down in the real. Given its recent strength, we no longer see the real falling to our previous year-end forecast of 5.5/\$, but we still think it will give up some of its gains and fall to 5.25/\$.

Chile & Brazil shifting towards cuts; Banxico hawks

Central banks in Brazil, Mexico and Chile left rates unchanged at this week's meetings as expected, but their communications suggest that the near-term outlook for monetary policy is likely to diverge.

Chile's central bank somewhat surprisingly moved to the [dovish side](#) of the spectrum. Policymakers noted that inflation risks "have been balancing out" and gave a clear steer that interest rates would be cut "in the short term". This has reinforced our view that the first cut will come in July, but the central bank's dovish tone has prompted us to pencil in a 50bp (previously 25bp) cut. Elsewhere, while Brazil's central bank seemed to push back against the idea of a cut at its next meeting in August, it's clear that Copom is [moving in the direction of easing](#) too. It softened the tone in its statement, dropping the line on leaving the Selic rate on hold for a significant length of time and highlighting the fall in inflation expectations. As a result, we now think it's most likely that the easing cycle will commence with a 25bp cut in September (previously November).

In contrast, Banxico [made clear](#) that, despite the [recent falls in inflation](#), there is no room for imminent rate cuts. Policymakers still deem the risks to the inflation outlook skewed to the upside, which requires the policy rate to be kept "at its current level for an extended period". This, alongside hawkish noises from the Fed mean that Banxico is unlikely to shift towards rate cuts until the turn of the year.

The common theme, though, is that once rates are lowered, we think easing cycles in all three countries will proceed more gradually than most expect.

The week ahead

Colombia's central bank is likely to leave its policy rate unchanged while mid-month inflation figures from Brazil should show that the headline rate continued to fall in the first half of June.



Data Previews

Colombia Interest Rate Announcement (Jun.)

Fri. 30th Jun.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	19.00/14.00	13.25	-	13.25

No more hikes

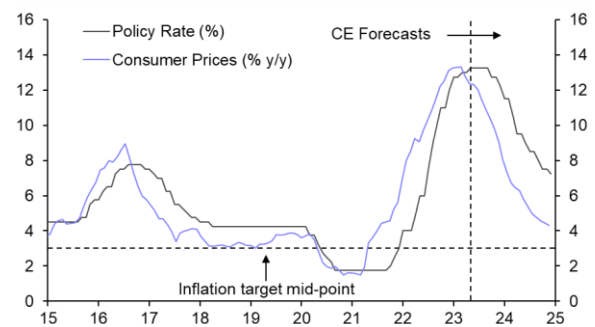
We think that Colombia’s central bank (BanRep), will bring its tightening cycle to an end by leaving interest rates on hold at 13.25% at next week’s meeting.

BanRep raised its policy rate for a 14th consecutive meeting in May and the statement made clear that June’s decision would depend on developments at that time. And these suggest that last month’s hike was the last one in this cycle.

Inflation fell for a second consecutive month in May, to 12.4% y/y (from 12.8% in April). At the same time, the peso has risen by 7.5% against the dollar this month, making it one of the best performing EM currencies. Against this backdrop, we think BanRep will leave its policy rate unchanged at 13.25% when it meets next Friday.

That said, with inflation still well above BanRep’s target and core price pressures still *strengthening*, we think that interest rates will be left unchanged until early Q4. (See Chart 2.)

Chart 2: Colombia Consumer Prices & Policy Rate



Sources: Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 26 th		Brz Current Account (May)	12.30	07.30	-\$1.7bn	-	-
		Mex Economic Activity (Apr.)	13.00	09.00	-0.3%(+2.7%)	-	-
Tue 27 th		Brz MPC Meeting Minutes Released	12.00	08.00	-	-	-
		Mex Trade Balance (May)	13.00	08.00	-\$1.5bn	-	-
Thu 29 th		Brz IPCA-15 Inflation (Jun.)	13.00	08.00	+0.5%(+4.0%)	-	-0.2%(+3.2%)
		Brz BCB Quarterly Inflation Report	12.00	07.00	-	-	-
		Chl Unemployment Rate (May)	14.00	09.00	8.7%	-	-
Fri 30 th		Arg Current Account (Q1)	20.00	15.00	+\$1.7bn	-	-
		Brz Nominal Budget Balance (May, BRL)	12.30	07.30	-25.4bn	-	-
		Brz Primary Budget Balance (May, BRL)	12.30	07.30	+20.3bn	-	-
		Mex Unemployment Rate (May)	13.00	08.00	2.8%	-	-
		Brz Unemployment Rate (May)	13.00	08.00	8.5%	-	-
		Chl Retail Sales (May)	14.00	09.00	(-10.7%)	-	-
		Chl Industrial Production (May)	14.00	09.00	(-2.0%)	-	-
		Col Unemployment Rate (May)	16.00	11.00	10.7%	-	-
		Col Interest Rate Announcement	19.00	14.00	13.25%	-	13.25%
		Arg Economic Activity (Apr.)	20.00	15.00	+0.1%(+1.3%)	-	-
		Arg Wage Growth (Apr.)	20.00	15.00	(+10.1%)	-	-
		Ecu GDP (Q1)	-	-	+2.3%(+4.3%)	-	-
		Per CPI (Jun.)	16.00	11.00	+0.3%(+7.9%)	-	-
	Selected future data releases and events:						
3 rd Jul		Chl Economic Activity (May)	13.30	08.30	0.0%(-1.1%)	-	-
		Brz S&P Global Manufacturing PMI (Jun.)	14.00	09.00	47.1	-	-
		Mex S&P Global Manufacturing PMI (Jun.)	16.00	11.00	50.5	-	-
		Brz Trade Balance (Jun.)	19.00	14.00	+\$11.4bn	-	-
		Mex IMEF Manufacturing Index (Jun.)	19.00	14.00	49.8	-	-
		Mex IMEF Non-Manufacturing Index (Jun.)	19.00	14.00	51.1	-	-
4 th Jul		Brz Industrial Production (May)	13.00	08.00	-0.6%(-2.7%)	-	-
5 th Jul		Brz S&P Global Services PMI (Jun.)	14.00	09.00	54.1	-	-
6 th Jul		Chl MPC Meeting Minutes Released	13.30	08.30	-	-	-
		Mex MPC Meeting Minutes Released	16.00	11.00	-	-	-
		Arg Industrial Production (May)	20.00	15.00	(+1.7%)	-	-
		Col MPC Meeting Minutes Released	23.00	18.00	-	-	-
		Uru Interest Rate Announcement	-	-	11.25%	-	-
7 th Jul		Chl CPI (Jun.)	13.00	08.00	+0.1%(+8.7%)	-	-
		Mex CPI (Jun.)	13.00	08.00	-0.2%(+5.8%)	-	-
		Chl Trade Balance (Jun.)	13.30	08.30	+\$1.0bn	-	-
		C.Rc CPI (Jun.)	-	-	-0.1%(+0.9%)	-	-

Also expected during this period:

6 th – 10 th		Mex Wage Growth (Jun.)	-	-	(+9.3%)	-	-
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*m/m(y/y) unless otherwise stated; † = previous day

Sources: Bloomberg, Capital Economics



Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates (%)

Policy Rate	Latest (23 rd Jun.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	Down 25bp (Sep. '23)	12.50	9.75
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q4 '23)	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 50bp (Q4. '23)	12.25	7.25
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	Down 50bp (Jul. '23)	9.25	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Sep. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

Table 2: FX Rates vs. US Dollar & Equity Markets

Currency	Latest (23 rd Jun.)	Forecasts		Stock Market	Latest (23 rd Jun.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.79	5.25	5.00	Bovespa	118,572	114,500	160,250
Mexico MXN	17.2	20.0	21.0	Bolsa	53,298	52,600	62,100
Argentina ARS	253	400	600	Merval	415,281	-	-
Colombia COP	4,114	4,500	4,200	IGBC	1,138	970	1,290
Chile CLP	809	825	775	IPSA	5,727	4,900	6,500
Peru PEN	3.63	4.00	3.70	S&P/BVL	22,442	22,100	27,400

Sources: Refinitiv, Capital Economics

Table 3: GDP & Consumer Prices (% y/y)

	Share of World ¹	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	2.3	0.8	1.5	9.3	4.8	5.0	4.0
Mexico	1.8	1.3	3.0	2.5	1.3	2.0	7.9	5.8	4.8	3.5
Argentina	0.7	-0.7	5.2	-2.8	-1.3	2.5	72.4	112.5	111.0	83.0
Colombia	0.6	2.5	7.3	1.0	1.5	2.5	10.2	11.8	5.8	4.0
Chile	0.4	2.1	2.4	0.3	2.3	2.5	11.6	8.0	4.8	3.8
Peru	0.3	2.5	2.7	1.5	2.3	2.5	7.9	7.0	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	3.8	5.0	5.0	8.8	5.3	4.5	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	1.5	1.3	1.5
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	320	65	50
Panama	0.1	3.5	10.5	1.8	2.8	3.0	2.8	1.5	1.3	1.3
Costa Rica	0.1	2.8	4.3	3.5	2.5	2.5	8.3	2.3	3.3	3.0
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	7.3	7.8	7.0
Latin America²	6.7	1.0	3.7	1.5	1.1	2.1	8.7	5.9	4.8	3.7

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms. 2) GDP Excl. Venezuela; Consumer Prices Excl. Argentina & Venezuela.



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