



# LATIN AMERICA ECONOMICS WEEKLY

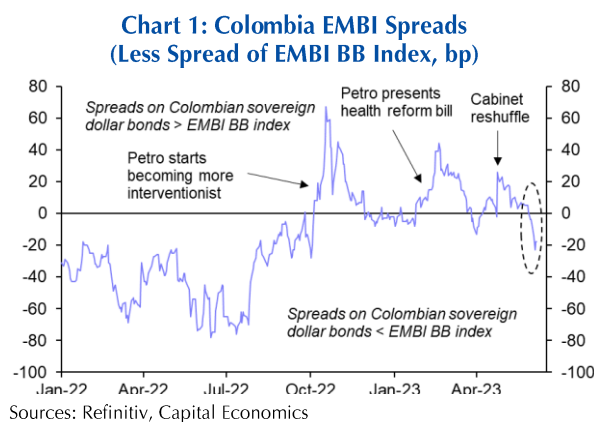
## Colombian asset rally, encouraging inflation news

### Petro crisis sparks rally in Colombian assets

Colombia stumbles from political crisis to political crisis. After a [major cabinet reshuffle](#) in April, this week’s scandal included allegations of phone tapping and violation of campaign financing rules and resulted in the resignation of two of President Gustavo Petro’s closest political allies. But contrary to April, the latest developments have sparked a *rally* in Colombian financial markets. The Colcap index is now up by over 8% this month, bond yields and EMBI spreads have fallen and the Colombian peso has risen by ~6% against the dollar since the start of the June. It is now the best performing EM currency this year, outperforming Mexico’s ‘[super peso](#)’.

Underpinning this rally appear to be hopes that the latest scandal – and Petro’s waning support – will cause the government’s controversial health, labour and pension reforms to grind to a halt. The lower house has suspended the discussion of these reforms until the coalition is “rebuilt”.

Reflecting this, the risk premia on Colombian financial assets has fallen sharply over the past week or so. Chart 1 gauges the scale of this premium by showing Colombia’s EMBI spreads compared with those of the EMBI BB index.



For most of Petro’s presidency, the spread on Colombia’s sovereign dollar bonds has exceeded

that of other BB rated EMs, suggesting there was a “Petro premium”. But over the past week or so, this premium has reversed.

That said, we doubt that Colombia’s financial markets are out of the woods yet. While Colombia’s current account deficit has narrowed, it remains wide at just under 6% of GDP. This leaves Colombia dependent on external financing and, in turn, vulnerable to a deterioration in risk appetite, either due to global or domestic factors. Against this backdrop, we expect the currency to fall to ~4,500/\$ by the end of this year, from 4,190/\$ currently, and local currency bond yields to rise.

### Clearer signs of disinflation across Latin America

This week has brought good news on the inflation front, with headline rates across the region generally coming in weaker than expected.

Large parts of these falls were once again driven by food and energy components. In [Brazil](#), transport inflation hit a multi-decade low on the back of the recent fuel price cuts while falling food inflation knocked 0.4%-pts off headline rates in Colombia and Chile. But there were encouraging developments on the core inflation front too – underlying price pressures eased almost across the board, taking our aggregate measure to a 12-month low of 7.3% y/y. Colombia was a notable exception, where the core rate was unchanged at 10.5% y/y.

The latest inflation data should open the door for loosening cycles over the next couple of quarters, with Chile set to lead the pack by kicking off its easing cycle next month. But, as we argued in our latest [Latin America Outlook](#), we think that with (core) inflation set to fall more slowly than most expect, central banks will tread more cautiously with lowering interest rates than the consensus and investors currently anticipate.



## Economic Diary & Forecasts

### Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 12 <sup>th</sup>	-	No Significant Data or Events	-	-	-	-	-
Tue 13 <sup>th</sup>	-	No Significant Data or Events	-	-	-	-	-
Wed 14 <sup>th</sup>	<b>Brz</b>	Retail Sales (Apr.)	13.00	08.00	+0.8%(+3.2%)	+0.5%(+1.2%)	-
	<b>Arg</b>	CPI (May)	20.00	15.00	+8.4%(+108.8%)	-	+7.2%(+113.1%)
	<b>C.Rc</b>	Interest Rate Announcement	-	-	7.50%	-	6.50%
Thu 15 <sup>th</sup>	<b>Brz</b>	Services Output (Apr.)	13.00	08.00	+0.9%(+6.3%)	+0.7%(+4.5%)	-
	<b>Per</b>	Unemployment Rate (May)	16.00	11.00	7.1%	-	-
	<b>Per</b>	Economic Activity (Apr.)	16.00	11.00	(+0.2%)	(+0.6%)	-
	<b>Col</b>	Industrial Production (Apr.)	16.00	11.00	(-0.4%)	-	-
	<b>Col</b>	Retail Sales (Apr.)	16.00	11.00	(-7.1%)	(-5.0%)	-
	<b>Pan</b>	CPI (May)	-	-	(+0.2%)	-	+0.3% (+0.9%)
	<b>Uru</b>	GDP (Q1)	-	-	(-0.1%)	-	(+1.0%)
Fri 16 <sup>th</sup>	<b>Brz</b>	Economic Activity (Apr.)	13.00	08.00	-0.2%(+5.5%)	+0.1%(+1.5%)	-
<b>Selected future data releases and events:</b>							
19 <sup>th</sup> Jun	<b>Chl</b>	Interest Rate Announcement	23.00	18.00	11.25%	-	-
20 <sup>th</sup> Jun	<b>Mex</b>	Retail Sales (Apr.)	13.00	08.00	0.0%(+2.5%)	-	-
	<b>Col</b>	Economic Activity (Apr.)	17.00	12.00	(+1.6%)	-	-
21 <sup>st</sup> Jun	<b>Col</b>	Trade Balance (Apr.)	16.00	11.00	-\$1.1bn	-	-
	<b>Arg</b>	Trade Balance (Apr.)	20.00	15.00	-\$0.1bn	-	-
	<b>Brz</b>	Interest Rate Announcement	22.30	17.30	13.75%	-	-
22 <sup>nd</sup> Jun	<b>Mex</b>	Bi-Weekly CPI (15 <sup>th</sup> Jun.)	13.00	08.00	-	-	-
	<b>Mex</b>	Interest Rate Announcement	20.00	15.00	11.25%	-	-
	<b>Arg</b>	Unemployment Rate (Q1)	20.00	15.00	6.3%	-	-
	<b>Arg</b>	Unemployment Rate (Q1)	20.00	15.00	-1.5%(+1.9%)	-	-

\*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 (9 <sup>th</sup> Jun.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	<b>Down 50bp (Q4 '23)</b>	<b>12.75</b>	<b>10.00</b>
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	<b>Down 25bp (Q4 '23)</b>	<b>11.00</b>	<b>9.00</b>
Colombia Intervention Rate	13.00	Up 25bp (Apr. '23)	<b>Down 50bp (Q4. '23)</b>	<b>110.00</b>	<b>100.00</b>
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	<b>Down 25bp (Jul. '23)</b>	<b>12.25</b>	<b>7.25</b>
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	<b>Down 25bp (Sep. '23)</b>	<b>9.25</b>	<b>5.25</b>

Sources: Refinitiv, Capital Economics

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

Currency	Latest (9 <sup>th</sup> Jun.)	Forecasts		Stock Market	Latest (9 <sup>th</sup> Jun.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.88	<b>5.50</b>	<b>5.00</b>	Bovespa	117,221	<b>114,500</b>	<b>160,250</b>
Mexico MXN	17.3	<b>20.0</b>	<b>21.0</b>	Bolsa	54,635	<b>52,600</b>	<b>62,100</b>
Argentina ARS	245	<b>400</b>	<b>600</b>	Merval	386,751	-	-
Colombia COP	4,175	<b>4,500</b>	<b>4,200</b>	IGBC	1,186	<b>970</b>	<b>1,290</b>
Chile CLP	785	<b>825</b>	<b>775</b>	IPSA	5,683	<b>4,900</b>	<b>6,500</b>
Peru PEN	3.64	<b>4.00</b>	<b>3.70</b>	S&P/BVL	22,080	<b>22,100</b>	<b>27,400</b>

Sources: Refinitiv, Capital Economics

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

	Share of World <sup>1</sup>	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	<b>2.3</b>	<b>0.8</b>	<b>1.5</b>	9.3	<b>5.3</b>	<b>5.3</b>	<b>4.0</b>
Mexico	1.8	1.3	3.0	<b>2.5</b>	<b>1.3</b>	<b>2.0</b>	7.9	<b>6.0</b>	<b>4.8</b>	<b>3.5</b>
Argentina	0.7	-0.7	5.2	<b>-2.8</b>	<b>-1.3</b>	<b>2.5</b>	72.4	<b>112.5</b>	<b>111.0</b>	<b>83.0</b>
Colombia	0.6	2.5	7.3	<b>1.0</b>	<b>1.5</b>	<b>2.5</b>	10.2	<b>11.8</b>	<b>5.8</b>	<b>4.0</b>
Chile	0.4	2.1	2.4	<b>0.3</b>	<b>2.3</b>	<b>2.5</b>	11.6	<b>8.0</b>	<b>4.8</b>	<b>3.8</b>
Peru	0.3	2.5	2.7	<b>1.5</b>	<b>2.3</b>	<b>2.5</b>	7.9	<b>7.0</b>	<b>4.0</b>	<b>3.3</b>
Dom. Rep.	0.2	4.1	4.9	<b>3.8</b>	<b>5.0</b>	<b>5.0</b>	8.8	<b>5.3</b>	<b>4.5</b>	<b>4.0</b>
Ecuador	0.1	1.6	2.9	<b>2.5</b>	<b>2.0</b>	<b>2.5</b>	3.5	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>
Venezuela	-	-12.7	15.5	<b>6.5</b>	<b>5.0</b>	<b>5.0</b>	185	<b>320</b>	<b>65</b>	<b>50</b>
Panama	0.1	3.5	10.5	<b>1.8</b>	<b>2.8</b>	<b>3.0</b>	2.8	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>
Costa Rica	0.1	2.8	4.3	<b>3.5</b>	<b>2.5</b>	<b>2.5</b>	8.3	<b>2.3</b>	<b>3.3</b>	<b>3.0</b>
Uruguay	0.1	1.5	4.9	<b>1.5</b>	<b>2.5</b>	<b>2.3</b>	9.1	<b>7.3</b>	<b>7.8</b>	<b>7.0</b>
<b>Latin America<sup>2</sup></b>	<b>6.7</b>	<b>1.0</b>	<b>3.7</b>	<b>1.5</b>	<b>1.1</b>	<b>2.1</b>	<b>8.7</b>	<b>6.2</b>	<b>4.9</b>	<b>3.7</b>

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



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