



LATIN AMERICA ECONOMICS WEEKLY

Copom's botched communications, CLP selloff

Brazil's communication problems

The minutes to last week's central bank meeting in Brazil again presented a somewhat different picture to the statement accompanying the decision itself. Whereas the [statement](#) was largely unchanged from the previous one, the minutes revealed a more cautious tone from (at least some) Copom members.

This isn't the first time that the statement and minutes have diverged. Recall that the [minutes](#) to the June meeting gave a clear steer that an easing cycle would begin at the next meeting in August, something that wasn't at all clear in the statement. BCB Governor Roberto Campos Neto has generally run the institution with aplomb, but the clarity of the recent communications leave something to be desired. (Needless to say, we'll be covering the minutes in *Rapid Responses* to give our views.)

One reason behind these mixed messages may be divisions on Copom between hawks and doves. The minutes pointed to a lengthy debate on the state of the economy, the labour market and what this means for services inflation. We gave our thoughts [here](#). In short, we think the more hawkish members on Copom are likely to be vindicated, a view reinforced by the [mid-month inflation figures](#) for September.

Chilean peso caught in the crossfire

Currencies across the region have come under pressure recently amid the Fed's "higher for longer" message and the subsequent rise in US Treasury yields. One currency that's been hit particularly hard is the Chilean peso – it's down by 6% against the dollar this month, making it the worst performer among major EMs.

This is not all that surprising given that Chile's central bank has been at the forefront of the EM monetary easing cycle at a time when the Fed has remained hawkish. This has caused rate differentials to shift in favour of the dollar. At the same time, the price of

copper, which the peso tends to follow relatively closely, has fallen this month.

While the recent falls in the Chilean peso pose a risk to our interest rate forecasts, we doubt that, for now, the currency weakness will have major implications for monetary policy. Admittedly, the volatility in the peso has not gone unnoticed at the central bank. But policymakers don't appear to be too concerned – the [minutes](#) to the central bank's [meeting earlier this month](#) stated that it was "not unusual to see this kind of movement" at times during which monetary policy was shifting (although they did acknowledge that this might make communicating further changes more difficult).

In our view, the peso's selloff looks overdone and leaves it somewhat undervalued. While the currency may continue struggle over the remainder of this year, we think there's scope for the currency to rebound in 2024 as the [Chilean](#) as well as the global economy recover, risk appetite improves and copper prices rise. We think the peso will strengthen to 850/\$ next year, which would make it the best performing Latin American currency in 2024. (For more, see our latest [FX Markets Outlook](#).)

In case you missed it: Spotlight on AI

Earlier this week, we published our *Spotlight* series on the implications of AI for economies and markets. Our proprietary AI Economic Impact Index provides a tool for assessing which economies are best placed to benefit. Those in Latin America fare poorly, primarily because, although they are likely to adopt the technology, the structure of their economies means they may suffer more from the disruptive effects (e.g. to the labour market). To read the report click [here](#). And visit the interactive dashboard [here](#).

The week ahead

The main event next week is a central bank meeting in Peru, where we expect another interest rate cut.



Data Previews

Thu. 6th October – Peru Interest Rate Announcement (Oct.)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	00.00/19.00	7.50	-	7.25

BRCP to continue its easing cycle

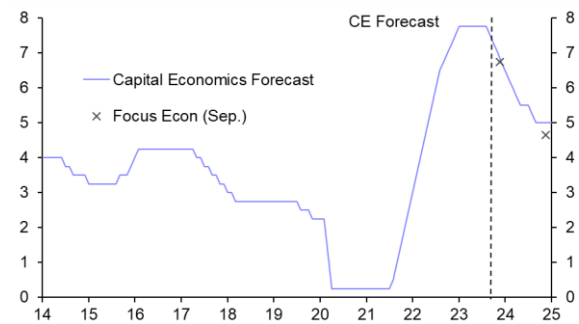
We expect Peru’s central bank (BCRP) to deliver another 25bp cut, to 7.25 %, at next week’s meeting.

The BRCP kicked off its easing cycle with a 25bp cut at its last meeting amid falls in inflation, declining inflation expectations and a slump in economic activity in H1. And we think the easing cycle has further to run. Admittedly, the tone in the last statement was relatively hawkish, with the BRCP stating that the rate cut did “not necessarily imply a sequence of interest rate reductions”.

But we think that with inflation set to fall further and the economy still struggling – output contracted by 1.3 % y/y in July – the BRCP will opt for another 25bp cut, to 7.25%, at next week’s meeting.

Further out, we expect BRCP to cut the reference rate to 6.75% by the end of 2023 and to 5.00% by the end of 2024, respectively, which is a bit more hawkish than the consensus. And the effects of El Niño present an upside risk to our forecasts.

Chart 2: Peru 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 2 nd	 Chl	Economic Activity (Aug.)	12.30	07.30	+0.3%(+1.8%)	(-0.2%)	-
	 Brz	S&P Global Manufacturing PMI (Sep.)	14.00	09.00	50.1	-	-
	 Mex	S&P Global Manufacturing PMI (Sep.)	16.00	11.00	51.2	-	-
	 Brz	Trade Balance (Sep.)	19.00	14.00	+\$9.8bn	-	-
	 Mex	IMEF Manufacturing Index (Sep.)	19.00	14.00	52.3	-	-
	 Mex	IMEF Non-Manufacturing Index (Sep.)	19.00	14.00	52.1	-	-
Tue 3 rd	 Brz	Industrial Production (Aug.)	13.00	08.00	-0.6%(-1.1%)	-	-
Wed 4 th	 Brz	S&P Global Services PMI (Sep.)	14.00	09.00	50.6	-	-
	 Uru	CPI (Sep.)	18.00	13.00	+0.2%(+4.1%)	-	+0.6%(+3.9%)
	 Col	Central Bank Meeting Minutes	23.00	18.00	-	-	-
Thu 5 th	 Ecu	CPI (Sep.)	15.00	10.00	+0.5%(+2.6%)	-	0.1%(+1.67%)
	 Arg	Industrial Production (Aug.)	20.00	15.00	(-3.9%)	-	-
	 Uru	Interest Rate Announcement	-	-	10.00%	-	10.00%
Fri 6 th	 Per	Interest Rate Announcement	00.00	19.00†	7.50%	-	7.25%
	 Chl	CPI (Sep.)	12.00	07.00	+0.1%(+5.3%)	+0.6%(+5.0%)	+0.6%(+5.1%)
	 C.Rc	CPI (Sep.)	-	-	-0.2%(-3.3%)	-	+0.3%(-2.2%)
	 Col	CPI (Sep.)	00.00	19.00†	+0.7%(+11.4%)	+0.6%(+11.0%)	+0.4%(+10.9%)

Selected future data releases and events:

9 th Oct	 Mex	CPI (Sep.)	13.00	08.00	+0.6%(+4.6%)	-	-
10 th Oct	 Chl	Trade Balance (Sep.)	12.30	07.30	+\$0.6bn	-	-
11 th Oct	 Brz	IPCA Inflation (Sep.)	13.00	08.00	+0.2%(+4.6%)	-	-
12 th Oct	 Mex	Industrial Production (Aug.)	13.00	08.00	+0.5%(+4.8%)	-	-
	 Mex	Central Bank Meeting Minutes	16.00	11.00	-	-	-
	 Uru	Industrial Production (Aug.)	18.00	13.00	(+2.0%)	-	-
	 Arg	CPI (Sep.)	20.00	15.00	+12.4%(+124.4%)	-	-
13 th Oct	 Col	Industrial Production (Aug.)	16.00	11.00	(-3.6%)	-	-
	 Col	Retail Sales (Aug.)	16.00	11.00	(-8.2%)	-	-
	 Pan	CPI (Sep.)	-	-	+0.0%	-	-

Also expected during this period:

9 th -12 th	 Dom	CPI (Sep.)	-	-	+0.5%(+4.3%)	-	-
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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 (29 th Sep.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	12.75	Down 50bp (Sep. '23)	Down 50bp (Nov. '23)	11.75	9.50
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q1 '24)	11.25	9.25
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 50bp (Oct. '23)	12.25	8.00
Chile Overnight Rate	9.50	Down 75bp (Sep. '23)	Down 75bp (Oct. '23)	8.00	5.25
Peru Reference Rate	7.50	Down 25bp (Sep. '23)	Down 25bp (Oct. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

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

Currency	Latest (29 th Sep.)	Forecasts		Stock Market	Latest (29 th Sep.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.00	5.10	5.00	Bovespa	116,705	111,250	148,750
Mexico MXN	17.4	19.0	20.5	Bolsa	51,252	48,400	59,300
Argentina ARS	350	700	900	Merval	580,680	-	-
Colombia COP	4,044	4,200	4,200	IGBC	1,121	910	1,210
Chile CLP	893	875	850	IPSA	5,836	5,600	6,950
Peru PEN	3.78	3.70	3.80	S&P/BVL	22,707	22,700	25,650

Sources: Refinitiv, Capital Economics

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

	Share of World ¹	GDP					Consumer Prices			
		2011-20 Ave.	2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	3.5	0.8	1.5	9.3	4.8	4.8	4.0
Mexico	1.8	0.9	3.9	3.5	1.8	2.0	7.9	5.5	4.3	3.5
Argentina	0.7	-0.7	5.0	-3.5	-2.0	2.5	72.4	125.5	162.0	97.5
Colombia	0.6	2.5	7.3	1.0	1.5	2.5	10.2	11.8	6.5	5.0
Chile	0.4	2.1	2.4	0.0	2.5	2.8	11.6	7.5	4.0	3.3
Peru	0.3	2.5	2.7	0.8	2.0	2.5	7.9	6.8	4.5	3.8
Dom. Rep.	0.2	4.1	4.9	2.3	3.0	4.8	8.8	4.8	4.3	4.0
Ecuador	0.1	1.6	2.9	0.5	1.8	2.0	3.5	2.0	1.8	1.8
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	1.0	1.0
Costa Rica	0.1	2.8	4.3	3.8	2.3	2.5	8.3	0.8	1.5	2.5
Uruguay	0.1	1.5	4.9	0.8	2.5	2.5	9.1	5.8	6.3	6.5
Latin America²	6.7	1.0	3.9	2.0	1.1	2.1	8.7	5.8	4.5	3.8

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



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