Fixed Income & Economics Daily

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FX & RATES STRATEGY RESEARCH

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STRATEGY

- **COLOMBIA: Minutes of the November MPC Meeting**

ECONOMICS

- **We Estimate November CPI Inflation at 1.4% m/m**

COLOMBIA: Minutes of the November MPC Meeting

- BanRep published the Minutes from the November meeting, when the MPC decided to cut the interest rate by 25bps for a second month in a row.

- The decision was split, with 5 members again voting in favor of the 25-bp cut, while 2 members voted to keep the rate unchanged.

- The Minutes show that the Central Bank continues to see important downside risks to growth. In effect, the central bank noted that there are early signs that the economy decelerated marginally in 4Q17 vs 3Q17, and estimates that GDP will grow 1.6% in 2017, below consensus expectations (1.7%). On the inflation front, however, they maintain a positive view and expect inflation to end below 4.0% in 2017 and close to 3% in 2018.

- The Minutes indicate that the majority of members, who voted to cut the interest rate by 25bps, saw space to cut as they recognized that inflation is on this path to converge to the 3% target and that there is a marginal improvement in external accounts.

- The two members that voted to remain on hold continued to highlight the inflationary risks and considered that this decision would be in line with the message sent in the previous month, where they stated that the cut in October should be seen as the start of a continuous path of cuts.

- Overall, echoing the MPC statement, the Minutes reflect that the majority of the board remains concerned about growth and maintains a dovish bias. After inflation in November came above expectations, the probability of an additional cut in December decreased significantly, yet given the board's persistent negative view on growth and positive view on inflation, we can't rule out this decision.

LATAM ECONOMICS

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ECONOMICS

We Estimate November CPI Inflation at 1.4% m/m

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On December 12, the government will release November's inflation readings, which we are expecting to be close to 1.4% m/m (slightly above the 1.3% m/m implicit in the Central Bank poll of economic forecasters). In addition, our December inflation estimate stands at 2.0% m/m (fairly in line with market consensus at 2.1% m/m), of which half will be explained by rising utility fares, according to our estimates. With these figures, 2017 annual inflation will close at 23.5% this year, above the 17% target set by BCRA for this year. A higher inflation than projected by the government led us to think that the Central Bank will continue with a very hawkish monetary stance at least until 1Q18, keeping ARS returns very attractive in USD terms. The next MPC (Monetary Policy Committee) will take place on December 12 and no changes in the monetary policy rate are expected, so ex-ante real interest rates are expected to continue in the 8%/9% range. As a result, we expect appreciating forces to continue over the ARS.

President Macri announced the list of themes to be discussed in extraordinary sessions during the remainder of December. Most of the reform bills sent to Congress during November and early December are included in the parliamentary agenda, such as the fiscal pact with provinces, the tax reform, the 2018 budget bill and the fiscal responsibility law. Some of them have the approval of the Senate and now need to be treated in the Lower House (in some other cases, it's the opposite – i.e., budget bill). The agenda also includes the labor reform bill, highly debated among Union leaders and currently blocked in the Senate by the Peronist bloc. Although the government's intention is to get the approval of most of these bills during 2017, the risks of seeing a delay in some of these bills cannot be ruled out.

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