



# Fixed Income & Economics Daily

Monday, September 25, 2017

## FX & RATES STRATEGY RESEARCH

**Diana Ayala**

212-407-0979

diana.ayala@santander.us

- COLOMBIA: Stronger than Expected Activity in July**

### COLOMBIA: Stronger-than-Expected Activity in July

- The Statistical Institute (DANE) reported on Friday economic activity expanded 3.0% yoy, surpassing expectations of 2.3% yoy and posting the highest annual growth since February 2016. However, in seasonally adjusted terms, the economy decreased 0.2% mom after expanding for two consecutive months.
- The economic activity indicator contrasts somewhat with the retail sales and industrial activity results, reported last week, where both indexes continued to expand at the margin.
- The next MPC meeting will be held this Friday, where most analysts expect the MPC to remain on hold. Our view is inline with the consensus and we expect the MPC to keep the rate on hold at 5.25%, as the August inflation report came in line with expectations and the latest activity indicators provided some early signs of economic recovery.

---

**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.**

U.S. INVESTORS' INQUIRIES SHOULD BE DIRECTED TO SANTANDER INVESTMENT SECURITIES INC. AT (212) 583-4629 / (212) 350-3918.

\*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2711 and Incorporated NYSE Rule 472 restrictions.



## ECONOMICS

### Brazil Macro Compass

## Central Bank Signals Low Rates for Longer

Maurício Molan\* and Team  
mmolan@santander.com.br  
5511-3012-5724

### What's New?

**Inflation data dominated last week's agenda.** Inflation measured by the IPCA-15 came, once again, below market consensus, with prices rising 0.11% in September. Lower-than-expected air ticket prices and rent for housing explain most of the divergence. For October, we expect inflation to accelerate to 0.5%, due mainly to higher electricity prices related to low hydro-plant reservoir levels. We expect the surcharge in the basic tariff to be moved to the 'red' (highest) level on Friday, staying there until year end, influenced by La Niña, which should last until 1Q18.

**Considering the latest surprises regarding foodstuff prices and services, we revised our 2017 12-month year-end inflation forecast to 3.2% from 3.8% (for details see our September 22 *Fixed Income & Economics Daily*).**

Furthermore, Brazil's Central Bank released its Quarterly Inflation Report, with updated inflation forecasts up to 2020. BCB's main models, with variables at market consensus, forecast inflation below the midpoint of the target range until 2019, meaning that what the market is currently pricing in (Selic at 7% at the end of the current easing cycle) is compatible with BCB's mandate with respect to its relevant time horizon.

### Upcoming Releases

The week is light on economic releases, with the Central Bank publishing its monthly press reports on credit and balance of payments. The latter should confirm the narrowing trend of the current account deficit, on the back of the trade balance's excellent performance, driven mainly by higher metal prices in the international markets. **We forecast a monthly current account deficit of USD3.2 billion in August**, substantially below foreign direct investments in the period and compatible with a continuing low currency volatility environment.

On the credit side, we expect stronger evidence of a recovery in bank lending and falling delinquency rates. We have been calling attention to the positive impact that falling interest rates will probably have on the household debt service and, consequently consumption. For more on this, see our report *Understated Consumption Drivers* (June 12, 2017), available in our website.

Finally, despite signals of growing tax collection, the government's fiscal balance remains a source of concern. **We expect the Central Government to report a BRL17 billion primary deficit for August**, adding to BRL18 billion for the consolidated public sector (central government plus regional governments). **With that, the 12-month rolling primary deficit should reach BRL172 billion (around 2.6% of GDP), above the official year-end target** (BRL159 billion/2.5% of GDP). To meet the target, the government will probably have to rely on "extraordinary revenue" from privatizations and concessions: we note that the pipeline contains the privatization of state-owned savings banks' instant lottery business, hydropower plant concessions, and auctions of oil exploration rights.



---

## Political Agenda

With the Supreme Court's acceptance of the chief prosecutor's criminal charges against President Temer, the Lower House should start the process of producing a report (at the Constitution and Justice Committee) to be submitted to a floor vote. The charges presented in June were voted (and rejected) very quickly (between June 26 and August 2). Discussions about the electoral reform should continue — last week deputies rejected a proposal to change the voting system for the parliament from proportional to single non-transferable, so the only major feasible changes are in the proposal of constitutional amendment number (PEC) 282, which would introduce a performance threshold from 2020 on and forbid coalitions in proportional elections. This proposal still needs to be submitted to a second round of votes in the Lower House floor and two rounds of votes in the Senate floor.

The Senate is trying to find a solution for the 2018 election financing, proposing the creation of a new public fund — something that was already been repealed by the Lower House.

This busy pipeline may postpone the voting of the tax relief program (Refis) in the Lower House, presented by a presidential decree on May 31. We also expect negotiations around social security reform to also stay on hold until the end of September, the deadline for changes in the electoral law to be valid for the 2018 general elections.

## Recent Publications

- *Social Security Reform: Well Beyond the (Necessary) Fiscal Impact* (September 13, 2017)
  - *Monetary Policy and the Last Crusade* (August 30, 2017)
  - *Unusually Low Risk Aversion Triggers a More Bullish Scenario in the Short Term* (August 17, 2017)
  - *Fiscal Policy: 2017-2020 Long Range Fiscal Targets* (August 16, 2017)
-



## CONTACTS / IMPORTANT DISCLOSURES

### Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@bzwbk.pl	48-22-534-1888
Sergio Galván*	Economist – Argentina	sgalvan@santanderrio.com.ar	54-11-4341-1728
Maurício Molan*	Economist – Brazil	mmolan@santander.com.br	5511-3012-5724
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Diana Ayala	Economist - Colombia	diana.ayala@santander.us	212-350-0979
David Franco*	Economist – Mexico	dafranco@santander.com.mx	5255 5269-1932
Tatiana Pinheiro*	Economist – Peru	tatiana.pinheiro@santander.com.br	5511-3012-5179
Piotr Bielski*	Economist – Poland	piotr.bielski@bzwbk.pl	48-22-534-1888
Marcela Bensión*	Economist – Uruguay	mbension@santander.com.uy	5982-1747-5537

### Fixed Income Research

Diana Ayala	Macro, Rates & FX Strategy – Latin America	diana.ayala@santander.us	212-407-0979
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
Aaron Holsberg	Head of Credit Research	aholsberg@santander.us	212-407-0978

### Equity Research

Christian Audi	Head LatAm Equity Research	caudi@santander.us	212-350-3991
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Valder Nogueira*	Head, Brazil	jvalder@santander.com.br	5511-3012-5747
Pedro Balcao Reis*	Head, Mexico	pbalcao@santander.com.mx	5255-5269-2264

### Electronic Media

Bloomberg  
Reuters

SIEQ <GO>  
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

**ANALYST CERTIFICATION:** The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Diana Ayala, Mauricio Molan\*.

\*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2017 by Santander Investment Securities Inc. All Rights Reserved.

