

Latam Daily: BanRep's Hawkish Hold; Mexico Returned to Trade Surplus; Peru Poll

- **Colombia:** BanRep held its benchmark monetary-policy rate at 1.75% in a unanimous vote with a hawkish tone
- **Mexico:** Large trade surpluses returned in February
- **Peru:** New poll favours Lescano in a very close race

COLOMBIA: BANREP HELD ITS BENCHMARK MONETARY-POLICY RATE AT 1.75% IN A UNANIMOUS VOTE WITH A HAWKISH TONE

On Friday, March 26, the BanRep's Board left its benchmark monetary-policy rate at 1.75%, as expected by both ourselves and market consensus—in a [unanimous vote](#) amidst better growth forecasts, anchored inflation expectations, and still favourable, but tightened, international financial conditions. Governor, Leonardo Villar underscored in the press conference following the meeting that the Bank's monetary policy stance remains very expansionary and continues to support the economic recovery. Also, Gov. Villar highlighted that BanRep's current countercyclical monetary policy would depend on the approval of a fiscal-reform package, which is essential to guarantee the medium-term sustainability of public finances.

Some key features of the decision included:

- **From the communiqué, we noted that the BanRep staff revised its 2021 real economic growth forecast upward from their previous 4.5% y/y to a preliminary projection of a 5.2% y/y expansion.** Governor Villar emphasized that the impact of January's lockdowns had been less significant than expected by the staff and that data for Q4-2020 showed better-than-projected dynamics. Therefore, the central bank staff's improved view of economic growth and its upward revision on inflation (n.b., they didn't provide the specific numbers in the press conference) point to changes in the staff's anticipated interest-rate path in the forthcoming quarterly [Monetary Policy Report](#) (expected to be released after April's meeting);
- **The communiqué underscored a vigilant stance from the Board with respect to international market developments since increasing international rates can affect Colombia's financial conditions.** In the press conference, Villar highlighted that the Biden Administration's fiscal package constitutes a risk for sooner-than-expected rate hikes from the Federal Reserve; the pricing of this possibility has led to higher rates in markets that could imply some challenges for Colombia's future efforts to finance itself;
- **Fiscal reform is in the BanRep's spotlight.** In the communiqué and the press conference, Villar emphasised that fiscal reform is key for the sustainability of public finances and warned that monetary policy couldn't continue providing counter-cyclical support to the Colombian economy if a fiscal-reform package isn't approved; and

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive
56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

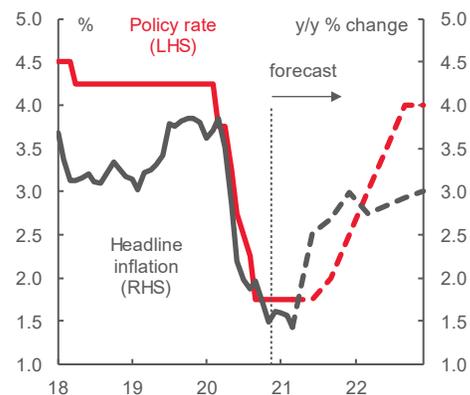
TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@scotiabankcolpatria.com

Paulina Villanueva
52.55.5123.6450 (Mexico)
Scotiabank Mexico
pwillanuevac@scotiabank.com.mx

Chart 1

Colombia: BanRep Policy Rate vs Headline Inflation



Sources: Scotiabank Economics, BanRep, DANE.

- **International reserves and a response to the IMF's suggestion that they be increased by USD 3 bn.** Governor Villar said that IMF efforts to revise its scheme of Special Drawing Rights (SDRs) could see countries such as Colombia increase its reserves automatically without going to the market.

To sum up, BanRep's decision to hold was in line with market projections, but it was tilted to the hawkish side, as better economic growth forecasts, higher inflation projections, and changing international financial conditions provided arguments for considering the possibility of increased monetary-policy rates in the future. The minutes of the meeting, due to be published today, March 29, will be key to understanding how the Board's members skew on these issues. Similarly, the April *Monetary Policy Report* will be eagerly awaited for its updated staff macroeconomic forecasts and rate scenario.

We maintain our call that the BanRep will remain on hold over the coming months with the possibility of a first rate hike by Q3-2021 (chart 1). The lift-off in policy rates we anticipate later in 2021 would be predicated on further consolidation of the economic recovery, with inflation rising closer to the BanRep's 3% y/y inflation target.

—Sergio Olarte & Jackeline Piraján

MEXICO: LARGE TRADE SURPLUSES RETURNED IN FEBRUARY

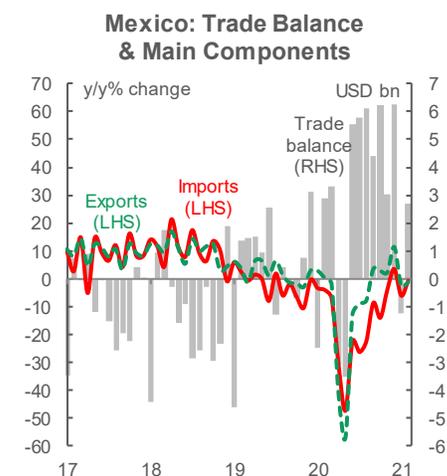
INEGI's [trade data](#) for February, released on Friday, March 26, showed that Mexico returned to a large monthly trade surplus, with the print coming in at USD 2.681 bn, up from a deficit of USD -1.236 bn in January (chart 2). For reference, this year's February surplus was modestly smaller than the USD 2.868 bn surplus we saw in the same month of last year, and so far puts the 2021 trade balance YTD at USD 1.445 bn. Although not to the same degree as we saw in the second half of 2020, net exports remain a strong positive driver of Mexican growth. Trade at the start of the year has been somewhat disrupted by semi-conductor shortages in the auto industry and the return of pandemic-induced shocks, but we expect the US stimulus package to support the Mexican economy through both the trade and remittances channels.

We look at the data in further detail.

- **Monthly declines from January.** February's trade numbers reported a monthly decrease in total merchandise exports of -3.65% m/m sa which was the result of reductions of -3.67% m/m sa in non-oil exports and -3.28% m/m sa in oil exports; meanwhile total imports reported a monthly fall of -2.34% m/m sa, which originated from decreases of -2.53% m/m sa in non-oil imports and -0.22% m/m sa in oil imports.
- **Exports still off a year-ago's levels.** In its annual comparison, Mexico exported USD 36.19 bn worth of goods, down -1.1% y/y compared with February 2020 (chart 2 again), which was the net result of a -1.7% y/y decrease in non-oil exports and a 10.7% y/y increase in oil exports. Within non-oil exports, manufacturing exports were down -2.7% y/y, dented mainly by the auto sector which posted a -10.0% y/y drop. Exports to the US were off -2.9% y/y in the second month of 2021: we believe that the February data were affected by the harsh winter that our main trading partner experienced.
- **Imports closing gap versus 2020.** The value of imports was down -0.6% y/y, better than the previous reading of -5.90% y/y, at USD 33.51 bn. This figure was the net result of a -9.9% y/y decrease in oil imports and a 0.3% y/y increase in non-oil imports. When considering imports by type of good, there was an annual reduction of -10.8% y/y in imports of consumer goods, while there were gains of 0.5% y/y in imports of intermediate goods and 4.8% y/y in imports of capital goods. Given the persistent weakness of private domestic consumption, we expect the recovery in non-oil imports to be gradual in 2021.

—Paulina Villanueva

Chart 2



PERU: NEW POLL FAVOURS LESCANO IN A VERY CLOSE RACE

Results of a new poll by a well-known local pollster, IEP (Instituto de Estudios Peruanos), were [released](#) to the news media on Sunday, March 28. The poll showed that Yonhy Lescano (Acción Popular) continues to lead with 11.4% of voting intentions, although this was down 2.5 percentage points from numbers published two weeks ago by the same pollster. Tied in second place were Rafael López Aliaga (9.7%) and Verónica Mendoza (9.6%), with Hernando de Soto (8.5%) and George Forsyth (8.2%) narrowly behind. Given the 2.8 pts margin of error of the poll, Keiko Fujimori (7.9%) should probably also be included in the group of close contenders. Note that while most polls coincide with IEP's in having Lescano leading, the order of the candidates that follow differs across them.

With two weeks to go before the elections, Yonhy Lescano has been leading in the polls more or less consistently, albeit with too small a margin to be assured that he will make it into the second round. Note that 27% of voters (voting is mandatory in Peru) are not satisfied with any of the candidates. A portion of these will deliver a blank vote, but most will likely move in the end toward some candidate or another. In view of the 3.5 point difference between the leader Lescano, and sixth place Fujimori, the race is still very much open.

—Guillermo Arbe

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