

Contributors

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Jackeline Piraján, Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Miguel Saldaña, Economist
+52.55.5123.0000 Ext. 36760 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Colombia Rate Preview; Mexico Trade Balance; Delayed Impeachment in Peru

- **Colombia: Monetary Policy Preview—Inflation risks will lead to higher rates earlier than expected**
- **Mexico: Trade balance bounces back**
- **Peru: President Castillo survives another impeachment attempt**

COLOMBIA: MONETARY POLICY PREVIEW—INFLATION RISKS WILL LEAD TO HIGHER RATES EARLIER THAN EXPECTED**BanRep holds its second monetary policy meeting of the year on Thursday, March 31.**

While there has been a range of developments since the January 28 meeting, the main changes are concentrated on inflation risks. In this regard, February inflation surpassed 8% y/y, while Russia's war on Ukraine poses new upside risks to global inflation and generates new uncertainty with respect to economic growth. Coming out of Thursday's meeting, it will be important to see the Board's assessment regarding current risks and if there is a split vote.

These factors make us think that BanRep will accelerate the hiking cycle and increase the policy rate by 150 bps, to 5.5%. In the same vein, the market consensus now sees the terminal rate at 7%. At Scotiabank Economics, we project BanRep's policy rate will reach 7.50% in June 2022.

Key points to have in mind ahead of Thursday's BanRep vote:

- At its January 28 meeting, BanRep increased its rate by 100 bps in a split vote (five members voting for 100 bps, two members voting for 75 bps), suggesting that the dovish side of the Board heavily weighted the risks to the recovery, persistent unemployment, and the fact that core inflation remained within the target range.
- Since January's meeting, incoming information showed robust economic activity. However, soft indicators such as confidence indicators are pointing to a moderation in business and consumer sentiment. In the same vein, employment gains remain limited and that fact could once again result in a dovish split vote.
- Upside inflation risks have increased as a result of supply shocks as well as price pressures on core measures. In February, inflation ex-food stood at 5.10% and ex-food and regulated prices rose by 4.11%, showing the impact of indexation. Meanwhile, the war between Russia and Ukraine is pushing up commodity prices and shipping costs. With inflation surpassing 8%, and inflation expectations moving up, the Board is likely to consider moving to higher rates sooner than expected. A key question is how far above the neutral rate they expect to go and under what conditions.
- International conditions point to tighter financial conditions down the road. In March, the Federal Reserve turned more hawkish, signalling that it could accelerate the hiking cycle. Given that stance, and the accelerated pace of tightening elsewhere in the Latam region, BanRep will be encouraged to follow.

All in all, while a 150 bps hike is our base case scenario for this Thursday's meeting, a split decision including a vote(s) for a smaller hike should not be wholly discounted given the uncertainty with respect to economic activity. In coming months, inflation developments will determine the terminal rate; for now, we expect the current tightening cycle to end at 7.50%, with the policy rate remaining at this level for six months. However, if inflation increases more than anticipated the rate would go higher but for a shorter period.

—Sergio Olarte & Jackeline Piraján

MEXICO: TRADE BALANCE BOUNCES BACK

According to [INEGI](#), Mexico's trade balance for February registered a surplus of USD 1.3 bn, which contrasts with the record deficit of USD 6.3 bn (the largest since 1993) recorded in January (chart 1). In seasonally-adjusted terms, exports bounced back 16.0% m/m (-5.7% m/m previously), as oil exports (13.9% m/m) and non-oil exports (16.2% m/m) increased. Oil imports declined 1.8% m/m, offset by a 10.3% m/m rise in non-oil imports, resulting in a 9.1% m/m jump in total imports in February, as compared to a -3.26% m/m fall in January. On an annual basis, exports rose 27.8% y/y, fueled by a 53.5% y/y increase in oil exports and a 26.5% y/y rise in non-oil exports (chart 2). Imports rose 34.2% y/y, led by imports of consumption goods (39.5% y/y), followed by intermediate goods (35.8% y/y) and capital goods (12.6% y/y). January's trade numbers were affected by the omicron wave in Mexico and in its main partners, while the rebound in February reflects fewer supply chain disruptions as COVID-19 cases dropped.

Exports (USD 46.246 bn) and imports (USD 44.953 bn) recovered vigorously from 2020 lows, and are now 26.9% and 33.3% above pre-pandemic levels, respectively. Going forward, supply chain disruptions remain the main downside risk for trade. And while we don't expect Russia's invasion of Ukraine to have a significant impact on value chains between Mexico and its trading partners, it will affect the value of imports and exports, as global commodity prices may remain at higher levels. In this respect, we expect higher energy prices to impact the oil component of the trade balance, and for the positive trend in non-oil consumer goods imports, which have been growing at annual rates above 20% since March 2021, to continue.

—Miguel Saldaña

PERU: PRESIDENT CASTILLO SURVIVES ANOTHER IMPEACHMENT ATTEMPT

The vote was 55 in favour of impeachment, 54 against and 18 abstentions. The "yeas" fell well short of the 87 votes required for an impeachment. The outcome was not a surprise, however, as securing the votes for impeachment was always a long shot given the composition of Congress.

Peru's 130-member Congress is roughly divided into thirds of 40 to 45 members each. One third is left of centre, which is President Castillo's main base of support on principle. Another third consists of members that are right of centre, and form the core of the opposition. The remaining third holds the balance. It is a heterogeneous group, mainly populated by people with weak political positions and who have come to politics as leaders of various interest groups. Many of these interest groups are linked to informal segments of the economy who may benefit from a government that is weakening oversight institutions.

Now that the impeachment process is over, at least one source of uncertainty has ended (for, after all, what would have followed if President Castillo had been impeached?). But, it does not follow that political stability and governability will improve. The Castillo regime has been fraught with accusations of malfeasance, cronyism and using State institutions and companies (e.g., the Ministry of Transportation or Petroperú) to party advantage. Greater stability and governability would require a change at this level of government management. Note also that the impeachment vote took place against a backdrop of new accusations by the Attorney General's office that President Castillo himself had been involved in improperly doling out government contracts at the Ministry of Transportation.

The radical leftist government party, Perú Libre, is taking the vote as a victory for the government, for the party, and for the left in general. This heightens the risk that it will embolden the Castillo Regime, as well as the Perú Libre party both within the government and in Congress. Meanwhile, members of the opposition have suggested that they will use the censure—a type of impeachment for high State officials—to hold the government accountable for unqualified and inappropriate cabinet appointments.

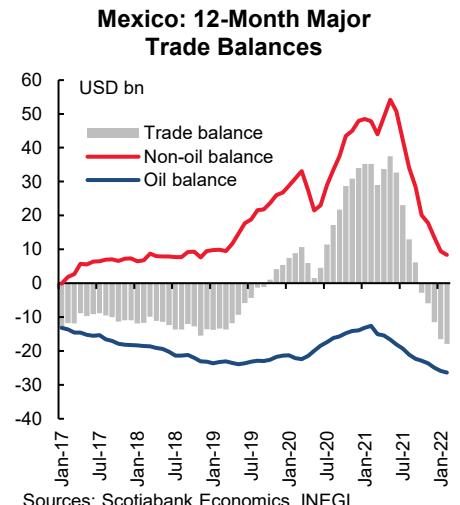
As all this was happening, transportation workers have been on strike since Monday due to high fuel prices. It will be interesting and telling to see how President Castillo and his Cabinet deals with a strike that they would likely have been supported when not in government. The economic concern is that, if the strike persists for too long, it will begin feeding into an inflation that is already uncomfortably high. At the same time, it is not easy to see a resolution of the conflict that does not require some level of fiscal assistance.

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

—Guillermo Arbe

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not construed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V, Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.