

Colombia Central Bank Preview: September 2022

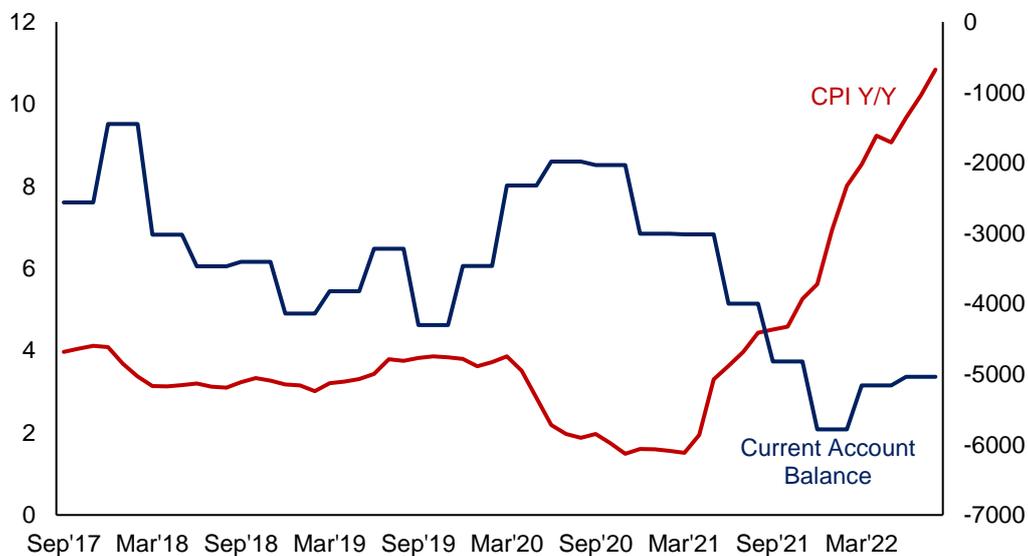
Monetary policy decision and statement press release: 1900BST/1400ET - Thursday, September 29, 2022.

MNI Point of View:

Rising inflation and a deteriorating current account balance leave the BanRep with little choice but to hike rates further in September. With CPI at new cycle highs of 10.84%, the board continue to run the risk of a further contamination of medium-term inflation expectations, which should justify hiking rates by a further 150bps this month.

Consensus looks for a rise to 10.50% for the overnight lending rate, however a sizeable minority are expecting a slowdown in the hiking pace in September, eyeing a 100bps step to 10.00%.

Figure 1: Lofty CPI and sizeable current account deficit add to argument for 150bps hike



Source: MNI/Bloomberg

Since the July decision, the USD/COP rate has stabilised materially – a market signal that many on the board may see as justification for a smaller 100bps step this month. Similarly the growth profile for Colombia has deteriorated, with PMI data signalling contraction, Q2 GDP growth coming in below expectations and consumer confidence dropping sharply off the 2022 highs.

Nonetheless, the relentless profile of inflation and sour current account balance data should tilt the majority of the board to opt for a sizeable 150bps hike and retain 2022’s hawkish bias in the post-rate decision press conference. This view is bolstered by the consensus view of a further acceleration for CPI in September, with the Y/Y rate seen climbing to 11.3%, while an improving unemployment rate only adds to the expected tightness of labour markets into year-end.

MNI Colombia Data Watch List											
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	10.84	9.1	↑	8.0	↑					1.80
Core CPI	% y/y	7.83	6.5	↑	5.1	↑					1.44
Oil Price (WTI Active)	\$	82.26	103.59	↓	83.11	↓					1.62
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
PMI Manufacturing	Index	52.4	53.9	↓	52.0	↑					-0.02
Manufacturing Prod.	% y/y	5.2	13.5	↓	15.1	↓					-0.87
Economic Activity NSA	% y/y	6.41	11.94	↓	7.70	↓					
Trade Data		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Trade Balance	\$ M	-494.2	-485.4	↓	-1704.9	↑					1.02
Exports FOB	\$ M	5913.9	5462.0	↑	3801.6	↑					
Consumer / Labour Market		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Retail Sales	% y/y	7.7	12.0	↓	16.0	↓					1.30
Consumer Confidence	Index	-2.4	-14.7	↑	-17.5	↑					1.16
National Unemployment Rate	%	11.0	11.2	↑	14.7	↓					-0.65
Urban Unemployment Rate	%	11.3	11.1	↑	14.8	↓					-0.63
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Bolsa de Valores	Index	7,705	10,030	↓	10,000	↓					-1.38
Local 10-Year IBR Swap Rate	%	9.86	8.23	↑	8.05	↑					1.48

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views

Barclays: Expect Split-Decision 125bps Hike

- Inflation continues to be elevated, inflation expectations have deteriorated and the current account deficit remains high, reducing the space to slow the pace of hikes.
- Board members have signalled their preference for smaller hikes, which could lead to the split decision between 125bps and 100bps.
- High inflation and climbing US yields would prevent any meaningful re-pricing in rates, and markets could interpret smaller tightening now as needing more hikes later. But COP could suffer somewhat from the disappointment amid stronger USD.

Goldman Sachs: Expect 100bps Hike, Risk of 150bps

- Given the recent macro-financial developments and the policy signals from the previous meeting, Goldman expect the MPC to hike the policy rate by 100bps, driving the policy rate to 10.0%.
- They expect the decision to be a close call between a 100bps and a higher 150bps move and assign a 40% probability of a larger 150bps increase, to 10.5%.
- In their assessment, a 100bps hike coupled with a hawkish forward guidance pointing to the continuation of the cycle would find justification in the fact that: 100bps is in itself an outsized move and the forward guidance could point to additional hikes; it would follow two large frontloading 150bps hikes; with +100bps the policy rate would be already in double digits.

RBC: No Choice but to hike 150bps

- RBC believe that for this Friday, BanRep has no other alternative than hiking by at least 150bps or any dovish signal by either MinFin or Villar will bring additional pressure to local assets and the currency could break the psychological level of 4500.
- RBC remain bearish Colombia and COP assets in general and with COLTES getting closer to 13% many may believe that there is value as the president moves forward with the fiscal and reforms agenda.
- However, RBC think these will not be enough in the absence of trust. Inflation expectations will continue to deteriorate for 2023 as the increase in gas prices finally hit the streets and the negotiation of minimum wage starts.

Scotiabank: Expect 150bps Hike

- Scotiabank anticipate a 150bps move on Thursday that matches the median submission to Bloomberg, though about 40% of economists expect a 100bps move.
- Inflation in the country continues to surprise higher and price pressures are becoming more widespread—as reflected in core CPI measures. Indexation effects have lifted the market's and the analysts' consensus' inflation expectations for 2023 to between 7% and 9.5%—significantly higher than BanRep's target range (2–4%).
- Meanwhile, economic growth remains above potential. Combined, these circumstances give BanRep plenty of justification to launch another large hike.

SocGen: Expect 150bps Hike

- BanRep are likely to raise the policy rate by another 150bps and could keep the door open for additional tightening.
- While SocGen's terminal rate forecast is 10.50%, given BanRep's past reluctance to follow current headline inflation and focusing more on core inflation, they see considerable upside risks that policy tightening could well continue in 4Q22.
- The continued pressure on the peso amid weak external balances and tighter global financial conditions could have significant implications for BanRep's policy stance during the coming meetings.
- Although SocGen believe that inflation is close to peaking, the possibility of additional rate hikes in 4Q22 is quite significant.
- The COP remains on a downward trajectory given the high current account deficit, political and policy uncertainties, tightening global financial conditions, still low real interest rates, some reversal in commodity prices and now a likely slowdown of growth. This will keep up the pressure on inflation in the coming quarters.