

## Blue Notes | Weekly | November 22, 2019

Low political visibility persists and short-term inflation under pressure. In line with last week 's Blue Notes, the political front remained turbulent and markets continued to monitor any Supreme Court decisions, the new political party founded by the president and the reforms that are stuck in the Congress. In this context, Brazilian assets remained volatile, also impacted by short-term inflationary pressures and speeches from the monetary authority that cast doubt on the magnitude of further rate cuts. In the meantime, protests continue to spread out in Latin America, now in Colombia that, when compared to Chile, has little fiscal room to accommodate any social demands with fiscal spending.

BCB and weaker fx. Evidence of economic recovery amid weaker fx have made markets question future monetary policy making. BCB's Governor Roberto Campos reaffirmed the principle of policy separation, in which the monetary policy should be used to address inflationary issues, fx intervention to malfunctioning address fx flows macroprudential measures tackle systemic financial risks. Campos highlighted that fx depreciation should only prompt monetary policy responses in case of inflation expectations contamination, which has not been happening (chart). We continue to forecast additional rate cuts taking the Selic rate to 4.25% in the 1Q20.



Inflation remains well behaved. November's IPCA-15 printed at 0.14%m/m from 0.09% in October. Core inflation increased to 2.87% from 2.81%, still well below next year's target of 4.0%. Next inflation prints however should show some acceleration in specific food items (meat and beans) and controlled prices (electricity and lottery). The most important issue for the monetary policy will be to check if these shocks, and the recent fx depreciation, will have second round effects on inflation.

Another Latin American country joining the protest's wave. Colombia now joined the set of countries — formed by Chile, Bolivia, Ecuador and, to some extent, Argentina — that experienced protests this year. Like in Chile, social demands are dispersed, from more money for education, social peace manifestations against the government's "ideology". President Iván Duque´s speech said the government will repress the use of violence in the protests to guarantee that workers and students can safely walk on the streets. He also said the government is listening to people's demands. Differently from Chile, that has fiscal room to deliver a package of social spending, Colombia has 57% of PIB in gross debt and a fiscal deficit of almost 3% of PIB. This puts the Colombian government, that had already lost recent local elections and faces low popularity, with a difficult trade-off ahead.

BlueLine is not responsible for investor's decisions, nor for the act or fact of specialized professionals consulted by BlueLine. The investor must rely exclusively on his opinion and the opinion of specialized professionals hired by him, to give his opinion and to decide. This material may not be reproduced, copied or distributed to third parties. This presentation is not characterized and should not be understood as legal, accounting, regulatory or tax advice in relation to the matters dealt with herein. This material is for informational purposes only, does not consider investment objectives, financial situation or individual and particular needs and does not contain all the information that a potential investor should consider or analyze before investing. It should not be understood as analysis of security, promotional material, solicitation of purchase or sale, offer or recommendation of any financial asset or investment and does not constitute suggestion or legal advice. We recommend that you consult specialized professionals before deciding on investments.