

## Weekly Colombian Peso (COP) Outlook

### Acvaeconomia FX perspective

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#### Our take:

Last week, the US Dollar (USD) extended its bearish correction, after the release of macroeconomic data that consolidated expectations of a dovish Federal Reserve (FED). US core personal consumption expenditure (PCE) deflation was in line with market expectations, delivering a soft reading that consolidated the USD's downtrend. This result apparently overshadowed the expansionary 3Q22 GDP, which reflected a still robust economy and allayed fears of a hard landing in the US. This week, the market awaits the US trade balance result, which is expected to be less deficitary, potentially reflecting an improvement in terms of trade and favoring the USD. However, if manufacturing activity reflects a still contractive sector, through the FED Dallas and the Chicago PMI readings, there could be an extension of the bearish trend for the USD during the week. Weekly holidays and few relevant macroeconomic data, lead us to expect a less volatile USD, with a trading range between 103.7 and 104.8 units.

The **EUR/USD** pair remains strong, enhanced by a weakened USD and bounded by the limited volatility of the holidays. The euro remains supported by European Central Bank (ECB) officials, who have raised expectations of a still ongoing rate hike. This week, the market expects the monetary aggregates (M3) from the eurozone, which are expected to rise, potentially leading to inflationary pressures that motivate further rate hikes from the ECB, consolidating the euro's uptrend. However, we expect the euro's gains to be dampened due to the rebound of COVID-19 cases in China, which reduces risk appetite. In addition, the possibility of Russian retaliation in response to the price-cap for oil exports implemented by the European Commission, increases fears of intensified geopolitical tensions and energetic crisis in the eurozone. In this sense, we expect the euro to remain within a trading range between USD\$1.056 and USD\$1.07.

Both the euro and the Colombian Peso (COP) react uniformly to USD movements and market sentiment fluctuations, therefore sustaining the EUR/COP pair sideways trend. This week, macroeconomic data in Colombia and the eurozone will be useful to test market expectations regarding the perpetuation of central banks' monetary policy rate hike cycles. Recently the ECB has kept a more aggressive stance than the Banco de la República (BanRep), making the EUR outperform the COP. Another fundamental weekly driver will be the price of crude oil. The prospect of oil production restrictions by Russia and the consequent rise in crude oil prices would favor exporting countries, like Colombia, while weakening EUR due to the increase in market fears. Given this context, we expect a weekly trading range between COP\$5,000 (lower limit COP\$4,980) and COP\$5,080 (upper limit COP\$5,100) per euro.

Last week, the **USD/COP** par remained low, in response to an improved global market sentiment. This week, market sentiment fluctuates, between the optimism of the economic reactivation in China, and the pessimism linked to the exponential hike in COVID-19 cases after the flexibilization of restrictive measures. The increase in infection rates affects market confidence in the government's ability to control the spread of the virus, increasing fears of more restrictive measures in the future that could accelerate a global recession. This fear enhances the importance of China's manufacturing, non-manufacturing and composite PMI data on Friday, which, if contractive, would catalyze risk aversion, strengthening the USD demand as a safe-haven asset and limiting the recovery of emerging markets.

This week, the market awaits for Colombian export data, which is expected to be expansive, and might reflect a recovery in Colombia's terms of trade, induced by the rise in oil prices. The possibility of China's aggregate demand recovery, along with the prospect of cuts in crude oil production and exports from Russia, could reinforce an oil price hike, strengthening the COP. This Friday, the national and urban unemployment rates in Colombia will be published. If rates show a still robust labor market, expectations of a ceiling in BanRep's rate hikes would decrease, diminishing the credibility of BanRep's Executive Director, who expects a prompt contraction of the country's aggregate demand. Given this context, we expect a trading range for the week for the pair between COP\$4,720 (lower limit COP\$4,680) and COP\$4,790 (upper limit COP\$4,810).

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