Weekly outlook

Colombian peso

Currency

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After a week of wide volatility, the dollar ended the week stronger. The main drivers were:

- The Appearance of Jerome Powell, chairman of the FED, to deliver the semi-annual monetary policy report to Congress.
- February U.S. labor market data.
- Suspension of operations of SVB Financial due to liquidity problems and after a failed attempt to raise capital.

The event that determined the final outcome for the dollar was Jerome Powell's speech as he delivered his semi-annual monetary policy report to Congress. For two continuous days, he stated that the FED may increase the pace of policy rate hikes if data show that inflation pressures are persistent and aren't easing at the desired pace. In line with this, he argued that the final level of interest rates may be higher than expected if necessary, that the FED's ultimate objective will be to bring inflation to its medium-term target of 2%, and that they don't consider ending increases early, considering the risks this has implied in the past. This implied that FX market participants will incorporate in their expectations the possibility of a 50bps increase at the March meeting and that contractionary monetary policy will be maintained for a longer time.

On the other hand, the most relevant report of the week was the employment report for February, published on Friday. First, non-farm payrolls came in at 311k, higher than market expectations but well below January's figure. Second, the unemployment rate in February came in at 3.6%, higher than the 3.4% recorded in January, while the market expected it to remain unchanged. Finally, average hourly earnings increased 0.2% on a monthly basis, lower than in January, and in annual terms were higher than in January but below market expectations. In conclusion, these data were taken as indications of a strong labor market but one that may be progressively slowing, which could ease inflation pressures in the coming months and bring the FED back to 25bps hikes. In this context, the strong appreciation of the dollar at the beginning of the week (+1.25%), was partially offset by a decline on Friday (-0.66%).

In this sense, the dollar ended the week stronger, as risk aversion sentiment increased and the opportunity cost of acquiring riskier assets rose. The DXY (+0.1%) and BBDXY(+0.5%) indices generated gains from the previous week. Meanwhile, most G-10 currencies closed with a negative bias, trading was capped by CHF (+1.7%) and AUD (-2.8%). It is worth mentioning that JPY (+0.6%) incorporated the latest Bank of Japan -BoJ- policy decision (Thursday) in which there was no change. The current central bank governor, Kuroda kept control of the yield curve which temporarily weakened the currency. Losses predominated in emerging currencies, few managed to break away from the international trend, among which Colombian Peso (COP) (-1.5%) and CLP (-0.9%) were the strongest. The Mexican peso (MXN) was the weakest among its peers, accumulating a 3.0% depreciation during the week.

In Colombia, the perception of political and economic risk last week eased, which partly allowed the COP to consolidate. However, it will be a very important determinant during this week, in which the Government continue with the agenda of reforms (pension and labor) into the Congress, which will increase the political debate and could pressure the COP to generate losses.

The key factor that will define the behavior of the exchange market this week will be the February inflation data for the US. a greater than expected deceleration could weaken the dollar, in view of a lower possibility of a 50 bps increase in the monetary policy rate. Other relevant data will be the PPI, economic activity indicators and new unemployment claims data.

In this context, we expect a weekly trading range between $4,700 and $4,780 with a lower limit at $4,670 and an upper limit of $4,810.

Table1. Colombian peso monthly forecast

	Bearish	Neutral	Bullish
April	4604.15	4767.23	4930.31
May	4568.49	4796.34	5024.18
June	4547.09	4829.65	5112.21
September	4519.5	4922.05	5324.59
December	4513.96	5010.31	5506.65

Table2. Colombian peso quarterly forecast

	Bearish	Neutral	Bullish
1Q23	4631.67	4755.51	4879.34
2Q23	4539.22	4847.22	5155.21
3Q23	4516.23	4936.96	5357.68
4Q23	4513.72	5025.23	5536.74

Global Disclaimer

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