CENTRAL BANK POLICY RATE

In September’s meeting, the Central Bank Board of Directors did not decide on the intervention rate. This month, when the Board of Directors will decide on the policy interest rate, 100% of analysts expect it to remain unchanged at 4.25%.

In terms of the intervention rate for the end of the year, this month 90.2% of the analysts expect it to remain at 4.25%, 4.9% foresee an increase of 25 bps, 2.4 % forecasts an increase of 50 bps and another 2.4% expects a decrease of 25 bps. (Graph 1).


economic growth

In October, analysts maintained their growth forecast for the third quarter and fourth quarters at 2.8% and 2.9%, respectively (Graph 2). Therefore annual GDP growth estimate for 2018 remained at 2.7% while 2019 forecast was slightly revised upwards to 3.3% (Graph 3).

INFLATION

In September annual inflation was 3.23%, slightly above previous month survey forecast.

This month, analysts expect inflation to continue increasing and the forecast for annual inflation reached 3.31%. Inflation expectations for the end of the year increased slightly from 3.27% to 3.30%, with a range between 3.23% and 3.38% (Graph 4).
EXCHANGE RATE

The exchange rate closed in September at $3,027 with a monthly appreciation of 1.8%. However, the exchange rate reached a maximum value of $3,087 pesos per dollar on October 12th. For the end of this month, analysts expect the exchange rate to be between $3,005 and $3,053, with $3,032 as the median response. On the other hand, exchange rate forecast for the next three months was between $2,950 and $3,041 with $3,005 as the median response (Graph 5).

TES 2024 RATE

In the last month TES 2024 yield increased, but the share of analysts expecting yields above 6.0% for the next three months remained unchanged at 97.6% with respect to September. On the other hand, the share of analysts expecting yields between 6.0% and 6.39% increased from 47.5% to 51.2%, while the share expecting yields between 6.4% and 6.79% decreased (Graph 6).

DEBT SPREAD – EMBI+ COLOMBIA

Debt spread, measured through the EMBI+ Colombia (defined as the difference between the yield of Colombian securities issued abroad and the yield of U.S treasury securities), increased from 173 bps in mid-September to 178 bps in October 17th. This month the percentage of analysts expecting the spread to increase in the next 3 months was 47.6%, 15.9 pps more than last month. On the other hand, the percentage of analyst expecting a decrease was 14.3%, 10.1 pps less than in the previous month. The remaining 38.1% of respondents consider that the spread will remain unchanged (Graph 7).
FACTORS AFFECTING INVESTMENT

The share of analysts considering external factors as the most important aspect when it comes to investing increased from 51.3% in September to 58.5% this month. On the other hand, fiscal policy remains in the second place with 24.4%, with a slight reduction compared to previous month (Graph 8).

INVESTMENT PREFERENCE

Compared to last month, portfolio managers increased their preferences for private debt indexed to IBR, commodities and TES UVR. In contrast, there was a sharp deterioration in preferences for fixed rate TES, fixed rate private debt and foreign bonds, all of which continue to be the least preferred options (Graph 9).

Relative to survey historical average, there is greater preference for private debt indexed to CPI, TES UVR, and private debt indexed to IBR, as well as lower preference for international shares and fixed rate TES (Graph 10).

*Balance: % of respondents who will increase their position minus% of respondents that will decrease their position.

Source: Financial Opinion Survey, Fedesarrollo
COLCAP

The COLCAP reflects the price changes of the most liquid shares of the Colombian Stock Exchange. In October 59.0% of analysts expect a valuation of the index in the next three months (Table 1). This proportion decreased by 17.9 pps compared to last month’s results. On the other hand, the proportion of analysts expecting a decline in the stock index in the next three months increased from 20.5% to 38.5%.

Table 1. Expectations about the COLCAP Index Price at 3 months* (% of answers)

<table>
<thead>
<tr>
<th>Index COLCAP Price Level</th>
<th>September 2018</th>
<th>October 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will increase 10% or more</td>
<td>7.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Will increase between 5% and 9.99%</td>
<td>30.8%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Will increase between 0.01% and 4.99%</td>
<td>38.5%</td>
<td>41.0%</td>
</tr>
<tr>
<td>Will remain</td>
<td>2.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Will decrease between 0.01% and 4.99%</td>
<td>20.5%</td>
<td>30.8%</td>
</tr>
<tr>
<td>Will decrease between 5% and 9.99%</td>
<td>0.0%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Will decrease between 10% or more</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Financial Opinion Survey, Fedesarrollo

Graph 11. Balance on the Price of the COLCAP Index 3 months* (% of answers)


* Balance: % of respondents expecting a valuation minus % of respondents expecting a devaluation

MOST ATTRACTIVE COLCAP SHARES

The FOS consults analysts about the three shares they consider the most attractive within those in the COLCAP index. This month, Grupo Sura shares ranked first, with preference expressed by 43.5% of those who invest in shares. It was followed by the shares of Empresa de Energía de Bogotá, Grupo Argos and Banco Davivienda (Graph 12).

This month there was greater appetite for shares of Holdings, the financial sector, energy and consumer sectors, while there was a reduction in preference for oil sector shares (Graph 13).

Graph 12. More attractive COLCAP Stocks for investors (% of the respondents who consider the stock as one of the three more attractive)

Graph 13. More attractive COLCAP sectors for investors (% of the respondents who consider the stock as one of the three more attractive)

RISK COVERAGE

The FOS asks portfolio managers about the types of risk for which they plan to establish coverage in the next three months. In October 37.5% of respondents said they were planning to hedge against foreign exchange risk in the short term, which represents a reduction of 1.0 pp compared to last month. On the other hand, the percentage of managers expecting to hedge against interest rate risk continues in the second place, with a decrease of 10.7 pps compared to the previous month (Graph 14).

Table 2. Summary of Macroeconomic Expectations*

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observado</th>
<th>Expectativa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation (%annual)</td>
<td>3.23</td>
<td>3.31</td>
</tr>
<tr>
<td>(October)</td>
<td>(October)</td>
<td>$2.972</td>
</tr>
<tr>
<td>Interest rate (%)</td>
<td>4.25</td>
<td>4.25</td>
</tr>
<tr>
<td>2Q-2018</td>
<td>2.8</td>
<td>2.8</td>
</tr>
</tbody>
</table>

*Expectation corresponding to the median.

Source: Financial Opinion Survey Fedesarrollo-BVC

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