

Flash LATAM

QE3: positivo para las economías más abiertas y de alto rendimiento de Latinoamérica

El anuncio de una nueva ronda de medidas de estímulo (QE3) por parte de la Reserva Federal de Estados Unidos debería tener un impacto neto positivo en los países de LATAM, especialmente considerando su actual posición cíclica y las recientes preocupaciones acerca de una recesión global. Sin embargo, esperamos que las autoridades en países como Brasil, Colombia y Perú reaccionen adoptando medidas para prevenir una excesiva apreciación de su moneda y manteniéndose atentos a las alzas de precios de activos.

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QE3: positive for open, high-yield Latam economies

The announcement of a new quantitative easing round (QE3) by the US Federal Reserve is expected to have a net positive impact on LATAM countries, especially considering recent concerns about a global downturn and given their current cyclical position. Policy-makers in some countries such as Brazil, Colombia and Peru are, however, expected to react to QE3 by adopting measures to prevent an excessive currency appreciation and be very vigilant about rising asset prices.

- **FED announced QE3, with a significant departure from previous QE rounds**

Despite the fact that recent macroeconomic data were not a dead giveaway for QE3, the Fed decided to move forward with additional easing in order to stimulate the economy. This round of quantitative easing will be significantly different than the previous two rounds for two main reasons. The first one is the commitment to open-ended MBS purchases—at a rate of \$40bn per month—. Second, it explicitly links this policy to a concrete target, which is a substantial improvement in labor market conditions, given that inflation is under control. This will try to harness the public's expectations in a more decisive way than previous promises of interest rates staying low for an extended period. The purchases will start today, totaling \$23bn for the rest of September. The FOMC also decided to continue Operation Twist as scheduled through the end of the year. Ultimately, both policy accommodations will increase long-term securities holdings by about \$85bn per month until the end of 2012. In addition, the FOMC announced an extension of their policy guidance, with short-term rates near zero until at least mid-2015. (For more details on the issue, see the [FED Watch](#) released yesterday by our US team).

- **US liquidity injection is expected to boost open, high-yield economies in Latam...**

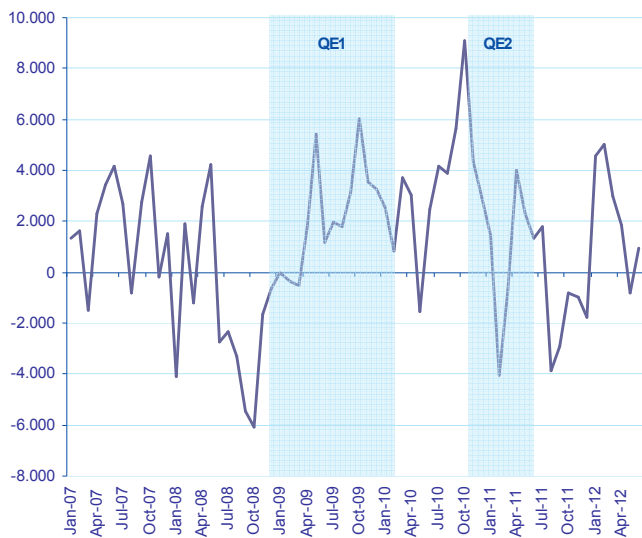
As previous quantitative easing episodes suggest, the adoption of a new round of quantitative easing by the Fed will have positive effects on high-yield LATAM economies, such as Mexico, Brazil, Chile, Peru and Colombia. QE3 is expected to trigger additional capital flows into LATAM. This would help to drive up domestic asset prices—especially equity markets—and exchange rates and also support credit expansion in the months ahead. In addition, LATAM economies are also expected to benefit from the impact of a weaker dollar on commodity prices (in the case of oil prices this impact could be partially offset by the possibility that the US government releases part of its strategic oil reserves to keep oil prices under control). On the one hand, the impact through the “financial channel” (i.e. through augmented financial inflows) should be more important for the most financially-integrated countries in the region, namely Brazil and Mexico. On the other hand, the impact through the “real channel” (i.e. due to higher commodity prices) is expected to be more significant in countries where commodity exports represent a higher share of total exports, such as Chile, Peru, Colombia, Argentina, Venezuela, Uruguay and Paraguay. Anyway, all these factors together are expected to support LATAM economic growth, especially if QE3—together with the latest bond-buying programme by the ECB—ends up taking global risk-aversion down. This support to domestic growth would be particularly welcomed by countries such as Brazil and Mexico, which are currently running below their potential.

- **... and also to trigger policy reactions, especially in countries where overheating concerns are still alive**

Even though we expect the net impact of QE3 on LATAM economies to be positive, it could bring some problems

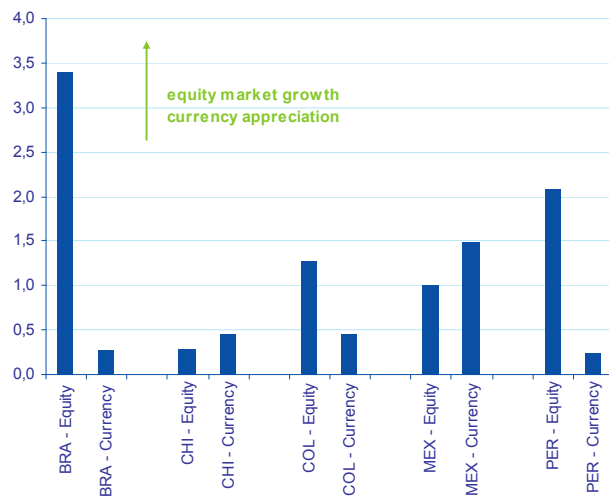
to policy makers in the region. Countries already concerned with the appreciation of their currency, with the excessive expansion of local credit markets or with the excessive dynamism of their housing markets could react to the announcement of QE3 by the Fed. The announcement of more measures to slowdown capital inflows and protect local industry in a “currency war” environment should not be ruled out, especially in Brazil, Peru and Colombia. The new wave of quantitative easing could even weigh on monetary policy decisions and help to postpone upward adjustments of domestic interest rates even further into the future. In addition, the boost to commodity prices from a weaker dollar might put some upward pressure on domestic prices, although appreciating currencies should help to moderate inflationary pressures.

Chart 1
LATAM: Net Capital Inflows (Bonds and equity, USD millions)



Source: EPFR

Chart 2
LATAM: Market Reaction to QE3 (% change between Nov 13 and Nov 12)*



Source: Bloomberg

For more on Brazil, [click here](#)

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