Financial Markets Report - Second Quarter 2024

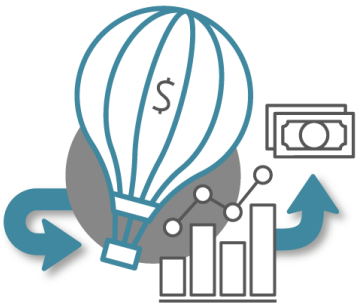
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During the second quarter of 2024, inflation indicators exceeded market expectations in major developed economies, remaining above the targets set by their respective central banks. Simultaneously, economic activity continued to exhibit resilience. In this context, policymakers adopted a cautious approach to adjustments in monetary policy rates (MPR), leading markets to anticipate higher rates for an extended period. Consequently, public debt in most countries, including Colombian government bonds (TES), experienced a price decrease.

See the report

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Inflation indicators surpassed expectations, staying above the targets set by most central banks.

- Major central banks in developed economies maintained a cautious stance, contributing to expectations of prolonged contractionary monetary policy.
- Fixed-income assets across most countries declined in price, reflecting adjustments in expectations regarding the MPR.
- Central banks in some countries in the region (Brazil, Chile, and Peru) continued to lower their MPR, although at a slower pace. This was in line with the lower cuts expected in developed economies and stronger-than-anticipated economic activity.



Global economic activity remained resilient throughout the second quarter of 2024, although signs of a slowdown were observed towards the end of the period. Global risk perception remained low despite some risk events.

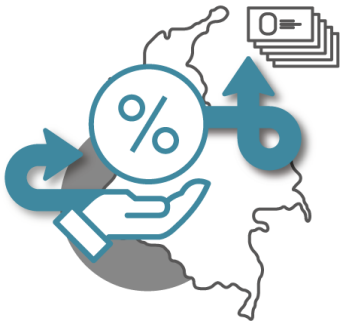
- Economic activity surprised the market on the upside, driven by robust labor market performance and positive trends in global leading indicators for manufacturing and services, improving growth forecasts.

- However, the global environment was marked by uncertainty surrounding trade and geopolitical conflicts, upcoming elections in several developed economies, and fiscal sustainability concerns in these regions.
- Risk perception towards emerging markets increased, leading to moderated appetite for assets in these economies.



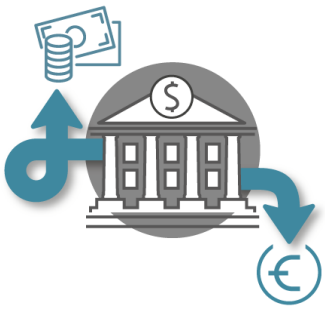
Locally, the Board of Directors of *Banco de la República* (the Central Bank of Colombia) reduced the MPR by 100 basis points to 11.25% by the end of the quarter. Fixed-income assets followed the global depreciation trend.

- TES depreciated in line with fixed-income securities from other countries in the region. In addition to external factors, this depreciation reflected fiscal uncertainty.
- Local risk perception rose, mirroring trends observed in other emerging markets and domestic uncertainties.
- Pension and severance funds (FPCs in Spanish) and foreign investors continued purchasing TES, particularly in the long tranche, though FPC purchases moderated compared to the first quarter.



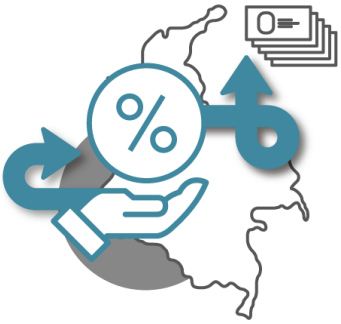
In the foreign exchange market, the U.S. dollar strengthened due to expectations of fewer Federal Reserve cuts of the MPR. In this context, the Colombian peso depreciated in line with its peers.

- Most developed and emerging market currencies depreciated due to the dollar's strength.
- According to market analysts, the depreciation of the Colombian peso reflected the uncertainty surrounding the country’s fiscal outlook.
- In this same context, liquidity and exchange rate volatility indicators slightly deteriorated.
- As part of the international reserves accumulation program announced by *Banco de la República (Banrep)* in December 2023, USD 825 million had been purchased by the end of the second quarter of 2024.



In compliance with the operational objective of monetary policy, *Banrep* implemented measures during the second quarter of 2024 to maintain adequate liquidity in the system, preventing significant and persistent deviations of the Overnight Reference Banking Indicator (IBR in Spanish) from the MPR.

- Similar to the first quarter of the year, the period was characterized by low deposit levels from the General Directorate of Public Credit and the National Treasury at Banrep, coupled with high volatility.
- There was a significant demand for Banrep's monetary contraction instruments and temporary expansionary operations.
- The facilities for supplying and temporarily contracting liquidity in the economy were complemented with



Index of boxes in the Report

- Box 1: Analysis of The Relationship Between the Rate Spread and the Liquidity Demand in the Financial System
- Box 2: Evolution of the Foreign Reserves Accumulation Program
- Box 3: Foreign Investors' Participation in the Colombian Stock Market

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/financial-markets-report/second-quarter-2024