Financial Markets Report - Third Quarter 2022

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Banco de la República (the Central Bank of Colombia) produces information for decision-making, accountability, and public dissemination. Particularly, the Financial Markets Report is framed within the principle of public dissemination and contributes to the Bank's service of providing quality economic information and research.

In line with the above, this report aims to provide the public with a general analysis of the behavior and trends of domestic and international financial markets. Additionally, the report highlights the key factors that elucidate the behavior of these markets, along with their interactions. The report also provides a description of the main changes in monetary policy and central bank decisions worldwide.

Throughout the third quarter of 2022 (3Q22), continued upward inflationary pressures persisted, influencing expectations of a faster pace of monetary tightening alongside concerns of a possible global economic recession. Additionally, the conflict between Russia and Ukraine, tensions between the US and China, measures taken by the Chinese authorities to contain the pandemic, and various idiosyncratic events exerted pressure on financial markets. Thus, during the period, there was an increase in interest rates, lower prices in the commodities and equities markets, and a strengthening of the dollar globally supported by tighter global monetary conditions and expectations of further monetary policy rate adjustments by the Fed. The currencies of a sample of emerging countries weakened due to declining commodity prices and idiosyncratic factors.

In Colombia, economic activity data continued to exhibit robust dynamism, leading to improvement in economic growth outlook for this year. However, there was a deterioration in consumer and business confidence indexes. The performance of local financial assets was influenced by the global environment and the economic policies pursued by the new government. The Colombian peso experienced the highest depreciation compared to its regional peers during 3Q22, influenced by the international context, the fall in oil prices, and local factors. The representative market exchange rate (TRM in Spanish) reached a historical maximum. The public debt market experienced devaluation in line with that observed in the bonds of most countries in the region and the behavior of US Treasuries. Devaluations may have been contained by demand flows from foreign investors during this period. Throughout the quarter, the Board of Directors of Banco de la República (the Central Bank of Colombia) increased its interest rate by 250 basis points (from 7.50% to 10.00%) in response to rising inflationary pressures.

The present edition of this document is divided into eight sections, with this introduction being the first. Section two provides an executive summary of the document. Section three presents a description of the most significant events in the international economic environment. Subsequently, section four presents the behavior of the main

risk perception indicators at the local level. Section five outlines the global and local foreign exchange markets. Section six offers an analysis of the money and fixed income markets. Additionally, section seven describes the performance of the local primary private debt market. Finally, section eight describes the performance of the stock markets. This edition includes three boxes:

- Peso-dollar derivatives market in Colombia
- Estimation of Overnight Index Swap (OIS) rate term premium
- Analysis of the exchange rate beta

Fuente: https://www.banrep.gov.co/en/publications-research/financial-markets-report/tercer-quarter-2022