Financial Markets Report - Second Quarter 2023

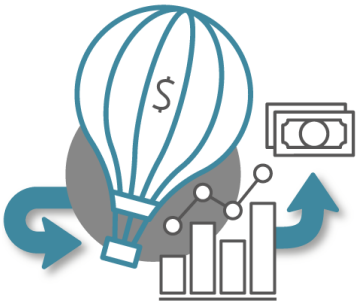
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Throughout the second quarter of the year, high inflation levels continued to ease, benefiting both the local public debt and that of counterparts in the region (Brazil, Mexico, Chile, and Peru). Conversely, amid stronger-than-anticipated economic activity in developed economies and expectations of a more contractionary monetary policy path, public debt in these countries depreciated. Riskier assets were favored by an increase in risk appetite.

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Global inflationary pressures remain high, although showing a downward trend, while economic activity demonstrated greater resilience than expected.

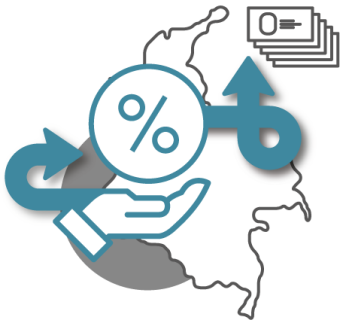
- Major central banks of developed economies continued their cycle of interest rate hikes, with markets pricing in further increases for the remainder of the year, and public debt securities devalued.
- Consumer price indices continued to reflect a downward trend in most countries, largely attributed to reduced supply-side pressures. Market inflation expectations also fell.
- Riskier assets, such as equities, performed favorably due to improved risk appetite, which had been affected in the previous quarter by adverse events in US regional banking and Credit Suisse in Europe, and subsequently by the uncertainty surrounding US debt ceiling negotiations.



Locally, market participants anticipate the conclusion of *Banco de la República* (the Central Bank of Colombia - Banrep) interest rate hiking cycle, and public debt securities appreciated.

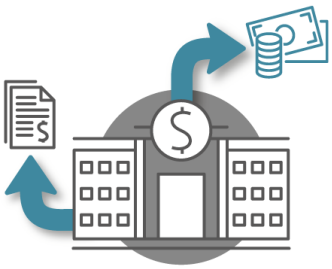
- Local public debt performed favorably, outperforming regional peers, in line with lower inflation expectations and the prospect of concluding the tightening cycle in Banrep's Monetary Policy Rate (MPR), coupled with an increase in local risk appetite.

- Long-term securities outperformed short-term ones, therefore, flattening the yield curve.
- Foreign investors accentuated their selling trend of local currency public debt securities. Nevertheless, they remain the second-largest holders of these assets, trailing behind local pension funds, which have made significant purchases of these securities so far this year.



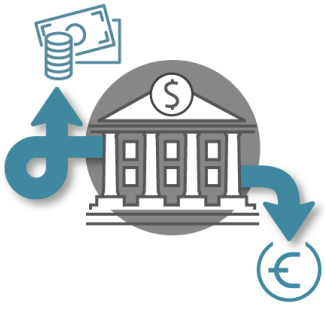
The money market continued to operate adequately, and the overnight benchmark interbank rate (IBR in Spanish) closely tracked the MPR established by the Banrep's Board of Directors (BDBR), partly due to the Banrep's liquidity provisions to the market.

- Banrep offered repurchase agreements (repos) at multiple maturities and engage in purchases in the public debt market to provide permanent liquidity to the economy and prevent the IBR from deviating from the MPR.



In the foreign exchange market, the Colombian peso appreciated above its regional peers.

- The exchange rate reached unseen levels since mid-last year, in line with increased local risk appetite and flows that influenced its behavior.
- Nonetheless, the level remains divergent from those exhibited by currencies of peer countries in the region nger time horizon.



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Box 1: Factors that may influence the Resistance to Inversion of the Yield Curve in Colombia

Box 2: Central Bank Asset Purchases in Response to the Covid-19 Crisis

Fuente: https://www.banrep.gov.co/en/publications-research/financial-markets-report/second-quarter-2023