

BRL FGV Inflation IGP-M(Jul'14,MoM). Below expectations at -0.61%  
CLP Manufacturing Index (Jun '14, YoY). Below expectations at -0.7%.  
COP Trade balance (May '14, USDmn). Above expectations at 347.

#### Argentina: in default

After a long day of speculations about various alternatives to avert a default, it was a huge disappointment to witness the announcement by Minister Kicillof that it was all but impossible to reach a deal. More importantly, Minister Kicillof failed to offer any prospect for a resolution, basically repeating the constraints faced by the government, such as the inability to offer anything better than the restructuring offer, as well as the need to resolve broadly the holdout situation. Furthermore, Kicillof criticized the US Court ruling, threatening to use additional legal means under the Argentine or international laws to continue challenging the court decision. Specifically Mr. Kicillof argued that Argentina is not in default as payments were transferred but stopped by the US court. In the Q&A section, Minister Kicillof did not rule out the possibility of a deal among private parties, such as the one expected earlier during the day led by Argentine banks. However, Mr. Kicillof did not provide more details or support for such possibility. To conclude, Mr. Kicillof was emphatic in saying that the Republic's priority remains to defend the rights of the restructuring bond holders. In summary, Mr. Kicillof statement at the end of the day represented a dramatic blow to expectations of a smooth resolution to the ongoing holdout saga in the country, raising doubts about any possibility of a remedy to be offered at any time.

By the time we went to press, Bloomberg news reported that an attempt by a group of Argentine banks to buy about \$1.5b of defaulted bonds off holdout creditors also failed after a meeting in New York. This notwithstanding, it seems that a private sector involvement, after Minister Kicillof speech, could still offer a better opportunity to close the gap currently existing between the government and holdouts, though it remains unclear whether Judge Griesa would be willing to accept such an outcome.

In any case, default is now a fact. To our understanding, the deadline for the payment to be made to the clearing house was 7PM Eastern time yesterday. This will provide a basis to trigger CDS and a reason for bond acceleration, though we continue to be of the idea that acceleration would be unlikely. It was very unfortunate that the market had a dramatic rally on the same day default took place, before it would likely sell off even more dramatically the following day. For those who wonder what would happen after default, our piece put out on Tuesday (see [Argentina: Will there be life after default?](#)) should still be relevant – with the caveat that the baseline scenario described in that piece may look a bit too rosy after yesterday's event.

#### FOMC: slightly more hawkish

The FOMC evidently intended not to make any significant changes in its policy guidance. However, DB's Peter Hooper thinks the statement was slightly more hawkish than the preceding edition on balance judging by the tone, with a change in wording on the labor market that leaves them about where they were as of the June meeting and some changes in wording on inflation that advances them a bit closer to lift off. Looking ahead, he expects tapering will be completed on schedule in October, and, more importantly, if the next two labor reports and various wage and price inflation data show positive trends in the weeks ahead, the September FOMC message could begin to signal more clearly an exit process, including initial rate hikes, that could be moved up to the first half of 2015.

#### Colombia: BanRep to continue hiking

We expect the monetary board of Banco de la Republica to increase by 25bps the intervention rate on the meeting today taking it to 4.25% after four consecutive hikes. This hike is expected by market participants after the pickup in inflation and GDP growth in the first half of the year. In our view, while the curve seems fair at the very front end (75bp of implied hikes till December) the markets continue to price an overly aggressive BanRep for 2015. We continue estimating around 50bp of premium priced for 2015, which should be supportive for short end receivers (IBR 6M1Y captures the bulk of the premium, displaying around 5bp/month of carry) and the front end of TES16. Also see [Data Flash – Colombia](#).

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