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Latam Daily: Bolsonaro's Party Calls for Annulment of Votes; Markets Quiet in Thin Trading

Thin trading with Japan on holidays saw limited ranges overnight until early European activity where the USD has swung from broad losses to a more mixed performance ahead of the North American open. US equity futures are practically unchanged in line with the performance of European cash markets, while commodity prices are mixed with crude oil prices lagging as the EU's reported price cap on Russian oil is unlikely to limit the country's supply.

The MXN and CLP are moderately stronger on the day, up about 0.2–3%, while the BRL is softer, down 0.3–0.4%. **At the top of the Latam leaderboard stands the COP**, with a 0.5% appreciation—**perhaps aided by comments last night from BanRep's Steiner saying that the bank has to respond to demand shocks.**

The global market mood seemingly remains driven by Fed rate expectations ahead of the release of the Fed's November meeting minutes this afternoon. Markets are generally ignoring the news out of Zhengzhou where Foxconn (Apple manufacturing) employees are protesting against virus restrictions—reflecting again the impossible balance that China is targeting with tough virus limits clashing against aiming for strong economic activity.

Yesterday afternoon, Bolsonaro's Liberal Party submitted a request to Brazil's electoral court to invalidate second-round votes cast on older electronic station models (pre-2020). According to the party, the flawed machines resulted in Lula's victory as once excluded Bolsonaro would be the winner with 51.1% of the vote. The court responded quickly, saying that the claim may only be considered if first-round votes are also scrutinized, giving the PL only 24 hours to decide if they want to proceed in this fashion. Given the outperformance of the party in the first round, re-visiting those votes could risk the loss of congressional seats—and some infighting looks likely. **In any case, we think it's highly unlikely that the complaint will proceed and, if it does, that the court will rule to eliminate those votes. Still, yesterday's action reminds us that Brazil is not yet out of the woods in terms of political risks.**

Meanwhile, Lula's advisers and congresspeople are reportedly bridging differences over the incoming president's spending plan. From the indefinite exclusion of BRL175bn from the fiscal rule, Lula's team will likely compromise with a smaller exemption that will also be valid for only two to four years, or under other possible permutations of BRL amount and review/expiry periods.

Yesterday, the BRL weakened 1% and the Ibovespa lost 0.7%, with Petrobras shares weighing (down 10%+) as a global bank marked it a 'sell' and Lula's reportedly transition team asked Petrobras to freeze 'strategic' decisions—including the sale of assets. The headlines on the PL's submission to the electoral court initially weighed on the country's assets but the latter part of the session saw broad strength in Brazilian markets.

Colombia's Dep Fin Min Guevara said yesterday that unions and businesses may agree to a ~15% increase in the minimum wage in 2023. This would be roughly in line with our team's expectation and that of most economists (with the most aggressive calls at 20%). President Petro speaks this afternoon in Cartagena at a national infrastructure event.

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In Peru, the country's constitutional tribunal said that treason accusations against Pres Castillo are unfounded as the 'treason' evidence presented (comments in television speaking of ceding territory to Bolivia) is not proof enough. Charges may still proceed in Congress, but the tribunal sought to deliver its opinion on 'irregular' proceedings.

The data calendar is quiet today in Latam as, once again, headlines will drive the region's assets while international markets focus on US data and central bank speakers. Colombia publishes retail and industrial confidence figures for October today. Tomorrow, Mexico and Brazil publish mid-month CPI data for November, where economists see respective increases of 8.22% and 6.2% y/y (from 8.28% and 6.85% last month).

—Juan Manuel Herrera

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