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GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mixed Market Mood, Quiet Latam Day Ahead

The trading mood remained negative during the overnight session, with clearer risk aversion developing at the European open, albeit on limited developments. Yesterday's strong PMI beats in the major economies—mainly in the US—continue to weigh on sentiment more broadly, lifting the USD and dragging US equity futures towards a fourth daily decline in the S&P 500 (which would be its worst stretch in the year to date).

This was the case before some seemingly more neutral (or less hawkish) comments from usual Fed hawk Bullard just a few minutes ago acted as support for the risk backdrop ahead of the Fed's meeting minutes this afternoon. The Latam day ahead is quiet with no data due for release in the region.

US yields are a touch lower on Bullard's comments and weaker crude oil prices today (WTI down ~1%) are also acting as a headwind for rates that have been boosted by bets on higher policy rates following strong economic data of late. Iron ore and copper are down 0.5% and 1% on the day, respectively, but overall remain firm in recent trading.

The USD is now mixed after broadly trading stronger overnight notching gains across the board with the MXN outperforming, trading 0.3% higher after yesterday's 0.5% decline. That was but a scratch to the Mexican peso's performance in the year-to-date amounting to ~6%, on par with the CLP (+6.3%), as the two currencies lead the expanded majors in 2023.

We (and markets) are awaiting Mexican inflation data tomorrow as well as Banxico's February meeting minutes before considering further gains in the MXN after the bank's surprisingly hawkish decision; our forecasts see another 50bps hike next month. The results of the latest Citibanamex survey published yesterday showed a relatively more conservative view among economists compared to ours, with the median projecting a 25bps hike in March.

On the other hand, the survey results do show that analysts expect a higher for longer stance from the bank, as the median for end-2023 rose to 11.25% from 10.50%—a 75bps increase. We sit among those calling for an end-2023 rate of 12% (a pause after one 50bps and two 25bps hikes over the next three meetings) given very stubborn inflation and a stronger than expected performance of the economy—as well as a more hawkish Fed than seen in late-2022. For tomorrow's CPI release, economists project a 0.34% m/m increase that translates into a 7.8% y/y gain—in line with estimates submitted to Bloomberg. For year-end– economists have boosted their core CPI forecasts by a decent margin, as core inflation is now projected to close 2023 at 5.20% from 5.04% previously.

—Juan Manuel Herrera