

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Latam Daily: Mexican CPI; Brazil's BCB "Hawkish" Hold

Overnight markets had a minor risk-on tinge, as SPX futures only recovered slightly (up 0.3/5%, at writing) from the steep losses yesterday following comments from the Fed's Powell and US Treasury's Yellen (who noted that they are considering a broad increase in deposit insurance). The Fed's 25bps hike with somewhat dovish guidance had initially supported the risk mood but Powell's suggestion that they could hike more than guided if inflation remains elevated and Yellen's rejection of recent reports on deposit insurance soured the risk tone. The main event of the day ahead from a global perspective will be the Bank of England's rate decision at 8ET, where we expect a 25bps hike.

The USD is nevertheless trading weaker against all major currencies—albeit strengthening ahead of the North American session—with the MXN in the middle of the pack with a 0.4% gain (taking the weaker-dollar move in its stride, rather than being weighed by lower US—and thus Mexican—yields). Oil, iron ore, and copper are trading weaker (down 1%, 1.7%, and 0.5% respectively).

Yesterday, the BCB held its Selic rate unchanged at 13.75% with a more hawkish than expected statement that does not point to incoming rate cuts. Lula's team has certainly not taken well to the bank's hard line on fighting inflation, which highlighted deanchored long-term inflation expectations in their Focus survey. Their own forecasts for inflation were also lifted to 5.8% and 3.6% from 5.6% and 3.4% in 2023 and 2024, respectively. The BCB did, however, acknowledge that restoring federal fuel taxes "has reduced the uncertainty of the fiscal results in the short term".

Already Fin Min Haddad said yesterday that the bank's statement was "very concerning" and that the decision "could even jeopardize the fiscal outcome." On this topic, Chamber speaker Lira said that he expects the country's new fiscal framework proposal to be sent to him in about 15 days (as the story drags on).

Turning back to the BCB, their guidance that they will hold the policy rate unchanged until inflation expectations converge to target essentially writes off chances of a May rate cut and could even push the first reduction to the third quarter of the year; markets are currently (mostly) positioned for a first cut at the June meeting. We see the first rate cut in Q3-23, to end the year at 12.75% (i.e., 100bps in reductions by year-end).

The pension reform proposal submitted to Congress yesterday in Colombia was little changed from the preliminary details that were revealed last week. Jackeline Piraján, writes that our team in Bogota maintains a positive view on the proposal thanks to its curbing of subsidies to high earners and the creation of a sovereign fund with investment goals and a mandate that will ensure an adequate functioning of local capital markets. They also see a decent chance that the reform will pass through the legislature. In contrast, a proposal that would have allowed up to 15% in self-lending from pension funds in Chile failed in the lower house yesterday—as expected.

In Mexico, we get H1-Mar inflation data at 8ET, with economists anticipating an acceleration from the H2-Feb reading to 0.26% and 0.30% from 0.16% and 0.16% in headline and core inflation. In tandem with relatively hawkish comments from Banxico officials earlier this week (Espinosa and Heath) the bank looks more than likely to hike by 25bps next week, matching the Fed's pace. Another half-point hike looks unlikely as it would require another blowout core inflation print in our view—and the weaker US outlook implied by the Fed should spill over into weaker growth in Mexico.

—Juan Manuel Herrera

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.