Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

March 23, 2023

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 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