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Latam Daily: Quiet Latam Day Ahead; Political Risks Linger

Global markets traded erratically overnight amid limited developments outside of comments from and reports on central bankers. The Fed's Waller, a habitual hawk, expressed his comfort with a half-point hike next month but his suggestion that economic conditions could also evolve to warrant a series of 50bps increases was somewhat overlooked by markets. Bloomberg also reported that ECB members will likely settle on a 50bps increase in December, as hawks will likely fail to rally a majority for a third straight 75bps increase.

Earlier today, risk-sensitive assets got a short-lived boost as Chinese authorities said they are drafting plans to boost vaccinations and that children younger than three will no longer need to show test results. The country is dealing with a severe surge in contagions currently, with new daily infections topping 23k yesterday—approaching the record-highs seen during the Shanghai wave in spring.

The UK fiscal announcement that began about two hours ago has triggered an important 'sell-everything' move in markets that is occurring at writing, resulting in losses for regional currencies.

Latam assets will follow the risk mood in markets driven by developments outside of the region given a quiet calendar in the region today. There are no notable data releases today in the Pacific Alliance plus Brazil region.

Local political news are set to drive the under/overperformance of regional markets, namely in Brazil where the lack of clarity on Lula's fiscal plans and ministerial appointments have resulted in a 4% month-to-date depreciation in the BRL—this compares to a 2% gain in the CAD which is the next worst performing major currency this month. As anticipated yesterday, Lula's transition team formally proposed to congress the exclusion of Bolsa Familia (the renamed Auxilio Brasil) at BRL175bn from the country's spending cap indefinitely; Lula's team may have to compromise with a shorter timeframe or a periodical review.

Fitch Ratings said yesterday that the Colombia's tax reform will not impact fiscal forecasts as additional spending is expected to be funded by additional revenues, but the country's deficit would still be at risk if the latter underperforms. The COP weakened about 2% yesterday amid an overarching risk-off feeling to international markets and losses in crude oil prices, while a Bloomberg report highlighting (relatively stale) comments from the chief strategist at Colombia's top pension fund noting "we've been keeping a relatively high level of dollars" and "we have a slight underweight in some local bonds" may have weighed somewhat.

Peru's Subcommittee for Constitutional Accusations has approved investigations on President Castillo on criminal conspiracy and influence peddling. The group now has up to fifteen business days to report on the results of the investigation. The congressional Permanent Committee will also host a hearing tomorrow to review treason accusations against Castillo. On that note, the country's finance minister said yesterday in an interview to the FT that "it is obvious that political stability affects confidence on the part of investors. It makes them doubt"; sounds like the call is coming from inside the house.

—Juan Manuel Herrera

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