

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
+57.601.745.6300 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: Mexico in the Spotlight

Markets are in a positive mood, riding the wave of Nvidia's earnings beat yesterday that had markets trading on edge in anticipation. The Fed's meeting minutes were a bit of a non-event, omitting in-depth discussion on rate cuts timing or neutral rate risks, thus having no material impact on rates markets that took a beating yesterday on nothing obvious aside from maybe supply (IG, SSA, Canada, and US) weighing; the UST's 20y auction did not go well, tailing ~3bps, the most for 20s since reintroduced in May 2020.

US equity futures are up 1% in SPX and 2% in NDX, carrying a 1% gain in SX5E but FTSE is trading flat (hit by stronger GBP). The USD is weaker against all major currencies but returning from its worst levels around the release of stronger than expected French PMIs; the MXN is only slightly firmer, generally missing out on gains versus the dollar. The Bloomberg dollar index (BBDXY) is trading at its weakest level since the start of the month. Crude oil, iron ore, and copper prices are flat to slightly bid.

USTs are slightly bull flattening, compared to bull steepening gilts and twist flattening EGBs. European curves were all over the place on the string of PMI releases, first selling off sharply on France's beat, then recovering on Germany's miss, holding little changed on the Eurozone's beat, and then (somehow) rallying—especially in gilts—in the aftermath of the small beat in UK PMIs (just, how?). The G10 day ahead presents US PMIs/jobless claims, Canadian retail sales, the ECB's meeting minutes, and a flood of Fed speakers.

Mexico's calendar is packed today, with key releases to help us refine our expectations for Banxico's rate path. At 7ET, we get December economic activity, Q4 GDP revisions, and H1-Feb CPI data, all coming before the release of Banxico's meeting minutes at 10ET. BanRep Gov Villar and FinMin/BanRep dove Bonilla speak at 8ET. The latter said yesterday that "with a lot of certainty" the bank will cut by 50bps at the March meeting... we think they'll cut by 75bps so this isn't his bravest call.

It's not looking like December was a good month for Mexico's economy. For starters, the preliminary Q4 GDP expansion of 2.4% y/y suggests that December economic activity recorded sub-1% y/y growth that would be its weakest month since November 2021. This is further supported by the surprising 0.2% y/y (vs 2.4% median) in December retail sales in data published yesterday. It is important to highlight, however, that sales contracted by 30% y/y in the state of Guerrero in December, after a 41% decline in November, impacted by Hurricane Otis in late-October. This explains a large share of the contraction in sales, but not the whole story as Mexico City retail sales only grew 0.7% y/y in December, which represents the weakest print since before the pandemic (pandemic period excluded, of course).

The Mexican economy seemingly slowed sharply in the final months of 2024. But, without inflation heading convincingly towards target, Banxico will not be comfortable cutting rates, less so if the Fed now waits until at least June for its first move. Headline inflation is seen somewhere around 4.7% y/y in the first half of February or only slightly lower than the 4.9% of H2-Jan. Core inflation progress will also likely be limited, falling only 0.1ppts to ~4.6%.

At its decision on the 8th, Banxico opened the door to cuts but expressed lingering concerns about upside inflation risks. The minutes may stick to loose guidance that March is when rate cuts will begin, but they may also caveat this view with a need to act cautiously on the way down with the possibility of taking breaks to observe how inflation and activity conditions evolve. Citibanamex survey results published earlier this week still showed the median economist expecting a 25bps cut in March and a 9.50% end-2024 policy rate; all while lifting the median inflation forecast by 0.12ppts to 4.20%.

—Juan Manuel Herrera

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