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Latam Daily: Mexico and Colombia CPI, BCRP and ECB Decisions; Peru Politics

- **Peru: Politics has its surreal moment, and then returns to business as usual**

Markets are trading with a mixed mood that is perking up ahead of the North American session. Global yields heading lower in recent trading after successful auctions in Europe while the world's markets await the ECB's (likely uneventful) decision at 8.15ET and round two of Powell in Congress. It's a huge day for Latam markets today, with prices data from Mexico and Colombia and the BCRP's rate decision on tap. Chile's INE also publishes international trade data at 5.30ET, but traders should just wait for tomorrow's CPI release.

USTs are marginally bull flattening compared to more pronounced gains in EGBs and bear flattening gilts, after Treasuries traded somewhat defensively in Asia hours. Weighing on rates markets were growing chances of a BoJ March rate hike after hawkish comments by the BoJ's Nakagawa, a beat in wages data, and elevated early wage demands from Japan's trade unions. China reported surprisingly strong exports and imports data for February that did little for domestic markets that then slipped on comments by the country's foreign minister. Wang said that US trade sanctions have reached "bewildering levels of unfathomable absurdity" as tensions with the US over semiconductor technology/goods grow.

Through all that, we now have US equity futures recording small gains that near yesterday's high in SPX while European bourses sit mixed after losses in Asia on the Japan and China news. Currencies are holding their mid-week gains and in some cases adding decently, namely the JPY up 1% today well better than the MXN's 0.1% rise which nevertheless sees the peso touch Wednesday's best levels. Commodities are mixed, with oil shedding about 0.7% but iron ore and copper up 1%.

Today's data is unlikely to change the minds of Banxico officials away from a 25bps move on the 21st, but maybe there will be something in it to sway how they feel about the pace of easing once the floodgates open. It's a high bar of course since we already have H1-Feb CPI readings, so the full-month picture has limited room for surprise unless the second half of the month saw a large shift in price-setting. Though the data won't stop a March cut, it is important to focus on core prices trends as the limited progress in core inflation means Banxico may not do back-to-back cuts.

With an 18ET release time, Colombian markets will only be able to react to CPI data tomorrow morning. It may be an aggressive open as declines in Colombian inflation are accelerating (with the support of base effects) and when moves get this large they can result in decent beats or misses that shake up markets. Our economists in Colombia project that headline inflation fell to 7.61% from 8.35% in January, with core inflation coming in at 8.99% from 9.69% y/y; this is around 0.1ppts below the Bloomberg median. If a large deceleration in inflation is confirmed then our team's call of a 75bps reduction at BanRep's next meeting will look even more likely.

As for the BCRP, it's steady as she goes with 25bps. Markets are currently, probably, more sensitive to political noise with cabinet dismissals, pension withdrawal proposals, and the (now somewhat) usual round of accusations flung between various branches of government that our team discusses below. Since the last BCRP meeting, December GDP hugely surprised to the downside, but then CPI data for February greatly exceed expectations. The GDP print maybe told some that the BCRP could cut by more than 25bps and then the CPI print told them "not so fast"; we're steady in our expectation of a 25bps reduction today and for future meetings.

—Juan Manuel Herrera

PERU: POLITICS HAS ITS SURREAL MOMENT, AND THEN RETURNS TO BUSINESS AS USUAL

We have a new cabinet. It's the same as the old cabinet. The only change is the head of the cabinet, Gerardo Adrianzén, who replaces Alberto Otárola. All other positions remain unchanged, including the key Ministry of Finance, in the hands of José Arista.

A few things to note. First it would appear that President Boluarte never saw a need for a change of cabinet per se, and only replaced Otárola under duress. Secondly, the cabinet, on the whole, should continue to conduct business largely as usual. Changing the conductor of the orchestra may modify the tone and rhythm of the music, but the orchestra itself, and its capacity to play each instrument, is the same. There might be an exception, hopefully. It is known that both Minister of Finance José Arista and of Mining, Rómulo Mucho, would like to promote mining investment more strongly, including the suspended Tía María copper project, which has social issues. It was our understanding that they did not have the support of the cabinet, including Otárola, to push the issue forward. Adrianzén's take on Tía María could potentially be different from that of Otárola. Having said that, it's truly too early to tell and Adrianzén has yet to go on record on the issue, or on mining at all.

Adrianzén, in fact, has little experience in mining. He is a lawyer and a diplomat who since February 2023 was acting as Peru's representative before the Organization of American States, OAS. His past experience in government, aside from the OAS, includes stints as the Vice-minister, and later as the Minister of Justice, during the Ollanta Humala regime (2011–2016), and presiding the Council for the Legal Defense of the State. Other than that, his experience working for the State has mainly included working as a consultant.

The former head of the cabinet, José Otárola, resigned on March 5th after being accused of nepotism when audio was leaked suggesting that he may have helped a person he had a personal relationship with obtain a government job. Supposedly. Those involved allege that the audio was tampered with and argue that the timeline of events does not square with the job peddling hypothesis. However, the government is too weak to oppose even an invented scandal (should the current one prove to be such), and Otárola had been in the crosshairs of the government's political opponents for some time.

So, an affair and job peddling in government seem pretty mundane. Where does the surreal come in? Well, people close to the events, including Otárola, have accused former President Martin Vizcarra of being behind the tampered audio as part of a conspiracy to bring Otárola down. Furthermore, there has been speculation that Nicanor Boluarte, President Dina Boluarte's brother, may also have participated in the conspiracy. This seems far-fetched and Otárola himself has appeared to exonerate Nicanor Boluarte from any involvement. However, his accusation of former President Vizcarra remains. Vizcarra himself has denied any involvement.

Was Vizcarra involved? As in any crime, one has to wonder what possibly could have been Vizcarra's motive? Yet, at the same time, it doesn't seem likely that Otárola would have made the claim without the police intelligence to back it up.

However, the true message is not one of whodunnit, but, rather, what these events mean in terms of how far Peru's institutional framework has unraveled for these cross accusations to even be credible. These events have brought Peru's contradictions once more to the fore, with the relative stability of overall cabinet continuity colliding with the instability of political intrigue and institutional weakening.

—Guillermo Arbe

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