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## Latam Daily: BCCh Decision, Mexico CPI, IGAE, and Banxico Minutes

Ranges through Asia trading were broken by mixed PMIs out of France and Germany leading to a slight beat for the Eurozone and then a miss in the UK. Global rates went from suffering on the currency bloc's data to then steadily gain ground post UK figures. The selloff looked overdone given goldilocks releases (economic strength but muted price pressures) but the rally now also came somewhat out of the blue; two wrongs make a right to leave US yields practically flat on the day.

Currencies chopped around to eventually sit broadly stronger against the dollar, with the FX space led by high-beta currencies like the NOK and NZD but the MXN is ignoring the dollar-negative mood of the past three hours to sit flat around the 16.65 zone. Yet another solid Nvidia earnings release has US equity futures decently bid 0.5–1.0% to leave the risk mood in decent shape, The copper meltdown from overbought levels continues today, but only by 1%, half the losses in iron ore, while oil is tracking a 1% gain. The release of US PMIs at 9.45ET awaits global markets that are then likely to kick back and relax ahead of the US and UK long weekends.

Today is the busiest day of the Latam week, with a collection of Mexican data on tap at 8ET, followed by Banxico's meeting minutes at 11ET, and a then a long wait until the BCCh's rate decision at 18ET. All at once, Mexican H1-May CPI data are expected to show another uncomfortable acceleration y/y and a practically flat stubborn core print, economic activity falling sharply about 1% y/y due to the timing of Easter, and Q1 GDP expenditure details to give us more colour into the mediocre 1.6% y/y expansion. Banxico's May minutes should reflect a sense of extreme caution, and we'll likely see Espinosa expressing her displeasure about the March rate cut in them, as well as some more hawkish off-center sentiment from Borja and Heath. Today's CPI data may see markets even more cautious in their bets on a June rate cut, currently at 16/17bps.

The BCCh's 18ET decision is widely expected to deliver a 50bps rate cut to 6.00%, a third consecutive deceleration in the pace of reductions after 100bps and 75bps moves in January and April, respectively (it's been a choppy easing cycle from the BCCh). All economists polled by Bloomberg expect a half-point move, so the highlight of today's decision will be the guidance that may be provided regarding the June 18 decision. That meeting is less than four weeks away, the smallest break between rate announcements of the year, so it may be too quick to roll out another 50bps cut then. To boot, the economy looks in better shape.

On the flip side, the CLP has appreciated by 7% since the BCCh's decision in early-April, which should be reflected in softening external prices pressures. But, like yesterday's sharp decline in the peso on copper weakness showed, it's better to err on the side of caution and not bank on currency strength holding. It's better to simply stick to data dependence while monitoring currency and external (read Fed/US yields and copper) developments instead of giving the impression that another half-point cut is likely in June. Officials don't gain much from dovish guidance, and if a 25bps cut wasn't enough in June, they could always do a 50bps reduction in late-July; the BCCh is no stranger to fluctuating cut sizes. For now, markets are leaning towards a 50bps cut in June; CPI data on the 7th of June will likely make or break this.

Aside from the releases, local markets are at the mercy of commodity price developments (see yesterday's 2.2% drop in the CLP on a 5% drop in copper), news relating to state-owned companies, and the classic round of political intrigue. Last night, Moody's cut Colombia's Ecopetrol to junk (with a negative watch) on its growing debt burden and increased dividends. With this decision, now all three major rating agencies (Fitch, S&P,

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and Moody's) have the company in their respective highest speculative echelon. On Tuesday, Petroperu was downgraded to one notch from lowest by Fitch on Tuesday, as the agency sees default as likely and we await news on clear financial support from Boluarte's government. Mexico's AMLO claimed yesterday that the state offered a supposedly-rejected USD2bn for Vulcan assets on the Caribbean, which brings back memories of the Grupo Mexico rail line episode about a year ago.

**—Juan Manuel Herrera**

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