

LATAM DAILY

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Latam Daily: Mexico and Chile CPI, US Jobs

Once again this week, USTs weakened through Asia trading and dragged on EGBs and gilts at their respective opens with a slight flattening bias. The release of stronger than expected Eurozone Q1 compensation data has dealt another blow to European rates, and hawkish ECB speak post decision (see [here](#)) is also a nuisance. USTs are more rangebound as we await the release of US and Canadian jobs/wages data at 8.30ET. The USD is little changed against the key majors with the exception of the MXN, up 0.7%, that is recovering from sharp losses last night on political headlines (see below). US equity futures are sitting flat on the day, while cash Europe indices are weaker on higher local yields. Crude oil and iron ore are unchanged, but copper is taking a sharp 2% hit to erase the gains it was tracking for the week; gold is down 1.5% after data showed the PBoC did not add to its gold stocks in May.

At 8ET, Mexico and Chile release May CPI data, but while one is expected to show no major progress made in inflation (Mexico), the other should show inflation virtually on target and allowing large rate cuts to continue (Chile). Headline inflation is expected to tick higher in Mexico to 4.82% from 4.65% as non-core price pressures remain elevated. On a more positive note, core inflation is expected to decelerate slightly to 4.29% from 4.37% continuing a streak of lower prints month after month that began in February 2023. Still, Banxico will not be too comforted by the data as they remain concerned with unanchored inflation expectations, where headline inflation remaining high is a bother.

There's also the matter of whether Banxico may choose to hold again in June considering the pressure on the MXN (and financial outflow risks) following the election results that tee up a Morena bloc supermajority in Congress. Yesterday, USDMXN shot higher about 50c to a re-test of 18 on Morena's congressional leader (Mier) confirming that they will vote on AMLO's constitutional reforms in September—during the one-month overlap between the new Congress and AMLO's last weeks in office. Mier did say hours later that they will “respect the legislative process” and that they “will not act in an authoritarian manner or impose proposals that affect the harmony and the confidence in Mexico”. This didn't help the MXN much, however.

As for Chile, our team in Santiago expect a slowdown in headline inflation to 3.0% y/y (non-chained measure), with no growth expected in headline prices on a m/m basis and only a marginal 0.1% m/m increase in CPI ex-volatiles. From Friday's [Latam Weekly](#) “the main positive impact would come from transportation, followed by restaurants and hotels and miscellaneous goods and services. In transportation, the increase in the price of new cars and gasoline stands out. Regarding the latter, we project new price falls for the coming weeks, which will contribute negatively to inflation in June. [...] We project falls for the services CPI linked to the exchange rate. This would be the case of tourist packages and air transport, which would be experiencing drops on many of the most used routes.” At 8.30ET, we also get the minutes to the May 23 rate decision, when the BCCh lowered its policy rate by 50bps—we'll see whether the minutes suggest another half-point cut is likely at the Jun 18 announcement.

—Juan Manuel Herrera

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