Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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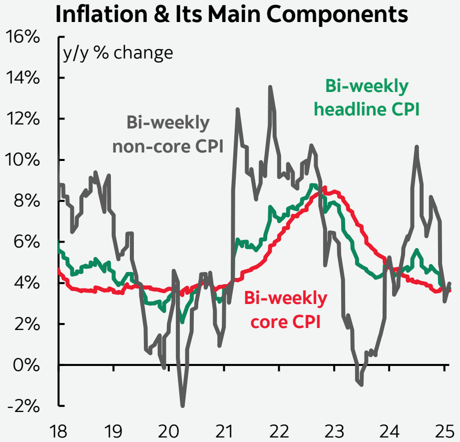
Chart 1

Mexico: Bi-Weekly Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Latam Daily: Dull Markets Erratically Shaken by Tariff Talk

- **Mexico: Inflation accelerates in H1-Feb**

Markets have a strange feel to them this morning. Trump saying yesterday afternoon that "tariffs are going forward on time" (when asked about those on Canada and Mexico) alongside reports that the US is eyeing stricter controls on China's weighed heavily on equities in Asia, dragging the main Chinese, Japanese, and HK indices by about 1–1.5%. But, European indices are tracking ~0.5% gains in Euro Stoxx and FTSE and US equity futures are broadly unchanged though with a continued underperformance of Nasdaq (which lost 1.2% yesterday). Oil and gold are about half a percentage point lower, while copper and iron ore are rising about the same amount. In the FX world, the CAD and MXN are flat on the day (though this comes after late-session declines, especially in the former), while the AUD and NZD's small 0.2% losses today don't suggest there was a big risk-off mood in APac. The EUR and GBP are rising a touch (0.3%), where another decent leg lower in US yields is helping the currencies on rate differentials narrowing. US 2s are down by 6bps and 10s are down by 8bps, compared to 5bps for each in the UK and 2bps for each in Germany.

Though that's another interesting move in markets. Equities sold off in Asia on tariff fears, but these tariff fears were not reflected in inflationary expectations via higher US yields? Maybe we're just reading too much into things, and Trump's media Q&A yesterday (alongside French PM Macron) was kind of all over the place—and there was a chance that he was talking about tariffs more broadly, specifically the reciprocal tariffs that are being studied.

In European hours, German Q4 GDP was held at -0.2% q/q as in the preliminary reading, but accompanied by a mixed mix across the consumption categories; private spending disappointed with much lower growth (0.1% vs 0.4% median), but investment surprised with a 0.4% expansion against a half-ppt expected drop, with government spending growing by 0.4% also. On that final note, Germany's incoming chancellor Merz is reportedly in talks with would-be coalition allies to ramp up defense spending, a move that would add to the importance of the public sector to drive the economy and likely weigh on German debt. The ECB also published Q4-24 negotiated wage rates data that showed a 4.1% y/y expansion, down from the 5.4% record in Q3, to slightly add to the case for ECB cuts (though the ECB already anticipated a decent deceleration).

Trump news aside, overnight markets had limited information to trade on (German and ECB data didn't really move the needle), as we head into another quiet morning that is relatively bare of on-calendar risks in the G10 and Latam while we monitor geopolitical developments for episodes of trading volatility (Trump and tariffs, Ukraine-Russia peace talks). The results to the US Conference Board's consumer survey are on tap at 10ET, with a focus on inflation expectations and/or the possible impact of Trump policy on household sentiment (see last Friday's poor U Michigan numbers). In Mexico, Q4 current account data out just now are not moving markets or macro expectations (as per usual, and despite a nice upside surprise at USD12.6bn vs USD9.2bn) but we are keeping track of these figures for foreign investment trends considering Trump risks.

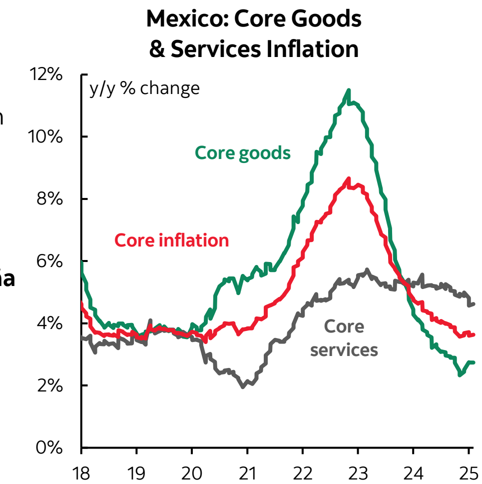
—Juan Manuel Herrera

MEXICO: INFLATION ACCELERATES IN H1-FEB

Inflation in the first half of February accelerated less than expected, reaching 3.74% from 3.48% (vs. 3.76% consensus in the Citi Survey). However, core inflation slightly increased to 3.63% from 3.61% previously (vs. 3.62% consensus) (chart 1). Within this, goods remained at 2.74%, while services rose to 4.62% (4.57% previously) (chart 2). On the other hand, non-core inflation jumped to 3.98% (3.09% previously), with agricultural products increasing to 3.31% (0.05% previously) and energy and government tariffs at 3.89%. Sequentially, general inflation rose to 0.15% w/w (0.12% previously, 0.17% consensus in the Citi Survey), core inflation increased to 0.27% w/w (0.22% previously, 0.25% consensus), and non-core inflation fell to -0.25% (-0.17% previously). Looking ahead, we consider that inflationary risks remain skewed to the upside. We highlight the potential impact of tariff measures between Mexico and the U.S., as well as possible price pass-through due to further depreciation. Additionally, there could be a significant rebound in the non-core component due to climatic events in the coming months.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

Chart 2



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