

Contributors

Juan Manuel Herrera, Senior Economist
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@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: Schrodinger's Tariffs

Look away from your screens for a moment and Mexico and Canada tariffs may now be off, or may now be on. It all depends on how one interprets Trump's unscripted comments at press conferences, and then waiting for the White House or an administration official to clarify what the President meant. Already, yesterday, Commerce Sec Lutnick quickly clarified that the Pres referred to reciprocal tariffs for early-April, while the so-called "fentanyl-related" tariffs are still on for a re-evaluation on March 4th, at the end of the 30-day pause (but markets failed to catch on).

Earlier today, Trump confirmed that the "proposed tariffs scheduled to go into effect on March 4th will, indeed, go into effect, as scheduled." That got the market's attention, denting US equity futures, triggering losses in the CAD and MXN (but also the likes of the EUR), lifting US yields but dragging Canadian rates lower, and overall leaving trading on weaker, and more apprehensive footing.

We've been here before, however, with the will he, won't he game, so the market reaction is still relatively limited, all things considered. Still, it looks like it will go down to the wire again, but markets are likely to trade cautiously into the weekend and early next week. From Mexico's standpoint, Econ Min Ebrard is in Washington today and tomorrow to meet with USTR Greer and Commerce Sec Lutnick, respectively, which may deliver another pause if Mexico's representative can demonstrate or promise some progress on curbing fentanyl flows (or Chinese imports). Pres Sheinbaum has also said she plans to speak to her US counterpart this week.

Setting aside tariff 'developments', markets have had some notable items to trade on from a data standpoint although the data impact has been net-net relatively neutral and confounded by Trump's comments. There wasn't much of a reaction to softer-than-expected core inflation in Spain overnight, nor to a strong beat in US durable goods orders (as core orders disappointed) alongside a revision higher to Q4 core PCE inflation, all somewhat offset by higher-than-expected jobless claims figures; just now US pending home sales data massively disappointed. Mexico's trade balance started the year in a much bigger deficit than expected, coming in at -USD4.6bn (vs -3.8bn) expected and compared to -USD4.1bn in January 2024; exports grew 5.5% y/y compared to a 5.9% rise in imports.

The equities mood didn't look that bad all things considered following Trump's post, but sentiment has clearly soured since the cash open that has Nasdaq down about 1% (as Nvidia flips from overnight gains post-earnings to a ~3% decline, at writing) and taking lower with it global currencies and yields; the S&P and DJI are holding little changed on account of lower 'tech' dominance in the indices. The MXN is down, but only about 0.5% which is on par with the losses for its closest currency peer among the majors, the CHF (not really). The CAD is also down about 0.6%, better than the EUR's 0.7% loss and better than other commodity/high-beta like the AUD and NZD that are off 0.8%. US yields have chopped around on headlines and data, to sit net 3bps higher across the curve, a touch more than the rise in UK yields, but opposite to 3bps yield declines in the Eurozone front-end (as the EU is eyed for tariffs) while the long-end is a touch cheaper. Oil is up about 1.5%, gold is down about the same, and copper and iron ore trade 0.5% gains and losses, respectively.

—Juan Manuel Herrera

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