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Latam Daily: China News Helps Markets; BCB to Hike 50bps

The overnight session was marked by positive developments out of China, with stimulus measures rolled out by the central bank and an announcement of early-stage trade talks with the U.S. on Saturday, in Switzerland. The news are acting as a small support for global sentiment with some mixed moves across asset classes and regions. In China, alongside trade de-escalation hopes, the national bank's cut to its 7-day reverse repurchase rate to 1.4% from 1.5% and a reduction to banks' required reserve ratio to 9.0% from 9.5% supported a 0.8% rally in the Shanghai composite.

U.S. stocks are up about 0.5%, coming back from being deflated by headlines that the E.U. is announcing a list of tariffs tomorrow to be enforced if discussions with the U.S. don't go well. In turn, weak European equities weakened further to eye 0.5% losses on the day. Currencies are broadly softer against the USD, with the MXN being a key exception gaining 0.3% on trade optimism, the same optimism that is weighing on the JPY that lags all majors with a 0.6% loss. In Latam, the CLP is trading 0.4% weaker, possibly dragged by a 2.5% drop in copper and a 1% decline in iron ore prices. Oil is off about 0.5%. In the rates space, the global long end is decently bid with European debt outperforming on the E.U. tariffs headlines piling on solid gains prior to that. USTs are slight laggards with little change in front-end yields.

A quiet morning is in store while markets await the Fed's policy announcement at 14ET where the focus will be on signaling around the timing of potential rate cuts; at yesterday's close, markets were pricing in about 80bps in reductions by year-end. The main event in Latam markets will be the BCB's decision at 17.30ET with Brazilian officials expected to hike by 50bps to 14.75% in what may be the final BCB rate increase in the current cycle—or second-to-last with the chance of an additional 25bps that markets and economists are split on. In Colombia, BanRep holds a press conference on the Monetary Policy Report published on Monday, so today's focus will fall on comments by Gov Villar to gauge the chance of a consecutive cut at the June rate decision.

Chile released a collection of data this morning that showed a larger than expected trade surplus of \$1.92bn (vs \$1.75bn expected) and a softening of wages growth at 8.3% (from 8.7%). In April, Chilean exports totaled \$8.96bn against a \$7.03bn imports bill. In year-on-year terms, industrial goods exports led the charge rising 8.6%, over the 6.6% rise in mining exports and an 11.3% drop in agricultural products. While the trade surplus for the month exceeded estimates, it was practically equal to April 2024's reading, sitting only \$2mn higher last month. As for nominal wages, the 8.3% y/y increase still leaves the pace of growth around the 8.5% level that is has straddled since last July, although the INE's seasonally-adjusted series shows that very muted m/m growth in the January to March period. In any case, tomorrow's CPI release will be a much more important data point to watch for BCCh expectations—although we get another CPI print before the bank's June 17th decision.

—Juan Manuel Herrera

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