

## LATAM Market Update

- **Mexico: Banxico holds rates steady at 8.25% as one member votes to cut rates; Trade balance prints an unexpected surplus in May**

Banco de México's Board of Governors decided to keep the overnight interbank rate unchanged at 8.25%, in line with market expectations. However, the decision to hold rates steady wasn't unanimous since one member voted to reduce the target by 25 basis points. According to Banxico's press release, economic activity printed a lower than expected month-to-month increase in April, where a slowdown in the services sector stands out, while most of the aggregate demand components remain weak. Furthermore, the institution noted that inflation decelerated from 4.41% to 4.00%, between April and the first half of June, driven by a significant fall in the non-core component, while core inflation did not vary much. "High uncertainty persists regarding the risks that might affect inflation", due to factors such as potential exchange rate pressures; energy and agricultural price increases; trade tensions; cost pressures; public finances deterioration; among others. The Central Bank stressed to "maintain a prudent monetary position" and keep a close eye on the potential exchange rate pass-through to prices; the relative monetary position between Mexico and the United States; the future evolution of economic tightening; and on cost pressures in the economy. The minutes from yesterday's monetary policy decision will be released on July 11<sup>th</sup>, and the next decision is scheduled for August 15<sup>th</sup>.

May's trade balance figures reported an unexpected US\$1.03 billion surplus, beating market expectations of a US\$0.93 billion deficit, driven by an increase in Mexican exports, from 6.1% y/y to 6.7% y/y, which offset the imports slowdown, from 1.6% y/y to 0.1% y/y. So far this year, the trade balance exhibits a US\$0.58 billion surplus.

### CONTACTS

**Eduardo Suárez, VP, Latin America Economics**  
52.55.9179.5174 (Mexico)  
Scotiabank Economics  
[eduardo.suarez@scotiabank.com](mailto:eduardo.suarez@scotiabank.com)

**Guillermo Arbe**  
511.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Mario Correa**  
52.55.5123.2683 (Mexico)  
Scotiabank Mexico  
[mcorrea@scotiabank.com.mx](mailto:mcorrea@scotiabank.com.mx)

**Sergio Olarte**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@co.scotiabank.com](mailto:sergio.olarte@co.scotiabank.com)

**Jorge Selaive**  
56.2.2939.1092 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

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