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Latam Daily: Mexican Core CPI Slightly Beats; On Consensus Brazil Inflation

The dollar's losses and broad risk-on trading extended for a third day in overnight dealing following the relatively dovish FOMC minutes released yesterday evening.

US markets are closed today for Thanksgiving and activity should be light and likewise tomorrow in half-day trading in the country. SPX futures are modestly higher (up 0.3/4% alongside NDX contracts) and European stocks are adding to the strong open following the post-London gains in the US yesterday. Commodity prices are mixed with metals generally stronger against minor losses in crude oil owing to likely non-binding Russian oil price caps as well as daily contagions in China climbing to a record high—and reports that Beijing is going back into lockdown.

There were limited developments in Latam since the close until this morning's release of Mexican and Brazilian H1-Nov CPI. While headline inflation missed, both in year-on-year and month-on-month terms, **core prices rose by slightly more than expected in Mexico** at 8.66% y/y and 0.34% m/m (vs 8.62% and 0.31% forecast, respectively). Core goods and services prices increased by roughly the same, at 0.35% and 0.34%, respectively (although for services this represents the fastest gain since H1-Sep).

On the other hand, **Brazil's prices data offered limited surprises** falling marginally short of the median economist forecast (6.17% vs 6.20% y/y and 0.53% vs 0.55% m/m). **Chile also reported a substantial 2.1% m/m increase in producer prices** in October (no consensus) driven by utilities costs which helped the CLP to a short-lived gain upon release—while it still holds a decent 0.5% appreciation at writing.

Banxico hawk Heath stuck to his usual tone yesterday, saying that rate hikes must continue and that the bank should remain “more or less in line” with the Fed in the short run. This should come as no surprise given Heath's hawkish bias though it contrasts with what Dep Gov Borja said around mid-month that Banxico following the Fed is “not mechanical.” We expect Banxico to hike by 50bps next month, in line with the Fed, which should continue to provide support for the MXN against the dollar.

While the MXN has led all major currencies in 2022 as it moves in concert with the dollar's strength, next year may see it lag as the Fed ends its hiking cycle (and thus Banxico, which may cut in late-2023) and slowing growth in the US sees a softer Mexican economy. **Later today, we'll monitor the minutes to Banxico's November meeting out at 10ET with a focus on ‘decoupling’ talk as well as core inflation risks.**

Colombian President Petro's comments yesterday—at the inauguration of the XIX National Infrastructure Congress—**provided little of note for markets.** When speaking on the severe floods seen in the country in recent weeks, he did not touch on the possibility of expropriating properties to relocate those affected (as was reported as a possibility earlier this week).

Finance Minister Ocampo and BanRep Governor Villar also speak at the Cartagena infrastructure event today (at 14ET and 15ET, respectively). We expect Colombia's central bank to increase its policy rate by 100bps at its December meeting followed by possibly another 50bps in January. Note that BanRep officials meet tomorrow but this is not a rates- or policy-setting gathering. The marginal risk that the bank may have in fact acted tomorrow on the rates side has all but faded thanks to a more stable exchange rate and an improved mood in international markets.

November 24, 2022

Brazil's Liberal Party has been fined by the country's electoral court after the complainants did not agree to expand their call for an annulment of the second-round votes to those of the first-round. Bolsonaro's party claimed that older, "flawed", machines had given Lula the victory, yet they are not willing to review voting in the first-round election that favoured the bloc in Congressional contests. For that, the Bolsonaro coalition has been slapped with a BRL23mn fine as the court considers they have acted in "bad faith." The refusal to proceed with the case may be giving the BRL a push today, as it strengthened firmly in early trading but has since moved back to the middle of the pack among the majors.

Yesterday, the BCB's Campos Neto said that labour market surprises in Brazil will stop and that he sees slight improvements in inflation figures, softening the relatively hawkish tone of comments he had made on Friday. Overall, the combination of continued easing of inflation, Campos Neto's more optimistic tone, and a high chance that Lula's spending plans will be cut back point to **only limited upside to BCB rates over the coming months.** According to a member of Lula's transition team, they have until tomorrow to submit a budget bill to Congress, setting it up for debate next week with the likeliest scenario being a watered-down decision on the exclusion of social spending funds from the spending cap, with this also lasting only between two and four years.

—Juan Manuel Herrera

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