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## Latam Daily: Banxico's Quarterly Report; Peru's Castillo Under Pressure

- Chile: 26k jobs created, but mainly informal and in trade sector

**Markets traded with a fairly upbeat mood overnight on COVID-19 developments in China.** Despite the current wave being the worst in the country since the beginning of the pandemic, sentiment is being supported by continued official and unofficial reports of authorities attempting a more targeted response to COVID-19 or laying the groundwork for a fuller reopening next year. Measures include China's iPhone city (Zhengzhou) switching from a broad lockdown to shuttering specific buildings and apartment blocks and reports that the government is considering a fourth round of vaccines.

**Commodity prices are broadly stronger**, which again helped the CLP to a solid 1% gain at the open.

**Chile's INE published manufacturing, industrial, and copper production, and retail sales data today** that showed considerable economic weakness motivating our Santiago team's call of aggressive cuts next year. While manufacturing production more than doubled the expected y/y decline (9.2% vs 4.3% expected) retail sales exceed expectations but remain highly depressed, contracting by 12.3% from 14.3% (vs 15.3% expected). Brazil reported another (larger than expected) decline in unemployment to 8.3% from 8.7% previously—which adds to calls for another slight BCB hike.

**Colombia releases unemployment figures** later this morning as well, which are expected to show a practically unchanged jobless rate of 8.3% (vs 8.4% prev). **BanRep's Villar said yesterday that the bank may be nearing the end of its hiking cycle** as inflation needs to be lowered but caution and gradualness is required.

### Peru budget debate; Castillo faces impeachment (again)

**Peru's Congress will debate the country's 2023 budget for the final (scheduled) day today.** New PM Chavez is fighting the opposition over the latter's attempt to tap the contingency fund for about PEN1.2bn (out of around PEN4.8bn under the 2023 budget proposal). These 'rainy day' funds would instead be put towards safeguarding public and education employment as well as the country's housing support fund (Fonavi).

**An independent lawmaker has submitted a third impeachment motion against President Castillo.** The motion claims that the President is unfit for duty, on the basis of "moral incapacity" due to alleged nepotism and corruption (among other accusations). The submission may have been fast-forwarded following Castillo's interpretation of last week's refusal to hold a vote of confidence on a single issue as an outright denial of a vote of confidence on cabinet policy; two denials in a row allow the President to dissolve Congress.

**Congress will vote on whether to accept the motion on Thursday, December 1.** With only 52 of 130 (if full session) lawmakers needed to advance the proposal and already 67 signing the document submitted, the motion will now proceed to debate. **The impeachment motion requires that 87 lawmakers to vote in its favour towards Castillo's vacancy.** At the March proceedings, only 55 voted to dismiss the President, and the December submission fell short of the 52/130 required for debate. It will not be a matter of days, however, to know the results of this latest attempt to kick out Castillo. The President will have an opportunity to present a defense on Monday, December 12.

## MXN on the backfoot after strongest since March 2020

Though the risk-on mood is supporting the commodities complex, and associated currencies, the MXN is a clear laggard among the majors with little to explain its underperformance. Softer US yields may be weighing given the link to Mexican debt, but traders may have also found a good MXN short entry point as it traded yesterday at strongest level since March 2020.

**AMLO's push on electoral reform is also a key risk for the currency.** While his proposal to amend the Constitution is bound to fail in Congress (failing to get a two-thirds majority), secondary legislation may still be changed with only a simple majority required; he is expected to lay out his plans later this week. **The President also said yesterday that he is willing to resort to a trade dispute with the US if no agreement is reached on GMO corn imports.** This is in addition to ongoing disputes under USMCA over Mexico's energy sector.

**At 13.30ET, Banxico will publish its quarterly report that will present new forecasts and inform rate expectations for the months ahead.** The central bank is attempting to strike a balance between blindly following the Fed against a weakening economic backdrop at home. Core inflation remains strong, however, which eases the decision to keep pace with the Fed for the foreseeable future.

—Juan Manuel Herrera

## CHILE: 26K JOBS CREATED, BUT MAINLY INFORMAL AND IN TRADE SECTOR

Labour market weakness continues alongside a destruction in formal employment.

On Tuesday, November 29, the statistical agency (INE) released data for the quarter ended in October showing the unemployment rate remains at 8% (chart 1), positively surprising both the market and our expectation (at 8.1%). However, the labour market continues to show signs of weakness, mainly in the composition of job creation. **Indeed, 26k jobs were created, of which 61k are explained by the creation in informal sectors and companies while formal employment fell 35k.**

**By economic sector, trade added 41k jobs, mostly self-employed** (chart 2), showing strong performance compared to seasonal patterns. **Excluding trade, the economy lost 15k jobs**, below the usual seasonality seen for October. Persistent weakness in construction and industry should be reflected in an economic activity that shows no signs of growth, at the margin.

In our view, the latest labour market figures reinforce our expectation of a big cut in the monetary policy rate at the January meeting, in the context of falling inflation expectations.

Chart 1

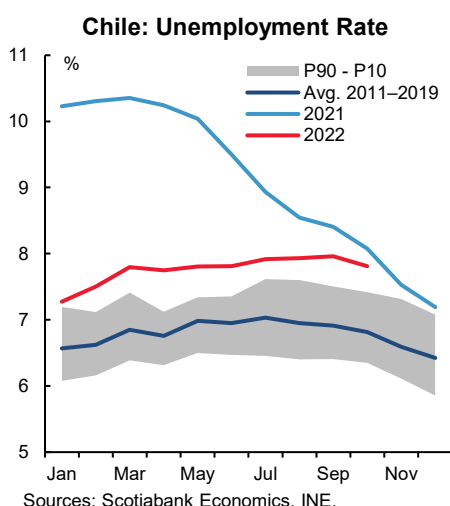


Chart 2



—Aníbal Alarcón

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