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## Latam Daily: Market Anxiety Crowds Out Macro; Mexico's IGAE and Brazil's IPCA Ahead

There is little explanation for the unadulterated anxiety that European markets opened with this morning (see overnight markets below). It was a quiet overnight session coming off a decent close in the US (after Yellen softened her tone on deposit insurance), with solid macro data in Europe before the open that should have acted to lift yields.

SPX futures are down ~1% as European markets sit 2%+ weaker, while oil is down about 4%, iron ore gains 0.7% and copper drops 1.5%. The USD is broadly stronger (EUR down 0.9%, CAD down 0.4%) given the risk-off backdrop with the JPY outperforming (up 0.7%) thanks to the drop in US yields and its haven status (fighting with the 130 level). The MXN continues to track the negative risk mood and the decline in US yields, as it posts a 1% drop on the day which has trimmed its still-decent 0.9% gain over the week; despite the weak risk backdrop and yesterday's softer than expected H1-Mar inflation data (where core held up, however).

In the Latam day ahead, we're awaiting Mexican economic activity and H1-Mar Brazilian inflation at 8ET; Chile also publishes PPI data at that time. For Mexico's IGAE, the median consensus of 3% y/y from a 2.62% expansion in December is somewhat below the most recent update of the INEGI's nowcast (IOAE) that pointed to a 3.3% y/y reading for January—and anticipating an acceleration to 3.5% in February on preliminary data. The January increase is expected to be driven by the services sector, which is seen gaining 0.7% against a flat unchanged activity in the secondary sector. Overall, Mexican data to start the year have been solid and would support continued tightening from Banxico. Now, global financial situations may be in the driver's seat and remain the main thing to monitor in the next few weeks. This aside, Banxico is due to hike 25bps next week while leaving the door open to more increases.

Brazil's H1-Mar IPCA is expected to come in at 5.33%, falling from 5.63% in its previous reading while also decelerating in its sequential reading (0.67% from 0.76%). It's rear-view mirror data at this point, so soon after the BCB's hawkish hold on Wednesday. The BRL nevertheless followed the bank's decision with a clear underperformance among the major FX, falling 1.1% yesterday, with challenges to the central bank's autonomy—or at least strong pressure to cut rates—from Lula weighing on currency sentiment. Even lower house Speaker Lira had to step in, saying “we need an armistice so the finance minister, the central bank president, the executive branch and congress may debate the new fiscal framework once Lula returns” (from his trip to China). We don't see emotions cooling any time soon, but a softer CPI print today would likely be welcome by all; though government officials will come out louder to call for a cut.

### Overnight markets

The UK market open saw a slide in bond yields across the board, in bull steepening fashion as US2s fall 22bps on the day against a 13bps drop in 10s. Anxiety over Deutsche Bank's subordinated debt is one possible explanation as the bank's CDS jumped yesterday and triggered (what seems to us as unfounded) chatter of another possible bank failure. But there is no clear evidence that DB (down 10%+ today) is going the way of CS and the move here seems self-fulfilling.

Prohibitive liquidity in rates markets may be accentuating anxiety-driven trades with UST volatility, which while coming down from the CS panic days last week, still remains a great degree above where it sat pre-COVID-19—and is in fact at comparable levels to the March 2020 market swings. Continue to monitor banking sector developments as these are, by and large, the biggest driver of market action while there is little sense that measures announced by governments or reinforcing vocal support are preventing further declines.

—Juan Manuel Herrera

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