Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mexican Q1 GDP Breakdown; Brazil Rate Cut Bets Build

The week is winding down with some cautious optimism in markets that US lawmakers will agree to a broad outline of a debt ceiling extension bill as soon as today; the US curve is bull steepening. The USD is losing ground against all major currencies after a four-day rally that still leaves it on track for a 0.7/8% gain for the week (BBDXY). US equity futures are little changed after mostly range-bound trading overnight mimicked by crude oil price action that turned a bit more bullish in the past two hours, with WTI up 0.8%; key metals are closing out a bad week with solid gains, iron ore +5% and copper +1.7%.

We have another relatively quiet one today in Latam. Mexican final Q1 GDP at 8ET should not be too eventful of a release, but we get an expenditure breakdown that provides some insights into the country's growth mix between consumption, investment, and net trade; the advanced release's headline GDP growth rates of 3.9% y/y and 1.1% q/q are seen only 0.1ppts lower by the median economist in today's revision. March economic activity index data out at the same time are quite stale. The 3.2% y/y expansion is in line with the INEGI's advanced indicator that for April shows a deceleration to 2.6% y/y—which would be its weakest pace of growth since last June.

In other news, Colombia's Trade Minister said yesterday that the government is looking at whether new oil exploration contracts are needed. This comes in the aftermath of Wednesday's hydrocarbons agency's report that showed the first decline (albeit small) in proven oil reserves since 2016 (when exploration was depressed amid a commodities crash). BanRep officials meet today in a non-policy–setting meeting, following comments yesterday from board member Acosta who noted that core inflation (ex food and regulated prices) will only start declining in the second half of the year—reinforcing our expectation that rate cuts will not begin until the final quarter of 2023 amid sticky inflation.

While global markets pay attention to debt ceiling developments ahead of the US long weekend, we'll watch Mexican data noted above and the continued reaction in Brazilian assets to the lower than expected IPCA 15 inflation reading published yesterday. Markets are now convinced that the first BCB is coming in the third quarter (for over 100bps and up to ~150bps in cuts by year-end). Yesterday's decline in short-term rates weighed on the BRL to see it weaken 1.6% through the 5 reais mark for its worst close (at 5.04) since late-April. It may have also been weighed by tax breaks on lower-priced autos announced by Lula yesterday that highlight erratic fiscal policy while the new fiscal framework continues its congressional process.

—Juan Manuel Herrera