

#### Contributors

##### Juan Manuel Herrera

Senior Economist/Strategist  
Scotiabank GBM  
+44.207.826.5654  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

**Guillermo Arbe**, Head Economist, Peru  
+51.1.211.6052 (Peru)  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**, Head Economist, Colombia  
+57.601.745.6300 Ext. 9166 (Colombia)  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**, Head Economist, Chile  
+56.2.2619.5435 (Chile)  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**, VP, Latin America Economics  
+52.55.9179.5174 (Mexico)  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

#### TODAY'S CONTRIBUTORS:

**Brian Pérez**, Quant Analyst  
+52.55.5123.1221 (Mexico)  
[bperezgu@scotiabank.com.mx](mailto:bperezgu@scotiabank.com.mx)

**Miguel Saldaña**, Economist  
+52.55.5123.1718 (Mexico)  
[msaldanab@scotiabank.com.mx](mailto:msaldanab@scotiabank.com.mx)

Chart 1



## Latam Daily: Brazil Inflation, BCCh Economists Survey

### • Mexico: Industrial production slightly slows, remains strong

After the week started out with a bang on BoJ/PBoC developments, Tuesday's Asia session lacked any notable news, while European hours delivered a mixed UK jobs report that at the very least does not add to BoE hike bets. The G10 day has little on tap while markets await US CPI data tomorrow. US equity futures are about 0.3% lower, crude oil is up 0.8% versus a small 0.3% decline in copper, and US and Eurozone curves are flattening in contrast to bull steepening in the UK.

The USD is 0.2/3% stronger against all key currencies including the MXN, where a 0.1/2% decline is only a scratch after a massive 1.8% rally yesterday that represented its best daily move since March 2022. The overall weak dollar on Monday combined with rising local yields (owing to Friday's 2024 economic package, see yesterday's [Latam Daily](#)) to support the peso.

Last night, Fitch said that the support that the government laid out for Pemex in the 2024 plan is "directionally positive", but will stay its hand on the company's rating watch until the budget is approved—and also noted that the measures do not "fully address all of Pemex's short-term capital needs".

Morena's presidential nomination runner-up Ebrard said yesterday that he may quit the party if his complaints about the murky selection process are not addressed. Morena's party head Delgado will speak later today on Ebrard's accusations. This should have no influence on markets today, but his departure and possible candidacy with Movimiento Ciudadano are a risk to consider for next year's presidential election.

Today's Latam highlights are Brazilian August IPCA data at 8ET and the results of the BCCh's economic expectations survey at 7.30ET.

Brazilian inflation is seen jumping to its highest pace since Q1, above the mid-4s in year-on-year terms (4.66% median), due mainly to less favourable base effects as fuel/utilities tax cuts fade; in September, a 16.3% increase in gasoline prices by Petrobras will also result in an inflation spike to 5%+. Setting the jump in headline inflation aside, and considering it is already seen ending the year around 5% (from the 3.2% low in June), markets will focus on the pace of price gains in services that are the BCB's focus.

For now, markets are comfortable in their expectation that the Campos Neto-led central bank will move at a 50bps cutting pace over the next five or six meetings. But, sticky services inflation, a weaker real since late-July, and higher energy prices (and how expectations may be shaped) point to limited risk that the Brazilian front-end will rally in the near-term.

As for the BCCh's survey, we'll see whether the median aligns with the bank's guidance that suggests they'll stick to 75bps cuts at their two remaining decisions of the year, to close 2023 at 8.00%, or if it still sees a 7-handled year-end rate at 7.75% (a 25bps increase from the August survey median), which is our own forecast for year-end.

—Juan Manuel Herrera

### MEXICO: INDUSTRIAL PRODUCTION SLIGHTLY SLOWS, REMAINS STRONG

In July, industrial activity growth slightly moderated to 4.8% y/y from 4.9% previously (NSA terms), within which construction soared 25.7% y/y (from 22.9%), utilities rose 4.8% (from 0.3%), manufacturing rose 0.8% y/y (from 1.7%) and mining fell -0.7% y/y (from 1.6%). On a monthly comparison, it moderated slightly 0.5% m/m SA from the previous

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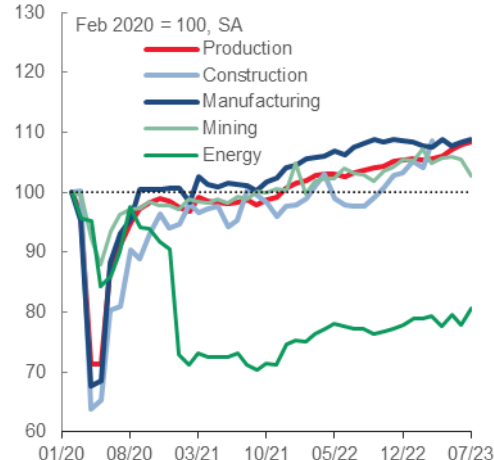
0.8%. Construction led the way although it moderated 2.0% m/m (previous 3.3%), manufacturing slowed to 0.3% m/m (previous 0.6%), while utilities rebounded 3.5% m/m (previous -2.0%), and mining dropped -2.6% m/m (-0.4% previous). On the other hand, in the January–July period production increase 3.9% YTD.

Considering this print, we highlight the clear improvement in construction, although it took a little longer to recover, it already registers higher pre-pandemic levels, and it is more clearly observed by the change of base year by INEGI to 2018. On the other hand, manufacturing remains more stable, while energy remains far from 2018 levels, without showing a significant recovery. In the short term, we expect additional strong annual increases in construction, supporting the positive expectations of nearshoring, linked also to the increase in construction in gross fixed investment. Manufacturing has had a smaller increase, owing to the slower pace of the US economy, in addition to restrictive rates that may be impacting the sector.

—Miguel Saldaña & Brian Pérez

Chart 2

**Mexico: Industrial Activity Recovery**



Source: Scotiabank Economics, INEGI.

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