

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatia.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Latam Daily: BCB Minutes, Constitution Proposal to Boric

There was a bit more data and headlines overnight to drive local markets in Europe and Asia with modest spillovers into the global market mood, as we head again into a relatively quiet Americas session where sovereign and corporate issuance are the highlight. A stream of Fed officials are also on tap, but their comments seem of secondary importance to markets, and CPI data out next week is the main risk for December Fed meeting expectations.

The RBA's dovish hike with a higher bar for more tightening, yesterday's embracement of 2024 cuts by BoE chief economist Pill and softening UK food prices inflation, mixed Chinese international trade data, and weak German industrial production and construction PMI figures are the main market drivers. Briefly, dollar strength is extending, USTs held narrow ranges until catching a bid in European hours, partly due to a good drop in oil prices, while the stock markets mood is mixed.

USTs had slightly bear steepened overnight before the start of UK trading prompted a solid bid in rates markets where gilts have driven the rally (UK2s down 11bps) to now have USTs and EGBs bull flattening. In the case of US10s, the steep 7/8bps rally since around 3ET has erased the rise in the tenor's yield seen from around 7ET on Monday, but the 4bps move lower in 2s over the same period today is only good enough to pare the front-end's late-Monday weakness. The US auctions USD48bn in 3s this evening, which may keep the front-end of the curve on the backfoot today, already feeling the pressure from IG issuance to start out the week and set to continue over coming days. Long-end UST auctions on Wednesday and Thursday may eventually favour a steeper curve.

The USD is stronger against most currencies, where the AUD's 1% decline on the RBA's dovish hike is the stand-out amid a general underperformance of high-beta FX. This, however, is not true for the MXN which is the only key currency marginally higher on the day versus the dollar, up 0.1%, thanks to lower US yields that play a key role in the peso's price action. Among the worst performers, we also have the NOK (-0.8%), NZD (-0.7%), and a not as beaten (but still 100pips weaker in 24h) CAD (-0.3%).

The negative commodities and China growth mood looks to be behind the high-beta weakness, amid mixed Chinese international trade data (exports miss and imports beat but driven by copper) and gloomy German construction PMIs (38.3 from 39.3) and weaker industrial production (-1.4% m/m vs -0.1% expected).

WTI crude oil is down over 2%, falling below \$80/bbl and testing the \$79/bbl mark, at writing, while iron ore is down 0.8% and copper is sliding 1.2%. US equity futures mostly range-traded overnight with some chopping around in European hours to sit 0.1/0.2% weaker in SPX that is very roughly in line with the performance of the main European stock indices.

Today's Latam calendar has a few bits and pieces to monitor, but their relevance pales to the release of CPI data in Chile, Colombia, Mexico, and Brazil over the remainder of the week. Banxico (note Citibanamex economists survey out today) and the BCRP also announce policy on Thursday. Colombian markets reopen today after holidays on Monday.

In just a few minutes, the BCB's meeting minutes will help us determine how many more 50bps cuts the bank has in its pocket. December looks like a safe 50bps cut, and markets are tilting towards a 50bps reduction in February. How officials view fiscal risks, with the Lula government likely on track to miss the Fin Min's fiscal targets next year, will be key, as will their view of the rise in US yields and external factors as risks to their policy and inflation outlook.

November 7, 2023

In Chile, president Boric will formally be presented with the final draft crafted by the Constitutional Council that will be voted on by Chileans on December 17—with this referendum officially called today by the President. Polls generally point to a rejection of the new text, but our team in Santiago's baseline scenario is that the proposal is approved. We'll keep an eye on opinion polls in the coming weeks. Outside of politics, Chile's statistics agency publishes international trade data for October at 6.30ET, followed by nominal wages data at 7ET, but ahead of tomorrow's inflation release there should be limited reaction to these figures.

—Juan Manuel Herrera

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.