Scotiabank™

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Three-of-a-Kind Latam Inflation

The overnight/early-Europe session was marked by developments out of Japan. A miserable JGB 30s auction combined with some (perhaps overplayed) comments by BoJ Gov Ueda to congress on if/when/how a negative rates exit would come. It was otherwise quiet aside from mixed Chinese international trade data and a weak German industrial production print (also below). The G-10 day ahead has weekly jobless claims in the US at 8.30ET and BoC Dep Gov Gravelle's economic progress report at 12.50ET.

Global curves are steepening, with higher yields across the maturity spectrum in the US, UK, and Japan while core EGBs outperform global peers with 2/3bps declines in German and French 10s vs a 4bps rise in US 10s. BoJ/JGB action has triggered a massive bid for the JPY that is tracking a 1.7% gain to break through the 145 level as it trades at its best levels since early August. The JPY strength seems to be driving the currency market more broadly against the USD as the EUR and GBP resist higher US yields and the so-so risk tone to pick up small gains. That is not the case of the MXN, that is the worst performing major FX this morning (after the KRW), on the weight of higher US yields, on pace for a 0.2/3% drop which only undoes some of the Americas session's gains on Wednesday.

European equities are being dragged by higher yields, but also a weak post-Europe mood in US markets that had SPX close lower 0.4%. Asian bourses all closed in the red, especially in Japan and HK (NK down 1.3% and HSI down 0.7%). SPX and Nasdaq futures are little changed in +/-0.1% ranges. Crude oil is licking its wounds, adding 1% on the day in WTI and Brent as they challenge their respective $70/bbl and $75/bbl marks. Iron ore is well higher again, rising 1.7%, followed by copper +0.8% that is recovering from a very weak performance yesterday evening. Stronger-than-expected Chinese exports data seems to be helping iron ore prices but I'm skeptical of the reaction as imports unexpectedly contracted which shows continued domestic weakness.

We have a huge day on the Latam data front today, with each of Chile, Mexico, and Colombia publishing November CPI figures. Today's key releases come right before the long weekend in Chile, Colombia, and Peru. We'll also be watching reactions to yesterday's approval of the government's health reform in Colombia in the lower house. The bill will now go to the senate with two debate processes in store by end-June.

First up with data is Chile at 6ET, where our team and the Bloomberg median project that Chilean inflation slowed 4.2% from 5.0%, which would represent practically a full 10 percentage points decline from the cycle peak of 14.10% in August 2022. We project a large drop in core inflation as well, to 5.6% y/y from 6.50% in October, for its lowest year-on-year increase in ex-volatile prices since late-2021. There's clear inflation progress being made in Chile and the economy is in a slump—essentially flat-lining since mid-2022. The BCCh chose a smaller 50bps rate cut in October, but the less dovish decision was driven by an adverse international environment (higher commodity prices, global yields, and a weak CLP) that has since clearly improved.

Combined with another nice decline in inflation, we think the BCCh is more likely to roll out a 75bps cut at their next meeting, but we'll wait for confirmation today. BCCh Gov Costa struck a more cautious tone about inflation yesterday, saying that there is still work to do in bringing it towards target and her comments regarding a review of the level of neutral rates at their next meeting may tee up a higher terminal rate after cuts end.

In Mexican data out at 7ET, we project headline and core inflation prints to be roughly in line with that seen in the H1-Nov data. That is, headline holding at 4.4% y/y and core going from 5.5% to 5.3% y/y; the 0.3% m/m rise that we forecast in core inflation is slightly above the pre-pandemic average for November months but shows progress from 0.4% and 0.5% m/m increases in November 2021 and 2022, respectively. Recent Banxico dovishness that started with the guidance change at the November 9th decision (still well in hawkish territory, however) has clearly shifted the timing of the first cut to one of the February or March meetings; today's CPI data could add to that view, especially on a core inflation miss. We'll also see what comes out of AMLO's and Fin Min Ramirez de la O's meeting with UST Sec Yellen today which will likely mostly concern drug trafficking.

Colombian inflation is out much later at 18ET, so markets won't be able to react to it until Monday given tomorrow's market closure. Again, inflation will not fall to single digits in November, with our forecast of 10.1% (roughly in line with the economist median of 10.2%) showing only a modest decline from the 10.5% recorded in October. The slowdown from 10.5% to 10.4% y/y that we project for core inflation (as the median) is even smaller and clearly highlights the stickiness in Colombian inflation that owes to a multitude of factors, namely indexation practices. And these pressures are here to stay, as the November print is the base of negotiation for next year's minimum wage increase, so here comes another double-digit min-wage increase that raises firm's costs and that will be passed on (at least partly) to higher consumer prices. Nevertheless, economic activity remains relatively depressed, with GDP less than 2% larger than end-2021 as of September 2023, so there's a case to be made for BanRep reductions to begin in December which is our call with 25bps—but it's close against a pause, and certainly deviates from some economists that think a 50bps cut is on the horizon (about 20% in the latest Citi survey).

—Juan Manuel Herrera