Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Brazil and US CPI, BCCh Economists Survey

After weakening into the yesterday's auctions, USTs rallied in post-Europe trading to end up stronger on the day despite somewhat soft demand for 3s and 10s. The move continued in Asia and Europe trading, combining with a solid 5yr JGB auction and a miss in UK wages data this morning. In China, Bloomberg reports that Country Garden will avoid a first default on yuan bonds as holders agreed to delay repayment due this week.

The G10 day ahead has the release of US CPI at 8.30ET, where the median expects no change in prices versus October while slightly slowing on a year-on-year basis. The rise in core prices will be the focus and, within core, the services ex shelter basket which decelerated sharply in October will be the main thing to watch.

The market is trading with a slightly positive risk tone, seeing all currencies either flat or stronger against the USD and with this dollar-negative momentum building ahead of Americas trading. The JPY is leading thanks to the decline in US yields, while the MXN is up only slightly to return to its Friday closing levels.

The UST curve is bull flattening around 1.5/2bps in 2s10s after about a 2bps twist steepening yesterday, and marking a near-10bps drop in 10y yields since yesterday's peak, falling just below 4.20%. US equity futures are marginally higher while European bourses are catching up to moves in the US, and adding a bit more, especially in the UK. Oil prices are 0.4% higher, lagging somewhat the 0.6% increases in iron ore and copper.

Today's Latam highlights are the release of the BCCh's economists survey at 6.30ET and Brazilian November inflation at 7ET. Note that Mexican markets are closed today for the holidays, but the INEGI will still publish industrial and manufacturing production figures at 7ET.

After inflation surprised to the upside last week, the BCCh's survey should show a greater share of economists expecting a 50bps rather than a 75bps cut by the central bank at its rate decision next week. Brazil's inflation is only expected to decline from 4.8% to 4.7% y/y. But, this will come with 0.3% m/m rise that would be below the ~0.5% m/m November average in the 2010-2019 period, giving the BCB more than enough reason to choose a 50bps reduction again tomorrow and in February as inflation settles inside the 2.75-4.75% tolerance band.

Colombia FinMin and BanRep dove Bonilla speaks at a DANE event later today and may reiterate his support for rate cuts to begin soon (read next week). We're also watching developments in Peru's Congress towards the approval of a seventh withdrawal from pension funds.

—Juan Manuel Herrera