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Latam Daily: Quiet Latam/Global Day; Mexico CPI Recap

• Mexico: Headline inflation beats on non-core price gains

It was another quiet one overnight, where we only had a marginally lower than expected Australian and Norwegian inflation, supporting bets for no more hikes from the RBA nor Norges—the two central banks in the G10 that still look at a small risk of tightening policy further. That’s excluding the BoJ, of course, where we await spring wage negotiation outcomes; on that note, Japanese wage growth hugely missed in November. The G10 data schedule is uneventful while the global market focus remains on issuance— which has started out strongly with a good gilts auction to give rates markets another push in recent trading—while waiting for the release of US CPI tomorrow as the main data this week. The Fed’s Williams at 15.15ET after the US10y auction at 13ET are the other main things to watch in the G10.

The global risk mood looks positive, with USTs bid evenly 3/4bps across the curve while gilts and EGBs bull flatten, especially periphery European debt which had a bit of a rough day yesterday. Most major currencies are strengthening against the USD, where the JPY is again an outlier, this time losing ground vs the USD to reach the 145 zone on a 0.3% drop. The MXN is flat after testing the 17 level overnight, continuing its losses that started around the release of local inflation data yesterday (see below). Crude oil is 0.5% weaker, shunned in European hours after range-trading in Asia, while iron ore gets slammed 3.5% on soft demand and copper rises 0.7%. SPX futures are up 0.2%.

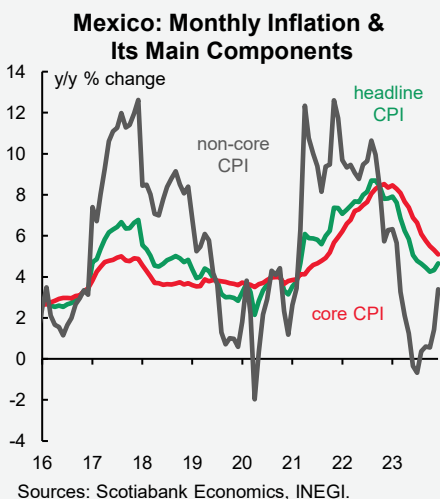
After a busy two days of inflation data from Chile, Colombia, and Mexico, we have today a relatively quiet day in Latam (tomorrow, Brazil and the US publish their own CPI data). Colombia December prices data published yesterday was mixed as the headline miss of 0.45% m/m—vs 0.62% median but in line with our 0.46% forecast—and 9.28% y/y—vs 9.45% median and 9.40% at Scotiabank—contrasted with a slightly stronger core inflation reading. The single-digit reading, its first since mid-2022 is welcome news for BanRep however, who will consider a 25 or 50bps rate cut at its late-January meeting.

Today’s 6.30ET release of the BCCCh’s economists survey may show some analysts changing their expectations for the size of the bank’s next rate cut, following the significant miss in data published on Monday (see [here](#)).

Mexican fixed investment data out at 7ET should come and go, and it’s worth highlighting that these figures seem inconsistent with trends in hours worked data (see [here](#)) so take them with a grain of salt. What may be of greater interest is that the Movimiento Ciudadano party has chosen Jorge Alvarez as the replacement candidate for Samuel Garcia (who returned to the Nuevo Leon governorship) in the 2024 presidential race. Alvarez was Garcia’s campaign coordinator before the latter went back on his resignation as governor. We’ll see whether the naming of an MC candidate influences polls to see voters pull away from Morena’s Sheinbaum or PRI/PAN/PRD’s Galvez, but it is a very high bar for the latter to close the distance to AMLO’s protégée before the June contest.

—Juan Manuel Herrera

Chart 1



MEXICO: HEADLINE INFLATION BEATS ON NON-CORE PRICE GAINS

In December, inflation accelerated to 4.66% y/y from 4.32% previously (4.54% consensus). Core inflation moderated to 5.09% y/y from 5.30% previously (5.15% consensus), derived from a slowdown in merchandise at 4.89% (5.33% previously), and services 5.28% (5.34% previously). The non-core component rose 3.39% y/y from 1.43%, with energy and government tariffs rising 1.46% (0.24% previously), and agriculture 5.66% (2.85% previously). In its monthly comparison, general inflation rose to 0.71% m/m (0.64%

previously, 0.59% consensus), core inflation had a greater increase of 0.44% m/m (0.26% previously, 0.50% consensus), with a greater pace in both goods and services. Finally, the non-core decelerated to 1.53% m/m (1.81% previously). Headline Inflation averaged 5.55% during 2023.

Given this print, we expect that in the following months headline inflation will continue to exceed 4.0%, mainly owing to the rebound in non-core items, which have already rebounded from negative prints and has resumed its upward trend, while the core component continues with a slow deceleration, mainly affected by pressures in services, which increased compared to Q3 2023 levels (5.33% vs 5.23%). Analysts expect year-end inflation at 4.02%, and lower levels in 2025, at 3.76%, although with several possible scenarios, in a range of 3.44%–4.69% for 2024. For now, we have maintained the forecast of 4.60% for 2024 partly owing to the expectation that economic activity will remain strong during the present year, although possibly to a lesser extent than in 2023, for which we expect a y/y growth of 3.4%, pending the publication of Q4 data. Climatic events, such as droughts and floods, could lead to a significant increase in the non-core component in coming months, as well as the persistence observed in the core items.

Chart 2

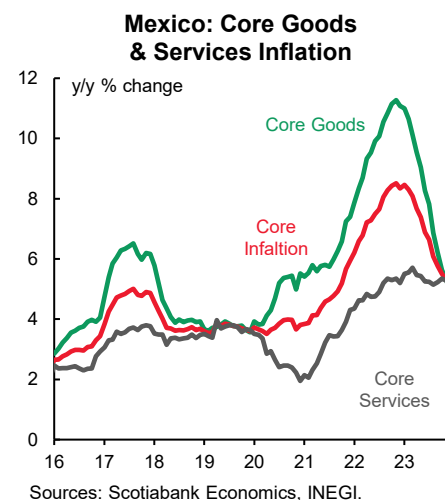


Table 1: Mexico—Annual CPI Variation in Percent							
Indicator	2022			2023			
	II	III	IV	I	II	III	IV
1. Headline	7.99	8.70	7.82	6.85	5.06	4.45	4.66
2. Core inflation	7.49	8.28	8.35	8.09	6.89	5.76	5.09
3. Goods	9.91	10.84	11.09	10.12	8.26	6.20	4.89
4. Food, drinks and tobacco	11.84	13.38	14.14	12.95	10.49	7.57	6.25
5. Non-food goods	7.78	8.00	7.68	6.93	5.70	4.59	3.28
6. Services	4.76	5.35	5.19	5.71	5.25	5.23	5.33
7. Households	2.97	3.15	3.17	3.54	3.66	3.58	3.64
8. Education	3.30	4.49	4.49	4.88	4.85	6.59	6.60
9. Other services	6.61	7.44	7.07	7.72	6.66	6.32	6.46
10. Non-core	9.47	9.96	6.27	3.27	-0.36	0.60	3.39
11. Agriculture	15.02	15.05	9.52	7.24	2.89	3.25	5.66
12. Fruits and vegetables	14.39	14.18	7.22	5.82	3.98	6.75	11.68
13. Livestock	15.51	15.79	11.50	8.37	2.05	0.33	0.68
14. Energy and tariffs authorized by the government	5.22	5.88	3.66	0.16	-3.08	-1.71	1.46
15. Energetics	5.68	6.16	2.91	-2.26	-6.95	-4.61	0.06
16. Government authorized tariffs	4.12	5.23	5.48	6.35	6.26	5.14	4.82

*Data end of period
Sources: Scotiabank Economics, INEGI.

—Brian Pérez & Miguel Saldaña

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