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**Latam Daily: Mexico Q2 GDP; BanRep Decision Preview**

- **Colombia: Monetary Policy Preview—BanRep will continue with a cautious rate cut, while guidance may point to acceleration of cuts in September**

Outside a few exceptions, major markets are holding to relatively narrow ranges in the major asset classes despite a busier calendar today. US equity futures are practically flat, while European bourses sit mixed, stronger in the Eurozone, weaker in the UK. Commodities are mixed, with crude oil trading flat after a 1.7% drop yesterday to its weakest levels since early-June in Brent oil, more than shrugging off Middle East risks. Copper is off by half a ppt and iron ore is down 3% on Chinese steel production controls plans.

Overnight, a small downside surprise in Japanese unemployment rate data was a blip in the radar for JGBs that strengthened as markets check their bets on a BoJ hike this week. The JPY is also suffering a 0.5% drop that is the standout move across major currencies with the MXN not massively benefiting from the yen's weakness, with only a 0.1% gain on the USD as high-beta FX outperform slightly. G10 markets await German national CPI data at 8ETUK, and US JOLTS figures at 10ET. Eurozone Q2 GDP growth surprised slightly higher, while country- and German-state-level inflation data out earlier today were mixed.

Mexican Q2 GDP data out at 8ET is today's Latam highlight. Based on monthly economic activity figures (which recently surprised to the upside) and leading indicators, the Mexican economy is tracking a ~2.5% y/y increase in Q2, accelerating from the 1.6% pace recorded in Q1 (Bloomberg median at 2.4%). Although this would represent the first acceleration in Mexican y/y GDP growth since Q3-22, the timing of Easter holidays in late-March translates into a base effect rebound in Q2 that overlooks that the economy has performed less strongly than expected so far in 2024. A sluggish economy stands in contrast to hot inflation prints so far in 2024 as well as MXN weakness, challenging expectations for a Banxico cut in August (40% priced in).

—Juan Manuel Herrera

**COLOMBIA: MONETARY POLICY PREVIEW—BANREP WILL CONTINUE WITH A CAUTIOUS RATE CUT, WHILE GUIDANCE MAY POINT TO ACCELERATION OF CUTS IN SEPTEMBER**

On July 31<sup>st</sup>, BanRep will hold its fifth monetary policy meeting of 2024. At Scotiabank Colpatria, we expect a 50 basis point cut to 10.75%, in a split vote and continuing with the cautious approach. At the June meeting, the decision came in a split vote distribution with 4 members in favour of a 50 bps cut and 2 in favour of a 75 bps cut. The Finance Minister has tried to build consensus with the board members to accelerate the easing cycle, however, the majority group remains more concerned about the risk of inflation convergence towards the target, being one of the main arguments for continuing with the cautious approach. Meanwhile, the members who have voted for a larger cut argue that high rates have slowed the economic recovery.

At the June meeting, the board also highlighted the tightening of international financial conditions, however, this outlook has changed a bit recently. The market has been fueling expectations that the Federal Reserve will begin the easing cycle in September, a situation that may be in favour of the members of the BanRep who vote for a faster pace of cuts. In any case, the board will only have the inflation result for June, an unfavourable result for accelerating the cuts, considering that it had a small setback when it went from 7.16% y/y in May to 7.18% y/y, in addition to better-than-expected economic activity results.

July 30, 2024

The split vote on the decision and the arguments will be key to determining a possible acceleration of cuts in September. It must be considered that the Federal Reserve decides on September 18<sup>th</sup>, that is, 12 days before the BanRep meeting, an event that may give more confidence to the board to define the future of monetary policy.

For the July meeting, the central bank team is expected to present a new Monetary Policy Report, which will be interesting to monitor how the outlook for inflationary risks and economic growth has evolved.

**Key points about July's BanRep meeting:**

- **The deflationary process paused. June inflation stood at 7.18% y/y, interrupting the deflationary process from its peak of 13.34% in March 2023.** The reduction in indexed services inflation has been more gradual than the rest, and food inflation has increased in the last 3 months, given adverse weather events and higher statistical bases. In July, the board would maintain its cautious approach and continue to depend on the evolution of inflation, which we expect to fall below 7% by the September meeting, at which further progress could prompt a larger cut.
- **Economic activity has performed better, expanding 5.6% y/y in April and 2.4% y/y in May.** The performance of economic activity has been uneven across all sectors, showing a strong boost associated with the agricultural sector. Industry and construction remain weak, while the commercial sector is contracting. In general terms, the behavior of economic activity would not affect the board to maintain the cautious approach, and for now to put aside concerns about a significant economic slowdown.
- **New macroeconomic forecasts.** At the July meeting, the board will have the new Monetary Policy Report, and staff estimates. We have seen that market analysts' expectations have remained stable in inflation and interest rates, while some revise upwards their projections for economic growth. In the BanRep report, it will be relevant to pay attention to the new forecasts on GDP and the production gap to determine if the weak performance of the economy is worrisome and can add to the board's concerns.
- **The new legislature comes with several law projects by the Government, which could add to the board's concerns.** The Government will present an economic reactivation plan that, while it remains in line with the growth expectations of most analysts and BanRep (1.4%), could generate some concern about fiscal accounts if the expected revenues are not obtained and more debt is incurred.

—Sergio Olarte & Daniela Silva

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