

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@scotiabankcolpatria.com

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

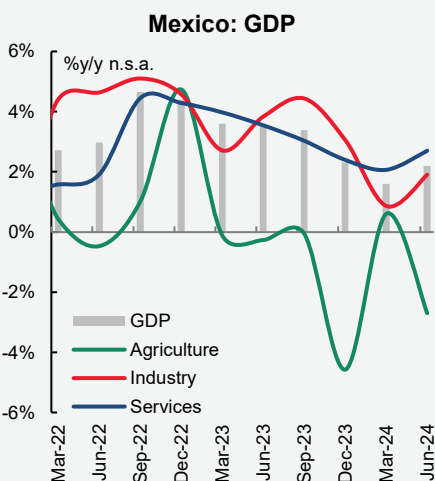
Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Chart 1



Sources: Scotiabank Economics, INEGI.

Latam Daily: Latam and Fed Decisions; Mexico Q2 GDP & Peru Presidential Speech Recap

- **Mexico: Q2 GDP flash estimate came in below consensus, as the fiscal spending wasn't enough to boost economic activity**
- **Peru: Annual Presidential Speech was not exciting, but was reassuring**

In spite of a BoJ hike and Middle East developments (killings of key Hamas and Hezbollah figures), global markets are trading with a relatively positive tone ahead of the Fed's decision. Before the rate announcement, US (ADP, employment cost index) and Canadian (GDP) data releases await, while markets monitor geopolitical risks and the sharp moves in the JPY. The UST also has its Quarterly Refunding Announcement at 8.30ET, where the biggest risk for US rates markets lies in its guidance for the horizon on unchanged coupon issuance.

Through the noise of the BoJ's decision and Gov Ueda's hawkish presser, a miss in Aussie CPI, the release of Italian and Eurozone HICP, and Israel-Lebanon-Iran headlines, global rates markets sit mixed. The UST curve is little changed, in contrast to a nice 5–8bps loss in bear flattening JGBs, decent 1–3bps gains in gilts and EGBs, and a huge rally in Australian debt on the CPI miss.

News that the US will exempt its allies' (namely Japan, the Netherlands, and South Korea) from bans on shipments to China of semiconductor manufacturing equipment is providing some needed relief to beaten tech stocks. Nasdaq futures are up 1.5% (SPX up 1%), while SX5E and FTSE rally 1%+ each on this better equities mood. Crude oil is bid a respectable, though modest in the grand scheme of things, 2.5% in Brent and WTI with near 2% gains in each of copper and iron ore (Chinese PMIs were as expected).

Most currencies are little changed to slightly firmer against the USD, but there are three clear exceptions. The JPY is massively bid, ~1.7% vs the USD, and with that the MXN is suffering from a clear carry unwind move (which has at least partially reversed in recent trading). The Mexican peso is shedding ~0.5% of its value to the USD to sit around 18.85, but recovering from near -19 pesos levels a couple of hours ago. Today's MXNJPY near -2% decline has the cross trading below the 8 yen level for the first time in over a year, representing a 15%+ decline in the pair from its highest point on May 21 (~9.45). The AUD is the worst performer on disintegrated hike bets, with a 0.8% loss that has it trading sub-0.65.

The Latam day ahead is full of key data and events in what is the busiest day of the region (and the globe, if we're being honest) this week. First, Chile's INE releases a flood of macroeconomic figures at 8ET. Retail sales, unemployment rate, and commercial/ industrial/manufacturing/copper activity data are all due for publication with economists expecting a mix set of figures. Industrial output is expected to suffer a y/y decline, while the unemployment rate is seen steady at 8.3%, and retail sales are seen jumping 4% (with some favourable Cyber Day effects).

At 14ET, Colombia's BanRep is the first of the region's central banks to announce its rate decision. As covered by our team in yesterday's Latam Daily (see [here](#)), we expect a 50bps reduction to 10.75% that is the view widely shared among economists. The main thing to watch in today's announcement is guidance around a possible acceleration of cuts as soon as the bank's September meeting, where expect a 75bps move.

Brazil's central bank will follow at 17.30ET, but the BCB's decision will probably be today's most uneventful. A rate hold at 10.50% is a done deal and we shouldn't see guidance suggesting that cuts may resume soon. Inflation remains hot and is due to stay hot over

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H2 amid less favourable base effects and BRL weakness. We probably have a few more months of rate holds in Brazil (a rate hike is highly unlikely) before the refreshed BCB board in 2025 with Lula appointees shows more openness to easing; inflation should also be better behaved by then.

Finally, at 18ET, we get the last policy statement of the day, with the BCCh expected to lower its overnight rate by 25bps to 5.50%. Our team thinks there's a strong case for Chile's central bank to roll out another 25bps reduction as recent inflation strength has rested on electricity tariffs hikes and one-offs like pre-Cyber Day price increases in May. Outside of these factors, there's a clearer broad-based deceleration in inflation that should comfort the BCCh. Markets are now leaning in the direction of a hold, however, with clear indecision among traders on their expectations for today's meeting shifting between cut and hold bets for a few weeks. As of yesterday's close, markets were assigning about a 40% chance of a cut with 10bps priced in.

—Juan Manuel Herrera

MEXICO: Q2 GDP FLASH ESTIMATE CAME IN BELOW CONSENSUS, AS THE FISCAL SPENDING WASN'T ENOUGH TO BOOST ECONOMIC ACTIVITY

The flash estimate of Q2-2024 GDP came in below expectations, at 2.2% y/y from 2.4% in the consensus and 1.6% previously. Services led the advance, edging up from 2.1% to 2.7%, followed by industry, with an advance of 1.9% from 0.9% previous, although negatively affected by primary activities, which fell to -0.27% from 0.6%.

In its seasonally adjusted quarterly comparison, GDP grew 0.2% q/q (0.3% previously, 0.4% consensus), summing eleven consecutive quarters of increases. Within sectors, there is a heterogeneous behaviour, with services leading the advance, although moderating from 0.6% to 0.3%, while industry rebounded from -0.5% to 0.2%, and primary activities fell -1.7% from 1.7% previously, in line with the adverse climatic effects.

The increase in public spending in an election year did not materialize in overall economic activity during the first half of the year to the expected extent, as growth came in slower than analysts expected for the first two quarters of the year. In addition, the drop in formal employment in May and June, together with a slowdown in remittances, although still dynamic, suggest that the economy could face slower consumption, and a slowing of services. On the other hand, industry could face a weaker performance in the short term, since manufacturing could remain flat owing to a moderation in retail sales and industrial production in the United States, while construction, still with a vigorous dynamism in public infrastructure projects, could face a slowdown due to greater political uncertainty for the proposed constitutional reforms, the fiscal situation of the next administration, and the elections in the United States. Thus, given a more complicated environment and an activity that did not meet expectations in Q2, we believe that the consensus could suffer new downward revisions in the short term.

—Brian Pérez & Miguel Saldaña

PERU: ANNUAL PRESIDENTIAL SPEECH WAS NOT EXCITING, BUT WAS REASSURING

On July 28th, President Dina Boluarte gave the traditional, and legally mandated, yearly presidential address.

As feared, the very long speech, lasting five hours, consisted mainly of an itemized litany of past accomplishments and future intentions. This has become a commonplace occurrence for this event in recent years.

The main thread throughout the speech was investment in infrastructure. Very little of what was mentioned was new, most projects that were mentioned had already been outlined by other government officials in the past, particularly by the Minister of Finance José Arista. The positive aspect here, however, is that there is, in fact, a long list of accomplishments to speak of, even if way too much detail was given. Furthermore, infrastructure tenders and investment, which in 2024 will be one of the highest since before COVID, correlates with another aspect of the current government, an aspect which President Boluarte perhaps did not stress enough. Namely, that State management, or at least cabinet level governance, has returned to normal. State management had worsened significantly in the past few years, and the fact that the government appears to be operating properly in its day-to-day activities is reassuring, and is part of the improved sense of stability that percolates society and is behind the recent improvement in business confidence.

The speech ratified the government's pro-business stance in general, but this was stressed most clearly when President Boluarte openly championed the Tía María copper mining investment project. This is something that past governments had not done.

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The speech was not perfect. It was unnecessarily detailed. There was also no link between the infrastructure projects mentioned and social or economic goals. It gave the appearance that the government considered that the infrastructure projects were in themselves the goal and that the measure of their success consisted of the magnitude of the investment involved. Certainly, the magnitude of an investment is important in terms of generating jobs and as part of demand. However, listing projects with no link to goals and no apparent cost-benefit consideration suggests a lack of cost-benefit prioritization of projects or goals.

Any mention of the fiscal deficit was also lacking. Although the government established a new fiscal rule of a maximum deficit (2.8% of GDP in 2024 and 2.4% of GDP in 2025), complying with this fiscal rule does not seem to be a priority.

Given the degree of political polarization in the country, as well as the current political events around the region, one should be thankful that the speech contained no ideological component. Overall, a non-ideological speech, with emphasis on infrastructure investment and a pro-business tilt, should bolster investor confidence. The question is whether or not an improvement in business confidence will translate into greater private investment growth. The answer is that not necessarily. Private investment is beginning to rise, linked to infrastructure tenders and investment, and also to regulatory simplification. However, as long as there continues to be a lack of clarity surrounding the 2026 general elections, private investment is likely to remain cautious.

—Guillermo Arbe

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