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Latam Daily: 'Quiet' Day Ahead; Banxico Forecasts and Political Risks Update

- **Mexico: Banxico forecasts update and political uncertainty**

Disappointing Nvidia earnings (it's all relative) after the US close were ultimately benign enough to have limited spillovers into the broader market mood overnight. National German inflation data at 8ET and the release of US Q2 GDP revisions and weekly jobless claims figures at 8.30ET are the main items on today's G10 calendar to impact global markets.

US equity futures have undone post-Nvidia losses to track about a 0.2% rise while European indices outperform, up 0.5%, on idiosyncratic factors. USTs are slightly richer thanks to soft German state-level inflation data that overturned a slight uptrend in global yields overnight. The USD is mixed against the majors, where high-beta FX (namely AUD and NZD) is leading. The MXN is a touch firmer, up 0.3%, but there may not be a lot of confidence in gains possibly extending as the approval of AMLO's judicial reform plan is on the horizon—next week, to be specific.

Aside from monitoring political developments in Mexico (judicial reform) and Peru (budget plan and Petroperu's financial woes), the main thing to watch in Latam today will be Chilean unemployment rate data at 9ET, thirty minutes after the release of the BCC's traders survey. Economists expect a small rise in the jobless rate to 8.5% in July from 8.3%—note that it has undershot estimates five out of seven times this year and never come in higher—while traders surveyed by the central bank will likely indicate that they expect a 25bps rate cut at next week's rate decision (about two-thirds priced in).

—Juan Manuel Herrera

MEXICO: BANXICO FORECASTS UPDATE AND POLITICAL UNCERTAINTY

In its quarterly report released yesterday, Banco de México revised lower its growth estimate for 2024 from 2.4% to 1.5%, and for 2025 from 1.5% to 1.2%. A key justification for the three members of the Banxico board voting for a cut earlier this month was that weakness in economic activity would lead to lower inflationary pressures in coming months. In this regard, the report highlighted a balance of downside risks to growth.

Among the downside risks to growth were the possibility that growth in the US could be lower than expected, that the (global) electoral processes could increase uncertainty or lead to adverse policies for the economy, and that public spending could deliver a lower-than-expected boost to the economy.

However, the balance of inflation risks continued to be biased to the upside and included the persistence of core inflation, a further depreciation of the USDMXN, greater cost pressures, and greater climatic conditions.

Among the downside risks to inflation, in addition to that of lower economic activity implying lower pressures, the report included that the pass-through of costs to prices may be limited, and that the recent depreciation may have a lesser-than-anticipated effect on inflation. The environment of political uncertainty we are witnessing could materialize several of these risks. In this regard, it is probably too early to update our forecasts based on this week's events.

The approval of constitutional reforms in the first days of September is practically a given, although some minor changes could still emerge. Yesterday, Morena included two senators who were originally presented as opposition (PRD) to its numbers, meaning that the coalition would need only one more vote in the Senate to pass the reforms with the required two-thirds majority.

August 29, 2024

However, we cannot say that immediately after these legislative changes that uncertainty and risk will dissipate, as we will still have to wait for the reactions of our trading partners regarding the implications of disappearing autonomous agencies and changes to judiciary power. In addition, the fiscal package, which will be published in November, could trigger some volatility, while on the international front, the US election will also have an important effect on exchange rate movements at the end of year.

—Miguel Saldaña

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