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Latam Daily: Brazil CPI Unlikely to Shift Hike Expectations; Mexico CPI Recap

- **Mexico: Inflation declines to 4.99% y/y in August**

It was a relatively uneventful overnight session with little follow through in markets from mixed Chinese international trade data—strong exports on possible costs cutting against disappointing imports reflecting poor domestic demand—and roughly in line UK labour market data. Asia and early-Europe trading had a mind to fade some of yesterday's rates rally from around the start of the US session, but markets have taken on a more risk averse tone in the last two hours that leaves global yields roughly unchanged on the day.

A couple of European Court of Justice rulings against Apple and Google in tax and antitrust cases set off a leg lower in US equity futures to leave SPX and Nasdaq contracts down about half a percent and erase daily gains in aggregate Eurozone indices. The move also coincided with losses in the MXN that is down 0.3% and lagging all major currencies on the day (which sit mixed vs the USD), clearing yesterday's appreciation, all while staying in the upper 19s area. Today, Mexico's Senate has the first reading of the judicial reform proposal. Crude oil is down about 1.5% as it can't hold a bid, while iron ore suffers similar losses and copper sheds roughly half a ppt.

At 8ET, Brazil publishes IPCA data for August with inflation seen decelerating from 4.5% to 4.2% in headline terms alongside no m/m rise in prices, but today's data are unlikely to shift expectations away from a hike next week. Yesterday's BCB economists' survey results showed a huge reassessment of rate expectations, with the median lifting their end-2024 policy rate projection to 11.25%, meaning a total of 75bps in rate hikes across the remaining three meetings of the year. Rising core inflation in recent months, BRL weakness, stronger than expected economic growth, and hawkish comments by BCB officials (in relation to the factors listed) point to a need to lift policy rates.

—Juan Manuel Herrera

MEXICO: INFLATION DECLINES TO 4.99% Y/Y IN AUGUST

In August, inflation declined to 4.99% y/y from 5.57% (vs. 5.09% consensus in the Citibanamex Survey), core inflation moderated to 4.0% from 4.05% (vs. 4.01% consensus). Merchandise decelerated 3.02% (3.09% previous), and services 5.18% (5.22% previous). On the other hand, non-core inflation finally moderated to 8.03% (10.36% previous), with agricultural products rising 9.45% (13.72% previous). In its monthly comparison, headline inflation rose just 0.01% (1.05% previous, 0.09% consensus), core inflation 0.22% (0.32% previous, 0.23% consensus) and non-core inflation fell -0.70% (3.29% previous). This lower-than-expected reading came from the more volatile components, mainly fruits and vegetables (-5.21%), which have been affected by weather events, and problems in the local supply chain. Good news also came from core inflation which continues to decelerate, albeit at a slow pace, supported by merchandise, although services remain remarkably sticky at above 5%.

This print reinforces the consensus of an additional cut at the meeting on the 26th of this month, to 10.50%. The governing board's dovish members argued at the last meeting and in recent statements that the August cut was appropriate due to greater-than-expected weakness in economic activity, and the expectation that the pickup in inflation would be transitory, as evidenced in yesterday's data. Despite this outcome, the persistence of the services component remains a major upside risk. Also, the USDMXN volatility from political uncertainty represents another risk to inflation in the short term, despite the

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argument that the pass-through of the exchange rate could be the weaker one in an environment of economic weakness. Going forward, inflation could continue to moderate slowly, as core inflation will continue to decelerate at a slower pace in light of rigidities in services.

Considering Banxico's current stance, along with this inflation reading and other macroeconomic indicators, it reinforces the expectation that Banxico will cut the rate by 25 basis points to 10.75% at the next meeting. The central bank is more concerned about growth than the pickup in inflation, as they argue that this will be short-lived. Therefore, they consider it appropriate to cut the rate as the economy continues to slow, as indicated by recent surveys that expect growth of around 1.5% in 2024.

—Miguel Saldaña

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