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Latam Daily: US CPI, Mexican Senate Approves Judicial Reform

Strong momentum in rates markets continued through Asia trading and early Europe with the US front end rallying 3/4bps to mark a roughly 15bps decline in 2s yields from their Tuesday intraday high. Yesterday's slide in banking stocks on downbeat guidance from a couple of major players combined with a slide in oil prices (momentum trading and technical factors?) for an aggressive bid in global rates that is going unchecked this morning. Global markets await the release of US CPI data at 8.30ET, though barring a massive miss these figures are unlikely to motivate a 50bps cut by the Fed next week.

Yesterday's US presidential debate has likely strengthened the odds of a Harris presidency as the VP mostly stuck to an unexciting script while former Pres Trump struggled with comments on policy and instead delivered bizarre remarks like illegal immigrants "eating the dogs, [...] eating the cats". Rising Harris winning odds would, in a bubble, support global trade sentiment on an avoidance of Trump's tariffs while also presenting a less malign fiscal path for the US. Mexico would also benefit from a less confrontational approach by the US to trade and immigration.

USTs are bid 3/4bps across the curve this morning, while German debt marginally lags about 1bp but gilts strongly outperform with 2s lower by 7bps with a UK GDP miss this morning partly behind the divergence. Though USTs aren't showing an obvious flattening that may take place on unwinding Trump fiscal risk bets, SPX futures down about 0.5% may be a better reflection of the market's interpretation of the implications of the debate. Japan's Nikkei suffered a 1.5% drop today in part due to hawkish comments by the BoJ's Nakagawa on the "level of real rates [being] extremely low". Her comments also lifted the JPY that is leading the majors with a 0.7% gain on the day in a broadly dollar-negative day.

The MXNJPY weakened below the 7.00 yen level this morning for the first time since March 2023 on the dual hit of Nakagawa's comments and the overarching anxiety over Mexico's judicial reform process in Senate. The technical breach in the cross seems to have prompted peso buying, as, at writing, the MXN's 0.6% gain is the second best among the key currencies, leaving it below the 20 pesos levels (just about) ahead of the release of industrial/manufacturing production data at 8ET that is the Latam release highlight of the day. But this will not be the focus of local markets (even US CPI will be of greater importance).

Around midnight local time, Mexican senators approved AMLO's judicial reform proposal in general terms in a 86–41 for-against split where a PAN senator voted with the incumbent party's coalition. Note that his vote was not quite 'needed' as the absence of an MC party senator meant 85 'ayes' were sufficient to meet the two-thirds required. The upper chamber will now look at the decree 'in the particular' where some minor, inconsequential on the whole, changes may be made before rubber stamping it and sending it to its next stage, the ratification of the reform by 17 out of 32 state legislatures—a virtually procedural step as Morena controls two-thirds of these. We'll watch reactions by local firms and/or foreign officials to the passage of the reform to gauge possible economic and market risks.

—Juan Manuel Herrera

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