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Latam Daily: Mexico and Brazil CPI; Chile Inflation Miss Recap

- **Chile: September CPI—0.1% m/m (4.0% y/y), but no surprises in ex-volatiles**

The RBNZ's mostly unsurprising 50bps cut is barely even registering in NZGBs and, of course, even less in non-antipodean markets. Global curves are broadly bear/twist steepening a touch ahead of another mostly bare G10 day peppered with ECB and Fed speakers until the release of the Fed's September meeting minutes at 14ET.

Chinese equities were extending their post-holidays/sans-stimulus losses to as much as ~7.5% in China's Shenzen 300 before an announcement by China's MinFin of a Saturday morning briefing on 'strengthening fiscal policy' lifted mainland and HK indices from their depths. But the 5.7% surge in the CSI 300 after its 7.5% intraday drop was erased almost as quickly over the last few hours of the trading day to close...down 7.1%—there's just not a lot of optimism on strong fiscal support here.

The risk mood is mixed with most currencies weaker against the USD—but not massively aside from the NZD's ~1% drop, and the MXN is unchanged. European stock indices are flat to slightly higher while SPX futures are off about 0.3% after a 1% rise on Tuesday. Despite some China gloom, iron ore and copper are flat, while crude oil rises about 1% after a 4.5% drop yesterday.

The quiet ex-Latam day ahead—where Israel retaliation headlines may be the biggest market mover—is in contrast to a busy morning in Latam. The region's biggest economies, Brazil and Mexico (about 2/3rds of Latam GDP), publish full-month CPI data for September at 8ET, with diverging fortunes. In Brazil, economists project an acceleration from 4.2% to 4.4% in headline inflation while in Mexico the median sees a decline from 5.0% to 4.6% in headline—and even core inflation falling just inside the 2–4% target band, at 3.94%. Given encouraging H1-Sep Mexican CPI data, it may be that markets react more aggressively to surprising strength in core inflation (i.e. still at a 4-handle) than they would in the other direction, in my opinion.

While the inflation rise in Brazil aligns with expectations for more BCB hikes, Mexican data would reinforce forecasts for overnight rate cuts at each of the next eight Banxico policy meetings, much to the displeasure of Dep Gov Heath. Banxico's top hawk said yesterday that officials should keep the reference rate at a high level for longer until "they are certain that they are breaking the resistance in services prices." Note that Bloomberg's headlines based on the Expansion interview suggested Heath referred to keeping the policy rate at the current 10.50% level, but that is not the case as he spoke about "a relatively high level"—it's all about real rates higher for longer, restrictive, even if the nominal rate is lowered.

Also, let's not overlook comments by Dep Gov Mejia who said at a university event on Monday that the country's economy may have a negative output gap by end-2024, a situation where prices would be brought faster towards the 2% target—thus requiring continued easing. One could also argue that Mejia is a closer reflection of the cutting-prone consensus cadre at Banxico.

—Juan Manuel Herrera

CHILE: SEPTEMBER CPI—0.1% M/M (4.0% Y/Y), BUT NO SURPRISES IN EX-VOLATILES

- **BCCh to cut policy rate by 25bps in October, but introduce a message of caution going forward**

Yesterday, the INE released September CPI data, showing a 0.1% m/m rise in prices for the month (4.0% y/y), below the market's expectations, ours, and that of the central bank

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(BCCh) as reflected in its latest IPoM (Monetary Policy Report). However, the ex-volatile CPI increase of 0.3% m/m was in line with our projection and that of the BCCh's baseline scenario, which indicates that the surprises were concentrated in volatile items, particularly a few food items that did not present their usual seasonal increases (potato and tomato). Despite this, some implications for the October CPI emerge given the peculiar dynamics that some goods would be showing, prior to Cyber-Monday (something that already happened on past Cyber-Monday).

The absence of second round effects of the last electricity hike is confirmed for now. The total CPI diffusion of 50.5% shows normalization around historical averages for the month, despite increases in recent volatile items.

At the goods level, we again observe an increase in the diffusion preceding the online shopping event "Cyber-Monday", something similar to what happened in May, which leads us to anticipate a relevant reversal during October. On the other hand, services returned to historical records after being markedly higher in August (charts 1 and 2).

Implications for the October CPI are rather downward. Indeed, although the October CPI will capture the rise in electricity tariffs (0.3 pts incidence) to which seasonal incidences are added, we will have a negative incidence of fuels and, given the behaviour of some goods prior to Cyber-Monday, also a reversion of several of them, especially clothing and footwear and household equipment and maintenance items. In this scenario, we anticipate an October CPI preliminarily between 0.4 and 0.6% m/m, the ceiling being the one reflected in forwards.

Implications for the central bank: cut 25bps on October 17th, without assuring a further cut at the December meeting. The set of activity and inflation figures would provide a floor for a 25bps cut at the October meeting. A higher cut would be flatly ruled out in view of the recent rise in international fuel prices and the rise in the exchange rate, in addition to the geopolitical risk of an escalation of the situation in the Middle East. We expect a message of caution from the BCCh, which would try not to ensure a new cut in the December meeting, framed from a risk management perspective from the international scenario.

One element that would be drawing attention within the CPI basket is the huge role that Cyber-Monday would be playing. Indeed, in an economy with weak consumption, retailers and commerce in general would be resorting more intensely to such events to capture consumers with a cautious behaviour. In this context, Cyber-Monday would be generating peculiar volatility at the goods level. This element that we observed last May, would be confirmed during the following months, especially at the goods level. The INE methodology does not exclude Cyber offers as they are not discriminatory.

Chart 1

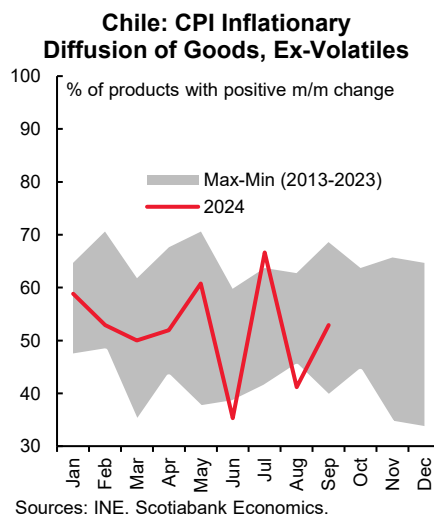
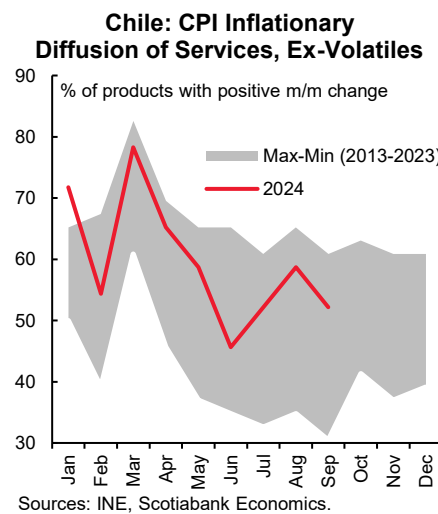


Chart 2



—Aníbal Alarcón

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