

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

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@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

Latam Daily: MXN Hit as Trump Wins in Possible Red Sweep

Trump has won the 2024 election, Republicans have taken the US Senate and may also take the House. The overnight waves of results have delivered a faster conclusion to the presidential (and Senate) race than most expected, with Trump declared as victor in Pennsylvania (with its 16 electoral votes) this morning practically sealing the deal as he took 267 of the 270 electoral college votes needed. It simply took that Wisconsin (10 EC) was projected to be won by Trump just a few minutes ago to give him the presidency according to the Associated Press (277 and counting).

We now have but to wait for the results of a few House races to determine whether Tuesday was a red sweep (more likely than not), and with that determine the degree of fiscal liberties that the new administration will take thanks to full legislative control. In any case, tariffs under executive action are well in play and should be seen as a done deal, especially as it regards China—it's just a matter of how high and on how much.

The day ahead is relatively quiet in the G10, with markets set to move on election results and possible comments by Trump once he reappears after his morning victory speech where he played the usual hits (reduce taxes, fix our borders, YMCA, etc.). Brazil's BCB decides on policy today, with a 50bps hike widely expected at 16.30ET, and Colombia's BanRep publishes the minutes to its latest decision at 17ET.

Markets have reacted as was generally expected to the return of Trump as global curves bear steepen, with the selloff led by the US (2s 8bps, 30s 18bps) while EGB and gilt curves steepen with a bullish bias (2s down 10bps in Germany and 5bps in the UK) aside from the very long-end (30s up 3bps in Germany and 1bp in the UK). In Treasuries, traders are pricing in a more negative fiscal trajectory under Trump while in Europe markets seem to be pricing in negative economic ramifications from US protectionism (and there may be some degree of favoritism on debt risks).

US equity futures are looking forward to policy under Trump as SPX contracts rise ~2.5% and pull European cash indices with them despite the economic risks of another Trump term (FTSE and EuroStoxx up about 1.5% and 1.0%, respectively). Dollar strength (1.3% stronger Bloomberg dollar index) and global growth worries are impacting commodity prices, with oil and iron ore down 1.5% and copper falling 2.5% (Chinese demand at risk, of course).

The USD is stronger against all major currencies, with the tariffs/immigration angle driving sharp losses in the MXN of about 2.5% that make it the worst performing major FX, followed by the EUR and JPY's 1.5% losses where higher US yields and protectionism are acting as headwinds. At its worst point, the MXN was tracking a near 3.5% loss on the day to the ~20.80 pesos level; were the MXN to severely weaken from here, Banxico may have a tougher time cutting 25bps at its mid-November decision (with markets sitting currently at around toss-up odds implied).

We'll monitor very closely any announcements or comments around what the President-elect may roll out on immigration and tariff policy, but for now expect Mexican assets to trade defensively.

—Juan Manuel Herrera

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