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GLOBAL ECONOMICS

LATAM DAILY

December 10, 2024

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Latam Daily: Quiet Day Ahead After Hot Brazilian CPI Increases Chance of 100bps Hike

Today is as quiet as it will get in global markets this week, with few data releases on tap and few developments to drive trading as we cautiously await the release of US CPI tomorrow. Q3-24 US unit labour costs and productivity data revisions out this morning (showing slower ULC growth than previously expected) had no significant impact on USTs that continue to trade with a rates-negative tone since Monday's North American morning. Chinese international trade figures released overnight were highly disappointing as exports growth at 6.7% y/y fell 2ppts shy of the median estimate (and almost halving its pace from October) while imports growth surprisingly contracted by nearly 4% (vs a ~1% expected increase), reflecting the continuously weak internal demand conditions that have prompted a bit more stimulus talk by Chinese officials in recent days. The Reserve Bank of Australia held its cash rate target steady at 4.35% at its Sydney afternoon announcement, as expected, but accompanied its rate decision with an unexpectedly dovish tone that has markets now expecting the first RBA cut to come in April (instead of May prior to the decision) and left Aussie 2s 8bps richer on the day.

Markets are trading with a slight risk-off mood as European stock indices gapped lower at their respective opens to follow losses in the US of about 0.5% yesterday but have held relatively range-bound since the European morning in Euro Stoxx 50 and FTSE 100 that are tracking 0.3% and 0.5% declines, respectively. USTs are extending yesterday's bear steepening with another 1.5bps in 2s10s, in contrast to some nice gains in EGBs led by France where 2s are bid 5bps (compared to 3bps in German 2s) on some optimism that Macron may reach an agreement to form a new government. Gilts are the worst performing debt overnight, on nothing obvious aside from being a suspect product at times, with a 2bps rise in 2s and a 4bps rise in 10s.

The middling risk mood and underperforming USTs has most major currencies trading weaker against the USD, where the AUD and NZD eyeing 0.7% declines on the day take a double hit of a dovish RBA and weak Chinese data, while the EUR and JPY falling 0.3% suffer on the back of higher US yields. The BRL sits at the top of the leaderboard with a 0.8% rise thanks to an as-expected Brazilian November inflation print (but with persistently hot services inflation, see below) as well as news that Lula spoke to Senate and Lower House leaders to break a deadlock on a spending cuts package—all the while the BRL looks (at least) unfazed by President Lula undergoing emergency brain surgery overnight.

The Latam and G10 day ahead is bare of any market-moving releases after this morning's Brazilian CPI data. Brazilian inflation came in roughly in line with the expectations of economists polled by Bloomberg, printing a 4.87% rise in headline prices in November (vs 4.85% median) with hot services inflation (from 4.55% to 4.68%) that will keep the BCB hawkish at its decision tomorrow. Today's data favours those in markets that are pricing in 98bps in hikes compared to the median economist that is eyeing a 75bps move. Amid stubbornly high inflation, strong economic growth, and a 20% depreciation in the Brazilian real for the year, there's a real possibility that the BCB opts for the bigger increase (as a third of those polled by Bloomberg anticipate). Note that markets are also pricing in a 100bps move in January, and have about 88bps in implied hikes for the March gathering.

—Juan Manuel Herrera