Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Macro Data; Fragile Risk Mood

- **Mexico: Industrial Production: construction increased again by double-digits**

Thursday's post-US CPI moves are being partially unwound his morning to show bull flattening USTs and EGBs and a weaker USD against practically all majors (but dollar weakness is fading in recent trading). In both cases, and especially in currencies, today's reversals are well shy of erasing yesterday's sell-off on the strong US services ex shelter CPI reading.

The MXN is closing what was a strong week with a somewhat disappointing Thursday and Friday performance; today that peso is flat, but around the 18 pesos level for a 1% gain since last Friday. Unfortunately for the MXN, hawkish Banxico minutes were but a secondary consideration for trading yesterday as the external backdrop and the broad global tone dominated moves in the currency.

Developments in Israel have markets trading with a risk-averse feel, and risk-off selling may accelerate in the next few hours as participants lighten risk ahead of along weekend that could see an escalation of the conflict. US equity futures are about 0.7% weaker while Eurozone cash indices trade roughly 1% lower. US 2s are down 4bps and 10s are down 8bps.

Israel called for an evacuation of civilians in Gaza City, as it seemingly readies a ground offensive, was a relatively minor immediate influence on global markets. Comments that followed from Iran foreign minister noting that if Israel continues its assaults on Gaza then "it is possible to open new fronts against Israel" prompted a steep rally in oil in the last few hours while weighing on other assets. Crude oil is up 4%+, well better than copper's 0.2% gain and iron ore's slight 0.3% decline.

After the ECB's Lagarde speaks at 9ET, US U Michigan survey data at 10UK is the day's highlight, with inflation expectations the component in focus and a likely (albeit unreliable) indicator that could either further the rates selloff or pare another good share of yesterday's weakness.

In Latam, we have the release of Colombian retail sales and industrial/manufacturing production at 11ET as the main thing to watch, teeing up next Wednesday's economic activity data. Marginal improvements are expected across the board for each of the three series on a y/y basis, but they are still seen in contractionary territory. Most notably, the median economist polled by Bloomberg projects retail sales down 8.0% y/y according to the Bloomberg median, reflecting weakness in household spending.

—Juan Manuel Herrera

MEXICO: INDUSTRIAL PRODUCTION: CONSTRUCTION INCREASED AGAIN BY DOUBLE-DIGITS

In August, industrial activity increased 5.2% y/y from 4.8% previously, within it, construction increased 30.8% (25.6% previously), generation, transmission, and distribution of electrical energy by 8.9% (4.8% previously), manufacturing fell -0.6% (0.8% previously) and mining rose 1.4% (-0.7% previously). In the monthly comparison, it moderated slightly to 0.3% m/m from 0.5% previously, with seasonally adjusted monthly data. Construction rose 2.4% (2.2% previously), manufacturing fell -0.7% (0.2% previously), while electric power generation, transmission and distribution moderated 2.6% (4.5% previously), and mining rose 1.6% (-2.6% previously). On the other hand, in the cumulative from January to August there is a real annual increase of 4.0%.

This increase in industrial production is led by construction (chart 1), which continues to accelerate at double-digits, and has had 11 months of positive percentage change,

Chart 1

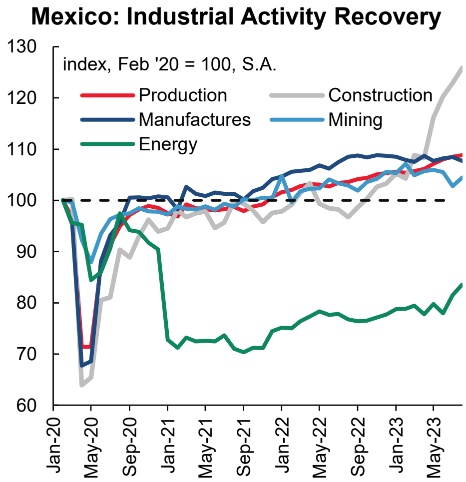
Sources: Scotiabank Economics, INEGI.

supported by the change of base year to 2018 by INEGI. While the component that experienced the most difficulties was manufacturing (chart 1 again), since it broke with the 21-month streak of increases, in addition to the fact that 13 of its 21 components fell in the annual comparison. On the side of the generation, transmission and distribution of electrical energy (chart 2), a slower recovery is observed than the other components, even less than that of mining, which is usually more volatile.

We expect the index to maintain its pace in the following readings, mainly due to construction, and the upward trend that energy may take, and with a slight slowdown in manufacturing (chart 2 again). This indicator may be a factor for revisions in growth forecasts that could increase for the following year, along with the strength of gross fixed investment and private consumption, remembering that in surveys the average growth is around 2.0% by 2024.

—Brian Pérez

Chart 2



Sources: Scotiabank Economics, INEGI.