

## LATAM Market Update

- **Brazil: BCB confirms bias to hold... for now?**
- **Wednesday, May 23<sup>rd</sup> data pipeline**

The retreat of the US from its threatened trade war with China put a bid on risk proxies globally on Tuesday, leaving LATAM FX generally trading stronger. CLP (+2.0%), COP (+1.1%) and BRL (+1.0%) led the gains within the region, but MXN and PEN also both strengthened by 0.4%. It's hard to tell whether this bounce will last, as the threat of higher US yields still looms over EMs, with most of the Treasury curve trading +1bps to +3bps wider, leaving US 10yrs near 3.10%. In LATAM rates, performance was mixed, with Peruvian yields spiking quite strongly (at points over +10bps), while TES and m-bonos both decoupled from US treasuries, tightening by 1–2bps through the curves.

Today, there is a lot of tier-1 data in the LATAM pipeline, including Mexican GDP, and Brazilian inflation. In addition, we get the Fed's minutes, which are likely to be closely watched by markets. The Mexican economy is expected to have lost steam, falling into contraction territory to end Q1. In Brazil, inflation is expected to continue climbing, albeit modestly.

### BRAZIL: BCB CONFIRMS BIAS TO HOLD... FOR NOW?

The BCB released the [minutes from its May COPOM meeting](#). The board seems to have shifted gears to neutral, and signaled that until things change, it is planning to sit tight with rates where they are, which are deemed accommodative, and consistent with inflation converging to target in the policy horizon *"the Copom's assessment, the evolution of the baseline scenario and, mainly, of the balance of risks made it unnecessary to ease monetary policy further in order to mitigate the risk of delayed convergence of inflation toward the targets. Regarding the next meetings, the Committee deems appropriate to maintain its policy rate at its current level. The Copom emphasizes that the next steps in the conduct of monetary policy will continue to depend on the evolution of economic activity, the balance of risks, and on inflation projections and expectations."*

Although the board's take on Brazilian economic variables is quite constructive, both on the inflation and growth fronts, it turned more cautious on policy moves due to external factors (particularly market volatility), and domestic politics: *"the Copom pondered the risks derived from possible continuation of the reversal in the outlook for emerging economies, in a context of frustration of the expectations regarding the necessary reforms and adjustments in the Brazilian economy. In this context, they consider that, should the evolution of the global outlook produce relative price changes, its impact on monetary policy will be circumscribed by its second-round effects on inflation"*.

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We still detect a slight bias towards further easing by the board, but we don't expect changes in the policy stance until the external environment—particularly market volatility—calms. As we have said before, we think that given the BRL's drop, very loose fiscal settings, monetary policy transmission lags (of currently quite loose policy), and quickly rising manufacturing PPI, the prudent path would be to hold. However, we think the BCB's board is currently prioritizing growth.

**WEDNESDAY, MAY 23<sup>RD</sup> DATA PIPELINE:**

Country	Indicator	Actual	Consensus	Previous
US	Markit manufacturing PMI		56.5	56.5
	Markit services PMI		55.0	54.6
	FOMC meeting minutes			
Brazil	FGV CPI-S		0.21%	0.24%
	IBGE IPCA-15		2.82% y/y	2.80% y/y
Chile	BCCh traders survey			
Colombia	Retail confidence			24.6
	Industrial confidence			0.2
Mexico	GDP		1.4% y/y	1.2% y/y
	Monthly economic activity		-0.46% y/y	2.35% y/y

**RECOMMENDED READINGS:**

[“The 9.9 percent is the new American Aristocracy”](#) M. Stewart – The Atlantic (June 2018 Issue)

[“The world according to Trump and Xi”](#) B. Chellaney – Project Syndicate (May 22, 2018)

[“What governments can do for the losers of free trade”](#) J. Bernstein – The Economist (May 22, 2018)

[“How Costa Rica gets it right”](#) J. Stiglitz - Project Syndicate (May 8, 2018)

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