



LATIN AMERICA ECONOMICS WEEKLY

BCB to cut, Argentina shifting towards the centre?

BCB: A parsimonious process

The [minutes](#) to last week's Brazilian central bank meeting made waves, revealing that a majority of Copom members expect to lower interest rates at the next meeting in August. We had thought the more cautious tone of the [statement](#) released at the meeting itself meant that the start of the easing cycle would be delayed till September.

It now feels like the bar for *not* hiking in August is pretty high and would require nasty upside surprises in the inflation figures published in July (unlikely), congress derailing the government's fiscal plans (also unlikely) and/or a sharp fall in the real (more likely, but [we are expecting](#) modest declines and later in the year). As a result, we've pencilled in an interest rate cut in August.

But the minutes also made clear that the easing cycle will, at least initially, be very gradual. A minority on Copom still seem reluctant to cut rates, and their views will need to be taken on board. Those in favour of an August cut talked of a 'parsimonious [i.e. small scale] process'. Notably, too, in the minutes, Copom revised up its estimate of Brazil's neutral real interest rate, from 4.0% to 4.5%, suggesting that it sees less scope for rates to come down. (And Copom seems to have rounded down from the 4.8% estimate derived in the quarterly [Inflation Report](#).)

So while monetary easing is going to start sooner than we'd anticipated, we think the communications broadly support the point [we've been making](#) for some time that rates won't come down as quickly as most expect. For our part, we've pencilled in 25bp cuts at the Copom meetings in August, September and November, followed by a shift to 50bp reductions from December. Our end-year Selic rate forecasts, of 12.50% for this year and 9.75% in 2024, are higher than the analyst consensus (12.25%, 9.50%) and the profile implied by market pricing (12.0%, 9.50%).

Argentina: is Massa optimism justified?

The ruling Unión por la Patria's decision to coalesce behind Economy Minister Sergio Massa as their presidential candidate has sparked a rally in Argentine sovereign dollar bonds. Spreads have narrowed by 165bp this week as the threat of a left-wing firebrand leading the country has receded.

Massa is one of the more moderate Peronists and prevented Argentina's IMF programme from veering off track last year. But his track record at the helm of the Ministry of Economy has been poor. Inflation is soaring, the budget position has worsened and the peso is under severe downward pressure. What's more, Massa faces a clear conflict of interest. As economy minister, he needs to keep public spending in check to meet the IMF's fiscal targets; as a presidential candidate, he has an incentive to loosen the purse strings.

Even if a more moderate candidate (be it Massa or one of the opposition candidates) ends up winning the election, tackling Argentina's deep-seated problems will be a very tall order. One of the [lessons](#) from the recent elections in Turkey and Nigeria is that the central bank's grip on the peso will be loosened post-election. But it will be challenging to do this in an orderly fashion and without pushing the public debt to an unsustainable level.

In case you missed it: LatAm equities

Our markets team earlier [this week](#) discussed whether the outperformance of Latin American this year equities will continue. The short point is that it's likely to come to an end in the near term. But the region's outperformance should resume once global risk appetite starts to recover by next year.

The week ahead

Inflation figures from Mexico and Chile should show that the headline rate fell in both countries in June.



Data Previews

Mexico Consumer Prices (Jun.)

Fri. 7th Jul.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
% m/m (% y/y)	13.00/08.00	-0.2(+5.8)	-	0.0(+5.0)

Rates unchanged until the turn of the year despite falling inflation

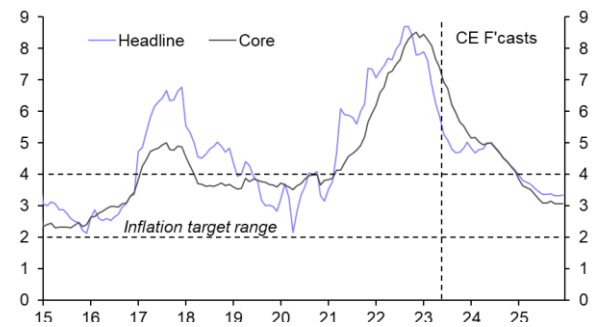
We think that data out on Friday will show that inflation in Mexico fell to 5.0% y/y in June. But with wage growth still uncomfortably strong, we doubt that Banxico will shift towards monetary easing before the end of the year.

Headline inflation has declined from a peak of 8.7% y/y in September to 5.8% y/y in May. And it dropped back further, to 5.2% y/y, in the first half of June – the lowest reading since March 2021. And encouragingly, the easing of price pressures in the first two weeks of June was broad based, with core goods and services inflation edging down too. We expect the full month inflation figures to show a further decline in the inflation, to 5.0% y/y.

While headline inflation should continue to ease over the coming months, it's likely to be a slow grind lower from here. What's more, rapid wage growth

means that services inflation in particular will remain uncomfortably high. We don't expect inflation to return to within Banxico's 2-4% target range until late-2024. (See Chart 1.) Against this backdrop, we think that interest rates will be left unchanged at 11.25% until the turn of the year.

Chart 1: Mexico Consumer Prices (% y/y)



Sources: Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 3 rd		Chl Economic Activity (May)	13.30	08.30	0.0%(-1.1%)	-	-
		Brz S&P Global Manufacturing PMI (Jun.)	14.00	09.00	47.1	-	-
		Mex S&P Global Manufacturing PMI (Jun.)	16.00	11.00	50.5	-	-
		Brz Trade Balance (Jun.)	19.00	14.00	+\$11.4bn	-	-
		Mex IMEF Manufacturing Index (Jun.)	19.00	14.00	49.8	-	-
		Mex IMEF Non-Manufacturing Index (Jun.)	19.00	14.00	51.1	-	-
Tue 4 th		Brz Industrial Production (May)	13.00	08.00	-0.6%(-2.7%)	-	-
		Brz S&P Global Services PMI (Jun.)	14.00	09.00	54.1	-	-
		Uru CPI (Jun.)	18.00	13.00	0.0%(+7.1%)	-	0.5%(+7.0%)
Wed 5 th	-	No Significant Data or Events Scheduled	-	-	-	-	-
Thu 6 th		Chl MPC Meeting Minutes Released	13.30	08.30	-	-	-
		Ecu CPI (Jun.)	15.00	10.00	+0.1%(+2.0%)	-	+0.0%(+1.3%)
		Mex MPC Meeting Minutes Released	16.00	11.00	-	-	-
		Arg Industrial Production (May)	20.00	15.00	(+1.7%)	-	-
		Col MPC Meeting Minutes Released	23.00	18.00	-	-	-
		Uru Interest Rate Announcement	-	-	11.25%	-	-
Fri 7 th		Chl CPI (Jun.)	13.00	08.00	+0.1%(+8.7%)	-	+0.2%(+8.0%)
		Mex CPI (Jun.)	13.00	08.00	-0.2%(+5.8%)	+0.1%(+5.1%)	+0.0%(+5.0%)
		Chl Trade Balance (Jun.)	13.30	08.30	+\$1.0bn	-	-
		C.Rc CPI (Jun.)	-	-	-0.1%(+0.9%)	-	+0.7%(-0.1%)
Also expected during this period:							
6 th – 10 th		Mex Wage Growth (Jun.)	-	-	(+9.3%)	-	-
Selected future data releases and events:							
11 th Jul		Col CPI (Jun.)	00.00	19.00†	+0.4%(+12.4%)	-	-
		Brz IPCA Inflation (Jun.)	13.00	08.00	+0.2%(+3.9%)	-	-
12 th Jul		Mex Industrial Production (May)	13.00	08.00	+0.4%(+0.7%)	-	-
		Brz Services Output (May)	13.00	08.00	-1.6%(+2.7%)	-	-
13 th Jul		Arg CPI (Jun.)	20.00	15.00	+7.8%(+114.2%)	-	-
14 th Jul		Per Interest Rate Announcement	00.00	19.00†	7.75%	-	-
		Brz Retail Sales (May)	13.00	08.00	+0.1%(+0.5%)	-	-
		Col Industrial Production (May)	16.00	11.00	(-3.0%)	-	-
		Col Retail Sales (May)	16.00	11.00	(-6.9%)	-	-
		Pan CPI (Jun.)	-	-	+0.2%	-	-
Also expected during this period:							
10 th – 13 th		Dom CPI (Jun.)	-	-	-0.2%(+4.4%)	-	-

*m/m(y/y) unless otherwise stated; † = previous day

Sources: Bloomberg, Capital Economics



Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates (%)

Policy Rate	Latest (30 th Jun.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	Down 25bp (Aug. '23)	12.50	9.75
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q4 '23)	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 50bp (Q4. '23)	12.25	7.25
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	Down 50bp (Jul. '23)	9.25	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Sep. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

Table 2: FX Rates vs. US Dollar & Equity Markets

Currency	Latest (30 th Jun.)	Forecasts		Stock Market	Latest (30 th Jun.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.81	5.25	5.00	Bovespa	119,232	112,000	149,750
Mexico MXN	17.1	20.0	21.0	Bolsa	53,366	44,600	59,300
Argentina ARS	257	400	600	Merval	417,011	-	-
Colombia COP	4,161	4,500	4,200	IGBC	1,131	910	1,210
Chile CLP	799	825	775	IPSA	5,755	4,100	5,450
Peru PEN	3.63	4.00	3.70	S&P/BVL	22,253	19,300	25,650

Sources: Refinitiv, Capital Economics

Table 3: GDP & Consumer Prices (% y/y)

	Share of World ¹	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	2.3	0.8	1.5	9.3	4.8	5.0	4.0
Mexico	1.8	1.3	3.0	2.5	1.3	2.0	7.9	5.8	4.8	3.5
Argentina	0.7	-0.7	5.2	-2.8	-1.3	2.5	72.4	118.5	136.5	103.5
Colombia	0.6	2.5	7.3	1.0	1.5	2.5	10.2	11.8	5.8	4.0
Chile	0.4	2.1	2.4	0.3	2.3	2.5	11.6	8.0	4.8	3.8
Peru	0.3	2.5	2.7	1.5	2.3	2.5	7.9	7.0	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	3.8	5.0	5.0	8.8	5.3	4.5	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	1.5	1.3	1.5
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	320	65	50
Panama	0.1	3.5	10.5	1.8	2.8	3.0	2.8	1.5	1.3	1.3
Costa Rica	0.1	2.8	4.3	3.5	2.5	2.5	8.3	2.3	3.3	3.0
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	7.3	7.8	7.0
Latin America²	6.7	1.0	3.7	1.6	1.1	2.1	8.7	5.9	4.8	3.7

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms. 2) GDP Excl. Venezuela; Consumer Prices Excl. Argentina & Venezuela.



Disclaimer: While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

Distribution: Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.

