



# LATIN AMERICA ECONOMICS WEEKLY

## Mexico’s presidential race begins

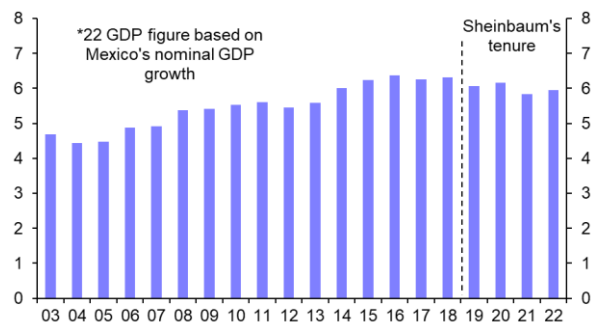
### Sheinbaum follows in Amló’s footsteps

Former Mexico City mayor Claudia Sheinbaum was unveiled as the ruling Morena party’s announcement presidential candidate this week and with her facing off against the main opposition candidate Xóchitl Gálvez in next June’s elections, Mexico is on track to elect its first female president.

It came as no big surprise that Sheinbaum, a physicist with a doctorate in environmental engineering, was chosen as the party’s candidate. After all, she’s a long-time friend and close ally of President López Obrador (known as Amló, who’s constitutionally barred from running for re-election). She served as Secretary of the Environment from 2000-2006 when Amló was Mexico City mayor and was his campaign spokesperson in the 2006 presidential elections. More recently, she was mayor of Mexico City, before stepping down to start her presidential campaign.

Sheinbaum is currently ahead of Gálvez in the polls with a lead of up to 17%-pts. There’s still a long way to go but, if Sheinbaum does become president, she’s likely to continue with many of Amló’s policies, particularly related to social policy. The fact that Mexico City’s public finances remained in decent shape – spending as a share of GDP remained stable during her tenure (see Chart 1), suggests that, similar to Amló, she will be fiscally responsible though.

Chart 1: Mexico City Expenditure\* (% of GDP)



One key area where she’s likely to differ from Amló is environmental policy. While Amló sees Mexico’s

energy future in fossil fuels, Sheinbaum has burnished her environmental credentials throughout her career – she was a member of the UN’s Intergovernmental Panel on Climate Change and, during her tenure as mayor of Mexico City, she expanded the city’s low-emission public transport network. It is likely that environmental policies will form a key component of her agenda. Indeed, in recent speeches, she said that she will accelerate the transition to renewables and focus on environmental issues.

That’s good news from a climate perspective. Unlike many other major economies, Mexico has yet to lay out a net zero emissions target. Outside of the major emitters, such as China and India, Mexico is a relatively carbon intensive economy. That reflects the fact that it scores poorly when it comes to its use of low-carbon technologies, instead relying heavily on oil and gas for primary energy usage.

Equally, though, it might lead to problems at state oil company Pemex. Amló is a firm supporter of the beleaguered oil company and has essentially provided an implicit guarantee of the company’s debt. That was highlighted again this week by reports that the draft 2024 budget, which is due to be presented to congress today, includes an allocation to cover Pemex’s maturing debts next year.

But this may change under a less Pemex- and more environmentally-friendly president. Sheinbaum has said little on Pemex thus far. As for her opposition, in an interview with Bloomberg this week, Gálvez attacked Amló for throwing state money at Pemex and hinted at restarting former president Peña Nieto’s energy reforms. Whoever takes over from Amló, we think a restructuring of Pemex’s debt is on the cards.

### The week ahead

Inflation in Brazil probably rose again last month while Peru’s central bank will kick off its easing cycle with a 25bp cut. (See Data Previews)



## Data Previews

### Tue. 12<sup>th</sup> September – Brazil Consumer Prices (Aug.)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Consumer Prices % m/m (% y/y)	13.00/08.00	+0.2(+4.0)	+0.3(+4.7)	0.0(+4.4)

#### Rise in inflation won't prevent another 50bp cut

We think that Brazil's inflation rose further, to 4.4% y/y, in August. But we doubt this figure will stop the central bank cutting the Selic rate by another 50bp, to 12.75%, when it meets later this month.

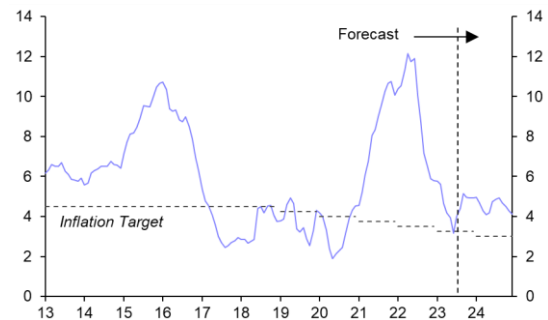
Having fallen sharply from a peak in early 2022, inflation has returned to an upwards trend over the past few months. That mainly reflects the unwinding of favourable base effects that had previously pushed energy inflation down. We think this continued to push headline inflation up in August. (See Chart 2.)

The central bank is well aware of this and a rise in inflation won't stop it from lowering interest rates when it meets on 20<sup>th</sup> September. It has made pretty clear that it would take a lot to trigger a larger interest rate cut than the 50bp delivered in August: either a marked improvement in the fiscal situation or a major downside inflation surprise. The former hasn't happened. For the latter, we think the central bank

will pay most attention to core services inflation, which we think only edged down a little last month.

Indeed, with the [tight labour market](#) likely to keep services inflation a little higher than most expect, we think Copom's easing cycle over the next 12-18 months will ultimately prove more gradual than most are anticipating.

Chart 2: Brazil Consumer Prices (% y/y)



Sources: Refinitiv, Capital Economics

### Thu. 15<sup>th</sup> September – Peru Interest Rate Announcement (Sep.)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	00.00/19.00	7.75	-	7.50

#### BCRP set to join the rate cut club

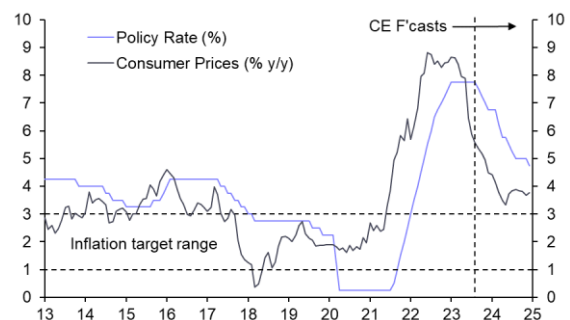
We think that Peru's central bank (BCRP) will kick off its easing cycle with a 25bp cut, to 7.50%, at next Thursday's meeting.

Peru's central bank has left rates unchanged for seven consecutive meetings and each time stated that this did not "necessarily imply an end" to the tightening cycle. This line, however, was dropped at the last meeting in August, suggesting that the BCRP is paving the way for its first interest rate cut.

Admittedly, inflation in August was a bit stronger than expected, at 5.6% y/y. But the bigger picture is that it's now on a clear downward path and will continue to decline over the coming months.

All told, we expect the BCRP to deliver a 25bp cut next Thursday, followed up by another 75bp of cuts over the course of this year, taking the policy rate to 6.75% by December. (See Chart 3.)

Chart 3: Peru Consumer Prices & Policy Rate (%)



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 11 <sup>th</sup>	 <b>Mex</b>	Industrial Production (Jul.)	13.00	08.00	+0.6%(+3.7%)	-	-
Tues 12 <sup>th</sup>	 <b>Brz</b>	IPCA Inflation (Aug.)	13.00	08.00	+0.1%(+4.0%)	+0.3%(+4.7%)	0.0%(+4.4%)
Thu 14 <sup>th</sup>	 <b>Brz</b>	Services Output (Jul.)	13.00	08.00	+0.2%(+4.1%)	+0.7%(+3.8%)	-
	 <b>Arg</b>	CPI (Aug.)	20.00	15.00	+6.3%(+113.4%)	+11.0%(+121.4%)	(+123.5%)
	 <b>Uru</b>	GDP (Q2, q/q(y/y))	-	-	(+1.2%)	-	(-0.4%)
Fri 15 <sup>th</sup>	 <b>Per</b>	Interest Rate Announcement	00.00	19.00†	7.75%	-	7.50%
	 <b>Brz</b>	Retail Sales (Jul.)	13.00	08.00	+0.0%(+1.3%)	+0.6%(+2.1%)	-
	 <b>Per</b>	Unemployment Rate (Aug.)	16.00	11.00	6.30%	-	-
	 <b>Per</b>	Economic Activity (Jul.)	16.00	11.00	(-0.6%)	-	-
	 <b>Col</b>	Industrial Production (Jul.)	16.00	11.00	(-2.1%)	-	-
	 <b>Col</b>	Retail Sales (Jul.)	16.00	11.00	(-11.9%)	-	-
	 <b>Pan</b>	CPI (Aug.)	-	-	+0.0%(+0.6%)	-	-0.2%(+1.7%)
	Also expected during this period:						
3 <sup>rd</sup> - 30 <sup>th</sup>	 <b>Pan</b>	GDP (Q4, q/q(y/y))	-	-	(+9.5%)	-	-
8 <sup>th</sup> - 13 <sup>th</sup>	 <b>Dom</b>	CPI (Aug.)	-	-	+0.5%(+4.0%)	-	-
<b>Selected future data releases and events:</b>							
18 <sup>th</sup> Sep	 <b>Brz</b>	Economic Activity (Jul.)	13.00	08.00	+0.6%(+2.1%)	-	-
	 <b>Col</b>	Economic Activity (Jul.)	17.00	12.00	(+1.7%)	-	-
19 <sup>th</sup> Sep	 <b>Col</b>	Trade Balance (Jul.)	16.00	11.00	-\$0.8bn	-	-
	 <b>Arg</b>	GDP (Q2, q/q(y/y))	20.00	15.00	+0.7%(+1.3%)	-	-
20 <sup>th</sup> Sep	 <b>Arg</b>	Unemployment Rate (Q2)	20.00	15.00	6.90%	-	-
	 <b>Brz</b>	Interest Rate Announcement	22.30	17.30	13.25%	-	-
	 <b>C.Rc</b>	Interest Rate Announcement	-	-	6.50%	-	-
21 <sup>st</sup> Sep	 <b>Mex</b>	Retail Sales (Jul.)	13.00	08.00	+2.3%(+5.9%)	-	-
	 <b>Arg</b>	Trade Balance (Aug.)	20.00	15.00	-\$0.6bn	-	-
	 <b>Arg</b>	Budget Balance (Aug.)	-	-	-\$334.4bn	-	-
22 <sup>nd</sup> Sep	 <b>Chl</b>	Central Bank Meeting Minutes	-	-	-	-	-
	 <b>Mex</b>	IGAE Activity Index (Jul.)	13.00	08.00	+0.5%(+4.1%)	-	-
	 <b>Mex</b>	Bi-Weekly CPI (15 <sup>th</sup> Sep)	13.00	08.00	-	-	-

\*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 (8 <sup>th</sup> Sep.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.25	Down 50bp (Aug. '23)	<b>Down 50bp (Sep. '23)</b>	11.75	9.50
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	<b>Down 25bp (Q4 '23)</b>	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	<b>Down 50bp (Q4. '23)</b>	12.25	7.25
Chile Overnight Rate	9.50	Down 75bp (Sep. '23)	<b>Down 75bp (Oct. '23)</b>	8.00	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	<b>Down 25bp (Sep. '23)</b>	6.75	4.75

Sources: Refinitiv, Capital Economics

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

Currency	Latest (8 <sup>th</sup> Sep.)	Forecasts		Stock Market	Latest (8 <sup>th</sup> Sep.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.99	5.25	5.00	Bovespa	115,339	111,750	149,750
Mexico MXN	17.5	20.0	21.0	Bolsa	52,483	44,600	59,300
Argentina ARS	350	700	900	Merval	548,015	-	-
Colombia COP	4,001	4,500	4,200	IGBC	1,065	910	1,210
Chile CLP	890	825	775	IPSA	5,885	5,100	7,000
Peru PEN	3.70	4.00	3.70	S&P/BVL	22,782	19,300	25,650

Sources: Refinitiv, Capital Economics

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

	Share of World <sup>1</sup>	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	3.5	0.8	1.5	9.3	4.8	4.8	3.8
Mexico	1.8	1.3	3.0	3.0	1.3	2.0	7.9	5.5	4.3	3.5
Argentina	0.7	-0.7	5.0	-3.5	-2.0	2.5	72.4	125.0	155.5	103.5
Colombia	0.6	2.5	7.3	1.0	1.3	2.5	10.2	11.5	5.5	3.8
Chile	0.4	2.1	2.4	-0.3	2.5	2.8	11.6	7.5	3.8	3.5
Peru	0.3	2.5	2.7	0.8	1.8	2.5	7.9	6.5	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	0.0	0.0	0.0	8.8	5.0	4.3	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	2.0	1.8	1.8
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	1.5	2.5	2.8
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	6.0	6.3	6.5
<b>Latin America<sup>2</sup></b>	<b>6.7</b>	<b>1.0</b>	<b>3.7</b>	<b>1.9</b>	<b>0.8</b>	<b>2.0</b>	<b>8.7</b>	<b>5.8</b>	<b>4.4</b>	<b>3.6</b>

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



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