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Latam Daily: Mexican CPI Meets Estimates; Brazil Unrest

Market optimism following Friday's US employment and services sector data continued into the start of the trading week. US equity futures and Eurozone cash markets are stronger on the day while broad USD losses extend to take the currency to its weakest level in seven months (Bloomberg dollar index). Encouraging signals from China's reopening are also helping support commodity prices, with crude oil and base metals gaining though iron ore is marginally softer.

The storming of Brazil's Congress and presidential palace by Bolsonaro supporters was the main development of an otherwise quiet weekend. Brazilian assets broadly gapped lower at the open, with the BRL recording a ~1% loss at writing, in contrast to widespread appreciation versus the dollar. Far-right insurgents invading and damaging government buildings will likely further weaken support for Bolsonaro and his followers among the broader population; protesters may have gone too far. Nevertheless, a quick crack down from Lula and the capital's authorities is necessary to repress violent activists that could be emboldened by yesterday's events. **Bolsonaro gave but a meek appeal to peace and denunciation of the protests, but that he didn't galvanise them further is a positive.**

For now, it may only be another bump in the road for Brazilian assets, which have struggled in the early days of Lula's presidency given conflicting messages from the President's team on fiscal matters and/or reforms. We do not expect major spillovers to the rest of Latam, both in terms of market impact and political/social consequences. Generally, outside of Peru and Argentina, social sentiment is steady in the region with the Colombian and Mexican governments enjoying relatively stable support—especially from the electorate's left which is the key source of unrest in Peru, for instance.

Watch Boric's rising disapproval rating in Chile, however, which has risen to its highest level of his presidency, at 70%. **Over the weekend, the country's Minister of Justice, and Boric's Cabinet Chief (and key adviser) resigned** following the President's pardon of twelve persons convicted for their involvement in the 2019 protests—at the recommendation of the country's Min of Justice. The CLP is nevertheless rallying today with the broad FX complex.

Mexican inflation figures published this morning roughly met economists' estimates, coming in at 0.38% m/m and 7.82% y/y (vs a median forecast of 0.39% and 7.82% respectively). Softer price gains in the second half of the month, according to bi-weekly data in both headline and core terms, may motivate Banxico to roll out a smaller hike of 25bps at its policy decision on February 9. This could mark the beginning of Banxico's decoupling from the Fed if the latter decides to hike again by 50bps—for which market-implied bets have declined of late. Banxico's December meeting minutes sounded a more neutral tone than expected (see [Latam Flash](#)), already increasing the odds of a smaller hike. At the moment, markets are positioned for only slightly more than a quarter-point hike from Banxico before pausing.

—Juan Manuel Herrera

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