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## Latam Daily: BCB Hold, Watch Guidance; All Eyes on The Fed

Markets are trading relatively neutral at writing, with SPX futures unchanged after the release of strong UK prices data this morning saw moderate risk-off trading, as global traders await the Fed's policy decision at 14ET, where we expect a 25bps hike with very data- and event-dependent guidance (see [here](#)). WTI/Brent are off by about 0.4%, while iron ore trades 1.5% weaker amid Chinese steel demand concerns, and copper is trading +1%. The USD is trading broadly weaker, though ranges are relatively modest outside of the GBP, with the MXN only up 0.1%. Rates markets have weakened in the past hour or so to now see US yields bear flattening while European debt underperforms in similar fashion.

This morning, in an interview to Bloomberg, Banxico's Dep Gov Espinosa echoed recent comments from Heath, pointing to continued policy tightening to be done amid persistently high core inflation. Her comments had limited impact on the MXN, which followed a broad weakening of the USD around that time. The bank's most recent meeting minutes showed that Espinosa had her reservations on forward guidance, which had ultimately made its way into the decision statement saying the next rate hike may be smaller. Now, given the current risks around US growth, and implications for Mexico, and the likely lower Fed terminal rate, there is little chance that Banxico hikes by 50bps next week. But, there may be a window for Mexico's central bank to increase rates beyond the Fed as was a possibility after Banxico hiked by a surprising 50bps last month. Tomorrow's bi-weekly CPI print will be key to guide these expectations, with markets currently indicating only one more increase (and thus at risk of being behind Banxico's intentions).

The BCB's policy decision this afternoon will be the highlight of the Latam day. The bank is widely expected to leave rates unchanged, but economists are leaning towards a statement with dovish guidance that would open the door to the start of the rate cutting cycle soon. That the bank does not have details on the Haddad's fiscal framework plans (which keep getting delayed) means it may not be able to make too many changes, however.

The BCB is unlikely to fold to the pressure that Lula and others in his administration have placed on it to cut rates; Lula called the 13.75% policy rate "absurd" yesterday. The Fed's decision should not have a significant impact on the BCB, unless the US central bank decides to unexpectedly hold—which could then see the BCB more clearly lay the groundwork for cuts. One item that may be removed regardless is guidance that rate hikes could come, if necessary.

We're also awaiting the official presentation of Petro's pension reform bill at 12ET, with preliminary details revealed to the main business association last week (we discuss this [here](#)). The government is probably repeating its strategy of initiating the discussion with significant demands and, after that, splitting the difference during the political negotiation in Congress. Chile's Lower House is also voting on a self-loans (up to 15%) on pension funds bill today after this was postponed yesterday; Fin Min Marcel (note that the government does not support this initiative) anticipates that the bill will fall short of approval.

—Juan Manuel Herrera

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