

Latam Daily Flash

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Economic Analysis

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On Friday, Banxico opted for a one-off 50bp rate cut to “fine-tune its monetary conditions” to an environment of lower growth and high liquidity. We expect stable monetary rates for at least the next six months, but Banxico could turn more dovish if downward risks to activity and capital inflows intensify. In Brazil, February’s inflation in Brazil showed an uncomfortable upward trend that increases the likelihood of a monetary tightening in spite of additional tax cuts also announced on Friday. In contrast to this, inflation in Chile was below expectations, supporting our view of a stable rate outcome of this week’s meeting. In Colombia, BanRep’s Minutes revealed a dovish bias. Meanwhile, various Peruvian indicators supported our view that GDP will continue to expand at a rate above 6% in coming quarters. Today will be a quiet day in Latam, with no major indicators expected to be released.

Mexico – Banxico opted for a “one-off” rate cut from 4.5% to 4.0%

Banxico sought to “fine-tune its monetary conditions” to a context of lower growth, but emphasised that this cut is consistent with its target (3%). The statement highlighted an increase in annual headline inflation up to 4% in the coming months, followed by a decline of close to 3%. The bank also flagged a potentially undesirable tightening of Mexican monetary conditions if the real exchange rate appreciates due to capital inflows. Banxico said that this cut is not the beginning of an easing cycle (which it sees as in pause for at least the next six months). Nevertheless, we expect the markets to be ready for a dovish stance ahead, if the downward risks to US activity materialise and capital inflows intensify (see our [Banxico Flash](#) for more details).

Brazil – February inflation pushes central bank up against the wall

Inflation reached 0.60% MoM (6.3% YoY) in February, topping most forecasts (BBVAe 0.40% MoM and 6.1% YoY; consensus 0.50% MoM and 6.2% YoY). Electricity tariff cuts took 0.48bp off of monthly inflation, implying that inflation would have been above 1% MoM if it were not for this factor. We see the February inflation figures as significantly increasing the likelihood of a monetary tightening cycle ahead (see our [Brazil Flash](#) for more details). Following the release of inflation data, the President Dilma announced that all federal taxes on staple foods will be eliminated, which should take some pressure off inflation (around 0.30bp).

Chile – Monthly inflation stood at 0.1% in February, below expectations

Monthly inflation reached 0.1% (1.3% YoY) in February, below both our and market expectations (0.3% MoM). This surprise was mainly explained by a fall in food prices. For March, we anticipate an inflation of 0.5% MoM, based mainly on the seasonality of the price of school supplies. We maintain our forecast of 2.8% YoY for December and our call for stable policy rates at 5% as the outcome of this week’s meeting (see our [Chile Flash](#) for details).

Colombia – February’s minutes reveal a still dovish BanRep

February’s minutes revealed that growth below potential together with inflation (headline and expectations) below the midpoint of the inflation target (3%), were the main drivers of the latest rate cut. BanRep anticipates low growth in 1Q13 due to fewer business days, supply shocks to the mining sector and the risk of lower demand from Venezuela. All in all, the minutes reveal a dovish BanRep dismissing the risk of a rapid return to high inflation.

Peru - Business confidence remained high

The index reached 67 points in February, three points above the 4Q12 reading, and continues at its highest level in the past two years. This supports our view that private investment will continue to expand in double-digits in the coming quarters, which should continue to boost domestic demand in 2013e.

Peru - Electricity output accelerated in February

Electricity production increased 8.6% YoY in February (7.4% YoY in January) adjusted for calendar days, its fastest rate of expansion in the last sixteen months. This indicator lends support to our view that GDP will continue to expand faster than 6% in coming quarters.

Peru - Trade deficit of USD484bn in January, the first deficit in six months

The monthly figure reflected the decline in exports (-18.2% YoY) due to transitory supply-side factors that affected traditional exports (-22.3% YoY), mainly mining and fishing, while non-traditional exports (-4.3% YoY) continue to reflect weak external demand. On the other hand, imports continue to grow (13.4% YoY), in particular, demand for capital goods (22.9% YoY) and consumer goods (12.0% YoY). For 2013e, we expect the trade balance and hence the current account to remain at levels similar to 2012 (about -3.8% of GDP), given that activity will continue to be sustained mainly by domestic demand, while external demand should recover very gradually.

What to watch today

Nothing relevant to highlight

Calendar: Indicators

| Brazil | Date | Period | Consensus | BBVAe | Actual | Prior |
|---------------------------------------|-----------|--------|-----------|-------|--------|----------|
| FIPE CPI - Weekly | 11-Mar | 2-mar | 0.05% | -- | 0.06% | 0.52% |
| Economic Activity Indx MoM SA | 13-20 MAR | Jan | 0.85% | -- | -- | 0.26% |
| COPOM Monetary Policy Meeting Minutes | 14-Mar | 1-ene | -- | -- | -- | 0.00% |
| Retail Sales (MoM) | 14-Mar | Jan | 0.40% | 0.70% | -- | -0.5% |
| CAGED Formal Job Creation | 14-21 MAR | Feb | -- | -- | -- | 28900 |
| FGV Inflation IGP-10 (MoM) | 15-Mar | Mar | 0.28% | -- | -- | 0.29% |
| Chile | | | | | | |
| CB Economic Expectation Survey | 12-Mar | Mar | -- | -- | -- | -- |
| CB Financial Traders Survey | 13-Mar | Mar | -- | -- | -- | -- |
| Nominal Overnight Rate Target | 14-Mar | 2-mar | 5.00% | 5.00% | -- | 5.00% |
| Colombia | | | | | | |
| Vehicle Sales | 08-11 MAR | Feb | -- | -- | -- | 19994 |
| Consumer Confidence | 11-15 MAR | Feb | -- | 16.00 | -- | 23.1 |
| Outstanding Loans (YoY) | 14-20 MAR | Jan | -- | -- | -- | 15.23% |
| Mexico | | | | | | |
| Trade Balance | 11-Mar | Jan F | -- | -- | -- | -2878.9M |
| Industrial Production (YoY) | 12-Mar | Jan | 1.30% | -- | -- | -1.1% |
| ANTAD Same-Store Sales (YoY%) | 12-Mar | Feb | -- | -- | -- | 0.5% |
| Peru | | | | | | |
| Trade Balance (INEI) | 11-Mar | Jan | -\$975M | -- | -- | \$679M |
| Unemployment | 15-Mar | Feb | -- | -- | -- | 6.1% |
| Economic Activity Indx YoY NSA | 15-Mar | Jan | 6.05% | -- | -- | 4.3% |

Most recent Latam reports

| Date | Description |
|----------|--|
| 8-3-2013 | ➤ Mexico. Banxico Watch: Banxico Delivers |
| 8-3-2013 | ➤ Chile Flash: Monthly inflation stood at 0.1% in February, below expectations |
| 8-3-2013 | ➤ Brazil Flash: February inflation pushes central bank up against the wall |
| 7-3-2013 | ➤ Mexico Real Estate Flash: Construction output down a notch |
| 7-3-2013 | ➤ Flash Peru: Central policy rate: no surprises |
| 7-3-2013 | ➤ Mexico Inflation Flash: February's CPI: Inflation accelerated as widely expected; But it's risk balance remain positive. |
| 7-3-2013 | ➤ Peru Economic Watch: Activity kept showing strong dynamism in 4Q12 (Spanish) |
| 7-3-2013 | ➤ Brazil Flash: COPOM leaves the SELIC unchanged, but refrains from committing to stable monetary conditions ahead |
| 6-3-2013 | ➤ Flash Colombia: Consumer inflation dropped below the inflation target range at 1.83% YoY in February |
| 6-3-2013 | ➤ Mexico Flash: Banco de México: Upward inflation risks increase the probability that the rate cut takes place in April |

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