

Latam Daily Flash

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Economic Analysis

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In Colombia, interest rates were cut by 50bp, above market expectations, as the central bank continues concerned with the performance of domestic activity. Preliminary data for March revealed that inflation was in line with our forecasts in Brazil and higher than we expected in Mexico. However, pressures continue to accumulate in the former while inflation remains anchored in the latter, where it was also revealed that the recent decision to cut interest rates was not unanimous. We expect the monetary authorities in both countries to adopt a "wait-and-see" posture and to maintain rates unchanged in the months ahead, although we see a strong upward bias in Brazil. Today the highlight of the regional macroeconomic agenda is the release of the IGAE activity index in Mexico, which we expect to reveal continued deceleration in January.

Colombia - Central Bank cut policy rate by 50bp to 3.25%

BanRep cut its intervention rate further than market expectations (consensus: 25bp). After the monetary meeting, BanRep showed concern that economic activity is growing below its potential, with fears of a slowdown in private consumption and industrial contraction. The bank expects its rate cut to ensure economic growth returns more rapidly to its potential. We anticipate that the cycle of rate cuts has come to an end, and predict reduced monetary room in line with expectations of inflation rising (albeit slowly) in the coming months. BanRep's press release suggests this, mentioning that "we expect this macroeconomic policy to be consistent with economic growth close to its potential" (for more details see our [Colombia Flash](#)).

Colombia - Mixed results for retail sales and industrial production

Industrial production fell 1.7% YoY. The level implies a major drop in the month's activity, when corrected for the number of working days. Therefore, despite some positive signs from capital and raw materials import data, industrial output data confirms our outlook for sluggish growth in manufacturing investment in 1H13e. Retail sales rose 1.3% YoY, weighed down by the negative result in car sales, but in line with our expectations of a private consumption recovery in 1Q13e.

Mexico - Inflation print for 1-15 March was much higher than expected

Bi-weekly CPI increased by 0.52% (BBVAe 0.30% and consensus 0.28%), while core inflation increased by 0.26%. Annual inflation rose from 3.55% in February to 4.12% in 1-15 March (73% of this increase is explained by non-core factors due to a shortage of some agricultural products and a transitory hike in poultry and gasoline prices). Core inflation remains anchored at 3.06% YoY, backed by the lower inflation in finished goods (for more details see our [Mexico Flash](#)).

Mexico - Banxico's minutes showed one vote against the rate cut

The minutes suggest that in future, core inflation will become increasingly relevant to monetary policy decisions and showed that some concerns about activity risks prevailed over inflationary risks in the last policy action (a rate cut of 50bp, with one of the five members voting against a cut). The minutes stated that "the rate cut should be considered as a one-off; however the Board will evaluate at all times the most appropriate monetary stance". Hence, we estimate a monetary pause ahead, and that Banxico will maintain its "wait-and-see" posture.

Mexico - Unemployment rate fell more than expected in February

After the unexpected hike in January's unemployment rate (5.42% vs. 4.9% at the same time last year), the unemployment rate fell to 4.85% (vs. consensus 5.27%) as a reflection of formal employment dynamics and services activity.

Brazil - IPCA-15 was broadly in line with expectations in March

The March IPCA-15, which measured inflation from mid-February to mid-March, reached 0.49% MoM, in line with our forecast and slightly below market consensus. In spite of the moderation in monthly terms (in February, the IPCA-15 had reached 0.68% MoM), which is at a large extent due to seasonal factors, inflation continued to trend up in annual terms (from 6.2% to 6.4%) and diffusion indexes revealed that inflation pressures remain widespread. Food inflation decelerated, although at a slower pace than we expected. Looking forward, we expect the full-month March IPCA to come in at 0.38% MoM, which would take annual inflation to 6.5% (the top end of the target range).

What to watch today

Mexico - Global activity index (January, 10:00 hrs, NYT)

We expect economic deceleration to extend into 1Q13e. This view is supported by the decline in the IGAE observed in December (-0.99% MoM). By sector, we are forecasting a contraction in industrial activity, followed by services, in line with US dynamics.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	25-Mar	2-Mar	0.68%	--	--	0.63%
FGV Consumer Confidence	25-Mar	Mar	--	--	--	116.2
Trade Balance (FOB) - Weekly	25-Mar	2-Mar	--	--	--	-\$448M
FIPE CPI - Weekly	26-Mar	2-Mar	-0.19%	--	--	-0.11%
FGV Inflation IGP-M (YoY)	27-Mar	Mar	8.10%	--	--	8.29%
Central Bank 1Q Inflation Report	28-Mar	1-Jan	--	--	--	--
Unemployment Rate	28-Mar	Feb	5.70%	5.70%	--	5.40%
Primary Budget Balance	28-Mar	Feb	2.85%	--	--	30.3B
Chile						
Manufacturing Index	28-Mar	Feb	2.50%	0.80%	--	4.30%
Retail Sales (YoY)	28-Mar	Feb	8.20%	6.20%	--	9.50%
Copper Production Total	28-Mar	Feb	--	379474	--	474496
Unemployment Rate	28-Mar	Feb	6.00%	6.10%	--	6.00%
Colombia						
Current Account	26-Mar	4Q	--	-\$2931M	--	-\$3630M
Urban Unemployment Rate	27-Mar	Feb	12.30%	12%	--	13.10%
Mexico						
Global Economic Indicator IGAE	25-Mar	Jan	2.60%	2.50%	--	1.42%
Trade Balance	27-Mar	Feb P	-1200M	-707M	--	-2866.4M
Bloomberg Mar. Mexico Economic Survey	27-Mar	1-Jan	--	--	--	--
Budget Balance (Year to date)	27-Mar	Feb	--	--	--	21.10B

Most recent Latam reports

Date	Description
22-3-2013	➤ Flash Colombia: BanRep cut policy rate by 50 bps to 3.25%
22-3-2013	➤ Mexico Inflation Flash: March's bi-weekly inflation: Food-driven upside surprise; temporary increase and low and stable core inflation keep monetary policy expectations unchanged
21-3-2013	➤ Mexico Banking Flash: ICAP: banks pass the first Basel III test
21-3-2013	➤ Mexico Real Estate Flash: Bank lending for housing construction is contracting: True or False?
21-3-2013	➤ Flash Colombia: Colombian economy remains on a path of high growth
21-3-2013	➤ Mexico Banking Flash: Private-sector credit continues to grow at double-digit rates
20-3-2013	➤ Mexico Real Estate Flash: Strong mortgage activity in early 2013
20-3-2013	➤ Mexico GDP Flash: 4Q12 GDP: growth based on the good performance of the private consumer expenditures, as opposed to investment
18-3-2013	➤ Chile Flash: Domestic demand remains dynamic in line with current account worsening
15-3-2013	➤ Flash Peru: GDP Growth rebounded in January

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