

# Latam Daily Flash

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Economic Analysis

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*Friday's indicators highlighted the stark difference between the robust expansion in domestic demand expected in Peru and the moderation in Brazil. In the former, business confidence points to strong level of private investment in coming quarters (a point likely to be confirmed by February's GDP numbers which are due to be published today), whereas in Brazil the monthly proxy for GDP declined in February. In spite of the weakness of economic activity in Brazil, we now expect the BCB to tight monetary conditions starting this week. Today markets will focus on the expected announcement in Colombia of a number of stimulus measures.*

## Brazil - Tombini and Mantega signal that a monetary adjustment cycle will start this week

The Central Bank Governor Alexandre Tombini and the Finance Minister Guido Mantega discussed inflation on Friday, suggesting that the BCB will start to adjust the SELIC rate upwards this week. Tombini said that there will not be any tolerance as far as inflation is concerned and that they are closely monitoring all of the indicators in order to make their decision. Furthermore, Mantega said that the government will not hesitate in taking unpopular measures in order to keep inflation under control. Following this signalling, we now expect the BCB to hike the SELIC rate by 25bp this week and then to adopt three further 25bp hikes in the next three monetary meetings, taking the SELIC from 7.25% to 8.25%. By tightening the monetary conditions the BCB will try to rein in inflation expectations, which are currently not well anchored.

## Brazil - Economic activity weakens in February, after a strong January

The IBC-BR, the BCB's activity indicator that works as a monthly proxy for GDP, declined 0.5% MoM in February, broadly in line with the preliminary data for the period. This contraction follows a 1.3% growth in January. Considering that we expect activity to expand again in March, data for the first two months of the year are in line with our view that 1Q13 GDP will grow around 1.0% QoQ. The IBC-Br figures released on Friday, however, show that the economic recovery should not be taken for granted.

## Peru - Business confidence remains high

The index reached 65 points in March and the average for 1Q13 was 66 points, two points above the reading from 4Q12, and remains at its highest level of the last two years. This supports our view that there will continue to be double-digit growth in private investment in the coming quarters, which should continue to boost domestic demand in 2013e.

## What to watch today

### Colombia - The Government is due to publish its counter-cyclical plan

The government will announce a number of policy measures to stimulate the economy, focusing on the industrial and agricultural sectors. The plan is also likely to include FX measures. Regarding the latter, we expect some announcements on currency hedging arrangements, although we do not rule-out changes to the Government's USD financing.

### Peru - GDP growth (February, 11:00 hrs NYT)

We forecast an increase in activity of 5.0% YoY in February (consensus: 5.8%). The moderation of the growth in GDP (6.3% YoY in January) is mainly explained by the effect of one less calendar day in the month. However, the trend shows that output will continue to expand at a rate consistent with its potential level, supported by dynamic public and private spending.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
CAGED Formal Job Creation	15-21 APR	Mar	113997	--	--	123446
FGV Inflation IGP-10 (MoM)	16-Mar	Apr	0.30%	--	--	0.22%
FGV CPI IPC-S	16-Mar	Apr 15	0.67%	--	--	0.71%
FIPE CPI - Weekly	17-Mar	Apr 15	0.01%	--	--	-0.11%
SELIC Target - Central Bank	17-Mar	Apr 17	7.25%	7.50%	--	7.25%
IBGE CPI IPCA-15 (MoM)	19-Mar	Apr	0.46%	0.43%	--	0.49%
<b>Colombia</b>						
Outstanding Loans	15-19 APR	Feb	--	--	--	\$248.2B
Trade Balance	18-Mar	Feb	--	\$556	--	-\$213.3
Retail Sales (YoY)	19-Mar	Feb	2.00%	2.80%	--	1.30%
Industrial Production (YoY)	19-Mar	Feb	-3.00%	-4.50%	--	-1.70%
<b>Mexico</b>						
ANTAD Same-Store Sales (YoY%)	15-Mar	Mar	--	--	--	0.20%
Unemployment Rate	19-Mar	Mar	4.65%	4.80%	--	4.85%
<b>Peru</b>						
Unemployment	15-Mar	Mar	6.50%	--	--	6.40%
Economic Activity Indx YoY NSA	15-Mar	Feb	5.85%	5.00%	--	6.20%

## Most recent Latam reports

Date	Description
11-04-2013	<a href="#">➤ Mexico Real Estate Flash: Construction activity a step back</a>
11-04-2013	<a href="#">➤ Flash Chile: Central Bank keeps interest rate at 5% and its neutral tone</a>
11-04-2013	<a href="#">➤ Flash Peru: No surprises in April monetary policy meeting</a>
10-04-2013	<a href="#">➤ Brazil Flash: Inflation breaches target ceiling in March</a>
10-04-2013	<a href="#">➤ Mexico Real Estate Flash: New drop in construction production</a>
10-04-2013	<a href="#">➤ Mexico Real Estate Flash: The hand that rocks the cradle in the mortgage market</a>
10-04-2013	<a href="#">➤ Mexico Banking Flash: Lending to private sector: double-digit growth persist</a>
09-04-2013	<a href="#">➤ Mexico Inflation Flash: March's CPI: Supply shocks push headline inflation upwards; However Core inflation remains bounded</a>
08-04-2013	<a href="#">➤ Flash Chile: Inflation reached 0.4% MoM in March due to increases in education and food prices</a>
08-04-2013	<a href="#">➤ Colombia Flash: Consumer inflation rebounded in March to 1.91% YoY, with signs of recovery in core inflation</a>

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