

# Latam Daily Flash

## 9 May 2013 Economic Analysis

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*Mexico's rating was upgraded to BBB+ by Fitch due to "greater than anticipated commitment to structural reforms", among other reasons. Inflation in Brazil in April declined to within the CB's target band, but it did not drop as much as expected, and we believe the unfavorable base effect will push it above the target ceiling until Q3. In contrast, the CPI fell by 0.5% MoM in Chile, well below expectations. We stick to our view of further interest rate rises in Brazil and a wait-and-see approach in Chile. Today all eyes will be on the inflation readings in Mexico and the monetary policy meeting in Peru.*

### Mexico - Fitch upgraded Mexico to BBB+

The agency Fitch raised Mexico's credit rating to BBB+ from BBB due to "its strong macroeconomic fundamentals, including the absence of macro-financial imbalances, consistent adherence to its inflation targeting and flexible exchange rate regimes, as well as the greater than anticipated commitment of the new administration and Congress to pass structural reforms". Markets were expecting a change of outlook to positive, but the actual upgrade was a surprise that gives a boost to local assets.

### Mexico - Investment continues to rebound slightly in Q1 but not enough to offset other data

Gross fixed investment rose 1.6% MoM in February (0.5% YoY) driven by machinery and business equipment investment which increased 3.1%. Investment rose 2.7% YoY over the first two months of Q1 compared with the 1.1% YoY drop in 4Q12.

### Brazil - Inflation surprised to the upside in April

Inflation reached 6.49% YoY (0.50% MoM) in April and came back to within the CB's target range (2.5% YoY - 6.5% YoY). The results, however, surprised markets to the upside (BBVA: 6.39% YoY; consensus: 6.43% YoY). We see room for a gradual moderation in monthly inflation in the next few months. Nevertheless, unfavorable base effects could offset the impact of this deceleration and push yearly inflation above the target ceiling until the beginning of the third quarter, when we believe a convergence towards a level of 5.6% YoY by the end of the year would start. In spite of the upward surprise in April, we stick to our view that the Selic rate will be hiked by 25bps in each one of the three next monetary meetings (see our [Brazil Flash](#) for details).

### Chile - CPI fell 0.5% MoM in April, well below expectations

The consumer price index fell 0.5% MoM in April (1.0% YoY), well below both our expectations and those of the market. Most of the surprise was due to stronger than expected declines in transport and electricity tariffs, while food prices increased by less than expected. In addition, core inflation measures registered decreases in a range of -0.3% and -0.1% MoM. For May we forecast zero monthly inflation. Considering recent activity and inflation data, we expect the CB to remain in a wait-and-see mode in order to have a clear assessment of the recent slowdown in domestic activity (see our [Chile Flash](#) for details).

### Colombia - Exports dropped by 20% YoY in March after the temporary shock in the mining sector

Coal exports fell 75.6% YoY, due to a combination of lower domestic production (following a temporary supply shock) and low international prices. Manufacturing sales dropped 15.5% YoY. The weak performance was already anticipated in our GDP growth outlook for 1Q13. We expect a recovery in April, once the temporary shock of the mining sector has been left behind.

## What to watch today

### Mexico - Inflation (April, 9:00 hrs NYT)

We expect inflation to come in at 4.7% YoY in April (0.13% MoM), the highest level in the year to date. The recent upswing in prices has been driven by supply shocks but core inflation has remained contained. We are looking for core inflation to come in slightly below 3%, supported by the ongoing slack in the economy, the stronger peso and lower global grain prices. In light of this, we believe inflation will start to come down in May and will probably end the year below 4%.

### Peru - Monetary policy meeting (May, 19:00 hrs NYT)

We expect the Central Bank to maintain the monetary policy rate at 4.25%, which is consistent with inflation remaining within the target range and GDP growth remaining close to potential.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Commodity Price Index (MoM)	01-08 May	Apr	--	--	-1.93%	-1.82%
Vehicle Sales (Anfavea)	07-May	Apr	--	--	333738	283912
FGV Inflation IGP-DI	08-May	Apr	0.05%	--	-0.06%	0.31%
IBGE Inflation IPCA (MoM)	08-May	Apr	0.49%	0.45%	0.55%	0.47%
FIPE CPI - Weekly	09-May	2-May	0.33%	--	--	0.17%
CNI Capacity Utilization	09-May	Mar	82.60%	--	--	82.6%
IGP-M Inflation 1st Preview	10-May	May	0.06%	--	--	0.42%
<b>Chile</b>						
Economic Activity Indx YoY NSA	06-May	Mar	4.65%	3.90%	3.1%	3.8%
Trade Balance in US\$ Million	07-May	Apr	\$550	\$1084	\$447	\$1134.0
Copper Exports	07-May	Apr	--	\$4345	\$3527	\$3381.0
CPI (MoM)	08-May	Apr	-0.1%	-0.20%	-0.5%	0.4%
Central Bank's Economist Survey	10-May	May	--	--	--	--
<b>Colombia</b>						
Vehicle Sales	09-10 May	Apr	--	--	--	23551
Exports FOB - US\$ million	08-May	Mar	\$4958.64	\$4284	\$4567.1	\$4667.8
Colombia Monetary Policy Minutes	10-May	May	--	--	--	--
Consumer Confidence	10-17 May	Apr	15.1	18	--	--
<b>Mexico</b>						
Consumer Confidence	06-May	Apr	95.84	--	95.7	95.4
Leading Indicators (MoM)	07-May	Mar	--	--	0.11	0.06
Gross Fixed Investment	08-May	Feb	-0.1%	2.50%	0.5%	4.6%
Central Bank 1Q Inflation Report	08-May	May	--	--	--	--
Vehicle Production (AMIA)	08-15 May	Apr	--	--	238766	238519
Consumer Prices (MoM)	09-May	Apr	0.1%	--	--	0.73%
Bi-Weekly CPI	09-May	Apr 30	0.05%	--	--	-0.09%
Trade Balance	09-May	Mar F	391.0M	--	--	1714.3M
Industrial Production (YoY)	10-May	Mar	-1.25%	1.80%	--	-1.2%
Manufacturing Production (YoY)	10-May	Mar	--	--	--	-0.9%
Central Bank Monetary Policy Minutes	10-May	May	--	--	--	--
<b>Peru</b>						
Reference Rate	10-May	May	4.25%	4.25%	--	4.25%
Trade Balance (INEI)	10-May	Mar	-\$110M	--	--	-\$88M

## Most recent Latam reports

Date	Description
8-05-2103	<a href="#">➤ Brazil Flash: In spite of an upward surprise in April, inflation is (temporarily) back to within the target range</a>
8-05-2103	<a href="#">➤ Flash Chile: Monthly inflation reached -0.5% in April, well below both our and market expectations</a>
8-05-2103	<a href="#">➤ Banxico Flash: Despite supply shocks and recent moderation of economic activity, Banxico keeps unchanged its inflation and economic growth forecasts</a>
7-05-2103	<a href="#">➤ MexicoReal Estate Flash: Second month of the year, second decline in construction</a>
6-05-2013	<a href="#">➤ Flash Chile: Economic activity increased 3,1% YoY in March, but we anticipate growth above 5% YoY in April</a>
6-05-2013	<a href="#">➤ Flash Colombia: Inflation reached 2.02% YoY in April, back into the inflation target range</a>
2-05-2013	<a href="#">➤ Flash Peru: Annual inflation declined to 2.3% in April</a>
2-05-2013	<a href="#">➤ Mexico Migration Flash: Holy week, exchange rate and Mexican immigrants`employment hit remittances in March</a>
30-04-2013	<a href="#">➤ Mexico Migration Flash: In March, another sharp drop in remittances to Mexico</a>
26-04-2013	<a href="#">➤ Mexico Flash: Results of the National Financial Inclusion Survey</a>

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