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Latam Daily Flash

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Economic Analysis

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In Brazil, inflation eased slightly in mid-May, although slightly less than we expected, and the current account widened to 3% of GDP. In spite of the moderation in inflation, the hardening tone of the BCB leads us to expect the Selic rate to rise by a total of 125bp by end-August. Meanwhile, in Mexico, retail sales recovered slightly in March. Today markets will focus on unemployment figures in Brazil, expected to continue showing a tight labor market, and mid-May inflation in Mexico, expected to already start showing a decline.

Brazil – Inflation eased slightly at the beginning of May, but we now expect a 50bp adjustment in the Selic rate in May

The IPCA-15 for May, which measures inflation from mid-April to mid-May, declined to 6.46% YoY (0.46% MoM) from 6.51% YoY (0.51% MoM) in April. The figures were higher than we expected (6.42% YoY; 0.42% MoM BBVAe) but below consensus (6.49% YoY; 0.49% MoM). In addition to seasonal factors, the moderation was due to a slowdown in food prices. The diffusion index declined to 61% from 66% in the previous reading. In spite of this moderation, inflation remains high and, following the recent hardening of the BCB's tone, we now expect the Selic rate to reach 8.75% in August after two 50bp adjustments in May and July and a final one, of 25bp, in August.

Brazil – The current account deficit reached 3.0% of GDP in April

The current account deficit continued to widen and reached 3.0% of GDP in April, the highest deficit in more than ten years. Among other reasons, this deterioration follows the gradual loss of competitiveness of the Brazilian economy in the last few years. We expect a recovery in exports in the remainder of the year to avoid an additional deterioration in the current account, but the risk that this year's deficit ends up being higher than we forecast (3.0%) is increasing. FDI flows have remained stable at 2.8% of GDP since the beginning of the year.

Brazil – Government announces a cut in public expenditure

The government announced that it will freeze R$28bn in its 2013 budget to meet this year's fiscal target (last year the freezing was of R$55bn). The government expects GDP to grow 3.5%, total investment to grow 6.0% and inflation to close the year at 5.2%. The R$28bn cut in public expenditure will help the federal government to meet its part of the primary surplus target (around 1.3% of GDP), but we do not expect the overall 2.3% of GDP target to be met as regional governments are very likely to miss their part of the target (around 1.0% of GDP). We expect public sector's primary surplus to reach 1.8% of GDP this year and fiscal policy to continue more focused on supporting activity than on fulfilling the target.

Mexico – Retail sales recover slightly

March retail sales increased 0.3% MoM sa, a decline of 2.4% in annual terms. However, the trend shows a turning point, as the 0.2% 3M/3M saar decline represents a significant improvement from the 8.1% drop observed in February. Going forward, leading consumption indicators are mixed but as job-creation remains positive, we expect the recovery trend to consolidate.

Chile – Financial Traders Survey reveals inflation expectations at 0.1% MoM for May

The survey for the second half of May anticipates a monthly inflation rate of 0.1% for current month, in line with our estimate. Results also show expectations of a stable monetary policy rate for 3 to 12 months, and a 25bp cut in the longer term. We interpreted this result as an overreaction to recent data over activity and prices, which include transitory effects that should disappear during 2Q13. Finally, traders forecast the exchange rate at USD/CLP 485 on a 3-month horizon, weaker than previous forecasts.

What to watch today

Brazil – Unemployment rate (April, 08:00hrs NYT)

Employment data suggest that although the labor market remains tight, it is losing some momentum. We expect today's data to confirm this trend and unemployment to reach 5.9%.

Mexico – Inflation (First half of May, 09:00hrs NYT)

Inflation is set to begin dropping in the first half of May. We expect a -0.51% bi-weekly print in the first half of May, mainly driven by seasonal factors such as the summer electricity rates coming into force in some areas. The annual rate should fall to 4.5% from 4.7% in April. As for core inflation, we estimate an increase of around 0.14% bi-weekly, a moderate climb that should keep the annual rate around 2.9%.

Calendar: Indicators

Brazil	**Date**	**Period**	**Consensus**	**BBVAe**	**Actual**	**Prior**
IGP-M Inflation 2nd Preview	20-May	May	--	--	0.01%	0.28%
CAGED Formal Job Creation	21-May	Apr	215000	--	196913	112450
Tax Collections	21-May	Apr	95000M	--	98713M	79613M
IBGE CPI IPCA-15 (MoM)	22-May	May	0.49%	0.42%	0.46%	0.51%
Current Account - Monthly	22-May	Apr	-$7268.5M	--	-$8318M	-$6873M
FGV CPI IPC-S	23-May	2-May	0.33%	--	--	--
Unemployment Rate	23-May	Apr	5.55%	5.9%	--	5.7%
FGV Consumer Confidence	24-May	May	--	--	--	113.9
Total Outstanding Loans	24-May	Apr	--	--	--	2427B
Chile						
GDP (YoY)	20-May	1Q	4.5%	4.4%	4.1%	5.70%
Current Account	20-May	1Q	-1800	-2150	-1690	-2880.0
Central Bank's Traders Survey	22-May	May	--	--	--	--
Colombia						
Trade Balance	20-May	Mar	-100.5	-$115	$285.7	$386.4
Outstanding Loans (YoY)	22-May	Mar	--	--	14.90%	15.41%
Mexico						
Retail Sales (INEGI)	22-May	Mar	-0.2%	--	-2.4%	-2.6%
GDP Current $ YoY	23-May	1Q	4.2%	--	--	3.9%
Bi-Weekly CPI	23-May	2-May	-0.35%	--	--	0.01%
Unemployment Rate	24-May	Apr	4.67%	--	--	4.51%
Current Account Balance	24-May	1Q	-4500	--	--	-$6490M
Peru						
GDP YoY	23-May	1Q	4.8%	4.8%	--	5.9%

Most recent Latam reports

Date	Description
21-05-2013	Mexico Banking Flash: Strategies and lines of action to democratize access to finance for projects offering potential to increase Mexico's economic growth under the 2013-2018 National Development Plan (PND)
21-05-2013	Brazil Economic Outlook. Second Quarter 2013
17-05-2013	Peru Economic Outlook Second Quarter 2013
17-05-2013	Mexico GDP Flash: Slightly higher than estimated, GDP grew 0.5% q/q in 1Q13. This is, however, the lowest annual growth since 2009
16-05-2013	Chile Flash: Central Bank kept interest rate at 5% overshadowing dovish market positions
15-05-2013	Peru Flash: Output surprises on the downside in March
15-05-2013	Mexico Real Estate Flash: Activity in the construction sector declined in the first quarter
9-05-2103	Mexico Flash: April's inflation: Headline Inflation Peaks as Core Inflation Falls Again Below 3%
9-05-2103	Peru Flash: The Central Bank keeps a neutral bias for the policy rate
9-05-2103	Chile Economic Outlook (in Spanish) - Second quarter, 2013

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