

Latam Daily Flash

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Economic Analysis

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Yesterday markets were disappointed by lower than expected 1Q growth in Brazil, due to a sharp slowdown in consumption. Despite the negative surprise, the central bank went for a 50bp hike to stem the rise in inflation expectations. Meanwhile, Peru's central bank set a maximum average reserve requirement for local currency deposits, to reduce the disparity between institutions, although in our view this should have relatively little effect on aggregate lending. Today the highlights will be sector activity in Chile (where industry and retail sales should maintain their recent momentum) and the budget balance in Mexico.

Brazil - Growth surprised to the downside in 1Q13, due to a sharp slowdown in consumption

GDP expanded by 0.6% QoQ in the first quarter, the same pace as in 4Q12, frustrating generalized expectations of acceleration in domestic activity (BBVAe 1.1% QoQ; consensus: 0.9% QoQ). The positive news of the robust expansion in investment (4.5% QoQ) was more than counterbalanced by a significant slowdown in private consumption (0.1% QoQ vs. 1.0% QoQ in 4Q12, due to high inflation and less supportive labor and credit markets) and a sharp decline in net exports (exports dropped 6.4% QoQ and imports grew 6.3% QoQ). We expect these figures to trigger a new round of downward revisions to 2013 GDP to certainly less than 3.0% and probably to around 2.5% (see our [Brazil Flash](#) for more details).

Brazil - COPOM focuses on inflation and increases the pace of monetary tightening

The Monetary Policy Committee (COPOM) decided to raise the Selic rate by 50bp to 8.0%. The decision was in line with our call, but surprised most analysts, who expected a 25bp hike. By taking a tougher monetary stance, in our view the monetary authority gains credibility to try to anchor expectations and prevent high inflation from eroding private consumption (and therefore growth). We expect another 50bp hike in July and then a final adjustment of 25bp in August (see our [Brazil Flash](#) for more details).

Peru - Central bank sets a maximum average reserve requirement of 20% for local currency deposits

This measure is intended to reduce the disparity of this rate among lenders, which fluctuated between 18% and 29% of deposits in March, with the highest rates for the newest banks in the system. Although we expect the aggregate effect on lending resources to be small (an equivalent of approximately USD100mn), in our opinion it signals that the central bank is disposed to further ease reserve requirements in future.

What to watch today

Chile - Activity data by sector (April, 09:00hrs NYT)

We expect manufacturing output to have increased 2.2% YoY and retail sales to have grown 10.4% YoY in April, maintaining the momentum observed in recent months. These prints are supported by two more working days than in April 2012. All in all, we forecast that the monthly aggregate activity index (Imacec) should expand in a range of 5.1% to 5.6% YoY in the period, data that will be released next week.

Mexico - Budget balance (April 15:30hrs NYT)

Although the decline in federal spending has been significant (-10.0% YoY in 1Q13), the comparison could be somewhat misleading, since the first quarter of 2012 saw the highest level of spending since 2009. This was probably due to the positive momentum in the economic cycle during the period and to the fact that investment projects are in their final phase towards the end of a six-year presidential term, while in the early stages of a new administration it is natural for many projects to be in the planning phase. We expect the current contraction to be reversed in the second half of the year, although given the consolidation approved in the budget, we are likely to see only moderate growth.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FIPE CPI - Weekly	27 May	May	0.22%	--	0.18%	0.21%
FGV Construction Costs (MoM)	27 May	May	0.86%	--	1.24%	0.84%
Manufacturing PPI (YoY)	28 May	Apr	--	--	5.48%	6.64%
FGV Inflation IGP-M (MoM)	29 May	May	0.03%	--	0.00%	0.15%
FGV Inflation IGP-M (YoY)	29 May	May	6.24%	--	6.22%	7.30%
GDP (IBGE) QoQ	29 May	1Q	0.9%	1.1%	0.6%	0.60%
SELIC Target - Central Bank	29 May	May	7.75%	8.00%	8.00%	7.50%
Central Govt Budget	30 May	Apr	10.8B	--	--	0.3B
Primary Budget Balance	31 May	Apr	13.45B	--	--	3.5B
Chile						
Manufacturing Index	30 May	Apr	2.5%	2.2%	--	-3.00%
Retail Sales (YoY)	30 May	Apr	10%	10.4%	--	10.20%
Copper Production Total	30 May	Apr	--	471655	--	483780
Unemployment Rate	31 May	Apr	6.3%	6.3%	--	6.20%
Colombia						
Urban Unemployment Rate	31 May	Apr	11.4%	11.4%	--	11.60%
Overnight Lending Rate	31 May	May	3.25%	3.25%	--	3.25%
Mexico						
Trade Balance	27 May	Apr P	190M	--	-1225M	1706.0M
Budget Balance (Year to date)	30 May	Apr	--	--	--	40.20B
Net Outstanding Loans	31 May	Apr	2325B	--	--	2306B
Peru						
Consumer Price Index (MoM)	01 Jun	May	--	--	--	0.25%
Wholesale Prices (MoM)	01 Jun	May	--	--	--	0.05%

Most recent Latam reports

Date	Description
29-05-2013	➤ Brazil Flash: COPOM focuses on inflation and increases the pace of monetary tightening
29-05-2013	➤ Brazil Flash: Growth surprises to the downside in 1Q13, due to a sharp slowdown in consumption
29-05-2013	➤ Uruguay Economic Outlook; First Half 2013
23-05-2013	➤ Mexico Inflation Flash: May's biweekly inflation: annual inflation remains close to 4.7% as non-core shocks prove more resilient than expected
22-05-2013	➤ Mexico Banking Watch
22-05-2013	➤ Paraguay Economic Outlook
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

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