

Latam Daily Flash

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Economic Analysis

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The Brazilian government reduced to zero the financial tax on foreign investment in fixed-income as a reaction to the recent depreciation of the Brazilian real. Also in Brazil, industrial production rose sharply in April, led by capital goods, suggesting that the sector will contribute more to GDP growth in 2Q13 than in 1Q13. Meanwhile, consumer confidence deteriorated slightly in Mexico in May, though we expect a rebound in coming months. Today markets will focus on April economic activity in Chile, to dispel doubts about a hard landing there. In Colombia, May inflation is expected to decelerate, but core measures should be in line with a recovery in activity.

Brazil - Government reduces IOF tax on foreign investment in fixed-income from 6.0% to 0%

The decision to cut the financial operations tax (IOF) to zero follows the recent depreciation of the Brazilian real (4% in the year to date), which breached the ceiling of the 1.95 - 2.10 range it had been trading in the last few months. The Finance Minister Guido Mantega said that the government "observed a reduction in the international liquidity", that the BRL "has been heading toward a natural equilibrium" and that with the removal of the barriers "we are heading toward normality and a floating currency with less intervention." Yesterday's was not the first measure to ease capital restrictions this year and could not be the last as some other barriers continue in place. Anyway, it shows that the government is concerned with the impact of a sharp depreciation of the currency even though the exchange rate is mostly seen within the government as a tool to drive competitiveness up.

Brazil - Industrial production rose sharply in April

Industrial output expanded by 1.8% MoM in April. The figure was higher than expected (BBVAe: 1.0%; consensus: 1.0%) and than the growth recorded in March (0.7% MoM). The expansion was led by capital goods (3.2% MoM) and, to a lesser extent, consumption goods (1.8% MoM). 17 out of the 27 sectors showed positive growth in the period, with the highlight being the expansion in the auto industry (8.2% MoM). Industrial output figures suggest that the sector will be more supportive to GDP in the second quarter of this year than it was to GDP in the first quarter, when it declined 0.3% QoQ. Anyway, we do not expect GDP growth to be significantly higher in this quarter than it was during the first one (0.6% QoQ).

Mexico - Consumer confidence deteriorated slightly in May

Consumer confidence surprised to the downside in May, decreasing slightly to 95.2 (vs. 95.7 in April). However, job-creation improved somewhat in April vs. the monthly pace in 1Q13. Thus, we expect consumer confidence to rebound in coming months..

What to watch today

Chile - Monthly activity index (April, 08:30hrs NYT)

We expect the monthly economic activity index (Imacec) to increase 5.1% YoY in April (0.1% MoM seasonally adjusted). The print will be mainly driven by retail sales and a recovery in the manufacturing sector, offset by a slowdown in mining output. Overall, we expect April activity data to overshadow expectations of a domestic hard landing.

Colombia - Buildings census (1Q13, 17:00hrs NYT)

We expect a lower figure for completion of works in 1Q13, vs. YE12, taking the GDP contribution from the residential sector below previous figures. This performance is in line with our expectations of a weak building sector in 1H13e, followed by a gradual recovery starting in July.

Colombia - Consumer inflation (May, 20:00hrs NYT)

We expect headline inflation to decelerate slightly to 1.98% YoY (vs. 2.02% in April), explained mainly by base effects. Core prices should suggest recovering activity, hand in hand with rising tradable goods prices after the recent COP weakness.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	03 Jun	May	0.35%	--	0.32%	0.40%
PMI Manufacturing	03 Jun	May	--	--	50.4	50.8
Trade Balance (Mln) - Monthly	03 Jun	May	\$1800M	--	760M	-\$994M
Industrial Production sa (MoM)	04 Jun	Apr	1%	1%	1.8%	0.7%
FIPE CPI - Monthly	05 Jun	May	0.2%	--	--	0.28%
PMI Services	05 Jun	May	--	--	--	51.3
Commodity Price Index (MoM)	05-12 Jun	May	--	--	--	-1.93%
FGV Inflation IGP-DI	06 Jun	May	0.18%	--	--	-0.06%
COPOM Monetary Policy Meeting Minutes	06 Jun	May	--	--	--	--
Vehicle Sales (Anfavea)	06 Jun	May	--	--	--	333738
IBGE Inflation IPCA (MoM)	07 Jun	May	0.38%	0.38%	--	0.55%
Chile						
Central Bank Meeting Minutes	03 Jun	May	--	--	--	--
Economic Activity Indx YoY NSA	06 Jun	Apr	4.95%	5.1%	--	3.1%
CPI (MoM)	07 Jun	May	0.1%	0.1%	--	-0.5%
Trade Balance in US\$ Million	07 Jun	May	\$500	\$565.1	--	\$447.0
Colombia						
Producer Price Index (MoM)	04 Jun	May	--	--	0.19%	-0.32%
Consumer Price Index (MoM)	06 Jun	May	0.25%	0.26%	--	0.25%
Exports FOB - US\$ million	06 Jun	Apr	--	\$4835	--	\$4567.1
Vehicle Sales	07-14 JUN	May	--	--	--	--
Mexico						
Remittances (USD)	03 Jun	Apr	1868	--	1901.0M	1783.6M
IMEF Manufacturing Index NSA	03 Jun	May	51.30	--	49	51.8
Consumer Confidence	04 Jun	May	95.8	98.3	95.2	95.7
Gross Fixed Investment	06 Jun	Mar	-4.5%	--	--	0.5%
Consumer Prices (MoM)	07 Jun	May	-0.3	--	--	0.07%
Overnight Rate	07 Jun	2-jun	4.00%	--	--	4.00%

Most recent Latam reports

Date	Description
3-06-2013	Flash Peru: Annual inflation slightly rose in May
3-06-2013	Flash Chile: Monetary Policy Report will raise downward bias for the policy rate. Central Bank discussed a preventive cut of 25 basis points in last meeting
3-06-2013	Mexico Migration Flash: Remittances accumulate 10 months in row with falls
31-05-2013	Flash Colombia: BanRep kept policy rate unchanged at 3.25% and extends USD purchase program until September
31-05-2013	Mexico Migration Flash: Would had Remittances fallen again in April?
30-05-2013	Flash Chile: Imacec will reach 5,1% yoy in April, and activity will expand between
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

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