

# Latam Daily Flash

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Economic Analysis

Madrid

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*Following the structural deterioration of the Brazilian economy in the last few years, S&P downgraded the country's outlook to negative from stable. This could lead to the adoption of more orthodox policies, in line with the removal of some barriers to capital inflows on Tuesday and the more hawkish tone revealed by the monetary policy minutes yesterday. May inflation data will be released today in Chile, Brazil and Mexico. In the latter, the central bank is expected to keep interest rates unchanged but to retain a dovish tone given the recent weakness in economic activity.*

## Brazil - S&P downgraded Brazil sovereign outlook rating

Standard & Poor's downgraded the outlook on Brazil's sovereign rating (BBB/A-2) to negative from stable alleging "slow GDP growth and continued expansionary fiscal policy". The agency highlighted "some loss in the credibility of economic policy" and that "a substantial increase in lending by government-owned banks... could pose asset quality problems for the financial system". According to S&P, there is at least one-in-three probability of a downgrade of Brazil over the next two years. In our view, this downgrade will set incentives for officials to take more steps towards the "normalization" of economic policies, which reinforces the prospects of a tighter monetary policy and removal of barriers to foreign capital.

## Brazil - Monetary policy minutes highlight concerns about inflation

The minutes of last week's monetary policy meeting show that the Monetary Policy Committee (COPOM) is now mainly focused on inflation, with a greater sense of urgency about fighting pressures on prices. The monetary authority highlighted the risks related to price indexation, the worsening of inflation expectations as well as to the fact that wages continue to fuel costs. The uncertainties regarding both domestic growth and the external environment were downplayed. We continue to expect the SELIC to be adjusted by 50bp and 25bp, respectively, in July and August. The tone of the minutes adds an upward bias to our SELIC forecast (see our [Brazil Flash](#) for more details).

## Peru - Business confidence fell for the second consecutive month

In May, business confidence fell to 54 points (60 points in April) but remained in the optimistic zone (above 50 points). The reduction is linked to the fall in the price of minerals, which account for over 50% of Peruvian exports and, additionally, to the political noise. In the coming months, we expect confidence to remain in the optimistic zone due to the recent measures taken by the government to accelerate and unlock private and public investment projects.

## Colombia - Exports fell in April, but coal and industry sales rebound

Exports fell 1.2% YoY, explained by lower implicit oil prices than a year ago. Mining exports stood at average 2012 levels, reflecting a gradual recovery of coal production after the supply shock in 1Q13. Industrial export sales grew 15.8% YoY, anticipating a better manufacturing performance in 2Q13e. Exports are the first hard 2Q13 data to come in, and are in line with our GDP outlook for a moderate rebound (from 2.3% in 1Q13 to 3.1%), as external sales had fallen 8.9% in 1Q13. Moreover, our outlook for end-2013 is based on a better performance of industrial exports in 2H13e, thanks to increased demand from developed countries.

## What to watch today

### Brazil - Inflation - IPCA (May, 08:00hrs NYT)

We expect inflation to drop from 0.55% MoM in April to 0.38% MoM in May, largely due to seasonal factors. However, in yearly terms we expect inflation to reach 6.51% MoM, breaching the target ceiling again.

### Chile - Consumer Price Index (May, 8:00hrs NYT)

We expect monthly inflation at +0.1% in May's CPI (1.1% YoY). This print will be mainly influenced by increases in food prices and transportation fares, partially compensated by declines in fuel prices.

### Chile - Trade balance (May, 8:30hrs NYT)

We expect a USD565mn surplus on the balance of trade in May, mainly driven by our expectations of exports at USD6.9bn (+6.7% YoY), while imports should reach USD6.3bn (-4.5% YoY). Also, we estimate copper exports in the order of USD3.5bn.

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

We expect headline inflation to come in at 4.6% YoY in May, the first fall in the annual rate in 2013 (decreasing from 4.7% in April) as supply shocks begin to ease.

We expect core inflation to remain anchored at levels slightly below 3.0% (2.85% YoY; 0.17% MoM).

### Mexico - Banxico Monetary Policy Meeting (10:00hrs NYT)

We expect Banxico to keep its policy rate unchanged at 4.0%. We expect the tone of the wording to remain dovish and to reiterate the importance of the relative monetary position of Mexico. We think Banxico could consider an additional rate cut in the second half of the year if monetary policy becomes relatively more restrictive in a context of headline inflation converging with its target, low and stable core inflation and still weak economic activity.

## Calendar: Indicators

<b>Brazil</b>	<b>Date</b>	<b>Period</b>	<b>Consensus</b>	<b>BBVAe</b>	<b>Actual</b>	<b>Prior</b>
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%	--	0.1%	0.28%
PMI Services	05 Jun	May	--	--	51	51.3
Commodity Price Index (MoM)	05 Jun	May	--	--	0.55%	-1.93%
FGV Inflation IGP-DI	06 Jun	May	0.18%	--	0.32%	-0.06%
COPOM Monetary Policy Meeting Minutes	06 Jun	May	--	--	--	--
Vehicle Sales (Anfavea)	06 Jun	May	--	--	316233	333738
IBGE Inflation IPCA (MoM)	07 Jun	May	0.38%	0.38%	--	0.55%
<b>Chile</b>						
Central Bank Meeting Minutes	03 Jun	May	--	--	--	--
Economic Activity Indx YoY NSA	06 Jun	Apr	4.95%	5.1%	4.4%	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
<b>Colombia</b>						
Producer Price Index (MoM)	04 Jun	May	--	--	0.19%	-0.32%
Consumer Price Index (MoM)	06 Jun	May	0.25%	0.26%	0.28%	0.25%
Exports FOB - US\$ million	06 Jun	Apr	--	\$4835	\$4949.5	\$4567.1
Vehicle Sales	07-14 Jun	May	--	--	--	--
<b>Mexico</b>						
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%	--	-5.5%	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
6-06-2013	<a href="#">➤ Brazil Flash: Monetary policy minutes highlight concerns on inflation</a>
5-06-2013	<a href="#">➤ Flash Colombia: Inflation stood at 2.0% YoY in May, with a slight deceleration against April</a>
5-06-2013	<a href="#">➤ Flash Chile: Monthly activity increase of 4.4% YoY in April is not a pleasant surprise, but still not enough to start a expansionary monetary cycle</a>
5-06-2013	<a href="#">➤ Mexico Economic Outlook Second Quarter 2013</a>
5-06-2013	<a href="#">➤ Mexico Flash: Banco de México: No change in monetary rate. Dovish tone due to economic activity</a>
5-06-2013	<a href="#">➤ Mexico Real Estate Flash: Which forces dominate among those driving forward and dragging back the housing market?</a>
3-06-2013	<a href="#">➤ Flash Peru: Annual inflation slightly rose in May</a>
3-06-2013	<a href="#">➤ 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</a>
3-06-2013	<a href="#">➤ Mexico Migration Flash: Remittances accumulate 10 months in row with falls</a>
31-05-2013	<a href="#">➤ Flash Colombia: BanRep kept policy rate unchanged at 3.25% and extends USD purchase program until September</a>

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