

Latam Daily Flash

10 June 2013 Economic Analysis

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May inflation in Brazil was broadly in line with expectations, but inflation surprised to the downside slightly in Chile and slightly to the upside in Mexico. In Brazil, where inflation hit the target ceiling, and in Chile, where inflation continued below the target floor, pressures on prices are expected to intensify in June. In Mexico we believe that inflation may have peaked already, which should pave the way for an interest rate cut in September. This view was actually reinforced by the dovish tone adopted by the Banxico in the statement regarding its decision to keep rates at 4.0% released on Friday.

Mexico - Headline inflation decreased slightly less than expected

Mexico CPI decreased 0.33% MoM in May, slightly less than our below-consensus forecast (BBVA Bancomer; -0.39%, consensus: -0.31%). In annual terms, headline inflation remained mostly unchanged (at 4.63% YoY vs. 4.65% YoY in April). We continue to expect this print to mark a peak for this year as we believe it should start to converge towards the Central Bank's target (3.0%) from next month onwards and is likely to fall below 4.0% in July. Core inflation came in at 0.20% MoM, taking the annual rate to 2.88% vs. 2.95% in April (see our [Mexico Flash](#) for details).

Mexico - Banxico reinforces its dovish tone

As widely expected, Banxico kept its policy rate unchanged at 4.0% but it reinforced its dovish tone even though the recent MXN depreciation has led to an easing in monetary conditions. The Central Bank repeated that risks to global growth are on the downside and showed greater concern with respect to domestic economic activity. Banxico also showed greater degree of certainty regarding the convergence of inflation with its target, even suggesting that they now expect slightly lower core inflation by the year end (below 3.0% vs. close to 3.0% in the previous statement). We believe that an additional rate cut once inflation falls below 4.0% is the most likely scenario. In a context of low inflation and weak economic activity, we expect an additional 50bp rate cut in the policy rate in the September meeting (see our [Mexico Flash](#) for details).

Brazil - Inflation: stable around the target ceiling for now, but moving up soon

Inflation reached 6.50% YoY in May, similar to April's figure (6.49% YoY) and broadly in line with forecasts (BBVA and consensus: 6.51% YoY). Monthly inflation eased to 0.37% MoM from 0.55% MoM in April due to seasonal factors. The diffusion index, which measures the proportion of goods with positive inflation in the month, continued to trend down and reached 63% (vs. 66% in April). We expect inflation to increase and to be within the 6.50% - 6.8% range in the next few months. This will force the Central Bank of Brazil (BCB) to continue to adjust the Selic rate in the short-term (in our view +50bp in July and +25bp in August). The recent depreciation of the Brazilian real adds an upward bias to both our inflation and SELIC forecasts (for more details, see our [Brazil Flash](#)).

Chile - CPI had no variation in May but it may increase 0.5% MoM in June

CPI inflation for May was slightly below our forecast of 0.1% MoM, impacted negatively by electricity and gasoline, leading to an inter-annual increase of 0.9% YoY. Tradable inflation decreased 0.3% MoM while non-tradable inflation rose to 0.3% MoM, even with the negative contribution of the electricity tariff. In this context, core measures registered a positive variation of 0.1% MoM. Looking forward, monthly inflation for June should have positive contributions from electricity, gasoline and some fruits and vegetables. Overall, we forecast CPI for June at 0.5% MoM (see our [Chile Flash](#) for details).

Chile - Trade balance surprised to the upside in May

The trade surplus reached USD1.377mn in May, above both our expectations and those of the market. The figure was driven by exports that amounted to USD7,974mn (+23.9% YoY) while imports reached USD6,597mn (+0.0% YoY). Copper exports came out at USD4,411mn (+37.6% YoY) including payback effects due to port strikes in April. Meanwhile, imports tended to stabilize anticipating a moderation in domestic demand during 2Q13.

Colombia - Energy demand suggests a sluggish industrial recovery

In May, a month with the same number of working days as a year ago, energy consumption grew 2.6% YoY. Although the sector demand is not known, the overall result points in the same direction as other major indicators (exports and confidence): a gradual recovery in industrial production in 2Q13, in line with our expectations..

What to watch today

No major indicators expected today

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
IGP-M Inflation 1st Preview	10 Jun	Jun	0.25%	--	--	0.03%
FGV CPI IPC-S	10 Jun	2-jun	0.35%	--	--	0.32%
CNI Capacity Utilization (SA)	10 Jun	Apr	--	--	--	82.2%
FIPE CPI - Weekly	11 Jun	2-jun	0.15%	--	--	0.18%
Retail Sales (MoM)	13 Jun	Apr	1.6%	1.5%	--	-0.1%
FGV Inflation IGP-10 (MoM)	14 Jun	Jun	0.44%	--	--	-0.09%
Economic Activity Indx MoM SA	14 Jun	Apr	0.85%	--	--	0.72%
CAGED Formal Job Creation	14-21 Jun	May	--	--	--	196913
Tax Collections	15-22 Jun	May	--	--	--	98713M
Chile						
Central Bank's Economist Survey	11 Jun	Jun	--	--	--	--
Central Bank's Traders Survey	12 Jun	Jun	--	--	--	--
Nominal Overnight Rate Target	14 Jun	2-jun	5.00%	5.00%	--	5.00%
Colombia						
Colombia Monetary Policy Minutes	14 Jun	Jun	--	--	--	--
Outstanding Loans	14-21 JUN	Apr	--	--	--	\$253.0B
Mexico						
Trade Balance	10 Jun	Apr F	--	--	--	-1225.0M
Industrial Production (YoY)	11 Jun	Apr	5.3%	0.8%	--	-4.9%
Peru						
Trade Balance (INEI)	11 Jun	Apr	-\$382M	--	--	\$302M
Reference Rate	14 Jun	Jun	4.25%	4.25%	--	4.25%
Economic Activity Indx YoY NSA	14 Jun	Apr	6.8%	--	--	3.0%
Unemployment	15 Jun	May	--	--	--	5.6%

Most recent Latam reports

Date	Description
7-06-2013	➤ Brazil Flash: Inflation: stable around the target ceiling for now, but moving up soon
7-06-2013	➤ Flash Chile: CPI had no variation in May but it may increase 0.5% MoM in June
7-06-2013	➤ Mexico Inflation Flash: Inflation in May: Supply Shocks Within Non Core Inflation Prevents Headline Inflation from Falling
7-06-2013	➤ Mexico Flash: A more dovish tone strengthens the rate cut perspectives, once inflation is below 4.0%.
6-06-2013	➤ Brazil Flash: Monetary policy minutes highlight concerns on inflation
5-06-2013	➤ Flash Colombia: Inflation stood at 2.0% YoY in May, with a slight deceleration against April
5-06-2013	➤ 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
5-06-2013	➤ Mexico Economic Outlook Second Quarter 2013
5-06-2013	➤ Mexico Flash: Banco de México: No change in monetary rate.Dovish tone due to economic activity
5-06-2013	➤ Mexico Real Estate Flash: Which forces dominate among those driving forward and dragging back the housing market?

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