

Latam Daily Flash

13 June 2013 Economic Analysis

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The government eliminated the 1% tax on USD derivatives and rumours spread regarding possible adjustments in fiscal policy in Brazil, which might help restore some credibility in its economic policies. In Chile, financial traders' expectations for a 50bp rate cut during the next 12 months mirrored those of the economists' poll two days ago, which in our opinion is an overreaction. Meanwhile, in Colombia, civil works confirmed an upsurge in 1Q13 and are expected to be a support for growth in the rest of the year. Today the focus will be on the monetary policy meetings in Chile and Peru. In both cases we do not expect any rate changes, and in the case of Chile all eyes will be on a possible more dovish stance in the communiqué.

Brazil - Government withdraws IOF tax on USD derivatives

Just a few days after eliminating the 6% IOF tax on foreign investment, the government has announced the removal of the 1% tax on increases in USD short positions. Markets had already been expecting this announcement as the weakness of the Brazilian real persisted in the last few days and as the government recently has been taking steps toward more orthodox economic policies (monetary policy more dependent on inflation, which led to an upward adjustment of the Selic rate, and less barriers on foreign capital inflows).

Brazil - Fiscal policy is likely to be adjusted soon

According to local news, the government will announce some measures to tighten fiscal policy in the next few days. This would be a way of regaining some credibility and also reducing concerns about both inflation and fiscal accounts, following the recent downgrade of Brazil's rating outlook from stable to negative by S&P. In our opinion, the announcement of such measures would be good news, as it would reinforce the ongoing process of "normalization" of economic policies.

Chile - Financial traders' survey showed a dovish view on the policy rate in 2H13

The CB financial traders' survey for the first half of June anticipates a monthly inflation rate of 0.4% for the current month (BBVAe: 0.5% MoM). In addition, and in line with the results of the economists' survey, traders do not expect any changes for the policy rate at today's meeting but anticipate interest rate cuts of 50bp in a one-year horizon. Finally, traders' forecast the exchange rate at USD/CLP 510 on a 3-month horizon, a depreciation of 2% from current levels. Again, as highlighted yesterday, we observed a market misinterpretation of the recent dovish statement from some Board members. On the whole, we do not expect any interest rate cuts in the short term if we do not observe a stronger deceleration in private consumption, something that we are not contemplating in our baseline scenario.

Colombia - Infrastructure leading GDP growth in 2013

Civil works grew 18% YoY (vs. 17% expected) in 1Q13 driven by mining construction. This result reduces the uncertainty regarding 1Q13 GDP growth (2.3%e YoY) and demonstrates a greater capacity of national and regional governments to execute the investment budget. If a similar pace in infrastructure spending is maintained in the rest of the year, there could be an increase of about 10% YoY in civil works, as we anticipated in our outlook for 2013.

What to watch today

Brazil – Retail sales (April, 08:00hrs NYT)

We expect retail sales to increase 1.5% MoM in April and reinforcing the view that domestic activity expanded at a relatively robust level in the period. Nonetheless, this growth is likely to lose some steam in the months ahead, which is line with a 2013 GDP growth around 2.5%.

Chile – Monetary Policy Meeting (June, 18:00 hrs NYT)

We expect the CB to keep its monetary policy rate unchanged at 5%. Nonetheless, the communiqué may reflect a migration from a neutral stance towards a more dovish position, due to concerns over the process of deceleration in the economy.

Peru – Monetary policy meeting (June, 19:30 hrs NYT)

We expect the CB to keep in June its policy rate at 4.25%. Inflation remains inside the target range while output's underlying trend is growing at a pace close to that of potential.

Calendar: Indicators

| Brazil | Date | Period | Consensus | BBVAe | Actual | Prior |
|----------------------------------|-----------|--------|-----------|-------|-----------|----------|
| IGP-M Inflation 1st Preview | 10 Jun | Jun | 0.25% | -- | 0.43% | 0.03% |
| FGV CPI IPC-S | 10 Jun | 2-jun | 0.36% | -- | 0.48% | 0.32% |
| CNI Capacity Utilization (SA) | 10 Jun | Apr | 82.30 | -- | 82.2% | 82.2% |
| FIPE CPI - Weekly | 11 Jun | 2-jun | 0.16% | -- | 0.13% | 0.18% |
| Retail Sales (MoM) | 13 Jun | Apr | 1.2% | 1.5% | -- | -0.1% |
| FGV Inflation IGP-10 (MoM) | 14 Jun | Jun | 0.45% | -- | -- | -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 | -- | -- | -1226.9M | -1225.0M |
| Industrial Production (YoY) | 11 Jun | Apr | 5.3% | 0.8% | 3.3% | -4.9% |
| Peru | | | | | | |
| Trade Balance (INEI) | 11 Jun | Apr | -\$382M | -- | -\$378.4M | \$302M |
| Reference Rate | 14 Jun | Jun | 4.25% | 4.25% | -- | 4.25% |
| Economic Activity Indx YoY NSA | 14 Jun | Apr | 6.9% | -- | -- | 3.0% |
| Unemployment | 15 Jun | May | -- | -- | -- | 5.6% |

Most recent Latam reports

| Date | Description |
|------------|--|
| 11-06-2013 | ➤ Mexico Real Estate Flash: Some oxygen for the construction sector |
| 11-06-2013 | ➤ Flash Colombia: It was confirmed the leadership of infrastructure in GDP growth in 2013 |
| 10-06-2013 | ➤ Mexico Real Estate Flash: Construction in energy, ahead on its own |
| 10-06-2013 | ➤ Mexico Flash: Industrial production, with sharp drop in April. Confirms and amplifies the negative trend |
| 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 |

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