

Latam Daily Flash

24 June 2013 Economic Analysis

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The fallout from the Fed's plan to taper bond purchases continued to affect policy making in Latam on Friday, with the tone of Banxico minutes less dovish than expected (and reducing the probability of another rate cut this year) and the Peruvian government announcing measures to ease investment and help sustain business confidence. Meanwhile, in Brazil, mid-June inflation came in as expected, which means still breaching the central bank target band, something we expect to continue in the next few months even with the government's U-turn on its recent fare-increase on public transport.

Mexico - Policy minutes were somewhat less dovish than expected

The tone of the monetary policy minutes is somewhat less dovish than that of the last week's accompanying statement. The staff and the majority of the Board appear more concerned with the recent deceleration in economic activity and risks continue to be biased to the downside. With respect to inflation the balance of risks is neutral. However, monetary conditions had already eased at the time of the meeting and have eased markedly since the perceived change in tone of the Fed. In our view the policy minutes suggest that a change in the bank's monetary policy stance is unlikely in the next few months and that in the new global context in which financial markets anticipate a gradual normalization of US monetary policy, there is a reduced likelihood of an additional rate cut in the second half of the year.

Brazil - Monthly inflation eased at the beginning of June

The IPCA-15, which measures inflation from mid-May to mid-June, reached 0.38% MoM, broadly in line with expectations and less than in the previous month (0.46% MoM). Food inflation continued to moderate, but the diffusion index and core measures remained stable and still at high levels. Transport prices rebounded due to the impact of the upward revision in public transport prices, which was one of the triggers of the recent wave of protests. In yearly terms, inflation risen from 6.5% to 6.8%. Looking ahead, we expect the government's decision to reverse the adjustment in public transport fares to take some pressure off domestic prices in the short term (by around 0.05bp in June and 0.10bp in July), but this will not prevent full-month inflation from remaining above the target ceiling in the next few months.

Brazil - The current account deficit continued to widen in May

The current account deficit reached 3.2% of GDP in May, the highest deficit in more than ten years. This widening reflects the deterioration in the trade balance (which is due to lower terms of trade, weaker external demand and the loss of competitiveness in the manufacturing sector) and the pressures on both revenue and service accounts. The increase in the current account deficit is one of the factors supporting the recent depreciation of the Brazilian real. We expect the deterioration in the current account to lose momentum over the rest of the year, but there is now a significant possibility that the deficit will close the year above our forecast of 3.1% of GDP.

Peru - Government prepares measures to promote investment

The measures will have three axes. First, there will be penalties for government officials that delay investment. Second, municipalities will have deadlines for issuing building permits and positive administrative silence will apply. Finally, the definition of small businesses will be more flexible and they will be given some tax incentives. In conjunction with earlier measures aimed at facilitating major investments, this could have a positive effect on business confidence in the coming months.

Peru - Central Bank GDP forecast implies strong growth ahead

In the Inflation Report released last Friday, the central bank lowered its GDP growth forecast for 2013 to 6.1% (vs. 6.3% in the previous report), mainly due to the fall in exports in the first quarter. From a positive perspective, the figure implies that growth will average 6.5% YoY during the rest of the year, supported by dynamic domestic demand and a partial rebound in exports.

Colombia - Industry and retail: robust expansion in April

In April, the monthly manufacturing monthly index grew 8.4% YoY explained by a better performance in tradable sectors and a greater number of working days than in the same month in 2012. Meanwhile, retail sales growth reached 5.7% YoY (vs. 0.9% in March) thanks to higher household confidence. These results confirm the recovery in the industrial sector and rule out a further moderation in household consumption. Thus, we maintain our outlook for a stronger economic activity in the second quarter.

What to watch today

Mexico - Inflation (first half of June, 09:00hrs NYT)

We expect headline inflation in the first fortnight of June to begin to show a clearer downward trend, with the annual rate decreasing to 4.38% from 4.62% in May. Core inflation should remain well below 3%, with the annual rate decreasing even further to 2.83% from 2.88% in May.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Consumer Confidence	24 Jun	Jun	--	--	--	113.4
FGV CPI IPC-S	24 Jun	2-jun	0.39%	--	--	0.43%
FIPE CPI - Weekly	25 Jun	2-jun	0.24%	--	--	0.18%
FGV Construction Costs (MoM)	25 Jun	Jun	2%	--	--	1.24%
Outstanding Loans MoM%	25 Jun	May	--	--	--	1.1%
FGV Inflation IGP-M (MoM)	27 Jun	Jun	0.74%	--	--	0.00%
Manufacturing PPI (YoY)	27 Jun	May	--	--	--	5.48%
Central Govt Budget	27 Jun	May	3.20%	--	--	7.2B
Primary Budget Balance	28 Jun	May	3.80%	--	--	10.3B
Central Bank publishes quarterly inflation report	28-24 Jun	Jun	--	--	--	--
Chile						
Central Bank's Traders Survey	26 Jun	1-Ene	--	--	--	--
Central Bank Meeting Minutes	28 Jun	1-Ene	--	--	--	--
Manufacturing Index	28 Jun	May	1.50%	0.3%	--	3.4%
Retail Sales (YoY)	28 Jun	May	10.50%	10.3%	--	11.2%
Copper Production Total	28 Jun	May	--	477903	--	441668
Unemployment Rate	28 Jun	May	6.50%	6.6%	--	6.4%
Colombia						
Industrial Confidence	24-28 Jun	May	--	0%	--	-1.3%
Retail Confidence	24-28 Jun	May	--	17%	--	15.5%
Current Account	26 Jun	1Q	--	-\$4000M	--	-\$3577M
Central Govt Budget	27 Jun	May	--	--	--	\$3107B
Urban Unemployment Rate	28 Jun	May	11%	10.2%	--	10.7%
Overnight Lending Rate	28 Jun	2-Jun	3.25%	3.25%	--	3.25%
Mexico						
Unemployment Rate	24 Jun	May	4.90%	--	--	5.04%
Bi-Weekly CPI	24 Jun	2-jun	0.08%	--	--	0.02%
Global Economic Indicator IGAE	25 Jun	Apr	3.70%	--	--	-1.80%
Trade Balance	26 Jun	May P	177.24M	--	--	-1226.9M
Net Outstanding Loans	28 Jun	May	--	--	--	2323B
Budget Balance (Year to date)	28 Jun	May	--	--	--	39.82B

Most recent Latam reports

Date	Description
20-06-2013	➤ Mexico Banking Flash: The Financial System Stability Council (CESF): the Mexican financial markets are adjusting in an orderly fashion to an environment of greater international volatility originated by a possible reduction in financial assets by the US Federal Reserve
20-06-2013	➤ Flash Colombia: GDP growth of 2.8% YoY for 1Q13 was driven by construction and public spending, in line with outlook of 4.1% for 2013
17-06-2013	➤ Brazil Flash: Government takes steps toward the normalization of economic policies
14-06-2013	➤ Flash Peru: April GDP and available indicators anticipate strong performance in the second quarter
13-06-2013	➤ Flash Peru: Unsurprisingly, the policy rate remains at 4,25%
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

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