

Latam Daily Flash

1 July 2013 Economic Analysis

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In Colombia the central bank left interest rates unchanged, while external and labor data released on Friday supported our -and BanRep's- view that after a weak 1Q13, growth should gain momentum in 2Q13e. In Chile activity data surprised to the downside in May, and even though we expect interest rates to remain stable in the very short term, today's Monetary Report should introduce a downward bias to policy rates. Today will also see the publication of consumer inflation in Peru and the IMEF manufacturing index in Mexico, which could add to evidence of weakening economic activity.

Colombia - Central bank kept policy rate unchanged and moderates concerns about local volatility

The central bank maintained its optimistic tone regarding activity in the second quarter of the year, anticipating stronger growth than in 1Q13. According to BanRep, the recent increase in local volatility is in line with expectations of the Federal Reserve's QE3 tapering, reducing the chances of a possible early termination of the current USD purchase programme. We reiterate our view that the cycle of rate cuts has come to an end, in line with a slight recovery in local activity in 2Q13e (see our [Colombia Flash](#) for details).

Colombia- Urban unemployment rate below expectations

The urban unemployment rate in May surprised to the downside, coming in at 10.4% (consensus: 10.8%). The employment numbers are in line with our outlook, which anticipates more dynamic private consumption in 2Q13e.

Colombia- Current account deficit deteriorated in 1Q13

The current account deficit jumped to 3.3% of GDP in 1Q13 (vs. -1.9% in 1Q12). The main downward pressure came from a lower surplus on the balance of trade of 0.7% of GDP (vs. 2.6% in 1Q12), after the temporary mining shock. Foreign direct investment grew 2.5% YoY to reach USD3.7bn, while portfolio flows stood at USD3.1bn (+139.3% YoY). Long-term capital totalled USD4.7bn (5% of GDP), high enough to guarantee healthy external financing. In the second half of the year, we expect the trade surplus to increase as a reflection of better mining performance, while we think portfolio flows could fall in expectation of a tapering of global liquidity.

Chile - Activity data supports growth below 4% YoY in May

Manufacturing production decreased 4.2% YoY in May (BBVAe: +0.3% YoY), while mining production increased 3.0% YoY (BBVAe: +4.2% YoY). On the other hand, retail sales continued to show the resilience of consumers, and increased 13.2% YoY (BBVAe: +10.3% YoY), mainly driven by durable goods. In line with this dynamic consumption, the unemployment rate remained at 6.4% in May (BBVAe: 6.6%), driven by job-creation of 0.1% QoQ and a labor force increase of 0.2% QoQ. We forecast growth in the monthly activity index at 3.8% YoY for May, which still puts a downward bias on our baseline scenario for activity in 2013e (see our [Chile Flash](#) for details).

Chile - Monetary minutes still revealed support for stable rates

The central bank's monetary policy minutes once again reveal discussions of a preventative 25bp cut as a policy option, which leads us to believe that the Board will introduce a downward bias to the policy rate in the Monetary Policy Report published today. Even so, we still expect any cut in the policy rate to be conditional on a sharper deceleration in private consumption. The risks of going "ahead of the curve" are still related to exacerbating the current account deficit and raising medium-term inflation expectations that, as of today, remain well-anchored on the policy horizon. All in all, we expect the bank to keep the interest rate unchanged at 5% in the very short term (see our [Chile Flash](#) for details).

Brazil - Primary surplus remains below adjusted (lowered) target

In spite of the rebound in both tax and one-off revenues, the public sector's primary surplus in annual terms reached only 1.95% of GDP. The figure is below the adjusted target of 2.3% of GDP (the original target was 3.1%). Even though the Minister Guido Mantega commented recently that the government will cut expenditure to meet the adjusted target (following the urge to tighten fiscal policy and take some pressure off inflation), we remain skeptical that this goal will be achieved and therefore continue to expect the primary surplus to be around 1.8% at the end of 2013e. We expect the recent wave of protests as well as still weak growth to place an additional burden on fiscal accounts. The recent decision to flexibilize the full normalization of the IPI tax on furniture and home appliances (implying taxes will increase less than expected) reinforce this view.

Peru - Credit to the private sector continues to moderate

According to central bank figures (which include both loans and holdings of non-financial corporate bonds), credit to the private sector grew by 13.3% YoY in May and continues its downward trend as the increases in reserve requirements are gradually making an impact, which we expect to continue in the coming months.

What to watch today

Chile - Monetary Policy Report (July, 11:00hrs NYT)

We expect a downward revision to the GDP growth range estimated for this year, towards something between 4%-5%. Also, we think the central bank is likely to forecast a lower inflation rate for the end of 2013 close to the lower end of its target range. Overall, we anticipate that the Board will introduce a downward bias to interest rates in the monetary policy horizon.

Peru - Consumer prices (June, 11:00hrs NYT)

We expect monthly CPI inflation of 0.30% MoM (2.8% YoY) due to increases in poultry prices and electricity tariffs, and for the coming months we anticipate that annual inflation will remain within the target range.

Mexico - IMEF Manufacturing Index (June, 13:00hrs NYT)

We are expecting to see a slight deterioration to 48.5 in the June manufacturing IMEF after a May print of 49.0. If our expectation is confirmed, it will continue pointing to a further weakening in economic activity.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	01 Jul	2-jun	0.37%	--	--	0.37%
PMI Manufacturing	01 Jul	Jun	--	--	--	50.4
Trade Balance (Mln) - Monthly	01 Jul	Jun	\$2050M	\$2000M	--	\$760M
Vehicle Sales (Fenabrave)	01-03 Jul	Jun	--	--	--	316225
FIPE CPI - Monthly	02 Jul	Jun	0.365%	--	--	0.1%
Industrial Production sa (MoM)	02 Jul	May	1.1%	--	--	1.8%
PMI Services	03 Jul	Jun	--	--	--	51
Commodity Price Index (MoM)	03-10 Jul	Jun	--	--	--	0.55%
Vehicle Production (Anfavea)	04 Jul	Jun	--	--	--	348070
FGV Inflation IGP-DI	05 Jul	Jun	0.68%	--	--	0.32%
IBGE Inflation IPCA (MoM)	05 Jul	Jun	0.34%	0.32%	--	0.37%
Chile						
Central Bank 2Q monetary policy report (IPOM)	01 Jul	--	--	--	--	0.00%
Economic Activity Indx YoY NSA	05 Jul	May	4%	3.8%	--	4.4%
CPI MoM	06 Jul	Jun	0.4%	0.6%	--	0.00%
Colombia						
Producer Price Index (MoM)	04 Jul	Jun	--	--	--	0.19%
CPI MoM	06 Jul	Jun	0.17%	0.22%	--	0.28%
Mexico						
IMEF Manufacturing Index NSA	01 Jul	Jun	50	--	--	49
Consumer Confidence	03 Jul	Jun	95.4	--	--	95.2
Leading Indicators (MoM)	04 Jul	May	--	--	--	2.00%
Peru						
CPI MoM	01 Jul	Jun	0.22%	0.3%	--	0.19%
Wholesale Prices (MoM)	01 Jul	Jun	--	--	--	-0.3%

Most recent Latam reports

Date	Description
28-06-2013	➤ Mexico Regional Sectorial Outlook
28-06-2013	➤ Colombia Flash: Central Bank kept policy rate at 3.25% and moderates concerns about local volatility
28-06-2013	➤ Flash Uruguay: Central Bank established a new monetary policy instrument which will have a slight tightening bias
28-06-2013	➤ Mexico Migration Flash: Do remittances recovered last May?
27-06-2013	➤ Brazil Flash: Central Bank expects higher inflation and lower growth; and we expect a higher SELIC
25-06-2013	➤ Mexico Banking Flash: The Ministry of Finance (SHCP) has published amendments to the Single Banking Circular ("Circular Única de Bancos", or CUB) to establish new rules for rating the commercial credit portfolio
25-06-2013	➤ Peru Economic Watch: International reserves in Peru: approaching the optimal level
24-06-2013	➤ Mexico Inflation Flash: June's biweekly inflation: Inflation Surprised Downwards Thanks to Lower Than Expected Non Core Inflation
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

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