

Latam Daily Flash

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Economic Analysis

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Today eyes will be on the Mexican monetary policy decision. Weaker output than expected leaves the monetary authority with room for a rate cut. We expect a 50bp cut at today's meeting, although Banxico could decide not to cut the policy rate due to the high volatility in the financial markets along with the expected economic recovery. In Chile, attention will be on August's CPI figure.

Brazil - Policy minutes suggested that the monetary tightening will continue at an unchanged pace, at least in the short term

The wording and the tone of the minutes of last week's monetary policy decision in which the Selic rate was hiked by +50bp to 9.0% were left broadly unchanged, making another +50bp adjustment in October very likely, in our view. Even though the minutes did not reveal additional concerns over the exchange rate, the recent depreciation of the currency could force the COPOM to hike the Selic again at the last meeting of the year in November. We expect the Selic to reach 9.50% in October, 9.75% in November and to remain stable in 2014e. We see a higher degree of uncertainty regarding the last decision of the year, which implies that we should not rule out another +50bp hike or even stable interest rates in November (see our [Brazil Flash](#) for more details).

Chile - Economic activity increased 5,3% YoY in July, below expectations

The monthly activity index expanded 5.3% YoY in July, below both our and market expectations (BBVAe: 6.1%, consensus: 6.0%), mainly driven by dynamic retail sales, a positive contribution from mining production, and supported by two additional working days. In terms of monetary policy, we anticipate maintenance of the policy rate at 5% at September's meeting. Nonetheless, we expect the MPR to be cut in the coming months. According to our baseline scenario, the MPR will fall to 4.25% although we think that there is a high probability that it will be slashed by more than 75bp (see our [Chile Flash](#) for details).

Colombia - Consumer inflation jumped to 1,86% in the first eight months of 2013 driven by food prices

Headline inflation jumped to 2,27% (vs. 2.22% in July) after the agricultural sector strike in August. Although the supply shock should be temporary, we maintain our outlook of rising inflation for the remainder of the year (2.7% YoY). Low base prices a year ago and increasing core prices should take consumer inflation to slightly below the Central Bank's inflation target at the year-end.

Peru - Government budget approved yesterday signals a sustained fiscal impulse next year

The Government budget for 2014 approved by Congress implies a 9.7% increase in fiscal spending and has been made on the basis of projected GDP growth of 6% next year. Note that 30% of the budget will be allocated to public investment, higher than the proportion assigned in previous years (22%-23%). This is in line with our projections of a continued fiscal impulse next year, which would offset the anticipated moderation in private spending.

What to watch today

Brazil - Inflation (August, 08:00hrs NYT)

We expect seasonal factors to drive monthly inflation up to 0.25% MoM in August from 0.03% MoM in July. However, yearly inflation should ease to 6.1% YoY from 6.27% YoY in July. We expect the downward trend in yearly inflation to continue over the remainder of the year and help take some pressure off the central bank.

Chile - Consumer Price Index (August, 08:30hrs NYT)

We expect August CPI to come out at +0.3% (+2.3% YoY). This print will be mainly driven by a complete reversal of the increases in transport fares and fuel prices together with a moderate rise in food prices.

Colombia - Exports (July, 17:00 hrs NYT)

We expect a decrease of 12.6% YoY in exports (USD4,352mn), which would be explained by low coal prices and volumes. If exports fall more than this or the cause is other than coal exports (for example, industrial shipments), this would add a negative bias to our outlook for 2H13.

Mexico - Monetary policy decision (10:00hrs NYT)

Declining economic output in the second quarter of the year (-0.75% QoQ) and the downward revision for the first quarter (0.0% QoQ) point to much weaker growth than previously expected for 2013. Meanwhile, annual inflation remains at 3.5% while core inflation has hit 2.38%, an all-time low. These conditions warrant a dovish tone in the statement, in our view, and leave Banxico with room for a rate cut. We still expect a 50bp cut; however, the sharp depreciation of the peso has already eased monetary conditions and financial market volatility is likely to remain high amid uncertainty surrounding the result of the next Fed meeting and a possible US intervention in Syria. We think these factors together with the expected economic recovery in the second half of the year could prevent Banxico from cutting the policy rate.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Trade Balance Monthly	02 Sep	Aug	\$1500M	--	\$1226M	-\$1897M
Exports Total	02 Sep	Aug	\$21500M	--	\$21425M	\$20807M
Imports Total	02 Sep	Aug	\$20000M	--	\$20199M	\$22704M
Vehicle Sales Fenabreve	02-04 Sep	Aug	--	--	880	342280
Industrial Production MoM	03 Sep	Jul	-1.30%	--	-2%	1.90%
Industrial Production YoY	03 Sep	Jul	2.55%	--	2%	3.10%
IBGE Inflation IPCA MoM	06 Sep	Aug	0.26%	--	--	0.03%
Chile						
Economic Activity YoY	05 Sep	Jul	5.80%	6.10%	5.30%	4.20%
CPI MoM	06 Sep	Aug	0.30%	0.30%	--	0.30%
Colombia						
PPI MoM	04 Sep	Aug	--	--	0.00%	0.00%
Vehicle Sales	06-10 Sep	Aug	--	--	--	25301
CPI MoM	06 Sep	Aug	0.14%	0.16%	--	0.04%
Mexico						
Remittances Total	02 Sep	Jul	1800M	--	1841M	1945.3M
IMEF Manufacturing Index NSA	02 Sep	Aug	49.15	--	49.2	48.5
IMEF Non-Manufacturing Index NSA	02 Sep	Aug	50.5	--	49.8	51.1
International Reserves Weekly	03 Sep	Aug 30	--	--	\$170709M	\$169870M
Consumer Confidence Index	04 Sep	Aug	97.4	--	97.4	98
Overnight Rate	06 Sep	2-sep	4.0%	--	--	4.00%

Most recent Latam reports

Date	Description
05-09-2013	> Flash Brazil: COPOM minutes suggest that the monetary tightening will continue at an unchanged pace, at least in the short term
05-09-2013	> Flash Chile: Economic activity increased 5,3% YoY in July, below expectations
04-09-2013	> Mexico Banking Outlook
04-09-2013	> Flash Chile: Monetary Policy Report kept the baseline scenario with the MPR reaching 4.5% during the next months
02-09-2013	> Flash Peru: August inflation surprised to the upside
02-09-2013	> Mexico Migration Flash: After 13 months, remittances to Mexico still not recovered
30-08-2013	> Flash Colombia: BanRep kept by majority policy rate at 3.25% surprising after considering a rate cut
29-08-2013	> Flash Chile: Imacec sobre 6,0% a/a en julio dejaría en jaque recorte de la TPM en el muy corto plazo
26-08-2013	> Chile Economic Outlook 3Q13
22-08-2013	> Mexico Inflation Flash: August's biweekly inflation: there are no signs of demand-side inflation pressures

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