

# Latam Daily Flash

## 9 September 2013 Economic Analysis

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*In Colombia, Brazil and Chile, inflation was broadly in line with expectations, and the prices profiles suggest no changes in monetary stance in Colombia and Chile, while the rate of deceleration in Brazil is in line with a continuation in the pace of monetary tightening pace at the next meeting. In Mexico, the government presented its economic reform initiative: measures are intended to increase tax collection by 1.4% in 2014.*

## Mexico - Banxico cut the overnight rate to 3.75%

Banxico surprised the markets, but in line with our call delivered a 25bp rate cut, taking the overnight rate to 3.75%. The main driver of the cut was the worse than anticipated weakness of the economy, and there is still room for an additional rate cut as the central bank expects economic slack to continue over the next 18 months. We continue to expect the overnight rate to be cut to 3.50% by year-end, given that there are no signs of the economic recovery expected in the second half of the year materialising yet, and in fact the latest indicators point to continued economic weakness at the start of 3Q13 (see our [Banxico Flash](#) for details).

## Mexico - Tax Reform Initiative and Economic Package for 2014

The Mexican government presented its proposals for reform of the tax and social security systems, together with its economic package for 2014. The reform includes the approval of four new laws and 17 legal reforms. The government estimates that GDP growth will amount to 1.8% in 2013 (from an original estimate of 3.5%) and 3.9% for 2014. Congress has been asked to approve an extraordinary deficit (excluding PEMEX) of 0.4% of GDP for 2013 and 1.5% for 2014. The fiscal reform proposes the elimination of some indirect taxes, creation of others (capital gains and taxes on stock market gains and dividends), elimination of special regimes, reductions in social security contributions for low-income workers and creation of unemployment insurance. The measures are intended to increase tax collection by 1.4% of GDP in 2014; of which 0.7% will be higher corporate tax, 0.3% higher personal income tax and 0.3% higher VAT, food and medicine VAT is not considered.

## Brazil - Inflation continues to ease

Yearly inflation dropped to 6.09% in August from 6.27% in July and 6.70% in June, largely due to positive base effects. In monthly terms, inflation reached 0.24%, higher than in July (0.03%) due to less favourable seasonality and as a reflection of the previous reading benefitting from a one-off drop in public transport fares. The figures were broadly in line with expectations. Looking ahead, we expect inflation to continue to lose steam over the next few months and close the year at 5.7%. However, the recent exchange-rate depreciation poses upside risks to our forecast (for more details, see our [Brazil Flash](#)).

## Chile - CPI inflation reached +0.2% MoM in August

CPI inflation for August reached +0.24% MoM, slightly below both our forecast of +0.27% MoM and the consensus +0.3% MoM. Inflation was impacted by increases in fuel prices and foods, leading to a rise of 2.2% YoY. Tradable inflation rose to 0.5% MoM while non-tradable inflation decreased 0.1% MoM. In this context, exchange-rate depreciation is being reflected in inflation, even though there was no variation in core inflation measures. All in all, in the light of the recently released activity and price data, we do not expect any changes in the monetary policy rate at September's meeting. Nonetheless the Board will once again discuss the possibility of an interest rate cut, and in our view there is a high probability that this will materialise late this year (see our [Chile Flash](#) for details).

## Colombia - Exports fell due to low coal production and a slowdown in low- and medium-tech industrial shipments

In July coal exports fell 33.8% YoY, in line with our outlook. Oil exports grew 6.7% YoY, reflecting higher internal production and a recovery in prices. The industrial shipments performance implies a downward bias to our 3Q13 outlook, as low- and medium-tech exports showed no recovery. However, we will be monitoring the industrial indicators in the coming months to confirm this expectation.

## What to watch today

### Mexico - Inflation (August, 09:00hrs NYT)

We expect inflation data for August to confirm that there are no signs of demand-side inflation pressures in a context of ample economic slack. We expect a 0.30% MoM increase in headline inflation, which would result in a 3.47% annual rate. We anticipate core inflation will increase 0.08% MoM in August, declining to 2.36% YoY, a fresh all-time low.

### Chile - Trade balance (August, 08:30hrs NYT)

We expect a USD400mn deficit on the balance of trade in August, driven by our expectations of exports at USD6.8bn (+18.3% YoY), while imports should reach USD7.2bn (+5.8% YoY). We forecast copper exports in the order of USD3.7bn (+29% YoY).

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	09 Sep	2-Sep	--	--	--	0.20%
CNI Capacity Utilization (SA)	09 Sep	Jul	--	--	--	82.20%
IGP-M Inflation 1st Preview	10 Sep	Sep	--	--	--	0.13%
FIPE CPI - Weekly	11 Sep	2-Sep	0.28%	--	--	0.23%
Retail Sales MoM	12 Sep	Jul	0.30%	--	--	0.50%
Economic Activity MoM	13 Sep	Jul	-0.65%	--	--	1.13%
<b>Chile</b>						
Trade Balance	09 Sep	Aug	-\$725.0	-\$400	--	-\$254.0
Central Bank's Economist Survey	10 Sep	--	--	--	--	0.00%
Central Bank's Traders Survey	11 Sep	--	--	--	--	0.00%
Overnight Rate Target	12 Sep	2-Sep	5.00%	5.00%	--	5.00%
<b>Colombia</b>						
Consumer Confidence Index	10-16 Sep	Aug	23	15	--	25.1
Colombia Monetary Policy Minutes	13 Sep	--	--	--	--	--
<b>Mexico</b>						
CPI Core MoM	09 Sep	Aug	0.34%	--	--	-0.03%
Vehicle Production AMIA	09 Sep	Aug	0.12%	--	--	0.03%
Industrial Production YoY	09-17 Sep	Aug	--	--	--	234757
Industrial Production MoM	11 Sep	Jul	-1.10%	--	--	-2.40%
ANTAD Same-Store Sales YoY	11 Sep	Jul	0.40%	--	--	0.00%
CPI Core MoM	12 Sep	Aug	-1.10%	--	--	-2.30%
<b>Peru</b>						
Trade Balance	10 Sep	Jul	--	-	--	-\$78M
Reference Rate	12-Sep	Sep	4.25%	4.25%	--	4.25%

## Most recent Latam reports

Date	Description
06-09-2013	<a href="#">➤ Banxico Flash: As BBVA Bancomer called it, Banxico cuts the monetary interest rate. If the economic weakness continues, another cut cannot be dismissed</a>
06-09-2013	<a href="#">➤ Brazil Flash: Inflation continues to ease</a>
06-09-2013	<a href="#">➤ Flash Chile: CPI inflation increased 0.2% MoM in August</a>
06-09-2013	<a href="#">➤ Flash Colombia: Consumer inflation stood at 2.27% YoY with a limited transmission of agricultural sector protests</a>
05-09-2013	<a href="#">➤ Flash Brazil: COPOM minutes suggest that the monetary tightening will continue at an unchanged pace, at least in the short term</a>
05-09-2013	<a href="#">➤ Flash Chile: Economic activity increased 5,3% YoY in July, below expectations</a>
04-09-2013	<a href="#">➤ Mexico Banking Outlook</a>
04-09-2013	<a href="#">➤ Flash Chile: Monetary Policy Report kept the baseline scenario with the MPR reaching 4.5% during the next months</a>
02-09-2013	<a href="#">➤ Flash Peru: August inflation surprised to the upside</a>
02-09-2013	<a href="#">➤ Mexico Migration Flash: After 13 months, remittances to Mexico still not recovered</a>

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