

Latam Daily Flash

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Economic Analysis

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As expected, the monetary tightening continues in Brazil with a possible last hike by the year end. The Chilean financial trader's survey reflects expectations of the policy rate being maintained at the next meeting. Today all eyes will be on the monetary policy meeting in Peru where we do not expect any changes.

Brazil -The monetary tightening cycle continues, with another 50bp adjustment of the SELIC

As widely expected, the Monetary Policy Committee unanimously decided to hike the SELIC rate to 9.50%. The reference interest rate is now 225bp higher than in April when the tightening of monetary conditions started (inflation, which was around 6.5% then, is now running below 6.0%). The accompanying statement was kept unchanged refraining from signalling that the ongoing tightening cycle is close to its end. However, we expect the minutes of this monetary policy meeting that are due to be released next Thursday, to do so. We continue to foresee a final +25bp adjustment of the SELIC rate in November (for more details, see our [Brazil Flash](#)).

Brazil - Inflation drops below 6% for the first time this year

Yearly inflation declined to 5.86% YoY in September, from 6.09% YoY in August, in line with forecasts (BBVAe: 5.86% YoY; consensus: 5.86% YoY). This was the third drop in a row since June when inflation peaked at 6.70% YoY. The likely announcement of an increase in fuel prices and a weaker currency (in spite of the recent appreciation) will leave less room for inflation to decline in 4Q13. More precisely, we expect inflation to be around 5.9% YoY in both October and November and then recede slightly to 5.7% YoY in December (for more details see our [Brazil Flash](#)).

Mexico - Inflation came in lower than our below-consensus forecast

Headline inflation surprised slightly to the downside and came in at 0.38% MoM in September, closer to our below-consensus forecast (BBVAe: 0.43%; Consensus: 0.45%), decreasing slightly in annual terms to 3.39% from 3.46% in August. The negative surprise was mainly driven by a milder than expected increase in non-core prices but also by a low core print. Core inflation increased 0.32% MoM, closer to our below consensus forecast (BBVAe: 0.30%; Consensus: 0.35%). With this print, annual core inflation increased to 2.52% from the 2.37% all-time low observed in August. Considering there are no signs of demand-side inflation pressures, core services inflation remains very low reflecting the ample economic slack, economic activity is not rebounding as expected in the third quarter and risks have tilted further to the downside on the back of the recent hurricanes and the US government shutdown, we continue to expect a 25bp cut at the October 25 Banxico monetary policy meeting (for more details see our [Mexico Flash](#)).

Chile - Financial traders expect the policy rate to be maintained in October

The survey revealed expectations of maintenance in the policy rate at next week's meeting although it still anticipates a 25bp cut on a 3-month horizon to reach 4.75% (in line with our view). Meanwhile, on a 6-month horizon, traders forecast the policy rate at 4.5%. Finally, results also showed an inflation rate estimate of 0.1% MoM for the current month.

Colombia - Exports beat expectations in August

Exports stood at USD5.0 bn. (+8.9% YoY), boosted by oil shipments (+25.9% YoY) the third highest level since 1980 (USD2.9 bn.). Surprisingly, coal exports (USD 0.6 bn.) were slightly above July's figures (USD0.55bn) despite the strike at one of the largest companies of the sector (33% of national coal production). The recovery in manufacturing exports was interrupted, after four months of positive performance. Industrial shipments fell 19.6% YoY, mainly explained by low-tech products (-22.9% YoY). This result anticipates a better mining performance in 3Q13 compared to our outlook, but with a downward bias in industrial production and consequently in private investment.

Peru - Trade balance continues trending downwards but we expect the pace to moderate in the coming months

In August, exports expanded 1.8% YoY while imports grew 3.8% YoY. As a result, the trade balance decreased to 0.2% of GDP (vs. 0.3% in July) in annualised terms. In the coming months, we expect this declining trend to attenuate due to a partial recovery in exports, in line with the better results from mineral production, which should partially compensate for the effect of lower commodity prices.

What to watch today

Chile - Central Bank Economic Expectations Survey (October, 07:30hrs NYT)

We expect the survey to show forecasts for no changes in the monetary policy rate in October's meeting, in line with our view. Nonetheless, we anticipate a first cut of 25bp before the end of this year, particularly at November's meeting. Additionally, we think the results will point to an increase of around 4.3% YoY for the economic activity index (Imacec) in September and monthly inflation around +0.0% MoM for October.

Peru - Monetary policy meeting (October, 19:30hrs NYT)

We expect the central bank to keep its policy rate at 4.25% in October. We expect inflation to gradually converge to the target range (2%, +/- 1pp) next year (this year we expect it to close at 3.2%), due to the reversion of supply shocks that have impacted food prices in the last few months, in a context of subdued demand pressures.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGP-DI MoM	08 Oct	Sep	1.50%	--	1.36%	0.46%
FGV CPI IPC-S	08 Oct	2-Oct	0.30%	--	0.38%	0.30%
CNI Capacity Utilization (SA)	09 Oct	Aug	82.30%	--	82.20%	82.20%
FIPE CPI - Weekly	09 Oct	2-Oct	0.29%	--	0.29%	0.20%
IBGE Inflation IPCA MoM	09 Oct	Sep	0.35%	0.35%	0.35%	0.24%
Selic Rate	09 Oct	2-Oct	9.50%	9.50%	9.50%	9.00%
IGP-M Inflation 1st Preview	10 Oct	Oct	0.87%	--	--	1.02%
Chile						
Economic Activity YoY	07 Oct	Aug	3.80%	3.80%	4.10%	5.30%
CPI MoM	08 Oct	Sep	0.50%	0.50%	0.50%	0.20%
Central Bank's Traders Survey	09 Oct	--	--	--	--	--
Trade Balance	09 Oct	Sep	-\$100.0	\$150	-\$525	-\$525.0
Central Bank's Economist Survey	10 Oct	--	--	--	--	--
Colombia						
Exports FOB	09 Oct	Aug	\$4578.65	\$4054	\$4978.3	\$4650.0
Consumer Confidence Index	10 Oct	Sep	--	18	--	13.4
Colombia Monetary Policy Minutes	11 Oct	--	--	--	--	--
Mexico						
Vehicle Production AMIA	07 Oct	Sep	--	--	241740	259106
Gross Fixed Investment	08 Oct	Jul	-2.00%	--	-0.40%	-3.10%
CPI MoM	09 Oct	Sep	0.44%	--	0.38%	0.28%
Industrial Production MoM	11 Oct	Aug	0.10%	--	--	-0.10%
Peru						
Trade Balance	10 Oct	Aug	-\$118M	--	--	-\$486M
Reference Rate	11 Oct	Oct	4.25%	4.25%	--	4.25%

Most recent Latam reports

Date	Description
10-10-2013	➤ Brazil Flash: COPOM: no surprises; no hints
09-10-2013	➤ Mexico Inflation Flash: September's inflation: came in lower than our below-consensus expectation
09-10-2013	➤ Brazil Flash: Inflation drops below 6% for the first time this year
08-10-2013	➤ Chile Flash: CPI in September at 0.5% in line BBVA's forecast
07-10-2013	➤ Colombia Flash: September CPI inflation stood unchanged at 2.27% YoY above market expectations which anticipated an annual drop
07-10-2013	➤ Chile Flash: Monthly activity expanded 4,1% YoY in August
03-10-2013	➤ Mexico Real Estate Outlook
01-10-2013	➤ Mexico Migration Flash: In august remittances to Mexico break negative streak
30-09-2013	➤ Mexico Banking Flash
30-09-2013	➤ Flash Chile: Retail sales expanded 12% YoY and we forecast Imacec around 3.8% in August

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