

Latam Daily Flash

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Economic Analysis

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Minutes in Brazil warned of the lag effects of monetary policy and the downward revision of inflation forecasts. The BCB announced yesterday that its daily intervention programme will be extended through 2014, in an attempt to keep inflation under control. In Chile, activity expanded below expectations in October. Today we are waiting for a monetary policy decision in Mexico: no changes in rate are expected but we will be scrutinising the text for any reference to US monetary policy and its impact on financial markets

Brazil – COPOM warns about the lag effect of monetary policy

The minutes of last week's monetary policy meeting were released yesterday. The references to the lag effect of monetary policy and the downward revision of inflation forecasts, together with the changes introduced in [last week's communiqué](#), reinforce the perception that the present monetary tightening cycle will come to an end soon. We expect a final +25bp adjustment in January, and our forecast is supported by the weaker than expected growth in the second half of the year and the modest adjustment in fuel prices, which should help the BCB to meet its informal goal this year (to bring year-end inflation below the 5.84% level at end-2012) (see our [Brazil Flash](#) for more details).

Brazil – The daily FX intervention programme will be extended through 2014

The daily intervention program to offer “hedge to economic agents and liquidity to exchange markets”, introduced at the end of August to prevent an even sharper depreciation of the Brazilian real will be extended “with adjustments” over the next year, according to the President of the Central Bank of Brazil (BCB), Alexandre Tombini. The programme was initially planned to extend until end-2013. The extension of the programme indicates that the BCB will continue to intervene in exchange-rate markets, inter alia to try to maintain inflation under control at the beginning of the next year, a period when in our view the bank will probably bring the present monetary tightening cycle to an end (see above, for more on this issue).

Chile – Monthly activity at 2.8% YoY in October compromises the central bank's baseline scenario

Monthly activity expanded 2.8% YoY in October (-0.1% 3Q13), below both our and market expectations (BBVAe: 4.5%, consensus: 4.0%), mainly driven by negative contributions from manufacturing and a sharp slowdown in wholesale, services and transportation. We still think that 4.2% GDP growth is achievable this year, but it would require acceleration in aggregate activity that could be difficult to achieve given the sharp slowdown in service-related sectors. The baseline scenario depicted in the recently released Monetary Policy Report is at risk, although we do not anticipate a cut in the policy rate at December's meeting, mainly for communications reasons. Another 25bp cut during December could be misinterpreted by private expectations, after the neutral bias to the policy rate adopted by the central bank recently. In this context, we expect the next cut in rates during 1Q14e (see our [Chile Flash](#) for more details).

Colombia – CPI fell 0.22% (MoM) in November and places annual inflation below the central bank's target range

The market was once again surprised by a negative inflation in November (-0.22% MoM, BBVAe 0.10%, Consensus 0.08%) placing annual inflation at 1.76%, below the central bank's year-end target range (2%-4%). Food prices and housing were the main driving forces behind the observed fall in prices during November (-0.53% and -0.26% MoM, respectively) and were explained by good harvests and a fall in utility prices (-1.82% MoM). However, when volatile components such as food and regulated prices are excluded, annual inflation increased and continued to lie within the target range (2.72% YoY) evidencing that consumption remained robust during November.

What to watch today

Brazil – IPCA (November, 06:00hrs NYT)

We expect inflation to come in at 5.87% YoY (0.63% MoM) in November, broadly in line with the previous reading. Looking forward, a smaller than expected adjustment in fuel prices should help the BCB to meet its informal target of delivering year-end 2013 inflation below the 5.84% YoY recorded in 2012.

Chile – Consumer price index (November, 7:00hrs NYT)

We expect November's CPI to increase by 0.2% MoM (+2.2% YoY), driven by increases in the price of perishable foods, that should be partially offset by decreases in prices of fuels and transportation.

Mexico – Monetary policy decision (December, 10:00hrs NYT)

After the central bank highlighted in its last statement that additional rate cuts were unlikely, we expect the overnight rate to remain unchanged, starting a prolonged monetary policy pause given the prevailing economic slack and the absence of demand-side pressures on inflation for the foreseeable future. In terms of the tone of the statement, slightly better than expected figures for economic growth in the third quarter are likely to lead to a mention of reduced downward risks to growth compared to the last meeting, while stating that these risks still remain high. With regards to inflation, we expect no significant change in the tone of the statement, but an emphasis on the temporary moderate nature of the impact from fiscal changes. We will be paying close attention to what the central bank says about US monetary policy and its impact on financial markets, especially given the recent Federal Reserve minutes that renewed expectations of a tapering in asset purchases in the coming months.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	2 Dec	Nov	0.63%	--	0.68%	0.67%
PMI Manufacturing	2 Dec	Nov	--	--	49.7	50.2
Trade Balance Monthly	2 Dec	Nov	\$400M	\$800M	\$1740M	-\$224M
Vehicle Sales Fenabreve	2 Dec	Nov	--	--	302950	330196
GDP QoQ	3 Dec	3Q	-0.30%	-0.10%	-0.50%	1.50%
FIPE CPI - Monthly	4 Dec	Nov	0.51%	--	0.46%	0.48%
Industrial Production MoM	4 Dec	Oct	0.10%	0.10%	0.60%	0.70%
PMI Services	4 Dec	Nov	--	--	52.3	52.1
Commodity Price Index MoM	4 Dec	Nov	--	--	2.73%	-2.67%
COPOM Monetary Policy Meeting Minutes	5 Dec	--	--	--	--	--
Vehicle Sales Anfavea	5 Dec	Nov	--	--	302939	330203
FGV Inflation IGP-DI MoM	6 Dec	Nov	0.29%	--	--	0.63%
IBGE Inflation IPCA MoM	6 Dec	Nov	0.58%	0.63%	--	0.57%
Chile						
Central Bank Meeting Minutes	4 Dec	--	--	--	--	--
Economic Activity YoY	5 Dec	Oct	4%	4.50%	2.80%	3.90%
Economic Activity MoM	5 Dec	Oct	0.30%	1%	-0.10%	-0.80%
Vehicle Sales Total	6 Dec	Nov	--	--	--	31380
CPI YoY	6 Dec	Nov	2.10%	2.20%	--	1.50%
CPI MoM	6 Dec	Nov	0.10%	0.20%	--	0.10%
Colombia						
PPI MoM	4 Dec	Nov	--	--	-0.26%	-0.78%
CPI MoM	5 Dec	Nov	0.07%	0.10%	-0.22%	-0.26%
Exports FOB	6 Dec	Oct	\$4950	--	--	\$4850,7
CPI Core MoM	6 Dec	Nov	--	0.10%	--	0.03%
Mexico						
Remittances Total	2 Dec	Oct	1837,8M	1825M	1853,1M	1795.7M
IMEF Manufacturing Index SA	2 Dec	Nov	--	49.9	50.13	49.3
Consumer Confidence Index	4 Dec	Nov	92	93.7	88.7	91.2
Leading Indicators (MoM)	5 Dec	Oct	--	--	0.02	0.07
Gross Fixed Investment	6 Dec	Sep	-6.10%	-3.40%	--	-5.40%
Overnight Rate	6 Dec	--	3.50%	3.50%	--	3.50%

Most recent Latam reports

Date	Description
5-12-2013	➤ Brazil Flash: COPOM warns about the lagged impact of monetary policy
5-12-2013	➤ Chile Flash: Monthly activity at 2.8% YoY in October compromises CB's baseline scenario
4-12-2013	➤ Chile Automobile Market Outlook 2013 (in Spanish)
4-12-2013	➤ Working Paper: Financing retirement with real estate assets: an analysis of Mexico
4-12-2013	➤ Working Paper: Demand factors influencing Financial Inclusion in Mexico: Barriers analysis from the ENIF (in Spanish)
3-12-2013	➤ Brazil Flash: GDP contraction in 3Q13
3-12-2013	➤ Mexico Migration Flash: Remittances to Mexico increase for the third month in a row
3-12-2013	➤ Chile Flash: Monetary Policy Report (in Spanish)
3-12-2013	➤ Peru Automobile Market Outlook 2013 (in Spanish)
3-12-2013	➤ Mexico Economic Watch: Oil production sharing: a forecast of additional public revenues through 2018

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