

Latam Daily Flash

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Economic Analysis

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In Brazil, we have raised our forecast for January's economic activity indicator (from 0.5% to 0.8% MoM) due to the positive surprises in both retail sales and industrial production. In Mexico, industrial production also topped expectations in January, driven by the manufacturing sector, which we expect to continue recovering in the coming months. Finally, we estimate GDP growth in Peru (due to be released today) at 4.7% YoY in January, driven by commerce and services.

Chile - Central bank cuts policy rate by 25bp but moderates its dovish bias

As widely expected, the central bank cut policy rates by 25bp to 4.00%. Nonetheless, the dovish bias of the last communiqué was moderated, a factor that supports our call for a short-term pause in policy rates, consistent with a *wait and see* stance for the next months. In this context, the board stated the possibility of further stimulus but conditional on short-term figures, with a particular sensitivity to CLP depreciation and its pass-through over CPI inflation. Our view is that this phenomenon will be transitory in a context of the widening output gap. All in all, we expect a pause at 4% in the monetary easing cycle but further stimulus will be necessary, ending up at 3.25% in 2H14. The publication of the Monetary Policy Report during the coming weeks will shed lights on the timing of those additional cuts expected for 2014 (see our [Chile Flash](#) for more details).

Peru - Monetary policy meeting: no surprises, but with a more neutral tone

The central bank kept the policy rate at 4.0% in March, something that was widely expected. However, in contrast to last month's statement, when the monetary policy stance was ready to be eased if necessary, this time the tone was more neutral, in line with our forecast, considering that the inflation outlook for the coming months has become complicated and could eventually have an undesirable impact on inflationary expectations (see our [Peru Flash](#) for more details).

Brazil - Retail sales expanded at the beginning of the year

January core retail sales increased 0.4% MoM, topping forecasts (BBVAe: 0.0% MoM; consensus: -0.4% MoM) and the growth in the previous month (-0.2% MoM). Broad retail sales expanded 2.1% MoM, offsetting the downward correction (-1.9% MoM) observed in December, thanks to auto sales (1.9% MoM in January vs. -3.2% in the previous reading). The better-than-expected performance of retail sales, together with the 2.9% MoM growth of industrial output, suggests that economic activity rebounded in January after the contraction observed in November and December. Anyway, we have no strong reasons to believe that growth will remain high in the next few months. We continue to believe it unlikely that GDP will expand significantly more in 1Q14 than it did in 4Q13 (0.7% QoQ).

Mexico - Industrial production surprised on the upside at the start of the year

Industrial production expanded 0.5% MoM in January, above our below-consensus forecast (BBVAe: 0.33%; consensus: 0.4%). The positive result was mainly driven by the manufacturing sector, which jumped 2.3% MoM. This expansion was partially offset by contractions in mining, utilities and construction activities of 0.3%, 0.9% and 1.2% MoM sa. In annual terms, industrial production increased 0.7% YoY. The improvement of the manufacturing sector is a positive sign after the recent weakness. Moreover, the recovery of the US ISM in February suggests that the manufacturing sector will continue to recover in coming months (for more details, see our [Mexico Flash](#), in Spanish).

What to watch today

Brazil – IBC-Br (January, 07:30hrs NYT)

Following the upward surprises in both retail sales and industrial production, we revise up our forecast for January's IBC-Br, the BCB's economic activity index, from 0.5% MoM to 0.8% MoM. We see the growth in January as a one-off correction after the IBC-Br declined in November and December (-0.6% MoM and -1.4% MoM, respectively), rather than the beginning of an upward trend.

Peru – GDP (January, 12:00hrs NYT)

We estimate that GDP grew 4.7% YoY in January, driven by commerce and services, partially offset by a deceleration in manufacturing and construction.

Colombia – Civil works (4Q13, 16:00hrs NYT)

Despite a quarterly moderation (-4.0% QoQ), civil works should have grown 17.4% YoY during the last quarter of 2013, thanks to a low statistical base in Q412 and high public investment, as the government anticipated spending due to electoral restrictions.

Colombia – BanRep Minutes (February, unspecified time)

The minutes should continue to reveal an optimistic view of economic activity and limited concern about inflation, as it has begun to gradually recover towards the central bank's long term target (3%). The discussion might shed some light on the possibility of extending foreign reserve purchases during the coming quarter under similar conditions (up to USD1bn per quarter). Finally, there is expected to be limited concern about the pass-through of COP devaluation on inflation.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGP-DI MoM	10 Mar	Feb	0.63%	--	0.85%	0.40%
FGV CPI IPC-S	10 Mar	Mar	0.68%	--	0.71%	0.66%
Industrial Production MoM	11 Mar	Jan	2.50%	2.8%	2.86%	-3.70%
FIPE CPI - Weekly	12 Mar	Mar	0.61%	--	0.57%	0.58%
IBGE Inflation IPCA MoM	12 Mar	Feb	0.65%	0.62%	0.69%	0.55%
Retail Sales MoM	13 Mar	Jan	-0.35%	0%	0.43%	-0.17%
Economic Activity MoM	14 Mar	Jan	0.70%	0.8%	--	-1.35%
Formal Job Creation Total	14 Mar	Feb	120651	--	--	29595
Chile						
Central Bank's Traders Survey	12 Mar	Mar	--	--	--	--
Overnight Rate Target	13 Mar	Mar	4.00%	4.00%	4.00%	4.25%
Colombia						
Consumer Confidence Index	12 Mar	Feb	24.0	25.04	15.7	26.6
Trade Balance	12 Mar	Jan	\$117.4	\$250	\$157.4	\$556.6
Colombia Monetary Policy Minutes	14 Mar	--	--	--	--	--
Mexico						
Gross Fixed Investment YoY	11 Mar	Dec	-0.05%	-1.7%	0.74%	-4.51%
ANTAD Same-Store Sales YoY	11 Mar	Feb	-0.10%	-2.3%	-0.20%	-1.70%
Industrial Production MoM	13 Mar	Jan	0.20%	0.3%	0.51%	-0.53%
Peru						
Reference Rate	13 Mar	Mar	4.00%	4.00%	4.00%	4.00%
Unemployment Rate	14 Mar	Feb	6.70%	--	--	6.40%
Economic Activity YoY	14 Mar	Jan	4.95%	4.7%	--	5.01%

Most recent Latam reports

Date	Description
13-03-2014	➤ Working Paper: Manufacturing competitiveness in Latin America: trends and determinants (in Spanish)
13-03-2014	➤ Chile Flash: Central bank cut policy rate by 25bp but moderates its dovish bias
13-03-2014	➤ Mexico Flash: Industrial production surprised to the upside in January, driven only by the manufacturing sector (in Spanish)
13-03-2014	➤ Peru Flash: Monetary policy meeting: no surprises, but with a more neutral tone
13-03-2014	➤ Mexico Banking Flash: Credit to the private sector: slow growth at the start of the year (also available in Spanish)
12-03-2014	➤ Brazil Flash: Inflation rises in February, marking the beginning of a new upward trend
12-03-2014	➤ Mexico Banking Flash: Bank deposits: slow start to 2014
10-03-2014	➤ Mexico Migration Flash: Baja California, Baja California Sur and Tamaulipas could be the states with the highest growth of remittances in 2014e
7-03-2014	➤ Chile Economic Watch: Low pass-through to inflation
7-03-2014	➤ Mexico Inflation Flash: Inflation is on a declining trend as expected following the one-off increase in January

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