

Latam Daily Flash

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January's inflation figures for Brazil and Mexico were released yesterday, with the former showing a continuing upward trend to uncomfortably high levels, and the reading in Mexico surprising to the upside, though still in a downward trend. Peru's central bank did not surprise and left the monetary policy rate unchanged. Today the focus will be on inflation in Chile, investment in Mexico and business confidence in Peru. The latter is expected to confirm a strong outlook for private investment.

Mexico - Inflation keeps easing despite the upwards surprise in January

Inflation increased 0.4% MoM in January, surprising the market (0.3% MoM consensus); however it is still falling in annual terms, reaching 3.25% YoY (3.6% in December). The surprise was caused by a sharp increase in mobile tariffs which partially offset the cuts of the past couple of months. Inflation remains in a declining trend as finished goods, livestock and agricultural prices are less under pressure (see our [Mexico Economic Watch](#))

Brazil - Inflation at uncomfortably high levels

Inflation increased for the seventh consecutive month and reached 6.15% in January, broadly in line with expectations. Even though rising food prices (11.1% YoY; 2.0% MoM) are an important factor behind this upward trend, inflation pressures are also related to demand issues (services inflation, for example, reached 8.6% YoY; 0.92% MoM). We expect inflation to continue at high levels in the coming months and eventually trigger more tax cuts and other policy actions, but not a SELIC hike (for more, see our [Brazil Flash](#)).

Brazil - Government eases 2013 fiscal target

In the 2013 budget bill sent to Congress, changes were introduced to the fiscal target. The full primary surplus target will remain around 3.1%, but the government will now be allowed to exclude from the target up to 0.4% of GDP on tax breaks in excess of 0.9% of GDP for public investment projects included in the PAC. In practice, the primary surplus target will then be eased to 1.8% (see our [Brazil Economic Watch](#), for more on our view on this issue).

Peru - Central bank maintains neutral tone for its policy rate

As expected, the central bank kept its policy rate at 4.25%. The statement released after the meeting was similar to the previous one (January), but expressed less concern about external conditions. In the coming months, we expect the policy rate to remain unchanged in a context of inflation moving within the target range (2% +/- 1pp), GDP expanding around potential, and upward pressures on the local currency (see our [Peru Flash](#)).

Chile - Wages increased 6.3% YoY in December

Nominal wages increased 6.3%YoY in December 2012 (4.7% in real terms). This print continues to reflect the tightness of the labor market and adds to inflationary pressures in the medium term. By sector, mining and construction led the increases in wages, reaching +8.5% and +8.9%, respectively. However, we do not expect any change in the monetary policy stance in the medium term, given well-anchored long-term inflation expectations.

Colombia -Energy demand increases, reflecting manufacturing recovery

In January, energy demand grew 4.5% YoY, the highest figure since July 2012. This result appears to support our view that the manufacturing sector bottomed-out in December 2012, and is now beginning a slow recovery which will be consolidated in the second half of the year. This number is also in line with BanRep's outlook, which anticipates a slow recovery starting 1Q13, although not fully offsetting the current dovish tone.

What to watch today

Chile – Consumer Price Index (January, 6:00 hrs, NYT)

We expect CPI to show no monthly change in January 2013, but increase 1.4% YoY. The estimated increase in prices of perishable foods, gasoline and transportation should be fully offset by a decrease in stamp duties, related to the fiscal reform of 2012, that came into force this year.

Mexico – Gross Fixed Investment (November, 9:00hrs, NYT)

After a drop in October (-0.3% MoM, sa), we forecast an increase of 0.7% MoM in November (5.8% YoY), supported by higher investment in machinery and equipment. We remain cautious about construction investment at YE12e.

Peru – Business confidence (January, 13:00 hrs NYT)

We expect this to remain at a similar level to the previous reading (64 points, within the optimistic zone, i.e. above 50), lending support to our view that private investment will continue to expand in double-digit rates in the coming quarters.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FIPE CPI - Monthly	4-Feb	Jan	1.06%	--	1.15%	0.78%
FGV Inflation IGP-DI	5-Feb	Jan	0.26%	--	0.31%	0.66%
PMI Services	5-Feb	Jan	--	--	54.5	53.5
CNI Capacity Utilization	6-Feb	Dec	81.50%	--	80.9%	81.4%
Vehicle Sales (Anfavea)	6-Feb	Jan	--	--	311453	359355
FGV Preview Inflation IGP-M	7-Feb	Jan 31	0.20%	--	0.41%	0.34%
IBGE Inflation IPCA (MoM)	7-Feb	Jan	0.84%	0.82%	0.86%	0.79%
FGV CPI IPC-S	8-Feb	Feb 11	--	--	--	--
Chile						
Economic Activity Indx YoY NSA	5-Feb	Dec	3.70%	3.50%	4.70%	5.5%
Total Exports in US\$ Million	7-Feb	Jan	--	\$6700	\$6928	\$7714.0
Total Imports in US\$ Million	7-Feb	Jan	--	\$6800	\$6684	\$6208.0
CPI (MoM)	8-Feb	Jan	0.05%	0.10%	--	0.0%
Colombia						
Producer Price Index (MoM)	4-Feb	Jan	--	--	-0.05%	-0.74%
Consumer Price Index (MoM)	6-Feb	Jan	0.52%	0.52%	0.30%	0.09%
Mexico						
IMEF Manufacturing Index	5-Feb	Jan	53.2	--	52.1	52.8
Consumer Confidence	6-Feb	Jan	99.00	99.80	100	99.0
Consumer Prices (MoM)	7-Feb	Jan	0.32%	0.26%	0.40%	0.23%
Consumer Prices Core (MoM)	7-Feb	Jan	0.30%	0.21%	0.42%	0.12%
Bi-Weekly CPI	7-Feb	Jan 31	0.22%	0.11%	0.40%	0.15%
Bi-Weekly Core CPI	7-Feb	Jan 31	0.20%	0.03%	0.47%	0.18%
Gross Fixed Investment	8-Feb	Nov	4.90%	6.80%	--	9.5%
Peru						
Reference Rate	8-Feb	Feb	4.25%	4.25%	--	4.25%
Business Confidence	8-Feb	Feb	--	--	--	64.00%
Electricity production	04-09 Feb	Mar	--	--	--	5.88%

Most recent Latam reports

Date	Description
7-2-2013	> Peru Flash: Central Bank keeps neutral tone for its policy rate
7-2-2013	> Mexico Flash: January's inflation: Monthly Inflation Surprises Upwards due to Telephone Services; However Inflation keeps Easing Annually
7-2-2013	> Brazil Flash: Inflation at uncomfortably high levels
5-2-2013	> Colombia Flash: Consumer inflation dropped to 2.0% YoY in January, standing at the lower bound of the inflation target band
5-2-2013	> Chile Flash: Economic activity shows moderate slowdown at the end of 2012
1-2-2013	> Banxico Watch: Banxico seems to be targeting a cut but the uncertainty remains: how to play it?
1-2-2013	> Peru Flash: Annual inflation remained within the target range
1-2-2013	> Chile Flash: Minutes of the January's meeting turn to a more hawkish view
31-1-2013	> Working Paper: Expanding Credit and Savings in Peru
31-1-2013	> Brazil Economic Watch: "The macro mix in Brazil: a new fiscal regime, to a new monetary policy"

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