

Latam Daily Flash

11 July 2013 Economic Analysis

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In Brazil, the central bank raised policy rates by 50bp, as widely expected, and we forecast an additional 50bp hike in August. Meanwhile, in Peru, exports fell more than 10% YoY in May due to lower prices and shipments, although we expect a rebound in volumes exported in the months ahead. Today we will also have monetary policy meetings in Peru and Chile where we expect no changes in rates.

Brazil - The monetary tightening continues, at an unchanged pace

The Monetary Policy Committee (COPOM) once again raised the SELIC by 50bp. The accompanying statement was left unchanged, reinforcing our view that the current pace of adjustment of monetary conditions will be maintained at the next meeting in August. Yesterday's decision and communication underline the prospect of an additional +50bp adjustment in August. There is a high degree of uncertainty regarding post-August monetary decisions, but our call is for a final +25bp adjustment in October and a stable SELIC at 9.25% thereafter, as we expect inflation to trend downwards from July onwards and economic activity to remain feeble in the months ahead (see our [Brazil Flash](#) for more details).

Chile - central bank survey revealed expectations of stable policy rate at today's meeting

The central bank's economic expectations survey revealed a growth forecast for the monthly economic activity index of 4.0% YoY in June (BBVAe: 3.3% YoY) and inflation at 0.3% MoM in July (BBVAe: 0.2% MoM). In terms of monetary policy, analysts do not expect any changes in the reference rate at today's meeting (in line with our view), but over the next five months survey participants anticipate an easing of 50bp. Overall, we do not expect any interest rate cuts in the short term unless a risk scenario, with a sharper deceleration in private consumption, materializes.

Chile - 2Q13 credit survey reflected slightly weaker demand

The central bank survey of bank credit conditions in 2Q13 reflected more restrictive lending conditions in both the construction and real estate development segments. Nonetheless, results showed relatively stable credit conditions for households and other companies compared to the previous survey. In terms of demand, results highlighted less demand from real estate and construction companies, while it also signaled lower demand for mortgage and consumer loans. Finally, credit demand from other companies remained stable.

Peru - Trade balance continued to trend downwards in May

Exports fell 10.3% YoY in May due to both lower prices and a fall in shipped volumes. As a result, the balance of trade decreased to 1.2% of GDP (vs. 1.5% in April) in annualized terms. Although we expect lower minerals prices to continue to have an impact on the external accounts, we anticipate that the recent increase in mining production will support a recovery in export volumes in the months ahead.

What to watch today

Brazil - Retail sales (May, 08:00hrs NYT)

We expect retail sales to have remained flat in MoM terms in May. This would reinforce the prospects of a moderation in private consumption and no acceleration in overall economic activity in the second quarter of the year.

Chile - Monetary policy meeting (July, 18:00hrs NYT)

We expect the central bank to keep its monetary policy rate unchanged at 5%. The communiqué should continue to reflect a neutral stance due to an acceleration of incoming inflation figures and well-anchored long-term inflation expectations that offset the Board's concerns about the deceleration of the economy.

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

We expect the central bank to keep its policy rate at 4.25% in July, given that inflation (2.8% YoY in May) remains inside the target range (2% +/-1pp) while the underlying trend of output growth is close to its potential.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	08 Jul	2-Jul	0.33%	--	0.23%	0.35%
CNI Capacity Utilization (SA)	08 Jul	May	83.00%	--	82.20%	83.30%
SELIC Target - Central Bank	10 Jul	2-Jul	8.50%	8.50%	8.50%	8.00%
Retail Sales (MoM)	11 Jul	May	-0.04%	0.00%	--	0.50%
Economic Activity Indx MoM SA	12 Jul	May	-1.15%	--	--	0.84%
Chile						
Trade Balance in US\$ Million	08 Jul	Jun	\$900	\$1044	\$608.0	\$639.0
Central Bank's Traders Survey	10 Jul	--	--	--	--	--
Central Bank's Economist Survey	10 Jul	--	--	--	--	--
Nominal Overnight Rate Target	12 Jul	2-Jul	5.00%	5.00%	--	5.00%
Colombia						
Vehicle Sales	11 Jul	Jun	--	--	--	24488
Exports FOB - US\$ million	9 Jul	May	\$5416.6	\$5500	\$5266.8	\$4949.5
Consumer Confidence Index	11-16 JUL	Jun	22.0	21.8	--	20.1
Colombia Monetary Policy Minutes	12 Jul	--	--	--	--	--
Mexico						
Vehicle Production (AMIA)	08 Jul	Jun	--	--	266351	255474
CPI MoM	9 Jul	Jun	-0.02%	-0.05%	-0.06%	-0.33%
Bi-Weekly CPI	9 Jul	2-Jul	0.03%	-0.03%	-0.05%	-0.05%
Gross Fixed Investment	10 Jul	Apr	5.60%	--	5.90%	-5.50%
Trade Balance	10 Jul	May	-308.8M	--	-469.9M	-469.9M
Industrial Production (YoY)	12 Jul	May	0.60%	-1.20%	--	3.30%
Overnight Rate	12 Jul	2-Jul	4.00%	4.00%	--	4.00%
Peru						
Trade Balance (INEI)	10 Jul	May	-\$250M	--	-\$404.3M	-\$378M
Reference Rate	12 Jul	Jul	4.25%	4.25%	--	4.25%

Most recent Latam reports

Date	Description
11-07-2013	➤ Mexico Flash: Banxico: Fondeo rate at 4.0%. A dovish tone is expected as domestic activity impairs
11-07-2013	➤ Flash Brazil: The monetary tightening continues, at an unchanged pace
09-07-2013	➤ Mexico Inflation Flash: June's inflation: Inflation Approaches 4% Due To Lower Fruit And Vegetable Prices And Falling Core Inflation
08-07-2013	➤ Inflation jumped to 2.16% YoY in June, consolidating within the inflation target range
08-07-2013	➤ CPI inflation for June 0,6% m/m, in line with our forecast, and impacted by transitory elements
05-07-2013	➤ Brazil Flash: Inflation peaks in June
1-07-2013	➤ Mexico Migration Flash: Remittances to Mexico recorded 11 consecutive months with declines
1-07-2013	➤ Flash Peru: Annual inflation kept upward trend in June
28-06-2013	➤ Mexico Real Estate Flash: The rules arrive at last
28-06-2013	➤ Mexico Regional Sectorial Outlook

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