

Latam Daily Flash

29 July 2013 Economic Analysis

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BanRep left its policy rate unchanged in Colombia but lowered the 2013 GDP forecast to 4.0% (from 4.3% previously). The probability of a rate cut in Mexico in September has diminished but it remains a possibility in a context of weak growth and positive outlook for inflation. There has been limited support for domestic demand in Brazil from total credit.

Colombia - The Central Bank keeps the policy rate unchanged at 3.25% but lowers 2013FY GDP growth forecast from 4.3% to 4.0%

With more moderate optimism than in June's meeting, BanRep lowered its 2013 growth forecast to 4.0% (BBVAe: 4.1%) after a weak private spending dynamic in 1Q13. The Central Bank also announced its 2Q13 GDP forecast of 3.4% YoY. BanRep maintains its expectation of a gradual recovery in the coming quarters, amid expansive monetary and fiscal policies. The tone of cautious optimism and the downward revision of the GDP growth forecast reduces the probability of any interest rate hikes in the remainder of the year, in line with our forecast of stability in 2013 and a first rate hike in April 2014 (for more details, see our [Colombia Flash](#)).

Mexico - Monetary policy minutes did not reveal any strong bias from Banxico to cut the policy rate

The minutes from the July monetary policy meeting did not show any discussion of a possible change in the policy stance in the last meeting. Even though, as the policy statement had already showed, Banxico's board is clearly downbeat on growth and positive on inflation, much of the discussion was focused on a possible reduction in the Fed's asset purchases in upcoming meetings, which has been behind the recent market volatility and the drop in asset prices. Interestingly, this time, they stated that they are going to be watchful of relative monetary conditions, especially given recent movements driven by the Fed's communication. The next monetary policy meeting will take place on 6 September and although our baseline scenario continues to envisage a 50bp rate cut at that meeting, the probability of such a cut continues to diminish. Even though the door remains open for interest rate cuts in a context of weak growth and a favorable outlook for inflation, a strengthening of the peso from current levels might be a necessary condition.

Mexico - Trade balance came out pretty much in line with our expectations; suggesting that exports are starting to rebound

June's trade balance registered a surplus of USD855mn, in line with our estimate of a USD787mn and much better than consensus expectations (-USD469mn). Both exports and imports continue to rebound in annual terms reaching rates of 2.5% YoY and 1.7% YoY, respectively in June. The trade balance for the first half of the year posted a deficit of -USD1,863mn, a very low print which suggests that internal demand remains weak and that for the time being internal demand is not widening the deficit. This deficit will be easily financed with direct or portfolio investment; however, if economic activity improves in the second half of the year, as we expect, the trade deficit might widen at a slightly faster pace.

Brazil – Public banks hold more than 50% of the credit market for the first time since 2000; lending rates are starting to trend up

Even though private credit growth remained subdued (5.7% YoY; 0.0% MoM), credit from public banks continued to grow sharply (29.3% YoY; 3.5% MoM) and represented more than 50% of the total credit stock (specifically 50.2%) in June. This is the first time since 2000 that the share of the public banks is higher than that of the private banks. Total credit growth remained stable around 16% YoY in June, providing limited support to domestic demand. Average lending rates increased from 18.1% in May to 18.5% in June in what we believe could be the beginning of an upward trend (in line with the recent adjustment of the Selic rate). The good news revealed by the credit report published by the BCB was the drop in NPL, from 3.6% in May to 3.4%.

Peru – Concessions speed up in order to boost private investment

The government agency in charge of promoting private investment has granted the concession of a project that would bolster the use of natural gas. Over the last month, three investment projects have been granted to the private sector, amounting to a total investment in the energy and communications sectors of nearly USD800mn. The acceleration in the awarding of concessions is one of the government's responses in order to try and support economic activity in a context of external headwinds that have affected business confidence.

What to watch today

No relevant data

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGPM MoM	30 Jul	Jul	0.28%	--	--	0.75%
FGV Inflation IGPM YoY	30 Jul	Jul	5.18%	--	--	6.31%
Primary Budget Balance	30 Jul	Jun	2.95B	--	--	5.7B
PPI Manufacturing YoY	31 Jul	Jun	--	--	--	4.07%
FGV CPI IPC-S	01 Aug	2-Jul	-0.15%	--	--	-0.11%
Industrial Production MoM	01 Aug	Jun	1.30%	0.80%	--	-2.00%
PMI Manufacturing	01 Aug	Jul	--	--	--	50.4
Trade Balance Monthly	01 Aug	Jul	\$450M	\$600	--	\$2394M
FIPE CPI - Monthly	02 Aug	Jul	-0.18%	--	--	0.32%
Vehicle Sales Fenabrave	02 Aug	Jul	--	--	--	318606
Chile						
Manufacturing Index YoY	30 Jul	Jun	-1.20%	-1.00%	--	-4.20%
Retail Sales YoY	30 Jul	Jun	8.00%	7.40%	--	13.20%
Copper Production Total	30 Jul	Jun	--	470798	--	475140
Central Bank Meeting Minutes	30 Jul	1-Jan	--	--	--	--
Unemployment Rate	31 Jul	Jun	6.50%	6.50%	--	6.40%
Colombia						
Vehicle Sales	25-29 Jul	Jun	--	--	--	24488
Budget Balance	30 Jul	Jun	--	--	--	-\$195B
Urban Unemployment Rate	31 Jul	Jun	10.50%	10.9%	--	10.40%
PPI MoM	02 Aug	Jul	--	--	--	0.24%
Mexico						
Budget Balance YTD	30 Jul	Jun	--	--	--	56.00B
Net Outstanding Loans	31 Jul	Jun	--	--	--	2351B
Remittances Total	01 Aug	Jun	2065.6	--	--	2033.9M
IMEF Manufacturing Index NSA	01 Aug	Jul	49.6	--	--	47.5
Peru						
CPI MoM	01 Aug	Jul	0.25%	0.42%	--	0.26%
Wholesale Prices (MoM)	01 Aug	Jul	--	--	--	0.82%

Most recent Latam reports

Date	Description
26-07-2013	> Central Bank in Colombia kept policy rate at 3.25% and revises downwards 2013FY GDP growth forecast from 4.3% to 4.0%
24-07-2013	> Mexico Inflation Flash: July's biweekly inflation: Inflation Surprises to the Downside. Thanks to a Very Low Core Print
18-07-2013	> Brazil Flash: For the COPOM, the exchange rate depreciation is a "natural and expected" transition to normality, but entails risks
15-07-2013	> Mexico Real Estate Flash: Construction returns to negative terrain
15-07-2013	> Flash Peru: GDP slowed in May
15-07-2013	> Mexico Flash: Industrial production rebounded in May, partially offsetting the sharp decline in April. The trend remains of moderation.
12-07-2013	> Mexico Flash: In spite of a greater concern on domestic activity and a better inflation outlook, a rate cut seems to depend on a greater impairment of economic activity
11-07-2013	> Peru Flash: Central Bank somewhat more dovish
11-07-2013	> Chile Flash: CB kept the monetary policy rate at 5%, but explicitly delivered a dovish tone
11-07-2013	> Mexico Flash: Banxico: Fondeo rate at 4.0%. A dovish tone is expected as domestic activity impairs

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