

# Latam Daily Flash

## 23 September 2013 Economic Analysis

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*In Brazil, yearly inflation continued to trend down. Monetary policy meeting minutes in Mexico were consistent with the dovish tone of the statement and reinforced our expectation of an additional rate cut in October.*

## Brazil – Inflation continued to decline and is now below 6.0% YoY

The IPCA-15 for September, which measures inflation from mid-August to mid-September, reached 5.93% YoY, slightly below expectations. This is the first time this year that inflation is running below 6.0% YoY. Even though the IPCA-15 figures show that monthly inflation rebounded at the beginning of September to 0.27% MoM from 0.16% MoM in the previous period, yearly inflation declined due to positive base effects. We expect these effects to continue to play a role in the next few months and yearly inflation to continue to trend down. More precisely, we expect the full-month IPCA to come in at 5.9% YoY in September and to close the year at 5.7% YoY. However, if a fuel price adjustment - rumoured in the past few weeks - is actually introduced, then inflation would be closer to 6.0% YoY at the end of the year.

## Colombia – Retail sales and industrial production in July support BanRep keeping rates stable at its next meeting

Retail sales grew 5.4% YoY (4.4% in June), above market expectations (5.0%). Vehicles sales made the largest contribution (15.3% YoY), in line with a more robust transmission of the current expansive monetary stance to durable goods consumption. Industrial production grew 0.2% YoY, above expectations (consensus: -2.0%, BBVAe: -1.4%) and continuing the slow recovery already observed in 2Q13. Both figures were above expectations, and although supply and demand indicators are still mixed, they are overall positive and suggest an ongoing recovery that should lead to BanRep deciding to keep rates stable at its next meeting.

## Mexico – In our opinion, Banxico's monetary policy minutes reinforce our call for an additional 25bp rate cut in October

Banxico released the minutes of the last monetary policy meeting at which it cut the reference rate 25bp to 3.75%. The minutes are consistent with the dovish tone of the statement. The discussion stresses members' views regarding the likelihood of seeing a wide output gap for a prolonged period. Thus, demand-side inflation pressures are not foreseen for the next 18 months. Of the two members who voted against the rate cut, one favoured a "wait and see" strategy ahead of last week's FOMC decision and an evaluation of whether a possible tapering could further affect financial variables if the effect of such an action was not yet fully discounted, particularly by the exchange rate. In our view, at the next meeting in October and against a backdrop of Fed dovishness - and the continuation of its asset purchase programme unchanged - and continued economic weakness in Mexico, Banxico is likely to cut an additional 25bp.

## Mexico – The unemployment rate increased in line with our expectations

The unemployment rate increased from 5.1% in July to 5.2% in August (BBVAe: 5.2%, consensus: 5.3%). The labor market remains sluggish and the August data reinforce the soft start to the third quarter.

## What to watch today

### Colombia - Imports and trade balance (July, 17:00hrs NYT)

We expect imports to contract 5% YoY on strong consumer goods but weak capital goods. The trade deficit should reach USD12mn FOB, supported by the recovery in exports published a few weeks ago (USD4,650mn FOB).

### Mexico - Retail sales (July, 09:00hrs NYT)

We expect July retail sales to reflect a soft start for private consumption in the third quarter. ANTAD sales were weak in August (decreasing 3.5% YoY sa) but showed a small improvement over the previous month (-3.9% YoY sa), which could anticipate somewhat less weakness in July retail sales. Thus, we expect the annual pace to improve slightly from -1.2% YoY sa in June to -0.1% YoY sa in July.

## Calendar: Indicators

<b>Brazil</b>	<b>Date</b>	<b>Period</b>	<b>Consensus</b>	<b>BBVAe</b>	<b>Actual</b>	<b>Prior</b>
Tax Collections	20-23 Sep	Aug	84500M	--	--	94293M
FGV CPI IPC-S	23 Sep	2-Sep	0.27%	--	--	0.27%
Central Bank publishes quarterly inflation report	23 Sep	1-Jan	0.00%	--	--	0.00%
FGV Consumer Confidence	24 Sep	Sep	--	--	--	113.1
Current Account Balance	24 Sep	Aug	-\$5081M	--	--	-\$9018M
FIPE CPI - Weekly	25 Sep	2-Sep	0.17%	--	--	0.16%
PPI Manufacturing YoY	25 Sep	Aug	--	--	--	4.96%
Unemployment Rate	26 Sep	Aug	5.60%	5.70%	--	5.60%
FGV Inflation IGPM MoM	27 Sep	Sep	1.42%	--	--	0.15%
Total Outstanding Loans	27 Sep	Aug	--	--	--	2546B
Central Govt Budget Balance	27 Sep	Aug	0.5B	--	--	3.7B
<b>Colombia</b>						
Outstanding Loans	20-23 Sep	Jul	--	--	--	\$265.0T
Trade Balance	23 Sep	Jul	\$118.7	-\$12.3	--	\$717.8
Imports	23-Sep	Jul	--	\$4934	--	\$4311
Industrial Confidence	24 Sep	Aug	--	--	--	-2
Retail Confidence	24 Sep	Aug	--	--	--	21.8
Current Account Balance	26 Sep	2Q	--	--	--	-\$3038M
Overnight Lending Rate	27 Sep	2-Sep	3.25%	3.25%	--	3.25%
Budget Balance	27 Sep	Aug	--	--	--	-\$3448B
<b>Mexico</b>						
Retail Sales YoY	23 Sep	Jul	0.50%	--	--	-1.90%
Bi-Weekly CPI	24 Sep	2-Sep	0.23%	--	--	0.07%
Bi-Weekly Core CPI	24 Sep	2-Sep	0.21%	--	--	0.01%
Economic Activity IGAE YoY	25 Sep	Jul	1.30%	--	--	-0.39%
Trade Balance	26 Sep	Aug P	-1500	--	--	-1436.7M

## Most recent Latam reports

Date	Description
23-09-2013	<a href="#">➤ Mexico Flash: Banxico: rate cut decision passed by simple majority. FED in the spotlight</a>
19-09-2013	<a href="#">➤ Flash Mexico: Private consumption and investment dragged down GDP in 2Q13 (In Spanish)</a>
19-09-2013	<a href="#">➤ Flash Colombia: GDP surprised upwards in 2Q13 growing 4.2% YoY with a homogeneous path to recovery</a>
16-09-2013	<a href="#">➤ Flash Peru: GDP growth kept moderate in July</a>
12-09-2013	<a href="#">➤ Flash Chile: Central Bank kept the monetary policy rate at 5%. Even though, the downward bias for the MPR was ratified</a>
12-09-2013	<a href="#">➤ Flash Peru: Monetary policy meeting: no news</a>
11-09-2013	<a href="#">➤ Mexico Economic Watch: Fiscal Reform: in the right direction, but not enough</a>
10-09-2013	<a href="#">➤ Colombia Economic Outlook 3Q13</a>
06-09-2013	<a href="#">➤ Banxico Flash: As BBVA Bancomer called it, Banxico cuts the monetary interest rate. If the economic weakness continues, another cut cannot be dismissed</a>
06-09-2013	<a href="#">➤ Brazil Flash: Inflation continues to ease</a>

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