

# Latam Daily Flash

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**Economic Analysis**

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*In Brazil, the inflation report was in line with our view of a hike at the next monetary meeting and a final adjustment in December. In Peru the central bank relaxed reserve requirements for the third consecutive month. Retail data in Chile was in line with a strong performance in August.*

## **Brazil - Lower inflation in 2013, in spite of a weaker currency**

The 3Q13 inflation report revealed that the Central Bank of Brazil (BCB) revised its year-end inflation forecast down to 5.8% YoY, from 6.0% YoY. The new forecast assumes the exchange rate will reach 2.35, higher than both the 2.10 rate used in the 2Q13 report and the current rate of 2.23. However, the text of the report suggested to us that the BCB is now less concerned with inflation than three months ago, even though it raised its 2014 inflation forecasts. All in all, we see no reasons to change our Selic forecasts: we continue to expect a +50bp hike at next week's monetary meeting and then a final +25bp adjustment in December (see our [Brazil Flash](#) for more details).

## **Brazil - Public sector accounts deteriorated in August**

The public sector's primary result was negative by USD 432 million in August. It was the first time since the current series was released in 2001 that the primary result was not positive in the period. In yearly terms, the primary surplus declined to 1.8% of GDP, the lowest level since 2009. The total fiscal deficit, which includes interest payments, reached 3.1% of GDP. The net public debt declined to 33.8% due to the positive effect of the depreciation of the currency. The weak fiscal results reinforce our view that the primary surplus will fall short of the 2.3% goal this year and do not help the country to move away from a sovereign credit rating downgrade.

## **Chile - Retail sales still strong in August**

August's activity data by sector included dynamic retail sales that increased 12.0% YoY (BBVAe: +11.5% YoY, consensus +8.6% YoY), driven by durable goods. On the other hand, manufacturing production decreased by 2.0% YoY (BBVAe: -0.1% YoY, consensus +0.0% YoY), while mining production increased 5.9% YoY. All in all, we expect the monthly activity index to grow at 3.8% YoY in August (see our [Chile Flash](#) for details).

## **Chile - Unemployment rate remained at 5.7% in August**

The unemployment rate remained at 5.7% in August below both our and market expectations (6.0% and 5.8%, respectively). Job-creation increased by 0.2% MoM (+2.7% YoY) mainly driven by manufacturing, transportation and agriculture. Meanwhile, the labour force increased 0.1% MoM (+1.9% YoY). All in all, and despite recent job-creation, we continue to see a less tight labor market in the coming months.

## **Chile - Real government expenditure will increase 3.9% in 2014**

The government announced that real fiscal expenditure will increase 3.9% in relation to the estimated disbursements for 2013. Considering the level of real growth in spending announced for 2014, budget resources would account for USD63bn. All in all, this announcement validates our expectation of slower domestic demand growth for next year, and the convergence of the fiscal structural deficit to levels of 1% of GDP.

## Colombia - Industrial confidence improved; trade confidence was affected by strikes

In August, industrial confidence improved marginally from the July figure (-1.8 vs. -2.0), but remained below its historical average (-0.4). However, compared to 2Q13, industrialists showed less willingness to invest. Meanwhile, trade confidence declined between July and August, from 21.8 to 12.0, reaching the lowest level since May 2009. Nevertheless, the values of this survey were affected by the social protests during the month, which temporarily reduced retail sales in some cities. Recent GDP and industrial production prints should boost the perceptions of employers, ensuring a better performance of the respective economic sectors in 2H13, in line with our outlook.

## Colombia - Urban unemployment in August

The urban unemployment rate reached 10.3%, slightly above market consensus (10%) and similar to last month's figure (seasonally-adjusted). The upward surprise is explained by an increase in the occupation rate (0.4pp YoY) which was marginally higher than the growth in the participation rate (0.3pp YoY). The upward trend in occupation levels observed in recent months was maintained in August, in line with our 3Q13 activity outlook.

## Peru - Central bank relaxes reserve requirements for local currency deposits for the third consecutive month

The central bank reduced (maximum) average and marginal reserve requirements for deposits in soles, both to 16% (previously 17% and 20%, respectively). This measure will release approximately PEN1bn, which should have a positive effect on credit. The bank also established an additional reserve requirement for deposits in foreign currency, conditional on the aggregate balance exceeding by 5% or more the balance corresponding to September 2013. The latter measure is intended to support the process of banking dedollarisation.

## Peru - Consumer confidence remained neutral in September

The September reading for this indicator was 50 (as in August), which is in contrast to the optimistic view at the beginning of the year. Last month, consumers were revealed to be less confident on the evolution of inflation, mainly due to recent increases in food prices. Another factor that we think might have been impacting on families' perception is the fall of dependent employment in the third quarter. While we expect supply shocks on food prices to reverse in the next few months, moderation in private spending could further affect hiring during the rest of the year.

## What to watch today

### Mexico - IMEF Manufacturing Index (September, 13:00hrs NYT)

The IMEF indicator will help assess the economic performance at the end of the third quarter. The slight monthly growth in manufacturing output in Mexico in July (0.4% MoM sa) and in the US in August (0.6% MoM sa) suggest that the IMEF manufacturing index should show an improved business climate. We expect the index to increase from 49.2 in August to 49.9 in September.

### Peru - Consumer prices (September, 11:00hrs NYT)

We expect monthly CPI inflation of 0.35% MoM, mainly due to increases in food and fuel prices. With this, annual inflation would decline to 3.1% (3.3% in August), just above the target range (2% +/- 1pp). We expect inflation to remain outside this range in the coming months and end the year at around 3.2%.

## Calendar: Indicators

<b>Brazil</b>	<b>Date</b>	<b>Period</b>	<b>Consensus</b>	<b>BBVAe</b>	<b>Actual</b>	<b>Prior</b>
<b>Brazil</b>						
Central Bank Publishes Quarterly Inflation Report	30 Sep	--	--	--	--	--
Primary Budget Balance	30 Sep	Aug	1.6B	--	-0.4B	2.3B
FGV CPI IPC-5	01 Oct	2-Sep	0.31%	--	--	0.27%
PMI Manufacturing	01 Oct	Sep	--	--	--	49.4
Trade Balance Monthly	01 Oct	Sep	\$2000M	--	--	\$1226M
FIPE CPI - Monthly	02 Oct	Sep	0.25%	--	--	0.22%
Industrial Production MoM	02 Oct	Aug	0.20%	0.40%	--	-2.00%
Commodity Price Index MoM	02 Oct	Sep	--	--	--	3.77%
PMI Services	03 Oct	Sep	--	--	--	49.7
Vehicle Sales Anfavea	04 Oct	Sep	--	--	--	329143
<b>Chile</b>						
Retail Sales YoY	30 Sep	Aug	8.50%	9.40%	12%	10.30%
Copper Production Total	30 Sep	Aug	--	485775	492883	480440
Unemployment Rate	30 Sep	Aug	5.80%	6.00%	5.70%	5.70%
Central Bank Meeting Minutes	02 Oct	--	--	--	--	--
<b>Colombia</b>						
Urban Unemployment Rate	30 Sep	Aug	10.00%	9.8%	10.30%	10.00%
PPI MoM	04 Oct	Sep	0.30%	--	--	0.00%
<b>Mexico</b>						
Budget Balance YTD	30 Sep	Aug	--	--	-113.9B	-123.70B
IMEF Manufacturing Index NSA	01 Oct	Sep	50	--	--	49.2
Consumer Confidence Index	03 Oct	Sep	96.4	--	--	97.4
<b>Peru</b>						
CPI MoM	01 Oct	Sep	0.30%	--	--	0.54%
Wholesale Price Index MoM	01 Oct	Sep	--	--	--	0.85%

## Most recent Latam reports

<b>Date</b>	<b>Description</b>
30-09-2013	<a href="#">➤ Flash Chile: Retail sales expanded 12% YoY and we forecast Imacec around 3.8% in August</a>
30-09-2013	<a href="#">➤ Flash Brazil: Lower inflation in 2013, in spite of a weaker currency</a>
30-09-2013	<a href="#">➤ Flash Mexico: CESF assess the impact of the volatility of capital flows (In Spanish)</a>
27-09-2013	<a href="#">➤ Flash Colombia: BanRep kept by unanimity its policy rate at 3.25% and eases USD intervention program</a>
26-09-2013	<a href="#">➤ Mexico Flash: Recent Flood's economic effects (In Spanish)</a>
25-09-2013	<a href="#">➤ Mexico Economic Outlook 3Q13</a>
24-09-2013	<a href="#">➤ Chile Flash: CPI for September and October are moderated, but leave the door open for November and December</a>
24-09-2013	<a href="#">➤ September's biweekly inflation: core inflation surprised us on the upside</a>
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>

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