

Latam Daily Flash

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Economic Analysis

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Following S&P's decision to downgrade Brazil's outlook from stable to negative in June, yesterday Moody's announced that it had downgraded its outlook from positive to stable to reflect issues such as low growth and deterioration in public debt and investment. Also in Brazil, industrial production remained stable in August, in line with our view of a sharp deceleration in GDP growth in 3Q13. In Chile, minutes of the last monetary policy meeting still favor a pause in October, but in our view an easing cycle is imminent and highly likely to start in November.

Brazil - Rating outlook was cut to stable by Moody's

Not surprisingly, Moody's changed the outlook on Brazil's Baa2 sovereign rating from positive to stable based on the following factors: i) "key credit metrics are deteriorating, especially Brazil's government debt-to-GDP and the investment-to-GDP ratios"; ii) "evidence that the economy is going through an extended low-growth period"; and iii) "the deterioration in reporting quality of the government accounts, as well as continued Treasury borrowings to support increased lending by public banks". This negative revision follows the outlook downgrade to negative announced by S&P in June and adds to the pressure on the government to adjust its economic policies (especially fiscal and quasi-fiscal policies). However, low growth and the 2014 presidential elections reduce the incentives for the government to do so and in our view increase the likelihood of a credit rating downgrade.

Brazil - Industrial production remained stable (at low levels) in August

Brazil posted zero growth (0.0% MoM) in industrial output in August after declining 2.4% MoM in July. The figure was slightly worse than expected (BBVAe: 0.4% MoM; consensus: 0.2% MoM). The 2.6% MoM growth in the production of capital goods partially offset the 4.7% MoM drop recorded by the segment in July and thus avoided a decline in overall industrial production in August as the production of consumer goods declined 0.6% MoM in the period. Industrial figures released yesterday reinforce our view that GDP growth will decelerate sharply, from 1.5% QoQ in 2Q13 to around 0.0% QoQ in 3Q13e.

Chile - Central bank is on the verge of monetary easing

Minutes of September's meeting once again revealed the Board's arguments for keeping the policy rate unchanged at 5%, pending more information about the deceleration in private consumption. Recent figures indicated that consumption was still strong in August, while in terms of prices a high inflation print is expected for September (BBVAe: 0.5% MoM). In this context, we forecast another pause at October meeting. Nonetheless, there is widespread agreement within the Council of the need for cuts in the policy rate (with the policy option once again evaluated at a 25bp cut). Timing is essential and we subscribe to the idea that further moderation in consumption is still desirable before implementing rate cuts. All in all, we expect the first 25bp cut at November's meeting (of a cycle of no more than 100bp that will expand towards 2014).

What to watch today

Mexico - Consumer and producer confidence (September, 09:00hrs NYT)

We expect consumer confidence to increase slightly from 96.1 in August to 97.4 in September, given the recent improvement seen in retail sales. Meanwhile, we expect the producer confidence index to increase from 55.5 in August to 56 given the recent improvement in manufacturing output (especially in the Auto sector).

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Central Bank Publishes Quarterly Inflation Report	30 Sep	--	--	--	--	--
Primary Budget Balance	30 Sep	Aug	1.6B	--	-0.4B	2.3B
FGV CPI IPC-S	01 Oct	2-Sep	0.31%	--	0.30%	0.27%
PMI Manufacturing	01 Oct	Sep	--	--	49.9	49.4
Trade Balance Monthly	01 Oct	Sep	\$2000M	--	\$2147M	\$1226M
FIPE CPI - Monthly	02 Oct	Sep	0.25%	--	0.25%	0.22%
Industrial Production MoM	02 Oct	Aug	0.20%	0.40%	0%	-2.00%
Commodity Price Index MoM	02 Oct	Sep	--	--	-2.82%	3.77%
PMI Services	03 Oct	Sep	--	--	--	49.7
Vehicle Sales Anfavea	04 Oct	Sep	--	--	--	329143
Chile						
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	--	--	--	--	--
Colombia						
Urban Unemployment Rate	30 Sep	Aug	10.00%	9.8%	10.30%	10.00%
PPI MoM	04 Oct	Sep	0.30%	--	--	0.00%
Mexico						
Budget Balance YTD	30 Sep	Aug	--	--	-113.9B	-123.70B
IMEF Manufacturing Index NSA	01 Oct	Sep	50	--	49.2	49.2
Consumer Confidence Index	03 Oct	Sep	96.4	--	--	97.4
Peru						
CPI MoM	01 Oct	Sep	0.30%	--	0.11%	0.54%
Wholesale Price Index MoM	01 Oct	Sep	--	--	0.52%	0.85%

Most recent Latam reports

Date	Description
01-10-2013	➤ Mexico Migration Flash: In august remittances to Mexico break negative streak
30-09-2013	➤ Mexico Banking Flash
30-09-2013	➤ Flash Chile: Retail sales expanded 12% YoY and we forecast Imacec around 3.8% in August
30-09-2013	➤ Flash Brazil: Lower inflation in 2013, in spite of a weaker currency
30-09-2013	➤ Flash Mexico: CESF assess the impact of the volatility of capital flows (In Spanish)
27-09-2013	➤ Flash Colombia: BanRep kept by unanimity its policy rate at 3.25% and eases USD intervention program
26-09-2013	➤ Mexico Flash: Recent Flood's economic effects (In Spanish)
25-09-2013	➤ Mexico Economic Outlook 3Q13
24-09-2013	➤ Chile Flash: CPI for September and October are moderated, but leave the door open for November and December
24-09-2013	➤ September's biweekly inflation: core inflation surprised us on the upside

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