

# Latam Daily Flash

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Economic Analysis

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*Following the approval of the "landmark energy reform" and "some changes in the fiscal framework", S&P decided to upgrade Mexico's long-term foreign currency rating. In Colombia, 3Q13 growth figures increase the probability that our 4.1% year-end GDP growth forecast will be met. In Brazil, inflation surprised to the upside at the beginning of December, increasing the odds the informal inflation target will not be met. Today, the focus will be on both Brazil's 4Q13 Inflation Report and BanRep's monetary policy meeting.*

## Mexico - S&P upgraded Mexico's credit rating from BBB to BBB+, outlook Stable

S&P upgraded its long-term local currency rating on Mexico from A- to A and its long-term foreign currency rating from BBB to BBB+. The agency cited "the passage of a landmark energy reform, supported by some changes in the fiscal framework" which in its view "bolsters Mexico's growth prospects and fiscal flexibility in the medium term". Although S&P assigned a Stable outlook as it "balances the challenges of effectively implementing the numerous reforms in 2014 and 2015 with their benefits - increased fiscal flexibility and more dynamism in the economy - that are likely to begin in subsequent years", it added that the agency could raise the rating "should faster than expected and effective implementation of the recent reforms strengthen Mexico's growth and fiscal profile rapidly while keeping external vulnerabilities in check".

## Mexico - Retail sales point to improving private consumption at the start of the fourth quarter

After declining for two straight months, retail sales increased 0.8% MoM sa in October, the fastest monthly pace of growth since January. In annual terms, retail sales decreased 1.5% YoY sa. The better than expected performance was driven by monthly increases in sales all seven of the components of the headline index. We had expected some improvement, but the healthy monthly gain was surprising considering the 0.8% MoM sa contraction in ANTAD sales in the same month. All in all, the positive reading at the start of the fourth quarter suggests a probable turning point in private consumption after the stagnation seen in the first three quarters of the year.

## Colombia - Colombia recorded its highest annual growth since 1Q12

As we anticipated after the release of the civil works data for the period between July and September, YoY GDP growth in 3Q13 reached 5.1%. However, this result did not imply an acceleration in economic activity from the previous quarter, as the inter-quarterly variation was revised down from 2.1% in June to 1.1% in September. Meanwhile, DANE (the national statistical office) revised growth for the first two quarters, moderating the positive effect on growth for the year as a whole. All in all, we think that there is a high probability that our 4.1% year-end GDP growth forecast will be met.

## Brazil - Increases the odds that the BCB will not meet its informal inflation target this year

December's IPCA-15, which measures inflation from mid-November to mid-December, came in at 0.75% MoM, higher than expected (BBVAe: 0.68% MoM; consensus: 0.65% MoM). Inflation was particularly under pressure from transportation (1.2% MoM, as fuel prices were hiked at the very end of November) and personal expenditure prices (1.2% MoM). In yearly terms, the IPCA-15 closed the year at 5.85% YoY (vs. 5.78% YoY at the end of 2012). The upside surprise in inflation at the beginning of the month makes our forecasts for the (full-month) IPCA for the end of the year (0.75% MoM; 5.73% YoY) look somewhat optimistic. Thus, the risk that the BCB will not be able to meet its informal inflation target, i.e. to deliver a lower inflation this year than it delivered in 2012 (5.84% YoY), is now higher. Altogether, we continue to expect the current monetary tightening cycle to end in January with a 25bp hike.

## Brazil - Still tight labor market

The unemployment rate reached 4.6% in November (vs. 5.2% in October 2012 and 4.9% in November 2013), the lowest figure since the first publication of the current series in 2002. Real wages grew 3.0% YoY (2.0% MoM), the highest rate in the year to date. Thus, even though the contraction in the labor force is one of the factors behind the very low unemployment rates, the labor market remains very strong. However, we still expect it to lose some of its buoyancy over 2014e.

## Brazil - Credit market continues to moderate

Credit markets expanded 1.5% MoM in November, following two months of very low growth (to some extent due to the bank workers' strike in the period). In spite of this monthly rebound, the credit market grew "only" 14.5% in yearly terms in November, below the levels observed in the year to date (16% YoY on average) and in the last few years (more than 20% YoY on average between 2008 and 2012). In the last few months, the deceleration has been entirely driven by a moderation in credit from public banks, which nonetheless continues to expand at a much faster pace than private credit (23.4% YoY vs. 6.6% YoY, respectively). The credit report released yesterday also shows that lending rates continue to trend up (20.0% on average in November) while non-performing loans remain well-contained (3.1% vs. 3.8% a year ago).

## What to watch today

### Brazil - Inflation Report (4Q13, 05:30hrs NYT)

We expect the BCB to revise its inflation forecasts downwards, suggesting that no significant extra adjustment is needed for the BCB to be able to meet its informal inflation targets, i.e. to deliver a lower inflation in 2013 than in 2012 and a lower figure in 2014 than in 2013. All in all, the report should support the view that the end of the current tightening cycle is close.

### Colombia - BanRep's monetary policy meeting

We anticipate that monetary policy will remain unchanged and BanRep will hold the policy rate at 3.25% until 2Q14e for three reasons. First, yesterday's announcement of 3Q13 GDP growth was in line with expectations and therefore should not be an argument in favor of modifying Colombia's monetary stance. Second, monetary policy remains expansionary even after the deflation surprises in October and November (-0.26% and -0.22% MoM, respectively) and annual inflation (November: 1.76% YoY) running below the central bank's target range 3.0%±1%. Finally, long-term inflation expectations remain well-anchored and economic activity has picked up as anticipated.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGP-10 MoM	16 Dec	Dec	0.46%	--	0.44%	0.44%
FGV CPI IPC-S	16 Dec	Dec	0.72%	--	0.75%	0.72%
Tax Collections	16 Dec	Nov	110900M	--	112517M	100999M
Formal Job Creation Total	20 Dec	Nov	54000	--	--	94893
CNI Industrial Confidence	18 Dec	Dec	--	--	54.3	54.5
FIPE CPI - Weekly	18 Dec	Dec	0.47%	--	0.50%	0.45%
IGP-M Inflation 2nd Preview	18 Dec	Dec	0.48%	--	0.54%	0.30%
Unemployment Rate	19 Dec	Nov	4.90%	5.00%	4.60%	5.20%
IBGE Inflation IPCA-15 MoM	19 Dec	Dec	0.65%	0.68%	0.75%	0.57%
Current Account Balance	18 Dec	Nov	-\$4800M	--	-\$5145M	-\$7132M
FGV Consumer Confidence	20 Dec	Dec	--	--	--	112.8
Total Outstanding Loans	19 Dec	Nov	--	--	2647B	2610B
Quarterly Inflation Report	20 Dec	--	--	--	--	--
<b>Colombia</b>						
Vehicle Sales	20 Dec	Nov	--	--	--	27659
GDP QoQ	19 Dec	3Q	0.40%	0.40%	1.10%	2.20%
GDP YoY	19 Dec	3Q	4.30%	4.60%	5.10%	4.20%
Retail Sales YoY	19 Dec	Oct	4.20%	4.00%	6.60%	2.30%
Industrial Production YoY	19 Dec	Oct	0.35%	3.90%	-0.10%	-1.80%
Overnight Lending Rate	20 Dec	--	3.25%	3.25%	--	3.25%
<b>Mexico</b>						
ANTAD Same-Store Sales YoY	16 Dec	Nov	1.10%	--	3.40%	-2.10%
Aggregate Supply and Demand	18 Dec	3Q	1.90%	1.90%	1.50%	1.80%
Retail Sales YoY	19 Dec	Oct	-1.70%	-1.70%	-1.10%	-3.80%
Central Bank Economist Survey	19 Dec	--	--	--	--	--
Unemployment Rate	20 Dec	Nov	4.95%	4.93%	--	5.01%
Central Bank Monetary Policy Minutes	20 Dec	--	--	--	--	--
<b>Peru</b>						
Economic Activity YoY	16 Dec	Oct	5.20%	5.30%	5.42%	4.40%
Quarterly Inflation Report	20 Dec	--	--	--	--	--

## Most recent Latam reports

Date	Description
19-12-2013	<a href="#">➤ Mexico Flash: Standard and Poor's raised Mexico's credit rating to BBB+ from BBB; outlook is stable</a>
19-12-2013	<a href="#">➤ Colombia Flash: Colombia recorded its highest annual growth since the first quarter of 2012</a>
19-12-2013	<a href="#">➤ Chile Flash: November Imacec would be between 2.5% and 3.5% YoY (0.5% MoM sa) (in Spanish)</a>
19-12-2013	<a href="#">➤ Chile Real Estate Outlook 2013 (in Spanish)</a>
17-12-2013	<a href="#">➤ Colombia Real Estate Outlook 2013</a>
16-12-2013	<a href="#">➤ Peru Flash: GDP rebounded in October</a>
16-12-2013	<a href="#">➤ Chile Flash: December CPI is expected to be within 0.3 and 0.5% (in Spanish)</a>
12-12-2013	<a href="#">➤ Chile Flash: Central Bank of Chile kept rates at 4.5%, broadly in line with our and market expectations</a>
12-12-2013	<a href="#">➤ Peru Flash: Monetary policy rate unchanged in December</a>
11-12-2013	<a href="#">➤ Mexico Energy Reform Flash: Far-reaching reform of the sector which could prompt large investments and increase potential growth</a>

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