

Latam Daily Flash

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Economic Analysis

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We will also be watching out for the Mexican industrial production, which should have grown very slightly in January - affected by poor US figures -, and for the retail sales in Brazil, that are expected to have remained stable in January. Yesterday, we saw that Colombian imports fell in January following the COP devaluation, although imported capital goods increased, anticipating a moderate rebound in the manufacturing sector. Also in Colombia, consumer confidence showed a significant MoM deterioration in February, implying a downward bias to our estimate for private consumption.

Brazil – Inflation rises in February, marking the beginning of a new upward trend

Annual inflation reached 5.68% YoY in February, above both the previous reading (5.59% YoY) and expectations (BBVAe: 5.61% YoY; consensus: 5.64% YoY). Inflation is benefiting from some slowdown in wages and the more restrictive tone of economic policies. However, the impact of these benign effects is being – and will continue to be – offset by the impact of a weaker currency, the practical impossibility of maintaining administered price inflation as low as in 2013, and resilient inflation expectations. Moreover, the recent drought should put pressure on inflation through higher food prices. Considering all this, we expect inflation to reach 6.0% YoY by the end of 2Q14 and then converge to around 6.4% YoY in 3Q14. Some moderation is expected at the end of the year, thanks to positive base effects and the lagged impact of the recent monetary tightening (for more details, see our [Brazil Flash](#)).

Colombia – Imports feel COP devaluation effect

In January, imports fell 6.6% YoY to settle at USD4,844mn. Despite a good balance of capital goods for industry, which grew 3.3% YoY and anticipate a moderate rebound by the manufacturing sector, the continued downward trend of consumption goods imports prevented any total imports growth. In a context of expanding domestic demand, specifically growing retail sales, a coinciding fall of imports indicates a disruption of the positive elasticity of imports with respect to domestic demand. Meanwhile, the trade balance stood at USD 157.4mn, below our expectations (BBVAe: 250mn).

Colombia – Consumer confidence falls in February

The first available data for February shows mixed results. Consumer confidence was slightly higher than a year ago (15.7 vs. 14.9 in 2013 for a range between -100 and 100), but had a significant MoM deterioration from 24.3 in January. The willingness to buy durable goods and housing broke the upward trend of previous months, although it remained at high levels (recognized as optimistic). These results imply a downward bias in our outlook for private consumption (BBVAe: 5.3% YoY) in the first quarter of 2014.

Chile – Further cuts in policy rates are expected over the coming months

Trader's survey for the first half of March came out with inflation estimates at around +0.6% MoM for the current month (in line with our view). The results also reflected expectations of a 25bp cut in the monetary policy rate at today's meeting (according to 73% of respondents), and on a six-month horizon traders anticipate another 25bp cut to 3.75% (according to 42% of respondents). The latter is in a context where long-term inflation expectations are anchored to the central bank's target of 3%. Finally, traders forecast further depreciation of the currency to reach USDCLP 575 on a 3-month horizon.

What to watch today

Brazil – Retail sales (January, 08:00hrs NYT)

We expect retail sales to have remained stable (0.0% MoM) in January, after having dropped slightly (-0.2% MoM) in December. High inflation, rising interest rates, the moderation in wage growth and uncertainty regarding domestic and external scenarios explain the recent weakness in private consumption indicators.

Mexico – Industrial production (January, 09:00hrs NYT)

We expect industrial production to have grown very slowly in January (0.3% MoM sa and 0.1% YoY sa), affected by poor US industrial production figures for January (-0.3% MoM, sa). Mexico's industrial production had already slipped in December by -0.36% YoY, sa. In monthly terms it dropped 0.53%, linked to decreases in manufacturing (-1.1% MoM sa) and mining (-0.9% MoM, sa). Meanwhile, utilities and construction went up (1.3% and 0.2% MoM, sa, respectively), but their improvement was not enough to offset the losses in other output areas.

Chile – Monetary policy meeting (March, 16:00hrs NYT)

We expect the Board to cut the policy rate by 25bp to 4.00%. Once again, concerns could emerge over the drop in the copper price, the associated CLP depreciation and its pass-through to inflation figures. Nonetheless, as of today, we see no worrying increases in long-term inflation expectation measures. In this context, further cuts in the monetary policy rate during 2014 will remain data-dependent.

Peru – Monetary policy meeting (March, 19:30hrs NYT)

We expect the central bank to keep its reference rate on hold for March. This decision is taken in a context of GDP remaining at around its potential level, with no important inflationary pressures.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGP-DI MoM	10 Mar	Feb	0.63%	--	0.85%	0.40%
FGV CPI IPC-S	10 Mar	Mar	0.68%	--	0.71%	0.66%
Industrial Production MoM	11 Mar	Jan	2.50%	2.8%	2.86%	-3.70%
FIPE CPI - Weekly	12 Mar	Mar	0.61%	--	0.57%	0.58%
IBGE Inflation IPCA MoM	12 Mar	Feb	0.65%	0.62%	0.69%	0.55%
Retail Sales MoM	13 Mar	Jan	-0.35%	0%	--	-0.17%
Economic Activity MoM	14 Mar	Jan	0.70%	0.5%	--	-1.35%
Formal Job Creation Total	14 Mar	Feb	120651	--	--	29595
Chile						
Central Bank's Traders Survey	12 Mar	Mar	--	--	--	--
Overnight Rate Target	13 Mar	Mar	4.00%	4.00%	--	4.25%
Colombia						
Consumer Confidence Index	12 Mar	Feb	24.0	25.04	15.7	26.6
Trade Balance	12 Mar	Jan	\$117.4	\$250	\$157.4	\$556.6
Colombia Monetary Policy Minutes	14 Mar	--	--	--	--	--
Mexico						
Gross Fixed Investment YoY	11 Mar	Dec	-0.05%	-1.7%	0.74%	-4.51%
ANTAD Same-Store Sales YoY	11 Mar	Feb	-0.10%	-2.3%	-0.20%	-1.70%
Industrial Production MoM	13 Mar	Jan	0.20%	0.3%	--	-0.53%
Peru						
Reference Rate	13 Mar	Mar	4.00%	4.00%	--	4.00%
Unemployment Rate	14 Mar	Feb	6.70%	--	--	6.40%
Economic Activity YoY	14 Mar	Jan	4.95%	--	--	5.01%

Most recent Latam reports

Date	Description
12-03-2014	➤ Brazil Flash: Inflation rises in February, marking the beginning of a new upward trend
12-03-2014	➤ Mexico Banking Flash: Credit to the private sector: slow growth at the beginning of the year (in Spanish)
12-03-2014	➤ Mexico Banking Flash: Bank deposits: slow start to 2014
10-03-2014	➤ Mexico Migration Flash: Baja California, Baja California Sur and Tamaulipas could be the states with the highest growth of remittances in 2014e
7-03-2014	➤ Chile Economic Watch: Low pass-through to inflation
7-03-2014	➤ Mexico Inflation Flash: Inflation is on a declining trend as expected following the one-off increase in January
7-03-2014	➤ Chile Flash: February's CPI at +0.5% MoM, above expectations
6-03-2014	➤ Latam Economic Outlook: First Quarter 2014
6-03-2014	➤ Presentation on Latam: What to expect from Latin American economies in the current global context?
6-03-2014	➤ Colombia Flash: February inflation stood at 2,32% YoY and is continuing its path towards the midpoint of the target range

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