

Latam Daily Flash

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Economic Analysis

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The downgrade was partially discounted by the market but in the short term it threatens the recovery in financial markets and could strengthen the trend of depreciation of the Real in the coming months. In Mexico inflation is back to Banxico's tolerance interval. We anticipate that annual inflation will remain below 4.0% in the coming reports before starting to increase from June onwards as unfavorable base effects start to be reflected. Today we will pay close attention to the global activity indicator in Mexico that could confirm the moderating trend led by the services sector.

Brazil - S&P downgrades the sovereign credit rating to one notch above junk-bond status

The rating agency has cut Brazil's long-term foreign currency sovereign credit rating to BBB- from BBB, ranking the country in its lowest investment-grade rating, although the outlook was changed to stable from negative. S&P has based the downgrade on the combination of fiscal slippage, prospects of weak fiscal execution amid subdued growth in the coming years, the political constraint due to October's presidential elections and some weakening in the country's external accounts. Considering all those factors, the agency sees the government having less room for maneuver in case of external shocks. In our view, despite the downgrade being partially priced in, it compromises in the short term the recovery of financial markets after the recent turbulence. Moreover, it could reinforce the Real's depreciation trend in the coming months and puts more pressure on the country's economy, confirming the view that the Selic tightening cycle is not finished.

Mexico - Inflation is back to Banxico's tolerance interval

Headline inflation increased 0.17% FoF in the first fortnight of March. This increase was broadly in line with expectations and closer to our below-consensus forecast (BBVAe: 0.18%, consensus: 0.19%). In annual terms, headline inflation decelerated to 3.89% from 4.26% in the second fortnight of February, returning to Banxico's 3.0% +/- 1pp tolerance interval. Core inflation was 0.11% FoF, also closer to our below-consensus forecast (BBVAe: 0.13%, consensus: 0.17%). In annual terms, core inflation decreased to 2.84% from 2.90% in the second fortnight of February as it continues to benefit from the slack in the economy. As we expected, after the temporary effect of the new taxes, headline inflation is below 4.0% and core inflation is close to December 2013 level, i.e. 2.8% (see our [Mexico Inflation Flash](#) for more details).

Mexico - Unemployment rate surprised to the downside

February's unemployment rate decreased to 4.65% from 5.05% in January, significantly below expectations (BBVAe: 4.90%; consensus: 4.90%). A moderate pace of job creation (125,559), similar to that of February 2013 (120,873) contributed to the positive result but it was mainly driven by a lower participation rate (58.19% vs. 58.74% in February 2013). Thus, the improvement should be treated with caution as the decrease in the participation rate suggests that potential workers have the perception of a weak labour market.

What to watch today

Mexico - IGAE (January, 09:00hrs NYT)

January's Global Economic Activity Index (IGAE) will report annual growth of 1.0% sa (0.24% MoM sa). In December the IGAE increased 0.5% YoY sa driven by the services sector (1.3% YoY sa), and to a lesser extent by agriculture (0.7% YoY sa), but dragged down by the industrial sector which slipped to 0.4% YoY sa. Bearing in mind on the one hand the boost from industrial production (0.5% MoM, sa), but on the other the moderate performance of the services sector (suggested by the slight uptick in formal employment in the services sector, i.e. 0.2% MoM sa), we forecast that the IGAE will report monthly growth of 0.24% MoM sa and 1.0% growth YoY sa.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	24 Mar	Mar	0.85%	--	0.83%	0.84%
Current Account Balance	24 Mar	Feb	-\$8000M	-\$8000M	-\$7445M	-\$11591M
FIPE CPI - Weekly	26 Mar	Mar	0.28%	--	--	0.68%
FGV Consumer Confidence	26 Mar	Mar	--	--	--	107.1
FGV Construction Costs MoM	26 Mar	Mar	0.35%	--	--	0.44%
Outstanding Loans MoM	26 Mar	Feb	--	--	--	0.07%
Unemployment Rate	27 Mar	Feb	5.10%	5.3%	--	4.80%
FGV Inflation IGPM MoM	28 Mar	Mar	1.53%	--	--	0.38%
Net Debt % GDP	28 Mar	Feb	33.5%	--	--	33.3%
Chile						
PPI MoM	24 Mar	Feb	--	--	-0.30%	0.80%
Colombia						
Industrial Confidence	25 Mar	Feb	--	0	--	6.7
Retail Confidence	25 Mar	Feb	--	24.0	--	24.0
Current Account Balance	27 Mar	4Q	-\$3300M	--	--	-\$3580M
Mexico						
Unemployment Rate NSA	24 Mar	Feb	4.90%	4.9%	4.65%	5.05%
Bi-Weekly CPI	24 Mar	Mar	0.19%	0.18%	0.17%	0.15%
Economic Activity IGAE YoY sa	25 Mar	Jan	--	1%	--	0.5%
International Reserves Weekly	25 Mar	Mar	--	--	--	\$181043M
Trade Balance	27 Mar	Feb	-200.0M	-440M	--	-3195.1M
Budget Balance YTD	28 Mar	Feb	--	--	--	-4.9B

Most recent Latam reports

Date	Description
24-03-2014	> Mexico Inflation Flash: Inflation is back to Banxico's tolerance interval
21-03-2014	> Colombia Flash: BanRep decided to keep its policy rate unchanged at 3.25% and extend its international reserve purchase program
21-03-2014	> Banxico Flash: Fondeo rate unchanged at 3.5%. Slightly dovish tone given the absence of a clear economic recovery
20-03-2014	> Latam Economic Watch: Deterioration in Latin America's manufacturing competitive
20-03-2014	> Brazil Economic Watch: The Brazilian manufacturing sector loses competitiveness
20-03-2014	> Chile Flash: Exchange rate: beware of short-term reversals
20-03-2014	> Colombia Flash: A good result of GDP growth in 2013
20-03-2014	> Mexico Flash: Monetary rate unchanged at 3.5% as inflation tends towards the range around the target (in Spanish)
19-03-2014	> Latam Economic Watch: Loss of manufacturing competitiveness in Latin America (in Spanish)
19-03-2014	> Chile Flash: Exchange rate: Beware of short-term reversals (in Spanish)
19-03-2014	> Chile Economic Watch: Competitiveness of manufacturing exports (in Spanish)

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