

ECONOMIC ANALYSIS

In Brazil, Moody's announces a change in the outlook from stable to negative

Chile Unit / Colombia Unit / Latin America Unit / Mexico Unit / Peru Unit

The change of Moody's outlook "reflects the rising risk that sustained low growth and worsening debt metrics indicate a reduction in Brazil's creditworthiness". In Mexico we have raised our inflation forecast slightly, we believe annual headline inflation is likely to remain above the upper bound of the inflation target until October, before decreasing slightly in the last two months of the year.

Brazil – Moody's changes its outlook on the sovereign rating from stable to negative

Not surprisingly given the current context of weak economic activity, high inflation and overall domestic uncertainty, Moody's announced yesterday a change from stable to negative of the outlook for Brazil's rating. It means that the risk agency could downgrade the country's rating, which is currently Baa2, in the coming months. That would follow the downgrade from BBB to BBB- announced by S&P in March. According to Moody's, the change in the outlook "reflects the rising risk that sustained low growth and worsening debt metrics indicate a reduction in Brazil's creditworthiness". The announcement adds an extra dose of pessimism regarding the country. It also increases the pressure for a change in domestic economic policies, ahead of October's presidential elections. Opposition candidates Marina da Silva - the favourite to be the next president according to recent polls- and Aecio Neves have already committed to more orthodox policies. President Dilma Rousseff has signalled that she would adopt some adjustment in economic policies in a second term, although a very relevant change should not be expected.

Mexico – We adjust our year-end inflation forecast from 3.7% to 3.8%

Headline inflation increased 0.36% MoM in August. This print was above expectations (BBVAe: 0.31%; consensus: 0.31%). Annual inflation accelerated to 4.15% from 4.07% in July. Core inflation increased 0.21% MoM, slightly above market expectations (BBVAe: 0.18%; consensus: 0.20%). In annual terms, core inflation increased to 3.37% from 3.25% in July. Although core prices, particularly core services prices continue to reflect the absence of demand-side pressures, core food prices have been increasing at a faster pace than last year, even after excluding the effect of the new taxes in January. Although we continue to expect core inflation to remain low and relatively stable, we have raised our year-end forecast to 3.4%, from 3.3% previously. Annual headline inflation is likely to stand above the upper bound of the inflation target until October, before decreasing slightly in the last two months of the year. However, in order to allow for slightly higher perishable prices and considering our upward revision in core prices, we adjust our year-end forecast from 3.7% to 3.8% (see [Mexico Flash](#)).

What to watch today

Mexico – Fixed investment (June, 09:00 hrs NYT)

On 10 September the INEGI will publish the monthly gross fixed investment indicator figures for June 2014. This indicator deteriorated significantly in 2013, with an average annual negative growth rate of 1.7%. For the first seven months of 2014, the average annual growth rate shows less of a fall, at -1.1%, with the May 2014 figure even posting a positive reading YoY, at 0.4%. Note here that in May the annual

growth rates of the Construction and Machinery and Equipment components were -2.2% and 4.5%, respectively. For June we expect the annual growth rate of total gross fixed investment to be 1.8%, with its components recording 0.5% in the case of Construction and 4.7% for Machinery and Equipment. The positive YoY growth rate in construction investment that we forecast for June 2014 is to a large extent a reflection of the 2.2% positive growth rate which the global economic activity index (IGAE) of the construction industry posted that same month.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	8 Sep	Sep	0.20%	--	0.21%	0.12%
IGP-M Inflation 1st Preview	9 Sep	Sep	0.17%	--	0.26%	-0.31%
COPOM Monetary Policy Meeting Minutes	11 Sep	--	--	--	--	--
Retail Sales MoM	11 Sep	Jul	0.5%	--	--	-0.7%
Economic Activity MoM	12 Sep	Jul	0.80%	--	--	-1.48%
Chile						
Vehicle Sales Total	9 Sep	Aug	--	--	--	27561
CPI MoM	8 Sep	Aug	0.1%	0.1%	0.3%	0.2%
CPI Core MoM	8 Sep	Aug	0.1%	0.1%	0.4%	0.2%
Trade Balance	8 Sep	Aug	\$150.0M	\$66.0M	\$356M	\$380.0M
Copper Exports	8 Sep	Aug	--	\$2945.0M	\$3077M	\$3279.0M
Overnight Rate Target	11 Sep	Sep	3.25%	3.25%	--	3.50%
Colombia						
Vehicle Sales	9 Sep	Jul	--	--	--	23742
Consumer Confidence Index	9 Sep	Aug	25.0	25.0	--	26.7
Civil Works Payments (YoY)	12 Sep	2Q	--	12.8%	--	25.4%
Colombia Monetary Policy Minutes	12 Sep	--	--	--	--	--
Mexico						
Vehicle Production AMIA	8 Sep	Aug	--	--	271406	259634
CPI MoM	9 Sep	Aug	0.31%	0.31%	0.36%	0.28%
CPI YoY	9 Sep	Aug	4.09%	4.10%	4.15%	4.07%
CPI Core MoM	9 Sep	Aug	0.20%	0.18%	0.21%	0.19%
Bi-Weekly CPI	9 Sep	Aug	0.12%	0.12%	0.22%	0.19%
Bi-Weekly Core CPI	9 Sep	Aug	0.05%	0.01%	0.08%	0.15%
Bi-Weekly CPI YoY	9 Sep	Aug	4.12%	4.13%	4.23%	4.07%
ANTAD Same-Store Sales YoY	9 Sep	Aug	3.6%	--	3.7%	0.7%
Gross Fixed Investment	10 Sep	Jun	2.8%	1.8%	--	0.4%
Nominal Wages	10 Sep	Aug	--	--	--	4.1%
Industrial Production MoM	11 Sep	Jul	1.1%	0.7%	--	-0.2%
Formal Job Creation Total	11 Sep	Aug	--	--	--	37.5K
Peru						
Trade Balance	9 Sep	Jul	-\$708.5M	--	-\$521,6M	-\$320M
Reference Rate	12 Sep	Sep	3.63%	--	--	3.75%

Most recent Latam reports

Date Description

- 09.09.2014 [Chile Flash: 2014-15 baseline scenario](#)
- 09.09.2014 [Mexico Inflation Flash: We adjust our year-end forecast from 3.7% to 3.8%](#)
- 09.08.2014 [Mexico Flash: The tax authority publishes its 2015 macroeconomic and fiscal framework](#)
- 09.08.2014 [Colombia Flash: Inflation hits Banrep's target of 3% in August \(in Spanish\)](#)
- 09.08.2014 [Chile Flash: CPI increased +0.3% MoM in August, above expectations \(in Spanish\)](#)
- 09.05.2014 [Banxico Flash: Monetary rate unchanged at 3.0%. Neutral tone as short term inflation risks rose](#)
- 09.04.2014 [Banxico Flash: Fondeo rate will remain unchanged as improvement in economic activity does not lead to demand side pressures on prices](#)
- 09.04.2014 [Uruguay Flash: August 2014 inflation \(in Spanish\)](#)
- 09.04.2014 [Brazil Flash: Stable Selic for some time](#)
- 09.02.2014 [Financial Inclusion Watch: New Banking, Banking for All: the "Peru Model"](#)
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