

## ECONOMIC ANALYSIS

## In a very surprising move, Brazil's COPOM decided to increase the Selic rate by 25bp to 11.25%

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

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*The decision was not unanimous; the COPOM cites the less favorable inflation outlook amid a slow recovery after a recession in the first half of the year. The decision reinforces our view that more adjustments including more restrictive economic policies will be implemented. Activity data in Chile surprised to the downside and confirm GDP growth below 2% this year.*

### Brazil – Surprising interest rate hike

In a very surprising move, the Monetary Policy Committee (COPOM) decided to increase the Selic rate by 25bp to 11.25%, rather than leaving it unchanged as widely expected. The decision was not unanimous: while five members supported the decision to tighten monetary conditions, the other three voted for keeping rates at 11%. According to the monetary authority: “among other factors, the intensification of the relative price adjustments [i.e. the depreciation of the Brazilian real] in the economy made the balance of risks for inflation less favourable”. The accompanying statement also stated that the decision was taken “to ensure at a lower cost the prevalence of a more benign outlook for inflation in 2015 and 2016”. This decision reinforces our view that some adjustments, including a set of more restrictive economic policies, will be implemented at the beginning of Dilma Rousseff’s second term (which officially starts on 1 January 1), if not earlier. At this point the most likely outcome is that the monetary tightening continues in the upcoming months. The minutes of this week’s monetary policy meeting that will be released next Thursday should shed some light on the issue.

### Chile – Activity data by sector surprised to the downside in September

Mining production registered a contraction of 3.5% YoY and retail sales declined 0.9% YoY, the latter below expectations (BBVAe: +1.5% YoY). Meanwhile, manufacturing increased by 5.0% YoY, above expectations (BBVAe: +1.5% YoY) but supported mainly by two additional working days. All in all, we estimate the Imacec grew around 1.0% YoY in September, which consolidates a weak GDP expansion of only 0.7% YoY in 3Q14 (see our [Chile Flash](#) for more details in Spanish).

## What to watch today

### Chile – Unemployment rate (September, 08:00hrs NYT)

We expect the unemployment rate to remain steady at 6.7% in September. Labour force expansion should compensate for seasonal increases in job-creation. Nonetheless, changes in the composition of employment will persist, with a higher proportion of self-employed rather than salaried jobs. We still expect an upward path in the unemployment rate towards 2015.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Federal Debt Total	27 Oct	Sep	--	--	2183B	2169B
Tax Collections	29 Oct	Sep	91000M	--	90722M	94378M
FIPE CPI - Weekly	28 Oct	Oct	0.37%	--	0.37%	0.34%
Selic Rate	29 Oct	Oct	11.00%	11.00%	11.25%	11.00%
FGV Inflation IGPM MoM	30 Oct	Oct	0.20%	--	0.28%	0.20%
Outstanding Loans MoM	30 Oct	Sep	--	--	--	1.0%
Central Govt Budget Balance	30 Oct	Sep	-10.5B	--	--	-10.4B
CNI Consumer Confidence	30 Oct	Oct	--	--	--	109.7
PPI Manufacturing MoM	31 Oct	Sep	--	--	--	0.48%
Net Debt % GDP	31 Oct	Sep	35.4%	--	--	35.9%
<b>Chile</b>						
Manufacturing Index YoY	29 Oct	Sep	0.9%	1.0%	5.0%	-4.9%
Copper Production Total	29 Oct	Sep	--	--	464572	483170
Retail Sales YoY	29 Oct	Sep	1.8%	1.5%	-0.9%	1.8%
Unemployment Rate	30 Oct	Sep	6.7%	6.7%	--	6.7%
<b>Colombia</b>						
Vehicle Sales	30 Oct	Sep	--	--	--	27658
National Unemployment Rate	31 Oct	Sep	--	--	--	8.9%
Urban Unemployment Rate	31 Oct	Sep	9.3%	9.2%	--	9.5%
Overnight Lending Rate	31 Oct	Oct	4.50%	4.50%	--	4.50%
<b>Mexico</b>						
Trade Balance	27 Oct	Sep	-368.9B	97	590.1M	-1123.1M
Overnight Rate	31 Oct	Oct	3.00%	3.00%	--	3.00%
<b>Peru</b>						
CPI MoM	1 Nov	Oct	0.16%	--	--	0.16%
CPI YoY	1 Nov	Oct	2.86%	--	--	2.74%
Wholesale Price Index MoM	1 Nov	Oct	--	--	--	0.34%

## Most recent Latam reports

Date	Description
10.29.2014	<a href="#">Mexico Banxico Flash: Mixed economic activity data and an inflation rate above 4.0% support the monetary pause (in Spanish)</a>
10.29.2014	<a href="#">Chile Flash: Activity data by sector surprised to the downside in September (in Spanish)</a>
10.23.2014	<a href="#">Chile Economic Watch: Determinants of non-tradable inflation (in Spanish)</a>
10.23.2014	<a href="#">Mexico Inflation Flash: Annual inflation has peaked. We expect it to reach 3.8% by year-end</a>
10.21.2014	<a href="#">Brazil Economic Watch: Tell me who you export to and what you make, and I'll tell you how competitive you are</a>

- 10.20.2014 [Mexico Banking Flash: Banking deposits: growth slows, but stays in double figures](#)
- 10.17.2014 [Colombia Economic Watch: The NAIRU falls in Colombia and gets closer to a single-digit rate \(in Spanish\)](#)
- 10.16.2014 [Chile Flash: Central bank cut the policy rate by 25bp introducing a neutral tone \(in Spanish\)](#)
- 10.15.2014 [Peru Flash: Output growth remains weak \(in Spanish\)](#)
- 10.10.2014 [Mexico Flash: In September 2014 formal employment registered a higher annual growth rate \(4.1%\), than the one of the previous month \(3.1%\)](#)
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