

ECONOMIC ANALYSIS

Brazil adjusted the Selic rate, reinforcing its strategy to gain credibility and eliminate distortions in the economy

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

Today we expect a significant downward adjustment in inflation in Mexico, influenced by the change in telephone charges, a smaller than anticipated increase in gasoline prices and reduced electricity rates.

Brazil – The Selic rate is adjusted by +50bp, in line with expectations

The Monetary Policy Committee (COPOM) decided to hike the Selic interest rate by +50bp, to 12.25%. This further tightening of monetary conditions, which was in line with expectations, occurs at the same moment the government is reversing the expansive tone of fiscal policy aiming at both recovering the credibility lost in the past few years and addressing some macroeconomic distortions such as high inflation. We expect a final +25bp adjustment at the next monetary policy meeting in March, even though the communique of the decision revealed that the door is open for another +50bp adjustment (for more details, see our [Brazil Flash](#)).

What to watch today

Mexico – Inflation (First fortnight of January; 09:00hrs NYT)

Annual (YoY) inflation should show a sharp fall in the first half of January. We forecast fortnightly increases of 0.17% and 0.13% for headline and core inflation respectively in the first half of January. If our forecasts are correct, in YoY terms, headline inflation will post 3.45% (compared to 4.08% at the close of 2014), whereas core inflation will come in at 2.65% (as against 3.24% in December). There are several factors responsible for low inflation in the first fortnight of the year. On the one hand, the falls in telephony prices as a result of the abolition of long-distance charges will translate into very low core inflation, with the “other services” component offsetting to a large degree the significant increases in the goods component. The increase in gasoline prices on 1 January (1.9%) was smaller than expected and much of it may be offset by the reduction in electricity tariffs. Furthermore, we forecast a decrease in fruit and vegetable prices, offsetting the increase in farm product prices, accounted for by hikes in egg and chicken prices. The new elements contributing to lower inflation in January have led us to estimate that inflation by year-end will be 3.2%.

Calendar indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
BZ Tax Collections	19-Jan	Dec	122000M		104470M	104470M
BZ FIPE CPI - Weekly	20-Jan	15-Jan	--		0.87%	0.49%
BZ CNI Industrial Confidence	20-Jan	Jan	--		44.4	45.2
BZ IGP-M Inflation 2nd Preview	21-Jan	Jan	--		0.55%	0.65%
BZ Formal Job Creation Total	21-Jan	Dec	-500000		8381	8381
BZ Selic Rate	21-Jan	21-Jan	12.25%	12.25%	12.25%	11.75%
BZ FGV CPI IPC-S	23-Jan	22-Jan	1.41		0	--
BZ IBGE Inflation IPCA-15 MoM	23-Jan	Jan	0.88%	0.85%	0	0.79%
BZ Current Account Balance	23-Jan	Dec	-\$9700M	-\$8500M	0	-\$9333M
Mexico						
MX ANTAD Same-Store Sales YoY	20-Jan	Dec	--		1.30%	2.40%
MX Bi-Weekly CPI	22-Jan	15-Jan	0.22%	0.17%	0	0.11%
MX Bi-Weekly Core CPI	22-Jan	15-Jan	0.13%	0.13%	0	0.05%
Peru						
PE Central Bank 1Q Inflation Report	23-Jan				0	0

Most recent Latam reports

Date	Description
22.01.2015	Brazil Flash: The SELIC rate is adjusted by +50bp, in line with expectations
19.01.2015	Mexico weekly: Annual inflation will fall sharply in the first half of January
15.01.2015	Flash Peru: Surprisingly, the CB cuts the MPR (in Spanish)
15.01.2015	Flash Peru: The weak GDP data in Peru increases pressure on monetary policy meeting (in Spanish)
09.01.2015	Brazil Flash: Inflation closes 2014 slightly below the target ceiling
08.01.2015	Chile Flash: December's CPI inflation declined 0.4% MoM, closing 2014 with +4.6% YoY
08.01.2015	Mexico Flash: Annual inflation fell for the second month in a row and will show a sharp slowdown in January
08.01.2015	Mexico: The Central Bank Report on the Financial System
06.01.2015	Chile Flash: Central bank announces emissions of USD2,200mn (in Spanish)
06.01.2015	Colombia Flash: Inflation accelerates to 3.66% in 2014
12.22.2014	Colombia: BanRep holds monetary policy rate at 4.5% and awaits the impact of lower oil prices

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