

## ECONOMIC ANALYSIS

## In Mexico, the central bank left the MPR unchanged, and adopted a cautious tone on the risks of the possible adverse effects on inflation of a prolonged depreciation

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

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*The minutes of the last monetary policy meeting in Brazil suggest that the adjustment of current monetary conditions will continue in the short term. In Peru the central bank adopted new reserve requirements for currency derivatives; with this measure the bank gains some room for an eventual MPR cut. In economic activity data, there were positive surprises in Chile at the end of 2014, in line with the expected slow recovery this year. Import data in Colombia pointed to good growth in private consumption continuing at the end of 2014.*

### Brazil – Monetary tightening: “still not enough”

The minutes of the last week's monetary policy meeting, in which the Selic rate was hiked by 50bp to 12.25%, confirmed our view that the ongoing adjustment of monetary conditions will continue in the short term. Even though the COPOM acknowledged that “the progress made on fighting inflation... is still not sufficient”, it added that “the scenario of inflation converging to 4.5% in 2016 has strengthened”. The latter shows that, although inflation forecasts for 2016 were left broadly unchanged, around 5.0% YoY, the monetary authority is now more confident on fulfilling its main target now. We expect a 25bp hike at the next monetary policy meeting in March, but another 50bp adjustment should not come as a surprise as today's minutes left the door for this move open (see our [Brazil Flash](#) for more details).

### Brazil – Lower than expected unemployment at the end of 2014

The unemployment rate declined to 4.3% in December from 4.8% in November, largely due to seasonal factors. The figure was lower than forecast (BBVAe: 4.7%; consensus: 4.6%) and identical to the rate recorded in December 2013. The latter implies that the unemployment rate was at its lowest level ever in December. However, the labour market is less robust than suggested by the unemployment rate as most of the decline is due to a reduction in labour supply rather than an increase in demand. If the participation rate (the percentage of people who are either working or looking for a job) had remained constant at the level observed in December 2013 (56.7%), rather than declined (to 55.7%), unemployment would have closed 2014 at 6.0%. The moderation in labour markets is more clearly illustrated by the moderation in the growth in real average wages: 1.6% YoY in December 2014, vs. 3.2% YoY one year ago and 3.0% YoY on average in the last ten years. Looking ahead, we expect both lower demand and higher supply to drive the unemployment rate up and wages to continue to lose steam over 2015.

### Chile – Positive surprises in activity by sectors show signs of a mild recovery trend since December 2014

Above both our and consensus expectations, manufacturing output increased 3.1% YoY in December 2014, mainly thanks to chemicals, metals and wine. Mining production decreased 0.9% YoY due to decline in copper output. Meanwhile, retail sales increased by 1.9% YoY, better than expected, with a positive contribution from non-durable consumption and a negative one from durables (mainly cars). All

in all, we estimate the Imacec rose between 2.1% and 2.6% YoY in the last month of 2014, closing that year with an expansion of 1.8% in GDP. Finally, our assessment of the recent developments in activity by sectors still points to a mild recovery this year that supports our view of GDP growth around 3.1% (see our [Chile Flash](#) for more details in Spanish).

### Colombia – Better than expected performance of imports

In November, imports grew 6.4% YoY. Consumer durable goods (such as cars and furniture), capital goods (machinery) and transportation equipment boosted the external purchases. Meanwhile, the trade deficit stood at USD1,286mn. As a result, we expect a wider deficit on current account for 4Q14, although it will be covered by FDI flows. Furthermore, the imports performance will help to increase the likelihood of a fulfillment of our GDP estimation for 4Q14, since consumption and private investment could see outstanding growth.

### Colombia – Unemployment rate stood at 9.3% in December

The urban unemployment rate in December stood at 9.3% (9.2% BBVAe) placing 2014's average urban unemployment rate at 9.9% (almost 9pp below the level observed in 2001). Job-creation during the year was on average 1pp above the year before (3% YoY for 2014 vs. 2% YoY 2015). The number of employed increased at an average rate of 5% during the year. It can be said that 2014 was a good year for the labour market, reflecting not only the good economic performance during the year but also the active labour policies introduced by the government.

### Mexico – Fondeo rate unchanged at 3%

Relative monetary stance with respect to the US and the exchange rate on the spotlight. Banxico underlines the importance of strengthening the macroeconomic fundamentals as the exchange rate volatility rises, especially when the Fed's normalisation process is expected to start soon. The possible adverse effects on inflation from prolonged peso depreciation led Banxico to adopt a cautious tone, especially as the beginning of the Fed's normalisation process approaches. The current statement reinforces our perspective of a rate hike given the greater attention to the exchange rate and the relative monetary stance; and given the emphasis on the sound macroeconomic fundamentals. In short, given our base scenario of 3.5% GDP growth and a year-end inflation around 3.0%, we maintain our expectation of a monetary pause until the third quarter of 2015.

### Peru – New reserve requirements for FX derivatives

The central bank has set new reserve requirements for FX derivatives when these exceed certain limits, effective from March 2015. In particular, if a bank's stock of foreign currency sales (in exchange for domestic currency) accorded in forward or swap operations exceeds the higher of its capital, the average stock of those operations in December 2014, and USD800million, its reserve requirement rate will increase. This measure is in addition to the measure implemented in mid-January, which instead of being focused on banks' stock of foreign currency sales through derivatives was rather related to the amount of these instruments that could be sold in a single day or week. By making FX derivatives more expensive, the bank effectively curbs depreciation pressures on the local currency and gains some more room for an eventual monetary policy rate cut.

## What to watch today

### Brazil – Fiscal report (December, 7:30hrs NYT)

The BCB's fiscal report will reveal the exact level at which the primary account closed 2014. We expect

it to be close to 0% of GDP, a sharp deterioration following a surplus of 1.9% in 2013 and 3.1% on average in the previous 10 years. The worse the final primary result, the higher the cost of the ongoing fiscal adjustment will have to be, as this is intended to take the primary surplus to 1.2% of GDP in 2015.

### Chile – Monetary policy minutes (January, 06:30hrs, NYT)

We expect the minutes to reveal the board's arguments supporting the pause in policy rates (at 3.00%) and the neutral tone. In this regard, the minutes should shed light on the central bank's assessment and worries over high core inflation metrics, something that was mentioned explicitly in the last monetary policy communiqué. We still considers that the board's concerns are overstated, supporting our view of additional monetary stimulus during this year.

### Chile – Unemployment rate (December 2014, 07:00hrs NYT)

We expect the unemployment rate to remain steady at 6.1% in December 2014. Labour force expansion should compensate for seasonal increases in job-creation.

### Colombia – Monetary policy meeting (approx 13:30hrs NYT)

We expect the central bank to continue with its still expansionary stance and maintain its monetary policy rate at 4.0%. Furthermore, the board should express its initial evaluation of the impact of lower oil prices on GDP growth for 2015 and of the observed COP depreciation on aggregate prices. We expect that lower growth and well anchored inflation expectations will allow for the monetary pause to be extended until 2Q15, albeit with some risks of rate cuts during the quarter.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
BZ Tax Collections	26-Jan	Dec	122451M		104470M	104470M
BZ FIPE CPI - Weekly	27-Jan	Jan 23	1.10%		1.27%	0.87%
BZ Outstanding Loans MoM	27-Jan	Dec	--		2.00%	1.30%
BZ COPOM Monetary Policy Meeting Minut	29-Jan	--	--		-	0
BZ FGV Inflation IGPM MoM	29-Jan	Jan	0.61%		0.76%	0.62%
BZ Unemployment Rate	29-Jan	Dec	4.60%	4.70%	--	4.80%
BZ CNI Consumer Confidence	30-Jan	Jan	--		0	109.2
BZ PPI Manufacturing MoM	30-Jan	Dec	--		0	1.16%
BZ Primary Budget Balance	30-Jan	Dec	9.85		0	-8.1B
<b>Chile</b>						
CL Manufacturing Index YoY	29-Jan	Dec	0	0.00%	1.14%	-1.10%
CL Retail Sales YoY	29-Jan	Dec	0	1.75%	0.38%	0.40%
CL Copper Production Total	29-Jan	Dec	--		--	477432
CL Central Bank Meeting Minutes	30-Jan	--	--		0	0
CL Unemployment Rate	30-Jan	Dec	6%	6.10%	0	6.10%
<b>Colombia</b>						
CO Overnight Lending Rate	30-Jan	Jan 30	4.50%		0	4.50%
CO Trade Balance	29-Jan	Nov	-\$1343,15		0	-\$1356.7
CO Urban Unemployment Rate	29-Jan	Dec	8.92%		0	8.70%
CO National Unemployment Rate	29-Jan	Dec	--		0	7.70%
<b>Mexico</b>						
MX Retail Sales YoY	26-Jan	Nov	3.70%	1.92%	1.2%	5.60%
MX Retail Sales MoM	26-Jan	Nov	--	0.95%	0,8%	-0.10%
MX Trade Balance	27-Jan	Dec	654,2M	1200.0M	254M	-1076.4M
MX Economic Activity IGAE YoY	27-Jan	Nov	2.30%	2.30%	2.00%	2.54%
MX Overnight Rate	29-Jan	Jan 29	3%	3.00%	-	3.00%
MX Net Outstanding Loans	30-Jan	Dec	--		-	2686B

## Most recent Latam reports

Date	Description
23.01.2015	<a href="#">Mexico weekly: In Mexico, annual inflation has surprised to the downside</a>
22.01.2015	<a href="#">Brazil Flash: The SELIC rate is adjusted by +50bp, in line with expectations</a>
19.01.2015	<a href="#">Mexico weekly: Annual inflation will fall sharply in the first half of January</a>
15.01.2015	<a href="#">Flash Peru: Surprisingly, the CB cuts the MPR (in Spanish)</a>
15.01.2015	<a href="#">Flash Peru: The weak GDP data in Peru increases pressure on monetary policy meeting (in Spanish)</a>
09.01.2015	<a href="#">Brazil Flash: Inflation closes 2014 slightly below the target ceiling</a>
08.01.2015	<a href="#">Chile Flash: December's CPI inflation declined 0.4% MoM, closing 2014 with +4.6% YoY</a>
08.01.2015	<a href="#">Mexico Flash: Annual inflation fell for the second month in a row and will show a sharp slowdown in January</a>
08.01.2015	<a href="#">Mexico: The Central Bank Report on the Financial System</a>
06.01.2015	<a href="#">Chile Flash: Central bank announces emissions of USD2,200mn (in Spanish)</a>
06.01.2015	<a href="#">Colombia Flash: Inflation accelerates to 3.66% in 2014</a>

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