

LatAm Daily | COPOM employs a more hawkish tone in view of the fiscal situation in Brazil

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COPOM suggested that it will increase interest rates if the fiscal situation worsens further. Although this is not unlikely, especially considering that impeachment proceedings against President Rousseff were launched, we continue to expect the Selic to remain stable for some time. Today, exports and inflation will be released in Colombia, and confidence index in Mexico.

Brazil - The risk of further monetary tightening increases as the fiscal situation worsens

As expected, the COPOM employed a more hawkish tone in the monetary policy minutes released yesterday. According to the monetary authority “uncertainties surrounding the balance of risks remain, mainly on the speed and composition of the process of recovery of fiscal results”. For that reason, as well as for the concerns about the lengthier and sharper process of realignment of administered prices, two members of the Committee voted for an immediate adjustment of the Selic rate last week. The COPOM highlighted its commitment to the targets and was more precise than before about its goals going forward: “bring inflation as close as possible to 4.5% in 2016, and within the limits established by the National Monetary Council, and make it to converge to the 4.5% target in 2017”. The minutes showed that monetary authority’s inflation forecasts for 2015 and 2016 were revised upwards while the forecast for inflation in 2017, the most relevant horizon for monetary policy, is around the 4.5% target in the baseline scenario. In spite of the highlighted fiscal risks, we expect the BCB to continue to see 2016 inflation within the 2.5%-6.5% target and 2017 inflation close enough to 4.5% to leave the Selic rate unchanged in the coming months (for more details see our [Brazil Flash](#)).

Brazil - Industrial production dropped again

Industrial output contracted 0.7% MoM in October, broadly in line with our forecasts. This was the fifth consecutive downward correction in industrial production. There was a contraction in the production of the three categories (consumption, intermediate and capital goods) and in 15 out of the 24 segments surveyed, including in the vehicles sector (-3.0% MoM). These figures show that economic activity entered 4Q15 on the wrong foot and that GDP will likely contract again in the period.

Mexico - September's annual rate of growth of fixed investment was 5.3%

September’s annual rate of growth of the original series of the fixed investment index was 5.3%, which was similar to the 5.2% we had estimated. The annual rate of growth of the construction component was very low at 0.1% although it was offset by the annual rate of growth of the machinery and equipment component that was high at 14.4%.

What to watch today

Colombia - Exports (October, 16:00hrs NYT)

We expect exports to have fallen 26.8% YoY and to settle at USD3,150mn. We believe oil exports will remain in recent lows. Meanwhile, the industrial and agricultural exports could grow slightly. However, it is clear that the adjustment in the current account deficit will be determined by lower imports rather than by increasing exports in 4Q15.

Colombia - Consumer inflation (November, Saturday at 08:00 NYT)

We expect a 0.26% MoM (6.03% YoY) gain in headline CPI in November. We expect the continued increase in food prices to weigh on the overall price index.

Mexico - Consumer confidence index (November, 9:00 NYT)

November's consumer confidence index will be released and we expect it to come out at 91.7 points, which implies an improvement in relation to the 91.3 points registered in October. The main reason for the improvement in the consumer confidence index is due to the favourable behaviour observed in formal employment.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Primary Budget Balance	30-Nov	Oct	-12.85		-11.53	-7.3b
FGV CPI IPC-S	1-Dec	Nov	1.02%		1.00%	0.94%
GDP QoQ	1-Dec	3Q	-1.20%	-0.50%	-1.71%	-1.90%
Trade Balance Monthly	1-Dec	Nov	1300.00		\$1197m	\$1996m
COPOM Monetary Policy Meeting Minutes	3-Dec					
Industrial Production MoM	3-Dec	Oct	-0.15%	-0.40%	-0.70%	-1.30%
Chile						
Unemployment Rate	30-Nov	Oct	6.40%	6.30%	6.30%	6.40%
Retail Sales YoY	30-Nov	Oct	2.40%	2.00%	1.71%	3.10%
Industrial Production YoY	30-Nov	Oct	-1.05%	-1.00%	-0.57%	0.40%
Nominal Wage YoY	4-Dec	Oct				5.90%
Colombia						
Urban Unemployment Rate	30-Nov	Oct	9.45%	9.40%	8.85%	9.70%
National Unemployment Rate	30-Nov	Oct			8.19%	9.00%
Exports FOB	4-Dec	Oct	2956.50	3150		\$2867.1
CPI MoM	5-Dec	Nov	0.47%	0.26%		0.68%
Mexico						
Remittances Total	1-Dec	Oct	\$2140.0m	\$2107.0m	\$2075.90m	\$2060.0m
Central Bank Economist Survey	1-Dec					
Gross Fixed Investment	3-Dec	Sep	5.10%	5.20%	5.30%	2.90%
Consumer Confidence Index	4-Dec	Nov	92.10	91.7		91.3
Vehicle Production AMIA	4-Dec	Nov				326876
Peru						
CPI MoM	1-Dec	Nov	0.20%	0.20%	0.34%	0.14%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
12.03.2015	Chile: We expect null variation for November's CPI (4% YoY)
12.03.2015	Chile: Activity by sector data remained weak in October
12.03.2015	Brazil: The risk of further monetary tightening raises as the fiscal situation worsens
12.03.2015	Mexico: Credit to the private sector: maintained growth of 13.3%
12.02.2015	Peru: Inflation resumes upward trend in November
12.01.2015	Mexico: Remittances grow 1.7% in October with a flow of 2.075.9md (In Spanish)
11.30.2015	Chile: October's IMACEC would stand around 2% (In Spanish)
11.30.2015	Chile: Only a negative CPI in November would avoid further increase in the MPR this month (in Spanish)
11.28.2015	Colombia: BanRep increased the repo rate 25bp up to 5.50% as expected
11.27.2015	Mexico: Annual inflation below 2.3%. Next week watch for US jobs data
11.24.2015	Mexico: Bank deposits: continues catching up driven by its two components
11.21.2015	Mexico: Positive surprise in the GDP for the better-than-expected growth in the 3Q
11.20.2015	Mexico: Upside surprise in the GDP due to a better than expected growth in the 3Q15
11.18.2015	Mexico: Mortgage financing accelerates and grows 17% in September
11.14.2015	Peru: Mining led growth, but non-primary sectors decelerated (In Spanish)

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