

LatAm Daily | Current account deficit declines in Brazil but remains high in Colombia

Marina Conesa / Enestor Dos Santos / Hugo Perea / Cecilia Posadas / Jorge Selaive / Carlos Serrano / Juana Téllez

The CA deficit for November was lower than expected in Brazil. We expect it to continue declining in 2016. In contrast, in Colombia imports fell less than expected, such that the CA deficit in 2015 will likely be above our forecast. The relatively optimistic tone of the Chilean Monetary Policy Report suggests that two interest-rate hikes in 2016 are being contemplated.

Brazil - Lower-than-expected current account deficit in November

The current account deficit reached USD2.9bn in November, lower than expected and than the previous readings. As a consequence, the current account deficit accumulated USD68.0bn (or 3.70% of GDP) in the last twelve months, in comparison to 3.93% of GDP in October and 4.31% of GDP in the end of 2014. This sharp and somewhat surprising correction of the current account deficit is the result of the impact of the contraction of domestic demand and the depreciation of the currency, mainly on imports of goods and services and other foreign expenses. Following the better-than-expected result in November, we now see a downward bias to our USD66bn forecast for the current account deficit this year. Looking forward, we expect the current account deficit adjustment to continue next year when we forecast it to reach USD41bn, 60% less than the 2014 deficit.

Chile - An optimistic central bank baseline scenario for 2016

The range expected for 2016 GDP growth was adjusted downwards from 2.5%-3.5% to 2.0%-3.0% - also recognising a negative bias for economic activity - in the Monetary Policy Report published yesterday, driven by both lower external and domestic demand forecasts, in a context where 2015 GDP is expected to expand 2.1%, supported by a modest recovery in domestic demand. We still expect GDP growth of around 2% this year and next - with risk tilted to the downside in 2016. In terms of prices, the central bank expects higher inflation at the end of 2016 - from 3.7% estimated in September to 3.8% YoY -, to persist longer due to both short-term currency depreciation and the indexation mechanism of past inflation. The central bank's baseline scenario also considers lower expectations for copper prices, reaching averages of USD2.2 per pound in 2016 (from USD2.45 per pound forecast in September) and a higher current account deficit in 2016 (from 1.5% to 2.6% of GDP). All in all, the tone of the report was similar to September's, contemplating at most two additional 25bp hikes in rates during next year (reaching 3.75% to 4.0%), a normalisation that will be gradual and data-dependent. In this context, the report confirms our view that the recent 25bp increase in the policy rates seems more like a pre-emptive measure rather than a more hawkish message (see our [Chile Flash](#) in Spanish for details).

Colombia - Imports widen current account deficit in 2015

In October, imports fell 22.8% YoY (BBVAe: -29.0%), settling at USD CIF 4,515 mn. All important items showed sharp declines (fuel oil: -42.4%; industrial products: -20.7%; agricultural and food: -17.0%). However, we were anticipating a further adjustment in some non-durable goods, as a result of the currency depreciation; however, this did not materialize (e.g. beverages: +17.2%; and tobacco: +4.1%). On the other hand, the trade deficit stood at USD FOB -1,595 mn. (BBVAe: -1,245mn). All in all, these results anticipate a current account deficit in 2015 closer to 7.0% than our forecast of 6.4% of GDP.

What to watch today

Brazil - Credit markets report (November, 07:30hrs NYT)

We expect the BCB's report to show that credit remains unsupportive, reinforcing the prospects of another dose of contraction in private consumption in 4Q15. Among other things, we expect the report to show that NPLs continued to increase gradually in November.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Current Account Balance	21-Dec	Nov	-4200.0	-\$4500m	-2931.0	-\$4166m
Total Outstanding Loans	22-Dec	Nov				3157b
FGV CPI IPC-S	23-Dec	Dec	0.94%			1.06%
FGV Consumer Confidence	23-Dec	Dec				76.70
Central Bank Quarterly Inflation Report	23-Dec					
Central Govt Budget Balance	23-Dec	Nov	-12.1			-12.3b
Chile						
Central Bank's Traders Survey	23-Dec					
PPI MoM	23-Dec	Nov				-0.10%
Colombia						
Trade Balance	21-Dec	Oct	-1346.0	-1245.0	-1595.1	-\$1419.3
Mexico						
Retail Sales YoY	21-Dec	Oct	5.00%		4.80%	4.90%
Economic Activity IGAE YoY	23-Dec	Oct	2.00%			3.11%
Bi-Weekly CPI	23-Dec	Dec	0.30%	0.39%		-0.06%
Trade Balance	24-Dec	Nov	-2232.0			-1443.9m
Unemployment Rate NSA	24-Dec	Nov	4.30%			4.55%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
12.21.2015	Chile: Monetary Policy Report: the optimism persists (In Spanish)
12.18.2015	Mexico: Monetary hike that helps the peso in the range
12.18.2015	Colombia: BanRep increased its monetary policy rate in 25bp to 5.75%
12.18.2015	Chile: Central bank increases the policy rate to 3.50%, surprising part of the market
12.17.2015	Chile: 25bp hike in the MPR that we consider preventive rather than aggressive (In Spanish)
12.17.2015	Mexico: 0.25% rise in the monetary policy rate
12.16.2015	Mexico: We expect a 25 basis point increase in the monetary policy rate
12.15.2015	Mexico: A successful Phase 3 of Round 1 despite low oil prices
12.15.2015	Peru: Mining continues to support growth, but non-primary sectors decelerated (In Spanish)
12.15.2015	Chile: We expect the MPR to hold at 3.25% at this meeting (In Spanish)
12.14.2015	Mexico: The exchange rate reached new highs due to the collapse in oil prices (In Spanish)
12.11.2015	Peru: High inflation expectations lead the Central Bank to taper the monetary stimulus
12.10.2015	Colombia: The good GDP result in the third quarter will be temporary (In Spanish)
12.09.2015	Brazil: Double-digit inflation
12.07.2015	Chile: CPI with no monthly variation in November, while activity remain weak in October
12.07.2015	Colombia: November inflation climbs to 6.4%
12.04.2015	Peru: Exports fell nearly 14% yoy in October
12.04.2015	Mexico: The expectation for December interest rate hike is reinforced
12.03.2015	Chile: We expect null variation for November's CPI (4% YoY)

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