

## LatAm Daily | Among other measures, Mexico surprisingly increases MPR by 50 bp

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In a joint announcement, Banxico and the Mexican Ministry of Finance have adopted fiscal, monetary and exchange rate measures to limit risk to the economy. Among the measures are a 50bp increase in MPR, and a cut in expenditure. S&P has downgraded Brazil's sovereign rating to BB in a year with significant economic challenges ahead. Further downgrades are likely in the future.

### Brazil - S&P downgrades Brazil to BB and maintains the negative outlook

After withdrawing Brazil's investment grade in September 2015, S&P yesterday announced another one-step downgrade of Brazil's sovereign rating, from BB+ to BB. The decision was mostly due to remaining political and economic challenges, particularly to prospects of a more gradual than expected fiscal adjustment, another year of significant GDP contraction (activity is set to decline around 3.0% in 2016 after having contracted around 3.8% in 2015), risks of implementation of economic policy and reforms due to the political turmoil and the beginning of the proceedings to impeach president Dilma Rousseff and the weaker financial situation of Petrobras. This acute worsening of Brazil's credit rating will likely continue as we move forward, with Moody's expected to withdraw Brazil's investment grade shortly. The negative outlook sustained by both S&P and Fitch, which holds Brazil's only one step below the investment rate zone, also means that further downgrades are not only possible but actually likely. Finally, we do not expect the ongoing credit rating deterioration to trigger a significant correction in Brazilian policies.

### Colombia - Industrial production and retail sales for December

The National Statistics Office published industrial production and retail sales figures for December. According to the report, industrial production increased 3.9% YoY (BBVAe: 5.1%; consensus: 4.4%) taking the figure for the year as a whole to 0.9%. In December, the main drivers of industrial production growth were oil refining (13.1% YoY), the textile industry (17.0% YoY) and the pharmaceutical industry (14.1% YoY). Retail sales meanwhile expanded 0.3% on a yearly basis in December 2015 (BBVAe: -1%; consensus 0%). The report mentioned that retail sales excluding vehicle and motorcycle sales stood at 4% for the same month.

### Mexico - Mexico adopts fiscal, monetary and exchange rate measures to limit risks

In an extraordinary decision, Banxico increased the MPR by 50 bp in response to the increased likelihood that exchange rate depreciation might lead to an increase in inflation expectations that are not in line with the consolidation of the permanent goal of 3%. The Foreign Exchange Commission decided to suspend pre-established mechanisms to sell dollars and announced the possibility of intervening on a discretionary basis in the exchange market. The Ministry of Finance also announced a cut in spending equivalent to 0.7% of GDP by 2016, most of which will cut the budget of Pemex, details of which will be announced next week. The announcement of higher TPM will help to reduce volatility in the foreign exchange market and reduce the risk of abrupt market outflows for long-term bonds. We do not estimate a significant effect on the

exchange rate level, which should respond to economic fundamentals (See [Mexico Flash](#) in Spanish for details).

## What to watch for today

### Brazil - Economic activity index (December, 5:30hrs NYT)

The IBC-Br, the BCB's economic activity index is expected to have declined again in December, after having contracted around 0.5% MoM in both November and October. We expect it to drop 0.2% MoM, although [this week's retail sales figures](#) suggest that contraction could be larger than that.

### Mexico - Monetary Policy Minutes (January)

Today we will know the minutes from the last monetary policy decision last February 4, where the central bank decided to keep the MPR unchanged at 3.25. The central scenario for the short and medium term was said to be consistent with the inflation convergence objective BC. It nevertheless warned that the situation is unfavourable and that risks have increased, closely following the possible transfer to exchange rates and measures to support the convergence of inflation would be taken. It is relevant to know the details of the discussion.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
Tax Collections	15-Feb al 19-Feb	Jan	--			121502m
Formal Job Creation Total	15-Feb al 19-Feb	Jan	-144416			-596208
Retail Sales MoM	16-Feb	Dec	-2.50%	-1.30%	-2.7	1.50%
FIPE CPI - Weekly	17-Feb		--			1.34%
FGV Inflation IGP-10 MoM	17-Feb	Feb	1.48%			0.69%
Economic Activity MoM	17-Feb	Dec	-0.63%	-0.20%		-0.52%
CNI Industrial Confidence	18-Feb	Feb	--			36.5
IGP-M Inflation 2nd Preview	19-Feb	Feb	1.25%			0.83%
National Unemployment Rate	19-Feb	Nov	--			9.00
<b>Colombia</b>						
Consumer Confidence Index	16-Feb	Jan	2.60%	2.00%		1.10%
Retail Sales YoY	17-Feb	Dec	0.80%	-1.00%	0.30%	-0.30%
Industrial Production YoY	17-Feb	Dec	4.10%	5.10%	3.90%	4.80%
Trade Balance	19-Feb	Dec	--	-\$1380		-\$1689.1
Overnight Lending Rate	19-Feb		6.25%	6.25%		6.00%
<b>México</b>						
Central Bank Monetary Policy Minutes	18-Feb					
<b>Peru</b>						
Unemployment Rate	15-Feb	Jan	6.40%		6.6	5.70%
Economic Activity YoY	15-Feb al 19-Feb	Dec	5.30%	5.30%	6.39	4.00%
GDP YoY	15-Feb al 19-Feb	4Q	--	4.10		2.90

Fuente: BBVA Research

## Most recent Latam reports

Date	Description
02.17.2016	<a href="#">Peru: Outlook 1Q16 (In Spanish)</a>
02.17.2016	<a href="#">Mexico: Monetary fiscal and exchange rate measures (In Spanish)</a>
02.16.2016	<a href="#">Colombia: Outlook 1Q16, infographic (In Spanish)</a>
02.16.2016	<a href="#">Colombia: Outlook 1Q16 (In Spanish)</a>
02.16.2016	<a href="#">Chile: January would mark the turning point in the annual growth (In Spanish)</a>
02.15.2016	<a href="#">Peru: Strong GDP growth in December, its fastest in two years</a>
02.11.2016	<a href="#">Peru: CB adjust MPR again and is more energetic with expectations (In Spanish)</a>
02.11.2016	<a href="#">Chile: CB maintains MPR unchanged. (In Spanish)</a>
02.10.2016	<a href="#">Chile: Outlook 1Q16 (In Spanish)</a>
02.09.2016	<a href="#">Colombia: Trends and Long-term Outlook for Energy Supply and Demand</a>
02.08.2016	<a href="#">Chile: January's CPI grows 0.5% mom influenced by public fees and cigarettes</a>
02.05.2016	<a href="#">Colombia: El Niño drives up inflation</a>
02.05.2016	<a href="#">Chile: GDP grows 2% in 2015 with an Imacec above expectations (In Spanish)</a>
02.05.2016	<a href="#">Brazil: Inflation surprises strongly to the upside</a>
02.04.2016	<a href="#">Mexico: No change in fondeo rate. The tone turned restrictive (In Spanish)</a>

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