

LatAm Daily | Inflation in Brazil begins to sag

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Brazilian inflation will continue to lose strength in line with adjustments in administered prices and the effects of the contraction in domestic demand. In Chile, financial traders expect a pause in MPR and maintain long-term inflation expectations anchored to the CB's target. Today we expect a 25bp increase in monetary policy rate in Peru.

Brazil - Inflation (finally) starts to decline

After trending up for a longer-than-expected time, annual inflation declined from 10.71% YoY in January to 10.36% YoY in February, somewhat less than anticipated (monthly inflation eased from 1.27% MoM to 0.90% MoM). The main driver of the moderation in inflation was administered-products inflation, which dropped from 2.37% MoM one year ago to 0.39% MoM in February. We expect inflation to continue to lose steam going forward, in line with smaller adjustments in administered prices and the effects of the contraction in domestic demand. More precisely, we forecast annual inflation to be around 9.6% YoY in March, 8.6% YoY in June, 8.1% YoY in September and close the year at 6.8% YoY. Even though relevant, that deceleration will not be enough to make inflation converge to within the 2.5%-6.5% target range this year (for more details, see our [Brazil Flash](#)).

Chile - Traders expects another pause in the policy rate in March

Results showed inflation expectations at +0.5% MoM for March. The long-term view (24 months ahead) remained at +3.0% YoY, anchored to the central bank's target. In terms of policy rates, traders' expectations are for a pause in the normalisation process, at least until June, and a 25bp increase in six months' time to 3.75%. We interpret the latter as a more cautious view for policy rate normalisation during the year. Finally, results showed expectations of a slight depreciation path for the exchange-rate from levels around USDCLP675 towards USDCLP700 by the year end.

Colombia - Civil works payments showed a slowdown in 4Q15

Civil works' payments grew 2.0% YoY in 4Q15. Roads, ports and works financed with royalties (mainly, sports venues and parks) boosted the result. In contrast, railways and mining works contributed negatively. Throughout 2015 civil works grew 5.3%, below our forecast (BBVAe: 9.4%). With this result, 2015 GDP growth to be released today would be below 3%.

What to watch for today

Brazil - Monetary policy minutes (6:30hrs NYT)

In our opinion, the [minutes of last week's monetary policy meeting](#) will reinforce the view that the Selic rate will remain unchanged at 14.25% for a long period. Therefore, it would be a surprise to see any support for either a tightening or an easing of monetary conditions. Anyway, in the forthcoming months we expect the monetary policy communication to become gradually more dovish as [inflation trends downward](#).

Peru - Monetary policy meeting (March, 6.30 p.m. NYT)

There are three reasons for raising the policy rate once again. The first reason is that inflation expectations kept going up in February, in particular two-year ahead rates (now at 3.2%, above the target range ceiling). This suggests that public credibility in CB's commitment to the target has diminished. The second reason, in accordance with our understanding of CB's last monetary policy press release, is that future changes in the policy rate would depend on inflation expectations and these have increased. If there is no hike, there is a chance the CB loses further credibility. And thirdly, firms are gradually revising upwards their output growth expectations for 2016, which gives some room for another rate hike in March. In our opinion, these factors more than compensate the relatively low monthly inflation print in February (which we expect to be just transitory), the recent domestic currency appreciation, and the sluggish private sector expenditure (but even with a policy rate hike, the ex-ante real interest rate would still imply a very accommodative monetary stance). Hence, we are inclined to expect that the CB will raise its rate by 25bp in March, to 4.50%.

Brazil - Retail sales (January, 7:00hrs NYT)

Retail sales are expected to contract around 0.5% MoM in January, suggesting that private consumption and overall economic activity continued to decrease at the beginning of the year, although at a slower pace than in 2H15.

Chile - Economic expectations survey (March, 07:30hrs NYT)

We expect the surveys to show inflation expectations of around +0.5% MoM for March and anchored to long-term inflation expectations. Short-term activity and inflation data should support expectations of a pause in the monetary normalisation process at March's meeting, and with only one 25bp increase during the year (to 3.75%). We do not rule out a slight downward revision to GDP growth for 2016-17, due to a further slowdown in economic activity.

Colombia - GDP (4Q15, 10:00hrs NYT)

We expect GDP to have grown 2.4% YoY (-0.1% QoQ). Exports and equipment investment would show a year-on-year negative performance. Meanwhile, imports should continue reflecting an important adjustment in line with the observed slowdown in domestic demand.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV Inflation IGP-DI MoM	8-Mar	Feb	0.96		0.79	1.53
IBGE Inflation IPCA MoM	9-Mar	Feb	1.26	1	0.9	1.27
COPOM Monetary Policy Meeting Minutes	10-Mar					
Retail Sales MoM	10-Mar	Jan	-0.4	-0.5		-2.7
Economic Activity MoM	11-Mar	Jan		-0.3		-0.52
Chile						
Copper Exports	7-Mar	Feb			2267.61	2054.09
Trade Balance	7-Mar	Feb	575	650	596.89	685.21
Economic Activity YoY	7-Mar	Jan	0.2	0.2	0.25	1.46
Economic Activity MoM	7-Mar	Jan	-0.1	0.3	-0.03	0.83
Nominal Wage YoY	7-Mar	Jan	4.9		5.8	5.2
Nominal Wage MoM	7-Mar	Jan			1.4	1
Vehicle Sales Total	7-mar al 10-mar	Feb			25484	25484
CPI MoM	8-Mar	Feb	0.3	0.2	0.3	0.5
CPI YoY	8-Mar	Feb	4.6	4.6	4.7	4.8
Central Bank's Traders Survey	9-Mar					
Central Bank's Economist Survey	10-Mar					
Colombia						
GDP YoY	10-Mar	4Q	3	2.4		3.2
GDP QoQ	10-Mar	4Q	0.5	-0.1		1.2
GDP Full Year YoY	10-Mar	2015		2.9		4.6
Economic Activity Index SA YoY	10-Mar	Dec	2.8	2.5		3.2
Colombia Monetary Policy Minutes	11-Mar					
Mexico						
Consumer Confidence Index	7-Mar	Feb			88.7	92.5
Vehicle Production AMIA	7-mar al 9-mar	Feb			271278	267498
CPI MoM	9-Mar	Feb	0.53		0.44	0.38
CPI Core MoM	9-Mar	Feb	0.36		0.36	0.19
CPI YoY	9-Mar	Feb	2.96		2.87	2.61
ANTAD Same-Store Sales YoY	9-Mar	Feb			9.6	8.6
Formal Job Creation Total	10-mar al 11-mar	Feb		116.1		69.2
Industrial Production NSA YoY	11-Mar	Jan	0.16	0.4		-0.04
Industrial Production SA MoM	11-Mar	Jan	0.2	-0.2		-0.14
Manuf. Production NSA YoY	11-Mar	Jan	2.1			2.52
Peru						
Trade Balance	9-mar al 11-mar	Jan				193
Reference Rate	11-Mar	1-mar	4.5	4.5		4.25

Source: Bloomberg and BBVA Research

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