

LatAm Daily | The tone of monetary policy becomes less restrictive in Brazil and Chile

Enestor Dos Santos / Lorena Lechuga / Hugo Perea / Cecilia Posadas / Jorge Selaive / Carlos Serrano / Juana Téllez

In Brazil, as expected, the Copom decided to leave the Selic at 14.25%. The easing of monetary policy is already being discussed for when inflation eases further. In Chile, the minutes of April's monetary meeting revealed that the CB considered a 25bp increase and a pause at 3.5%, prevailing the later. In both countries, we expect rates to remain stable in the next months.

Brazil - Copom: more dovish, but still not ready for monetary easing

The Monetary Policy Committee (Copom) decided to leave the Selic rate unchanged at 14.25%, as widely expected. In contrast to previous meetings, when two out of the eight members of the Committee favoured a tightening of monetary policy, this time the decision was unanimous. Moreover, the accompanying statement was changed to show that the easing of monetary policy is already being discussed within the Copom, although it should only be implemented when inflation eases further: "The Committee acknowledges advances in the fight against inflation, especially in restraining second order effects of the adjustments in relative prices. However, it considers that high annual inflation and inflation expectations distant from targets do not offer room for the easing of monetary policy." Taking that into account, we continue to expect the monetary authority to only cut the Selic rate at the beginning of the next year when we forecast inflation to finally move within the target range and inflation expectations to be well anchored. Nevertheless, we acknowledge that the economic and political costs of maintaining the Selic rate at relatively high levels during an ongoing recession could force the Copom to announce monetary easing sooner than expected. Finally, it is worth noting that if the Senate decides to analyse the impeachment case, which at this juncture seems the most likely scenario, then President Dilma Rousseff will have to step down for 180 days and Vice-President Michel Temer will assume presidential duties. In that case, he will likely announce the appointment of a new governor of the Central Bank, which obviously increases the uncertainty regarding monetary policy.

Chile - The trader's survey results revealed a more dovish stance for policy rates during the year

The results showed inflation expectations at +0.3% MoM for April (BBVAe: around +0.2% MoM). 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 October, and a 25bp increase in twelve months' time to 3.75%. We interpret the latter as a more dovish view for policy rates during the year, postponing the timing of new increases. Finally, the results showed expectations of a depreciative path for the exchange-rate, from levels of around USDCLP670 in the short-run towards USDCLP690 by the year end.

Chile - A less restrictive stance as the prelude for a neutral bias for policy rates

The minutes of April's monetary policy meeting revealed options that include both a 25bp increase in rates and a pause at 3.5%, prevailing the later. Although the minutes highlighted that financial volatility eased recently, on the back of lower Chinese uncertainty, the risks for world growth expectations continue to lean downward. Within this context, the board pointed to the persistence of slow growth in domestic demand combined with low confidence figures. These remain, acknowledging some slack in the labour market due to the deceleration in both salaried job-creation and wages (nominal and real ones). Concerns about inflation eased given the negative surprise in March's figures, assessing a scenario of faster convergence of annual inflation to the goal of 3% supported by a relatively stable -even more appreciated- exchange-rate. Overall, given recent information at hand, the scenario seems to be one of a prolonged pause in rates at 3.5%, combined with a neutral bias during the year.

What to watch today

Brazil - Credit markets report (March, 9:30hrs NYT)

We expect the BCB report to show, among other things, that credit markets continued to lose momentum in March and it is likely that NPL will increase again.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	25-abr	Apr 22	0.42		0.38	0.45%
Federal Debt Total	25-abr	Mar			2887	2819b
FGV Consumer Confidence	26-abr	Apr			64.4	67.1
FIPE CPI - Weekly	27-abr	Apr 22	0.64		0.6	0.75%
Selic Rate	27-abr	Apr 27	14.25	14.25	14.25	14.25%
FGV Inflation IGPM MoM	28-abr	Apr	0.36			0.51%
Outstanding Loans MoM	28-abr	Mar				-0.5%
Primary Budget Balance	29-abr	Mar	-10.9			-23.0b
CNI Consumer Confidence	29-abr	Apr				97.6
Chile						
Central Bank Meeting Minutes	27-abr	0				0.0%
Manufacturing Production YoY	29-abr	Mar	1.1	1.5%		1.3%
Retail Sales YoY	29-abr	Mar	3.9	5.5%		7.4%
Industrial Production YoY	29-abr	Mar	1.5			1.8%
Unemployment Rate	29-abr	Mar	6	6.1%		5.9%
Colombia						
Retail Confidence	25-abr	Mar		18.0	25.5	25.4
Industrial Confidence	25-abr	Mar		13.0	4.1	10.4
National Unemployment Rate	29-abr	Mar				10%
Urban Unemployment Rate	29-abr	Mar	10.3	10.3		10.3%
Overnight Lending Rate	29-abr	Apr 29	6.75	6.75		6.5%
Mexico						
Retail Sales MoM	25-abr	Feb	0.1		0.2	2.7%
Retail Sales YoY	25-abr	Feb	5.1		9.6	5.2%
Trade Balance	26-abr	Mar	-100	-650 m	155	-724.7m
Economic Activity IGAE YoY	26-abr	Feb	3	2.9%	4.11	2.33%
Unemployment Rate SA	27-abr	Mar	4.3		4.19	4.28%
GDP NSA YoY	29-abr	1Q P	2.2			2.5%
GDP SA QoQ	29-abr	1Q P	0.45	0.40%		0.5%
Net Outstanding Loans	29-abr	Mar				3154b

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
04.26.2016	Peru: Value of total exports continues to shrink (In Spanish)
04.23.2016	Mexico: Bank deposits: loss of momentum driven by term deposits (In Spanish)
04.22.2016	Mexico Weekly: The sluggishness of investment and exports will limit GDP growth (In Spanish)
04.15.2016	Mexico Weekly: Government measures alleviate the liquidity problems of PEMEX (In Spanish)
04.15.2016	Peru: GDP growth accelerated in February (In Spanish)
04.15.2016	Peru: Central Bank: MPR unchanged (In Spanish)
04.13.2016	Mexico: Federal Government support allows Pemex to improve its financial situation in 2016 (In Spanish)
04.12.2016	Chile: Policy rate keeps at 3.5%, but the restrictive tone is moderated (In Spanish)
04.08.2016	Mexico Weekly: An unfavorable industrial performance corroborates moderate growth outlook (In Spanish)
04.08.2016	Brasil: Times of two-digit inflation are over

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.