

LatAm Daily | The new BCB board adopts a hawkish tone

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

The first report released by the BCB since Ilan Goldfajn replaced Alexandre Tombini as governor of the institution suggested that the monetary institution has no intention of cutting the Selic rate before convergence of inflation to 4.5% in 2017 is assured. This is in line with our view that the Selic rate will remain unchanged during 2H16.

Brazil - BCB emphasises the need to address fiscal problems and suggests that the Selic rate will not be cut soon

In the 3Q16 Inflation Report, the first report by the monetary authority under the new administration of Ilan Goldfajn, the BCB highlighted the importance of providing a solution to the fiscal problems that are currently helping drive up the country's gross debt. Inflation forecasts for 2016 and 2017 now stand at 6.9% YoY and 4.7% YoY, respectively, in the baseline scenario (which assumes that the Selic and exchange rate remain unchanged at 14.25% and 3.45, respectively), and 7.0% YoY and 5.5% YoY in the alternative scenario (which builds on market scenarios for the Selic and exchange rate). These figures show that fulfilling the precise goals defined in yesterday's report by the BCB (i.e. make inflation to converge within the 2.5%-6.5% range in 2016 and to 4.5% in 2017) is still not assured. That, and the explicit assertion that "the central scenario does not allow [the BCB] to work with the hypothesis of an easing of monetary conditions", suggests that the Selic rate will remain unchanged at 14.25% for some further time. Therefore, the 3Q16 Inflation Report reinforces our view that monetary easing will not start in the next few meetings. We continue to expect monetary easing to commence at the beginning of 2017, although positive fiscal surprises (such as the approval by Congress of the project to impose a limit on fiscal expenditure growth) could create some room for a Selic cut at the end of 2016.

What to watch today

Brazil - Fiscal report (May, 9:30hrs NYT)

We expect the BCB's fiscal report to show that fiscal deterioration continued in May as the contraction in domestic demand hits fiscal revenues and because measures to cut public expenditure -which require structural reforms- are still insufficient.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV Consumer Confidence	27-jun	Jun			71.30	67.9
Central Bank Quarterly Inflation Report	28-jun					
Outstanding Loans MoM	28-jun	May			0.10	-0.60%
Fiscal report	29-jun	May				
FGV Inflation IGPM MoM	29-jun	Jun	1.48			0.82%
National Unemployment Rate	29-jun	May	11.40			11.20%
FGV CPI IPC-S	01-jul	jun-30	0.29			0.33%
Industrial Production MoM	01-jul	May	-0.08	0.0		0.10%
Markit Brazil PMI Manufacturing	01-jul	Jun				41.6
Trade Balance Monthly	01-jul	Jun	4000			\$6437m
Chile						
Manufacturing Production YoY	30-jun	May	2.50	3,0		-1.20%
Retail Sales YoY	30-jun	May	3.50	5,0		7.90%
Copper Production Total	30-jun	May				432277
Industrial Production YoY	30-jun	May	0.50			-3.40%
Unemployment Rate	30-jun	May	6.70	6.7		6.40%
Colombia						
Urban Unemployment Rate	30-jun	May	9.30	9.3%		9.10%
Economic Activity Index SA YoY	01-jul	Apr	3.40	3.3%		3.50%
Exports FOB	01-jul	May	2580	\$2450		\$2418.6
Mexico						
Trade Balance	27-jun	May			-527.44	-2079.6m
Unemployment Rate SA	28-jun	May	3.96		4.00	3.93%
Unemployment Rate NSA	28-jun	May	3.9		4.03	3.80%
Overnight Rate	30-jun	jun-30	4			3.75%
Central Bank Economist Survey	01-jul					
Peru						
CPI MoM	01-jul	Jun	0.15	0.16%		0.21%
CPI YoY	01-jul	Jun	3.36	3.37%		3.54%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
06.27.2016	Mexico: Bank deposits: mixed performance in its components (In Spanish)
06.24.2016	Mexico: Brexit leads the dollar above 19ppd (In Spanish)
06.24.2016	Mexico: New cuts to public spending to support fundamentals before volatility from Brexit (In Spanish)
06.23.2016	Mexico: ENIF 2015: Advances in the scope of information but with comparability problems (In Spanish)
06.22.2016	Colombia: BanRep increased its monetary policy rate 25bps up to 7.5%
06.17.2016	Chile: Central bank kept policy rate at 3.5% and modifies the restrictive tone (In Spanish)
06.16.2016	Brazil: Still no room for a monetary easing
06.15.2016	Peru: April's growth the lowest result so far this year and surprised to the downside (In Spanish)
06.14.2016	Inflation persistence in Latin America
06.10.2016	Mexico Weekly: New episode of peso adjustment resulting from proximity of the Fed meeting (In Spanish)

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