

LatAm Daily | Brazil CB hikes Selic rate; the door is not closed for another hike

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In Chile economic activity in March came out below expectations and reveals slack in both domestic and external demand. In Peru the government announces new countercyclical measures aimed at increasing household disposable income in 2015.

Brazil – Another 50bp hike in the Selic rate to rein in 2016 inflation expectations

The COPOM remained strictly focused on inflation and delivered another 50bp hike in the Selic rate, in line with market expectations, rather than taking into account both the economic activity slowdown and the sharp exchange rate appreciation in the last few weeks and reducing the adjustment pace to 25bp as we expected. The communique released yesterday at the end of the day in Brazil by the monetary policy committee was similar to the previous ones: "Taking into account the macroeconomic scenario and the inflation outlook, the COPOM decided unanimously to increase the Selic rate by 0.50pp to 13.25% a year, without a bias." Therefore, it refrained from signaling that the ongoing tightening cycle is over or close to an end. Yesterday's decision to increase the Selic rate by 50bp, the accompanying statement as well as recent communications from BCB officials suggest that the monetary authority is committed to take 2016 inflation down to the 4.5% target (our 5.5% forecast coincides with the market consensus and is higher than the 4.9% BCB forecast released when the Selic was at 12.75%). Therefore, we should not be surprised by another Selic hike in the COPOM's next meeting in June (see our Brazil Flash on the issue).

Chile – Activity figures anticipate a growth in the Imacec of around 1.0% YoY in March

Retail sales increased at a poor 0.4% YoY in March, below both our estimates and the market consensus (BBVAe: +1.5%; consensus: +2.7%), with a sluggish durable goods figure. Manufacturing output declined by 2.8% (BBVAe: -2.0%; consensus: +0.2%) revealing a slack in both domestic and external demand. Meanwhile, mining output slumped to -4.9% YoY, in part explained by disruptions due to climate factors in the northern region. All in all, aggregate activity figures anticipate a poor Imacec growth at around 1.0% YoY for March (see our Chile Flash in Spanish for details).

Peru – Government announces new countercyclical measures

The government presented a bill before Congress with measures to be implemented as soon as possible aimed at spurring economic growth. In particular, the government wants to increase household disposable income by (i) freeing part of the intangible funds workers accumulate during service and which, initially, act as a sort of unemployment insurance (workers can only dispose of these funds if they become unemployed); and (ii) exempting workers' July and December additional wages from contributions to pension funds and social security (the latter is directly transferred from the employer to the social security, but the proposal wants this money to be given to workers). These measures will be transitory, just for 2015.

What to watch today

Brazil – Fiscal report (March, 9:30 NYT)

March fiscal data will help the markets to better assess whether the government will be able to meet the 1.2% of GDP primary surplus target for the year. In spite of a significant deceleration in public revenues (mostly due to the slowdown in activity) we expect expenditure cuts to have been able to generate a small primary surplus in March.

Chile – Unemployment rate (March, 8:00hrs NYT)

We expect the unemployment rate to have increased to 6.3% in March (from 6.1% in the previous month). Despite this still surprisingly low figure during the current business cycle, job creation will remain sluggish. Finally, in the context of a still weak domestic demand, we maintain our view for moderate increases in the jobless-rate during the year.

Chile – Quarterly fiscal report (1Q15, 14:00hrs NYT)

We expect a relatively higher budget execution level compared to 1Q14 figures. The fiscal report will shed some light on fiscal revenues associated with the tax reform. In this regard, we anticipate lower revenues from copper (both private and public) but higher indirect revenues, mainly from VAT and corrective taxes.

Colombia – Urban unemployment rate (March, 11:00hrs NYT)

We expect an urban unemployment rate at 9.8% in March, a -0.7 percentage point decrease (YoY). That reduction is smaller than the one observed in the previous month (-1.2 percentage points YoY). Job creation should remain dynamic in March, in line with our estimates for consumption in 1Q15.

Mexico – Monetary Policy Decision (Apr30, 14:00hrs NYT)

No changes in the monetary policy rate are expected, with the economic slowdown remaining in the spotlight. Banxico's recent communication leads us to maintain our expectations for a first hike in the MPR in September, in line with the first rise in the federal funds rate in the US. However, given the convergence of inflation to the target of 3.0% in an environment of slowing economic cycle, we introduced a bias towards a first hike later in the year and slower tightening cycle earlier than initially expected.

Calendar indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Tax Collections	27-Apr	Mar	94650	-	94112.15M	89982M
CNI Consumer Confidence	27-Apr	Apr	-	-	99	100
Unemployment Rate	28-Apr	Mar	6.10%	6.10%	6.20%	5.90%
FGV Inflation IGPM MoM	29-Apr	Apr	1.11%	-	1.17%	0.98%
Selic Rate	29-Apr	Apr 29	13.25%	13%	13.25%	12.75%
Central Govt Budget Balance	29-Apr	Mar	3	-	1.464B	-7.4B
Chile						
Manufacturing Index YoY	29-Apr	Mar	0.80%	-2%	-2.82%	-0.10%
Retail Sales YoY	29-Apr	Mar	3.15%	1.50%	0.44%	2.90%
Copper Production Total	29-Apr	Mar	-	-	474507	447810
Unemployment Rate	30-Apr	Mar	6.30%	6.30%	-	6.10%
Colombia						
Urban Unemployment Rate	30-Apr	Mar	9.40%	9.50%	-	10.00%
National Unemployment Rate	30-Apr	Mar	-	-	-	9.90%
México						
Unemployment Rate SA	27-Apr	Mar	4.42%	4.41%	4.20%	4.51%
Trade Balance	27-Apr	Mar	606,99M	810.0M	479.79M	558.3M
Overnight Rate	30-Apr	Apr 30	3	3.00%	-	3.00%
Peru						
CPI YoY	30-Apr	Apr	3%	-	-	3.02%
CPI MoM	30-Apr	Apr	0.39%	-	-	0.76%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
04.30.2015	Chile: Imacec grew around 1.0% YoY in March
04.30.2015	Mexico: We expect no change of MPR. Economic slowdown in the spotlight
04.29.2015	Brazil: Another 50bp hike in the SELIC to rein in 2016 inflation expectations
04.27.2015	Chile: We forecast CPI in April by 0.4% MoM (In Spanish)
04.24.2015	Colombia: BanRep kept its monetary policy rate on hold at 4.50% (In Spanish)
04.23.2015	Mexico: Inflation remains subdued
04.23.2015	Mexico :In February the IGAE shows a negative monthly performance (-0.03% MoM, sa)
04.16.2015	Chile: Central bank kept policy rate at 3%, as widely expected
04.13.2015	Mexico: Industrial production pushes down our growth expectations
04.10.2015	Peru: New monetary pause and the window of opportunity for rate cut is reduced (In Spanish)

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