

Latam Daily | Peruvian CB seeks to increase liquidity and reduce high ER volatility

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Central bank announces instruments to inject soles liquidity to the money market; from now on public funds deposited at the bank will be auctioned, and repo operations will be conducted also with banks credit books. The aim of these reserve requirements is to smooth currency depreciation pressures in a highly dollarized economy.

Peru - Central bank announces more instruments in order to inject liquidity into the money market

This comes in a context in which the interbank interest rate has continuously and significantly been above the policy rate, in part as a result of FX interventions. That deviation has in turn transmitted into some other rates in the financial system. This is clearly not coherent with sluggish output growth. Besides, it deters the bank from cutting the policy rate (which we believe it needs to do), because market rates will not follow suit. From now on: i) public funds deposited at the bank will be auctioned, and ii) repo operations will be conducted, not only with central bank securities and foreign exchange, but also with banks credit books.

Peru - Central bank announces stricter reserves requirements on FX derivatives

Daily and weekly caps - above which the bank imposes additional reserve requirements in domestic currency - have been lowered, the former from USD100mn to USD90mn, and the latter from USD400mn down to USD350mn. In addition, from June, there will be a monthly cap of USD1.2bn. With these measures, the Peruvian central bank is hoping to smooth currency depreciation pressures in a context in which loan dollarisation is still high (close to 40% of total loans).

What to watch today

Chile - Central bank's economic expectation survey (May, 07:30hrs NYT)

We expect the survey's results to point to a pause at 3% in policy rates during May. Inflation expectations should come in around 0.2% MoM for May, with stable long-term inflation expectations at 3% YoY. The forecast for April's aggregate economic activity index should be around 2% YoY.

Mexico - Industrial production (March, 09:00hrs NYT)

We estimate that March industrial production will reach an annual growth rate of 1.86% sa. Given the sluggish performance of US industrial production, with an annual variation of 3.56% and 2.05% sa in February and March 2015 respectively, we expect industrial production in Mexico for March to reach annual growth of 1.86% sa (0.35% MoM sa), which is slightly above the level observed the previous month (1.62% sa). This industrial production performance would support our prediction of a modest growth rate for 1Q15 GDP.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
IGP-M Inflation 1st Preview	11-May	May	0.52	--	0.51	1.03%
Retail Sales MoM	14-May	Mar	-0.4	-0.2%	--	-0.1%
Formal Job Creation Total	14-May	Apr	50000	--	--	19282
FGV Inflation IGP-10 MoM	15-May	May	0.72	--	--	1.27%
Economic Activity MoM	15-May	Mar	-0.4	-0.40%	--	0.36%
Chile						
Vehicle Sales Total	10-May	Apr	--	21859	23084	21469
Central Bank's Economist Survey	12-May	0	--	--	0	0
Central Bank's Traders Survey	13-May	0	--	--	0	0
Overnight Rate Target	14-May	41760	3.00	3.0%	--	3.00%
Colombia						
Retail Sales YoY	14-May	Mar	3.5	3.80%	--	4.3%
Industrial Production YoY	14-May	Mar	-1.00	-0.80%	--	-1.3%
Consumer Confidence Index	15-May	Apr	--	0.00%	--	2.3
Mexico						
Industrial Production YoY	12-May	Mar	1.9	1.9%	--	1.6%
Industrial Production MoM	12-May	Mar	0.35	0.35%	--	0.2%
ANTAD Same-Store Sales YoY	12-May	Apr	4.6	--	--	5.2%
Central Bank Monetary Policy Minutes	14-May	0	--	--	0	0
Peru						
Trade Balance	10-May	Mar	--	--	-573	-\$280M
Reference Rate	15-May	May	3.25	--	--	3.25%
Unemployment Rate	15-May	Apr	6.6	--	--	7.0%
Economic Activity YoY	15-May	Mar	2.15	--	--	0.9%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
05.11.2014	Mexico: In March 2015 Mexico received USD2,257.9mn in remittances (+7.6% YoY)
05.08.2014	Chile: CPI inflation increased 0.6% MoM in April, above expectations
05.08.2014	Mexico: Evaluation of the effects of the EU-FTA on bilateral trade and investment
05.08.2014	Brazil: Inflation moderates as pressure from administered prices ease
05.07.2014	Peru Outlook (in Spanish)
05.07.2014	Chile Outlook (in Spanish)
05.07.2014	Colombia Outlook (in Spanish)
05.07.2014	Brazil: We expect another Selic hike in June
05.07.2014	Mexico: Subdued Inflation Outlook
05.06.2014	Colombia: Soaring food prices drive inflation to six-year high
05.06.2015	Chile: IMACEC located on consensus driven by services (in Spanish)
05.06.2015	Colombia: High food prices press inflation to maximum of six years (In Spanish)

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