

## LatAm Daily | End of monetary tightening cycle in Brazil

Cecilia Posadas / Enestor Dos Santos / Jorge Selaive Carrasco / Juana Téllez Corredor / Carlos Serrano Herrera / Hugo Perea Flores / Alejandro Faci

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We expect the COPOM to maintain the current level until mid-2016. Today, manufacturing production will be released in Chile, which we expect to have decreased 2.2%, as well as the credit market report in Brazil.

### Brazil - COPOM hikes the SELIC by 50bp and puts an end to the tightening cycle

In line with our expectations, the Monetary Policy Committee (COPOM) decided to raise the Selic by 50bp from 13.75% to 14.25% and signalled that the monetary tightening cycle is now over. In the accompanying statement, the monetary authority stated that it “understands that maintaining the benchmark interest rate at that level [14.25%], for a sufficiently prolonged period, is needed to ensure that inflation converges to the target by the end of 2016”. Therefore, after adjusting the Selic rate upwards by 700bp since April 2013 (upward adjustments have been made at each of the monetary policy meetings since then, with the exception of the three that preceded 2014 presidential elections), we now expect reference interest rates to remain unchanged for some time. In our view, there will only be room for a downward adjustment in the Selic in 2Q16, when we expect inflation to move below 6.0% (after having closed 2015 at 8.9%), and expectations for future inflation to be close to the 4.5% target. Anyway, the risks related to [the country losing its investment grade](#) credit rating and to the Fed’s normalisation of monetary policy mean that any easing cycle next year is unlikely to be as aggressive as the previous ones (-525bp from June 2011 to October 2012 and -500bp from December 2008 to July 2009).

## What to watch today

### Chile - Activity data by sector (June, 08:00hrs NYT)

We expect manufacturing output to have declined 2.2% YoY in June, while retail sales should come in at around +3% YoY. In this context, figures will still reveal sluggishness in both domestic and external demand.

### Brazil - Credit markets report (June, 09:30hrs NYT)

The BCB’s report on the evolution of Brazilian credit markets will be released today. Among the main highlights will be the degree of deceleration in the stock of loans and non-performing loans; we believe that non-performing loans could increase given the ongoing slowdown in local labour markets.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
Selic Rate	29 July	Jul	14.25%	14.25%	14.25%	13.75%
CNI Consumer Confidence	29 July	Jul	--	--	97.9	96.2
FGV Inflation IGPM MoM	30 July	Jun	0.74%	--	--	0.67%
Credit Market Report	30 July	--	--	--	--	--
Fiscal policy report	31 July	Jul	--	--	--	--
<b>Chile</b>						
Central Bank Meeting Minutes	30 July	--	--	--	--	--
Manufacturing Production YoY	30 July	Jun	--	-2.20%	--	--
Retail Sales YoY	30 July	Jun	2.7%	3.00%	--	3.10%
Industrial Production YoY	30 July	Jun	--	--	--	-1.20%
Unemployment Rate	31 July	Jun	6.7%	--	--	6.60%
<b>Colombia</b>						
Urban Unemployment Rate	31 July	Jun	10.0%	10.20%	--	9.60%
National Unemployment Rate	31 July	Jun	--	--	--	8.90%
Overnight Lending Rate	31 July	--	4.5%	4.50%	--	4.50%
<b>Mexico</b>						
Trade Balance	27 July	Jun	-\$501.4M	-\$725M	-\$749M	-\$1017.4M
Overnight Rate	30 July	--	3.0%	3.00%	--	3.00%
<b>Peru</b>						
CPI YoY	1 Aug	Jul	3.53%	3.57%	--	3.54%
CPI MoM	1 Aug	Jul	0.44%	0.46%	--	0.33%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
07.30.2015	<a href="#">Mexico: Monetary policy rate on hold in July. Rate hike in September is still in the cards</a>
07.24.2015	<a href="#">Chile: We expect inflation to reach 0.3% MoM (4.5% YoY) in July</a>
07.24.2015	<a href="#">Mexico: Activity grows slightly; inflation and peso bottom out</a>
07.23.2015	<a href="#">Colombia: Portfolio quality and economic cycle</a>
07.20.2015	<a href="#">Mexico: Home loan advances 20% in May</a>
07.17.2015	<a href="#">Mexico: We expect services to have spurred the growth in activity in May</a>
07.15.2015	<a href="#">Peru: Economic activity slows down in May</a>
07.13.2015	<a href="#">Chile: Central Bank of Chile keeps MPR at 3% as expected</a>
07.10.2015	<a href="#">Colombia: Client presentation on real estate in Santa Marta</a>
07.10.2015	<a href="#">Mexico: Inflation touches record low; industrial production shows weakness</a>
07.10.2015	<a href="#">Peru: Monetary dilemma remains; activity, exchange rate, inflation?</a>
07.09.2015	<a href="#">Chile: Analyzing the new fiscal scenario</a>
07.09.2015	<a href="#">Mexico: Inflation YoY reached its lowest level in June</a>
07.08.2015	<a href="#">Chile: "One timers" drive inflation above expectations</a>

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