

LatAm Daily | Mexican and Chilean policy makers attentive to exchange rate movements

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In Mexico, an increased intervention in FX markets was announced to deal with potential volatility issues as the Fed prepares to hike rates and Banxico remained on hold while delivering a more dovish tone. In Chile, minutes revealed the CB is weighing the risks of further exchange rate depreciation and economic activity data showed some recovery in June.

Brazil - Credit markets moderated further in June

The total credit stock increased only 9.8% YoY in nominal terms in June (equivalent to a 0.8% YoY growth in real terms), the lowest rate in more than 10 years. This moderation, which follows the overall deceleration of the Brazilian economy and the recent monetary tightening (which has helped to drive lending rates up to 27.6% in June), is a consequence of a slowdown in credit from both public and private banks. The former increased 14.3% YoY, and now accounts for 55% of the credit stock, while the latter grew 4.8% YoY in June. Non-performing loans (NPL) declined slightly to 2.9% from 3.0% in May (vs. 2.9% in June 2014). In spite of its resiliency in the year to date, we expect NPLs to start trending up as suggested by some leading indicators of default (such as the share of loans 15 to 90 days past due).

Chile - Activity data by sector recovered in June

Figures came higher than expected. Manufacturing output increased by 1.7% YoY (BBVAe: -2.2%; consensus: -1.9%) mainly driven by foods and chemicals, while mining output increased 1.4% YoY due to the positive contributions from metals -particularly copper. Also, retail sales increased 4.1% YoY, above both our expectations and those of the market (BBVAe: +3.0%; consensus: +2.7%) mainly due to the positive contributions from non-durable consumption that included the positive impact of the America's Cup organisation. All in all, aggregate activity figures anticipate a rate of growth in the Imacec of between 2.2% and 2.7% YoY during June (see our [Chile Flash](#) in Spanish for details).

Chile - Monetary policy minutes revealed concerns over further exchange-rate depreciation

The July monetary policy minutes revealed concerns about annual inflation figures above 4%, but particularly regarding the risk of a persistent exchange-rate depreciation -due to Fed tapering, amongst other factors. Also, the Board highlighted the slow growth in activity due to slack in domestic demand in a context of both low confidence and increases in the unemployment-rate. Finally, some Board members acknowledged that concerns over wage inflation were misleading, basically because annual figures were temporarily affected by indexation of past CPI inflation. All in all, the economic scenario supported both a neutral bias and prolonged pause in the policy rate at 3% (see our [Chile Flash](#) in Spanish for details).

Mexico - Monetary policy rate left on hold. Increase in the daily amount of dollars to be auctioned through 30 September.

With the aim of preventing a lack of liquidity in the coming weeks, the Exchange Commission increased the daily amount of dollars to be auctioned from USD52mn to USD200mn. In addition, the threshold to activate the daily minimum-price auction of another USD200mn was lowered from 1.5 to 1.0%. With regard to the monetary policy statement, the tone was more dovish as the balance of risks to economic activity deteriorated and the corresponding risks to inflation improved in the short run. However Banxico stressed again the dilemma they face as the domestic economic conditions do not support a rate hike, but, at the same time, the Fed's normalisation process and its effects on the exchange rate, pose significant threats to the convergence of inflation to the target. Based on the latter we maintain our call of a first rate hike of 25bp in September once the Fed's normalisation process has begun. However we consider that the sluggish domestic conditions will be reflected in a more gradual path of rate hikes than the one implemented by the Fed.

What to watch today

Chile - Unemployment rate (June, 08:00hrs NYT)

We expect the jobless rate to have increased to 6.8% in June (from 6.6% in May). Job creation should remain sluggish, on top of the negative seasonality in employment- while the normalisation in labour force inactivity should continue to put pressure on the unemployment rate. All in all, we believe labour market figures should start to show clearer signs of slack.

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

In our opinion, the BCB fiscal report should show some stabilisation of the primary surplus accumulated in the last 12 months at around -0.7% of GDP. We expect some improvements during 2H15 that should allow the government to reach its 0.15% target by the end of the year, even though the government still needs congress to approve some bills in order to do so, something that creates a downside risk to our forecasts.

Colombia - Unemployment rate (June, 12:00hrs NYT)

We expect urban unemployment for June to stand at 10,2%, a 0.5pp decrease with respect to last year's level. That level would be slightly higher than last month's figure (seasonally adjusted). However at that level the unemployment rate still does not seem to be reflecting the slowdown in activity.

Colombia - Monetary policy meeting (No set time)

We expect BanRep's Board to keep the monetary policy interest rate on hold at 4.50%, in line with the consensus. According to the latest minutes, the Board considers that the economy is continuing to adjust to a lower GDP growth rate and that inflation expectations are relatively anchored and close to 3%. Going forward, the key elements to assess the monetary policy stance will be the adjustment of the external accounts to lower GDP growth and the speed of inflation convergence towards the target rate. In this context, we believe interest rate stability is the most likely scenario for both 2015 and 2016.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
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%		0.69%	0.67%
Credit Market Report	30 July	--	--		--	--
Fiscal policy report	31 July	Jul	--		--	--
Chile						
Central Bank Meeting Minutes	30 July	--	--		--	--
Manufacturing Production YoY	30 July	Jun	--	-2.20%	1.70%	--
Retail Sales YoY	30 July	Jun	2.7%	3.00%	4.1%	3.10%
Industrial Production YoY	30 July	Jun	--	--	1.60%	-1.20%
Unemployment Rate	31 July	Jun	6.7%	--	--	6.60%
Colombia						
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%
Mexico						
Trade Balance	27 July	Jun	-\$501.4M	-\$725M	-\$749M	-\$1017.4M
Overnight Rate	30 July	--	3.0%	3.00%	3.00%	3.00%
Peru						
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	Chile: IMACEC to grow between 2.2% and 2.7% YoY in June
07.30.2015	Mexico: Monetary policy rate on hold
07.30.2015	Mexico: Monetary policy rate on hold in July. Rate hike in September is still in the cards
07.24.2015	Chile: We expect inflation to reach 0.3% MoM (4.5% YoY) in July
07.24.2015	Mexico: Activity grows slightly; inflation and peso bottom out
07.23.2015	Colombia: Portfolio quality and economic cycle
07.20.2015	Mexico: Home loan advances 20% in May
07.17.2015	Mexico: We expect services to have spurred the growth in activity in May
07.15.2015	Peru: Economic activity slows down in May
07.13.2015	Chile: Central Bank of Chile keeps MPR at 3% as expected
07.10.2015	Colombia: Client presentation on real estate in Santa Marta
07.10.2015	Mexico: Inflation touches record low; industrial production shows weakness
07.10.2015	Peru: Monetary dilemma remains; activity, exchange rate, inflation?
07.09.2015	Chile: Analyzing the new fiscal scenario

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