

Latam Daily Flash

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Economic Analysis

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Over the course of the year we expect to see further increases as growth reaches potential. In Mexico Banxico left MP unchanged and softened its dovish tone; based on activity data and no demand-side pressures on prices we maintain our outlook for a monetary pause.

Colombia - BanRep hiked its monetary policy rate slightly earlier than market expectations

Colombia's central bank took a majority decision to hike its monetary policy rate by 25bp to 3.50%. Most of its board members considered that macroeconomic stability and the convergence of inflation towards the long-term target of 3.0% are compatible with a less expansive interest rate. Additionally, they considered it opportune to adjust the benchmark interest rate now in order to minimize the need for stronger interest rate hikes in the future. Both we and the market had expected a first 25bp interest-rate hike in the latter part of 2Q14. Over the course of the year we expect the central bank to raise interest rates further, to 4.25% before year-end, as economic growth continues to approach its potential (BBVAe: 4.7%) - see our [Colombia Flash](#) for more details.

Mexico - Banxico leaves the policy rate unchanged as widely expected and softens the dovish tone somewhat

Banxico kept the monetary policy rate unchanged and softened the dovish tone of its last statement based on the marginal improvement of some components of domestic activity and the recent pick-up of the US economy. Regarding inflation, the bank stated that the balance of risks remained favorable as inflation is now well below 4% and short-term expectations have decreased. In the coming months even though external demand and public expenditure will continue to drive economic growth, we do not expect any demand-side pressures on prices and therefore, we maintain our perspective of a protracted monetary pause (see our [Banxico Flash](#) - in Spanish - for more details).

Mexico - Economic activity increases more than expected in February

The monthly GDP proxy (IGAE index) increased 0.5% MoM sa in February, above our forecast (0.2% MoM sa) and explained by a better than expected performance of the services sector (0.5% MoM sa; 1.9% YoY) and a strong rise in the primary sector (6.4% MoM sa; 11.8% YoY). In annual terms, the economy expanded 1.7%, above our below-consensus forecast (BBVAe: 0.9%; consensus: 1.6%). Today's positive report reduces the downside risks to our 1Q14 GDP forecast (0.7% QoQ).

Brazil - The current account improved slightly in March

The current account deficit reached USD6.2bn in March, in comparison to USD7.4bn in February, USD11.5bn in January and USD6.8bn one year ago. The deficit accumulated in the last twelve months reached USD81.6bn, or 3.6% of GDP (3.7% in February). The decline in the current account deficit in March is explained by the improvement in the trade surplus in the period (even though exports continued to surprise to the downside). The external gap continued to be mostly funded by FDI, which reached USD5.0bn in the month and USD65bn (2.9% of GDP) in the last 12 months. The balance of payments report released on Friday by the BCB also showed strong capital inflows in March (USD6.3bn), mostly directed to fixed income (USD5.0bn). We do not expect a sharp recovery in the trade balance over 2014 and, based on that, our forecast is for the current account deficit to close the year at around 3.7% of GDP, the same level as in 2013.

What to watch today

Colombia - Imports and trade balance (February, 17:00hrs NYT)

We expect a slight rise in imports of 1.2% YoY, to settle at USD4,552mn. This figure continues to indicate a weak relationship between domestic demand and imports, as the former is still expanding robustly. All in all, the trade balance could show a deficit of USD65mn due to low coal and industrial exports.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Tax Collections	28 Apr	Mar	87000M	--	--	83137M
CNI Consumer Confidence	28 Apr	Apr	--	--	--	108.8
FGV Inflation IGPM MoM	29 Apr	Apr	0.82%	--	--	1.67%
Outstanding Loans MoM	29 Apr	Mar	--	--	--	0.6%
Total Outstanding Loans	29 Apr	Mar	--	--	--	2733B
Primary Budget Balance	30 Apr	Mar	3,2B	--	--	2.1B
Trade Balance Monthly	2 May	Apr	\$275M	--	--	\$112M
Chile						
Manufacturing Index YoY	30 Apr	Mar	1.15%	1.3%	--	-1.97%
Unemployment Rate	30 Apr	Mar	6.3%	6.3%	--	6.1%
Retail Sales YoY	30 Apr	Mar	5.0%	5.5%	--	5.3%
Colombia						
Trade Balance	28 Apr	Feb	-\$72,5	-\$65.0	--	\$157.4
Urban Unemployment Rate	30 Apr	Mar	10.6%	10.6%	--	11.2%
Budget Balance	30 Apr	Mar	--	--	--	-\$2703B
Mexico						
Trade Balance	28 Apr	Mar	1600,0M	1830.0M	--	976.3M
Net Outstanding Loans	30 Apr	Mar	--	--	--	2496B
Budget Balance YTD	1 May	Mar	--	--	--	-45.7B
HSBC Mexico Manufacturing PMI	2 May	Apr	--	--	--	51.7
Remittances Total	2 May	Mar	1900,0M	1869.0M	--	1677.3M
IMEF Manufacturing Index SA	2 May	Apr	53.5	53.7	--	52.7
IMEF Non-Manufacturing Index SA	2 May	Apr	51.2	51.1	--	51.2
Peru						
CPI MoM	1 May	Apr	0.27%	--	--	0.52%
Wholesale Price Index MoM	1 May	Apr	--	--	--	0.38%

Most recent Latam reports

Date	Description
25-04-2014	➤ Banxico Flash: Policy rate unchanged at 3.5%. Banxico points to a marginal improvement in activity, softening the dovish tone of the previous statement (in Spanish)
25-04-2014	➤ Colombia Flash: 'Banco de la República' increased its monetary policy rate by 25pb to 3.50%
24-04-2014	➤ Banxico Flash: Banxico will maintain rates at 3.5% and its dovish tone given lower-than-expected economic activity figures (in Spanish)
24-04-2014	➤ Mexico Real Estate Flash: Banks' mortgage financing grew 17.4% in February (in Spanish)
24-04-2014	➤ Chile Flash: We do not expect April CPI to surprise expectations reflected in surveys and asset prices (in Spanish)
23-04-2014	➤ Colombia Automobile Market Outlook 2013 (in Spanish)
23-04-2014	➤ Chile Economic Watch: Competitiveness of manufacturing exports
21-04-2014	➤ Mexico Migration Flash: Latin America and Caribbean could be the most dynamic region on remittances in 2014-2016
21-04-2014	➤ Financial Inclusion Economic Watch: Voluntary long term savings in Mexico (in Spanish)
21-04-2014	➤ Chile Economic Watch: More inflation dispersion but entirely explained by cyclical factors (in Spanish)

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