

Latam Daily Flash

10 February 2014 Economic Analysis

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In Brazil, annual inflation declined, favoured by positive base effects, which should trigger a 25bp adjustment of the Selic rate in February even though the moderation of inflation is likely to be temporal. Inflation in Chile was in line with expectations. Exchange rate depreciation is still pushing up some prices of imported goods; recent figures for inflation and economic activity confirm our call for a 25bp cut in the MPR at February's monetary policy meeting. In Mexico, price figures show pressures from new taxes that should be temporary. Given its nature and the slackening in economic activity, we continue to expect Banxico to remain on hold for a prolonged period.

Brazil - Inflation eases (temporarily) at the beginning of the year

Annual inflation declined to 5.59% YoY in January, from 5.91% YoY in December, favored by positive base effects. We do not expect this easing to continue for long. The impact of a weaker exchange rate, the difficulties in maintaining administered-price inflation as low as in 2013 and less favourable base effects should drive annual inflation up during the first half of the year, at least. However, just as the inflation rebound in December determined COPOM's 50bp hike (rather than 25bp) in the Selic rate in January, the moderation of inflation in January - although temporary - should trigger a 25bp (instead of 50bp) adjustment in February (for more details see our [Brazil Flash](#)).

Chile - January's CPI at +0.2% MoM, in line with expectations

January's CPI increased 0.2% MoM (+2.8% YoY), slightly below our forecasts (BBVAe: +0.3% MoM) and in line with those of the market. The figure was mainly driven by increases in fuel and automobile prices, as expected. Exchange rate depreciation is still pushing some prices of imported goods up; even though tradable prices came out with null variation due to seasonal declines in clothing. In this context, core inflation measures (CPIXs) increased by 0.2% MoM, while the one excluding foods and energy rose +0.3% MoM. Our preliminary forecast for February's CPI is in a range of 0.0% to +0.1% MoM, mainly driven by fuel and vehicle prices. All in all, recent figures for inflation and economic activity confirm our call for a 25bp cut in the MPR at February's monetary policy meeting (see our [Chile Flash](#) for details).

Mexico - Price pressures from new taxes should be temporary

Headline inflation in January was lower than consensus expectations, increasing 0.89% MoM, closer to our below-consensus forecast (BBVAe: 0.95%; consensus: 0.98%). With this result, annual inflation accelerated to 4.48% (BBVAe: 4.54%; consensus: 4.57%), above the target rate (3.0% +/- 1pp). Core inflation came in at 0.85% MoM, below consensus expectations but a touch above our below-consensus forecast (BBVAe: 0.82%; consensus: 0.89%). In annualised terms, it accelerated to 3.2% from 2.8% at the end of 2013. As expected, the acceleration in annual inflation mainly reflected the effect of the tax reform - new taxes on sodas, junk food and fuels - while the strong monthly prints also reflected seasonal adjustments in public tariffs and education services. We continue to expect any price pressures arising from new taxes will prove temporary. Annual inflation will start moving towards the target as soon as February, and is likely to be below 4.0% in March (see our [Mexico Flash](#) for details).

Peru - Electricity production accelerated in January

Electricity production grew 6.5% YoY (5.7% in December) in the first month of the year, which might be reflecting increasing demand by industrial and mining companies. This is in line with our forecast that the rebound in GDP growth seen in the last quarter of 2013 will be sustained, and economic activity will keep expanding at a rate over 5% in the first quarter of this year.

What to watch today

No relevant indicators are planned to be released today

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	10 Feb	Feb	0.95%	--	--	0.99%
FIPE CPI - Weekly	11 Feb	Feb	0.90%	--	--	0.86%
IGP-M Inflation 1st Preview	11 Feb	Feb	0.39%	--	--	0.37%
Retail Sales MoM	13 Feb	Dec	0.40%	--	--	0.70%
Economic Activity MoM	14 Feb	Dec	-1.10%	--	--	-0.31%
Formal Job Creation Total	14 Feb	Jan	59348	--	--	-449444
Chile						
Central Bank's Economist Survey	11 Feb	--	--	--	--	--
Central Bank's Traders Survey	12 Feb	--	--	--	--	--
Colombia						
Consumer Confidence Index	11 Feb	Jan	--	--	--	23.2
Colombia Monetary Policy Minutes	14 Feb	--	--	--	--	--
Mexico						
Gross Fixed Investment	10 Feb	Nov	-5.60%	--	--	-5.60%
Vehicle Production AMIA	10 Feb	Jan	--	--	--	164221
Industrial Production MoM	11 Feb	Dec	0.20%	--	--	0.10%
Central Bank Inflation Report	12 Feb	--	--	--	--	--
Central Bank Monetary Policy Minutes	14 Feb	--	--	--	--	--
Peru						
Trade Balance	10 Feb	Dec	\$475M	--	--	-\$197M
Reference Rate	14 Feb	Feb	4.00%	--	--	4.00%
Unemployment Rate	14 Feb	Jan	--	--	--	5.70%
Economic Activity YoY	14 Feb	Dec	5.10%	--	--	4.80%

Most recent Latam reports

Date	Description
07-02-2014	➤ Mexico Economic Watch: Situation and competitiveness challenges for the Mexican economy
07-02-2014	➤ Mexico Inflation Flash: Price pressures from new taxes should be temporary
07-02-2014	➤ Chile Flash: January's CPI at 0.2% MoM (2.8% YoY) (in Spanish)
07-02-2014	➤ Brazil Flash: Inflation eases (temporarily) at the beginning of the year
06-02-2014	➤ Mexico Economic Watch: Outlook and challenges of competitiveness of the Mexican economy (in Spanish)
06-02-2014	➤ Colombia Flash: January's inflation continues on growth path, but slightly below forecasts
05-02-2014	➤ Mexico Flash: Moody's raised Mexico's sovereign rating to A3 from Baa1 based on the approval of government's reform agenda
05-02-2014	➤ Mexico Real Estate Flash: In the year to November, banking mortgage lending grew 6.1%
05-02-2014	➤ Economic Calendar 2014: Mexico and United States (in Spanish)
05-02-2014	➤ Chile Flash: Monthly activity grew at 2.6% YoY in December 2013, in line with our expectations

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