

# Latam Daily Flash

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Economic Analysis

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*Inflation figures released in Brazil added to concerns on domestic prices and triggered the announcement of deeper and sooner than previously indicated cuts in electricity tariffs. This shows that tools other than the SELIC will be used to prevent inflation from running out of control. In Colombia, Finance Minister Cardenas commented that he expects BanRep to cut rates by 25bp at its next meeting, which would be in line with our call. In Mexico, retail sales expanded less than we expected, but in line with positive growth at year-end. Today's agenda includes monetary policy minutes in Brazil and inflation and activity indicators in Mexico.*

## Brazil - Rising inflation triggers larger and sooner tariff cuts

The IPCA-15 for January, which measures inflation from mid-December to mid-January, reached 6.0%YoY (0.9%MoM), revealing that inflation continues to rise at the beginning of the year. Following the release of this data, President Dilma announced that electricity tariff cuts will be introduced immediately and will be within the 18%-32% range, deeper than previously expected (16%-28%). The government will bear the extra costs generated by these additional reductions. The announcement shows that tools other than the SELIC will be used to prevent inflation from running out of control (for more, see our [Brazil Flash](#)).

## Brazil - The current account deficit widened to 2.4% of GDP in 2012

The current account deficit reached 2.4% of GDP (USD54.2bn) in 2012, in comparison to 2.1% (USD52.6bn) in 2011. The deterioration was driven by a reduction in the trade surplus and especially by an increase in the deficit recorded in the service account. Total capital and financial inflows dropped 35% in 2012 due to a reduction in portfolio flows. FDI remained very robust (2.9% of GDP). We expect the current account deficit to widen more in 2013e and to reach USD63bn (2.6% of GDP), in line with the recovery in domestic demand.

## Colombia - Minister of Finance expects a 25bp cut at next BanRep meeting

In a press interview, Minister of Finance Cardenas announced that he expects a 25bp cut on Monday, in line with market expectations and our forecast. Regarding the slowdown of the industrial sector and the decision to increase import tariffs on textiles, Cardenas said that it is just a temporary measure, emphasizing that he does not agree with protectionism and stating that "Colombia should not follow the same industrial policies as adopted in Brazil".

## Mexico - Retail sales in line with a positive YE12

November's retail sales grew 1.09% MoM (lower than our forecast, BBVAe 1.5% in sa series). In annual terms, the expansion was the same as the previous month (3.5%) and close to the consensus forecast (3.6%). The recovery of employment and the stability in real wages are behind this performance. The highest sales in November were of durable goods.

## Chile - Unemployment rate at 5.2% in December 2012

The quarterly labor market report run by Universidad de Chile revealed an unemployment rate of 5.2% in the Santiago area in December 2012, 1pp below the result observed in December 2011. The decline was explained by a 2.8% YoY increase in employment and an expansion of 1.7% YoY in the labor force. Although we expect the nationwide unemployment rate to remain at 6.2% in December 2012 - the official data will be released next week - the print for the Santiago area adds a downward bias to our estimate.

## Peru - Consumer confidence remained at high levels in January

The index stood at 58 points (as in December), the best start to a year since the indicator has been calculated (10 years now). The main element supporting consumer optimism is confidence in the family's economic situation, which is linked to the positive evolution of the labor market. Additionally, the fall in inflation in recent months has generated a more favorable perception of the pricing environment. This high level of consumer optimism is in line with our positive outlook for economic activity this year.

## What to watch today

### Brazil - COPOM monetary policy meeting minutes (5:30hrs, NYT)

Markets will digest the BCB's assessment on both the worsening of short-term inflation and a weaker than expected recovery of domestic demand. We are expecting a more hawkish tone, still in line with the stability of monetary conditions.

### Mexico - Bi-weekly Inflation (Jan 15, 9:00 hrs, NYT)

We expect the first inflation print for 2013 to show a moderation (in annual terms) due to a dilution of supply shocks seen in 2012, an improvement in unprocessed food production, a fall in telephony prices and seasonal factors (i.e. tourism). Risks to monitor are tariffs set by local governments. (Headline, BBVAe: 0.39% vs. consensus: 0.31%).

### Mexico -Global Economic Indicator, IGAE (November, 9:00 hrs, NYT)

Based on leading industrial indicators and a likely increase of services linked to business, we think the IGAE should expand 0.5%e MoM (sa) in November from 0.2% MoM in October. Indicators in this week (retail sales, unemployment and IGAE) outline a positive economic performance at YE2012.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Preview Inflation IGP-M	21-Jan	Jan 20	0.37%	--	0.34%	0.41%
Trade Balance (FOB) - Weekly	21-Jan	Jan 20	--	--	-\$1723M	-\$878M
FGV CPI IPC-S	23-Jan	Jan 22	0.81%	--	1.03%	0.89%
IBGE CPI IPCA-15 (MoM)	23-Jan	Jan	0.81%	0.75%	0.88%	0.69%
Current Account - Monthly	23-Jan	Dec	-\$6320M	--	-\$8413M	-\$6265M
Foreign Investment	23-Jan	Dec	\$4100M	--	\$5358M	\$4587M
FGV Consumer Confidence	24-Jan	Jan	--	--	--	118.7
COPOM Monetary Policy Meeting Minutes	24-Jan	--	--	--	--	0.00%
Tax Collections	24-Jan	Dec	103300M	--	--	83707M
CAGED Formal Job Creation	24-25 Jan	Dec	-401500	--	--	46095
Outstanding Loans MoM%	25-Jan	Dec	--	--	--	1.5%
<b>Chile</b>						
Central Bank's Traders Survey	23-Jan	--	--	--	--	--
<b>Mexico</b>						
Unemployment Rate	21-Jan	Dec	4.80%	4.80%	4.47%	5.12%
Retail Sales (INEGI)	23-Jan	Nov	3.50%	2.30%	3.50%	3.5%
Global Economic Indicator IGAE	24-Jan	Nov	3.00%	3.10%	--	4.33%
Bi-Weekly Core CPI	24-Jan	Jan 15	0.21%	0.36%	--	0.03%
Bi-Weekly CPI	24-Jan	Jan 15	0.32%	0.57%	--	0.10%
Trade Balance	25-Jan	Dec P	-967.95M	--	--	-1272.7M

## Most recent Latam reports

Date	Description
23-1-2013	<a href="#">➤ Mexico Real Estate Outlook - January 2013</a>
21-1-2013	<a href="#">➤ Paraguay Flash: Paraguay returns to the international bonds market with a 10-year bond</a>
18-1-2013	<a href="#">➤ Mexico Flash. No change in fondeo rate. Inflation slump leads to a dovish tone</a>
17-1-2013	<a href="#">➤ Chile Flash: Central Bank kept the monetary policy rate at 5%</a>
17-1-2013	<a href="#">➤ Banxico Watch: The significant improvement in the inflation balance of risks leads to a neutral tone and supports the monetary pause</a>
17-1-2013	<a href="#">➤ Brazil Flash: Stability of monetary conditions amid higher inflation and lower growth</a>
16-1-2013	<a href="#">➤ Brazil Flash: Economic activity grew more than expected in November</a>
14-1-2013	<a href="#">➤ Peru Flash: Output keeps growing at a strong pace</a>
14-1-2013	<a href="#">➤ Mexico Banking Flash: Private-sector credit: continues to grow at double-digit rates</a>
14-1-2013	<a href="#">➤ Mexico Real Estate Flash: Negative growth for the first time in two years</a>

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