

Latam Daily Flash

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Economic Analysis

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Activity indicators in Chile and Colombia suggest a possible improvement in economic growth. In Colombia BanRep maintains policy rate unchanged and in Peru CB relaxes reserve requirements for local currency deposits. In Brazil, the long-awaited adjustment in fuel prices was finally announced, with a smaller than expected hike to help the BCB to meet its informal target of delivering lower inflation this year than the 5.84% of 2012.

Brazil - Weak fiscal figures in October

The public sector posted a BRL6.2bn primary surplus (-50% YoY) and a BRL11.5bn total deficit (+150% YoY) in October. In yearly terms, both the primary surplus and the total deficit continued to deteriorate, with the former reaching 1.4% of GDP and the latter 3.4% of GDP in October (implying that interest payments reached 5.0%). The public sector's net debt was equal to 35.1% of GDP, slightly higher than in the previous month, and the central government's gross debt gained 0.2pp to reach 59.0% of GDP. Even though the Libra oil field auction and the Refis tax amnesty programme will generate significantly better fiscal results at the end of the year, probably allowing the federal government to meet its (lowered) target and the public sector's surplus to reach 1.8% of GDP, the uncertainty regarding the government's commitment to introduce measures to prevent further deterioration in Brazil's fiscal accounts will remain high.

Brazil - Petrobras announces a smaller than adjustment in fuel prices

At the very end of the last week, Petrobras announced that fuel prices will be adjusted upwards. The long-awaited announcement surprised because the 4% adjustment in gasoline prices is less than the markets were expecting (between 5% and 6%). In our view, the smaller adjustment has political roots as a more significant hike could prevent the BCB from reaching its informal target this year, i.e. to bring end-of-period inflation below the 5.84% YoY level observed at the end of 2012. We expect the fuel-price adjustment to impact December inflation by around 0.10-15bp and, thus for inflation to close the year at 5.80% YoY (0.72% MoM).

Chile - Activity data by sector anticipates Imacec at 4.5% YoY in October

Retail sales surprisingly expanded 13.4% YoY (BBVAe 6.6%; consensus 7.0%), mainly driven by apparel and car sales, while mining output increased 6.0% YoY in October (BBVAe 6%). In contrast, manufacturing production declined 3.2% YoY (BBVAe -2.1%; consensus -2.1%) affected by less dynamic food processing. With these figures, we forecast that the monthly activity index (Imacec) will expand 4.5% YoY in October (1.0% MoM sa), which adds an upward bias to our GDP growth forecast of 4.2% for 2013e. All in all, incoming data points to a stable policy rate at 4.5% in December, and we are not ruling out the possibility of pauses during January and February, as depicted in our baseline scenario (see our Chile Flash for details).

Chile - Unemployment rate rose to 5.8% in October as we expected

The unemployment rate increased slightly to 5.8% in October, as we expected. Job-creation increased by 0.4% MoM (+2.1% YoY), although with job-destruction in construction, manufacturing, commerce and agriculture sectors. Meanwhile, the labour force expanded 0.5% MoM (+1.2% YoY).

Colombia - Unemployment unexpectedly fell to 8.7% in October

The urban unemployment rate reached 8.7%, 0.1pp below last month's figure (seasonally-adjusted) and below market consensus (9.5%). The downward surprise was explained by a sharper fall in the participation rate (-1pp YoY) than we anticipated (-0.5pp YoY). However, job-creation (1.7% YoY) was still in line with our activity outlook. These data should boost private consumption in 4Q13, confirming the expected acceleration in GDP.

Colombia - BanRep maintains policy rate unchanged at 3.25%

BanRep decided unanimously to maintain the policy rate unchanged at 3.25%. Central bank optimism continued despite some worse than expected data for 3Q13, and it anticipates GDP growth accelerating so as to reach a similar level to that of 2012 (4.2%) by year-end (BBVAe 4.1%). The central bank considers that inflation is set to recover during November and December and close 2013 in the lower half of the target range (2.0% to 4.0%), in line with our forecast (BBVAe 2.3%).

Peru - Central bank relaxes reserve requirements for local currency deposits

The central bank reduced (maximum) average and marginal reserve requirements for deposits in soles, both to 15% (previously 16%). This measure will release approximately PEN1bn, which should have a positive effect on credit.

Peru - Headline CPI decreased 0.2% as we expected

As we expected, headline CPI decreased 0.2% MoM, mainly due to the reversal of supply shocks that have been affecting food and fuel prices in recent months, offset by increases in prices of non-tradable goods. This would take annual inflation into the upper limit of the target range (2% +/- 1pp), and we expect it to end the year at around 3.2%, outside this range.

What to watch today

Mexico - Remittances (November, 11:00hrs NYT)

We expect remittances in October to increase 3.0% YoY to USD1,825mn. This would be as a reflection of a recent improvement in employment of Mexicans in the US.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	2 Dic	Nov	0.63%	--	--	0.67%
PMI Manufacturing	2 Dic	Nov	--	--	--	50.2
Trade Balance Monthly	2 Dic	Nov	\$450M	\$800M	--	-\$224M
Vehicle Sales Fenabrave	2 Dic	Nov	--	--	--	330196
GDP QoQ	3 Dic	3Q	-0.30%	-0.10%	--	1.50%
FIPE CPI - Monthly	4 Dic	Nov	0.50%	--	--	0.48%
Industrial Production MoM	4 Dic	Oct	-0.10%	0.10%	--	0.70%
PMI Services	4 Dic	Nov	--	--	--	52.1
Commodity Price Index MoM	4 Dic	Nov	--	--	--	-2.67%
COPOM Monetary Policy Meeting Minutes	5 Dic	--	--	--	--	--
Vehicle Sales Anfavea	5 Dic	Nov	--	--	--	330203
FGV Inflation IGP-DI MoM	6 Dic	Nov	0.28%	--	--	0.63%
IBGE Inflation IPCA MoM	6 dic	Nov	0.59%	0.63%	--	0.57%
Chile						
Central Bank Meeting Minutes	4 Dic	--	--	--	--	--
Economic Activity YoY	5 Dic	Oct	4%	4.50%	--	3.90%
Economic Activity MoM	5 Dic	Oct	0.40%	1%	--	-0.80%
Vehicle Sales Total	5 Dic	Nov	--	--	--	31380
CPI YoY	6 Dic	Nov	2.10%	2.20%	--	1.50%
CPI MoM	6 Dic	Nov	0.10%	0.20%	--	0.10%
Colombia						
PPI MoM	4 Dic	Nov	--	--	--	-0.78%
CPI MoM	6 Dic	Nov	0.10%	0.10%	--	-0.26%
Exports FOB	6 Dic	Oct	--	--	--	\$4850,7
CPI Core MoM	6 Dic	Nov	--	0.10%	--	0.03%
Mexico						
Remittances Total	2 Dic	Oct	1820,5M	1825M	--	1795.7M
IMEF Manufacturing Index SA	2 Dic	Nov	--	49.9	--	49.3
Consumer Confidence Index	4 Dic	Nov	92.1	93.7	--	91.2
Leading Indicators (MoM)	5 Dic	Oct	--	--	--	0.07
Gross Fixed Investment	6 Dic	Sep	-6.20%	-3.40%	--	-5.40%
Overnight Rate	6 Dic	--	3.50%	3.50%	--	3.50%

Most recent Latam reports

Date	Description
29-11-2013	➤ Chile Flash: Activity data by sector anticipates Imacec at 4.5% YoY in October and a stable policy rate in December
29-11-2013	➤ Colombia Economic Watch: We expect monetary policy to remain neutral until the end of 2015
29-11-2013	➤ Chile Flash: On the way to under-execution with less expenditure, but also with a relevant decline in revenue. Effective fiscal deficit would end at 0.7% of GDP (in Spanish)
29-11-2013	➤ Colombia Flash: BanRep decided unanimously to keep its policy rate unchanged at 3.25%
29-11-2013	➤ Mexico Economic Watch: Oil production sharing: estimation of additional public revenue until 2018 (in Spanish)
28-11-2013	➤ Brazil Flash: End of the monetary tightening cycle at sight
27-11-2013	➤ Brazil Economic Outlook: Fourth Quarter 2013 (in Spanish)
26-11-2013	➤ Flash Chile: Budget discussion will not expand expenditure further (in Spanish)
26-11-2013	➤ Mexico Real Estate Flash: Bank mortgage loans up 3.9%
25-11-2013	➤ Chile Flash: We expect November's CPI to increase 0.2% MoM. By the end of 2013 CPI will have increased at least 2.4% YoY (in Spanish)

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