

Latam Daily Flash

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Economic Analysis

Madrid
Juan Ruiz
Chief Economist, South America
juan.ruiz@bbva.com
+34 91 3745887

Enestor dos Santos
Principal Economist, Latam
enestor.dossantos@bbva.com
+34 639827211

Cecilia Posadas
Economist, Latam
c.posadas@bbva.com
+34 91 3746279

Pablo Urbiola
pablo.urbiola@bbva.com
+34 91 8072457

With contributions from the BBVA
Research Latam Team:

Lima
Hugo Perea
Chief Economist, Peru
hugo.perea@bbva.com
+51 1 2112042

Bogota
Juana Tellez
Chief Economist, Colombia
juana.tellez@bbva.com
+571 3471600

Santiago
Jorge Selaive
Chief Economist, Chile
jselaive@bbva.com
+56 2 2939 10 92

Mexico City
Carlos Serrano
Chief Economist, Mexico
carlos.serranoh@bbva.com
+5255 5621 4354

Javier Amador
Principal Economist, Mexico
javier.amadord@bbva.com
+5255 5621 3095

In Mexico, Banxico delivered a dovish tone but is likely to stay on hold for the rest of the year while retail sales point to a weak start to private consumption in 1Q14. In Colombia BanRep kept its policy rate unchanged and extended its international reserve purchase programme, we expect the first hike to occur in June.

Brazil - Food prices drive up inflation as well as our forecast for the Selic

Following the drought that recently hit the country, food prices are adding unexpected pressure on inflation. March's IPCA-15, which measures inflation from mid-February to mid-March, increased to 0.73% MoM (5.90% YoY) from 0.70% MoM (5.65% YoY) in the previous reading, mostly due to the jump in food inflation, to 1.1% MoM in March from 0.52% MoM in February. We adjust our forecast for the full-month March IPCA to 5.92% YoY / 0.70% MoM (from 5.76% YoY / 0.55% MoM previously) and our estimate for inflation at the end of the year to 6.0% YoY (from 5.9% MoM previously). Earlier last week BCB's President Alexandre Tombini, commenting on food pressures, said that: "At first, this seems to be a temporary shock that tends to be reversed over the next few months. Still, monetary policy should act to make sure these shocks are limited to the short term". The latter remark and March's IPCA-15 figures lead us to revise our call for the Selic rate: we now expect the BCB to adjust the Selic by a further +25bp at the beginning of April rather than leaving it unchanged at 10.75%. We believe further hikes are unlikely.

Mexico - Banxico's wording is slightly more dovish than in the previous statement but is likely to remain neutral for the rest of the year

As widely anticipated Banxico kept the policy rate at 3.50% and delivered a more dovish tone than in the previous statement pointing out that the outlook for inflation has improved and by acknowledging that the economy has continued decelerating at the start of 2014. More importantly, the closing paragraph (i.e., the forward-looking monetary policy related paragraph) singled out that, of the factors that could affect inflation, the degree of slack in the economy is the main factor to remain watchful of. However, to a certain degree it balanced out that dovishness by stating that the board will also remain vigilant regarding Mexico's monetary policy stance relative to that in the US (i.e., of eventual interest rate hikes from the Fed as market expectations were brought forward following this week's Fed's meeting). In this context, Banxico is likely to remain on hold for the rest of the year (see our [Banxico Flash](#) for more details).

Mexico - Slow start to private consumption in 1Q14

Retail sales surprised to the downside, contracting 0.3% MoM sa in January (BBVAe: 0.3%). In annual terms, sales dropped 0.3%, below our 0.8% estimate. Both weak job creation in January (22K) and higher taxes seem to have weighed on private consumption at the start of the year. In February, the ongoing lacklustre performance of the labour market (0.2% MoM sa) suggests that private consumption is unlikely to strengthen in the short term.

Colombia - BanRep kept its policy rate unchanged at 3.25% and extended its international reserve purchase programme

The Central Bank's Board of Directors unanimously decided to keep its policy rate unchanged at 3.25%. The global economic recovery continues, albeit at a slightly slower rate than previously anticipated by the Board. International financial conditions continue to normalise and therefore the increase in international interest rates and the COP depreciation are expected to be long lasting. The central bank kept its optimistic tone regarding economic activity; however it highlighted contradictory data that might cloud the dynamics of growth during the beginning of the year. The unanimous decision of the Board and the increasing but still low inflation, rule out the possibility of policy rate changes until the second quarter of 2014. We expect the first rate hike to occur in June, as inflation converges towards the long-term target and the economy approaches potential growth. Finally, the Board decided to extend its international reserves purchase programme for an additional quarter. It authorised the purchase of up to USD1,000mn from April to the end of June of 2013 (see our [Colombia Flash](#) -in Spanish- for more details).

What to watch today

Mexico - Inflation (First fortnight of March, 09:00hrs NYT)

We expect headline and core inflation to have increased 0.18% FoF (3.90% YoY) and 0.13% FoF (2.86% YoY), respectively. The bi-weekly data will confirm that inflation is under control, and will support Banxico's view that the balance of risks has improved. Core inflation is likely to remain subdued as the economic slack remains ample.

Mexico - Unemployment rate (February, 09:00hrs NYT)

We expect the unemployment rate to edge down to 4.90% in February from 5.05% in January 2014, which will add to recent evidence of the slow pace of the economic recovery at the start of 2014.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	24 Mar	Mar	0.85%	--	--	0.84%
Current Account Balance	24 Mar	Feb	-\$8000M	-\$8000M	--	-\$11591M
FIPE CPI - Weekly	26 Mar	Mar	0.28%	--	--	0.68%
FGV Consumer Confidence	26 Mar	Mar	--	--	--	107.1
FGV Construction Costs MoM	26 Mar	Mar	0.35%	--	--	0.44%
Outstanding Loans MoM	26 Mar	Feb	--	--	--	0.07%
Unemployment Rate	27 Mar	Feb	5.10%	5.3%	--	4.80%
FGV Inflation IGPM MoM	28 Mar	Mar	1.53%	--	--	0.38%
Net Debt % GDP	28 Mar	Feb	33.5%	--	--	33.3%
Chile						
PPI MoM	24 Mar	Feb	--	--	--	0.80%
Colombia						
Industrial Confidence	25 Mar	Feb	--	0	--	6.7
Retail Confidence	25 Mar	Feb	--	24.0	--	24.0
Current Account Balance	27 Mar	4Q	-\$3300M	--	--	-\$3580M
Mexico						
Unemployment Rate NSA	24 Mar	Feb	4.90%	4.9%	--	5.05%
Bi-Weekly CPI	24 Mar	Mar	0.19%	0.18%	--	0.15%
Economic Activity IGAE YoY sa	25 Mar	Jan	--	1%	--	0.5%
International Reserves Weekly	25 Mar	Mar	--	--	--	\$181043M
Trade Balance	27 Mar	Feb	-200.0M	-440M	--	-3195.1M
Budget Balance YTD	28 Mar	Feb	--	--	--	-4.9B

Most recent Latam reports

Date	Description
21-03-2014	> Colombia Flash: BanRep decided to keep its policy rate unchanged at 3.25% and extend its international reserve purchase program
21-03-2014	> Banxico Flash: Fondo rate unchanged at 3.5%. Slightly dovish tone given the absence of a clear economic recovery
20-03-2014	> Latam Economic Watch: Deterioration in Latin America's manufacturing competitive
20-03-2014	> Brazil Economic Watch: The Brazilian manufacturing sector loses competitiveness
20-03-2014	> Chile Flash: Exchange rate: beware of short-term reversals
20-03-2014	> Colombia Flash: A good result of GDP growth in 2013
20-03-2014	> Mexico Flash: Monetary rate unchanged at 3.5% as inflation tends towards the range around the target (in Spanish)
19-03-2014	> Latam Economic Watch: Loss of manufacturing competitiveness in Latin America (in Spanish)
19-03-2014	> Chile Flash: Exchange rate: Beware of short-term reversals (in Spanish)
19-03-2014	> Chile Economic Watch: Competitiveness of manufacturing exports (in Spanish)

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