

LatAm Daily | Upward surprise in inflation in Peru; CBs continue to exhibit a hawkish tone

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In the last few days, during the holidays season, data for Peru showed that inflation closed 2015 at 4.4% YoY, reinforcing the prospects of further monetary tightening. Recent communication by BanRep and Banxico also suggested that extra interest rate hikes will be announced soon. In Brazil additional fiscal deterioration makes a Selic hike more likely.

Brazil - Primary fiscal deficit to near 2.0% of GDP in 2015; fiscal deterioration makes a Selic hike in January more likely

In the last few days, during the holidays season, the November's fiscal report was released. It showed that the public sector generated an abnormally weak primary result in November: -BRL19.6bn. The primary deficit in the year up to date is equal to BRL39.5bn (0.7% of GDP). As the government announced that it would pay in the last days of December the total value of delayed expenses (locally known as "pedaladas"), which amount to BRL57bn (1.1% of GDP), we expect the public sector's primary fiscal deficit to reach something around 2.0% this year. The total deficit, including interest payment, will likely close the year around 9.0% of GDP, helping to take the public gross debt to around 67% of GDP. Even though the payment in 2015 of the total amount of delayed expenses clears the road for some improvement in fiscal results going ahead, the most likely is that the public sector will be unable to meet the 0.5% of GDP primary surplus target next year and that it exhibits a primary deficit for the third consecutive row. Taking into account the sharp fiscal deterioration, as well as the political turmoil and the recent deterioration in inflation expectations, the BCB's 4Q15 Inflation Report revealed that a hike of the Selic rate in the January monetary policy meeting is now more likely. However, we continue to see as the most likely outcome of such meeting the stability of the policy rate at 14.25% (for more details see our [Brazil Flash](#) on the issue).

Chile - Unemployment rate remain resilient and Imacec should grow at around 2.5% YoY in November 2015

The financial traders survey showed inflation expectations at +0.1% MoM for December 2015 and anchored long-term inflation expectations, while monetary policy forecasts include two more 25bp hikes during this year (reaching 4.0% at 2016 eop). Nonetheless, a pause at 3.5% is expected for the next three months. Activity data by sector came with weak figures in manufacture (-0.2% YoY) and mining output (+1.3% YoY), nonetheless overall retail sales surprised to the upside after increasing 5.5% YoY. This figures support an Imacec at around 2.5% YoY for November 2015 (see our [Chile Flash](#) for details). Finally, the unemployment rate declined to 6.1% in November 2015 (previous figure was 6.3%) showing resiliency at historical low levels. Job-creation grew by 1.3% YoY, still supported by fiscal expenditure (see our [Chile Flash](#) for details).

Colombia - Urban unemployment rate at 8.1%; BanRep published its monetary policy minutes; government adjusted the minimum wage by 7% and presented changes to its 2016's financial plan

November's urban unemployment rate was 0.6 p.p. lower than in the same month last year, in contrast with what occurred in the previous months when the unemployment rate increased on a yearly basis (+0.3 p.p. on average in the August-October period). Annual job-creation in November was greater than last quarter's average (1.1% YoY in 3Q15) and higher than October's print (0.7% YoY), despite our expectations of a slowdown in activity in the fourth quarter of 2015. Job-creation was mostly explained by the public sector,

followed by real estate. The Central Bank's Board published the minutes of its December meeting in which the monetary policy rate was increased by 25bp, taking the repo rate to 5.75%. The Board continued to highlight its concern regarding inflation dynamics, domestic demand behavior and current account figures. In addition, it seems that during the last meeting some members voted for a 50 b.p. increase. We expect two additional 25bp increases in the January and February meetings. Moreover, after having not reached a deal with unions, the government raised by decree the minimum wage by 7%. Finally, the government announced that the fiscal deficit of 3.0% of GDP in 2015 will be reached. In addition, it presented some changes to its 2016's financial plan. Among other things, the total TES issuance will stand at COP27.9 trillion (COP31.0 trillion before) of which COP22.9 (COP26.5 trillion before) will be made in market auctions. External financing will stand at USD4.5 billion.

Mexico - Economic expansion continues at moderate pace while inflation reaches a fresh low

The economic activity indicator for October grew 0.2% MoM (2.7% YoY), an expansion slightly below our expectations (BBVAe: 0.3% MoM; 2.8%YoY). The monthly expansion in October was the result of an improvement in the services sector, whereas the manufacturing and the agricultural sectors contracted. Meanwhile, annual inflation surprised once again slightly on the downside and reached another historical low in the first fortnight of December (2.0% YoY). Looking ahead, it is likely to stand around 2.0% (the lower limit of Banxico's target range of 3.0% +/- 1pp). Although our base scenario is that Banxico will eventually decouple from the Fed, the latest minutes (of the meeting in which Banxico hiked rates immediately after the Fed) suggest that Banxico will once again raise rates after the Fed does for at least one more time. Once (and if) financial volatility declines over the coming months, the door will then likely open for Banxico to decouple from the Fed and raise rates at a slower pace.

Peru - Inflation reached 4.4% YoY in 2015

CPI increased by 0.45%MoM in December, more than expected (BBVA and Consensus: 0.28% MoM), and hence 4.4%YoY in 2015. Throughout the year, inflation has been deviating from the Central Bank's target range (2%, +/- 1pp). All of the CPI components (goods, services, food and energy) are increasing at higher than 3.5%YoY pace, in some cases due to the local currency's strong depreciation (14% in 2015). In this context, inflation expectations have also diverged from the target range: both one- and two-year ahead inflation expectations are above 3.0% YoY. We expect annual inflation to continue to rise in the coming months due to the effect of continuous depreciation pressures and the impact of El Niño weather phenomenon on food prices. Although transitory, these factors will probably trigger additional monetary policy tightening.

What to watch today

No relevant indicators are expected to be released today

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	4-Jan	Dec 31	0.88%			0.93%
Trade Balance Monthly	4-Jan	Dec	5800	\$4000m		\$1197m
Vehicle Sales Fenabrave	5-Jan	Dec				195212
FIPE CPI - Weekly	7-Jan	Dec 23	0.90%			0.97%
FIPE CPI - Monthly	7-Jan	Dec	0.85%			1.06%
FGV Inflation IGP-DI MoM	7-Jan	Dec	0.43%			1.19%
Industrial Production MoM	7-Jan	Nov	-0.95%	-0.70%		-0.70%
Vehicle Sales Anfavea	7-Jan	Dec				195176
FGV CPI IPC-S	8-Jan	Jan 7	0.88%			--
PPI Manufacturing MoM	8-Jan	Nov				1.77%
IBGE Inflation IPCA MoM	8-Jan	Dec	1.05%	1.10%		1.01%
Chile						
Trade Balance	6-Jan	Dec	187.7			\$400.6
CPI MoM	6-Jan	Dec	0.10%			0.00%
Economic Activity YoY	6-Jan	Nov	2.45%	2.50%		1.50%
Vehicle Sales Total	8-Jan	Dec				23727
Colombia						
PPI Domestic MoM	4-Jan	Dec				0.62%
CPI MoM	5-Jan	Dec	0.63%	0.57%		0.60%
Exports FOB	6-Jan	Nov	2750	\$2571		\$2713.1
Mexico						
IMEF Manufacturing Index SA	4-Jan	Dec	51.5			52.1
CPI MoM	7-Jan	Dec	0.36%	0.31%		0.55%
Consumer Confidence Index	8-Jan	Dec	93.2			92.5
Peru						
Trade Balance	8-Jan	Nov	-320			-\$182m

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
12.30.2015	Chile: November IMACEC would be between 2.25% and 2.75% YoY (0.2% MoM) (In Spanish)
12.23.2015	Brazil: BCB is concerned with the impact of fiscal uncertainty and "non-economic events"
12.22.2015	Chile: An optimistic central bank baseline scenario for 2016
12.21.2015	Chile: Monetary Policy Report: the optimism persists (In Spanish)
12.18.2015	Mexico: Monetary hike that helps the peso in the range
12.18.2015	Colombia: BanRep increased its monetary policy rate in 25bp to 5.75%
12.18.2015	Chile: Central bank increases the policy rate to 3.50%, surprising part of the market
12.17.2015	Chile: 25bp hike in the MPR that we consider preventive rather than aggressive (In Spanish)
12.17.2015	Mexico: 0.25% rise in the monetary policy rate
12.16.2015	Mexico: We expect a 25 basis point increase in the monetary policy rate
12.15.2015	Mexico: A successful Phase 3 of Round 1 despite low oil prices
12.15.2015	Peru: Mining continues to support growth, but non-primary sectors decelerated (In Spanish)
12.15.2015	Chile: We expect the MPR to hold at 3.25% at this meeting (In Spanish)
12.14.2015	Mexico: The exchange rate reached new highs due to the collapse in oil prices (In Spanish)
12.11.2015	Peru: High inflation expectations lead the Central Bank to taper the monetary stimulus
12.10.2015	Colombia: The good GDP result in the third quarter will be temporary (In Spanish)
12.09.2015	Brazil: Double-digit inflation
12.07.2015	Chile: CPI with no monthly variation in November, while activity remain weak in October
12.07.2015	Colombia: November inflation climbs to 6.4%

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