

LatAm Daily| Chile's CB maintained MPR at 3.5% and moderated the restrictive tone

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The CB announced that the pace will be data-dependent on inflation figures and suppressed the gradualism of policy rate normalisation. With this information at hand we expect the Board to validate a neutral bias for policy rates and a prolonged pause during the year. In Brazil, data released yesterday is in line with a fall in GDP again in 1Q16.

Brazil - In contrast with expectations, retail sales expanded in February

Retail sales grew by 1.2% MoM in February, a significantly better performance than envisioned by markets (BBVA: -0.3% MoM; consensus: -0.2% MoM). However, data for January was revised downwards slightly, to -1.9% MoM from -1.5% MoM. Broad retail sales, which include vehicle and construction material, increased 1.8% MoM, offsetting a 1.5% MoM contraction observed in January. Therefore, if sales indicators remain stable (0.0% MoM) in March, then core and broad retail sales will have dropped 2.5% QoQ and 0.7% QoQ respectively in 1Q16. All in all, data released yesterday reinforce our view that private consumption and overall GDP will fall again in the first quarter of the year, although not as significantly as in the previous quarters.

Chile - Downward revisions to GDP growth prospects ease, but inflation expectation for the end of 2016 started a slight decline

The economic expectation survey showed an inflation forecast at +0.3% MoM for April (BBVAe: +0.2/+0.3% MoM), while long-term inflation expectations remain anchored to the central bank's target of 3% YoY. Inflation forecasts for the end of 2016 are for +3.5% YoY, lower than last month (at +3.6% YoY), driven by negative surprises in March's monthly figure. Meanwhile, GDP growth forecasts for 2016 stabilised at 1.7% due to a higher than expected Imacec figure in February, while expectations for 2017 stayed at 2.5%. March's Imacec is expected to increase 1.8% YoY (in line with our view). Finally, in terms of monetary policy, the survey's results indicated a pause in rates at 3.50% at today's meeting (as observed), and only a 25 bps increase to 3.75% during this year.

Chile - Central bank kept policy rate at 3.5% and moderated the restrictive tone as expected

The Board stressed that the pace of future adjustment will be data-dependent on inflation figures and suppressed the gradualism of policy rate normalisation, a commitment that it still explicit in the communiqué. Nonetheless, these subtle changes in the communication open the possibility for an alternative path for policy rates, which we interpret as a strong signal towards a neutral bias and a prolonged pause in rates. At least for now, this path for rates seems the most likely scenario, but we do not rule out that the Board, after a transition to neutrality, migrate towards a dovish tone only if inflation figures retreat at a faster pace in a scenario of a stable -or appreciated- exchange rate. Overall, domestically the Central Bank assessed that economic activity and inflation is behaving broadly in line with the latest IPoM baseline scenario, despite recent surprises in monthly figures. It also acknowledged the slowdown in wages, in a context of stable job-

creation and low unemployment rate. Finally, the communiqué reinforces concerns over external risks, in a context of stable but meagre growth perspectives and low levels for long-term rates. Overall, with the information at hand, we expect that the Board will validate a neutral bias for policy rates during the year (see our [Chile Flash](#) in Spanish for details).

What to watch today

Chile - Financial traders' survey (1st fortnight in April, 07:30hrs NYT)

We expect the survey to show inflation expectations in a range of +0.2%/+0.3% MoM for April and anchored long-term inflation expectations. All incoming data support expectations of a pause in the monetary policy normalisation process, at least during the rest of the year.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Retail Sales MoM	12-abr	Feb	-0,2	-0,3	1,2	-1,50%
Economic Activity MoM	13-abr	Feb	-0,61	-0,5		-0,61%
FGV Inflation IGP-10 MoM	14-abr	Apr	0,37			0,58%
CNI Industrial Confidence	14-abr	Apr				37,4
Tax Collections	15-22 Apr	Mar	94000			87851m
Chile						
Central Bank's Economist Survey	12-abr					
Overnight Rate Target	12-abr	Apr 12	3,5	3,50%	3,50%	3,50%
Central Bank's Traders Survey	13-abr					
Colombia						
Retail Sales YoY	14-abr	Feb	2,6	2,3		2,20%
Industrial Production YoY	14-abr	Feb	7,7	6,1		8,20%
Consumer Confidence Index	14-abr	Mar	-16,65	-14		-21
Mexico						
Industrial Production NSA YoY	11-abr	Feb	1,4		2,6	1,10%
Industrial Production SA MoM	11-abr	Feb	-0,25		-0,1	1,20%
ANTAD Same-Store Sales YoY	11-abr	Mar	7		5,8	9,60%
Formal Job Creation Total	12-13 Apr	Mar	121.1k		59.41k	142.3k
Peru						
Trade Balance	08-11 Apr	Feb	-227,5		-249	-\$519m
Reference Rate	15-abr	Apr 14	4,25	4,25%		4,25%
Economic Activity YoY	15-abr	Feb	4,95	5,50%		3,40%
Unemployment Rate	15-abr	Mar	7			6,90%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
04.12.2016	Chile: Policy rate keeps at 3.5%, but the restrictive tone is moderated (In Spanish)
04.08.2016	Mexico Weekly: An unfavorable industrial performance corroborates moderate growth outlook (In Spanish)
04.08.2016	Brasil: Times of two-digit inflation are over
04.08.2016	Chile: Surprises in CPI inflation (In Spanish)
04.06.2016	Colombia: Inflation reaches 15-year high on soaring food prices
04.05.2016	Colombia: Automobile Market Outlook 2016 (In Spanish)
04.05.2016	Chile: IMACEC in 2.8% YoY explained by calendar effects and increases in mining (In Spanish)
04.04.2016	Mexico: Remittances up by 13.6% in February 2016, reaching US\$2,093.2m
04.04.2016	Mexico: Fiscal plans for 2017 represent another step in the right direction (In Spanish)
04.01.2016	Mexico Weekly: Investment & confidence outlook suggest an expansion in economic activity (In Spanish)

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