

## LatAm Daily | The Chilean CB will soon migrate towards a neutral bias for rates

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*In Chile, the only policy option for the CB in its last MP meeting was to keep rates on hold at 3.5%, migrating from a restrictive tone to a more neutral bias. In Brazil, GDP fell 0.3% QoQ in 1Q16, less than expected. In Peru, inflation keeps going down and we foresee that it will continue moderating in the coming months.*

### Brazil - A milder GDP contraction in 1Q16

GDP fell 0.3% QoQ in 1Q16, less than in the previous quarters (-1.3% QoQ in 4Q15, -1.6% QoQ in 3Q15, -2.0% QoQ in 2Q15 and -1.2% QoQ in 1Q15, according to the updated figures released yesterday) and also than expected (BBVA: -0.6% QoQ; consensus: -0.7% QoQ). Net exports contributed positively to growth more than expected, and were the main drivers of the milder decrease of GDP in the period. 1Q16 GDP figures are in line with our view that the intensity of the recession will decline over the year. We expect growth to remain in negative territory in 2Q16, before stabilising in 2H16. We maintain unchanged our -3.0% forecast for 2016 GDP, but expect the positive surprise in 1Q16 and the revisions in the growth profile over 2015, which generate a less negative carry-over effect for 2016, to prompt some upward revisions in market forecasts for GDP this year (the consensus is currently around -3.8%). For more details about 1Q16 GDP data and our view on it, see our [Brazil Flash](#).

### Chile - Fiscal revenues declined during April despite higher tax rates while public expenditure accelerates

In April, fiscal expenditure accelerated to 7.6% YoY, mainly driven by government consumption. Meanwhile, fiscal revenues declined by 13.5% YoY, driven mainly by lower tax collection from mining. In this context, fiscal revenues from private mining posted a record low since 2009 while fiscal expenditure accelerated, although mainly due to consumption rather than public investment. Hence, the effective fiscal balance reached the figure of 1.2% of GDP, a figure not seen since 2012. This is also paving the way towards the highest effective deficit since 2009 (see our [Chile Flash](#) for details).

### Chile - A neutral bias will come soon: rates on hold at 3.5% was the only policy option in May's monetary meeting

May's minutes of the monetary policy meeting revealed strong debates in the Board in regards to the policy bias. As we signalled some months ago, the Central bank will migrate, sooner rather than later, towards a neutral bias for rates (from a restrictive tone) consistent with a prolonged pause in rates. The minutes reinforce that call, taking into account that the only relevant option for this meeting was to keep rates on hold at 3.5%. The latter, due to still weak aggregate activity figures (a persistent period of GDP growth below potential) and despite the fact that annual inflation remains above target. Local concerns are related to the evidence of increasing labour market slack, which could be detrimental to a healthy recovery of private consumption. Finally, the migration to a neutral bias increases the likelihood of a scenario with higher monetary stimulus during next year (see our [Chile Flash](#) for details).

## Peru - Inflation keeps falling

The consumer price index rose 0.21% in May. During the month, there were upward pressures on prices arising from the higher exchange rate, the increase in the cigarette excise tax, and higher oil prices. As a result, YoY inflation kept going down, from 3.9% in April to 3.5%. We foresee that it will continue moderating in the coming months, although at a slower pace, on the back of a normalisation in food prices (as El Niño weather phenomenon wanes) and a more subdued YoY FX depreciation rate; these will be more clear in the last quarter of the year. (See our [Peru Flash](#) in Spanish for more details).

## What to watch today

### Brazil - Industrial production (April, 08:00hrs NYT)

We expect industrial output to decrease around 0.5% MoM in April, erasing part of the 1.4% expansion recorded in March and reinforcing our view that economic activity will contract again in 2Q16.

### Colombia - Civil engineering works (1Q16, 15:00hrs NYT)

We expect civil works to have fallen 5.6% YoY. This year, 2016, is the first annual period of the regional and local governments, characterised by a low execution of investment plans. Also, the decrease in mining royalties, due to low oil prices, affected the budget of the regional infrastructures. All in all, civil works should produce the sharpest negative contribution to GDP growth for the first quarter, to be released on June 3.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
FGV Inflation IGPM MoM	30-may	May	0.74		0.82	0.33%
FGV Inflation IGPM YoY	30-may	May	11.01		11.09	10.63%
CNI Consumer Confidence	30-may	May			105.2	97.5
National Unemployment Rate	31-may	Apr	11.10		11.2	10.90%
PPI Manufacturing MoM	31-may	Apr			-0.71	-1.40%
BCB Fiscal Report	31-may	Apr				
FGV CPI IPC-S	01-jun	may-31	0.68		0.64	0.68%
GDP QoQ	01-jun	1Q	-0.70	-0.6	-0.28	-1.40%
Trade Balance Monthly	01-jun	May	5600.00		6437	\$4861m
Industrial Production MoM	02-jun	Apr	-0.90	-0.5		1.40%
FIPE CPI - Monthly	03-jun	May	0.55			0.46%
<b>Chile</b>						
Manufacturing Production YoY	30-may	Apr	-0.8	-1.5	-1.23	2.70%
Retail Sales YoY	30-may	Apr	4.5	4.5	7.94	1.40%
Copper Production Total	30-may	Apr			432277	488759
Industrial Production YoY	30-may	Apr	0		-3.41	3.90%
Unemployment Rate	31-may	Apr	6.5	6.3	6.4	6.30%
Central Bank Meeting Minutes	01-jun					
<b>Colombia</b>						
National Unemployment Rate	31-may	Apr			9.02	10.10%
Urban Unemployment Rate	31-may	Apr	10.23	10.4	9.1	10.20%
GDP YoY	03-jun	1Q	2.7	1.8		3.30%
GDP QoQ	03-jun	1Q	0.3	-0.6		0.60%
Economic Activity Index SA YoY	03-jun	Mar	2.44	0		3.00%
Exports FOB	03-jun	Apr	2388	\$2393		\$2301.3
CPI MoM	04-jun	May		0.5		0.5
CPI YoY	04-jun	May		8.19		7.93
<b>Mexico</b>						
IMEF Manufacturing Index SA	01-jun	May	51.8		51.924	51.8
IMEF Non-Manufacturing Index SA	01-jun	May	50.75		51.274	50.5
Central Bank Economist Survey	01-jun					
Vehicle Domestic Sales AMIA	02 -06 jun	May				118407
Gross Fixed Investment	03-jun	Mar	-3	-3.0%		5.20%
<b>Peru</b>						
CPI MoM	01-jun	May	0.2	0.25	0.21	0.01%
CPI YoY	01-jun	May	3.51	3.58	3.54	3.91%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
06.01.2016	<a href="#">Peru: Inflation keeps falling...</a> (In Spanish)
06.01.2016	<a href="#">Mexico: Remittances grow 8.3% in April with a 2.173.4 md</a> (In Spanish)
06.01.2016	<a href="#">Chile: Minutes of May's monetary policy meeting: keep rates on hold was the only option</a> (In Spanish)
06.01.2016	<a href="#">Brazil: A milder GDP contraction in 1Q16</a>
05.31.2016	<a href="#">Chile: Unemployment rate rises to 6.4%, less than expected by the consensus</a> (In Spanish)
05.30.2016	<a href="#">Chile: CPI should come up at 0.3% MoM (4.3% YoY)</a> (In Spanish)
05.30.2016	<a href="#">Mexico: Renewal and increase of the flexible credit line by the IMF: a positive measure</a> (In Spanish)
05.30.2016	<a href="#">Chile: Imacec should increase below 1.5% in April despite the favorable performance of trade</a> (In Spanish)
05.27.2016	<a href="#">Colombia: BanRep increased its monetary policy rate up to 7.25%</a> (In Spanish)
05.27.2016	<a href="#">Latin America Outlook. Second Quarter 2016</a> (In Spanish)

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