

## LatAm Daily | Chile's CB kept policy rate at 3.5% and modified its restrictive tone

Enestor Dos Santos / Lorena Lechuga / Hugo Perea / Cecilia Posadas / Jorge Selaive / Carlos Serrano / Juana Téllez

In Chile's MP meeting, the probability of Brexit as well as expected lower growth in 2Q16 and decrease in May's inflation affected the board's decision. We interpret it as a hawkish tone for the MPR. In Brazil, Tombini's BCB sees inflation at 4.5% in 2017, but no room for Selic cut; Goldfajn's BCB to keep rates stable. Moreover, activity remained stable in April in Brazil.

### Brazil - Tombini's BCB sees inflation at 4.5% in 2017, but no room for Selic cut; Goldfajn's BCB to keep rates stable

The minutes of last week's monetary policy meeting, the last before the replacement of Alexandre Tombini by Ilan Goldfajn as BCB governor, signalled that conditions for the beginning of a monetary easing cycle are still not given, as observed inflation and expectations remain high. This despite better prospects for inflation. According to the BCB's baseline scenario, the one in which the Selic rate and the exchange rate remain unchanged at the values observed right before last week's monetary policy meeting (14.25% and 3.6, respectively), inflation would remain above the 4.5% target in 2016 and then converge to that level at the end of 2017. The current forecast for 2016 is higher than estimated previously, but -more importantly- the forecast for 2017 has been revised downwards. Looking forward, and taking into account the changes within the BCB board, which we expect to result in a hawkish event, we expect the BCB to continue on hold for some further time. Therefore, we see as unlikely a Selic cut in the short-term (for more details, see our [Brazil Flash](#)).

### Brazil - Activity remained stable in April after contracting for fifteen consecutive months

The BCB's economic activity index -the IBC-Br- remained stable (0.0% MoM) in April, broadly in line with forecasts. The stability in the period follows fifteen consecutive months of contraction in economic activity. From December 2014 to April 2016, the IBC-Br fell 8.1%. In comparison to the same month in 2015, the BCB's indicator declined 5.8%. Therefore, economic activity remains very weak even though April's figure was the best in many months. Even though we think the worst in terms of activity growth has already past, we forecast economic activity to recover very gradually from now onwards. We forecast GDP to grow at a negative rate in quarterly terms in 2Q16 and then move back into positive territory during the second half of the year. [Our forecast for 2016 is that GDP will contract 3.0%](#).

### Chile - Central bank kept policy rate at 3.5% and added a restrictive tone

The Board stressed that the pace of future adjustments will be implicit in the latest Monetary Policy Report's baseline scenario. Nonetheless, it points out that a significant deviation of the convergence of inflation may change such pace, which we interpret as a hawkish tone for the Monetary Policy Rate, due to the risk of more depreciation as the result of international volatility. Domestically, the Central Bank assessed that the latest inflation figure is worse than expected, and forecasts limited growth for economic activity. It also acknowledged the slowdown in wages, in a context of reduced rates in job-creation but low unemployment rate. Finally, the communiqué reinforces concerns over external risks, especially Brexit and the

normalisation in monetary policy by the Fed, in a context of high volatility, stable but meagre growth perspectives, and low levels for long-term rates. Overall, with the information at hand, we expect that the CB will keep the MPR at 3.5% during this year and 2017 (see our [Chile Flash in Spanish](#) for details).

### Colombia - Manufacturing sector is boosted by internal commerce

In April, total manufacturing sector production grew 8.4% YoY (Consensus: 7.7%) and industry without oil refining grew 6.1% YoY. It means that oil refinery boosted sector activity significantly (+3.3%), but that the performance of the majority of the remaining sub-sectors was also noteworthy. On the other hand, retail sales grew 5.4% YoY (Consensus: 3.9%). In this month, car sales rose for the first time so far this year. In addition, other durable goods sales (such as appliances) continue to surprise on the upside, despite the devaluation of the exchange rate and the deterioration in household confidence. We expect sustained growth of the manufacturing sector at similar rates and, in contrast, a gradual slowdown in private consumption during the second half of the year.

## What to watch today

### Colombia - Consumer confidence (May, no specific time)

We expect the consumer confidence index to come in at -10 (vs. -13 in April). Households remain worried mainly about the country's economic and political performance.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
Tax Collections	13-20 jun	May	94850			110895m
Formal Job Creation Total	13-17 jun	May	-85000			-62844
Retail Sales MoM	14-jun	Apr	0.5	1%	0.5	-0.90%
CNI Industrial Confidence	14-jun	Jun			45.7	41.3
FGV Inflation IGP-10 MoM	15-jun	Jun	1.29		1.42	0.60%
IBGE Services Sector Volume YoY	15-jun	Apr	-4.2		-4.5	-5.90%
Economic Activity MoM	15-jun	Apr	0.25	0%	0.03	-0.36%
FGV CPI IPC-S	16-jun	jun-15	0.53		0.45	0.59%
COPOM Monetary Policy Meeting Minutes	16-jun					
FIPE CPI - Weekly	17-jun	jun-15	0.37			
IGP-M Inflation 2nd Preview	17-jun	Jun	1.23			0.68%
<b>Chile</b>						
Overnight Rate Target	17-jun	jun-16	3.50	3.50	3.5	3.50%
<b>Colombia</b>						
Retail Sales YoY	16-jun	Apr	3.6	3.8%	5.4	-2.90%
Industrial Production YoY	16-jun	Apr	7.75	11.0%	8.41	1.40%
Consumer Confidence Index	17-jun	May	-9.9	-10		-13
<b>Peru</b>						
Economic Activity YoY	15-jun	Apr	3.65	2.80%	2.47	3.70%
Unemployment Rate	15-jun	May	7.1		7.1	7.00%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
06.17.2016	<a href="#">Chile: Central bank kept policy rate at 3.5% and modifies the restrictive tone</a> (In Spanish)
06.16.2016	<a href="#">Brazil: Still no room for a monetary easing</a>
06.15.2016	<a href="#">Peru: April's growth the lowest result so far this year and surprised to the downside</a> (In Spanish)
06.14.2016	<a href="#">Inflation persistence in Latin America</a>
06.10.2016	<a href="#">Mexico Weekly: New episode of peso adjustment resulting from proximity of the Fed meeting</a> (In Spanish)
06.10.2016	<a href="#">Peru: The Central Bank maintains rates in 4.25% in a context of decrease of inflation</a> (In Spanish)
06.09.2016	<a href="#">Colombia: Where are we in Financial Inclusion?</a> (In Spanish)
06.08.2016	<a href="#">Brazil: Inflation stopped falling in May but will continue to trend down going forward</a>
06.08.2016	<a href="#">Chile: May's CPI (0.2% MoM) shows a inflation slowdown higher than expected</a> (In Spanish)
06.07.2016	<a href="#">Colombia: Inflation accelerates in May in line with expectations</a>

---

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.