

LatAm Daily | Banxico increased its MPR by 50bps, taking it to 4.25%

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Concerns over the risks that current exchange rate depreciation poses on core inflation and its expectations, led the CB of Mexico to raise its benchmark rate. Exchange rate will be the key variable to follow in a context of a more gradual pace of MP normalisation in the US. Moreover, activity data by sector in Chile anticipates an Imacec with a ceiling of 2% YoY in May.

Brazil - The inflation target for 2018 is set at 4.5%

Despite speculations that a lower inflation target could be set for 2018, the National Monetary Council (CMN, by its acronym in Portuguese) decided to leave the central target for the period at 4.5%. The target range will be from 3.0% to 6.0%, identical to the one established for 2017 and narrower than the range for 2016 (2.5%-6.5%). We see no direct implications of the CMN decision for monetary policy in the short-term. Therefore, we maintain our view that the Selic rate will be left unchanged at 14.25% until expectations for inflation at the end of 2017 converge to 4.5%, something we expect to happen at the beginning of the next year.

Chile - Activity data by sector anticipates an Imacec with a ceiling of 2% YoY in May

Manufacturing output rose by 2.1% YoY (BBVAe 2.7% YoY, consensus 2.5% YoY) mainly driven by positive contributions from paper manufacturing. Meanwhile, mining production showed a contraction of 5.7%. Retail sales barely increased by 0.6% YoY (BBVAe: 1.9% YoY; consensus: +3.5% YoY), due to an increase in vehicle sales which was partially offset by a decrease in sales of foods. All in all, we estimate that the economy has not grown more than 2% YoY in May. (see our [Chile Flash](#) in Spanish for details).

Chile - The unemployment rate increased to 6.8% in May

The unemployment rate surged to 6.8% in May, which was slightly above the market's and our expectations (at 6.7%). The main reason unemployment increased was because job creation barely grew by 1.3% YoY (mainly self-employment) while the labour force increased by 1.5% YoY. Annual job-creation was driven by hotels and restaurants, construction and commerce, which was partially offset by the negative contribution from mining and manufacture. Overall, the labour market is showing signs of weakness which could lead to unemployment rising above 7% in the following months (see our [Chile Flash](#) in Spanish for details).

Colombia - The unemployment rate stood a 9% in May

The urban unemployment rate stood at 9% in May, a -0.6 percentage points YoY decrease. The result was explained by a decline in the participation rate (a decrease of 2 percentage points YoY) which was higher than the one observed in the occupation rate (a decrease of 1.5 percentage points YoY). Annual job-creation was even negative in May (-0,9% YoY). We consider that the labour market is showing signs of weakness.

Mexico - A 50bp rate hike as exchange rate depreciation spurs concerns over inflation expectations

Despite the recent Central Bank communication signalling no second round effects, anchored inflation expectations and economic slack, concerns over the risks that current exchange rate depreciation poses on core inflation and its expectations led the Central Bank to raise its benchmark rate. The balance of risks of economic activity impaired globally and domestically, as risks are tilted to the downside. Based on the decision, it is clear that the level and the change in the Mexican currency play, by themselves, an important role in the Central Bank's decision making process. Therefore, in a context of a more gradual pace of monetary policy normalisation in the US, the exchange rate will be the key variable to follow, especially as risk episodes during the second half of the year (e.g. US elections) are still lurking.

What to watch today

Brazil - Industrial production (May, 8:00hrs NYT)

Industrial output is expected to remain broadly unchanged in May, as it did in April (+0.1% MoM), reinforcing the view that growth remains weak even though the worst in terms of economic activity has probably already past.

Peru - Consumer prices (June, 11:00hrs NYT)

We expect headline CPI to have increased by 0.10% MoM in June. This result takes into account the increase in fuel prices, higher energy tariffs, and the seasonal effect in some durable goods prices, like clothing, due to the winter. On the other hand, some food prices fell (mainly, poultry, sugar, onion and tomatoes), there was a reduction in regulated telephone tariffs, and the domestic currency appreciated in June (which should have an impact on some components of the consumers' basket). With June's monthly result, YoY inflation would stand at 3.3%, continuing its descending trend.

Colombia - Exports (May, 15:00hrs NYT) and the economic monitoring index (April, 15:00hrs NYT)

We expect exports to have fallen 27.0% YoY, settling at USD FOB 2,450 mn. The recovery in oil prices was offset by a reduction in internal production. Furthermore, the manufacturing sector maintains high levels of domestic demand, boosted by the current import substitution process, limiting its export capacity. In addition, external demand is still weak for industrial products. On the other hand, the economic monitoring index (ISE, by its acronym in Spanish) should grow 3.3% YoY. The good performance of the industrial and commerce sectors would be offset by a slowdown in construction and public expenditure.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV Consumer Confidence	27-jun	Jun			71.30	67.9
Central Bank Quarterly Inflation Report	28-jun					
Outstanding Loans MoM	28-jun	May			0.10	-0.60%
Fiscal report	29-jun	May				
FGV Inflation IGPM MoM	29-jun	Jun	1.48		1.69	0.82%
National Unemployment Rate	29-jun	May	11.40		11.2	11.20%
FGV CPI IPC-S	01-jul	jun-30	0.29			0.33%
Industrial Production MoM	01-jul	May	-0.08	0.0		0.10%
Markit Brazil PMI Manufacturing	01-jul	Jun				41.6
Trade Balance Monthly	01-jul	Jun	4000			\$6437m
Chile						
Manufacturing Production YoY	30-jun	May	2.50	3,0	2.14	-1.20%
Retail Sales YoY	30-jun	May	3.50	5,0	0.61	7.90%
Copper Production Total	30-jun	May			473825	432277
Industrial Production YoY	30-jun	May	0.50		-2.04	-3.40%
Unemployment Rate	30-jun	May	6.70	6.7	6.8	6.40%
Colombia						
Urban Unemployment Rate	30-jun	May	9.30	9.3%	9	9.10%
Economic Activity Index SA YoY	01-jul	Apr	3.40	3.3%		3.50%
Exports FOB	01-jul	May	2580	\$2450		\$2418.6
Mexico						
Trade Balance	27-jun	May			-527.44	-2079.6m
Unemployment Rate SA	28-jun	May	3.96		4.00	3.93%
Unemployment Rate NSA	28-jun	May	3.9		4.03	3.80%
Overnight Rate	30-jun	jun-30	4		4.25	3.75%
Central Bank Economist Survey	01-jul					
Peru						
CPI MoM	01-jul	Jun	0.15	0.16%	0.14	0.21%
CPI YoY	01-jul	Jun	3.36	3.37%	3.34	3.54%

Source: Bloomberg and BBVA Research

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