

LatAm Daily | The monetary policy rate in Colombia was increased by 25bps, as expected

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

BanRep took the repo rate up to 7.75% and GDP for 2016 was revised down from 2.5% to 2.3%. June's unemployment rate rose in Colombia (to 10.2%) and in Chile (to 6.9%). Also in Chile, activity data by sectors signals that activity growth will be under 1% YoY in June. In Brazil, the primary deficit worsened, reaching 1.1% of GDP in June, and we forecast 2.7% for the end of 2016.

Brazil - Another very high primary deficit in June

The public sector delivered a BRL10.6bn deficit in June, which follows a deficit of BRL18.1bn in May. In 1H16, thus, the primary deficit reached BRL23.8bn (1.1% of GDP), much worse than in the same period last year when it delivered a BRL16.2bn surplus. After such a negative result in what is usually the most favourable half of the year, which is due to a lack of measures to effectively control expenditure and the effect of the contraction in demand on revenues, fiscal accounts will likely deteriorate further in 2H16. We forecast the fiscal deficit to close 2016 around BRL166bn (2.7% of GDP), even worse than in 2015 (BRL111.2bn or 1.9% of GDP), contributing to drive the public sector's gross debt to 72.5% of GDP this year (68.5% of GDP in June 2016).

Chile - Unemployment rate in line with expectations

The unemployment rate for June was 6.9%, in line with both our and market expectations. The increase in comparison with the previous month (6.8%) is due to seasonal factors. The growth in employment was again the result of a decrease in salaried jobs that was nonetheless sustained by self-employment. Overall, figures still show labour market slack. We expect a more deteriorated unemployment rate for this year, at 6.6%, with its highest level over 7% during 3Q16.

Chile - The Imacec should increase under 1.0% YoY in June

Both the retail (+1.1% YoY) and mining sectors (-5.9% YoY) in June were in line with our expectations. Industrial production showed a decline (-2.4% YoY), due to problems with the production of food or fish in the south of the country. With these figures, economic activity growth will be under 1.0% YoY. Thus, 2Q16 will decrease by 2.4% SAAR (see our [Chile Flash](#) in Spanish for details).

Chile - A less hawkish tone in the Minutes of the monetary policy meeting

July's Minutes of the monetary policy meeting revealed that the only relevant option for this meeting was to keep rates on hold at 3.5%. While the communique maintained a contractive tone, the surprising note was in the dovish statements of some of the Board members. There is a possibility for a change in September, from a bias to a neutral tone. We still expect a cut in the MPR at the end of the year.

Colombia - The BanRep increased its monetary policy rate 25bp up to 7.75%, in line with expectations

During its July meeting, the Central Bank's Board increased its monetary policy rate 25 bp taking the repo rate up to 7.75%, in line with both market and our own in-house expectations. During the press conference, the CB's Managing Director, José Dario Uribe, said that the majority of the Board's members voted for the 25bp increase. In addition, the Minister of Finance said that in his view the level of the interest rate is sufficient to contain inflation and that further increases could harm job creation. It is important to note that the CB's staff revised its GDP growth projection for 2016 from 2.5% down to 2.3%, in a 1.5% - 3% range. In addition, BanRep also expects a lower current account deficit, which should stand at 5.3% of GDP in 2016.

Colombia - June's unemployment rate rises due to an increase in labour participation

June's urban unemployment rate rose to 10.2% (BBVAe 9,2%), up from 9.7% in June 2015. A higher than expected participation rate (the number of people who are either employed or are actively looking for work) surprised us, pushing up the unemployment rate. Total employment increased by 196,000 in June, the second highest figure of the year-to-date. However, the average creation of 1H2016 (50k per month) is still below the 1H2015 figure of 290k, which is consistent with the slowdown of the economy. As a result, we expect private consumption to slow as the year unfolds.

What to watch today

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

We expect headline CPI to have remained flat in July. Even though there is a usual increase in transportation fares in July due to national holidays (Independence Day), there has also been a strong reduction in food prices, fuel prices have gone down, and the domestic currency has appreciated. With this result, YoY inflation would have declined once more, from 3,3% in June to 2,9%, thus converging to the inflation target range after nearly one and a half years.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Markit Brazil PMI Manufacturing	01-ago	Jul				43.2
Trade Balance Monthly	01-ago	Jul	4900	4500		\$3974m
CNI Capacity Utilization (SA)	01-ago	Jun				77.00%
Vehicle Sales Fenabrave	01ago - 03ago	Jul				171792
Industrial Production MoM	02-ago	Jun	1.1	0.5		0.00%
FIPE CPI - Monthly	03-ago	Jul	0.67			0.65%
Markit Brazil PMI Composite	03-ago	Jul				42.3
Markit Brazil PMI Services	03-ago	Jul				41.4
Vehicle Sales Anfavea	04-ago	Jul				171797
Chile						
Economic Activity YoY	05-ago	Jun	1.05	0.6		1.80%
Economic Activity MoM	05-ago	Jun	0.1	-0.2		0.70%
Colombia						
Economic Activity Index SA YoY	02-ago	May	1.6	2.0		0.60%
Exports FOB	02-ago	Jun	2567	2475		\$2683.5
Inflation (YoY)	05-ago	Jul			9.20%	8.60%
Inflation (MoM)	06-ago	Jul			0,57%	0,48%
PPI Domestic MoM	04-ago	Jul				0.60%
Mexico						
IMEF Manufacturing Index SA	01-ago	Jul	49.35			47.5
Remittances Total	01-ago	Jun	2320	\$2318.0m		\$2477.8m
Markit Mexico PMI Mfg	01-ago	Jul				51.1
Leading Indicators (MoM)	02-ago	Jun				-0.05
Vehicle Domestic Sales AMIA	02ago - 04ago	Jul				134536
Gross Fixed Investment	03-ago	May	1.7	0.0146		1.60%
Consumer Confidence Index	04-ago	Jul	92.5	92.2		93.5
Peru						
CPI MoM	01-ago	Jul		0%	0.08	0.14%
CPI YoY	01-ago	Jul		2.87%	2.96	3.34%

Fuente: BBVA Research

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