

LatAm Daily | Peruvian CB adjusts the reserve requirements again

Cecilia Posadas / Enestor Dos Santos / Jorge Redondo / Jorge Selaive Carrasco / Juana Téllez Corredor / Carlos Serrano Herrera / Hugo Perea Flores

In Brazil, the unemployment rate increased again in March, suggesting that a drop in private consumption at the beginning of the year will weigh on 1Q15 GDP.

Peru – Central bank once again cuts the reserve requirements

From May, the reserve requirements in domestic currency will be cut from 7.5% to 7.0%. This measure is implemented in a context in which the interbank interest rate in domestic currency has deviated significantly from the policy rate (the former has exceeded the latter by nearly 75bp over the last week, for example), which sounds strange given the weakness of Peru's economic activity. The deviation is in part the outcome of the CB's intervention in the FX market, which aims to smooth the PEN's depreciation given that nearly 40% of loans to firms and households are dollarised.

Peru – Central bank raises reserve requirements on FX derivatives

The required reserves (in domestic currency) on the amount of short FX-derivative positions that go beyond a certain threshold have been raised from 50% of the excess to 75%. Furthermore, from June that threshold will be reduced to 95% of its current level and to 90% from July onwards. When the banks increase their short FX-derivative positions they then demand dollars to cover them, adding depreciation pressures to the PEN. This measure seeks to limit FX volatility in a context in which nearly 40% of loans to firms and households are dollarised, something which generates currency mismatches on the balance sheets of some firms and households.

Brazil – The labour market deterioration continued in March

The unemployment increased broadly in line with expectations to 6.2% in March, from 5.9% in February and 5.0% a year ago. This increase is mostly due to the expansion in the labour supply (i.e. in the size of the labour force) which has been observed in the last few months. On top of that, real wages declined 2.8% in comparison to the previous month and 3.0% in comparison to March 2014 due to a moderation in nominal wages and the inflation upsurge. The labour market slowdown supports our view that private consumption will contract somewhat at the beginning of the year, driving down 1Q15 GDP to around 0.6% QoQ.

What to watch today

Chile – Activity data by sector (March, 8:00hrs NYT)

We expect a slight increase in retail sales of 1.5% YoY in March, still showing slack in durable goods. Manufacture output should decline by around 2.0% YoY, due to a higher comparison base and reflecting the weakness in both external and domestic demand.

Brazil – Fiscal report (March, 9:30 NYT)

March fiscal data will help the markets to better assess whether the government will be able to meet the 1.2% of GDP primary surplus target for the year. In spite of a significant deceleration in public revenues (mostly due to the slowdown in activity) we expect expenditure cuts to have been able to generate a small primary surplus in March.

Brazil – Monetary policy decision (any time after the local financial markets close)

The monetary tightening should continue after the adjustments in the Selic rate have taken it to 12.75% in March from 11.0% one year ago (and 7.25% two years ago). Even though the recent comments by BCB officials suggest that another 50bp could be delivered today, we see room for the monetary authority to

surprise the markets by announcing a 25bp hike influenced by the deterioration in economic activity and the relatively sharp exchange rate appreciation recorded in the last few weeks.

Calendar indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Tax Collections	27-Apr	Mar	94650	-	94112.15M	89982M
CNI Consumer Confidence	27-Apr	Apr	-	-	99	100
Unemployment Rate	28-Apr	Mar	6.10%	6.10%	6.20%	5.90%
FGV Inflation IGPM MoM	29-Apr	Apr	1.11%	-	-	0.98%
Selic Rate	29-Apr	Apr 29	13.25%	13%	-	12.75%
Central Govt Budget Balance	29-Apr	Mar	3	-	-	-7.4B
Chile						
Manufacturing Index YoY	29-Apr	Mar	0.80%	-2%	-	-0.10%
Retail Sales YoY	29-Apr	Mar	3.15%	1.50%	-	2.90%
Copper Production Total	29-Apr	Mar	-	-	-	447810
Unemployment Rate	30-Apr	Mar	6.30%	6.30%	-	6.10%
Colombia						
Urban Unemployment Rate	30-Apr	Mar	9.40%	9.50%	-	10.00%
National Unemployment Rate	30-Apr	Mar	-	-	-	9.90%
México						
Unemployment Rate SA	27-Apr	Mar	4.42%	4.41%	4.20%	4.51%
Trade Balance	27-Apr	Mar	606,99M	810.0M	479.79M	558.3M
Overnight Rate	30-Apr	Apr 30	3	3.00%	-	3.00%
Peru						
CPI YoY	30-Apr	Apr	3%	-	-	3.02%
CPI MoM	30-Apr	Apr	0.39%	-	-	0.76%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
04.27.2015	Chile We forecast CPI in April by 0.4% MoM (In Spanish)
04.24.2015	Colombia: BanRep kept its monetary policy rate on hold at 4.50% (In Spanish)
04.23.2015	Mexico: Inflation remains subdued
04.23.2015	Mexico :In February the IGAE shows a negative monthly performance (-0.03% MoM, sa)
04.16.2015	Chile: Central bank kept policy rate at 3%, as widely expected
04.13.2015	Mexico: Industrial production pushes down our growth expectations
04.10.2015	Peru: New monetary pause and the window of opportunity for rate cut is reduced (In Spanish)
04.08.2015	Brazil: Inflation jumps above 8%; pressure from administered prices to ease ahead
04.08.2015	Chile: March's CPI increased 0.6% MoM, below market expectations
04.06.2015	Chile: Imacec expanded 2.0% YoY in February, slightly above expectations

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.