

Latam Daily | In Brazil we revise our end of year inflation forecast to 8%

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We have left our 5.5% forecast for 2016 (end of period) unchanged and the upwards surprise is in line with a greater risk of the monetary authority increasing the Selic rate again in July. In Chile the Central Bank's economic expectation survey implied another downward correction in 2015 GDP forecasts; analysts expect a pause at 3% in the MPR for the medium term.

Brazil - Inflation nears 8.5% after surprising significantly to the upside in May

Inflation increased to 8.47%YoY (0.74% MoM) in May from 8.17% YoY (0.71% MoM) in April, frustrating the expectations that it would moderate after having skyrocketed in the first four months of the year (BBVA: 8.19% YoY/0.48% MoM; consensus: 8.30% YoY/0.58% MoM). The main driver of this upward surprise was food prices which increased 1.37% MoM in May. Favourable seasonality, weaker domestic demand and lower administered price pressures should prevent inflation from moving significantly higher during the rest of the year. Anyway, the higher than expected inflation figures in May have led to an upward revision in our inflation forecasts for the remainder of the year. In particular, we have revised our forecast for the end of the year from 7.6% YoY to 8.0% YoY. We have left our 5.5% forecast for the end of 2016 unchanged. Finally, today's figures also mean that there is a more significant risk that the monetary authority will be forced to increase the Selic rate again in July rather than leaving it at 13.75% as we forecast (see our Brazil Flash for more details)..

Chile - Decline in growth expectations for 2015 continues

The central bank's economic expectations survey revealed another downward correction to 2015 GDP growth forecasts from 2.7% to 2.6%, while for 2016 they were reduced from 3.5% to 3.4%. Annual inflation expectations remained stable at 3.5% and 3.0% for the end of this year and the next respectively (BBVAe: 2.9% YoY for 2015eop). Monthly inflation estimates are for +0.2% in June (BBVAe: between +0.2/+0.3% MoM), while aggregate economic activity forecasts reached a consensus of 2.0% YoY for May (BBVAe: between +1.25%/+2.25%). In this context, the analysts surveyed still expect a pause at 3% in the policy rate for the medium term (in line with our view). Finally, the results showed expectations of a stable exchange-rate at around 630 CLPUSD in a 12-month horizon.

What to watch today

Brazil - Minutes of the monetary policy meeting (7:30hrs NYT)

We expect the minutes to leave the door open for both the maintenance of the Selic rate at 13.75% from now on and for another hike in the policy rate in July. Even though yesterday's inflation figures increase the likelihood of the latter, we continue to expect the BCB to leave rates unchanged from now until the end of the year. In our view, a clearer signalling about which way the monetary authority will take will only be provided at the end of June when the 2Q15 Inflation Report will be released.

Mexico - Industrial production index (April, 09:00hrs NYT)

We expect industrial production in April to grow 0.1% MoM, s.a. This slow growth rate is a consequence of the combination of several factors. On the one hand there is an important source of growth that comes from manufacturing exports and also from the car industry. On the other hand there is an important downside effect that comes from the decrease oil production.

Chile - Monetary policy meeting (June, 17:00hrs NYT)

We expect a pause in the policy rate at 3% in today's meeting and a neutral stance. Aggregate activity continues to show slack in private demand components, while annual inflation retreats, albeit at a slow pace.

Peru - Monetary policy meeting (June, 18:30hrs NYT)

We believe the central bank will keep the policy rate on hold at 3.25%. Even though private spending remains weak, depreciation pressures on the local currency persist (in a context of still high credit dollarisation) and inflation has risen above the ceiling of the target range, both of which suggest there is little room for a rate cut. In addition, output growth will probably accelerate to more than 4% YoY in April (due to primary sectors, not linked to domestic demand), a level not seen since the beginning of 2014 and which in itself could act as a support for deteriorating business confidence.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Vehicle Production Anfavea	08-June	May	–		210,086	217,089.00
FGV Inflation IGP-DI MoM	09-June	May	0.34%		0.4%	0.92%
IBGE Inflation IPCA MoM	10-June	May	0.57%		0.74%	0.71%
COPOM Monetary Policy Meeting Minutes	11-June					--
Chile						
CPI YoY	08-June	May	4.0%	4.0%	4%	4.1%
CPI MoM	08-June	May	0.2%	0.2%	0.20%	0.6%
Copper Exports	08-June	May	–		\$2853,25M	\$2881.9M
Trade Balance	08-June	May	\$1250.0		\$981,66M	\$1150.5M
	05-June to	May	–		–	23,084.00
Vehicle Sales Total	10-June		–		–	
Central Bank's Economist Survey	10-June		–		–	
Central Bank's Traders Survey	10-June		–		–	
Overnight Rate Target	11-June	1-June	3.00%		–	3.00%
Colombia						
Civil Works Payments (YoY)	11-June	1Q	–	-5.2%	–	0.05
GDP YoY	12-June	1Q	2.7%	2.1%	–	3.5%
GDP QoQ	12-June	1Q	0.3%	-0.1%	–	0.7%
Mexico						
Vehicle Production AMIA	08-June	May	–		288,382	283,392.00
Bi-Weekly CPI	09-June	1-May	0.08%	0.2%	0.04%	-0.53%
Bi-Weekly Core CPI	09-June	1-May	0.09%	0.13%	0.08%	0.03%
Bi-Weekly CPI YoY	09-June	1-May	2.86%	2.98%	2.82%	2.93%
ANTAD Same-Store Sales YoY	09-June	May	–	4.7%	7.4%	4.9%
CPI MoM	09-June	May	-0.47%	-0.42%	-0.5%	-0.26%
CPI Core MoM	09-June	May	0.12%	0.14%	0.12%	0.16%
CPI YoY	09-June	May	2.91%	2.96%	2.88%	3.06%
Nominal Wages	10-June	May	–		4.3%	4.1%
Industrial Production MoM	11-June	Apr	–		–	0.0%
Industrial Production YoY	11-June	Apr	1.2%	1.9%	–	1.7%
Formal Job Creation Total	12-June	May	–	55.7K	–	65.1K
Peru						
Trade Balance	09-June	Apr	–		-\$746M	-\$573M
Reference Rate	12-June	1-jun	3.25%		–	3.25%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
06.10.2015	Colombia: Inflation slows down in May due to a drop in food prices
06.10.2015	Colombia: PIPE 2.0 to boost production and employment
06.08.2015	Chile: Confidence would have dragged down Chilean GDP by between 0.3%-0.6%
06.08.2015	Chile: Inflation rises to 0.2% in May, in line with expectations
06.05.2015	Chile: Imacec falling short of expectations and wages slowing down
06.05.2015	Mexico: Industrial production to improve at the beginning of 2Q15
06.04.2015	Mexico: Central Bank keeps its monetary policy unchanged at 3%
06.03.2015	Brazil Outlook 2015
06.03.2015	Latam Outlook 2Q15
06.03.2015	Mexico: Yearbook of migration and remittances 2015

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