

LatAm Daily | Monetary tightening to continue in Brazil

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Since COPOM sees 2016 inflation at 4.8%, we foresee a 50bp rise in the Selic rate in July; The CB revised its GDP forecast to -1.1% from -0.5%. BanRep in Colombia kept its MPR unchanged at 4.5% and stability is the most likely scenario throughout the rest of 2015. In Mexico inflation data supports the view that it will remain below 3.0% for the rest of the year.

Brazil - COPOM still sees 2016 inflation above 4.5%; monetary tightening to continue

In spite of having adjusted the Selic rate up by 100bp (to 13.75%) since the release of its 1Q15 Inflation Report at the end of March and the more negative prospects for economic activity (the COPOM's 2015 GDP forecast was revised downwards to -1.1% from -0.5%), the greater than expected pressure from inflation of regulated prices (COPOM's current forecast for the end of 2015: 13.7%; previous one: 11.0%) and concerns about inertia issues prevented a significant reduction of 2016 inflation forecasts. More specifically, the monetary authority, in its baseline scenario, now foresees inflation at 4.8% at the end of 2016, only slightly less than three months ago (4.9%). This shows that the Monetary Policy Committee (COPOM) still has some work to do to fulfill its target to take inflation to 4.5% by the end of the next year. We now expect it to deliver another 50bp hike of the Selic rate on 29 July. Even though a final 25bp adjustment in September should not be ruled out, we regard that as a less likely scenario than the maintenance of the Selic at 14.25% from July onwards (for more details, see our Brazil Flash).

Chile - No surprises in the trader's survey

Result showed inflation expectations at 0.3% MoM for May (in line with our view) while medium and long-term expectations remained anchored to the central bank 3% YoY target. In terms of policy rates, traders do not expect any changes for the next 6-months and only a 25bp increase in the 12-months ahead. Finally, the results showed a mild depreciation expectation for the exchange-rate to levels of CLPUSD640 towards the year's end.

Colombia - BanRep keeps its monetary policy rate on hold at 4.50%

In the June meeting, BanRep's Board kept its monetary policy rate unchanged, in line with both the market and our own-in house expectations. Similar to the previous meeting, the CB's Director, José Dario Uribe, said that the decision was taken unanimously by the seven-member board. According to the communiqué, the Colombian economy continues its adjustment to a lower GDP growth rate. In addition, headline inflation is above the inflation target upper-bound. Nonetheless, inflation expectations are relatively anchored and close to 3%. That said, we believe interest rate stability is the most likely scenario for the rest of the year. Going forward, the key elements to assess the monetary policy stance will be the external accounts adjustment to the lower long-term growth and the speed of inflation convergence towards the CB's target.

Mexico - Inflation was slightly higher than expected but annual inflation remains low and stable

Headline inflation increased 0.13% FoF in the first fortnight of June, slightly above expectations (BBVAe: 0.10%, consensus: 0.10%). The slight upward surprise was mainly driven by core inflation which increased somewhat more than anticipated (0.13% FoF vs. BBVAe: 0.09%, consensus: 0.10%). In annual terms, headline inflation edged up to 2.87% from 2.82% in the previous fortnight; while core inflation remained relatively stable (increasing slightly to 2.31% from 2.30% in the previous fortnight). Services inflation was low (0.08% FoF) which continues to point to the absence of demand side pressures, and signals that suggests that pass-through remains limited. Today's print supports our view that annual inflation is likely to remain below 3.0% for the rest of the year.

What to watch today

Brazil - Labour market report (May, 8:00hrs NYT)

We expect the report to show that the deterioration in labour markets continued in May. Amongst other things, we expect it to show an increase in the unemployment rate to 6.7% from 6.4% in April.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Current Account Balance	22-Jun	May	--		-\$3366M	-\$6901M
Foreign Direct Investment	22-Jun	May	--		\$6608M	\$5777M
FGV CPI IPC-S	23-Jun	1 June	--		0.83%	0.86%
Federal Debt Total	23-Jun	May	--		\$2496B	\$2451B
Total Outstanding Loans	23-Jun	June	--		\$3081B	\$3061B
Central Bank Quarterly Inflation Report	24-Jun					
Unemployment Rate	25-Jun	May	0.07	6.70%	--	6.40%
FGV Consumer Confidence	25-Jun	Jun	--		--	85.1
Chile						
Central Bank's Traders Survey	24-Jun		--	--	--	--
Central Bank Meeting Minutes	26-Jun		--	--	--	--
PPI MoM	24-Jun	May	--	--	2.2%	1.60%
Colombia						
Trade Balance	23-Jun	Apr	-\$900M	-\$ 932M	-\$1038.9M	-\$1014.8M
Retail Confidence	23-Jun	May	--	15	18.7	18.1
Industrial Confidence	23-Jun	May	--	0	0.9	-0.1
Overnight Lending Rate	24-Jun	1-Jun	4.50%	4.50%	4.5%	4.50%
Mexico						
Retail Sales YoY	22-Jun	Apr	5.20%	4.90%	4.6%	5.50%
Retail Sales MoM	22-Jun	Apr	0.60%	0.30%	-0.3%	0.20%
Economic Activity IGAE YoY	24-Jun	Apr	2.30%	1.70%	2.1%	2.65%
Bi-Weekly CPI	24-Jun	1-Jun	0.10%	0.10%	0.13%	0.04%
Bi-Weekly Core CPI	24-Jun	1-Jun	0.10%	0.09%	0.13%	0.08%
Bi-Weekly CPI YoY	24-Jun	1-Jun	2.87%	2.84%	2.87%	2.82%
Unemployment Rate SA	26-Jun	May	4.28%		--	4.30%
Unemployment Rate NSA	26-Jun	May	4.27%		--	4.31%
Trade Balance	26-Jun	May	-45.0M	-190.0M	--	-85.3M

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
06.24.2015	Brasil: COPOM still sees 2016 inflation above 4.5%; monetary tightening to continue ahead
06.24.2015	Mexico Outlook
06.24.2015	Chile: Inflation to come up at 0.3% MoM (4.3% YoY)
06.19.2015	Mexico: IGAE should improve in April due to service sector
06.19.2015	Chile: Our monetary policy forecast is neutral
06.16.2015	Chile: Labour market reform, still work to do
06.15.2015	Peru: GDP accelerates in April reaching 4.3% YoY
06.12.2015	Mexico: Inflation touches historical low and industrial activity begins slow in the 2 Q15
06.12.2015	Colombia: GDP growth surprises on the upside
06.11.2015	Peru: We expect the Central Bank to keep its monetary policy unchanged for the remaining of the year
06.11.2015	Mexico: Industrial production contracts slightly

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