

## LatAm Daily | Brazil reduces 2017's inflation target range to help to anchor expectations

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*The decision taken to narrow the tolerance range from 2pp to 1.5 pp while maintaining the 4.5% target for 2017 reinforces the BCB's commitment to bring down inflation. Meanwhile, unemployment increased to 6.7% while employment remained unchanged. We expect private consumption to contribute negatively to GDP growth in 2Q15*

### Brazil - 2017's inflation target ceiling was adjusted downwards to 6.0% from 6.5%

While keeping the central inflation target for 2017 at 4.5%, the National Monetary Council reduced the tolerance range from 2.0pp to 1.5pp. This implies that the target range will be 3.0% to 6.0% in 2017 rather than 2.5% to 6.5%. The 4.5% target for both 2015 and 2016, with a  $\pm$  2pp tolerance, was kept unchanged. The adjustment in the target for 2017 is a welcome step. It reinforces the BCB's commitment to bring inflation down and anchor long-term expectations. In particular, we think it will contribute to the ongoing monetary authority efforts to bring inflation down to the central target by the end of 2016 (which is currently its main goal). Moreover, we think this decision paves the way for an eventual decision in the coming years to revise the central target downwards as it remains significantly above the levels used by other comparable countries.

### Brazil - The unemployment rate reached 6.7% in May

The unemployment rate increased from 6.4% in April to 6.7% in May, broadly in line with forecasts (BBVA: 6.7%; consensus: 6.6%). The current rate is significantly higher than one year ago, 4.9%, revealing a sharp deterioration since then due to a relevant increase in the labour supply while employment remained broadly unchanged. Another dimension of the ongoing deceleration in the labour markets is the moderation in real wages, which have been declining in monthly terms since the end of 2014 (in May the reduction was equal to 1.9% MoM). Average wages now stand 5.0% under the levels observed one year ago. Therefore, given this slowdown in both margins (wages and employment), the real wage bill, which serves as a good proxy for private consumption, declined 1.8% MoM / 5.8% YoY in May. All in all, the labour market figures suggest that private consumption will contribute negatively to 2Q15 GDP growth (as it did in 1Q15).

## What to watch today

### Chile - Monetary policy meeting (June, 07:30hrs NYT)

We expect the minutes to reveal the Board's assessment and the arguments that prevailed in the latest pause in policy rates. We believe the minutes will probably highlight the retreat of annual inflation and wage figures towards the end of the year, in a context of slack in domestic demand.

## Mexico - Trade balance (May, 8:00hrsNYT)

We expect that May's trade balance will show a deficit of -USD190mn due to the fact that exports could post an annual decrease of 4.7% (-53.5% decrease of oil exports and a 1.4% annual growth of non-oil exports) while imports should only decrease 3.7% on an annual basis.

## Calendar indicators

|   | Date   | Period | Consensus | BBVAe     | Actual     | Prior      |
|---|--------|--------|-----------|-----------|------------|------------|
| <b>Brazil</b>                           |        |        |           |           |            |            |
| 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%     | 6.7%       | 6.40%      |
| FGV Consumer Confidence                 | 26-Jun | Jun    | --        |           | --         | 85.1       |
| <b>Chile</b>                            |        |        |           |           |            |            |
| Central Bank's Traders Survey           | 24-Jun |        | --        | --        | --         | --         |
| Central Bank Meeting Minutes            | 26-Jun |        | --        | --        | --         | --         |
| PPI MoM                                 | 24-Jun | May    | --        | --        | 2.2%       | 1.60%      |
| <b>Colombia</b>                         |        |        |           |           |            |            |
| 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%      |
| <b>Mexico</b>                           |        |        |           |           |            |            |
| 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 | <a href="#">Brasil: COPOM still sees 2016 inflation above 4.5%; monetary tightening to continue ahead</a>            |
| 06.24.2015 | <a href="#">Mexico Outlook</a>   |
| 06.24.2015 | <a href="#">Chile: Inflation to come up at 0.3% MoM (4.3% YoY)</a>   |
| 06.19.2015 | <a href="#">Mexico: IGAE should improve in April due to service sector</a>   |
| 06.19.2015 | <a href="#">Chile: Our monetary policy forecast is neutral</a>   |
| 06.16.2015 | <a href="#">Chile: Labour market reform, still work to do</a>  |
| 06.15.2015 | <a href="#">Peru: GDP accelerates in April reaching 4.3% YoY</a>   |
| 06.12.2015 | <a href="#">Mexico: Inflation touches historical low and industrial activity begins slow in the 2 Q15</a>            |
| 06.12.2015 | <a href="#">Colombia: GDP growth surprises on the upside</a>   |
| 06.11.2015 | <a href="#">Peru: We expect the Central Bank to keep its monetary policy unchanged for the remaining of the year</a> |
| 06.11.2015 | <a href="#">Mexico: Industrial production contracts slightly</a>   |

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