

LatAm Daily | CBs in Peru and Chile kept policy rate on hold, as widely expected

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Peru's CB raised concerns about the inflation outlook and did not rule out the idea of a rate hike in the coming months. Yet we do not expect any changes in the short term. Meanwhile, Chile's inflation rate will remain above 4% for longer due to sharper currency depreciation, although we still expect the Board to discuss further stimulus once inflation eases in 4Q15.

Peru - Central bank holds the policy rate at 3.25% in August

This was a widely expected decision. However, the Central Bank has increased concerns about the deterioration of the inflation outlook. This increases the possibility of a rate hike in the coming months. Nonetheless, we still expect the policy rate to be held at 3.25% in the short term. Firstly, because the pace at which the local currency has been weakening will moderate in future (most of the transition to equilibrium has already taken place), and thus also the impact of depreciation on inflation. A more contained increase in YoY inflation should have a similar effect on inflationary expectations. And secondly, because private-sector spending remains weak and a rate hike only puts it at risk. In other words, there is no excess demand to be contained, but rather demand which needs to be stimulated. (See our [Peru Flash in Spanish for details](#).)

Chile - The central bank keeps the policy rate on hold at 3% at the August meeting

Yesterday, the central bank kept the policy rate on hold at 3% and maintained the neutral bias, as widely expected. The communiqué highlighted the Board's assessment of still weak economic activity, while annual inflation figures will remain above 4% YoY for a longer period due to sharper currency depreciation. In this regard, we maintain our expectation that annual inflation will retreat faster than implicit in market expectations considering that multilateral depreciation of the CLP has been less than the bilateral CLP/USD figure. All in all, although we forecast pauses in the policy rate in the short term, we continue to expect the Board to discuss additional stimulus once annual inflation retreats to lower levels during 4Q15 (see our [Chile Flash in Spanish for details](#)).

Chile - Little room for manoeuvre: public expenditure growth in 2016 to be around 4.6%

The government released the structural variables for the 2016 Budget Law: potential GDP and the long term price of copper. Taking the projections from independent committees, the increment of 2016 potential GDP was set by the Ministry of Finance at 3.6%, and the log-term copper price at USD 2.98 per pound. As expected, both were revised downwards. With no full information, but assuming the target of a structural balance of -0.8% of GDP, we estimate a public expenditure growth in 2016 of 4.6% (see our [Chile Economic Watch in Spanish for details](#)).

What to watch today

Colombia - Retail sales and industrial production (June, 17:00hrs NYT)

While retail sales have shown a gradual slowdown in all goods other than cars, the fall in car sales has been much sharper: a contraction of 6.4% YtD. In June, the tendency will be the same but now we are expecting automobile sales not to fall as quickly as in recent months. Hence, YoY growth would remain at 5.5%, above the May figure. On the other hand, industrial production will expand on the back of an additional working day this month with respect to a year earlier. So, we expect manufacturing to have grown 3.0% YoY, returning to positive figures.

Colombia - Monetary policy minutes (July, 14:00hrs NYT)

At its last meeting BanRep's Board kept its monetary policy rate unchanged in a split decision, making July's minutes particularly important. During the press conference held after the last monetary policy meeting, the CB's Managing Director, José Dario Uribe, mentioned that the decision was taken by majority, with some members voting for rate increases. In our view, the minutes will provide valuable insight into BanRep's view on the GDP outlook, external accounts and inflation convergence to its target range.

Peru - GDP (June, 11:30hrs NYT)

The GDP figure for June will be released today. Our estimate is 3.0%YoY (consensus: 3.2%), higher than in the previous month (1.2% in May). The outcome for June was supported by the good performance of primary activities (mining and agriculture). However, non-primary GDP (composed by those sectors which more closely reflect domestic demand behaviour) remained weak.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	10 August	Aug 9	0.55%	--	0.53%	0.53%
Retail Sales MoM	12 August	Jun	-0.40%	-0.40%	-0.40%	-0.90%
Economic Activity MoM	13 August	Jun	-0.50%	-0.50%	0.03%	0.03%
FGV Inflation IGP-10 MoM	14 August	Aug	0.49%	--		0.75%
Formal Job Creation Total	14 August	Jul	-113,950	--		-111,199
Chile						
Central Bank's Economist Survey	11 August	--	--	--		--
Central Bank's Traders Survey	12 August	--	--	--		--
Overnight Rate Target	13 August	Aug 13	3.00%	3.00%	3.00%	3.00%
Colombia						
Vehicle Sales	13 August - 15 August	Jul	--	--		22,192
Colombia Monetary Policy Minutes	14 August	--	--	--		0.00%
Retail Sales YoY	14 August	Jun	3.40%	--		2.70%
Industrial Production YoY	14 August	Jun	-0.90%	--		-3.90%
Mexico						
Industrial Production NSA YoY	11 August	Jun	1.10%	--	1.35%	-0.90%
Industrial Production SAMoM	11 August	Jun	0.30%	0.20%	0.23%	-0.40%
ANTAD Same-Store Sales YoY	11 August	Jul	5.80%	--	6.80%	5.00%
Formal Job Creation Total	12 August	Jul	40K	47K	44.7K	78.4K
Mexican Central Bank Releases Inflation Report	12 August	--	--	--		--
Central Bank Monetary Policy Minutes	13 August	--	--	--		--
Peru						
Trade Balance	10 August	Jun	\$50M	--	\$23M	-\$342M
Reference Rate	13 August	Aug 13	3.25%	3.25%	3.25%	3.25%
Economic Activity YoY	14 August	Jun	3.20%	--		1.20%

Source: Bloomberg and BBVA Research

Most recent Latam reports

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08.13.2015	Chile: CB keeps MPR at 3% and expects inflation high
08.13.2015	Chile: With little room: public expenditure growth in 2016 around 4,6%
08.13.2015	Brazil Economic Outlook (Presentation)
08.13.2015	Brazil Economic Outlook
08.09.2015	LatAm Economic Outlook (Presentation)
08.09.2015	LatAm Economic Outlook
08.09.2015	Mexico: Inflation reaches historical low and Peso nears 16.1
08.06.2015	Colombia Economic Outlook (Presentation)
08.06.2015	Chile Economic Outlook (Presentation)
08.06.2015	Chile Economic Outlook
08.06.2015	Chile: Nominal wages increased by 0.2% MoM in June
08.06.2015	Colombia: Inflation in July surprises to the upside
08.05.2015	Colombia Economic Outlook
08.05.2015	Peru Economic Outlook
08.05.2015	Uruguay: Inflation in July
08.05.2015	Chile: Imacec grew 2.7% in June
08.03.2015	Mexico: Remittances grew 6.1% YoY in June
08.03.2015	Peru: Inflation to stand above target range for the rest of the year

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