

## LatAm Daily | Interests rates likely to remain unchanged in Brazil for some time

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*COPOM's strategy is to make inflation converge to the 4.5% target in 2017 rather than in 2016. Further fiscal slippage is a risk for COPOM's plan to keep the Selic rate unchanged for some time. Regarding this issue, the public gross debt increased again and reached 66% of GDP in September.*

### Brazil - COPOM: the plan is to leave interest rates unchanged

The minutes of last week's monetary policy meeting confirmed that the Monetary Policy Committee (COPOM) is now focused on making inflation converge to the 4.5% target in 2017 rather than in 2016. All the references to the convergence of inflation to the target in 2016 were replaced by references of convergence in "the relevant horizon for monetary policy" (i.e. 2017). Taking into account COPOM's new strategy (to take inflation down to 4.5% in 2017), its most recent inflation forecasts for 2017 (around 4.0% in 3Q17, according to the 3Q15 Inflation Report; even though it could have increased lately, it is likely still around or below the target), and the overall tone of yesterday's minutes, the most likely outcome is that the Selic rate will remain at 14.25% for some time, in our view at least until 2Q16. Anyway, as highlighted in many parts of the monetary policy minutes, the COPOM is now more concerned about the fiscal situation. Further fiscal slippage is a risk for the COPOM's plan of keeping the Selic rate unchanged for some time and the main reason for it to remain "vigilant". Considering this, we expect the monetary authority to consider hiking the Selic rate again if its 2017 inflation forecasts move above the 4.5% target (for more details see our [Brazil Flash](#)).

### Brazil -Gross public debt reached 66.0% of GDP in September

The public sector exhibited a primary deficit of BRL7.3bn in September, similar to the one registered in August but smaller than in the same month last year (-BRL25.5bn). The figure was lower than expected, as the payment of some mandatory expenses seems to have been postponed to the last quarter of the year. In the year to September, the public sector's primary deficit amounts to BRL8.4bn (the central government accumulates a deficit of BRL21.7bn (or 0.2% of GDP) in the period, with the difference being due to a temporary primary surplus recorded by the regional governments). This deficit is smaller than the one registered in the same period last year (BRL15.2bn or 0.4% of GDP), mostly due to the positive results generated by the regional governments (something that we expect to be reversed in the last quarter of the year). Anyway, the total fiscal deficit amounts to BRL416.7bn (9.7% of GDP), well above last year's deficit from January to September (BRL224.4bn or 5.5% of GDP) as interest payments have skyrocketed due to higher interest rates and as the depreciation of the exchange rate implies a significant cost for the BCB in terms of carrying on around USD100bn in FX swaps. In line with the overall fiscal deterioration, the level of public gross debt reached 66.0% of GDP (vs. 65.5% in August and 58.9% in December 2014). Looking ahead, we expect the concentration of expenditure in the last months of the year, the reduction of the primary surplus in regional governments, weak revenues and the payment of a significant part of delayed expenses in previous years to imply a primary deficit close to 1.3% of GDP at the end of the year. The public debt is likely to reach 67% of GDP in December.

## Chile - Positive surprises in activity data by sector in September

Manufacturing output increased by 1.8% YoY (BBVAe: -2.0%; consensus: -1.2%) mainly driven by positive contributions from food, mainly wine production. Mining output decreased 1.0% YoY due to the negative contributions from iron. Meanwhile, retail sales increased 3.1% YoY (BBVAe: +4.4%; consensus: +3.7%) explained by the positive contributions from non-durable consumption. All in all, the aggregate activity figures showed a slight recovery and anticipate a rate of growth in the Imacec of between 2.0% and 2.5% YoY during September (see our [Chile Flash](#) in Spanish for details).

## What to watch today

### Chile - Unemployment rate (September, 08:00hrs NYT)

We expect the jobless rate to have increased to 6.7% in September (from 6.5% in previous month). Job creation should decelerate and be driven by public-sector employment.

### Colombia - Urban unemployment rate (September, 12:00hrs NYT)

The unemployment rate for September should stand at 9.7% (0.4 percentage points higher than September 2014). The figure represents a deterioration with respect to a year ago, but would be in line with the deterioration registered in the previous month and with our expectation regarding overall economic activity.

### Colombia - BanRep's monetary policy meeting (No set time)

We expect BanRep's board to increase the monetary policy rate by 25bp, taking the repo rate up to 5%, in line with consensus. It is important to note that in September, BanRep's monetary policy committee unanimously decided to increase its repo rate by 25bp. In the latest minutes, the board mentioned that the movement in September was mainly driven by the recent behavior of core inflation and to help anchor inflation expectations.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
FGV Consumer Confidence	26-Oct	Oct			75.7	76.3
Outstanding Loans MoM	27-Oct	Sep			0.80%	0.70%
CNI Consumer Confidence	28-Oct	Oct			97.3	96.3
FGV Inflation IGPM MoM	29-Oct	Oct	1.91%		1.89%	0.95%
COPOM Monetary Policy Meeting Minutes	29-Oct					
National Unemployment Rate	29-Oct	Aug	8.70%		8.70%	8.60%
Central Govt Budget Balance	29-Oct	Sep	-14		-6.932	-5.1b
Net Debt % GDP	30-Oct	Sep	33.30%			33.70%
<b>Chile</b>						
Central Bank's Traders Survey	28-Oct					
Manufacturing Production YoY	29-Oct	Sep	-1%		1.82%	-1.40%
Retail Sales YoY	29-Oct	Sep	3.35%		3.11%	1.90%
Copper Production Total	29-Oct	Sep			466940	443285
Industrial Production YoY	29-Oct	Sep	-0.79%		0.42%	-5.20%
Central Bank Meeting Minutes	30-Oct					
Unemployment Rate	30-Oct	Sep	6.60%			6.50%
<b>Colombia</b>						
Urban Unemployment Rate	30-Oct	Sep	9.70%	9.70%		9.90%
National Unemployment Rate	30-Oct	Sep				9.10%
Overnight Lending Rate	30-Oct	Oct	5.00%	5.00%		4.75%
<b>Mexico</b>						
Economic Activity IGAE YoY	26-Oct	Aug	2.40%	2.40%	2.58%	1.95%
Trade Balance	27-Oct	Sep	-1404.16	-1500	-1419.94	-2800.5m
Overnight Rate	29-Oct	Oct	3.00%		3%	3.00%

Fuente: BBVA Research

## Most recent Latam reports

Date	Description
10.29.2015	<a href="#">Brazil: COPOM: the plan is still to leave interest rates unchanged</a>
10.29.2015	<a href="#">Peru: In the third quarter, exports would have recorded its worst drop since 2009</a>
10.29.2015	<a href="#">Mexico: Monetary pause continues. More relaxed tone result of lower economic activity</a>
10.29.2015	<a href="#">Chile: September IMACEC would be 2% YoY (In Spanish)</a>
10.28.2015	<a href="#">Mexico: The chances of a monetary rate hike in December increases</a>
10.27.2015	<a href="#">Mexico: The banking mortgage financing grows 16% for the third consecutive month</a>
10.26.2015	<a href="#">Mexico: In August the annual growth rate of the IGAE was 2.8%, higher than July (2.2%)</a>
10.26.2015	<a href="#">Mexico: We estimate that the economy will have grown around 2.4% annually in Aug.</a>
10.26.2015	<a href="#">Chile: October CPI projected to be 0.24% MoM (3.8% YoY) (In Spanish)</a>
10.22.2015	<a href="#">LatAm: Has exchange rate pass-through to prices increased in Latin America?</a>
10.22.2015	<a href="#">Mexico: Bank deposits, dynamism driven by its two components</a>
10.16.2015	<a href="#">Mexico: Weak US industrial prod. suggests that moderation in Mexico will continue</a>
10.16.2015	<a href="#">Peru: Unsurprisingly, the central bank kept the policy rate at 3,50%</a>

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