



# LATIN AMERICA ECONOMICS WEEKLY

## BCB to cut soon? Chile's FX reserves

### Brazil: shifting towards rate cuts?

Expectations for interest rate cuts in Brazil have grown in light of recent developments, but, for now, we're sticking with our view that Copom will hold off on lowering interest rates until November.

The arguments in favour of cuts to the Selic rate have mounted. Data out this week suggested that, following a [strong Q1](#), Brazil's economy struggled at the start of the second quarter. Services activity contracted by 1.6% m/m in April, reversing all of March's gains. And retail sales growth slowed to 0.1% m/m, from 0.8% in April. This follows disappointing industrial production figures a couple of weeks ago. And more timely soft data for May paint a mixed picture, with construction and industry remaining weak but services rebounding slightly.

Meanwhile, fiscal risks have eased after the unveiling of the government's [new fiscal framework](#), inflation fell to a [multi-year low](#) of 3.9% y/y in May and the central bank's weekly survey showed that long-term inflation expectations have started to edge down too. And the real has appreciated by close to 5% against the dollar this month, taking its year-to-date gains against the greenback to 9.5%. Central bank governor Roberto Campos Neto acknowledged these developments in a speech on Monday, saying that "an environment is opening up for us to work with lower interest rates at some point in the future".

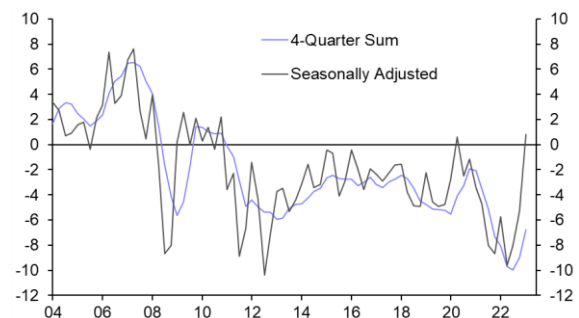
For our part, despite recent developments, we think that interest rate cuts are still some way off. For one thing, although the headline rate has fallen sharply, core price pressure remain strong – on our own measure, core inflation is still running at close to 7% y/y – well above Copom's target of 3.25±1.5%. And the labour market is [adjusting only slowly](#) – something Copom raised concerns about at its May meeting. Against this backdrop, we think that the BCB will wait until November before lowering the Selic rate, but the risks are skewed to an earlier start to the easing cycle.

### BCCh rebuilds its reserves

Chile's central bank (BCCh) launched an FX purchase programme this week with the aim of acquiring \$10bn through daily purchases of \$40mn over the next 12 months. This is presumably aimed at rebuilding the country's FX reserves following the large scale (\$25bn) [FX sales programme last year](#).

The Chilean peso plunged by more than 2% when local markets opened on Monday, but has since pared back most of its losses. The central bank's FX purchases might put some further downward pressure on the peso going forward, but we doubt that it will have a major bearing on the currency's performance. Crucially, Chile's external position has improved substantially (see Chart 1), which should remove some of the downside risk to the peso. And if the BCCh felt that the programme was creating unwarranted downward pressure on the currency, it would presumably bring it to a halt.

Chart 1: Chile Current Account Balance (% of GDP)



Sources: Refinitiv, Capital Economics

As such, we don't think that the BCCh's announcement will change the outlook for interest rates. While we expect policymakers to leave interest rates unchanged at next Monday's meeting (see [Data Preview](#)), we think that the central bank will shift towards monetary easing in July.

### The week ahead

Similar to Chile and Brazil, we expect Banxico to leave rates unchanged at next week's meeting.



# Data Previews

## Chile Interest Rate Announcement (Jun.)

Mon. 19<sup>th</sup> Jun.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	23.00/18.00	11.25	11.25	11.25

### Shifting towards rate cuts

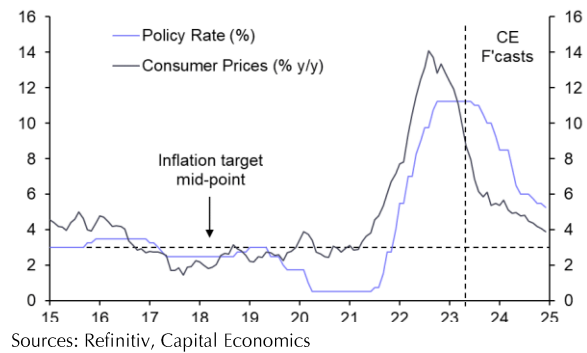
We expect Chile’s central bank (BCCh) to leave its policy rate unchanged at 11.25% when it meets next Monday. But with external risks easing and inflation falling, policymakers may signal that interest rate cuts could come onto the cards soon.

At May’s meeting the policy rate was kept on hold for a fourth consecutive meeting, with the minutes revealing that officials considered this was “only plausible option”. But recent developments may prompt a shift in policymakers’ thinking. Inflation fell by more than expected, to a 15-month low of 8.7% in April, while core price pressures are starting to show more pronounced signs of easing too.

We think that it’s still too early for the central bank to start loosening monetary policy. By July, though,

policymakers should feel confident enough that inflation is on a clear downward path. We think that this will allow the BCCh to deliver a 25bp cut, to 11.00%, followed by another 175bp of cuts over the remainder of the year. (See Chart 2.)

Chart 2: Chile Consumer Prices & Policy Rate



Sources: Refinitiv, Capital Economics

## Mexico Interest Rate Announcement (Jun.)

Thu. 22<sup>nd</sup> Jun.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	20.00/15.00	11.25	-	11.25

### Rates steady, loosening unlikely until the turn of the year

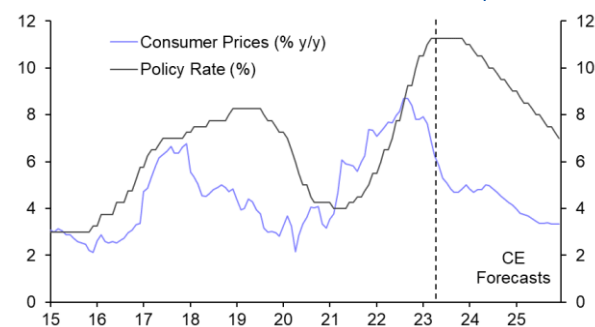
We think that Mexico’s central bank, Banxico, will leave interest rates on hold at 11.25%.

Banxico tightening cycle ended in March and the latest evidence suggests that it is unlikely to be restarted. Inflation dropped to a 21-month low of 5.8% y/y in May and the decline was broad-based across the major price sub-categories. And we expect it to have eased further, to 5.3% y/y, in the first half of June. Meanwhile, the latest hard activity data suggest the economy is struggling to sustain the momentum from the start of the year.

That said, we doubt that interest rate cuts are imminent. After all, the labour market and wage remain incredibly strong. The unemployment stands at just 2.8% and wage growth, at more than 11% y/y, has shown no sign of letting up.

The upshot is that we don’t expect the first interest rate cut to be delivered until the turn of the year (see Chart 3) and policy loosening to proceed more slowly than most anticipate. Our forecast is for the policy rate to end next year at 9.00%.

Chart 3: Mexico Consumer Prices & Policy Rate



Sources: Refinitiv, Capital Economics



## Economic Diary & Forecasts

### Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 19 <sup>th</sup>	<b>Chl</b>	Interest Rate Announcement	23.00	18.00	11.25%	11.25%	11.25%
Tue 20 <sup>th</sup>	<b>Mex</b>	Retail Sales (Apr.)	13.00	08.00	0.0%(+2.5%)	-	-
	<b>Col</b>	Economic Activity (Apr.)	17.00	12.00	(+1.6%)	(+0.3%)	-
Wed 21 <sup>st</sup>	<b>Col</b>	Trade Balance (Apr.)	16.00	11.00	-\$1.1bn	-\$0.9bn	-
	<b>Arg</b>	Trade Balance (Apr.)	20.00	15.00	-\$0.1bn	-	-
	<b>Brz</b>	Interest Rate Announcement	22.30	17.30	13.75%	13.75%	13.75%
Thu 22 <sup>nd</sup>	<b>Mex</b>	Bi-Weekly CPI (15 <sup>th</sup> Jun.)	13.00	08.00	-	-	+0.3%(+5.3%)
	<b>Mex</b>	Interest Rate Announcement	20.00	15.00	11.25%	-	11.25%
	<b>Arg</b>	Unemployment Rate (Q1)	20.00	15.00	6.3%	-	-
	<b>Arg</b>	GDP (Q1)	20.00	15.00	-1.5%(+1.9%)	-	+0.5%(+1.0%)
	<b>Arg</b>	Budget Balance (May)	-	-	-331.4bn	-	-
Fri 23 <sup>rd</sup>	-	No Significant Data or Events	-	-	-	-	-
<b>Selected future data releases and events:</b>							
26 <sup>th</sup> May	<b>Brz</b>	Current Account (May)	12.30	07.30	-\$1.7bn	-	-
	<b>Mex</b>	Economic Activity (Apr.)	12.00	08.00	-0.3%(+2.7%)	-	-
27 <sup>th</sup> May	<b>Brz</b>	MPC Meeting Minutes Released	12.00	08.00	-	-	-
	<b>Mex</b>	Trade Balance (May)	13.00	08.00	-\$1.5bn	-	-
29 <sup>th</sup> May	<b>Brz</b>	IPCA-15 Inflation (Jun.)	13.00	08.00	+0.5%(+4.0%)	-	-
	<b>Brz</b>	BCB Quarterly Inflation Report	12.00	07.00	-	-	-
30 <sup>th</sup> Nov	<b>Chl</b>	Unemployment Rate (May)	14.00	09.00	8.7%	-	-
	<b>Arg</b>	Current Account (Q1)	20.00	15.00	+\$1.7bn	-	-
30 <sup>th</sup> Nov	<b>Brz</b>	Nominal Budget Balance (May, BRL)	12.30	07.30	-25.4bn	-	-
	<b>Brz</b>	Primary Budget Balance (May, BRL)	12.30	07.30	+20.3bn	-	-
	<b>Mex</b>	Unemployment Rate (May)	13.00	08.00	2.8%	-	-
	<b>Brz</b>	Unemployment Rate (May)	13.00	08.00	8.5%	-	-
	<b>Chl</b>	Retail Sales (May)	14.00	09.00	(-10.7%)	-	-
	<b>Chl</b>	Industrial Production (May)	14.00	09.00	(-2.0%)	-	-
	<b>Col</b>	Unemployment Rate (May)	16.00	11.00	10.7%	-	-
	<b>Col</b>	Interest Rate Announcement	19.00	14.00	13.25%	-	-
	<b>Arg</b>	Economic Activity (Apr.)	20.00	15.00	+0.1%(+1.3%)	-	-
	<b>Arg</b>	Wage Growth (Apr.)	20.00	15.00	(+10.1%)	-	-
	<b>Ecu</b>	GDP (Q1)	-	-	+2.3%(+4.3%)	-	-
	1 <sup>st</sup> Jul	<b>Per</b>	CPI (Jun.)	16.00	11.00	+0.3%(+7.9%)	-

\*m/m(y/y) unless otherwise stated; † = previous day  
Sources: Bloomberg, Capital Economics



## Main Economic & Market Forecasts

**Table 1: Central Bank Policy Rates (%)**

Policy Rate	Latest (16 <sup>th</sup> Jun.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	<b>Down 50bp (Q4 '23)</b>	12.75	10.00
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	<b>Down 25bp (Q4 '23)</b>	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	<b>Down 50bp (Q4. '23)</b>	12.25	7.25
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	<b>Down 25bp (Jul. '23)</b>	9.25	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	<b>Down 25bp (Sep. '23)</b>	6.75	5.00

Sources: Refinitiv, Capital Economics

**Table 2: FX Rates vs. US Dollar & Equity Markets**

Currency	Latest (16 <sup>th</sup> Jun.)	Forecasts		Stock Market	Latest (16 <sup>th</sup> Jun.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.82	5.50	5.00	Bovespa	119,546	114,500	160,250
Mexico MXN	17.1	20.0	21.0	Bolsa	55,131	52,600	62,100
Argentina ARS	249	400	600	Merval	393,640	-	-
Colombia COP	4,138	4,500	4,200	IGBC	1,184	970	1,290
Chile CLP	792	825	775	IPSA	5,741	4,900	6,500
Peru PEN	3.64	4.00	3.70	S&P/BVL	22,465	22,100	27,400

Sources: Refinitiv, Capital Economics

**Table 3: GDP & Consumer Prices (% y/y)**

	Share of World <sup>1</sup>	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	2.3	0.8	1.5	9.3	5.3	5.3	4.0
Mexico	1.8	1.3	3.0	2.5	1.3	2.0	7.9	6.0	4.8	3.5
Argentina	0.7	-0.7	5.2	-2.8	-1.3	2.5	72.4	112.5	111.0	83.0
Colombia	0.6	2.5	7.3	1.0	1.5	2.5	10.2	11.8	5.8	4.0
Chile	0.4	2.1	2.4	0.3	2.3	2.5	11.6	8.0	4.8	3.8
Peru	0.3	2.5	2.7	1.5	2.3	2.5	7.9	7.0	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	3.8	5.0	5.0	8.8	5.3	4.5	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	1.5	1.3	1.5
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	320	65	50
Panama	0.1	3.5	10.5	1.8	2.8	3.0	2.8	1.5	1.3	1.3
Costa Rica	0.1	2.8	4.3	3.5	2.5	2.5	8.3	2.3	3.3	3.0
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	7.3	7.8	7.0
<b>Latin America<sup>2</sup></b>	<b>6.7</b>	<b>1.0</b>	<b>3.7</b>	<b>1.5</b>	<b>1.1</b>	<b>2.1</b>	<b>8.7</b>	<b>6.2</b>	<b>4.9</b>	<b>3.7</b>

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms. 2) GDP Excl. Venezuela; Consumer Prices Excl. Argentina &amp; Venezuela.



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