

Fixed Income & Economics Daily

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FX & RATES STRATEGY RESEARCH

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- **CHILE: BCCh Minutes Report Unanimous Vote in September's Meeting**

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- The Central Bank of Chile (BCCh) published the Minutes from their September meeting, in which authorities decided to keep the policy rate unchanged at 2.50% for the fourth consecutive month.
- Unlike the previous two meetings, the Minutes reported that the board voted unanimously to keep the interest rate unchanged. Previously, the more dovish member, Pablo Garcia, had voted in favor of a cut of 25bps, emphasizing the downside risks to inflation.
- The Minutes reflect that the majority of the members consider that low inflation readings are the result of temporary factors that should not affect the expected inflation path of convergence to the target.
- Moreover, given the recent signs of economic improvement, the majority of the members appear comfortable with the idea of keeping the interest rate on hold until next year, in line with the base case scenario presented in the last Quarterly Inflation Report (IPOM).
- Our Economists consider that the most likely scenario is that BCCh remains on hold for the rest of the year, but they cannot rule out an additional cut if core inflation falls sharply, as a result of second-round effects from FX appreciation.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

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LATAM ECONOMICS

ARGENTINA

ECONOMICS

Tax Revenue Increased 33% Annually in September

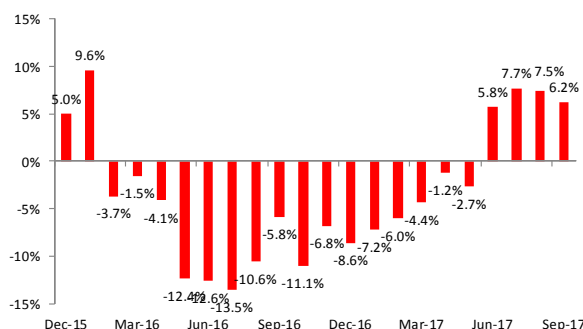
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On Monday, the Treasury published the September tax collection figures, which indicated 33% annual growth. Given the slowdown in inflation, this expansion translates into revenue jumping 6.2% y/y in real terms. July was the fourth month in a row registering positive real expansion in tax collection. Income tax expanded 50.6% y/y, explained by the payment extension of the duty this year. On the other hand, VAT proceeds increased 25.4% y/y (due to the implementation of a 90-day tax deferral benefit for SMEs). Social security taxes expanded 28.2% y/y, which is consistent with total employment expansion of around 1% annually. Given that government revenue is expanding in real terms and above GDP growth since June (a trend we expect to continue in the next months), we expect the government to reach the primary deficit objective (4.2% of GDP) in 2017.

Federal revenue growing faster



Federal revenue in real terms (excluding tax amnesty).

Sources: Ministry of Economy and Santander.

BRAZIL

ECONOMICS

Industrial Production Remains in an Uptrend

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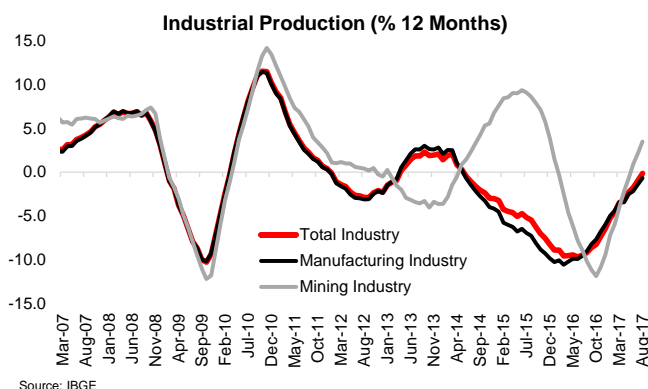
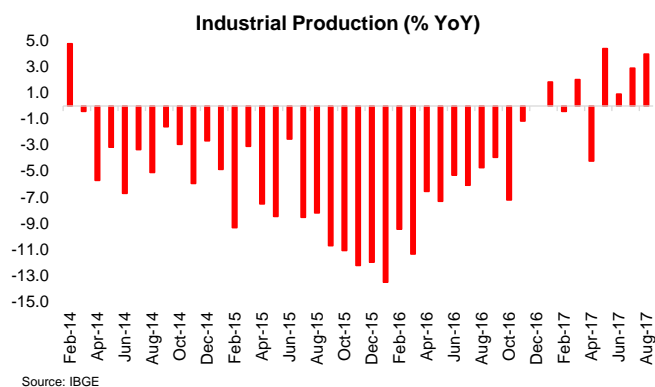
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Brazil's industrial production contracted 0.8% m/m in August, below our forecast and market consensus (-0.3% m/m and 0.0% m/m, respectively). However, in comparison with August 2016, domestic industrial output expanded by 4.0% (Santander: +4.6% y/y; consensus: +4.9% y/y).

These results did not change our expectation of a smoothed — albeit consistent — recovery in Brazilian industry, in view of the resumption of domestic demand (mainly driven by household consumption) and growing exports (notably from the automotive sector). In fact, despite the negative monthly variation, **August figures implied a statistical carryover effect (i.e., assuming null variation in September) of +0.7% QoQ for industrial production in 3Q**, which would mean the third consecutive increase on a quarterly basis.



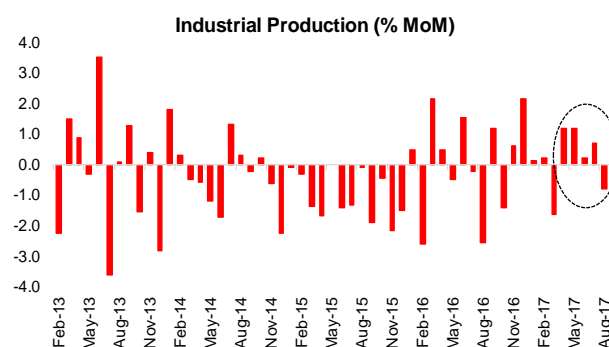
Hence, we believe that Brazil's GDP growth continued its upward trajectory over 3Q – for now, we estimate an expansion of 0.3% QoQ in the period. We assign a (slight) positive bias to our 2017 GDP growth forecast of +0.5%.



Industrial Production Breakdown				
	% MoM		% YoY	
Category	Jul-17	Aug-17	Jul-17	Aug-17
Total Industry	0.7	-0.8	2.9	4.0
Manufacturing Industry	0.5	0.0	2.8	4.2
Mining Industry	-1.4	-1.1	3.7	2.6
Capital Goods	1.5	0.5	8.2	9.0
Intermediate Goods	0.9	-1.0	1.3	2.1
Durable Goods	2.9	4.1	8.3	18.5
Non-Durable Goods	1.9	-0.6	4.3	3.5

Source: IBGE

→ automotive sector





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