

Fixed Income & Economics Daily

Thursday, September 7, 2017

FX & RATES STRATEGY RESEARCH

Diana Ayala

212-407-0979

diana.ayala@santander.us

• CHILE: IPOM closes the door for more cuts

CHILE: IPOM closes the door for more cuts

- The Central Bank of Chile (BCCh) published its Monetary Policy Report (IPOM) for 3Q17. In the report, the Central Bank surprisingly revised up its growth forecast for 2017 to 1.25%-1.75% from 1.0%-1.75%, but kept its forecast for 2018 at 2.5%-3.5%.
- The Central Bank revised down its inflation forecasts for 2017 and sees lower average inflation for 2018, but kept its view that inflation will converge to the 3.0% target by end 2018. In the case of the core, it maintained its end-of-year forecast at 2.7%, suggesting that the effects on inflation from the strong CLP are not expected to be long-lasting.
- Under these assumptions, the BCCh stated that their base scenario is that the Monetary Policy Rate will remain on-hold and should start converging to neutral once the output gap starts to close, most likely in 2H18.
- In our view, the IPOM closes the door for more cuts, and suggests that the Monetary Policy Rate will remain on hold at 2.50% until 2H18.

BCCh's Forecasts

		2017F	2018F
Growth (%)	Previous	1.0-1.75	2.5-3.5
	Revision	1.25-1.75	2.5-3.5
Headline Inflation (avg, yoy%)	Previous	2.6	2.9
	Revision	2.3	2.7
Headline Inflation (eop, yoy%)	Previous	2.9	2.8
	Revision	2.4	3.0
Core Inflation (avg, yoy%)	Previous	2.1	2.5
	Revision	2.0	2.2
Core Inflation (eop, yoy%)	Previous	2.1	2.7
	Revision	1.9	2.7
Current Account Deficit (% GDP)	Previous	-1.0	-1.9
	Revision	-1.2	-1.8

Source: BCCh.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

U.S. INVESTORS' INQUIRIES SHOULD BE DIRECTED TO SANTANDER INVESTMENT SECURITIES INC. AT (212) 583-4629 / (212) 350-3918.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2711 and Incorporated NYSE Rule 472 restrictions.



ECONOMICS

Brazil Macro Compass

The End (of the Monetary Easing Cycle) Is Near

Maurício Molan* and Team
mmolan@santander.com.br
5511-3012-5724

What's Going On?

Brazil's Central Bank cut the benchmark Selic rate to 8.25% (from 9.25%) and signaled a reduction in the pace of cuts for the next meeting. The Monetary Policy Committee (Copom) stated that, at this point of the cycle, a "moderate reduction in the magnitude of monetary easing" is adequate, and that it foresees a "gradual ending" for the cycle, adding the usual caveats about the evolution of the balance of risks, economic activity and inflation expectations. This wording is compatible with our year-end forecast (7.5%), which would imply only a 75-bp cut in the next meeting (on October 25) before the end of the cycle – however, there might be several interpretations for "moderate reduction" and "gradual ending". Under current conditions, our forecast seems to be at the top of the range of possibilities for the terminal rate, but it doesn't look, in our view, significantly less likely than a rate 50bps–100bps lower. The fine-tuning will depend on how the scenario evolves until December. Copom also stated that current economic conditions call for a policy rate below its structural (neutral) level, which, by its turn, should have fallen after recent changes in the credit market. Our latest estimates (see our report *Monetary Policy and the Last Crusade*, August 30, 2017) put the neutral real rate in the 3.4%-5.9% range.

August CPI inflation was released on Wednesday, again surprising to the downside. 12-month inflation came at 2.46%, below the floor of the inflation target range (3% – 6%) and our forecast (2.56%). The main deviations from our estimates came from foodstuff and fuel prices (each contributed with -5bps relative to our forecast). This release adds a slight downward bias to our year-end forecast for 12-month inflation (at 3.8%).

Upcoming Releases

Next week's schedule is full of economic activity indicators, which tend to present additional evidence on household consumption as a driver for the economic recovery. On Tuesday, July retail sales should show a 0.2% change from June, which should be the fourth consecutive monthly positive reading. The clear uptrend in retail, driven by factors such as falling inflation, also should be reflected in the performance of the services sector in July – we forecast a volume of services 0.5% higher relative to the previous month — data to be released on Wednesday.

The recent growth in industrial production and the positive outlook for retail and services lead us to forecast a 0.1% monthly rise for the IBC-Br (GDP proxy estimated by the Central Bank) in July (+0.6% on a year-over-year basis). **We believe that the next releases will shed light on the upward trajectory of the Brazilian GDP.**

Political Agenda

Several themes evolved in Congress during the past week: the MP (decree) 777, which changes the benchmark rate for BNDES loans, was approved in the Senate and should be sanctioned by the President. The Joint Budget Committee approved new fiscal targets for both 2017 and 2018. Finally, the primary version of the Constitutional Amendment Proposition (PEC) 282, which deals with the electoral rules for 2018 onwards, was approved in a first round vote in the Lower House. In its current version, the proposition creates a national vote threshold and forbids parties from forming coalitions to dispute legislative elections.

The conclusion of the vote of the PEC 282 is scheduled for the next week – several addenda to the primary version will be examined. It's important to highlight that the deadline for changes in the electoral laws to be valid in the 2018 elections is October 6, implying a very tight schedule for changes in the Constitution that require two rounds of votes in both Houses of the Congress. Hence, the discussion of political reform should continue to dominate the debates in Brasília, leaving the fiscal consolidation plan on the back burner.



Most Recent Publications

- *Monetary Policy and the Last Crusade* (August 30, 2017)
 - *Unusually Low Risk Aversion Triggers a More Bullish Scenario in the Short Term* (August 17, 2017)
 - *Fiscal Policy: 2017-2020 Long Range Fiscal Targets* (August 16, 2017)
 - *Fiscal Policy: 2019 - Time to Bite the Bullet II* (July 17, 2017)
-

CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@bzwbk.pl	48-22-534-1888
Sergio Galván*	Economist – Argentina	sgalvan@santanderio.com.ar	54-11-4341-1728
Maurício Molan*	Economist – Brazil	mmolan@santander.com.br	5511-3012-5724
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Brendan Hurley	Economist - Colombia	bhurley@santander.us	212-350-0733
David Franco*	Economist – Mexico	dafranco@santander.com.mx	5255 5269-1932
Tatiana Pinheiro*	Economist – Peru	tatiana.pinheiro@santander.com.br	5511-3012-5179
Piotr Bielski*	Economist – Poland	piotr.bielski@bzwbk.pl	48-22-534-1888
Marcela Bensión*	Economist – Uruguay	mbension@santander.com.uy	5982-1747-5537

Fixed Income Research

Brendan Hurley	Macro, Rates & FX Strategy – Latin America	bhurley@santander.us	212-350-0733
Diana Ayala	Macro, Rates & FX Strategy – Latin America	diana.ayala@santander.us	212-407-0979
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
Aaron Holsberg	Head of Credit Research	aholsberg@santander.us	212-407-0978

Equity Research

Christian Audi	Head LatAm Equity Research	caudi@santander.us	212-350-3991
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderio.com.ar	5411-4341-1564
Valder Nogueira*	Head, Brazil	jvalder@santander.com.br	5511-3012-5747
Pedro Balcao Reis*	Head, Mexico	pbalcao@santander.com.mx	5255-5269-2264

Electronic Media

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Diana Ayala, Mauricio Molan*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2017 by Santander Investment Securities Inc. All Rights Reserved.

