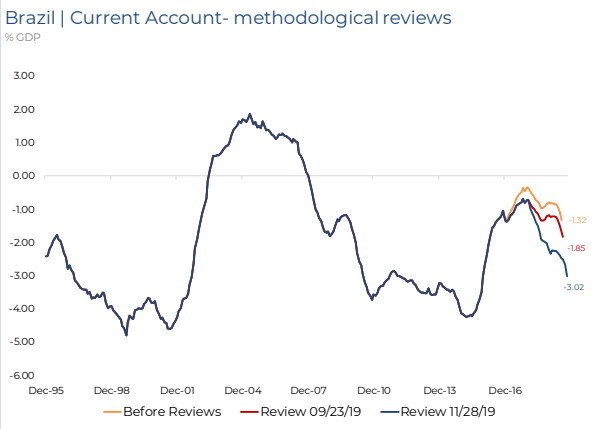
BlueLine
ASSET MANAGEMENT

Blue Notes | Weekly | November 29, 2019

Political and economic noises shake markets. On the top of the concerns on the political front that we have mentioned in last week´s Blue Notes, the market started to also price in negative surprises on the economic front, which have pushed the Brazilian Central Bank (BCB) to intervene to tame the BRL depreciation. Minister Paulo Guedes polemic statements, drastic external accounts revisions that showed a wider deficit than initially thought, and the contagion from the fx losses in other Latin American countries set the tone for a weaker BRL. Following the BCB, the Chilean Central Bank announcing an aggressive intervention policy, that brought some relief to the markets. In Mexico, markets are focusing on rate policy and inflation persistence.

Current account deficit is wider than thought before. For the second time in the year, the BCB revised balance of payments statistics, showing a wider current account deficit (chart). The deficit (3% of GDP) is still easily financed by direct foreign investment, but Brazilian external accounts seem less favorable than initially thought. This, amid external and political noise, led to a perverse fx depreciation trend, pushing the BCB to intervene. Still this week, data from the trade balance was revised, showing higher exports, which brought some relief to the BRL. On the activity front, October employment data confirmed the gradual recovery of the labor market with a marginal improvement in employment composition.



Chile uses heavy ammunition to tame depreciation. The Central Bank of Chile announced a significant fx intervention program in which $10bn will be offered in the spot and the same amount in futures markets. This is roughly 50% of Chile´s international reserves, that are around $40bn. This intervention seems necessary as inflation has showed signals of acceleration with supply restrictions given the demonstrations and fx pass-through. At the same time, economic activity has been suffering from the demonstrations and confidence has dropped, imposing a challenging future for Chile.

In Mexico, eyes on inflation and monetary policy. Banxico's minutes brought a more pessimist tone in relation to economic activity and still cautious one to inflation, given core inflation remains elevated. Looking forward, the minutes show there is consensus among the board members despite the next steps of the Fed will be, but there was some divergence regarding the pace of adjustment. Most board members argue that a cautious and gradual approach will set the tone for upcoming decisions, which seems consistent with additional 25bps rate cuts. One of the main risks that were highlighted for this caution is the minimum wage increase decision, which should be between 14% and 29%.