

Latam Daily Flash

8 February 2013 Economic Analysis

Madrid

Juan Ruiz

Chief Economist, South America
juan.ruiz@bbva.com
+34 913745887

Enestor dos Santos

Senior Economist, Latam
enestor.dossantos@bbva.com
+34 639827211

Mexico City

Octavio Gutierrez-Engelmann

Macro Latam Strategy
o.gutierrez3@bbva.com
+5255 5621 9245

With contributions from the BBVA
Research Latam Team:

Lima

Hugo Perea

Chief Economist, Peru
hugo.perea@bbva.com
+51 1 2112042

Bogota

Juana Tellez

Chief Economist, Colombia
juana.tellez@bbva.com
+571 3471600

Santiago

Alejandro Puente

Chief Economist, Chile
alejandropuente@bbva.com
+56 2 2939 10 92

Mexico City

Carlos Serrano

Chief Economist, Mexico
carlos.serranoh@bbva.com
+5255 5621 4354

January's inflation figures for Brazil and Mexico were released yesterday, with the former showing a continuing upward trend to uncomfortably high levels, and the reading in Mexico surprising to the upside, though still in a downward trend. Peru's central bank did not surprise and left the monetary policy rate unchanged. Today the focus will be on inflation in Chile, investment in Mexico and business confidence in Peru. The latter is expected to confirm a strong outlook for private investment.

Mexico - Inflation keeps easing despite the upwards surprise in January

Inflation increased 0.4% MoM in January, surprising the market (0.3% MoM consensus); however it is still falling in annual terms, reaching 3.25% YoY (3.6% in December). The surprise was caused by a sharp increase in mobile tariffs which partially offset the cuts of the past couple of months. Inflation remains in a declining trend as finished goods, livestock and agricultural prices are less under pressure (see our [Mexico Economic Watch](#))

Brazil - Inflation at uncomfortably high levels

Inflation increased for the seventh consecutive month and reached 6.15% in January, broadly in line with expectations. Even though rising food prices (11.1% YoY; 2.0% MoM) are an important factor behind this upward trend, inflation pressures are also related to demand issues (services inflation, for example, reached 8.6% YoY; 0.92% MoM). We expect inflation to continue at high levels in the coming months and eventually trigger more tax cuts and other policy actions, but not a SELIC hike (for more, see our [Brazil Flash](#)).

Brazil - Government eases 2013 fiscal target

In the 2013 budget bill sent to Congress, changes were introduced to the fiscal target. The full primary surplus target will remain around 3.1%, but the government will now be allowed to exclude from the target up to 0.4% of GDP on tax breaks in excess of 0.9% of GDP for public investment projects included in the PAC. In practice, the primary surplus target will then be eased to 1.8% (see our [Brazil Economic Watch](#), for more on our view on this issue).

Peru - Central bank maintains neutral tone for its policy rate

As expected, the central bank kept its policy rate at 4.25%. The statement released after the meeting was similar to the previous one (January), but expressed less concern about external conditions. In the coming months, we expect the policy rate to remain unchanged in a context of inflation moving within the target range (2% +/- 1pp), GDP expanding around potential, and upward pressures on the local currency (see our [Peru Flash](#)).

Chile - Wages increased 6.3% YoY in December

Nominal wages increased 6.3%YoY in December 2012 (4.7% in real terms). This print continues to reflect the tightness of the labor market and adds to inflationary pressures in the medium term. By sector, mining and construction led the increases in wages, reaching +8.5% and +8.9%, respectively. However, we do not expect any change in the monetary policy stance in the medium term, given well-anchored long-term inflation expectations.

Colombia -Energy demand increases, reflecting manufacturing recovery

In January, energy demand grew 4.5% YoY, the highest figure since July 2012. This result appears to support our view that the manufacturing sector bottomed-out in December 2012, and is now beginning a slow recovery which will be consolidated in the second half of the year. This number is also in line with BanRep's outlook, which anticipates a slow recovery starting 1Q13, although not fully offsetting the current dovish tone.

What to watch today

Chile - Consumer Price Index (January, 6:00 hrs, NYT)

We expect CPI to show no monthly change in January 2013, but increase 1.4% YoY. The estimated increase in prices of perishable foods, gasoline and transportation should be fully offset by a decrease in stamp duties, related to the fiscal reform of 2012, that came into force this year.

Mexico - Gross Fixed Investment (November, 9:00hrs, NYT)

After a drop in October (-0.3% MoM, sa), we forecast an increase of 0.7% MoM in November (5.8% YoY), supported by higher investment in machinery and equipment. We remain cautious about construction investment at YE12e.

Peru - Business confidence (January, 13:00 hrs NYT)

We expect this to remain at a similar level to the previous reading (64 points, within the optimistic zone, i.e. above 50), lending support to our view that private investment will continue to expand in double-digit rates in the coming quarters.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FIPE CPI - Monthly	4-Feb	Jan	1.06%	--	1.15%	0.78%
FGV Inflation IGP-DI	5-Feb	Jan	0.26%	--	0.31%	0.66%
PMI Services	5-Feb	Jan	--	--	54.5	53.5
CNI Capacity Utilization	6-Feb	Dec	81.50%	--	80.9%	81.4%
Vehicle Sales (Anfavea)	6-Feb	Jan	--	--	311453	359355
FGV Preview Inflation IGP-M	7-Feb	Jan 31	0.20%	--	0.41%	0.34%
IBGE Inflation IPCA (MoM)	7-Feb	Jan	0.84%	0.82%	0.86%	0.79%
FGV CPI IPC-S	8-Feb	Feb 11	--	--	--	--
Chile						
Economic Activity Indx YoY NSA	5-Feb	Dec	3.70%	3.50%	4.70%	5.5%
Total Exports in US\$ Million	7-Feb	Jan	--	\$6700	\$6928	\$7714.0
Total Imports in US\$ Million	7-Feb	Jan	--	\$6800	\$6684	\$6208.0
CPI (MoM)	8-Feb	Jan	0.05%	0.10%	--	0.0%
Colombia						
Producer Price Index (MoM)	4-Feb	Jan	--	--	-0.05%	-0.74%
Consumer Price Index (MoM)	6-Feb	Jan	0.52%	0.52%	0.30%	0.09%
Mexico						
IMEF Manufacturing Index	5-Feb	Jan	53.2	--	52.1	52.8
Consumer Confidence	6-Feb	Jan	99.00	99.80	100	99.0
Consumer Prices (MoM)	7-Feb	Jan	0.32%	0.26%	0.40%	0.23%
Consumer Prices Core (MoM)	7-Feb	Jan	0.30%	0.21%	0.42%	0.12%
Bi-Weekly CPI	7-Feb	Jan 31	0.22%	0.11%	0.40%	0.15%
Bi-Weekly Core CPI	7-Feb	Jan 31	0.20%	0.03%	0.47%	0.18%
Gross Fixed Investment	8-Feb	Nov	4.90%	6.80%	--	9.5%
Peru						
Reference Rate	8-Feb	Feb	4.25%	4.25%	--	4.25%
Business Confidence	8-Feb	Feb	--	--	--	64.00%
Electricity production	04-09 Feb	Mar	--	--	--	5.88%

Most recent Latam reports

Date	Description
7-2-2013	➤ Peru Flash: Central Bank keeps neutral tone for its policy rate
7-2-2013	➤ Mexico Flash: January's inflation: Monthly Inflation Surprises Upwards due to Telephone Services; However Inflation keeps Easing Annually
7-2-2013	➤ Brazil Flash: Inflation at uncomfortably high levels
5-2-2013	➤ Colombia Flash: Consumer inflation dropped to 2.0% YoY in January, standing at the lower bound of the inflation target band
5-2-2013	➤ Chile Flash: Economic activity shows moderate slowdown at the end of 2012
1-2-2013	➤ Banxico Watch: Banxico seems to be targeting a cut but the uncertainty remains: how to play it?
1-2-2013	➤ Peru Flash: Annual inflation remained within the target range
1-2-2013	➤ Chile Flash: Minutes of the January's meeting turn to a more hawkish view
31-1-2013	➤ Working Paper: Expanding Credit and Savings in Peru
31-1-2013	➤ Brazil Economic Watch: "The macro mix in Brazil: a new fiscal regime, to a new monetary policy"

Important Disclosures

The BBVA Group companies that have participated in preparing or contributed information, opinions, estimates, forecasts or recommendations to this report are identified by the location(s) of the author(s) listed on the first page as follows: 1) Madrid, London or Europe - Banco Bilbao Vizcaya Argentaria, S.A., including its E.U. branches (hereinafter called 'BBVA'), 2) Mexico City - BBVA Bancomer, S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (hereinafter called 'BBVA Bancomer'); 3) New York - BBVA Securities, Inc. (hereinafter called 'BBVA Securities'); 4.) Lima - BBVA Continental S.A.; 5.) Bogata - BBVA Colombia S.A.; 6.) Santiago - BBVA Chile S.A.

For recipients in the European Union, this document is distributed by BBVA, a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), and registered with the Bank of Spain with number 0182.

For recipients in Mexico, this document is distributed by BBVA Bancomer, a bank supervised by the Comisión Nacional Bancaria y de Valores de México.

For recipients in USA, this document is being distributed by BBVA Securities, a subsidiary of BBVA registered with and supervised by the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation. U.S. persons wishing to execute any transactions should do so only by contacting a representative of BBVA Securities in the U.S. Unless local regulations provide otherwise, non-U.S. persons should contact and execute transactions through a BBVA branch or affiliate in their home jurisdiction.

BBVA and BBVA Group companies or affiliates (art. 42 of the Royal Decree of 22 August 1885 Code of Commerce), are subject to the BBVA Group Policy on Conduct for Security Market Operations which establishes common standards for activity in these entities' markets, but also specifically for analysis and analysts. This BBVA policy is available for reference at the following web site: www.bbva.com.

Analysts residing outside the U.S. who have contributed to this report are not registered with or qualified as research analysts by FINRA or the New York Stock Exchange and may not be considered "associated persons" of BBVA Securities (as such term is construed by the rules of FINRA). As such, they are not subject to NASD Rule 2711 restrictions on communications with subject companies, public appearances and trading of securities held in research analysts' accounts.

BBVA is subject to a Code of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for the EU. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. This Code of Conduct for Security Market Operations is available for reference in the 'Corporate Governance' section of the following web site: www.bbva.com.

BBVA Bancomer is subject to a Code of Conduct and to Internal Standards of Conduct for Security Market Operations, which details the standards of the above-mentioned overall policy for Mexico. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. This Code and the Internal Standards are available for reference in the 'Grupo BBVA Bancomer' subsection of the 'Conócenos' menu of the following web site: www.bancomer.com.

BBVA Securities is subject to a Capital Markets Code of Conduct, which details the standards of the above-mentioned overall policy for USA. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers.

Exclusively for Recipients Resident in Mexico

BBVA Bancomer S.A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer acts as a market maker/specialist in: MexDer Future Contracts (US dollar [DEUA], 28-day TIEs [TE28], TIE Swaps, 91-day CETES [CE91]), Bonos M, Bonos M3, Bonos M10, BMV Price and Quotations Index (IPC), Options Contracts (IPC, shares in América Móvil, Cemex, CPO, Femsa UBD, Gcarso A1, Telmex L) and Udibonos.

BBVA Bancomer, and, as applicable, its affiliates within BBVA Bancomer Financial Group, may hold from time to time investments in the securities or derivative financial instruments with underlying securities covered in this report, which represent 10% or more of its securities or investment portfolio, or 10% or more of the issue or underlying of the securities covered.

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information and are current as of the date of issue and subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.