

Latam Daily Flash

2 July 2013 Economic Analysis

Madrid

Juan Ruiz

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

Enestor dos Santos

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

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

Jorge Selaive

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

Mexico City

Carlos Serrano

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

Javier Amador

Principal Economist
javier.amador@bbva.com
+ 5255 5621 3095

The manufacturing index in Mexico continued to fall in June, confirming the slowdown in activity and adding a downward bias to our GDP growth estimate for 2Q13. Meanwhile, in Peru, inflation kept inching upwards on strong demand and the recent depreciation in the exchange rate. It is now close to the ceiling of the central bank's target band and we expect it to remain close to 3% in coming months. Meanwhile, in Chile, the monetary policy report included a downward revision to growth and - to a lesser extent - in inflation, together with a rate cut towards December. Today all eyes will be on industrial production in Brazil, expected to decelerate from April's strong readings.

Mexico - weakness in the manufacturing sector continues

The IMEF manufacturing index fell in June for the fifth consecutive month to 47.3 (well below our already below-consensus forecast of 48.5) from a downwardly revised 48.9 print in May, the lowest level of the last 48 months. This weak print confirms the slowdown in economic activity and further tilts our second-quarter growth forecast to the downside.

Peru - Inflation keeps trending upwards

Consumer prices rose 2.8% YoY in June, 0.3pp above the May print. This is consistent with our call that inflation will remain close to the upper end of the target range (3.0%) in the coming months. Our view is supported not only by strong output growth but also by the weakened domestic currency, which appears to have started to affect some local prices.

Chile - Central bank reduced growth range forecast for 2013

As we expected, the Monetary Policy Report for July showed a downward revision to the 2013 growth range, forecasting GDP expansion between 4% and 5% (previously at 4.5%-5.5%). The latter, mainly driven by a faster deceleration in investment than anticipated in the March report. Private consumption, although moderating, is still supported by the tightness in the labor market. Meanwhile, the central bank also revised downwards its inflation expectations, from 2.8% YoY to a 2.6% YoY in December 2013, highlighting that transitory elements are driving effective annual inflation of around 1.0%. Finally, for the baseline scenario, the central bank assumes an MPR path similar to that implicit in measures of private expectations, which call for a 50bp cut during the next six months (closing 2013 at 4.5%). All in all, fundamentals for consumption are still strong and, in our opinion, the actual deceleration of the economy does not have to be fueled by interest rate cuts, at least not in the very short term (see our [Chile Flash](#) for details).

What to watch today

Brazil - Industrial production (May, 08:30hrs NYT)

Following a strong April print (+1.8% MoM), we expect the industrial sector to lose some steam in May (-0.3% MoM) and, therefore, reinforce our view that GDP will not accelerate sharply in 2Q13 in comparison to 1Q13 (when it grew 0.6% QoQ).

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	01 Jul	2-jun	0.37%	--	0.35%	0.37%
PMI Manufacturing	01 Jul	Jun	--	--	50.4	50.4
Trade Balance (Mln) - Monthly	01 Jul	Jun	\$2050M	\$2000M	\$2394M	\$760M
Vehicle Sales (Fenabrave)	02 Jul	Jun	--	--	--	316225
FIPE CPI - Monthly	02 Jul	Jun	0.365%	--	--	0.1%
Industrial Production sa (MoM)	02 Jul	May	1.1%	--	--	1.8%
PMI Services	03 Jul	Jun	--	--	--	51
Commodity Price Index (MoM)	03-10 Jul	Jun	--	--	--	0.55%
Vehicle Production (Anfavea)	04 Jul	Jun	--	--	--	348070
FGV Inflation IGP-DI	05 Jul	Jun	0.68%	--	--	0.32%
IBGE Inflation IPCA (MoM)	05 Jul	Jun	0.34%	0.32%	--	0.37%
Chile						
Central Bank 2Q monetary policy report (IPOM)	01 Jul	--	--	--	--	--
Economic Activity Indx YoY NSA	05 Jul	May	4%	3.8%	--	4.4%
CPI MoM	06 Jul	Jun	0.4%	0.6%	--	0.00%
Colombia						
Producer Price Index (MoM)	04 Jul	Jun	--	--	--	0.19%
CPI MoM	06 Jul	Jun	0.17%	0.22%	--	0.28%
Mexico						
IMEF Manufacturing Index NSA	01 Jul	Jun	50	--	47.5	49
Consumer Confidence	03 Jul	Jun	95.4	--	--	95.2
Leading Indicators (MoM)	04 Jul	May	--	--	--	2.00%
Peru						
CPI MoM	01 Jul	Jun	0.22%	0.3%	0.26%	0.19%
Wholesale Prices (MoM)	01 Jul	Jun	--	--	0.82%	-0.3%

Most recent Latam reports

Date	Description
1-07-2013	➤ Mexico Migration Flash: Remittances to Mexico recorded 11 consecutive months with declines
1-07-2013	➤ Flash Peru: Annual inflation kept upward trend in June
28-06-2013	➤ Mexico Regional Sectorial Outlook
28-06-2013	➤ Colombia Flash: Central Bank kept policy rate at 3.25% and moderates concerns about local volatility
28-06-2013	➤ Flash Uruguay: Central Bank established a new monetary policy instrument which will have a slight tightening bias
28-06-2013	➤ Mexico Migration Flash: Do remittances recovered last May?
27-06-2013	➤ Brazil Flash: Central Bank expects higher inflation and lower growth; and we expect a higher SELIC
25-06-2013	➤ Mexico Banking Flash: The Ministry of Finance (SHCP) has published amendments to the Single Banking Circular ("Circular Única de Bancos", or CUB) to establish new rules for rating the commercial credit portfolio
25-06-2013	➤ Peru Economic Watch: International reserves in Peru: approaching the optimal level
24-06-2013	➤ Mexico Inflation Flash: June's biweekly inflation: Inflation Surprised Downwards Thanks to Lower Than Expected Non Core Inflation

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.) Bogota - 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 TIIEs [TE28], TIIE 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.