

# Latam Daily Flash

## 15 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

*Indicators of economic activity in Latam continued to indicate weakness in May. Activity contracted more than expected in Brazil, whereas softer external demand meant that industrial production grew in Mexico and Peru, but the trends remain weak. Meanwhile, central banks in Colombia and Mexico appeared to differ somewhat in their assessments of the effects of the external environment, with Banxico more dovish on the risks to growth and BanRep expecting a limited impact of recent market volatility if accompanied by US growth. Today the focus will be on May GDP growth in Peru, expected to have reached 5.1% YoY.*

## Brazil – Economic activity contracted more than expected in May

The IBC-Br, the economic activity index released by the central bank, declined 1.4% MoM in May, significantly more than expected (BBVAe: -0.8% MoM; consensus: -1.1% MoM). The result in May was the weakest since the end of 2008, when the country was hit by the Lehman Brothers crisis. In spite of this sharp correction in May, growth reached 1.4% QoQ in the last three months. All in all, today's figures support our 0.6% QoQ forecast for GDP growth in 2Q13e and our view that growth will not accelerate significantly over the remainder of the year.

## Brazil – Central bank introduces another measure to moderate currency depreciation

Following the unwinding of some capital controls announced in the last few weeks, the monetary authority announced a reduction in reserve requirements on banks' foreign exchange positions. The Brazilian real has weakened around 12% in the last two months, posing another risk to inflation and an upward bias to our Selic forecasts (+50bp in August and a final +25bp hike in October).

## Colombia – Monetary policy minutes reveal expectations that the Fed's tapering of bond purchases will have a limited impact

The minutes revealed a more optimistic BanRep regarding activity. Despite weak growth in private consumption in 1Q13, it expects a rebound in the second quarter. BanRep stated that the recent volatility should have a limited impact on Latam countries, as the tapering should come in a context of a gradual recovery in the US, with more dynamic external demand and rising commodity prices. BanRep is optimistic but aware that economic growth is sluggish, and its tone is in line with our call for policy rates to remain unchanged for the rest of the year, with the first rate hike in April 2014e.

## Mexico – Monetary policy statement: dovish but with a neutral close

Banxico left the reference rate unchanged at 4.0%, as broadly expected. Although the tone of the statement had a more dovish feel, the wording of the closing paragraph (on monetary policy) was mostly unchanged from the 7 June statement, and thus appears to be a neutral close. On activity, Banxico's board perceives that downward risks to growth have increased, as the deceleration during 2Q13 has been deeper and faster than expected. Inflation continues on a downward trend and the balance of risks to inflation has improved. Considering the dovish tone, another rate cut is still possible, but if we factor-in the neutral close, it appears that the probability is somewhat lower. All in all, in our view an additional cut now appears to be contingent on an appreciation of the MXN (i.e. a tightening in monetary conditions) and continued economic weakness.

## Mexico - Industrial production surprised to the upside in May but the trend remains weak

Industrial production expanded at a stronger pace than expected in May (1.4% MoM sa), partially offsetting the significant drop observed in April (-1.8% MoM sa). The monthly expansion was broad-based: all of its components expanded during the month, most notably construction (2.5% MoM) and manufacturing (1.0% MoM). However, the trend remains weak, just 0.5% YoY. This weakness is consistent with the weakness in the sector in the US, where industrial output has grown on average by 0.1% MoM during the year and more particularly manufacturing output has been flat (0.0% MoM).

## Peru - Manufacturing slowdown in May reflects lower foreign demand and a slower pace of mining investment

Growth of manufacturing output decelerated to 1.0% YoY in May (vs. 4.4% in April) because the boost from processing primary resources was attenuated by the decline in textile and capital goods production. The latter was due to lower external demand and a slower pace of mining investment. In a context of reduced expectations for both global growth and metals prices, we think these should remain the prevailing trends in the coming months.

## What to watch today

### Peru - GDP growth (May, 12:00hrs NYT)

We expect GDP to have increased by 5.1% YoY in May. In our view, this level of expansion would reflect strong growth in the sectors most closely linked to internal demand (construction and services), alongside a recovery in mining and fuel production. This should in turn be partially offset by the fall in the other primary sectors (agriculture and fishing) and the deceleration in manufacturing.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Tax Collections	15-22 Jul	Jun	--	--	--	87858M
CAGED Formal Job Creation	15-21 Jul	Jun	100000	--	--	72028
FGV Inflation IGP-10 (MoM)	16 Jul	Jul	0.60%	--	--	0.63%
FGV CPI IPC-S	16 Jul	2-Jul	0.13%	--	--	0.23%
IGP-M Inflation 2nd Preview	18 Jul	Jul	0.32%	--	--	0.74%
COPOM Monetary Policy Meeting Minutes	18 Jul	1-Jan	--	--	--	0.00%
IBGE CPI IPCA-15 (MoM)	19 Jul	Jul	0.13%	0.22%	--	0.38%
<b>Colombia</b>						
Outstanding Loans	15-19 Jul	May	--	--	--	\$256.1B
Trade Balance	17 Jul	May	--	\$522	--	\$36.8
Retail Sales (YoY)	19 Jul	May	3.50%	3.6%	--	5.70%
Industrial Production (YoY)	19 Jul	May	-1.90%	-2.5%	--	8.40%
<b>Mexico</b>						
ANTAD Same-Store Sales (YoY%)	15 Jul	Jun	--	--	--	-0.30%
Unemployment Rate	18 Jul	Jun	4.97%	--	--	4.93%
<b>Peru</b>						
Unemployment	15 Jul	Jun	--	--	--	5.70%
Economic Activity Indx YoY NSA	15 Jul	May	5.55%	5.1%	--	7.70%

## Most recent Latam reports

Date	Description
15-07-2013	<a href="#">➤ Mexico Flash: Industrial production rebounded in May, partially offsetting the sharp decline in April. The trend remains of moderation.</a>
11-07-2013	<a href="#">➤ Peru Flash: Central Bank somewhat more dovish</a>
11-07-2013	<a href="#">➤ Chile Flash: CB kept the monetary policy rate at 5%, but explicitly delivered a dovish tone</a>
11-07-2013	<a href="#">➤ Mexico Flash: Banxico: Fondeo rate at 4.0%. A dovish tone is expected as domestic activity impairs</a>
11-07-2013	<a href="#">➤ Flash Brazil: The monetary tightening continues, at an unchanged pace</a>
09-07-2013	<a href="#">➤ Mexico Inflation Flash: June's inflation: Inflation Approaches 4% Due To Lower Fruit And Vegetable Prices And Falling Core Inflation</a>
08-07-2013	<a href="#">➤ Inflation jumped to 2.16% YoY in June, consolidating within the inflation target range</a>
08-07-2013	<a href="#">➤ CPI inflation for June 0,6% m/m, in line with our forecast, and impacted by transitory elements</a>
05-07-2013	<a href="#">➤ Brazil Flash: Inflation peaks in June</a>
01-07-2013	<a href="#">➤ Mexico Migration Flash: Remittances to Mexico recorded 11 consecutive months with declines</a>

### 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](http://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](http://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](http://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](http://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.**