

Latam Daily Flash

22 August 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

Cecilia Posadas

c.posadas@bbva.com
Principal Economist 2, Latam
+34 913746279

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.amadord@bbva.com
+5255 5621 3095

Inflation in Brazil was in line with our view of an adjustment in the Selic rate in August and an end to monetary tightening in October. In Mexico retail sales confirmed economic weakness in 1H13.

Brazil - In line with expectations, monthly inflation eased at the beginning of August

In line with expectations, the IPCA-15, a measure of inflation from mid-July to mid-August reached 0.16% MoM (0.15% MoM BBVAe, 0.07% MoM in the previous period). In yearly terms, inflation was 6.15%, implying the second consecutive month with inflation below upper limit of the official target (6.5%). Key factors behind the downside trend in inflation are benign food and transport prices as well as favourable base effects. These inflation figures keep the door open for the BCB to end the current monetary tightening cycle in the coming months. We maintain our outlook of a 50bp upwards adjustment of the Selic rate to 9% in August and an additional (and final) 25bp hike in October.

Mexico - Retail sales confirm economic weakness in 1H13

As we already have the GDP print for the second quarter, the retail sales data for June released yesterday was less relevant as it merely confirmed the weak economic performance in 2Q13. Retail sales increased 0.1% MoM in June which implies a 1.9% YoY contraction in annual terms. In our view, July's weak job-creation (5k) suggests that a rebound at the start of the third quarter is unlikely.

What to watch today

Brazil - Unemployment rate (July, 08:00hrs NYT)

We expect the Brazilian labour market to continue to show signs of moderation, with a 6% unemployment rate in July. Employment at historical lows is a driver of the deterioration of private consumption in recent months.

Mexico - Inflation (first fortnight of August, 09:00hrs NYT)

We expect inflation data for the first two weeks of August to confirm the downward trend in year-on-year inflation. In fortnightly terms, we expect to see an upswing in core inflation (0.15% vs. 0.03% in July) after the end of retailers' discounts in July and the seasonal increase in school fees; however, in annual terms, we expect it to decline to 2.43% (2.50% in July), representing an all-time low. Meanwhile, we expect a 0.14% FoF increase in headline inflation.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Tax Collections	19 Aug	Jul	94715M	--	94293M	85683M
Current Account Balance	23 Aug	Jul	-\$8400M	--	--	-\$3953M
IBGE Inflation IPCA-15 YoY	21 Aug	Aug	6.14%	--	6.15%	6.40%
FGV CPI IPC-S	23 Aug	Aug 22	0.13%	--	--	--
Formal Job Creation Total	20-23 Aug	Jul	100000	--	--	123836
FGV Consumer Confidence	23 Aug	Aug	--	--	--	108.3
Unemployment Rate	22 Aug	Jul	5.80%	--	--	6.00%
IBGE Inflation IPCA-15 MoM	21 Aug	Aug	0.15%	--	0.16%	0.07%
Chile						
GDP YoY	19 Aug	2Q	4.00%	4.00%	4.10%	4.10%
GDP QoQ	19 Aug	2Q	0.60%	0.64%	0.50%	0.50%
Current Account Balance	19 Aug	2Q	-3900	-4.50%	-1631	-1690
Colombia						
Outstanding Loans	20-23 Aug	Jun	--	--	\$265T	\$260.1T
Outstanding Loans YoY	20-23 Aug	Jun	--	--	15.80%	15.07%
Retail Sales YoY	22 Aug	Jun	4.50%	6.8%	--	6.50%
Industrial Production YoY	22 Aug	Jun	-4.00%	-5%	--	-3.10%
Mexico						
Current Account Balance	23 Aug	2Q	-\$3387M	--	--	-\$5532M
Unemployment Rate	23 Aug	Jul	5.22%	--	--	4.99%
Economic Activity IGAE YoY	20 Aug	Jun	0.95%	--	-0.40%	1.70%
GDP YoY	20 Aug	2Q	2.30%	--	1.50%	0.80%
GDP QoQ	20 Aug	2Q	0.20%	--	-0.74%	0.50%
Bi-Weekly CPI	22 Aug	Aug 15	0.16%	--	--	-0.02%
Peru						
GDP YoY	23 Aug	2Q	5.60%	5.1%	--	4.80%

Most recent Latam reports

Date	Description
21-08-2013	➤ Mexico GDP Flash: The GDP growth estimate for this year is revised to 1.4% and the scenario for 2014 remains without relevant changes in 3.1%
20-08-2013	➤ Mexico GDP Flash: GDP surprises to the downside with a reduction of -0.7% q/q. This mainly as a result of the strong decline in the industrial output
20-08-2013	➤ Latam Economic Outlook 3Q13
19-08-2013	➤ Brazil Economic Outlook 3Q13 (In Spanish)
19-08-2013	➤ Flash Chile: GDP growth reached 4.1% YoY in 2Q13
15-08-2013	➤ Flash Peru: GDP slowed in June
13-08-2013	➤ Colombia Economic Outlook 3Q13 (In Spanish)
13-08-2013	➤ Flash Chile: Central Bank kept policy rate at 5%, but easing should be materialize in September
9-08-2013	➤ Brazil Economic Outlook
8-08-2013	➤ 3Q13 Latin America Economic Outlook (in Spanish)

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 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.