

Latam Daily Flash

13 December 2013
Economic Analysis

Madrid
Juan Ruiz
Chief Economist, South America
juan.ruiz@bbva.com
+34 91 3745887

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

Cecilia Posadas
Economist, Latam
c.posadas@bbva.com
+34 91 3746279

Pablo Urbiola
pablo.urbiola@bbva.com
+34 91 918072457

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, Mexico
javier.amador@bbva.com
+5255 5621 3095

In both Chile and Peru the central banks kept the MPR unchanged as expected. In Chile the communiqué highlighted inflationary worries; we maintain our call for at least two more additional cuts during 1H14. In Peru we expect no changes in the MPR in the short term, but data should confirm the recovery in activity. Today's economic activity index in Brazil should confirm modest recovery by 4Q13.

Chile - Central bank kept rates at 4.5%, broadly in line with our and market expectations

In its last meeting of the year the central bank kept the MPR at 4.5% as expected. The communiqué highlighted two inflationary worries in comparison with the previous meeting, probably as a consequence of [November's CPI figures](#) and the expectations for inflation in December (BBVAe: at least +0.3% MoM). Additionally, the statement showed that the discussion around this month's decision included the possible effects of the tapering on key variables for the monetary policy. All in all, we maintain our call for at least two more cuts in the MPR during 1H14, to 4%. A more homogeneous deceleration of the economic activity – until now, biased towards investments rather than private consumption – will contribute to the materialising of our baseline scenario (see our [Chile Flash](#) for details).

Peru - Monetary policy rate unchanged in December

The Central Bank held its monetary policy rate at 4.0% in December, as largely expected by the market (BBVAe and consensus: 4.0%). The accompanying statement supported this decision by mentioning that this level is consistent with a 2% inflation projection for the next two years. However, it also slipped in a bias to ease the monetary policy stance, to the extent that the indicators to be released were not consistent with the expected development of the economy. In this context, we perceive there will be no changes in the reference rate in the short term, although it will be necessary to gauge the new data in order to confirm the recovery in activity (see our [Peru Flash](#) for details).

Mexico - Modest industrial growth during October

Industrial production in Mexico grew 0.5% MoM in October (0.1% YOY), compared to the previous month. Particularly important was the growth in manufacturing (1.0% MoM / 3.6% YOY), contrasting with the decline in construction (-0.9% MoM, -7.5% YoY). Within manufacturing, transportation equipment grew 1.5% MoM (10.3% YoY), so this sector remains one of the main factors behind the recovery of the industry. Conversely, the construction industry has fallen for seven months in annual comparisons (-7.0% YoY on average in the last quarter), due to falls in all of its components. However, encouraging data on job creation in US manufacturing in November suggests that the Mexican manufacturing industry will continue to improve towards the end of the year.

Brazil - Retail sales expanded in October

The core retail index showed that sales expanded by 0.2% MoM in October (BBVAe: 0.3% MoM; consensus: 0.5% MoM). The figure was driven down by the 0.4% contraction in supermarket sales. The broad index, which includes sales of automobiles and construction materials, grew 1.8% MoM, mostly due to a sharp increase (6.2% MoM) in the former. These figures support our view that economic activity expanded at the beginning of 4Q13, setting the conditions for GDP to rebound at the end of the year after a 1.5% drop in 3Q13.

What to watch today

Brazil – Economic activity index (October, 5:30hrs NYT)

The IBC-Br, the BCB's monthly activity indicator, is expected to show that the economy expanded in October (BBVAe: 0.2% MoM; consensus: 0.5% MoM). The growth in both industrial production and retail sales (0.6% MoM and 0.2% MoM, respectively) support this view. Economic activity performance in October should pave the way for a moderate growth in 4Q13 GDP (around 0.4%e QoQ, in our view).

Colombia – Minutes of November's monetary policy meeting to be released

We anticipate that the minutes will continue to express an optimistic tone, in line with the observed economic recovery, while maintaining that interest rates remain expansionary despite a deflation surprise in October (-0.26% MoM and 1.84% YoY). A more comprehensive explanation is expected on the reversal of food deflation and the drivers that would position total inflation within the central bank's target range (3.0% ±1.0% YoY).

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	9 Dec	Dec	0.73%	--	0.72%	0.68%
IGP-M Inflation 1st Preview	10 Dec	Dec	0.38%	--	0.32%	0.30%
FIPE CPI - Weekly	11 Dec	Dec	0.47%	--	0.45%	0.52%
Retail Sales MoM	12 Dec	Oct	0.50%	0.30%	0.20%	0.50%
Economic Activity MoM	13 Dec	Oct	0.50%	0.20%	--	-0.01%
Tax Collections	15 Dec	Nov	--	--	--	100999M
Chile						
Trade Balance	9 Dec	Nov	\$200M	\$189M	\$202M	\$241.0M
Copper Exports	9 Dec	Nov	--	\$3610M	\$3327M	\$3893M
Central Bank's Economist Survey	10 Dec	Dec	--	--	--	--
Central Bank's Traders Survey	11 Dec	Dec	--	--	--	--
Overnight Rate Target	12 Dec	Dec	4.50%	4.50%	4.50%	4.50%
Colombia						
Central Bank's Economists Survey	12 Dec	--	--	--	--	--
Consumer Confidence Index	13 Dec	Nov	--	25	--	22.3
Colombia Monetary Policy Minutes	13 Dec	--	--	--	--	--
Mexico						
CPI MoM	9 Dec	Nov	0.92%	0.90%	0.93%	0.48%
Vehicle Production AMIA	9 Dec	Nov	--	--	255695	285230
Industrial Production MoM	12 Dec	Oct	0.34%	0%	0.50%	-1.2%
Peru						
Trade Balance	10 Dec	Oct	-\$254M	--	-\$303M	\$32M
Reference Rate	13 Dec	Dec	4.00%	4.00%	4.00%	4.00%

Most recent Latam reports

Date	Description
12-12-2013	➤ Chile Flash: Central Bank of Chile kept rates at 4.5%, broadly in line with our and market expectations
12-12-2013	➤ Peru Flash: Monetary policy rate unchanged in December
11-12-2013	➤ Mexico Energy Reform Flash: Far-reaching reform of the sector which could prompt large investments and increase potential growth
11-12-2013	➤ Colombia Flash: Civil works: from euphoria to reality
11-12-2013	➤ Mexico Migration Outlook December 2013 (in Spanish)
11-12-2013	➤ Argentina Automobile Market Outlook 2013 (in Spanish)
10-12-2013	➤ Colombia Flash: Fitch Ratings upgrades Colombia's rating to BBB
10-12-2013	➤ Chile Flash: The central bank economic expectation survey anticipates a pause in policy rate during December
10-12-2013	➤ Working Paper: Demand factors that influence financial inclusion in Mexico: analysis of the barriers based on the ENIF survey
9-12-2013	➤ Mexico Inflation Flash: November's 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.) 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.