

Latam Daily Flash

24 January 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.serrano@bbva.com
+52 55 56216503

Inflation figures released in Brazil added to concerns on domestic prices and triggered the announcement of deeper and sooner than previously indicated cuts in electricity tariffs. This shows that tools other than the SELIC will be used to prevent inflation from running out of control. In Colombia, Finance Minister Cardenas commented that he expects BanRep to cut rates by 25bp at its next meeting, which would be in line with our call. In Mexico, retail sales expanded less than we expected, but in line with positive growth at year-end. Today's agenda includes monetary policy minutes in Brazil and inflation and activity indicators in Mexico.

Brazil - Rising inflation triggers larger and sooner tariff cuts

The IPCA-15 for January, which measures inflation from mid-December to mid-January, reached 6.0%YoY (0.9%MoM), revealing that inflation continues to rise at the beginning of the year. Following the release of this data, President Dilma announced that electricity tariff cuts will be introduced immediately and will be within the 18%-32% range, deeper than previously expected (16%-28%). The government will bear the extra costs generated by these additional reductions. The announcement shows that tools other than the SELIC will be used to prevent inflation from running out of control (for more, see our [Brazil Flash](#)).

Brazil - The current account deficit widened to 2.4% of GDP in 2012

The current account deficit reached 2.4% of GDP (USD54.2bn) in 2012, in comparison to 2.1% (USD52.6bn) in 2011. The deterioration was driven by a reduction in the trade surplus and especially by an increase in the deficit recorded in the service account. Total capital and financial inflows dropped 35% in 2012 due to a reduction in portfolio flows. FDI remained very robust (2.9% of GDP). We expect the current account deficit to widen more in 2013e and to reach USD63bn (2.6% of GDP), in line with the recovery in domestic demand.

Colombia - Minister of Finance expects a 25bp cut at next BanRep meeting

In a press interview, Minister of Finance Cardenas announced that he expects a 25bp cut on Monday, in line with market expectations and our forecast. Regarding the slowdown of the industrial sector and the decision to increase import tariffs on textiles, Cardenas said that it is just a temporary measure, emphasizing that he does not agree with protectionism and stating that "Colombia should not follow the same industrial policies as adopted in Brazil".

Mexico - Retail sales in line with a positive YE12

November's retail sales grew 1.09% MoM (lower than our forecast, BBVAe 1.5% in sa series). In annual terms, the expansion was the same as the previous month (3.5%) and close to the consensus forecast (3.6%). The recovery of employment and the stability in real wages are behind this performance. The highest sales in November were of durable goods.

Chile - Unemployment rate at 5.2% in December 2012

The quarterly labor market report run by Universidad de Chile revealed an unemployment rate of 5.2% in the Santiago area in December 2012, 1pp below the result observed in December 2011. The decline was explained by a 2.8% YoY increase in employment and an expansion of 1.7% YoY in the labor force. Although we expect the nationwide unemployment rate to remain at 6.2% in December 2012 - the official data will be released next week - the print for the Santiago area adds a downward bias to our estimate.

Peru - Consumer confidence remained at high levels in January

The index stood at 58 points (as in December), the best start to a year since the indicator has been calculated (10 years now). The main element supporting consumer optimism is confidence in the family's economic situation, which is linked to the positive evolution of the labor market. Additionally, the fall in inflation in recent months has generated a more favorable perception of the pricing environment. This high level of consumer optimism is in line with our positive outlook for economic activity this year.

What to watch today

Brazil - COPOM monetary policy meeting minutes (5:30hrs, NYT)

Markets will digest the BCB's assessment on both the worsening of short-term inflation and a weaker than expected recovery of domestic demand. We are expecting a more hawkish tone, still in line with the stability of monetary conditions.

Mexico - Bi-weekly Inflation (Jan 15, 9:00 hrs, NYT)

We expect the first inflation print for 2013 to show a moderation (in annual terms) due to a dilution of supply shocks seen in 2012, an improvement in unprocessed food production, a fall in telephony prices and seasonal factors (i.e. tourism). Risks to monitor are tariffs set by local governments. (Headline, BBVAe: 0.39% vs. consensus: 0.31%).

Mexico -Global Economic Indicator, IGAE (November, 9:00 hrs, NYT)

Based on leading industrial indicators and a likely increase of services linked to business, we think the IGAE should expand 0.5%e MoM (sa) in November from 0.2% MoM in October. Indicators in this week (retail sales, unemployment and IGAE) outline a positive economic performance at YE2012.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Preview Inflation IGP-M	21-Jan	Jan 20	0.37%	--	0.34%	0.41%
Trade Balance (FOB) - Weekly	21-Jan	Jan 20	--	--	-\$1723M	-\$878M
FGV CPI IPC-S	23-Jan	Jan 22	0.81%	--	1.03%	0.89%
IBGE CPI IPCA-15 (MoM)	23-Jan	Jan	0.81%	0.75%	0.88%	0.69%
Current Account - Monthly	23-Jan	Dec	-\$6320M	--	-\$8413M	-\$6265M
Foreign Investment	23-Jan	Dec	\$4100M	--	\$5358M	\$4587M
FGV Consumer Confidence	24-Jan	Jan	--	--	--	118.7
COPOM Monetary Policy Meeting Minutes	24-Jan	--	--	--	--	0.00%
Tax Collections	24-Jan	Dec	103300M	--	--	83707M
CAGED Formal Job Creation	24-25 Jan	Dec	-401500	--	--	46095
Outstanding Loans MoM%	25-Jan	Dec	--	--	--	1.5%
Chile						
Central Bank's Traders Survey	23-Jan	--	--	--	--	--
Mexico						
Unemployment Rate	21-Jan	Dec	4.80%	4.80%	4.47%	5.12%
Retail Sales (INEGI)	23-Jan	Nov	3.50%	2.30%	3.50%	3.5%
Global Economic Indicator IGAE	24-Jan	Nov	3.00%	3.10%	--	4.33%
Bi-Weekly Core CPI	24-Jan	Jan 15	0.21%	0.36%	--	0.03%
Bi-Weekly CPI	24-Jan	Jan 15	0.32%	0.57%	--	0.10%
Trade Balance	25-Jan	Dec P	-967.95M	--	--	-1272.7M

Most recent Latam reports

Date	Description
23-1-2013	➤ Mexico Real Estate Outlook - January 2013
21-1-2013	➤ Paraguay Flash: Paraguay returns to the international bonds market with a 10-year bond
18-1-2013	➤ Mexico Flash. No change in fondeo rate. Inflation slump leads to a dovish tone
17-1-2013	➤ Chile Flash: Central Bank kept the monetary policy rate at 5%
17-1-2013	➤ Banxico Watch: The significant improvement in the inflation balance of risks leads to a neutral tone and supports the monetary pause
17-1-2013	➤ Brazil Flash: Stability of monetary conditions amid higher inflation and lower growth
16-1-2013	➤ Brazil Flash: Economic activity grew more than expected in November
14-1-2013	➤ Peru Flash: Output keeps growing at a strong pace
14-1-2013	➤ Mexico Banking Flash: Private-sector credit: continues to grow at double-digit rates
14-1-2013	➤ Mexico Real Estate Flash: Negative growth for the first time in two years

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.