

# Latam Daily Flash

3 February 2014  
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 8072457

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.serranoh@bbva.com  
+ 5255 5621 4354

**Javier Amador**  
Principal Economist, Mexico  
javier.amadord@bbva.com  
+ 5255 5621 3095

*Banxico left its monetary policy rate unchanged, as widely expected; the more hawkish tone of the statement is aimed at anchoring inflation expectations. The policy rate was also left unchanged in Colombia, in a context of a continued optimistic tone on activity and inflation below target, and we expect a first hike in June. Peru maintained its reference rate unchanged but reduced reserve requirements again; while inflation surprised to the upside in January. Finally, in Chile the Minutes of the last monetary policy meeting reveal concerns about decelerating activity and the transitory nature of the recent rise in inflation, and note that additional cuts in the policy rate could be necessary in the coming months.*

## Mexico - Banxico's more hawkish tone is aimed at anchoring inflation expectations

Banxico left its monetary policy rate unchanged at 3.5% but changed its tone in an attempt to anchor inflation expectations. As expected, Banxico underlined the transitory nature of the recent inflation hike and anticipated that it will not affect the price formation process. However, its inflation perspectives for 2014 and 2015 show an increase with respect to the previous statement. In addition, the statement underlined an improvement in the balance of risks to economic activity at the same time that it stressed the impairment of the inflation balance of risks as the possibility of second-round effects stemming from recent price increases and exchange-rate depreciation episodes cannot be ruled out. All in all, the more hawkish tone is aimed at anchoring inflation expectations. We continue to expect a protracted monetary policy pause (see our [Mexico Flash](#) for details).

## Colombia - BanRep decided unanimously to keep its policy rate unchanged at 3.25% and maintain its international reserves policy

The central bank remained optimistic about economic activity in 2013 and 2014 and decided unanimously to keep its policy rate unchanged at 3.25%. The recent currency devaluation and increased risk aversion towards emerging markets were among the points considered in the discussion. However, limited concern was expressed and with no need to implement policies to reduce their impact. The continued optimistic tone of the central bank, the unanimous decision and the below-target inflation rate rules out rate changes until the second quarter of 2014. We anticipate the first rate hike will occur in June, in a context where inflation converges towards the long-term target, the economy closes on potential and the impact of international turbulence is low (see our [Colombia Flash](#) for details, in Spanish).

## Brazil - Lowest primary surplus in more than ten years in 2013 in spite of significant atypical revenues

The public sector's annual primary surplus reached 1.9% in December, the lowest figure in more than ten years in spite of the significant one-off, atypical revenues (oil field auctions, infrastructure concession revenues, tax amnesty programmes, etc.). The central government surplus reached 1.4% of GDP, slightly above the lowered official target. However, the surplus generated by regional government and public-owned companies fell short of the targets (and due to some changes announced some months ago, for the first time in many years the federal government was not forced to generate an additional surplus to compensate for weaker regional results). Interest payments increased to 5.2% of GDP (vs. 4.9% in 2012), and drove the total fiscal result to -3.3% (vs. -2.5% in 2012). Net public debt declined from 35.3% of GDP in 2012 to 33.8% and gross debt from 58.8% to 57.2%. Even though the government is expected to announce some fiscal adjustment in the next few weeks, we have no particular reasons to think that fiscal results will improve in 2014 (a General Elections year).

### Chile - The unemployment rate remained at 5.7% in 4Q13

The unemployment rate was stable at 5.7% in 4Q13, 0.4pp lower than in the same period of 2012 and 0.1pp lower than our and consensus estimates. This result was a consequence of 2.7% YoY growth in employment and 2.2% YoY growth in the labour force. In 4Q13, the economy generated 73k more jobs than in the previous quarter, which were concentrated in agriculture as usual at that time of the year.

### Chile - Minutes of January monetary policy meeting confirm that moderated additional cuts in the MPR would be necessary in the coming months

Minutes of the January meeting show that at its last meeting the Board considered the options of both maintaining the MPR at 4.5% and reducing it to 4.25%. The Board noted that despite the improvement in the international scenario, the Chilean economy had continued to decelerate sharply, which would lead to GDP forecasts being corrected downwards. Moreover, the increase in the inflation rate was evaluated as transitory and largely related to the effect of CLP depreciation. In this context, the Board decided to maintain rates on hold in January, waiting for more information, a decision that was in line with market expectations. Nonetheless, it signalled that moderate additional cuts in the MPR would be necessary in the coming months.

### Colombia - Good performance of unemployment in 2013

In line with our forecast, the urban unemployment rate stood at 9.7% in December, a -0.6pp decrease with respect to last year. The latter was explained by an increase in the occupation rate (0.7 pp) that was greater than the growth of the labour participation rate (0.3pp). Job-creation (2.7% YoY) accelerated in the last month compared to previous months, supporting the good dynamics of private consumption. Including December's figure, urban unemployment rate stood at 10.6% in 2013, a 0.6pp decrease with respect to last year (11.2% in 2012). The good performance of the labour market in 2013 is also reflected in a larger proportion of formal workers in total employment. These results reflect the good performance of economic activity and probably the employment formalisation policies.

### Peru - Inflation rose in January and located on the upper limit of the target range

Inflation was 0.25% MoM in January, due to increases in food prices, offset by a reversal in transport rates after the year-end holidays, and by falling tariffs for public services. This result took annual inflation to 3.0%, just at the upper limit of the target range (2% +/- 1pp). We expect inflation to fluctuate around this limit in the first quarter of the year, and from then on to begin to converge towards the centre of the range.

### Peru - Consumer confidence fell in January but remained in the optimistic zone

In January, the consumer confidence index for Metropolitan Lima was 52 points, four points below the previous month. This result shows that the strong recovery late last year was partly due to the holidays. However, the current level is still in the optimistic zone and is consistent with our forecasts for somewhat more moderate growth in consumer spending this year.

### Peru - Central bank reduced reserve requirements again

From February, banking deposits in local currency will be subject to a 13% reserve requirement, 1pp lower than in January. This measure is intended to drive credit growth in an orderly fashion and is in line with our view that any relaxation of monetary policy will be mainly achieved by easing reserve requirements, with the central bank preferring to maintain its reference rate unchanged in the coming months.

## What to watch today

### Brazil - Trade balance (January)

Still strong imports and relatively weak exports should determine a USD4.0bn deficit in the balance of trade in January, a figure similar to the result a year ago. We expect the trade surplus in 2014 to be around USD6.0bn, 135% higher than in 2013 thanks to the impact of a weaker currency and a less negative performance of the oil sector.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	3 Feb	Jan	0.99%	--	--	0.93%
PMI Manufacturing	3 Feb	Jan	--	--	--	50.5
Trade Balance Monthly	3 Feb	Jan	-\$4550M	-\$4000M	--	\$2654M
Vehicle Sales Fenabrave	3 Feb	Jan	--	--	--	353863
FIPE CPI - Monthly	4 Feb	Jan	0.91%	--	--	0.65%
Industrial Production MoM	4 Feb	Dec	-1.50%	-1.00%	--	-0.20%
CNI Capacity Utilization (SA)	4 Feb	Dec	--	--	--	82%
PMI Services	5 Feb	Jan	--	--	--	51.7
Vehicle Sales Anfavea	6 Feb	Jan	--	--	--	353843
FGV Inflation IGP-DI MoM	7 Feb	Jan	0.42%	--	--	0.69%
IBGE Inflation IPCA MoM	7 Feb	Jan	0.62%	0.65%	--	0.92%
<b>Chile</b>						
Economic Activity MoM	5 Feb	Dec	0.40%	2.40%	--	0.50%
Real Wage MoM	6 Feb	Dec	--	--	--	1.00%
CPI MoM	7 Feb	Jan	0.20%	0.14%	--	0.60%
<b>Colombia</b>						
PPI MoM	4 Feb	Jan	--	--	--	0.11%
CPI MoM	6 Feb	Jan	0.56%	0.56%	--	0.26%
CPI Core MoM	6 Feb	Jan	--	0.44%	--	0.24%
<b>Mexico</b>						
IMEF Manufacturing Index SA	3 Feb	Jan	--	--	--	50.3
Remittances Total	4 Feb	Dec	1740.8M	1747.0M	--	1693.8M
Producer Confidence Index SA	5 Feb	Jan	--	52.5	--	51.5
Consumer Confidence Index SA	5 Feb	Jan	91.0	89.5	--	89.7
Leading Indicators (MoM)	6 Feb	Dec	--	--	--	0.06%
CPI MoM	7 Feb	Jan	0.96%	0.95%	--	0.57%
Bi-Weekly CPI	7 Feb	Jan	--	0.23%	--	0.68%

## Most recent Latam reports

Date	Description
31-01-2014	<a href="#">➤ Banxico Flash: Fondeo rate unchanged at 3.5%; tone aimed at anchoring inflation expectations</a>
31-01-2014	<a href="#">➤ Colombia Flash: BanRep decided unanimously to keep its policy rate unchanged at 3.25% and maintains its international reserves policy</a>
30-01-2014	<a href="#">➤ Chile Flash: December Imaec should reach 2.4% y/y, consistent with our scenario of 2013 GDP growth around 4.0% (in Spanish)</a>
30-01-2014	<a href="#">➤ Chile Flash: Public expenditure in 2013 was significantly lower than planned (in Spanish)</a>
29-01-2014	<a href="#">➤ Mexico Migration Outlook December 2013</a>
29-01-2014	<a href="#">➤ Mexico Banking Flash. Bank deposits: growth in the second half of the year</a>
29-01-2014	<a href="#">➤ Mining sector in Chile: The challenge is efficiency (in Spanish)</a>
29-01-2014	<a href="#">➤ Mexico Regional Sectorial Outlook: First half 2014 (in Spanish)</a>
29-01-2014	<a href="#">➤ BBVA Brazil Perspectives: Stuck at a bad macro equilibrium</a>
28-01-2014	<a href="#">➤ Chile Flash: We expect January CPI at 0.14% and see a negative bias on our February CPI forecast (in Spanish)</a>
24-01-2014	<a href="#">➤ Mexico Banking Flash: Bank deposits: momentum in the second half of the year (in Spanish)</a>
23-01-2014	<a href="#">➤ Brazil Flash: COPOM sees higher inflation and stable economic activity ahead</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.) 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](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.**