

Latam Daily Flash

3 March 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 91 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.serrano@bbva.com
+5255 5621 4354

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

Inflation in Peru surprised to the upside in February, but we expect it to gradually converge towards the target range in the following months. In Colombia we expect the first hike of the MPR to occur in June. Activity data in Chile was affected by strikes that took place at the main ports in January, but is in line with a MPR cut at March's meeting. Colombian job creation showed more balanced sources than last year's figures, while unemployment in Chile was slightly higher than expected.

Peru - Central bank lowered reserve requirements for deposits in domestic currency

The reserve requirements for deposits in the domestic currency were cut by 0.5pp, to 12.5%, effective from March. The central bank has already lowered this requirement eight times since June last year, although this latest cut was smaller than the previous ones (1pp in December, January and February). The measure is intended to drive credit growth in an orderly fashion, and is in line with our view that any relaxation of the monetary policy will be made using this instrument, leaving the interest rate unaltered.

Peru - Inflation surprised to the upside in February and remained outside the target range

Headline inflation was 0.6% MoM in February, above market expectations (BBVAe and consensus: 0.3%). Changes in the CPI were mainly driven by increases in electricity tariffs and some food products last month. With this result, annual inflation reached 3.8% and increased its deviation from the target range (2% +/- 1pp). However, we expect it to gradually converge towards this range in the following months, as we anticipate that GDP will continue to grow around its potential, international food prices will maintain a downward bias and the exchange rate will be somewhat more stable than last year.

Colombia - BanRep decided unanimously to keep its policy rate unchanged at 3.25%

The central bank maintained its optimism about economic activity in 2013 and 2014, and decided unanimously to keep its policy rate unchanged at 3.25%. Global growth has improved slightly, in particular for developed economies and Colombia's main trading partners as well. The continued optimistic tone of the central bank, the unanimous decision and low inflation rate together rule out rate changes until the second quarter of 2014. We expect the first rate hike to occur in June, to the extent that inflation converges towards the long-term target and the economy approaches potential growth (see our [Colombia Flash](#) for details).

Colombia - Unemployment rate stood at 12.3% in January

In January the urban unemployment rate stood at 12.3%, a -0.8pp (YoY) decrease. Job creation was 196,000 (YoY), the same average level as during the last semester of 2013. Employment in January was still primarily linked to the public sector, but since December 2013 other sectors such as transport, commerce and construction have become more important. All in all, job creation was more balanced by sector in January.

Chile - Activity data by sector anticipates Imacec at 1.8% YoY in January

Retail sales expanded 6.8% YoY in January, below our expectations (BBVAe: 7.8% YoY), and showing less dynamic consumption of durable goods. Meanwhile, supply-side related sectors posted significant declines. In particular, manufacturing decreased by 1.4% YoY, in line with our expectations, while mining production surprised to the downside after falling 2.7% YoY. All in all, we forecast that the monthly activity index (Imacec) grew 1.8% YoY in January (-0.8% MoM sa), the lowest figure since the earthquake on 27 February 2010. Nonetheless, we expect that the Imacec figures will show some improvement in the coming months, given the transitory effects of strikes that took place at the main ports during January. Finally, as a result of these figures we expect another rate cut of 25bp at March's monetary policy meeting, but this is conditional on both our forecast of inflation at +0.3% MoM in February and exchange rate depreciations contained to a level no higher than CLP580 per USD (see our [Chile Flash](#) for details).

Chile - Unemployment rate increases to 6.1% in January

The unemployment rate increased to 6.1% in January (from 5.7% in the previous month), above both our and consensus estimates (BBVAe: 5.8%). This print was a consequence of 2.2% YoY growth in job-creation and a faster increase in the labour force that reached 2.4% YoY in the period. Also, in this context, the main contributions to job creation came from retail and wholesale commerce, real-estate and education. Finally, the figures still point to changes in the composition of employment from salaried to self-employed, increasing 0.5% YoY and 7.5% YoY respectively. For this reason, we anticipate further increases in the jobless rate in the coming months.

What to watch today

Colombia - Exports (January, 16:00hrs NYT)

We expect stability in the value of exports for January 2014, compared with the January 2013 figure. Despite economic recovery in the United States and other developed countries, low commodity prices would imply a ceiling for the value of Colombian shipments.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Trade Balance Monthly	5 Mar	Feb	-\$3000M	-\$2800M	--	-\$4057M
Vehicle Sales Fenabreve	5 Mar	Feb	--	--	--	312619
FGV CPI IPC-S	6 Mar	Feb	0.60%	--	--	0.69%
COPOM Monetary Policy Meeting Minutes	6 Mar	--	--	--	--	--
FIPE CPI - Monthly	7 Mar	Feb	0.49%	--	--	0.94%
PMI Services	7 Mar	Feb	--	--	--	49.6
Chile						
Economic Activity YoY	5 Mar	Jan	1.90%	1.80%	--	2.63%
Central Bank Meeting Minutes	5 Mar	Feb	--	--	--	--
Real Wage MoM	6 Mar	Jan	--	--	--	0.60%
CPI MoM	7 Mar	Feb	0.25%	0.30%	--	0.18%
Trade Balance	7 Mar	Feb	\$650.0	\$949	--	-\$268.0
Copper Exports	7 Mar	Feb	--	\$3551	--	\$2303.0
Vehicle Sales Total	7 Mar	Feb	--	--	--	34224
Colombia						
Exports FOB	3 Mar	Jan	\$4966.6	\$4850	--	\$5272.1
CPI MoM	6 Mar	Feb	0.57%	0.64%	--	0.49%
CPI Core MoM	6 Mar	Feb	--	0.80%	--	0.36%
Mexico						
Remittances Total	3 Mar	Jan	1524.3M	--	--	1798.5M
IMEF Manufacturing Index SA	3 Mar	Feb	50.0	--	--	49.7
Consumer Confidence Index	5 Mar	Feb	85.0	82.2*	--	84.5
CPI MoM	7 Mar	Feb	0.23%	0.25%	--	0.89%
Bi-Weekly CPI	7 Mar	Feb	0.08%	0.14%	--	0.12%

*Seasonally-adjusted figure

Most recent Latam reports

Date	Description
28-02-2014	➤ Chile Flash: Activity data by sector anticipates Imacec at 1.8% YoY in January
28-02-2014	➤ Chile Flash: The year begins with a significant increase in public expenditure of 12% YoY (in Spanish)
28-02-2014	➤ Colombia Flash: BanRep decided unanimously to keep its policy rate unchanged at 3.25%
27-02-2014	➤ Presentation: Latam and Uruguay outlook: growth and differentiation (in Spanish)
27-02-2014	➤ Colombia Economic Outlook: First Quarter 2014
27-02-2014	➤ Mexico Real Estate Flash: In 2013, mortgage banking grew, at a rate of 14%
26-02-2014	➤ Chile Economic Watch: The inflationary impact of exchange rate depreciation (in Spanish)
25-02-2014	➤ Chile Flash: We expect February CPI at 0.3% MoM and March CPI heading to 0.7% MoM (in Spanish)
25-02-2014	➤ Mexico Real Estate Flash: In 2013, only banking credit grew, at a rate of 14% (in Spanish)
24-02-2014	➤ Brazil Economic Outlook: another bumpy year ahead

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.