

# Latam Daily Flash

24 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 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.amador@bbva.com  
+5255 5621 3095

*In Mexico, Banxico delivered a dovish tone but is likely to stay on hold for the rest of the year while retail sales point to a weak start to private consumption in 1Q14. In Colombia BanRep kept its policy rate unchanged and extended its international reserve purchase programme, we expect the first hike to occur in June.*

## Brazil - Food prices drive up inflation as well as our forecast for the Selic

Following the drought that recently hit the country, food prices are adding unexpected pressure on inflation. March's IPCA-15, which measures inflation from mid-February to mid-March, increased to 0.73% MoM (5.90% YoY) from 0.70% MoM (5.65% YoY) in the previous reading, mostly due to the jump in food inflation, to 1.1% MoM in March from 0.52% MoM in February. We adjust our forecast for the full-month March IPCA to 5.92% YoY / 0.70% MoM (from 5.76% YoY / 0.55% MoM previously) and our estimate for inflation at the end of the year to 6.0% YoY (from 5.9% MoM previously). Earlier last week BCB's President Alexandre Tombini, commenting on food pressures, said that: "At first, this seems to be a temporary shock that tends to be reversed over the next few months. Still, monetary policy should act to make sure these shocks are limited to the short term". The latter remark and March's IPCA-15 figures lead us to revise our call for the Selic rate: we now expect the BCB to adjust the Selic by a further +25bp at the beginning of April rather than leaving it unchanged at 10.75%. We believe further hikes are unlikely.

## Mexico - Banxico's wording is slightly more dovish than in the previous statement but is likely to remain neutral for the rest of the year

As widely anticipated Banxico kept the policy rate at 3.50% and delivered a more dovish tone than in the previous statement pointing out that the outlook for inflation has improved and by acknowledging that the economy has continued decelerating at the start of 2014. More importantly, the closing paragraph (i.e., the forward-looking monetary policy related paragraph) singled out that, of the factors that could affect inflation, the degree of slack in the economy is the main factor to remain watchful of. However, to a certain degree it balanced out that dovishness by stating that the board will also remain vigilant regarding Mexico's monetary policy stance relative to that in the US (i.e., of eventual interest rate hikes from the Fed as market expectations were brought forward following this week's Fed's meeting). In this context, Banxico is likely to remain on hold for the rest of the year (see our [Banxico Flash](#) for more details).

## Mexico - Slow start to private consumption in 1Q14

Retail sales surprised to the downside, contracting 0.3% MoM sa in January (BBVAe: 0.3%). In annual terms, sales dropped 0.3%, below our 0.8% estimate. Both weak job creation in January (22K) and higher taxes seem to have weighed on private consumption at the start of the year. In February, the ongoing lacklustre performance of the labour market (0.2% MoM sa) suggests that private consumption is unlikely to strengthen in the short term.

## Colombia – BanRep kept its policy rate unchanged at 3.25% and extended its international reserve purchase programme

The Central Bank's Board of Directors unanimously decided to keep its policy rate unchanged at 3.25%. The global economic recovery continues, albeit at a slightly slower rate than previously anticipated by the Board. International financial conditions continue to normalise and therefore the increase in international interest rates and the COP depreciation are expected to be long lasting. The central bank kept its optimistic tone regarding economic activity; however it highlighted contradictory data that might cloud the dynamics of growth during the beginning of the year. The unanimous decision of the Board and the increasing but still low inflation, rule out the possibility of policy rate changes until the second quarter of 2014. We expect the first rate hike to occur in June, as inflation converges towards the long-term target and the economy approaches potential growth. Finally, the Board decided to extend its international reserves purchase programme for an additional quarter. It authorised the purchase of up to USD1,000mn from April to the end of June of 2013 (see our [Colombia Flash](#) -in Spanish- for more details).

## What to watch today

### Mexico – Inflation (First fortnight of March, 09:00hrs NYT)

We expect headline and core inflation to have increased 0.18% FoF (3.90% YoY) and 0.13% FoF (2.86% YoY), respectively. The bi-weekly data will confirm that inflation is under control, and will support Banxico's view that the balance of risks has improved. Core inflation is likely to remain subdued as the economic slack remains ample.

### Mexico – Unemployment rate (February, 09:00hrs NYT)

We expect the unemployment rate to edge down to 4.90% in February from 5.05% in January 2014, which will add to recent evidence of the slow pace of the economic recovery at the start of 2014.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	24 Mar	Mar	0.85%	--	--	0.84%
Current Account Balance	24 Mar	Feb	-\$8000M	-\$8000M	--	-\$11591M
FIPE CPI - Weekly	26 Mar	Mar	0.28%	--	--	0.68%
FGV Consumer Confidence	26 Mar	Mar	--	--	--	107.1
FGV Construction Costs MoM	26 Mar	Mar	0.35%	--	--	0.44%
Outstanding Loans MoM	26 Mar	Feb	--	--	--	0.07%
Unemployment Rate	27 Mar	Feb	5.10%	5.3%	--	4.80%
FGV Inflation IGPM MoM	28 Mar	Mar	1.53%	--	--	0.38%
Net Debt % GDP	28 Mar	Feb	33.5%	--	--	33.3%
<b>Chile</b>						
PPI MoM	24 Mar	Feb	--	--	--	0.80%
<b>Colombia</b>						
Industrial Confidence	25 Mar	Feb	--	0	--	6.7
Retail Confidence	25 Mar	Feb	--	24.0	--	24.0
Current Account Balance	27 Mar	4Q	-\$3300M	--	--	-\$3580M
<b>Mexico</b>						
Unemployment Rate NSA	24 Mar	Feb	4.90%	4.9%	--	5.05%
Bi-Weekly CPI	24 Mar	Mar	0.19%	0.18%	--	0.15%
Economic Activity IGAE YoY sa	25 Mar	Jan	--	1%	--	0.5%
International Reserves Weekly	25 Mar	Mar	--	--	--	\$181043M
Trade Balance	27 Mar	Feb	-200.0M	-440M	--	-3195.1M
Budget Balance YTD	28 Mar	Feb	--	--	--	-4.9B

## Most recent Latam reports

Date	Description
21-03-2014	> Colombia Flash: BanRep decided to keep its policy rate unchanged at 3.25% and extend its international reserve purchase program
21-03-2014	> Banxico Flash: Fondeo rate unchanged at 3.5%. Slightly dovish tone given the absence of a clear economic recovery
20-03-2014	> Latam Economic Watch: Deterioration in Latin America's manufacturing competitive
20-03-2014	> Brazil Economic Watch: The Brazilian manufacturing sector loses competitiveness
20-03-2014	> Chile Flash: Exchange rate: beware of short-term reversals
20-03-2014	> Colombia Flash: A good result of GDP growth in 2013
20-03-2014	> Mexico Flash: Monetary rate unchanged at 3.5% as inflation tends towards the range around the target (in Spanish)
19-03-2014	> Latam Economic Watch: Loss of manufacturing competitiveness in Latin America (in Spanish)
19-03-2014	> Chile Flash: Exchange rate: Beware of short-term reversals (in Spanish)
19-03-2014	> Chile Economic Watch: Competitiveness of manufacturing exports (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.) Bogotá - 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.**