

Latam Daily Flash

1 April 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.serrano@bbva.com
+5255 5621 4354

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

The lower GDP expansion expected for this year by the Board is mainly driven by gross investment. In terms of prices, the central bank revised its inflation expectations upwards although highlighting the transitory acceleration of headline inflation due to both international supply shocks and exchange-rate depreciation. Although the Board's new baseline scenario assumes an MPR of 3.50%, we still consider that further monetary stimulus will be necessary during the current year, up to 3.25% in 2014 eop.

Chile - As we expected, the central bank once again reduced its forecast growth range for 2014

The Monetary Policy Report for March contained another downward revision to the 2014 growth range, forecasting GDP expansion between 3.00% and 4.00% (previously at 3.75%-4.75%). The lower GDP expansion expected for this year was mainly driven by gross investment, forecast at 0.8% YoY in 2014 (previously at 4.1% YoY). In terms of prices, the bank revised upwards its inflation expectations for 2014eop, from 2.5% YoY to a 3.0% YoY (BBVAe: 2.9%), highlighting the transitory acceleration of headline inflation due to both international supply shocks (food and energy) and exchange-rate depreciation. In this regard, the bank mentioned the low pass-through to inflation expected from the recent CLP depreciation, mainly related to the cyclical position of the economy, with GDP growth persistently below potential. Finally, for 2014 the Board's new baseline scenario assumes an MPR path similar to that implicit in measures of private expectations, which calls for a policy rate of 3.50% (BBVAe: 3.25% in 2014eop). In this context, we still consider further monetary stimulus necessary during the current year, and even more than is implicit in both average expectations and those that can be captured from asset prices (see our [Chile Flash](#) for more details).

Chile - Activity data by sector anticipates Imacec at 2.4% YoY in February

Retail sales expanded 5.3% YoY in February, evidence of less dynamic consumption. On the other hand, supply-side related sectors were mixed. In particular, manufacturing decreased by 2.0% YoY, (BBVAe: -1.5% YoY), while mining production surprised to the upside after increasing 6.7% YoY. All in all, we forecast that the monthly activity index (Imacec) grew 2.4% YoY in the period (+0.5% MoM sa) – see our [Chile Flash](#) for more details –.

Chile - Unemployment rate stable at 6.1% in February

The unemployment rate remained at 6.1% in the moving quarter to end-February. Job-creation increased 0.4% QoQ (+2.7% YoY), driven by seasonal rises in social services and healthcare, agriculture and commerce, in a context where the labour force increased in the same proportion (+0.4% QoQ). Figures still show changes in the composition of employment towards the more fragile element of self-employment, which grew 9.4% YoY (a 65% YoY increase in job-creation), while salaried jobs increased by a modest 1.2% YoY. In this context, we still expect the unemployment rate to trend upwards during the rest of 2014.

Colombia - Urban unemployment rate stood at 11.2%

The urban unemployment rate stood at 11.2%, 1.1pp lower YoY. The latter was explained by an increase in the occupation rate of 1.4pp YoY vs. a nearly constant participation rate (0.1pp). Job-creation figures in February this year (296k YoY) are similar to those reported for February in recent years (292k on average between 2010 and 2013), but with a greater participation of formal jobs (52.4% of total urban jobs are formal now vs. 50% on average in 2010-12).

Colombia - A higher current account deficit in 2013, but healthy external financing

The current account deficit stood at 3.4% of GDP in 2013, above the 2012 figure. The main downside pressures came from the trade balance. While the contribution made by exports to the current account decreased by 0.8pp between 2012 and 2013, imports' contribution fell by 0.2pp. On the other hand, direct investment was 4.4% of GDP, 0.2pp above the 2012 level, and international reserves reached 11.8% of GDP, compared to 10.2% of GDP in 2012. Results confirmed the health of external financing resources, but implied a necessary correction of the trade balance in 2014, consistent with the most recent data.

What to watch today

Peru - Consumer prices (March, 11:00hrs NYT)

We estimate headline CPI increased 0.5% MoM in March, mainly due to seasonal increases in the cost of education services and fuels. If this is the case, annual inflation would stand at 3.4%, lower than the previous month, but still above the upper limit of the target range (2% +/- 1pp). We expect annual inflation to continue approaching the target range in the following months and to converge with it at the end of the second quarter.

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

We expect exports to have fallen by 5.0% YoY in February. A better performance of industrial exports would support a manufacturing recovery sooner than our current estimation (not before July), in line with confidence and capacity utilisation signals.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
CNI Consumer Confidence	31 Mar	Mar	--	--	108.8	108.8
FGV CPI IPC-S	1 Apr	Mar	0.81%	--	--	0.83%
PPI Manufacturing MoM	1 Apr	Feb	--	--	--	1.50%
Trade Balance Monthly	1 Apr	Mar	\$100M	--	--	-\$2125M
FIPE CPI - Monthly	2 Apr	Mar	0.78%	--	--	0.52%
Industrial Production MoM	2 Apr	Feb	0.45%	0.5%	--	2.86%
Selic Rate	2 Apr	--	11.00%	11.00%	--	10.75%
Vehicle Production Anfavea	4 Apr	Mar	--	--	--	281452
Chile						
Manufacturing Index YoY	31 Mar	Feb	-0.50%	-1.5%	-1.97%	-1.44%
Unemployment Rate	31 Mar	Feb	6.3%	6.3%	6.1%	6.1%
Retail Sales YoY	31 Mar	Feb	5.4%	0.9%	5.3%	6.8%
Colombia						
Urban Unemployment Rate	31 Mar	Feb	11.5%	11.5%	11.2%	12.3%
Budget Balance	31 Mar	Feb	--	--	3355.5	--
Colombia Monetary Policy Minutes	4 Apr	--	--	--	--	--
CPI MoM	5 Apr	Mar	0.32%	0.16%	--	0.63%
Mexico						
Remittances Total	1 Apr	Feb	1709.6M	1662M	--	1578.3M
IMEF Manufacturing Index SA	1 Apr	Mar	51.3	--	--	50.8
Consumer Confidence Index	3 Apr	Mar	85.5	85.6	--	84.5
Central Bank Monetary Policy Minutes	4 Apr	--	--	--	--	--
Peru						
CPI MoM	1 Apr	Mar	0.53%	0.5%	0.52	0.60%

Most recent Latam reports

Date	Description
31-03-2014	> Chile Flash: Activity data by sector anticipates Imacec at 2.4% YoY in February
31-03-2014	> Chile Flash: As expected, once again Central Bank reduced forecast growth range for 2014
31-03-2014	> Chile Flash: Public expenditure grows 6.1% YoY in February and execution in the first two months of 2014 is the largest of the last four years (in Spanish)
27-03-2014	> Mexico Real Estate Flash: Banks' mortgages start 2014 with a growth of 9.7% (in Spanish)
26-03-2014	> EAGLEs Economic Outlook: Annual Report 2014
25-03-2014	> Chile Flash: March CPI would be at 0.66% MoM (in Spanish)
24-03-2014	> Mexico Inflation Flash: Inflation is back to Banxico's tolerance interval
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

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.