

Latam Daily Flash

11 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 minutes point to maintenance of policy rates in the May meeting although due to inflation surprises the monetary authority could be forced to hike the Selic. In Peru no changes in the policy rate; we continue to expect a steady rate. In Chile the central bank economic survey published yesterday anticipated a transitory pause in monetary easing. Today we will be watching industrial production in Mexico where we expect a positive reading influenced by upturn in US IP.

Brazil - COPOM minutes suggest that the tightening cycle is over

The minutes of the [last Monetary Policy Committee \(COPOM\) meeting](#) highlight the lagged impact of the current monetary tightening on inflation and regard the recent increase in food prices as a temporary, limited shock. The minutes reinforce our view that the Selic rate will be left unchanged at 11.0% at the next COPOM meeting at the end of May. However, the monetary authority could be forced to deliver a final 25bp hike if inflation surprises to the upside in the upcoming readings [as it did in March](#) (see our [Brazil Flash](#) for more details).

Peru - Monetary policy meeting: no changes in the policy rate and a similar communiqué to that of last month's

As expected, the policy rate was left unchanged in April at 4.0%. The statement accompanying the decision was similar to last month's and continued to emphasise that the current monetary policy stance is consistent with an inflation forecast that converges to the centre of the target range in 2014-15. At BBVA we continue to expect a steady reference rate at 4.0% in the coming months as the central bank faces, on the one hand, an inflation rate that remains above the target and a current account deficit of around 5% of GDP, and on the other, a weak output growth, below potential (see our [Peru Flash](#) for more details).

Chile - Central bank economic survey anticipates a pause in policy rates in April

The central bank's survey revealed a consensus growth forecast for the monthly economic activity index of around 3.0% YoY in March (BBVAe: +3.0%/+4.0% YoY), and inflation at +0.2% MoM in April (BBVAe: -0.1%/+0.1% MoM). Annual inflation expectations for December 2014 increased from 3.0% to 3.3% reflecting the recent surprises in CPI monthly inflation figures, while for the longer term they remain anchored to the central bank's target. In terms of monetary policy, the median of analysts anticipates a pause in the reference rate at April's meeting (83% of those surveyed) and a 25bp cut in May (with 51% of respondents). With the information at hand, we still see two consecutive cuts of 25bp in rates as being the most likely option, with a start at April's meeting. Finally, we would highlight a third consecutive downward correction in GDP growth expected for 2014 from 3.7% to 3.4%, mainly influenced by incoming activity figures.

What to watch today

Mexico - Industrial production (February, 09:00hrs NYT)

February's industrial production should go up by 1.0% YoY sa, equivalent to 1.0% MoM sa. This performance is affected to a large extent by the upturn in the US monthly industrial production index in February (0.6% MoM sa). In January, industrial production in Mexico increased 0.8% YoY sa. In monthly terms it grew 0.5% sa, helped by a significant rise in manufacturing (2.3% MoM sa). Meanwhile, mining fell (-0.1% MoM sa), as did electricity, gas and water (-0.9% MoM sa), and construction (-1.2% MoM sa).

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGP-DI MoM	7 Apr	Mar	1.59%	--	1.48%	0.85%
FGV CPI IPC-S	8 Apr	Apr	0.91%	--	0.96%	0.85%
FIPE CPI - Weekly	9 Apr	Apr	0.75%	--	0.73%	0.76%
IGP-M Inflation 1st Preview	9 Apr	Apr	0.81%	--	0.72%	1.16%
IBGE Inflation IPCA MoM	9 Apr	Mar	0.85%	0.78%	0.92%	0.69%
COPOM Monetary Policy Meeting Minutes	10 Apr	--	--	--	--	--
Chile						
Economic Activity MoM	7 Apr	Feb	0.1%	0.5%	0.20%	0.49%
Real Wage MoM	7 Apr	Feb	--	--	-0.2%	0.7%
Trade Balance	7 Apr	Mar	\$1400M	\$1694M	\$1702M	\$1237M
Copper Exports	7 Apr	Mar	--	\$3484M	\$3605	\$3794M
CPI MoM	8 Apr	Mar	0.7%	0.7%	0.84%	0.48%
Central Bank's Traders Survey	9 Apr	--	--	--	--	--
Central Bank's Economist Survey	10 Apr	--	--	--	--	--
Colombia						
CPI Core MoM	7 Apr	Mar	--	0.16%	0.31%	0.68%
Consumer Confidence Index	11 Apr	Mar	--	23	--	15.7
Central Bank's Economists Survey	11 Apr	--	--	--	--	--
Mexico						
Gross Fixed Investment	8 Apr	Jan	-1.0%	0.9%	-2.39%	0.74%
Vehicle Production AMIA	7 Apr	Mar	--	--	277314	248017
CPI MoM	9 Apr	Mar	0.30%	0.27%	0.27%	0.25%
CPI Core MoM	9 Apr	Mar	0.18%	0.18%	0.21%	0.28%
ANTAD Same-Store Sales YoY	9 Apr	Mar	-1.2%	1.5%	-2.4%	-0.2%
Nominal Wages	10 Apr	Mar	--	--	4.42%	4.3%
Industrial Production MoM	11 Apr	Feb	0.45%	0.96%	--	0.51%
Peru						
Trade Balance	7 Apr	Feb	--	--	\$58M	-\$679M
Reference Rate	10 Apr	Apr	4.00%	4.00%	4.00%	4.00%

Most recent Latam reports

Date	Description
08-04-2014	➤ Brazil Flash: COPOM minutes suggest that the tightening cycle is over
08-04-2014	➤ Peru Flash: Monetary policy meeting: no changes in the policy rate and a similar communiqué to that of last month's
08-04-2014	➤ Brazil Flash: Inflation jumps in March and will soon breach the 6.5% target ceiling
08-04-2014	➤ Mexico Inflation Flash: Inflation returned to Banxico's tolerance interval in March
08-04-2014	➤ Mexico Economic Watch: Social Security reform (in Spanish)
08-04-2014	➤ Financial Inclusion Economic Watch: Voluntary long-term savings in Chile (in Spanish)
08-04-2014	➤ Brazil: Brazilian economy perspectives (video)
08-04-2014	➤ Latam: Deterioration in Latin America's manufacturing competitiveness (video)
08-04-2014	➤ Latam: Second generation reforms for Latin America (video)
08-04-2014	➤ Chile Flash: CPI inflation at +0.8% MoM does not compromise Central Bank's baseline scenario (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.) 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.