

Latam Daily Flash

12 May 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

Brazilian inflation in April surprised to the downside although the annual figure continued to trend up. The last MP minutes in Mexico suggest that the balance of risks to inflation remained unchanged while balance of risks to growth improved slightly. The consensus among members is that the output gap is still large. We expect Banxico to remain on hold until 2H15. Minutes in Colombia express optimism on activity and inflation converging towards target.

Brazil - Inflation surprises to the downside

Monthly inflation declined to 0.67% MoM in April from 0.92% MoM in March, following the deceleration in food prices, although the latter remained very high (1.2% MoM vs. 1.9% MoM in the previous reading). The headline figure was significantly lower than expected (BBVAe: 0.72% MoM; consensus: 0.81% MoM). Although annual inflation continued to trend up (6.33% vs. 6.15% in March and 5.59% YoY in January), we expect the BCB to focus on the monthly deceleration and keep the Selic rate unchanged at 11.0% at its next meeting (see our [Brazil Flash](#) for more details).

Mexico - Neutral tone in the monetary policy minutes

The minutes of the last meeting suggest that the board members believe that the balance of risks to inflation remained unchanged, while the balance of risks to growth improved slightly. Some members even stated that domestic demand is showing signs of improvement (signs of a strengthening in consumption and a change in trend in investment as the February data released last Friday suggests), although others were more cautious. All members consider that the output gap remains large. All in all, the minutes support our view that the policy rate will remain at 3.5% for a long time. We expect Banxico to remain on hold throughout 2014 and 1H15.

Mexico - Investment surprised to the upside

The annual rate of growth of the fixed investment index for February 2014 was -0.5% (BBVAe: -1.8%, consensus: -1.6%). This was the result of an annual decrease of 2.7% in its construction component and of a 3.3% annual increase in its machinery and equipment component. We had forecast a decrease of 1.8% of the investment index due to a forecast decrease of 2.1% in construction and -1.2% in machinery and equipment. This means that the main source of error was the forecast for the annual rate of growth of investment in machinery and equipment. All in all, the report is positive and points to a change in trend in investment.

Colombia - BanRep minutes express optimism about economic activity in 2014 and inflation converging towards long-term target

In the latest minutes, Colombia's central bank expressed its view that economic activity expanded during the first quarter of 2014 at a similar rate to that of the last quarter of 2013, which exceeded 4.5% YoY and most likely reached 4.8%. This robust beginning to the year enhances the possibility of reaching the government's 2014 forecast of 4.7% by year-end (BBVAe: 4.7%). Inflation has continued to rise gradually towards the long-term target of 3%, mainly driven by higher than expected food and regulated prices.

Peru - Business confidence remains in the optimistic zone, with no major changes in April

Business confidence stayed at a level of 54 points in April (above 50 suggests businessmen are optimistic). We believe confidence around these levels supports acceleration in private investment in the coming quarters, after a very muted 1Q14, and will lead it to grow close to 4% in 2014.

What to watch today

Mexico – Industrial production (March, 09:00hrs NYT)

We expect industrial production to increase 1.6% YoY sa, equivalent to 0.9% MoM sa, in March. Our expected positive outcome stems from the good performance observed in US industrial production in the same month (0.7% MoM sa).

Colombia – Exports (March, 17:00hrs NYT)

We expect exports to fall 2.6% YoY, and to settle at USD4.5bn. In March, coal exports remained significantly below average due to environmental restrictions. Furthermore, industrial problems impeding exports in the two first months of the year could have been repeated in March, mainly in the automotive sector. In total, these data could imply a downward revision of our forecast for exports in 2014.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FIPE CPI - Weekly	12 May	May	0.49%	--	0.45%	0.57%
Formal Job Creation Total	14 May	Apr	144764	--	--	13117
FGV Inflation IGP-10 MoM	15 May	May	0.29%	--	--	1.19%
Retail Sales MoM	15 May	Mar	0.0%	0.0%	--	0.2%
FGV CPI IPC-S	16 May	May	0.80%	--	--	0.84%
Economic Activity MoM	16 May	Mar	0.00%	-0.20%	--	0.24%
Chile						
Overnight Rate Target	16 May	May	4.00%	4.00%	--	4.00%
Colombia						
Exports FOB	12 May	Mar	\$4541.0	\$4500	--	\$4271.4
Consumer Confidence Index	12 May	Apr	20.5	22.0	--	17.5
Retail Sales YoY	14 May	Mar	6.2%	6.80%	--	6.7%
Industrial Production YoY	14 May	Mar	8.9%	7.3%	--	2.8%
Mexico						
Industrial Production YoY	12 May	Mar	3.0%	1.84%	--	0.7%
Industrial Production MoM	12 May	Mar	0.3%	0.93%	--	0.3%
ANTAD Same-Store Sales YoY	12 May	Apr	1.5%	-0.6%	--	-2.4%
Peru						
Economic Activity YoY	15 May	Mar	5.9%	--	--	5.7%
Unemployment Rate	15 May	Apr	6.4%	--	--	6.9%

Most recent Latam reports

Date	Description
09-05-2014	➤ Mexico Flash: There are signs that suggest that economic activity has started to improve (in Spanish)
09-05-2014	➤ Mexico Economic Watch: Mexican manufacturing exports gained competitiveness in 2002-2012
09-05-2014	➤ Brazil Flash: Inflation surprises to the downside
08-05-2014	➤ Peru Economic Outlook: Second Quarter 2014 (in Spanish)
08-05-2014	➤ Uruguay Economic Outlook: First Half 2014 (in Spanish)
08-05-2014	➤ Chile Economic Watch: Who is responsible for the fall in investment: the Treasury, the private sector or both? (in Spanish)
08-05-2014	➤ Peru Flash: No monetary policy news: the policy rate stayed at 4,0% in May and the communiqué was pretty similar to last month's
08-05-2014	➤ Mexico Inflation Flash: lowest point probably behind us
08-05-2014	➤ Chile Flash: CPI inflation reached +0.6% MoM in April, considerably above expectations
07-05-2014	➤ Chile Economic Outlook: Second Quarter 2014 (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.