

# Brazil Flash

## Monetary easing to continue “with more parsimony”

After cutting the SELIC at a 75bps pace in the last meetings, the minutes of last week’s monetary policy decision suggest that the Monetary Policy Committee (COPOM) will continue adjusting the SELIC down, but at a slower pace. We expect a 25bps cut to be delivered in May and the SELIC to remain constant at 8.75% for some time from then on. More cuts should, however, not be ruled out as this CB Board has already taught us.

- **COPOM refers to a deflationary external environment and to a slower than expected domestic recovery**

In the minutes of the previous monetary policy meeting, the COPOM had guided markets by saying that it was very likely that the SELIC would move to slightly above historic lows (meaning SELIC would reach and remain stable at 9.0% as historical low is 8.75%). This reference was excluded from today’s minutes. Instead, the following statement was included: “...even though the recovery of activity is occurring more slowly than expected, the COPOM considers that given the lagged and cumulative effects of actions adopted so far any additional monetary flexibility should be conducted with parsimony”. In addition to highlighting the fact that domestic recovery has been slower than anticipated, the monetary authority said once again that the current external environment is deflationary and that it expects inflation to converge to the 4.5% target by the end of the year. All in all, we take today’s minutes as a sign that monetary easing will continue, but at a slower pace.

- **The “saving accounts barrier”**

After driving the SELIC down from 12.5% in August of 2011 to 9.0% last week, the space for additional cuts is very limited. This is not due to significant inflationary pressures (as the CB will continue downplaying them) but instead due to the “saving accounts barrier”. Saving accounts (“contas de poupança” as they are called in Brazil) pay a fixed, tax-free rate of 6.2% per year (0.5% per month) plus a small monetary correction (around half of the IPCA, in the last years). The remuneration of saving accounts ends up setting a floor (somewhere between 8.0% and 9.0%, according to calculations) for the SELIC rate as resources would massively migrate to saving accounts from SELIC-investment funds if interest rates were to fall below this floor. Even though President Dilma has recently confirmed that the government will analyze changing the rules governing the remuneration of saving accounts, we do not expect a change to be implemented very soon because touching a politically sensitive issue (“contas de poupança” are among families’ main saving mechanisms in Brazil) in an electoral year (regional elections will be held in October) could be an unnecessary risk to be faced by the government.

- **Adjusting our SELIC call: stability at 8.75% and not at 9.0%, and risks to the downside**

Taking into account today’s minutes, we adjust our SELIC call and now expect the COPOM to announce a 25bps cut in its next meeting in the end of May and to bring the SELIC to 8.75%. We expect rates to then remain constant at 8.75% (at least till the end of the year), but this CB Board has taught us that more cuts should never be ruled out even if inflation refrains from converging to the 4.5% target (we expect inflation, which is currently at 5.2%, to remain above 5.0% in the remainder of the year and to close 2012 at 5.4%).

Enestor Dos Santos  
enestor.dossantos@bbva.com  
+34 639 82 72 11

### 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 regarding the date of issue of the report and are 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.**