

# Latam Daily Flash

## 29 July 2013 Economic Analysis

*Madrid*  
**Juan Ruiz**  
Chief Economist, South America  
juan.ruiz@bbva.com  
+34 913745887

**Enestor dos Santos**  
Principal Economist, Latam  
enestor.dossantos@bbva.com  
+34 639827211

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  
javier.amador@bbva.com  
+ 5255 5621 3095

*BanRep left its policy rate unchanged in Colombia but lowered the 2013 GDP forecast to 4.0% (from 4.3% previously). The probability of a rate cut in Mexico in September has diminished but it remains a possibility in a context of weak growth and positive outlook for inflation. There has been limited support for domestic demand in Brazil from total credit.*

## Colombia - The Central Bank keeps the policy rate unchanged at 3.25% but lowers 2013FY GDP growth forecast from 4.3% to 4.0%

With more moderate optimism than in June's meeting, BanRep lowered its 2013 growth forecast to 4.0% (BBVAe: 4.1%) after a weak private spending dynamic in 1Q13. The Central Bank also announced its 2Q13 GDP forecast of 3.4% YoY. BanRep maintains its expectation of a gradual recovery in the coming quarters, amid expansive monetary and fiscal policies. The tone of cautious optimism and the downward revision of the GDP growth forecast reduces the probability of any interest rate hikes in the remainder of the year, in line with our forecast of stability in 2013 and a first rate hike in April 2014 (for more details, see our [Colombia Flash](#)).

## Mexico - Monetary policy minutes did not reveal any strong bias from Banxico to cut the policy rate

The minutes from the July monetary policy meeting did not show any discussion of a possible change in the policy stance in the last meeting. Even though, as the policy statement had already showed, Banxico's board is clearly downbeat on growth and positive on inflation, much of the discussion was focused on a possible reduction in the Fed's asset purchases in upcoming meetings, which has been behind the recent market volatility and the drop in asset prices. Interestingly, this time, they stated that they are going to be watchful of relative monetary conditions, especially given recent movements driven by the Fed's communication. The next monetary policy meeting will take place on 6 September and although our baseline scenario continues to envisage a 50bp rate cut at that meeting, the probability of such a cut continues to diminish. Even though the door remains open for interest rate cuts in a context of weak growth and a favorable outlook for inflation, a strengthening of the peso from current levels might be a necessary condition.

## Mexico - Trade balance came out pretty much in line with our expectations; suggesting that exports are starting to rebound

June's trade balance registered a surplus of USD855mn, in line with our estimate of a USD787mn and much better than consensus expectations (-USD469mn). Both exports and imports continue to rebound in annual terms reaching rates of 2.5% YoY and 1.7% YoY, respectively in June. The trade balance for the first half of the year posted a deficit of -USD1,863mn, a very low print which suggests that internal demand remains weak and that for the time being internal demand is not widening the deficit. This deficit will be easily financed with direct or portfolio investment; however, if economic activity improves in the second half of the year, as we expect, the trade deficit might widen at a slightly faster pace.

## Brazil – Public banks hold more than 50% of the credit market for the first time since 2000; lending rates are starting to trend up

Even though private credit growth remained subdued (5.7% YoY; 0.0% MoM), credit from public banks continued to grow sharply (29.3% YoY; 3.5% MoM) and represented more than 50% of the total credit stock (specifically 50.2%) in June. This is the first time since 2000 that the share of the public banks is higher than that of the private banks. Total credit growth remained stable around 16% YoY in June, providing limited support to domestic demand. Average lending rates increased from 18.1% in May to 18.5% in June in what we believe could be the beginning of an upward trend (in line with the recent adjustment of the Selic rate). The good news revealed by the credit report published by the BCB was the drop in NPL, from 3.6% in May to 3.4%.

## Peru – Concessions speed up in order to boost private investment

The government agency in charge of promoting private investment has granted the concession of a project that would bolster the use of natural gas. Over the last month, three investment projects have been granted to the private sector, amounting to a total investment in the energy and communications sectors of nearly USD800mn. The acceleration in the awarding of concessions is one of the government's responses in order to try and support economic activity in a context of external headwinds that have affected business confidence.

## What to watch today

No relevant data

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Inflation IGPM MoM	30 Jul	Jul	0.28%	--	--	0.75%
FGV Inflation IGPM YoY	30 Jul	Jul	5.18%	--	--	6.31%
Primary Budget Balance	30 Jul	Jun	2.95B	--	--	5.7B
PPI Manufacturing YoY	31 Jul	Jun	--	--	--	4.07%
FGV CPI IPC-S	01 Aug	2-Jul	-0.15%	--	--	-0.11%
Industrial Production MoM	01 Aug	Jun	1.30%	0.80%	--	-2.00%
PMI Manufacturing	01 Aug	Jul	--	--	--	50.4
Trade Balance Monthly	01 Aug	Jul	\$450M	\$600	--	\$2394M
FIPE CPI - Monthly	02 Aug	Jul	-0.18%	--	--	0.32%
Vehicle Sales Fenabrave	02 Aug	Jul	--	--	--	318606
<b>Chile</b>						
Manufacturing Index YoY	30 Jul	Jun	-1.20%	-1.00%	--	-4.20%
Retail Sales YoY	30 Jul	Jun	8.00%	7.40%	--	13.20%
Copper Production Total	30 Jul	Jun	--	470798	--	475140
Central Bank Meeting Minutes	30 Jul	1-Jan	--	--	--	--
Unemployment Rate	31 Jul	Jun	6.50%	6.50%	--	6.40%
<b>Colombia</b>						
Vehicle Sales	25-29 Jul	Jun	--	--	--	24488
Budget Balance	30 Jul	Jun	--	--	--	-\$195B
Urban Unemployment Rate	31 Jul	Jun	10.50%	10.9%	--	10.40%
PPI MoM	02 Aug	Jul	--	--	--	0.24%
<b>Mexico</b>						
Budget Balance YTD	30 Jul	Jun	--	--	--	56.00B
Net Outstanding Loans	31 Jul	Jun	--	--	--	2351B
Remittances Total	01 Aug	Jun	2065.6	--	--	2033.9M
IMEF Manufacturing Index NSA	01 Aug	Jul	49.6	--	--	47.5
<b>Peru</b>						
CPI MoM	01 Aug	Jul	0.25%	0.42%	--	0.26%
Wholesale Prices (MoM)	01 Aug	Jul	--	--	--	0.82%

## Most recent Latam reports

Date	Description
26-07-2013	<a href="#">➤ Central Bank in Colombia kept policy rate at 3.25% and revises downwards 2013FY GDP growth forecast from 4.3% to 4.0%</a>
24-07-2013	<a href="#">➤ Mexico Inflation Flash: July's biweekly inflation: Inflation Surprises to the Downside. Thanks to a Very Low Core Print</a>
18-07-2013	<a href="#">➤ Brazil Flash: For the COPOM, the exchange rate depreciation is a "natural and expected" transition to normality, but entails risks</a>
15-07-2013	<a href="#">➤ Mexico Real Estate Flash: Construction returns to negative terrain</a>
15-07-2013	<a href="#">➤ Flash Peru: GDP slowed in May</a>
15-07-2013	<a href="#">➤ Mexico Flash: Industrial production rebounded in May, partially offsetting the sharp decline in April. The trend remains of moderation.</a>
12-07-2013	<a href="#">➤ Mexico Flash: In spite of a greater concern on domestic activity and a better inflation outlook, a rate cut seems to depend on a greater impairment of economic activity</a>
11-07-2013	<a href="#">➤ Peru Flash: Central Bank somewhat more dovish</a>
11-07-2013	<a href="#">➤ Chile Flash: CB kept the monetary policy rate at 5%, but explicitly delivered a dovish tone</a>
11-07-2013	<a href="#">➤ Mexico Flash: Banxico: Fondeo rate at 4.0%. A dovish tone is expected as domestic activity impairs</a>

### 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.) Bogata - 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.**