

# MONTHLY ECONOMIC AND MARKET OVERVIEW

Economic Research and Strategy Division

June 2013

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- Latam's economic activity decelerated in 1Q13, but should rebound in the coming quarters.
- **Colombia grew 4.0% in 2012**, and we revised upwards our forecast for **2013 to 4.2%**.
- **Colombian economic slowdown** has been caused by a combination of both **external** and **internal factors**.
- **Prices are close to the lower bound of Central Bank's target range.** We expect inflation to close at 2.6% this year.
- **We revised upwards our USDCOP rate forecast**, because of the uncertainty caused by the potential changes in mandatory pension funds regulation that would increase their investments in foreign assets, as well as the global uncertainty, the daily purchases of USD by the Central Bank and an increase in current account deficit for 2013.
- In May, the COLCAP completed four months of drops adjusting a decrease of 9.1% YTD. The volume last month was \$220 billion, over its daily average (\$179 billion). In addition, we expect a lateral trend in the stock market for the next month, given the absence of catalysts that could give direction to the market in the short term.

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# CHAPTER 1: ECONOMIC OVERVIEW

- i. Global Economic Outlook
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  - Real activity and external leading indicators
  - Financial sector
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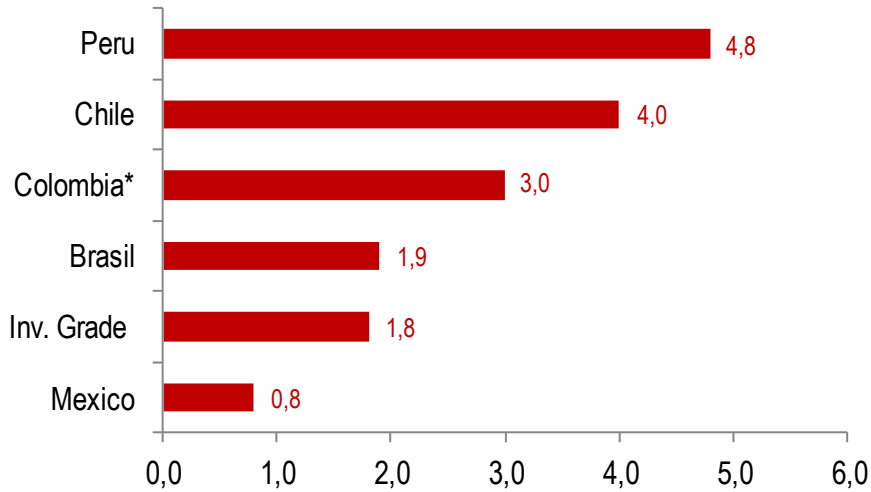
The IMF is forecasting a slower world GDP growth,  
from 3.5% to 3.3% in 2013

### GDP growth forecast (IMF - April 2013)

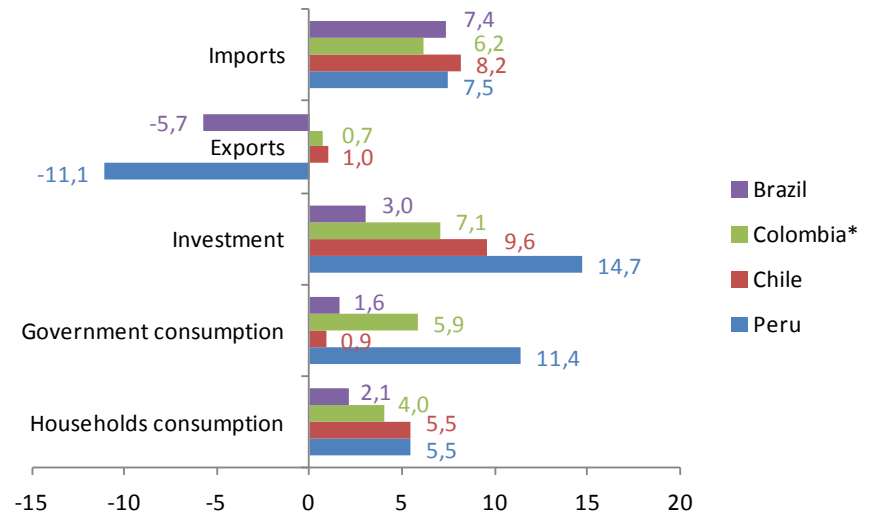
	FMI - Abr 2013		Diferencia	
	2013	2014	2013	2014
<b>World Output</b>	<b>3,3%</b>	<b>4,0%</b>	<b>-0,2%</b>	<b>-0,1%</b>
<b>Advanced Economies</b>	<b>1,2%</b>	<b>2,2%</b>	<b>-0,2%</b>	<b>0,0%</b>
United States	1,9%	3,0%	-0,1%	0,0%
Euro Area	-0,3%	1,1%	-0,1%	0,1%
Germany	0,6%	1,5%	0,0%	0,1%
Italy	-1,5%	0,5%	-0,5%	0,0%
Spain	-1,6%	0,7%	-0,1%	-0,1%
Japan	1,6%	1,4%	0,4%	0,7%
<b>Emerging and Developing</b>	<b>5,3%</b>	<b>5,7%</b>	<b>-0,2%</b>	<b>-0,2%</b>
China	8,0%	8,2%	-0,2%	-0,3%
India	5,7%	6,2%	-0,2%	-0,2%
<b>LatAm and the Caribbean</b>	<b>3,4%</b>	<b>3,9%</b>	<b>-0,2%</b>	<b>0,0%</b>
<b>Colombia</b>	<b>4,1%</b>	<b>4,5%</b>	<b>-0,3%</b>	
<b>WTI USD/bbl</b>	<b>94,00</b>	<b>98,00</b>	<b>-2,25</b>	<b>-5,25</b>

# Latam's economic activity decelerated in 1Q13, but should rebound in the coming quarters

## LATAM GDP growth (% oya)



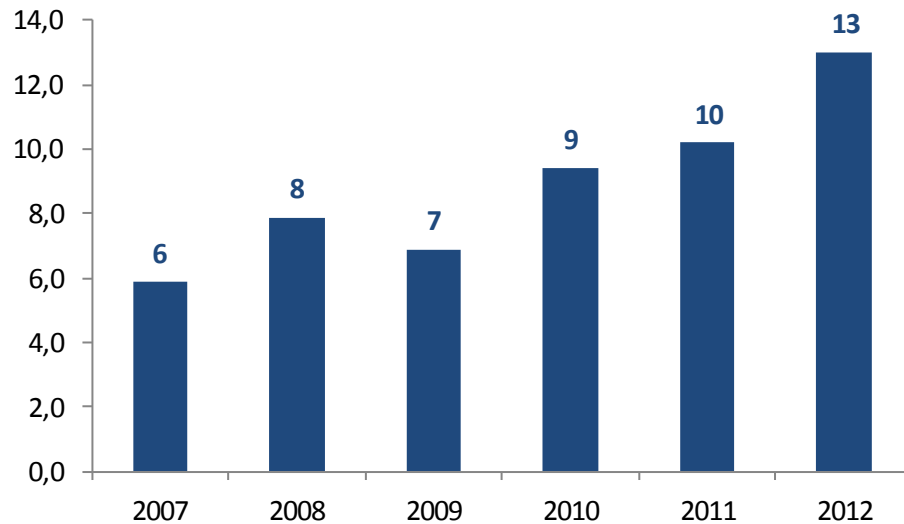
## LATAM GDP growth and leading indicator (% oya)



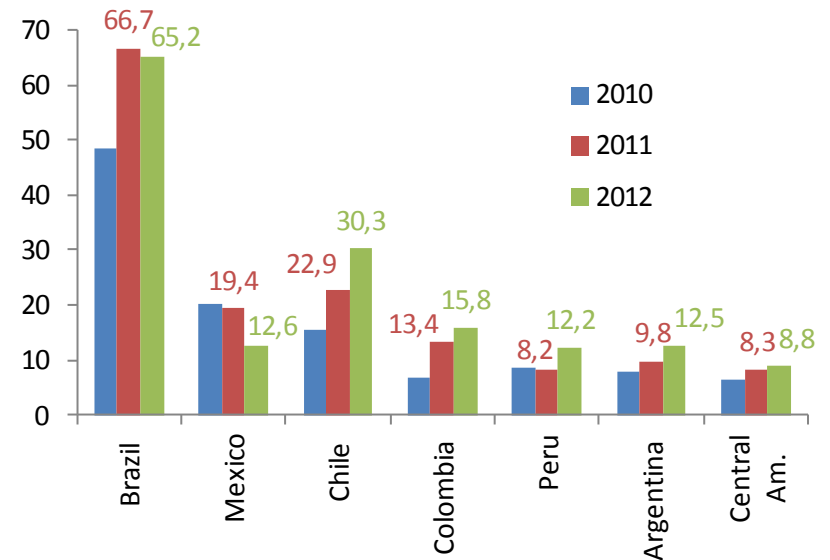
Source: Grupo Bancolombia (GB) based on INEI; IBEGI, IBGE, Central Bank of Chile. \* Grupo Bancolombia's GDP estimate

# LATAM remains an attractive region to invest despite an uncertain global backdrop

## Latam's share in global FDI flows (%)



## Net FDI inflows by country between 2010-13 (USD bn)



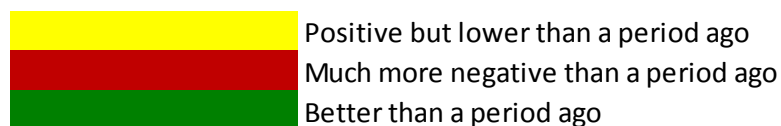
Source: ECLAC "La Inversión Extranjera Directa en América Latina y el Caribe" 2012



# Leading indicators suggest moderation in economic activity at the start of 2013

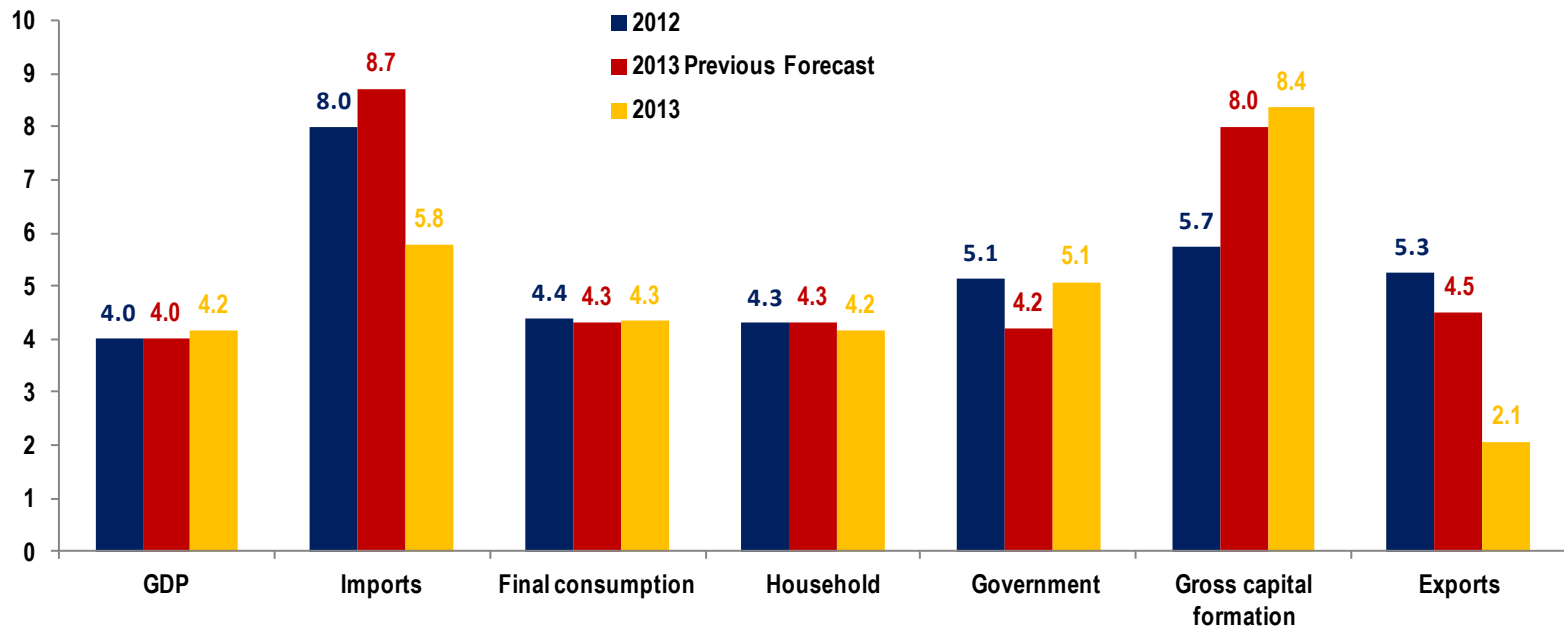
## Leading Indicators – Colombian Real Economic Activity

Indicator	Unit	Latest data		A period ago	A year ago	A period ago	A year ago
		Date	Value				
GDP	YoY	4Q12	3.1	2.7	6.6		
Household consumption	YoY	4Q12	4.0	3.9	5.4		
Investment	YoY	4Q12	3.0	1.0	18.9		
Inflation	YoY	May	2.00	2.02	3.44		
Urban unemployment	Rate	April	10.7	11.6	11.4		
Job creation / Losses	Thousands	April	151	179	368		
Exports	YoY	April	-1.2	-20.0	3.9		
Traditional	YoY	April	-11.3	-24.0	7.5		
Non traditional	YoY	April	27.2	-9.5	-5.2		
Imports	YoY	March	-10.3	-0.7	7.7		
Consumption	YoY	March	-6.0	3.3	14.3		
Capital Goods	YoY	March	-6.7	1.9	-9.6		
Consumer confidence	Index	April	23.7	14.8	26.6		
Energy demand	YoY	May	2.60	8.08	3.66		
Industrial production	YoY	March	-11.5	-4.6	-0.6		
Retail sales	YoY	March	0.9	0.6	6.8		
Vehicles sales	Units	April	25,772	23,551	24,941		



We revised our growth forecast from 4.0% to 4.2%,  
given the impact of the PIPE impact and a stronger  
moderation in external sector

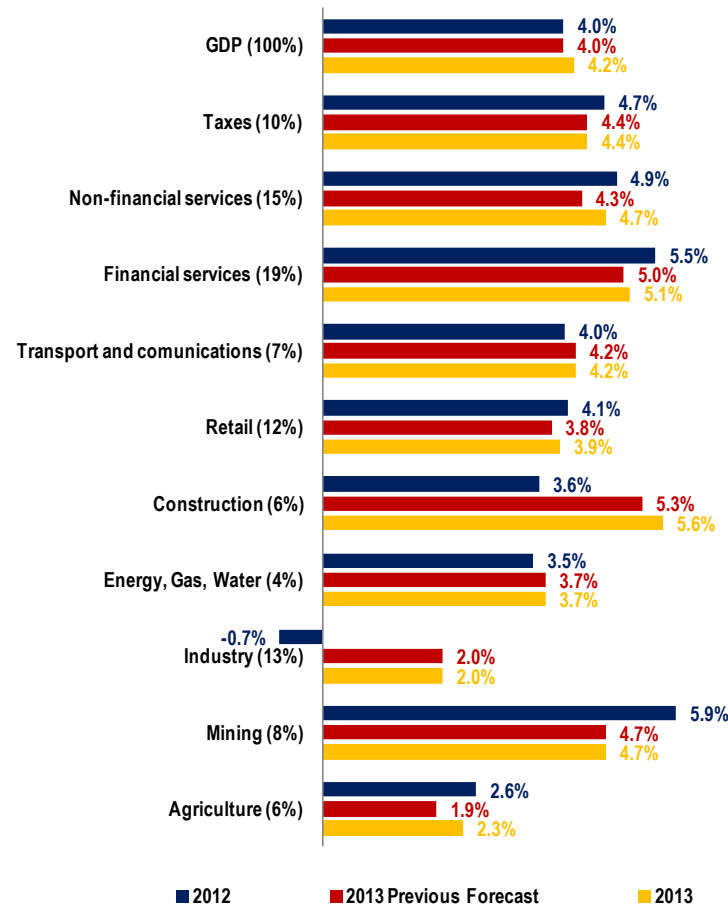
### Annual GDP Growth– Demand Side



The “PIPE” is the plan to boost productivity and employment

We expect construction and services to be the best performing sectors in 2013

### Annual GDP Growth – Supply Side



Source: Grupo Bancolombia (GB), Dane

Due to lower tax collection, we expect Central Government's deficit to reach 2.7% of GDP in 2013

### General Government Balance as % of GDP

	Ministry of Finance							
	2011		2012		2013 (F)		2013 (F)	
	M.M. \$	% GDP	M.M. \$	% GDP	M.M. \$	% GDP	M.M. \$	% GDP
Total income	94,247	15.3%	107,067	16.1%	117,582	16.3%	116,481	16.6%
Total expenses	111,754	18.1%	122,507	18.5%	135,247	18.7%	135,247	19.3%
<b>Central Government Balance</b>	<b>-17,507</b>	<b>-2.9%</b>	<b>-15,440</b>	<b>-2.3%</b>	<b>-17,665</b>	<b>-2.4%</b>	<b>-18,766</b>	<b>-2.7%</b>
<b>Non Financial Public Sector</b>	<b>-11,318</b>	<b>-1.8%</b>	<b>2,989</b>	<b>0.46%</b>	<b>-7,118</b>	<b>-1.0%</b>	<b>-8,219</b>	<b>-1.2%</b>
<b>Combined Public Sector</b>	<b>-12,585</b>	<b>-2.0%</b>	<b>1,826</b>	<b>0.3%</b>	<b>-7,276</b>	<b>-1.0%</b>	<b>-8,382</b>	<b>-1.2%</b>

(F) Forecast

The external sector could contribute less to GDP growth in 2013

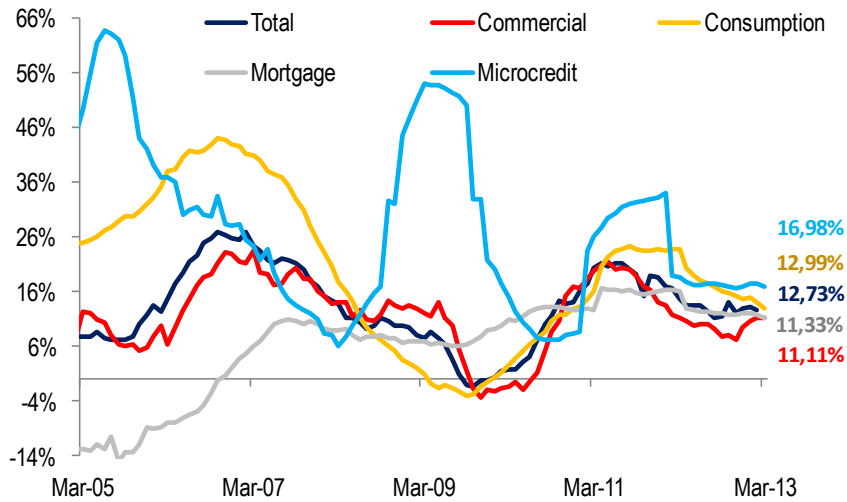
Trade Balance (USD millions)

Concept	2012	2012 (f) (YoY%)	2013(f)	2013 (f) (YoY%)	2013 (Prior forecast) (YoY%)
<b>Total Exports</b>	<b>60,272</b>	<b>5.9%</b>	<b>61,201</b>	<b>2%</b>	<b>10%</b>
<b>Traditional</b>	42,303	5.1%	42,499	0.5%	7%
Coffee	1,910	-26.8%	1,925	1%	-7%
Oil	31,642	11.3%	33,296	5%	9%
Coal	7,805	-7.0%	6,402	-18%	0%
Nickel	881	6.6%	877	-1%	4%
<b>Non traditional</b>	17,970	7.8%	18,702	4%	16%
<b>Imports CIF</b>	<b>58,601</b>	<b>7.1%</b>	<b>63,684</b>	<b>9%</b>	<b>10%</b>
<b>Imports FOB</b>	<b>55,207</b>	<b>7.1%</b>	<b>59,733</b>	<b>8%</b>	<b>10%</b>
<b>Trade Balance</b>	<b>5,066</b>	<b>-5.5%</b>	<b>1,469</b>	<b>-71%</b>	<b>10%</b>

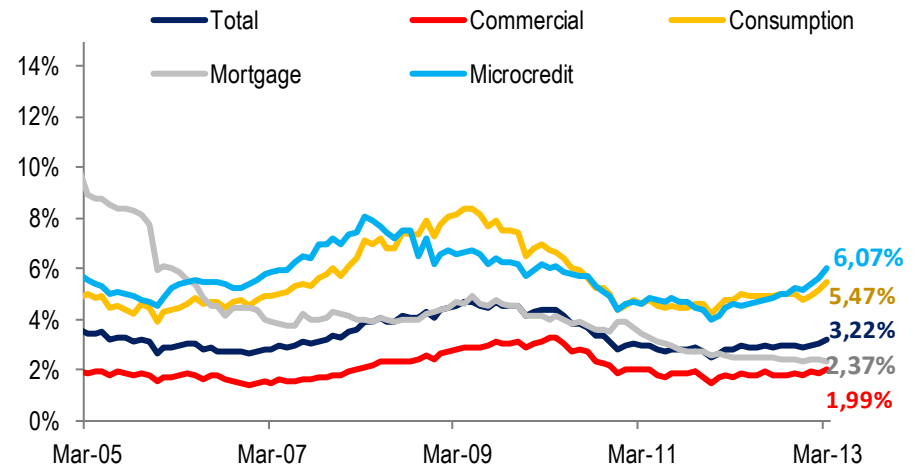
Source: Grupo Bancolombia (GB), DANE

# Consistent with overall economic activity, credit growth is moderating

## Loan growth rates (% oya)



## NPL Ratio

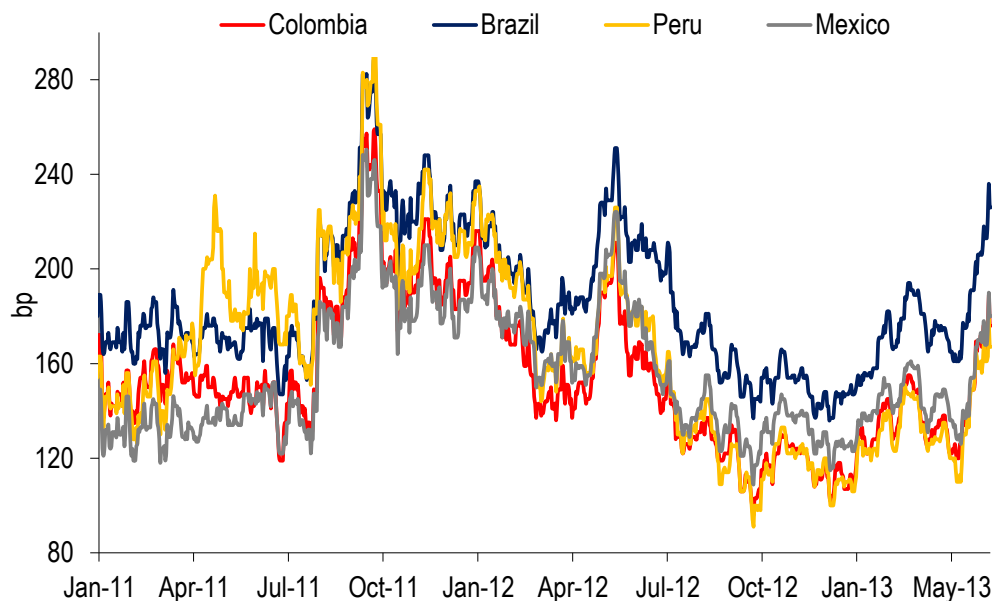


# CHAPTER 2: MARKET OVERVIEW

- i. Risk Premiums and Money Market Indicators
- ii. Local Sovereign Debt (TES)
- iii. Corporate Debt
- iv. FX Market (USDCOP and other currencies)
- v. Equities
- vi. Commodities

# In May, Latam USD sovereign spreads widened amid highly volatile global market conditions

## EMBI plus spread (bp) – Latam investment grade countries

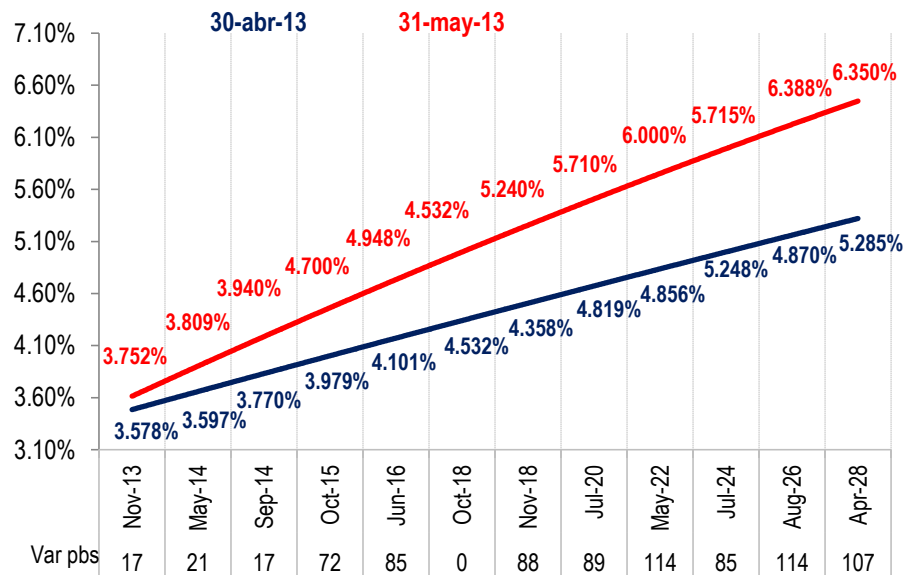


	30-Apr-13	31-May-13	Chg (bp)
Peru	130	158	28
Colombia	132	169	37
Mexico	145	170	25
Brazil	171	206	35
Latam	346	381	35
<b>Average</b>			<b>32</b>

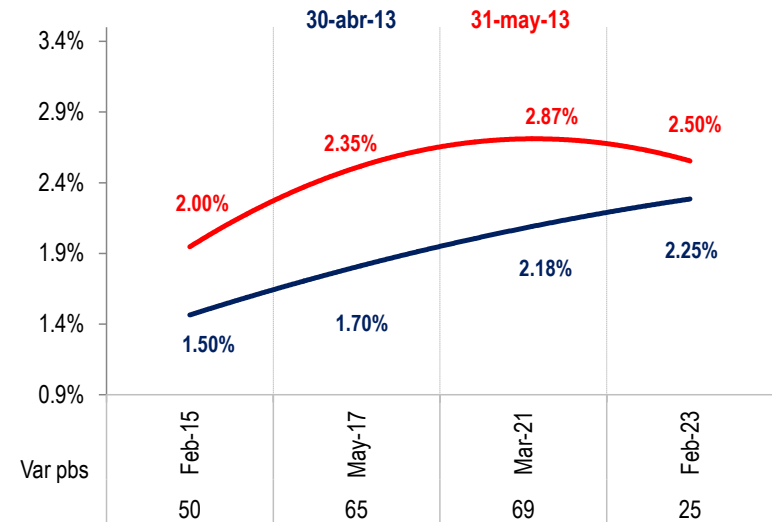


# Local sovereign curves have experienced a bearish steepening

## Fixed Rate TES Yield Curve (% AE)

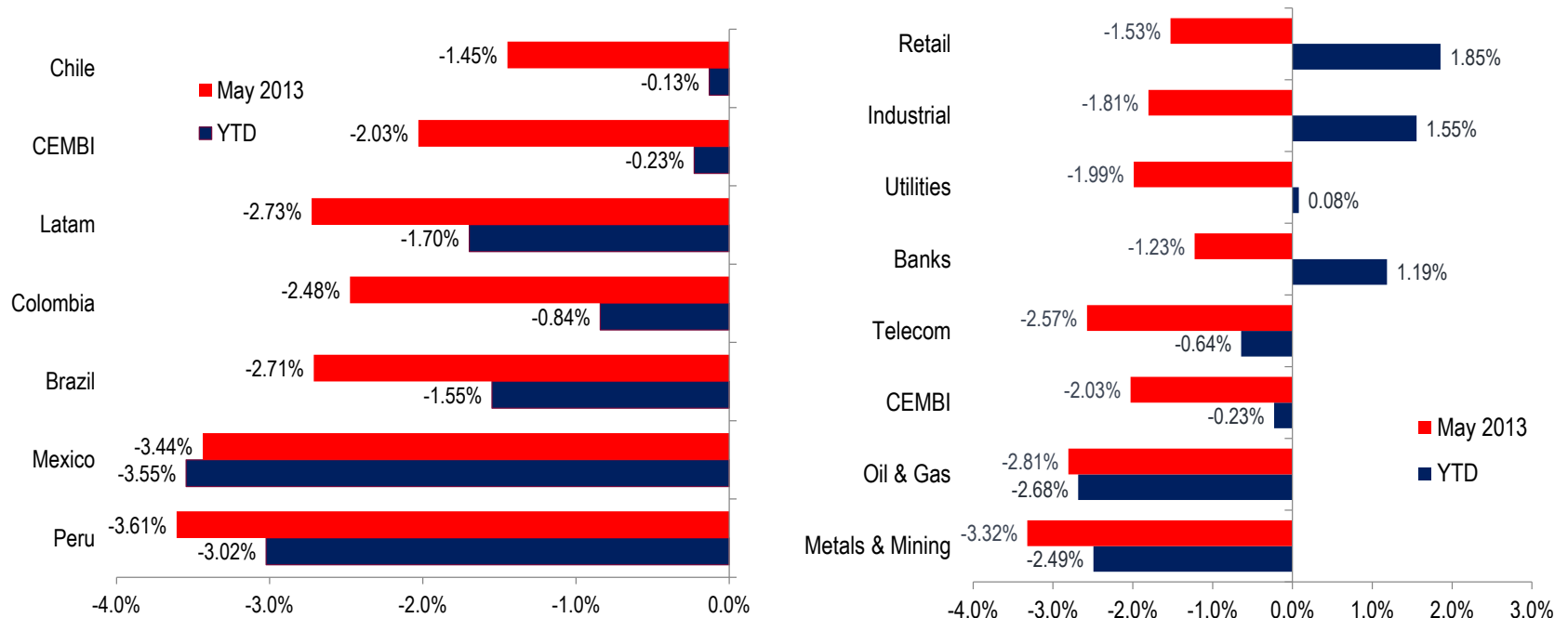


## UVR TES Yield Curve



# May was a negative month for Latin American corporate bonds

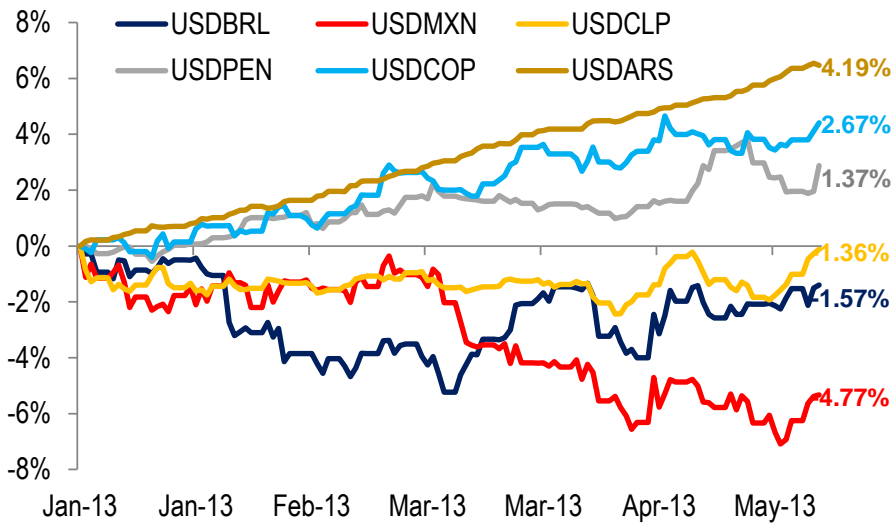
**CEMBI Broad index total return (%) – by country and sector**



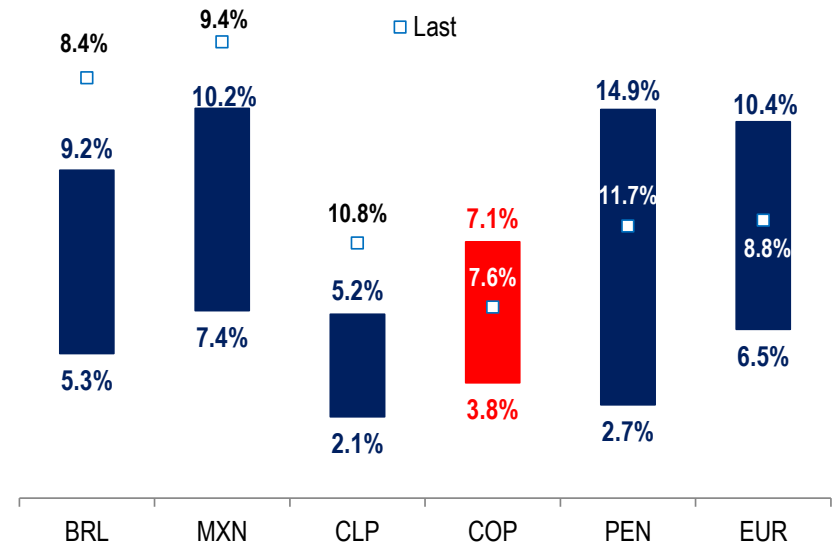
The *Corporate Emerging Market Bond Index* (CEMBI) is a market capitalization weighted index consisting of US-denominated Emerging Market corporate bonds.

Colombian peso has been one of the worst performing currencies in Latam during 2013. However, the USDCOP volatility is still one of the lowest in the region

### LATAM Currencies Performance (Index 100 = January 2013)

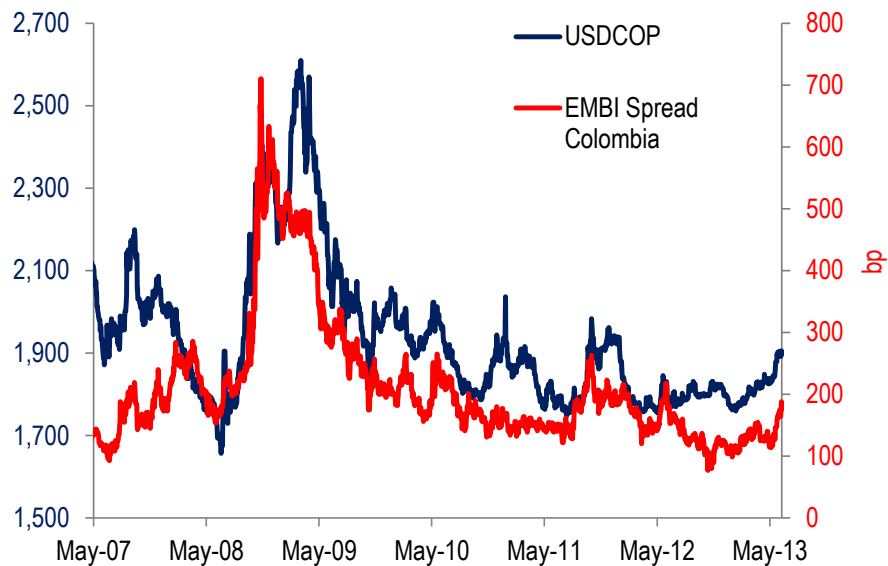


### LATAM currencies vs EUR volatility (minimum, maximum and last level registered in 2013)

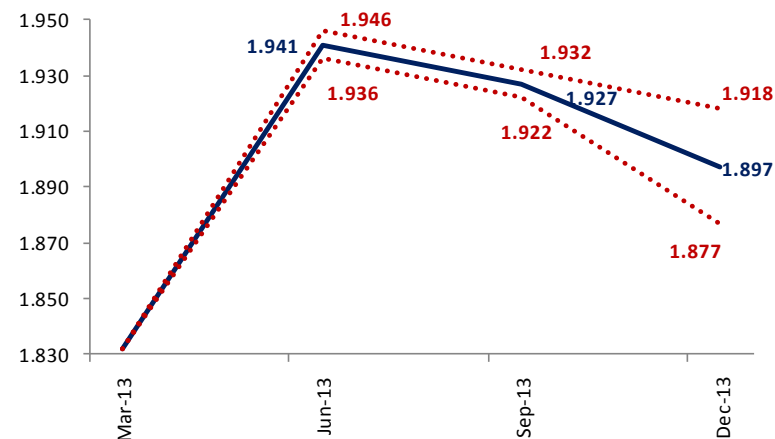


Upward revision of the USDCOP forecast reflects an increase in current account deficit, regulatory uncertainty and potential changes in US monetary policy

USDCOP vs EMBI spread Colombia



End of year exchange rate forecast

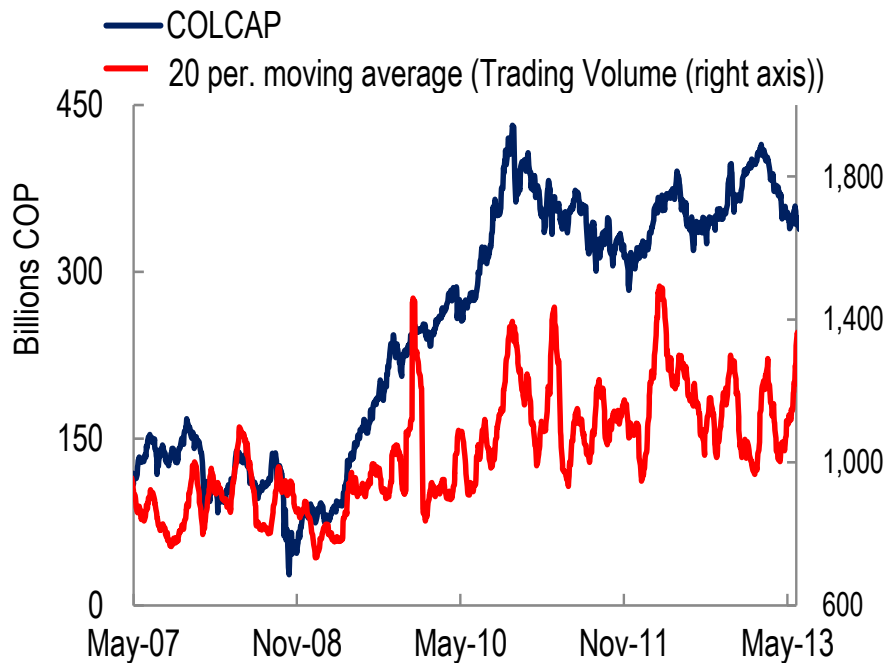


USDCOP – Quarterly Forecast

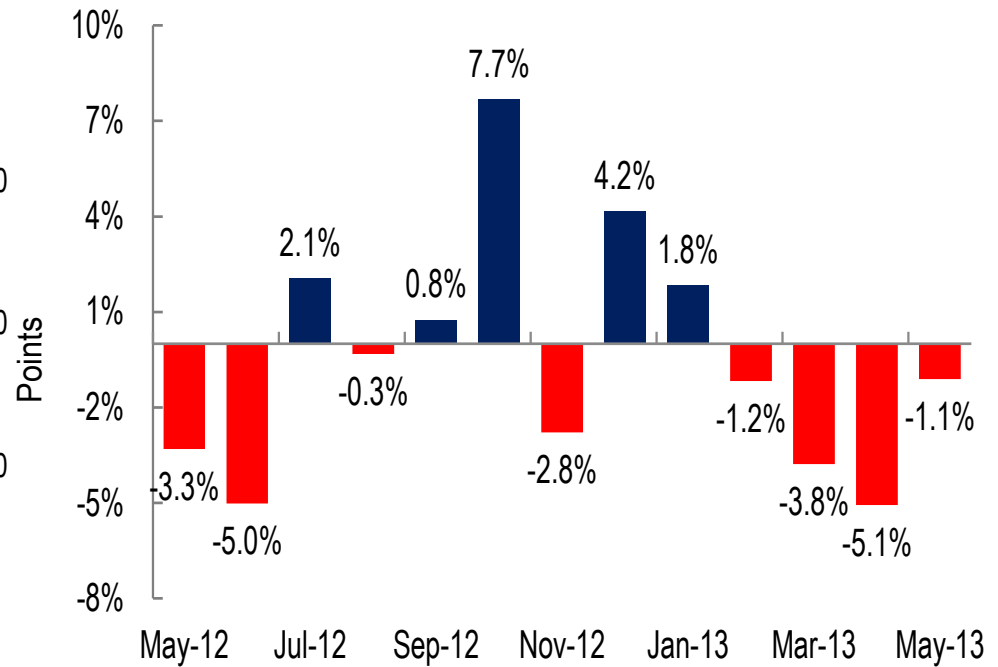
	Previous	Latest	Change
2Q13	1,800	1,941	141
3Q13	1,811	1,927	116
4Q13	1,823	1,897	74

Despite the COLCAP recovered part of the losses of the year during the first weeks, the stock index ended the month below 1670

**COLCAP Evolution vs Trading Volume**



**COLCAP Monthly Variations**



Source: Grupo Bancolombia, BVC  
May 31, 2013

The stocks that presented the biggest advances of the local market were Canadian oil companies, after reaching minimum levels, which created attractive opportunities for investors.

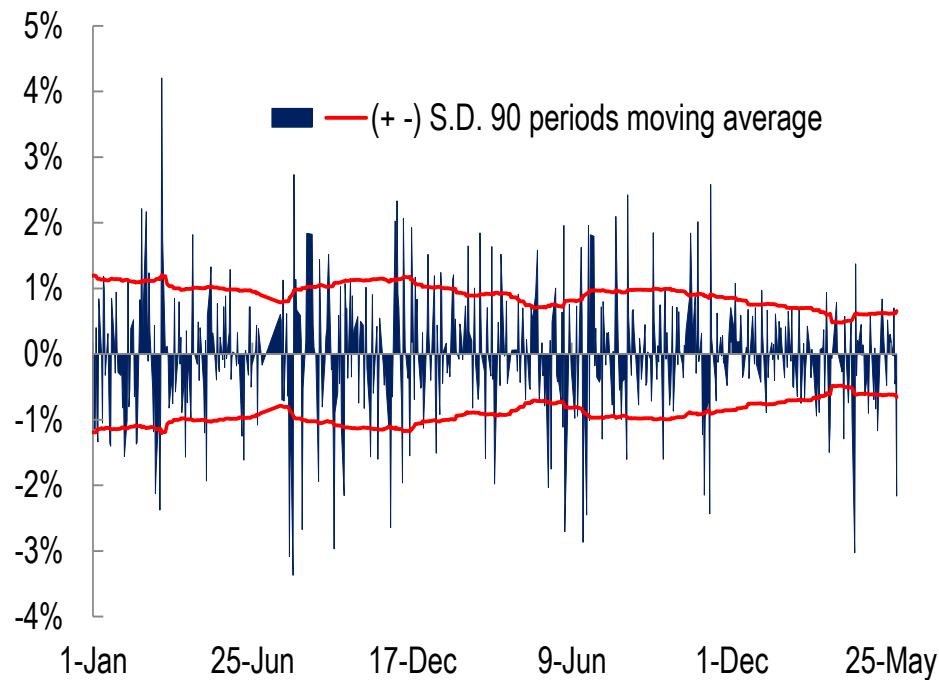
SECTOR	Company	Close Price 5/31/2013	Change %				Market Cap. (MM)	% Market Cap.
			1 month	3 months	12 months	YTD 2012		
Index	Col20	1,272	0.7%	-8.1%	-9.1%	-5.8%	n.a.	n.a.
	Colcap	1,666	-1.1%	-9.4%	-0.8%	-8.7%	n.a.	n.a.
	IGBC	13,352	-0.3%	-9.7%	-5.5%	-9.3%	n.a.	n.a.
	Icolcap	16,877	-0.8%	-8.0%	0.2%	-7.8%	n.a.	n.a.
Energy	Celsia	5,050	-4.2%	-15.4%	13.2%	-4.9%	3,633,902	0.8%
	EEB	1,360	-0.4%	-3.5%	37.5%	3.0%	12,486,401	2.9%
	ISA	7,940	-5.5%	-18.5%	-28.2%	-17.3%	8,794,962	2.0%
	Isagen	2,620	3.1%	1.2%	6.5%	6.1%	7,142,309	1.6%
	Corficol	36,540	3.5%	3.0%	13.5%	0.4%	6,905,724	1.6%
Financial	BVC	30	3.5%	-4.8%	-6.3%	-1.7%	550,848	0.1%
	Pref. Bancolombia	28,000	-6.4%	-3.4%	3.5%	-6.2%	23,596,304	5.4%
	Davivienda	25,460	4.3%	-1.7%	16.3%	9.1%	11,300,844	2.6%
	Pref. Grupo Aval	1,400	9.4%	8.9%	20.2%	8.1%	25,972,473	6.0%
	Pref. Grupo Sura	39,600	3.1%	-1.0%	18.6%	3.6%	22,409,510	5.2%
	Pref. Helm Bank	511	6.2%	2.6%	4.3%	6.2%	2,285,136	0.5%
Construction and Infrastructure	Concreto	1,315	-3.0%	-10.5%	2.7%	-1.9%	467,916	0.1%
	Cemargos*	7,800	-4.3%	-13.3%	21.1%	-24.3%	8,983,044	2.1%
	Inverargos	20,160	-0.8%	-12.3%	21.4%	-1.7%	15,781,097	3.6%
	El Cóndor	1,460	-1.4%	-5.8%	n.a.	n.a.	838,574	0.2%
Consumption	Nutresa	25,500	1.4%	-4.7%	21.4%	0.5%	11,733,148	2.7%
	Éxito	30,960	3.5%	-12.0%	8.6%	-12.8%	13,857,830	3.2%
Industrial	Fabricato	10.0	-16.7%	-86.1%	-88.8%	-86.1%	91,975	0.0%
	Carvajal	4,640.0	-9.0%	-0.2%	n.a.	n.a.	171,375	0.0%
	Tablemac	7.4	-0.7%	-7.4%	-31.5%	-11.4%	187,948	0.0%
Oil and Gas	Ecopetrol	4,080	-7.1%	-21.5%	-23.6%	-25.1%	167,756,130	38.7%
	Pacific Rubiales	40,140	4.1%	-9.4%	-9.6%	-3.9%	11,737,492	2.7%
	Canacol	5,140	13.3%	-12.7%	-55.3%	-91.1%	2,636,578	0.6%
	Petrominerales	11,200	14.5%	-25.3%	-50.9%	-24.3%	1,024,800	0.2%
Others	ETB	416	4.8%	-1.2%	-5.5%	5.1%	1,477,030	0.3%
	Avianca	4,305	1.3%	-5.9%	13.6%	-4.5%	3,880,131	0.9%

\* Change estimated based on the proforma price before excision

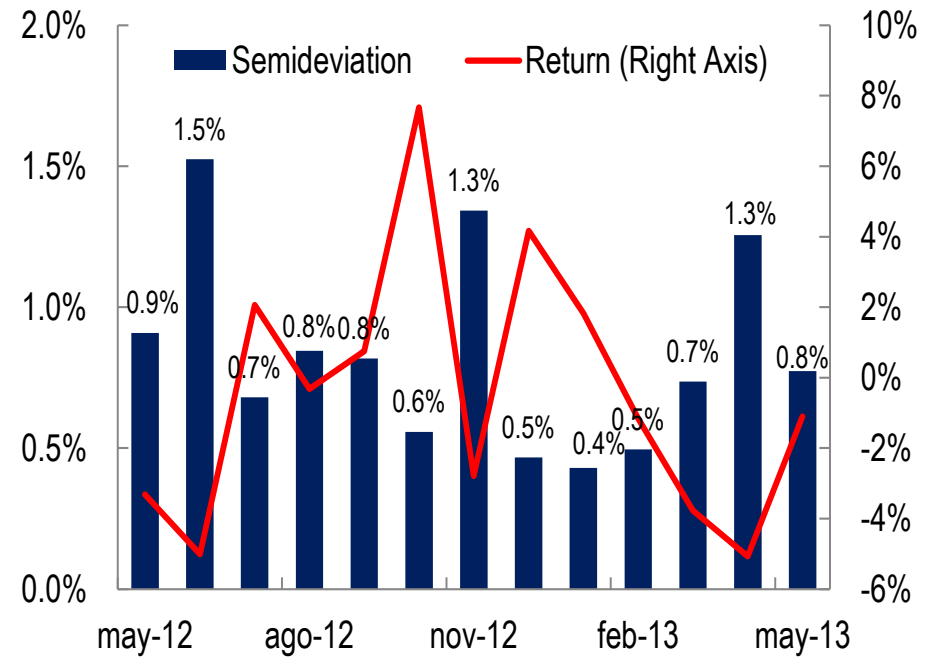
\*\* Change calculated on the total market value (COP495 billions)

Most of the return concentration in May was inside the historical standard deviation, therefore the volatility was lower than April's reading

**COLCAP Daily Return**



**Semideviation – COLCAP Monthly Return**



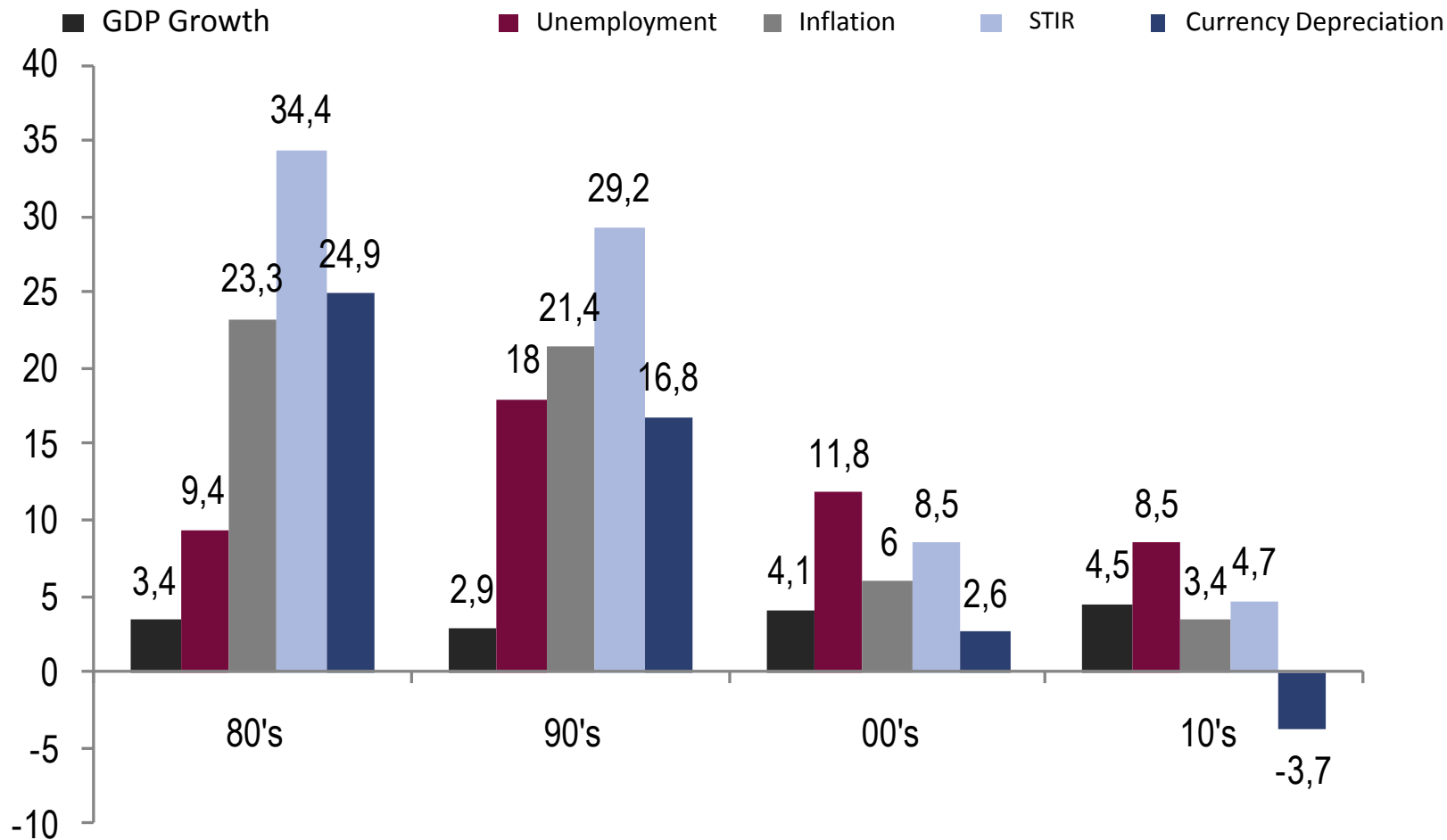
Semideviation corresponds to the deviation of the negative returns.

# **CHAPTER 3: ECONOMIC SUMMARY AND MARKET RECOMMENDATIONS**



# Colombian economic fundamentals have significantly improved during the past 20 years

## Key economic indicators (10-year averages)



## 2013 year-end economic forecasts

Forecast indicator	2012	Prior forecast 2013		Current forecast 2013
<b>Inflation</b> (CPI annual change)	2.44%	3.30%	↓	2.60%
<b>GDP</b> (annual change)	4.00%	4.00%	↑	4.20%
<b>Central Government</b>				
<b>Surplus/Deficit</b> (%GDP)	-2.30%	-2.40%	↓	-2.70%
<b>Current account</b> (%GDP)	-3.10%	-3.01%	↓	-3.40%
<b>Unemployment rate</b> (13 major cities)	10.20%	9.28%	→	9.28%
<b>FX rate</b> (USDCOP year end)	1,766.78	1,780	↑	1,897
<b>FX rate</b> (USDCOP annual average)	1,798.39	1,765	↑	1,899
<b>DTF 90 day rate</b> (E.A. year end)	5.22%	4.31%	↓	3.81%
<b>DTF 90 day rate</b> (annual average)	5.34%	4.29%	↓	3.94%
<b>Central bank reference rate</b> (year end)	4.25%	3.75%	↓	3.25%
<b>10-year bond real interest rate</b>	3.14%	2.76%	↓	2.57%

Source: Grupo Bancolombia (GB), Bloomberg

## 2013 year-end economic forecasts

Forecast indicator	2012	Prior forecast 2013		Current forecast 2013
<b>Euro</b> (EURUSD, year end)	1.3193	1.3374	→	1.3374
<b>Central bank reference rate FED *</b> (year end)	0,0 - 0,25	0,0 - 0,25	→	0,0 - 0,25
<b>Inflation U.S *</b> (CPI annual change)	1.85%	1.90%	↓	1.68%
<b>GDP U.S. *</b> (annual change)	2.20%	2.00%	↓	1.90%
<b>Central bank reference rate ECB *</b> (year end)	0.75%	0.60%	↓	0.52%
<b>Inflation Eurozone *</b> (CPI annual change)	2.20%	1.62%	↑	1.63%
<b>GDP Eurozone *</b> (annual change)	-0.58%	-0.20%	↓	-0.34%
<b>Central bank reference rate Latam</b> (annual average)	5.70%	5.70%	↑	5.90%
<b>Average inflation Latam</b> (CPI annual change)	5.80%	6.40%	↑	6.70%
<b>GDP Latam</b> (annual average)	2.90%	3.50%	→	3.50%

\* The new forecast for U.S and the Eurozone correspond to IMF and Focus Economics data

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