

Latin

Weekly Watch

April 1, 2011

Economic Analysis

South America

Joaquín Vial
jvial@bbvaprovida.cl

Enestor Dos Santos
enestor.dossantos@grupobbva.com

Myriam Montañez
miriam.montanez@grupobbva.com

Argentina: Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile: Alejandro Puente
apuente@grupobbva.cl

Colombia: Juana Téllez
juana.tellez@bbva.com.co

Mexico: Julián Cubero
juan.cubero@bbva.bancomer.com

Peru: Hugo Perea
hperea@grupobbva.com.pe

Venezuela: Oswaldo López
Oswaldo.loperz@provincial.com

Markets

Octavio Gutiérrez Engelmann
o.gutierrez3@bbva.bancomer.com

Economic activity continues strong

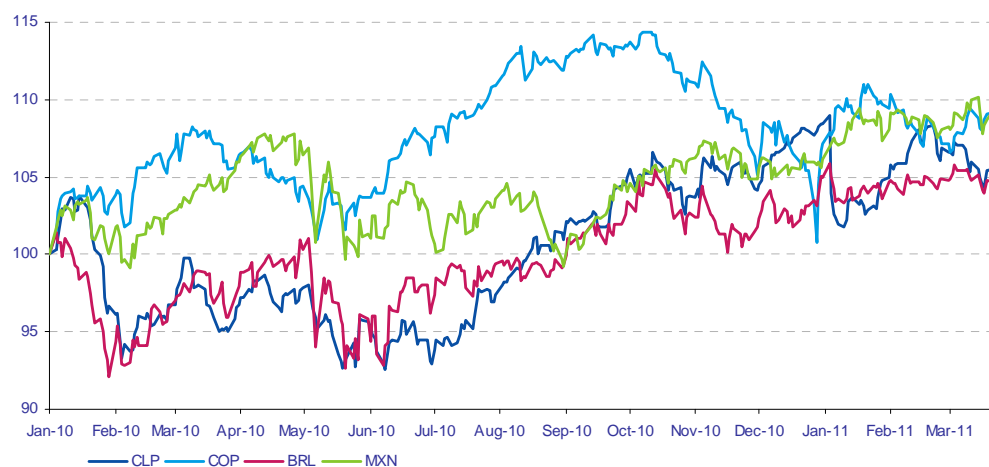
Data on economic activity for the start of the year in Chile and Mexico continue to show a strong economy. Credit growth gathered pace in February in Brazil and Peru at around 20% year-on-year. In addition, governments cut expenses, as is the case of Brazil, or increase revenues, as in Mexico. With the aim of containing pressure, particularly on the currency, the Central Bank in Brazil has once more taken exchange-rate measures.

While the risks related to geopolitical conflicts and Japan are no longer the focus of attention on global markets, Latin American currencies have adopted a more positive bias.

Currencies in the zone have adopted a correlation with the stock market indices and the EUR, and showed general appreciations. The exception has been the PEN, which reacted to electoral factors. The COP was slightly uneasy, while the BRL picked up strongly despite the news regarding exchange-rate intervention.

Chart 1

Relative performance of Latin American currencies (base Jan 10=100)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



Highlights

Economic activity remains strong in 2011

Credit continues to grow in Brazil and Peru

Inflationary pressures continue

Public deficits under control in Brazil and Mexico

New exchange rate measures in Brazil

Unemployment stabilizes in February

Economic Analysis

Octavio Gutiérrez Engemann
o.gutierrez3@bbva.bancomer.com

Claudia Ceja
claudia.ceja@bbva.bancomer.com

Markets

Currencies may continue with a positive bias if the economic and monetary cycles continue to be the main determinants of its behavior

A variety of impulses determined the movement of Latin American currencies last week. First, the main focus of attention on global markets continued to be related to monetary policy expectations and interest rate differences, where the statements by the Fed and the ECB resulted in a stronger EUR (even with the persistent uncertainty related to the fiscal situation of the European periphery). Meanwhile, economic data from the U.S. still point to a favorable scenario for the economic cycle (without necessarily suggesting a withdrawal of QE2). This has led to an extension of the rally in stock market indices. In turn, it resulted in gains for most of the emerging currencies. Even the CLP closed the week with an appreciation of close to 0.5%, despite the fall in copper prices.

Two movements in particular stand out in this scenario: 1) the appreciation of close to 2% of the BRL, which came about despite the intervention measures announced by the Ministry of Finance and the more dovish language of the Central Bank in its Inflation Report; and 2) the depreciation of 0.8% in the PEN, which responded to factors related to the presidential elections. In any event, the latent risks related to Japan and the geopolitical conflicts in the MENA zone are no longer a source of pressure. Although the possibility of corrections due to these elements remains, the outlook points towards strong currencies for the vast majority of countries in the region.

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Economic Analysis

Highlights

Economic activity remains strong in 2011

In Argentina, the activity measured by the EMAE grew in January by 0.5% m/m (9.5% y/y), thus ensuring that growth in 1Q11 was 1.9% q/q. In Mexico, there was also a surprising rise in economic activity in January (IGAE: 1.2% m/m; Consensus 0.9%), led by services and the manufacturing sector. Although industrial output fell in Chile by 1.1% in February, hit by the contraction in the mining sector, trade is showing no signs of moderation and in February retail sales grew by 16.8% year-on-year and supermarket sales by 10.7%.

Credit remains strong

Lending in February grew by 21% y/y in Brazil, above the rate the previous month (20.3%), and above the targets set by the authorities. In Peru, lending grew by 19% in February, notably mortgage loans and consumer finance.

Inflationary pressures continue

Inflation in March was 0.7% m/m in Peru, the biggest monthly increase since June of 2008.

Public deficits under control in Brazil and Mexico

February data on public finances show deficits below 3% of GDP (2.6% and 2.7% respectively) and under control. The growth in primary public expenditure in Brazil has been checked. In Mexico, the improvement is explained by greater revenues.

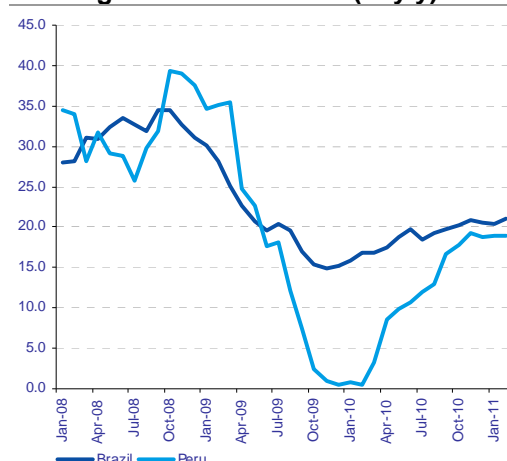
New exchange rate measures in Brazil

As expected, the Central Bank announced two measures to reduce pressure on the exchange rate: 1) the IOF tax on credit card spending abroad was increased from 2.38% to 6.38%; and 2) the IOF on external loans of less than 365 days was increased to 6.0%. The latter measures also aimed to moderate credit growth.

Unemployment stabilizes in February

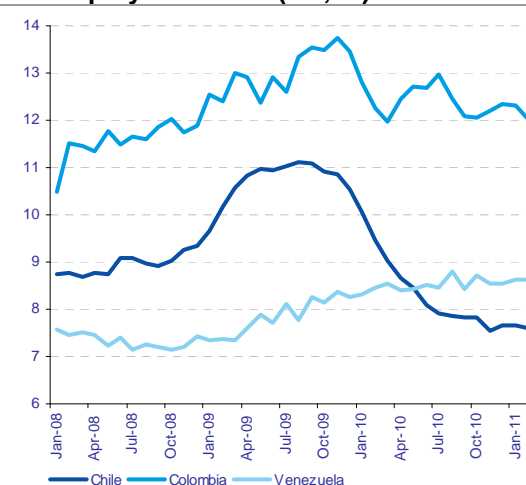
The unemployment rate fell to 8.8% in Venezuela, thus giving a moderate sign of economic recovery. In Chile the rate was the same as in the previous rolling quarter at 7.5%. In Colombia it was 13.2%.

Chart 2
Lending in Brazil and Peru (% y/y)



Source: Central Bank of Brazil and SBS

Chart 3
Unemployment rates(SA, %)



Source: BBVA Research.

- Markets →
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Calendar: Indicators

Next Week: 4 - 8 April 2011

Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	7-Apr	Mar 2011	0.55% m/m	0.65% m/m	0.8% m/m	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Monthly Economic Activity Indicator	5-Apr	Feb 2011	5.6%		6.8%	Sectoral activity data anticipate slower growth for February.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	5-Apr	Mar 2011	0.45% m/m, 3.37% y/y	0.47% m/m, 3.42% y/y	0.60% m/m, 3.17% y/y	Annual increase due to low comparison base; monthly increase driven by fuel prices and, to a lesser extent, by food prices
Exports	6-Apr	Feb 2011	25% y/y		29.8% y/y	Better performance of industrial exports drives growth in non-traditional sales.
Credit		Feb 2011	18% y/y		19.1% y/y	Commercial loans growth expected to moderate given effects of reduced tax benefits on investment
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	7-Apr	Mar 2011	0.30% mom 3.16% yoy	0.35% mom	0.38% mom 3.57% yoy	Inflation kept reducing on an annual basis during March, supported mostly by a comparison effect against the 1Q10 when the VAT tax (consumption tax) was raised 1%. March's annual rate will be the lowest of 2011. We expect inflation to close the year around 3.9%.
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	7-Apr	Mar 2011	1.9% m/m		2.2% m/m	
Car Sales	8-Apr	Mar 2011	0.9% y/y		2.2% y/y	

Source: BBVA Research

Calendar: Events

Peru: Monetary Policy Rate (April 7)

Forecast: 4.0%	Consensus: 4.0%	Previous: 3.75%
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The withdrawal of the monetary stimulus continues against a background of strong economic growth.

Calendar: holidays

No holidays in the region.

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Market data

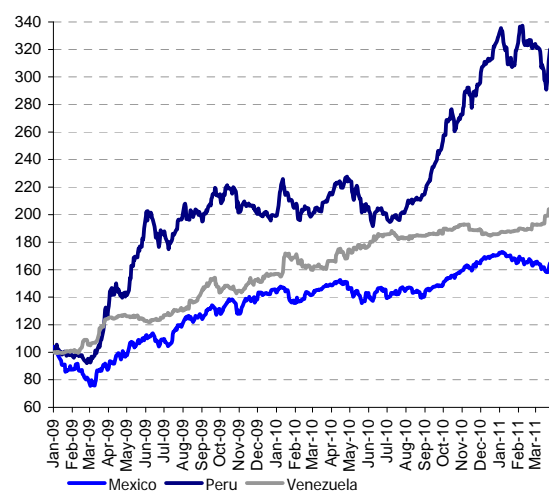
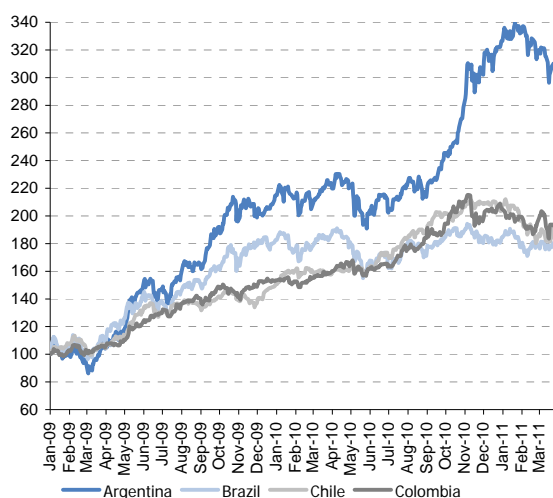
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	-1	-1	1
		2-yr yield	0.88	15	19	-23
		10-yr yield	3.50	6	3	-44
	EMU	3-month Euribor rate	1.25	5	15	61
		2-yr yield	1.83	10	29	88
		10-yr yield	3.39	11	19	30
Exchange rates (changes in %)	Europe	Dollar-Euro	1.406	-0.1	1.4	4.3
		Pound-Euro	0.88	0.2	3.6	-0.8
		Swiss Franc-Euro	1.31	1.4	2.7	-8.4
	America	Argentina (peso-dollar)	4.05	0.3	0.6	4.6
		Brazil (real-dollar)	1.62	-2.1	-2.1	-8.0
		Colombia (peso-dollar)	1863	-0.4	-2.7	-2.9
		Chile (peso-dollar)	477	-0.3	-0.1	-8.5
		Mexico (peso-dollar)	11.85	-1.2	-2.1	-3.7
		Peru (Nuevo sol-dollar)	2.81	0.5	1.2	-1.2
	Asia	Japan (Yen-Dollar)	84.69	4.1	3.7	-10.5
		Korea (KRW-Dollar)	1089.25	-1.9	-3.0	-3.2
		Australia (AUD-Dollar)	1.032	0.7	1.5	12.3
Comm. (changes in %)		Brent oil (\$/b)	117.4	1.6	0.9	39.7
		Gold (\$/ounce)	1415.2	-1.0	-1.3	26.4
		Base metals	624.7	-0.3	0.4	23.6
Stock markets (changes in %)	Euro.	Ibex 35	10671	-0.4	0.3	-3.6
		EuroStoxx 50	2948	1.2	-0.4	-1.0
	America	USA (S&P 500)	1331	1.3	1.7	12.9
		Argentina (Merval)	3388	1.2	-1.1	42.7
		Brazil (Bovespa)	68803	1.5	2.3	-3.3
		Colombia (IGBC)	14470	-0.6	-4.4	19.4
		Chile (IGPA)	22105	1.8	4.7	24.4
		Mexico (CPI)	37683	2.4	2.2	13.3
		Peru (General Lima)	21917	-1.5	-3.5	44.9
		Venezuela (IBC)	70322	-1.8	4.0	20.5
	Asia	Nikkei225	9708	1.8	-7.5	-14.0
		HSI	23802	2.8	3.3	10.5
Credit (changes in bps)	Ind.	Itraxx Main	102	-1	1	24
		Itraxx Xover	384	-1	-7	-39
	Sovereign risk	CDS Germany	45	-2	-4	13
		CDS Portugal	580	33	117	435
		CDS Spain	233	7	-9	115
		CDS USA	41	-1	-5	---
		CDS Emerging	206	-3	-16	-16
		CDS Argentina	592	-8	-56	-296
		CDS Brazil	111	-3	-7	-14
		CDS Colombia	108	-5	-13	-37
		CDS Chile	61	-4	-18	-25
		CDS Mexico	105	-2	-9	-8
		CDS Peru	138	12	23	13

Source: Bloomberg and Datastream

Charts

Charts 4 & 5

Stock exchanges (base index Jan09=100)

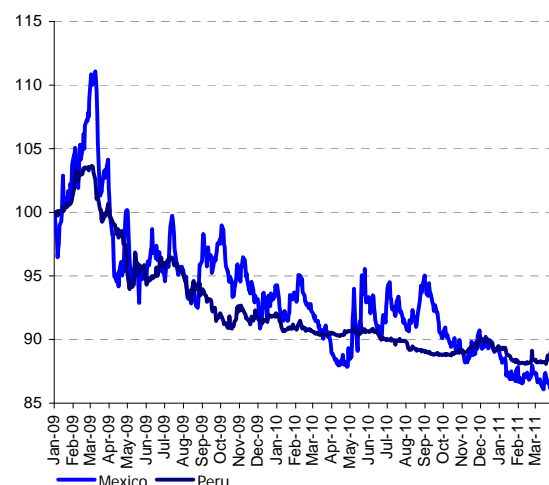
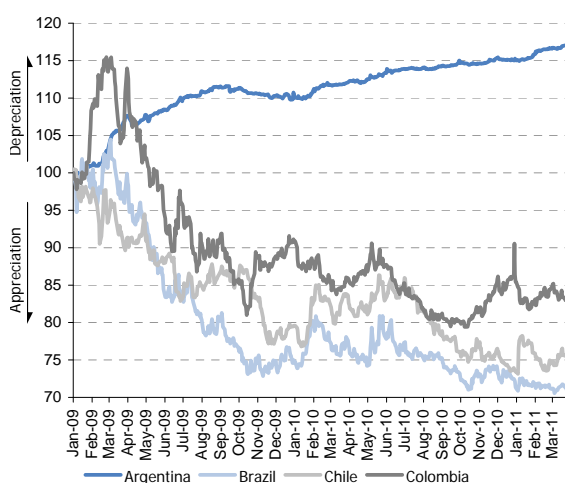


Source: Bloomberg

Source: Bloomberg

Charts 6 & 7

Exchange rates (base index Jan09=100)

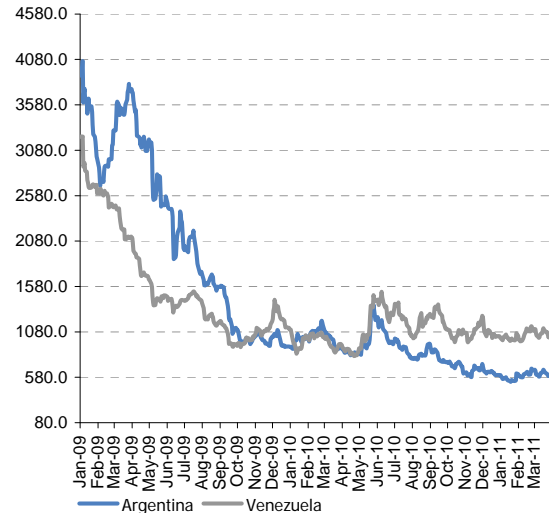
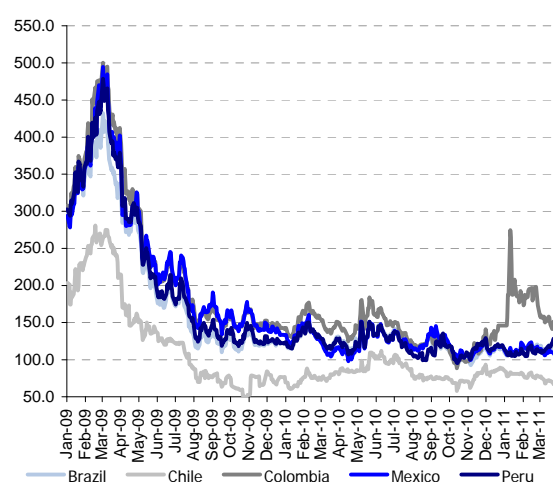


Source: Bloomberg

Source: Bloomberg

Charts 8 & 9

Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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