

# Weekly Watch

## Latin

August 1, 2011  
Economic Analysis

### South America

Joaquín Vial  
jvial@bbvaprovida.cl

Enestor Dos Santos  
enestor.dossantos@grupobbva.com

Cristián Ashwell  
cashwell@bbva.com

Argentina  
Gloria Sorensen  
gsorensen@bancofrances.com.ar

Chile  
Alejandro Puente  
apuente@grupobbva.cl

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

México  
Julián Cubero  
juan.cubero@bbva.bancomer.com

Perú  
Hugo Perea  
hperea@grupobbva.com.pe

Venezuela  
Oswaldo López  
apuente@grupobbva.cl

Markets  
Octavio Gutiérrez Engelmán  
o.gutierrez3@bbva.bancomer.com

## Inflation to dominate the local agenda

At the local level the most important event will be the inflation figures released during the week. The most relevant are those of Brazil, where an upward surprise could lead to a renewed rise in the SELIC rate.

## Markets show more volatility due to greater sovereign risk in the U.S. and Europe. Less room for reaction to local factors and corporate reports

The discussion about the debt ceiling in the U.S., worse than expected economic figures and uncertainty regarding the agreements reached at the European summit have led to a feeling of risk aversion. In addition, local factors are adding pressure to the foreign-exchange markets, while positive corporate reports have not managed to offset the negative effects of the foreign context on share prices.

Chart 1  
Relative performance of Latin American currencies



Source: BBVA Research

## Highlights

Credit growth slows and the current account deficit falls in Brazil

Surprises in economic activity

The foreign-exchange market in Peru and Argentina

New bond issue in Venezuela will relax pressures on the foreign-exchange market

Markets	→
Highlights	→
Calendar	→
Market data	→
Charts	→

## Economic Analysis

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

Claudia Ceja  
claudia.ceja@bbva.bancomer.com

Rodrigo Ortega  
r.ortega@bbva.bancomer.com

## Markets

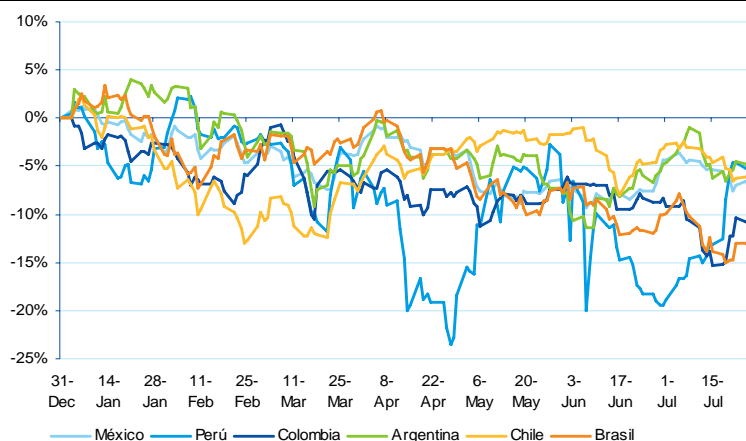
### A combination of elements in the U.S. and local factors results in varied movements and volatility in Latin American countries

Last week, the global FX market's performance was determined by a variety of factors, mainly in the U.S.: the debate around the debt ceiling in Congress and the flow of economic news, which on the whole continued to suggest moderate growth. Although the fiscal situation in the European peripheral nations receded into the background due to the agreements announced the previous week, some uncertainty remained, which led to higher risk aversion. In this context, the USD was volatile against G10 and emerging currencies, with the DXY index registering a slight appreciation over the week of 0.1% to Thursday. Latin American currencies also responded to local factors. The case of the BRL is particularly notable. It depreciated by 0.7% on the announcement of new foreign-exchange intervention. This occurred after the currency hit a low of under 1.53. In Chile, concerns about the copper supply due to a strike in a major mine have led to a rise in metal prices that in turn favored the CLP. Meanwhile, the COP depreciated by nearly 1% on cross-border M&A flows. The PEN remained relatively stable in the face of the Central Bank of Peru's interventions, while the MXN displayed some volatility and only reacted to elements linked to the U.S.

### Less attention paid to corporate reports in the face of sovereign risks in the U.S. and Europe; in general, results provide a slight positive surprise

Immersed in the turmoil of sovereign risk developments in the U.S. and Europe, global stock markets appear to give little importance to a reporting season that has so far been positive. In Latin America (except for Mexico) the sample of companies reporting is too limited to extract any significant conclusions. However, results in Mexico have been slightly better than expected, with sales 2.1% above estimates and net profit 1.5% above. In the U.S., 60% of the companies have posted surprisingly positive results. Sales have been 3.8% above consensus estimates, and net profit 6% above. As we mentioned above, we consider that far from being a catalyst, the reports could rather be a support element that so far has prevented a breakthrough in the year's lows. Mexico provided a special case of circumstances, with a change in the investment rules for Afores fund managers that increased the investment limit in equity from a weighted asset average of 24.7% to 29.7%. However, although the impact could be favorable in the long term and make the Mexican pension system converge with those in the more developed market, its short-term effects may be limited, given that before the change, the Afores used only 70% of their permitted level of investment in equity. In Peru, the risk premium associated with the transition of political power continues to return to normal. As a result, the country stood out positively from among others in the region.

Chart 2  
LatAm Stock Market Monitor



Source: BBVA Research

- Home →
- Highlights →
- Calendar →
- Market data →
- Charts →

## Economic Analysis

## Highlights

**Credit growth slows and the current account deficit falls in Brazil**

Credit grew by 20.0% y/y in June, the lowest rate since August 2010. However, growth over the month continued strong (1.6% m/m). The current-account deficit fell to 2.18% of GDP in June, as exports continue to grow, favored by high prices.

**Surprises in economic activity**

In Argentina, industrial production was up 8.5% y/y in June (Consensus: 7.5% y/y), while in Mexico the Indicator of Economic Activity rose by 1% m/m, also above expectations. In contrast, growth in industrial output in Chile in June was under expectations, at only 4% y/y, with a monthly fall of 1.8%.

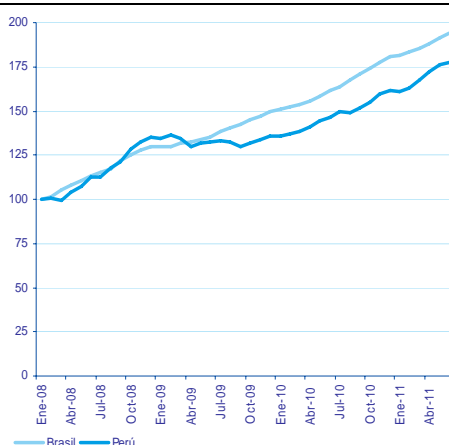
**The foreign-exchange market in Peru and Argentina**

The Central Bank of Peru continued to intervene, buying USD 212 million over the week. The move was in a context in which the markets have reacted positively to the announcement of the officials who are to occupy key positions in the Humala administration. In Argentina, the trade surplus continued to fall, by slightly more than expected. This helped weaken the ARS.

**New bond issue in Venezuela will relax pressures on the foreign-exchange market**

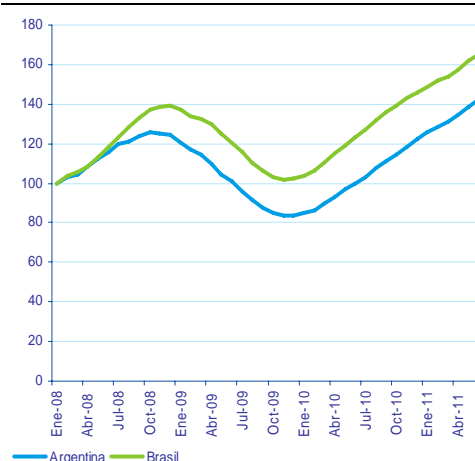
Although it was anticipated by the market, the size of the issue (USD 4.2 billion) was greater than expected. The high coupon rate (11.95%) and the volume helped relax inflationary pressures and stabilized the unofficial exchange rate (40% will be allocated to health companies and food) and provided the SITME with liquidity in a period of seasonal import growth. We estimate that the implicit exchange rate will be close to the SITME trading price.

Chart 3  
**Stock of credit:  
Brazil and Peru (Jan08 index = 100)**



Source: BBVA Research

Chart 4  
**Imports: Brazil and Argentina  
(12-month accumulated total; Jan08 index = 100)**



Source: BBVA Research

- Home →
- Markets →
- Calendar →
- Market data →
- Charts →

## Calendar: indicators

Next Week: 1 - 8 August 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Wages Index	5-Ago	Jun 2011	2.2% m/m	2.5% m/m	2.9% m/m	Wages will keep on increasing above the inflation rate because of the late signed of the collective agreement
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Trade Balance	1-Aug	Jul 2011		\$5200M	\$4430M	Trade balance to remain robust. This should temporarily reduce the concerns with Brazil's external accounts.
Industrial Production	2-Aug	Jun 2011		-0.30% m/m	1.30% m/m	
Inflation (IPCA)	5-Aug	Jul 2011	0.20% m/m	0.13% m/m	0.15% m/m	Inflation to slow down in monthly terms but to trend up and near 7.0% y/y in yearly terms. In this environment, the CB would face significant reputational problems to keep the SELIC rate unchanged in the end of August. We, therefore, expect the monetary authority to adjust the interst rate up by 25bps at its next meeting.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	4-Aug	Jul 2011	0.15% m/m, 3.43% y/y	0.15% m/m, 3.40% y/y	0.32% m/m, 3.23% y/y	Despite the expected moderation in food inflation, closing the output gap and the lower stat base in 2010 keep the behavior of the total inflation to rise.
Automobiles sale	9-Aug	Jul 2011	26.500		27.030	Sales are reducing their growth rates in recent months, but remain at high levels of monthly transactions.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Consumer Confidence	4-Aug	Jul 2011	2% m/m 93.7	NA	1.7% m/m 91.9	The improvement in employment will boost the dynamics of consumer confidence. Relevant variable will be the possibility to purchase durable good.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	1-Aug	Jul 2011	0.70% m/m, 3.26% y/y	0.30% m/m, 2.80% y/y	0.10% m/m, 2.91% y/y	The relatively high monthly figure reflects the price increase in some foodstuff (especially poultry) and the seasonal effect due to the National Holiday.
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	5-Aug	Jul 2011	2.2% m/m, 25.8% y/y		2.2% m/m, 25.1% y/y	The holiday season and increased on school enrollment (22%) will keep inflationary pressures this July.

Source: BBVA Research

## Calendar of events

### Chile: Monthly Indicator of Economic Activity (IMACEC, August 5)

Forecast: 5.8%

Consensus: 6.0%

Previous: 7.3%

## Calendar of holidays

There are no holidays this week in the region.

Home →

Markets →

Highlights →

Market data →

Charts →

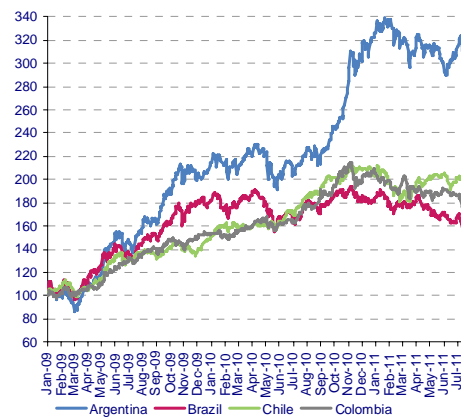
## Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	1	-20
		2-yr yield	0.40	2	-6	-14
		10-yr yield	2.92	-4	-19	1
	EMU	3-month Euribor rate	1.61	0	7	71
		2-yr yield	1.21	-18	-34	43
		10-yr yield	2.60	-23	-39	-7
Exchange rates (changes in %)	Europe	Dollar-Euro	1.428	-0.6	-1.0	9.4
		Pound-Euro	0.88	-0.4	-2.3	5.6
		Swiss Franc-Euro	1.14	-2.5	-5.2	-15.8
	America	Argentina (peso-dollar)	4.14	0.1	0.9	5.2
		Brazil (real-dollar)	1.57	1.0	-0.2	-11.0
		Colombia (peso-dollar)	1773	0.8	-0.4	-3.8
		Chile (peso-dollar)	455	-1.3	-3.2	-12.6
		Mexico (peso-dollar)	11.75	1.0	-0.2	-7.2
		Peru (Nuevo sol-dollar)	2.74	0.1	-0.5	-2.9
		Japan (Yen-Dollar)	77.63	-1.1	-4.0	-10.2
		Korea (KRW-Dollar)	1054.80	0.3	-1.8	-10.8
	Asia	Australia (AUD-Dollar)	1.094	0.8	2.6	21.1
Comm. (chg %)		Brent oil (\$/b)	117.2	-1.3	4.2	49.9
		Gold (\$/ounce)	1613.7	0.8	6.7	36.6
		Base metals	596.6	0.4	-0.4	22.5
Stock markets (changes in %)	Euro	Ibex 35	9616	-4.4	-5.2	-8.4
		EuroStoxx 50	2665	-3.9	-4.9	-2.8
		USA (S&P 500)	1301	-3.3	-0.5	18.1
	América	Argentina (Merval)	3271	-2.5	-2.5	36.6
		Brazil (Bovespa)	58708	-2.6	-5.8	-13.0
		Colombia (IGBC)	14069	1.8	-1.0	5.9
		Chile (IGPA)	21207	-3.7	-5.9	4.5
		Mexico (CPI)	35918	0.5	-1.8	11.2
		Peru (General Lima)	21963	-0.4	17.3	53.9
		Venezuela (IBC)	89251	2.3	11.0	39.3
	Asia	Nikkei225	9833	-3.0	0.4	3.1
		HSI	22440	0.0	1.7	6.7
Credit (changes in bps)	Ind.	Itraxx Main	114	3	4	9
		Itraxx Xover	430	17	21	-50
		CDS Germany	63	5	19	25
	Sovereign risk	CDS Portugal	913	-3	146	688
		CDS Spain	346	37	65	170
		CDS USA	65	11	14	---
		CDS Emerging	212	0	-6	-2
		CDS Argentina	596	-7	-25	-198
		CDS Brazil	114	2	-1	-3
		CDS Colombia	111	1	-1	-13
		CDS Chile	70	-4	-7	-8
		CDS Mexico	111	1	-1	-6
		CDS Peru	123	2	-19	13

Source: Bloomberg and Datastream

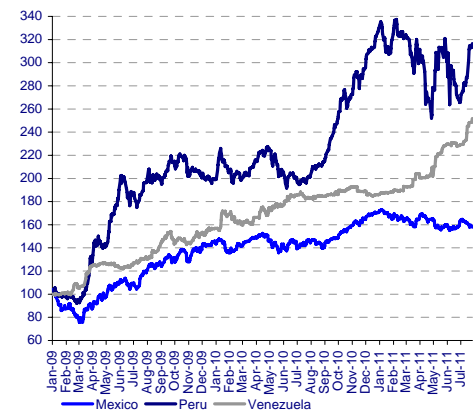
## Charts

Chart 4  
Stock markets (base index Jan09 = 100)



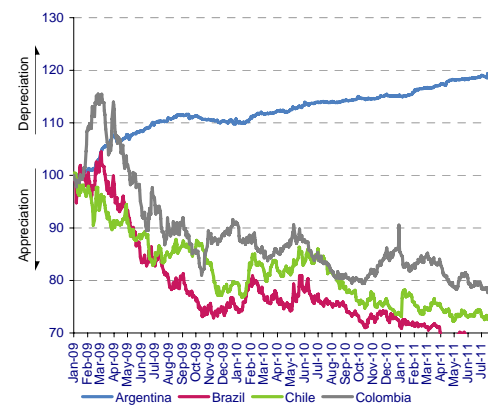
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



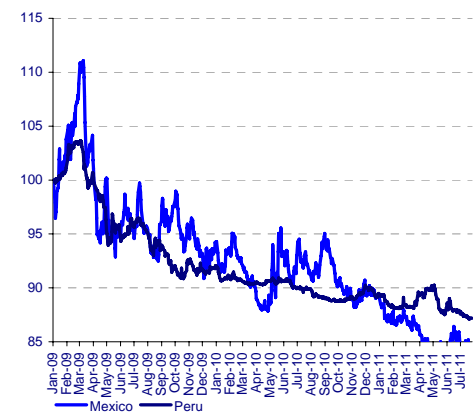
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



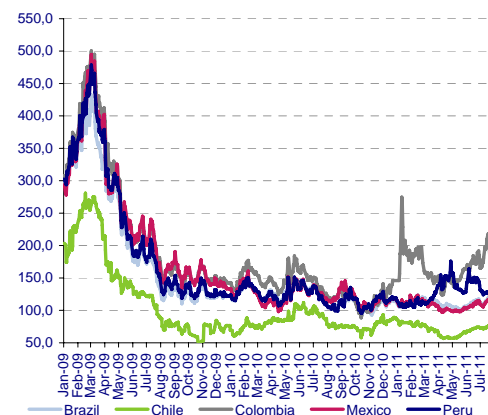
Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



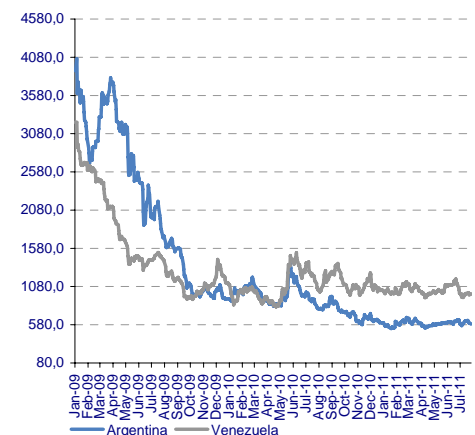
Source: Datastream and BBVA Research

Chart 8  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 9  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

**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 is 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.**