

Latin

# Weekly Observatory

September 3<sup>rd</sup> 2010

## Economic Analysis

### South America

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### Markets

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## Latin America: different recovery cycles

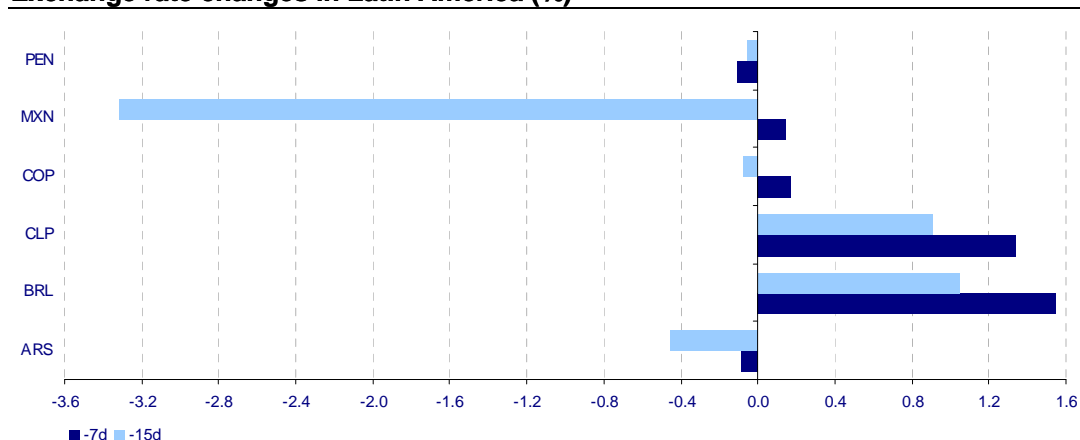
While Peru maintains a high growth rate (above expectations), in Brazil the data for 2Q10 shows that the economy continues growing at a high pace, though lower than 1Q10. The Central Bank of Brazil kept its policy rate at 10.75%. There was a setback to confidence among manufacturers in Mexico as a result of worse news about the US, while consumer confidence remained stable. In Peru, consumers' confidence dropped to neutral levels due to concerns about inflation. In Argentina and Mexico, tax revenues have been boosted by value added tax. Unemployment has increased in Colombia, signaling a weakening of the labor market, while in Chile it fell, supported by the strong growth of economic activity and employment.

**Perceptions of global risk are having a negative effect on financial markets, but this depends on the degree of exposure to the global cycle and local factors.**

There is a positive differential in the currencies of Brazil and Chile, relative stability in the case of Colombia, Peru and Argentina, and a negative differential in the Mexican peso. The prospects for higher growth in the region with respect to other parts of the world have led to stock markets performing relatively better.

Chart 1

### Exchange rate changes in Latin America (%)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Market data



Graphs



## Highlights

**Peru and Brazil continue growing.**

**Unemployment rates increase in Colombia and fall swiftly in Chile**

**End of the monetary adjustment cycle in Brazil**

**Signs of confidence in the region begin to moderate**

**Increased tax revenues in Argentina and Mexico**

## Economic Analysis

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## Markets

**Global risk premium remains the main determinant of currencies in the region. A positive differential can be seen in the BRL and CLP, relative stability in the COP, PEN and ARS, and a negative differential in the MXN**

Last week Latin American currencies were once more subject to movements in global risk, which fell at the close on positive manufacturing and employment results in the U.S. In this global context, we continue to divide the crosses into different groups based on particular factors in domestic markets. In the first group are the BRL and CLP, with a positive differential, which in our opinion could increase in the short term. In the case of the BRL this is due to optimism with respect to the Petrobras issue on the Bovespa Exchange. In the case of the CLP, there is a local environment of positive expectations for economic activity and outstanding performance of copper prices (boosted by positive manufacturing data from China).

In the second group are the COP, PEN and ARS, which will continue relatively stable, as they are governed by the degree of intervention by the monetary authorities. In the case of the PEN, in addition to the dollar purchases by the Central Bank there have been measures affecting bank reserves, resulting in a negative profile in the NDF curve which should not be sustainable for a long period of time. Any rise in the COP will depend on more than verbal interventions. Finally, the MXN continues with its negative differential resulting from its greater exposure to the U.S. cycle. The current levels of this cross are attractive for long-term positions.

**The growth differential in the region has led to Latin American stock markets performing slightly better than those in developed countries.**

In a context dominated by the movement of the risk premium, we consider that the relative performance of the stock markets in the region will continue to be favorable with respect to other developed economies. The agreement this week between Petrobras and the Brazilian government on the transfer of oil in exchange for shares helped in Brazil. The deal clarifies the circumstances, although the price set for the exchange was higher than expected by analysts, it marks the start of the process of the company's capital increase planned for this month.

Chart 2

**Stock market: selected indexes (% annual and weekly change)**

Country	YTD	WTD
US	-3.5	2.1
EC	-8.5	3.2
JN	-14.1	0.8
CH	-18.6	1.7
HK	-2.9	1.3
BZ	-2.7	1.8
MX	-0.5	1.7
CL	28.0	2.4
PE	9.6	1.7
AR	3.9	2.7
CO	20.5	0.6
Emerging Markets*	-0.8	2.6
World*	-3.7	1.7

\* Wednesday closing. Note: Information to the Thursday closing

Source: Bloomberg and BBVA Research

Highlights →

Calendar →

Market Data →

Graphs →

## Economic Analysis

# Highlights

## Peru and Brazil at different stages of the recovery cycle

While in Peru the GDP data for 2Q10 were above forecast, with a year-on-year growth of 10.1% boosted by a strong performance from internal demand (14%), in Brazil the GDP for the second quarter decelerated, even though far less than expected, from a quarter-on-quarter rate of 2.7% in 1Q to 1.2% in 2Q. Brazilian industrial output increased by 0.4% q/q in July after three months of falls, and could continue to grow slightly for the rest of the year. In Chile, data from the different sectors in July continued to be strong, with annual growth in manufacturing (3.3%), mining (7.6%) and retail trade (18.5%), while in Colombia, the number of construction permits granted suggests more work will be undertaken in the second half of the year.

## Unemployment rates increase in Colombia and fall swiftly in Chile

The sluggish recovery of employment in Colombia in the formal sectors and increased participation in the labor market led to a rise in the unemployment rate to 13.3% in July (12.8% one year ago). In Chile the improved economic activity has been accompanied by increased employment, with a fall to 8.3% in the unemployment rate in the moving quarter April-June (down 3.2 percent points from a year ago).

## End of the monetary adjustment cycle in Brazil

As expected, the Central Bank maintained the SELIC at 10.75%. This marks the end of the upward cycle. The recent tone of the Central Bank's statements and a growing concern with the appreciation of the Brazilian real limit the possibilities of a new upward cycle in 2011 (consensus for the SELIC at the end of 2011 is at 11.5%).

## Signs of confidence in the region begin to moderate

In Mexico, the indicators of manufacturer confidence fell in August, as a result of the slowdown in manufacturing industry in the U.S., while consumers' confidence remained stable. In Peru, the index of consumer confidence fell by 3 points in the month (to 50 p, the neutral level), due to greater inflationary concerns following price rises in some foodstuffs.

## Increased tax revenues in Argentina and Mexico

In Mexico, the accumulated budget balance to July remains stable (up 5% on the same period in 2009) as a result of increases in both revenues and expenditures. This figure is rather modest given the economic recovery and the increased rates of some of the main taxes, VAT and the ISR. Until the second quarter the budget deficit remained at around 2% of GDP. In Argentina revenues increased 36.7% year-on-year, a slowdown compared with previous months. Taxes on foreign trade continue firm (69% y/y), followed by VAT (37.2% y/y).

Chart 3

### Peru and Brazil: Evolution of GDP.

(seasonally adjusted series 1Q08=100)

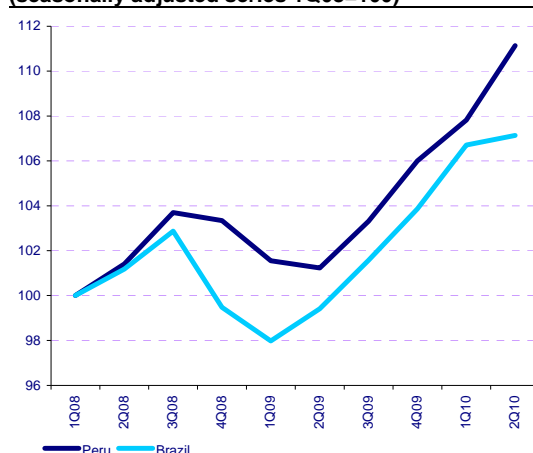
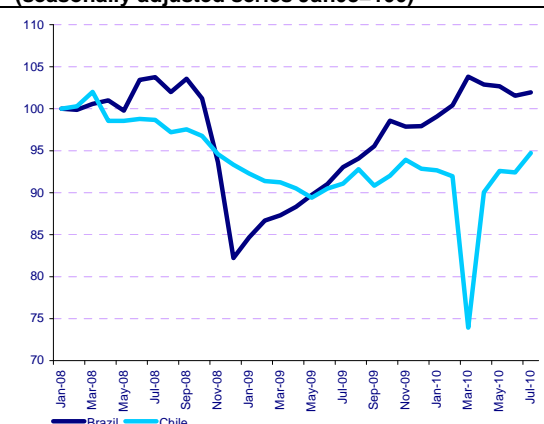


Chart 4

### Industrial Production Index

(seasonally adjusted series Jan08=100)



Source: Central Bank of Brazil and Peru's Central Bank of Reserves

Source: BBVA Research

Markets



Calendar



Market Data



Graphs



## Calendar: indicators

Next Week: 6 - 10 September 2010

Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Monetary Policy Minutes	9-Sep					We expect the minutes to discuss the end of the monetary tightening cycle, emphasizing the contribution of both domestic and external drivers.
Inflation (IPCA)	9-Sep	August 2010	0.0% m/m	0.0% m/m	0.0% m/m	Monthly inflation should come up around 0% one more month. This should also trigger a downward revision in expectations regarding end of 2010 inflation.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Monthly Economic Activity Index	6-Sep	July 2010	6.5%	6.0%		Consensus from the Central Bank Consensus Economic Outlook Survey
Wage Index	7-Sep	July 2010				
CPI	8-Sep	August 2010	0.1%	0.4%		Consensus from the Central Bank Consensus Economic Outlook Survey
Central Bank Financial Operators Survey	8-Sep	Second half of August 2010				Financial operators give their forecasts on inflation, policy interest rate, and exchange rate
Central Bank Economic Outlook Survey	10-Sep					Analysts survey on inflation, policy interest rate, bond rates, exchange rate, and activity
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IMEF Index	6-Sep	August 2010	54.10	53.80	55.50	IMEF index emulates the U.S. ISM, and although its readings have been over 50pts form one year now, the feeling of manufacturers has declined steadily since May of this year
Formal Employment (IMSS)		August 2010	0.2% m/m		0.2% m/m	Private formal employment continue to grow during 3Q10 albeit at lower rates in tandem with manufacturing output
CPA	9-Sep	August 2010	0.4%		0.20% m/m	Price acceleration by non-core component, Inflation will keep below Banxico's range in 3Q10
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Trade Balance	10-Sep	July 2010			USD 803.5 millions	
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	7-Sep	August 2010	1.8% m/m		1.6% m/m	We expect a little price acceleration due to seasonal factors (school holidays and shopping)

Source: BBVA Research

## Calendar: Events

### Peru: Monetary Policy Rate. (September, 9 September)

**Forecast: 3.00%**

**Previous: 2.50%**

In its next monetary policy meeting, we expect the Central Bank Board (BCR) to raise the policy rate by 50bp, taking it to 3.0%. This would be the second time in a row in which the BCR makes a 50bp-hike since the monetary policy tightening cycle began last May. The faster stimulus removal takes place in a context of strong domestic demand (+14%yoy in 2Q10) and delays in fiscal policy moving to a more neutral stance.

## Calendar: holidays

**Brazil: Tuesday, September 7.**

Markets →

Highlights →

Market Data →

Graphs →

## Market Data

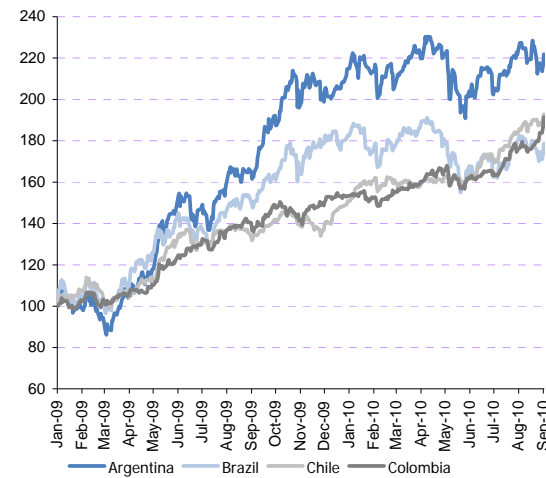
			Close	Weekly change	Monthly change	Annual change
Interest Rates (changes in bps)	US	3-month Libor rate	0.29	0	-13	-2
		2-yr yield	0.51	-4	-2	-42
		10-yr yield	2.70	6	-20	-74
	EMU	3-month Euribor rate	0.88	-1	-2	8
		2-yr yield	0.64	1	-11	-45
		10-yr yield	2.35	15	-22	-90
Exchange Rates (changes in %)	Europe	Dollar-Euro	1.287	0.9	-2.2	-10.1
		Pound-Euro	0.83	1.5	0.5	-4.5
		Swiss Franc-Euro	1.31	-0.2	-5.2	-13.8
	America	Argentina (peso-dollar)	3.94	-0.1	0.3	2.6
		Brazil (real-dollar)	1.73	-1.5	-1.7	-6.2
		Colombia (peso-dollar)	1808	-0.5	-0.5	-10.4
		Chile (peso-dollar)	496	-1.0	-3.8	-10.0
		Mexico (peso-dollar)	12.95	-0.7	3.1	-3.6
		Peru (Nuevo sol-dollar)	2.80	-0.1	-0.1	-4.6
		Japan (Yen-Dollar)	84.35	-1.1	-1.8	-9.3
	Asia	Korea (KRW-Dollar)	1171.65	-1.6	0.4	-5.4
		Australia (AUD-Dollar)	0.915	2.0	0.2	7.4
Comm. (chg %)		Brent oil (\$/b)	76.7	0.1	-6.0	14.8
		Gold (\$/ounce)	1242.2	0.3	4.0	24.9
		Base metals	509.4	1.2	2.5	13.3
Stock Markets (changes in %)	Euro	Ibex 35	10653	5.0	-1.7	-5.1
		EuroStoxx 50	2762	5.0	-2.0	0.7
		USA (S&P 500)	1098	3.2	-2.4	8.1
	America	Argentina (Merval)	2416	2.8	-0.7	35.8
		Brazil (Bovespa)	67100	2.3	-1.9	18.4
		Colombia (IGBC)	13986	0.6	3.0	34.2
		Chile (IGPA)	21653	3.0	4.6	42.7
		Mexico (CPI)	32780	3.2	-0.4	15.8
		Peru (General Lima)	15379	1.8	4.3	8.6
		Venezuela (IBC)	64769	0.0	1.4	26.3
	Asia	Nikkei225	9114	1.4	-5.6	-10.5
		HSI	20972	1.8	-2.7	3.2
Credit (changes in bps)	Ind.	Itraxx Main	109	-9	7	12
		Itraxx Xover	492	-35	20	-130
	Sovereign risk	CDS Germany	39	-5	2	15
		CDS Portugal	305	-27	78	246
		CDS Spain	224	-22	34	151
		CDS USA	45	-2	10	—
		CDS Emerging	242	-17	31	-72
		CDS Argentina	893	-49	97	-697
		CDS Brazil	122	-7	7	-9
		CDS Colombia	126	-6	6	-36
		CDS Chile	77	2	-6	1
		CDS Mexico	138	6	23	-33
		CDS Peru	108	-5	2	-33

Source: Bloomberg, Datastream and JP Morgan

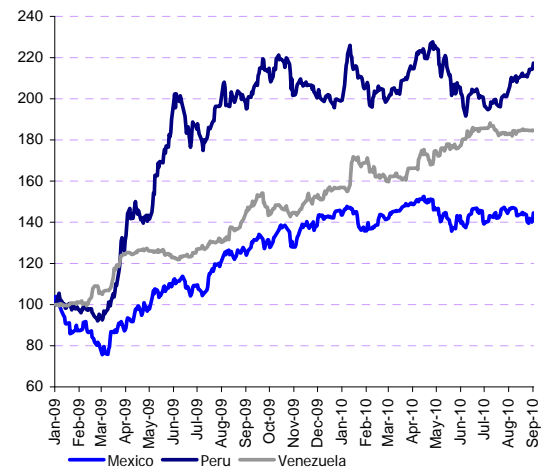
# Graphs

Graphs 5 & 6

## Stock exchanges (base index Jan09=100)



Source: Bloomberg



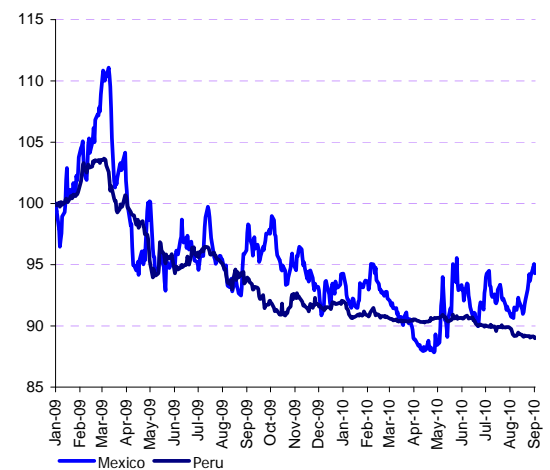
Source: Bloomberg

Graphs 7 & 8

## Exchange rates (base index Jan09=100)



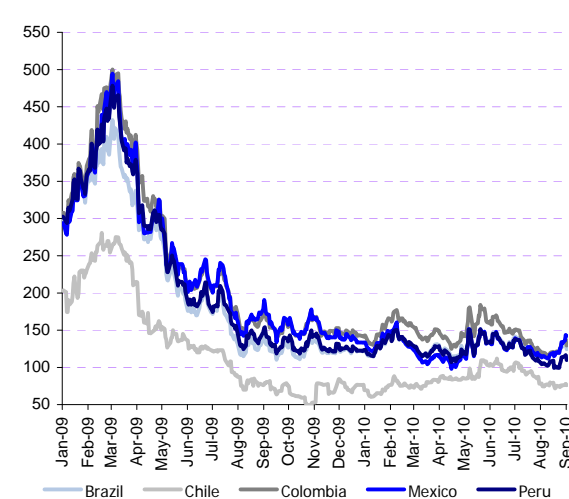
Source: Bloomberg



Source: Bloomberg

Graphs 9 & 10

## Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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