

Weekly Watch

Latin

October 3, 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
apuate@grupobbva.cl

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

High volatility as markets react to uncertainty with respect to Europe

The most notable impact of the European situation in the region has been the trend for its currencies to lose ground against the dollar amid high levels of volatility. Next week sees the publication of inflation figures for a number of countries in the region. This information will give some indications of the effect weakening currencies in the region over recent days will have on prices. In particular, the figures for Brazil will give indications about continuing inflationary pressure and future movements in monetary policy.

Speculations about solutions for Greece and increased stimuli from central banks moderate risk aversion

Both stock market indices and currencies in Latin America gained last week in an environment of greater appetite for risk in global markets. Approval by various EU countries of the extension of the EFSF and better than expected economic data in the U.S. provided a boost to movements in this direction. However, a number of risk elements remain that could lead to continued high volatility in the financial markets in the short term.

Chart 1
Lima General Stock Exchange Index



Source: Bloomberg and BBVA Research

Highlights

Signs of an economic slowdown in 3Q

Buoyant credit market in Brazil

Current account in Argentina moves out of the black

Fewer foreign-exchange interventions this week

Inflation does not converge to the target in Brazil, but the SELIC will continue to fall

Draft 2012 budget in Chile

Markets →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

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

Cladudia Cejas

Rodrigo Ortega

Markets

Most Latin American currencies gain in a global environment of lower risk aversion

Global markets showed a positive bias last week in response to improved expectations about the risk premium in the EU. This revolved around speculations that more definite and convincing solutions for Greece were emerging following declarations by various members of the EU on the need to more stimuli, prevent a default and maintain the country within the European community. Meanwhile, approval by Germany, Finland and Slovenia of the extension of the EFSF led to a consolidation of the positive environment of earlier sessions, which had been based on rumors and declarations.

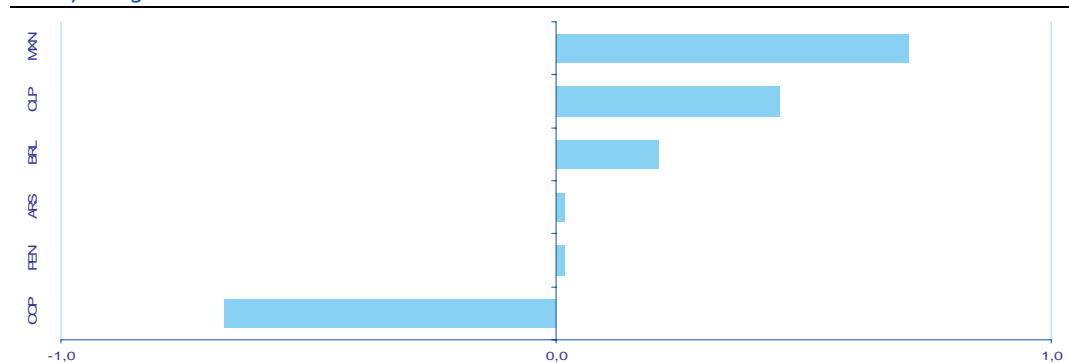
In this context, Latin American currencies gained in general (to Thursday 29). The only exception was the COP, which fell by nearly 0.6%, as a reaction to the better relative performance of previous weeks, and in response to the strength of local capital flows. The MXN was up around 0.7%. It was benefited by U.S. economic data and thus corrected some of the major losses of previous weeks. Moves in the CLP were closely linked to the copper price. Finally, the ARS, PEN and BRL remained relatively stable, with fewer interventions than in previous days in the case of the ARS and PEN. In all, some uncertainty remains with respect to the U.S. and Europe, so we expect that in the short term volatility will remain high.

Positive week for stock market indices

Stock markets in general have had a positive week, with a favorable start (Monday and Tuesday) followed by profit-taking on Wednesday. Among the highlights of the week is the progress made in negotiations with respect to Greece, with Germany voting in favor of maintaining aid to the country.

In terms of the weekly performance of the different regions, emerging markets performed better than developed ones. The MSCI Global index was up 2.5%, compared with an increase of 3.4% in the MSCI Emerging-Market. Among emerging markets, growth in Latin America was a notable 4.1%. We consider that manufacturing data from China (Friday) and employment figures from the U.S. (next week) will have an important effect on the markets. Despite the positive performance of stock markets worldwide in recent days, their lack of consistency could involve a risk of correction in the short term.

Chart 2
Weekly changes in LatAm currencies



Source: Bloomberg and BBVA Research

Home →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

Highlights

Some signs of an economic slowdown in 3Q

In Argentina, the EMAE monthly indicator of activity was down 1.2% m/m in July, while industrial output in August showed some signs of stabilization (+0.1% m/m). The same was the case in Chile, where industrial output growth of only 1.7% y/y (1.3% m/m) was affected by the mining sector, which fell by 6.4% y/y due to labor disputes and bad weather conditions.

Buoyant credit market in Brazil

Growth in the stock of credit gathered pace in August to 1.7% m/m. The strength of credit markets has led the Central Bank to increase its forecasts of lending growth for this year from 15% to 17%. This has raised doubts about the adjustment to domestic demand.

Current account in Argentina moves out of the black

In Argentina, the current account balance for 2Q11 (USD 1,553 million) was slightly below the figure expected. As a result, we estimate that in 2011 it will move out of the black. In August Peruvian exports amounted to USD 4,399 million, with a growth of 35% y/y.

Fewer foreign-exchange interventions this week

Peru continued to intervene in the foreign-exchange markets at a similar rate to the previous week (with sales of USD 213 million between Monday and Wednesday, and an issue of dollar-linked securities equivalent to an additional USD 36 million), while Argentina reduced sales on the spot and futures markets by 40%. The Central Bank of Brazil did not intervene during the week, while Chile and Colombia maintained their planned level of USD purchases at USD 50 million (Chile) and USD 20 million (Colombia) per day.

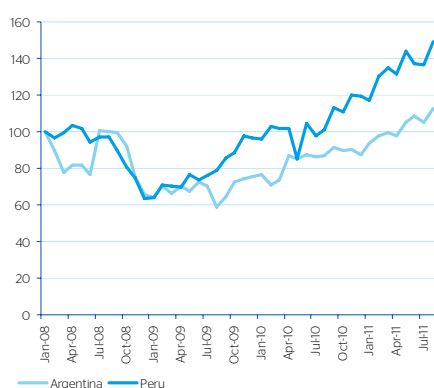
Inflation does not converge to the target in Brazil, but the SELIC will continue to fall

Forecasts from the Central Bank of Brazil Inflation Report are "less benign," with inflation not converging at the target before 2012 in any of the scenarios presented. In the base scenario it reaches 6.4% at the end of 2011 and 4.7% at the end of 2012. Despite this, the Central Bank sees fewer risks due to a "substantial deterioration" in the foreign environment and suggests moderate cuts in the SELIC rate. We expect cuts of 50 bps over the rest of 2011.

Draft 2012 budget in Chile

The Minister for Finance has issued the Budget Bill for 2012 and presented it for its passage through Congress. In line with what had been released in advance, real expenditure is expected to increase by 5%, slightly above our estimate for GDP growth for next year, with fiscal policy continuing to be expansive.

Chart 3
Export index (Jan 2008=100)



Source: BBVA Research

Chart 4
Brazil: credit stock (% y/y)



Source: Central Bank of Brazil

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

Calendar: indicators

Next Week: 3 - 7 October 2011

| Argentina | Data | Period | Forecast | Consensus | Previous | Comment |
|---------------------------------|--------|----------|-------------------------|-------------------------|--------------------------|---|
| Wages Index | 3-Oct | Aug 2011 | | 2.4% m/m | 4.0% m/m | |
| Brazil | Data | Period | Forecast | Consensus | Previous | Comment |
| Trade Balance (FOB) | 3-Oct | Sep 2011 | | | \$3873M | |
| Industrial Production | 4-Oct | Aug 2011 | | -0.40% m/m | 0.50% m/m | |
| Inflation IPCA | 7-Oct | Sep 2011 | 0.45% m/m | 0.42% m/m | 0.37% m/m | Recent evidence suggests monthly inflation will be higher in September than in August. In yearly terms it should remain relatively stable around 7.2% y/y, still well above the target. |
| Monthly Economic Activity Index | 5-Oct | Aug 2011 | 4.3% | | 4.0% | |
| Consumer Price Index | 7-Oct | Sep 2011 | 0.5% | | 0.2% | |
| Colombia | Data | Period | Forecast | Consensus | Previous | Comment |
| Exports | 5-Oct | Aug 2011 | 40.0% y/y | | 55.0% y/y | Strong domestic production of oil and minerals would be accompanied by increased industrial exports. |
| Inflation | 5-Oct | Sep 2011 | 0.05% m/m and 3.47% y/y | 0.01% m/m and 3.42% y/y | -0.03% m/m and 3.27% y/y | We expect a surge in inflation in the coming months due to negative variations recorded in September and October 2010, and then moderate towards the end of the year. |
| Automobiles sale | 6-Oct | Sep 2011 | 28.000 units | | 28.500 units | Sales remain high due to by low interest rates and high consumer confidence. |
| Mexico | Data | Period | Forecast | Consensus | Previous | Comment |
| Inflation | 7-Oct | Sep 2011 | 0.23% mom (3.12% yoy) | NA | 0.16% mom (3.42% yoy) | Inflation reduced in annual terms during september, mostly because of the lower than expected increases in the prices of education, the moderation of pressures over processed food, and the low prices of fruits and vegetables observed during the month. We expect inflation to close the year around 3.3% (3.1% core) with an important downwards bias due to the favorable results within the non-core component along the year. |
| Formal Private Employment | NA | Sep 2011 | 0.28 m/m (4.0% a/a) | NA | 0.3 m/m (4.1% a/a) | Is likely to start seeing some signs of slight weakness in the private formal employment, it will be important to monitor the employment in the manufacturing sector due to the moderation in exports in recent months. |
| Consumer Confidence | 4-Oct | Sep 2011 | 12 m/m (93.7 pts) | NA | -1.3 m/m (92.5 pts) | Although this indicator has remained relatively stable, linked to formal employment dynamics may be lower in Sept. |
| Producer Confidence | 10-Mar | Sep 2011 | -1.0 m/m (53.3 pts) | NA | -3.4 m/m (53.8 pts) | We expect to see more clearly signals of moderation in producer confidence, which would be related to uncertainty about global economic developments and results in lower manufacturing exports in recent months. |
| Peru | Data | Period | Forecast | Consensus | Previous | Comment |
| Inflation CPI | 3-Oct | Sep 2011 | 25.0% | 28.0% | 27.0% | |
| Venezuela | Data | Period | Forecast | Consensus | Previous | Comment |
| Inflation | 4-Oct | Sep 2011 | 2.4 % m/m | 1.9% m/m | 2.5% m/m | Higher demand led by fiscal spending, coupled with lower levels of enforcement of the price controls (which have a significant adjustment lag) will continue pushing inflation above 2.0% m/m |

Source: BBVA Research

Calendar of events

Peru: Central Bank Reference Rate (October 6)

Forecast: 4.25%

Consensus: 4.25%

Previous: 4.25%

Calendar of holidays

No holidays in the region.

Home →

Markets →

Highlights →

Market data →

Charts →

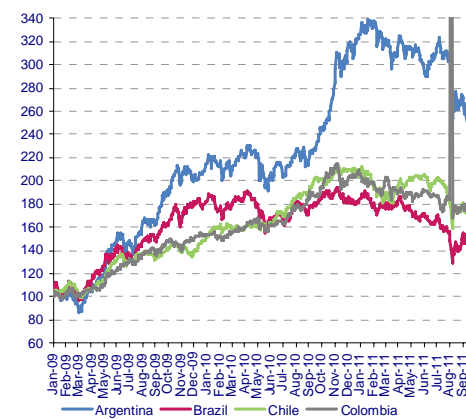
Market Data

| | | | Close | Weekly change | Monthly change | Annual change |
|------------------------------------|----------------|-------------------------|---------|---------------|----------------|---------------|
| Interest rates (changes in bps) | US | 3-month Libor rate | 0.37 | 1 | 4 | 8 |
| | | 2-yr yield | 0.26 | 4 | 6 | -16 |
| | | 10-yr yield | 1.96 | 13 | -26 | -55 |
| | EMU | 3-month Euribor rate | 1.55 | 1 | 1 | 61 |
| | | 2-yr yield | 0.57 | 17 | -16 | -29 |
| | | 10-yr yield | 1.95 | 21 | -27 | -33 |
| | | | | | | |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.351 | 0.3 | -6.2 | -1.7 |
| | | Pound-Euro | 0.87 | -0.5 | -2.0 | -0.1 |
| | | Swiss Franc-Euro | 1.22 | -0.1 | 5.2 | -9.2 |
| | America | Argentina (peso-dollar) | 4.20 | 0.0 | 0.0 | 6.0 |
| | | Brazil (real-dollar) | 1.84 | -1.0 | 16.3 | 9.4 |
| | | Colombia (peso-dollar) | 1918 | 0.9 | 7.8 | 6.8 |
| | | Chile (peso-dollar) | 516 | -0.4 | 11.9 | 7.2 |
| | | Mexico (peso-dollar) | 13.73 | -0.2 | 11.5 | 9.2 |
| | | Peru (Nuevo sol-dollar) | 2.77 | 0.1 | 1.7 | -0.6 |
| | | | | | | |
| | Asia | Japan (Yen-Dollar) | 76.74 | 0.4 | 0.3 | -8.0 |
| | | Korea (KRW-Dollar) | 1181.50 | 1.2 | 11.0 | 4.9 |
| | | Australia (AUD-Dollar) | 0.973 | -0.5 | -9.1 | 0.3 |
| | | | | | | |
| Comm. (chg %) | | Brent oil (\$/b) | 104.3 | 0.3 | -9.2 | 24.5 |
| | | Gold (\$/ounce) | 1627.7 | -1.8 | -10.8 | 23.4 |
| | | Base metals | 538.5 | -1.0 | -5.8 | 1.7 |
| | | | | | | |
| Stock markets (changes in %) | Euro | Ibex 35 | 8557 | 7.0 | -1.9 | -18.1 |
| | | EuroStoxx 50 | 2194 | 8.3 | -4.7 | -19.7 |
| | | USA (S&P 500) | 1160 | 2.1 | -4.8 | 1.2 |
| | América | Argentina (Merval) | 2518 | 1.4 | -15.1 | -5.1 |
| | | Brazil (Bovespa) | 53385 | 0.3 | -5.5 | -24.0 |
| | | Colombia (IGBC) | 12933 | -0.3 | -3.6 | -12.0 |
| | | Chile (IGPA) | 18847 | 2.5 | -7.9 | -15.8 |
| | | Mexico (CPI) | 33686 | 3.4 | -5.7 | -0.4 |
| | | Peru (General Lima) | 18436 | -2.0 | -10.9 | 1.5 |
| | | Venezuela (IBC) | 99611 | -1.0 | -0.4 | 49.5 |
| | Asia | Nikkei225 | 8700 | 1.6 | -2.8 | -7.5 |
| | | HSI | 17507 | -0.9 | -14.7 | -21.7 |
| | | | | | | |
| Credit (changes in bps) | Ind. | Itraxx Main | 190 | -7 | 37 | 81 |
| | | Itraxx Xover | 793 | -47 | 146 | 288 |
| | | CDS Germany | 107 | -2 | 32 | 69 |
| | Sovereign risk | CDS Portugal | 1082 | -76 | 164 | 684 |
| | | CDS Spain | 372 | -43 | 14 | 145 |
| | | CDS USA | 52 | -2 | 3 | --- |
| | | CDS Emerging | 350 | -17 | 88 | 130 |
| | | CDS Argentina | 1055 | 21 | 282 | 316 |
| | | CDS Brazil | 188 | -20 | 45 | 76 |
| | | CDS Colombia | 188 | -24 | 47 | 74 |
| | | CDS Chile | 148 | 5 | 52 | 76 |
| | | CDS Mexico | 188 | -26 | 45 | 69 |
| | | CDS Peru | 192 | -25 | 41 | 75 |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Source: Bloomberg and Datastream

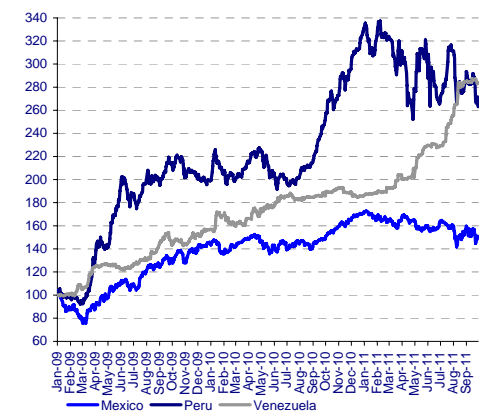
Charts

Chart 4
Stock markets (base index Jan09 = 100)



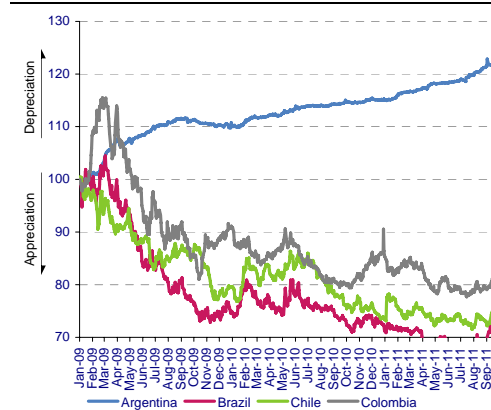
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



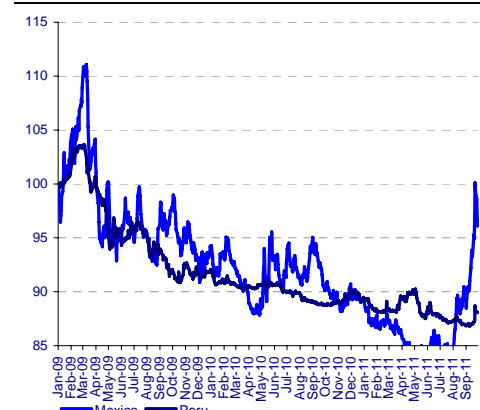
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



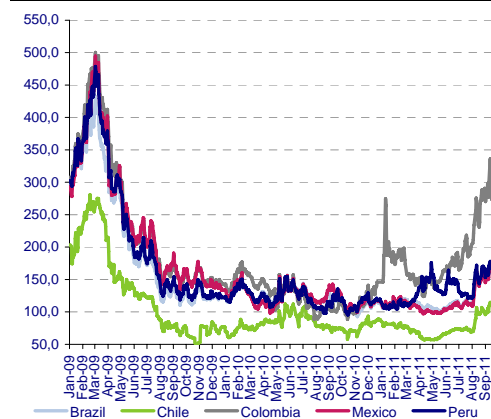
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



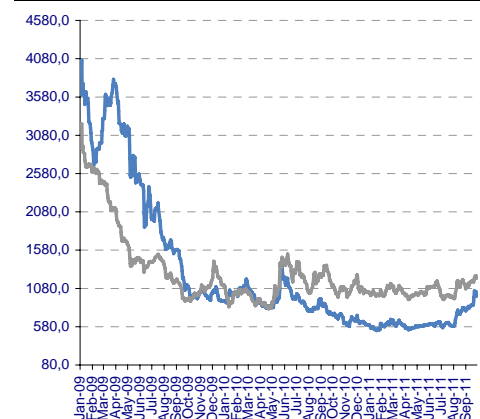
Source: Datastream and BBVA Research

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 / 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.