BBVA Research

Latin

Weekly Observatory

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Economic Analysis

South America
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Markets
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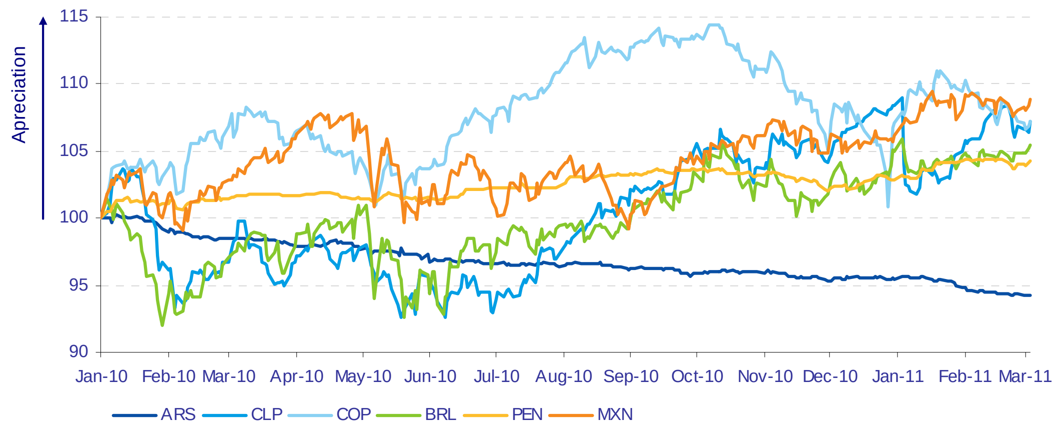
Moderation?

Brazil and Peru reported strong growth at the close of 2010, with GDP up by 7.5% and 8.8% respectively. The latest sector data on activity show signs of moderation in Chile and Brazil, although not in Argentina. Meanwhile, February inflation data for Brazil and Peru show upward pressure. In both countries the central banks are continuing to withdraw their monetary stimulus. In Brazil the benchmark rate has risen by 50 basis points, while in Peru the reserve requirements were increased again.

Assets in the region favored by differing monetary prospects in the U.S. and EU, with the global risk premium and commodity prices in check. The general weakness of the USD, following statements from the Fed and the ECB on the withdrawal of monetary stimuli, was transferred to Latin American currencies. This trend is supported in Brazil by action by the action of the Monetary Policy Committee, in Mexico by appetite for global risk, and in Chile by commodity prices. There was a positive performance by stock markets in the region.

Chart 1
Relative performance of Latin American currencies



Source: Bloomberg and BBVA Research

Highlights

Inflationary pressures remain strong

Economic activity varies among countries

Formal employment grows in Chile and Colombia, deteriorating labor situation in Venezuela

Strong growth in private spending continues to support economic expansion in Brazil and Peru

Monetary policy decisions: Brazil raises its rate, Mexico keeps its unchanged

Economic Analysis

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Markets

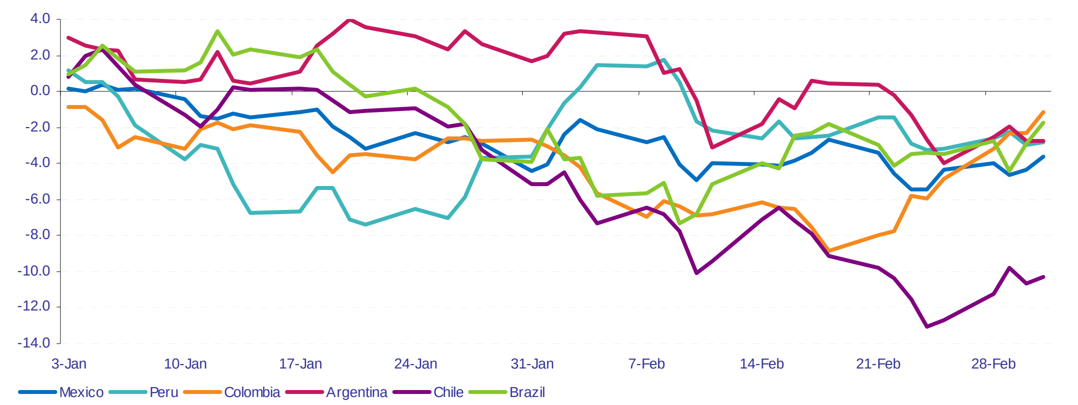
Prospects of diverging monetary cycles in the U.S. and EU favor currencies in the region

Most Latin American currencies gained over the week in response to the general weakness of the USD. The decline in the U.S. currency responded to the differing monetary policy perspectives in the U.S. and EU. Statements by Ben Bernanke maintained the language of recovery in economic activity, with inflation in check (despite recent oil price shocks), although they did not generate prospects for a withdrawal of the monetary stimulus; while the ECB suggested the possibility of an increase in its policy rate as soon as at its next meeting. Thus expectations of greater carry yield not only favored the EUR but were also passed on to most of the emerging currencies. Particularly notable was the BRL, which closed at a low for the year following the increase of 50 bps in the SELIC rate. In our opinion, the exchange-rate bias could remain positive with a yield curve discounting a similar rise of the SELIC in April. Thus we do not rule out greater aggressiveness in foreign-exchange rate intervention by the authorities (above all if there are signs of an attempt to break through 1.65). Meanwhile, the MXN gained nearly 1% with a greater appetite for risk in global markets, but we do not consider that the carry yield justifies a broad range of appreciation. In any event, we expect that the currency will continue to show sensitivity to data on U.S. economic activity. Also outstanding was the performance of the CLP (gained 1.15), supported by higher copper prices. It is important to note that conflict in the MENA region could limit gains in other crosses in Latin America in the short term. Finally, we highlight the depreciation of 0.38% in the COP in response to domestic flows.

Despite the volatility caused by geopolitical factors, Latin American stock markets performed positively compared with the rest of the world (except for Asia).

The reporting season continues to progress, with Mexico the only country that has delivered all the results for 4Q10. They have been good, within the upper range of our expectations at the operational level (growth above 10%). Among the highlights of the week were the positive performance of Colombia and Chile, above all Chile following the pressure to sell some of the shares belonging to IPSA (Cencosud and Falabella) as a result of the modifications in the investment limits for pension fund administrators (AFPs). We consider that volatility will continue, due to geopolitical risk, but in the medium and long term the differential growth in the region will enable it to perform positively compared with other stock markets.

Chart 2
Stock market indices (% change YTD vs. 31-Dec-2010)



Source: BBVA Research with data from Bloomberg

Highlights
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Economic Analysis

Highlights

Inflationary pressures remain strong
February inflation in Peru was 0.38% m/m, affected by the impact of supply factors on food prices. In Brazil inflation was 0.8% m/m, in line with expectations (BBVA: 0.74%; Consensus: 0.83%), affected by seasonal factors such as the adjustment of education prices. Year-on-year inflation remained practically unchanged at 2.2% in Peru and 6.0% in Brazil.

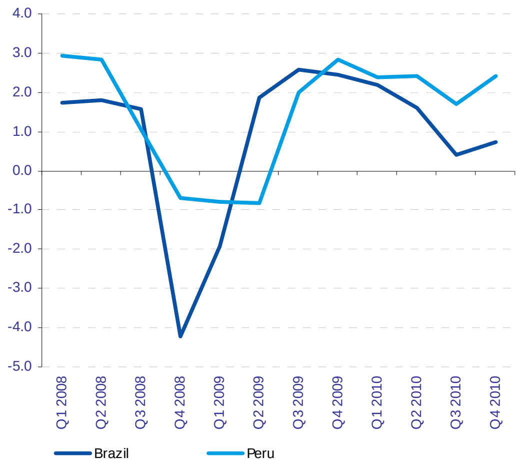
Economic activity varies among countries
Domestic demand in Argentina remains strong, with January sales in supermarkets up 27.9% y/y and in shopping malls up 34% y/y. In Chile industrial output was up 4% y/y (down 0.5% m/m) and the expansion in retail sales and supermarkets slowed (15.8% and 6.4% y/y respectively). In contrast, in Brazil industrial output continues weak (2.5% y/y and 0.2% m/m), although it is above expectations.

Formal employment grows in Chile and Colombia, deteriorating labor situation in Venezuela
In January the unemployment rate fell in Colombia by 0.6 pp in year-on-year terms to 14.7%. In Chile, the rate grew in the rolling quarter November-January by 0.2 pp to 7.3%, despite the growth in salaried employment. In Venezuela the unemployment rate increased by 0.2 pp on the figure for January 2010, reflecting the weakness of its economic recovery.

Strong growth in private spending continues to support economic expansion in Brazil and Peru
GDP in Peru grew 9.2% year-on-year in 4Q10 and 5.0% in Brazil. In both cases, this expansion is based on greater private investment and consumption. The overall rates reflect a slowdown, although in Peru it is still slight. For 2010 overall, growth was 8.8% in Peru and 7.5% in Brazil.

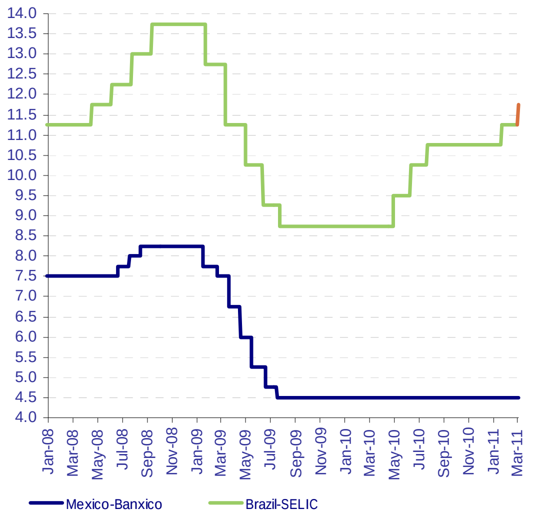
Monetary policy decisions: Brazil raises its rate, Mexico keeps its unchanged
As expected, the Central Bank of Brazil increased the SELIC rate by 50 bps to 11.75% and so far it has given no signs of a change in the tone of monetary policy, while Banxico maintained its rate unchanged at 4.5%. The Central Bank of Peru increased its average reserve rate by 0.25 pp for both sol and foreign currency-denominated deposits, as a complement to the withdrawal of monetary stimulus.

Chart 3
Brazil and Peru: GDP (% q/q).



Source: BBVA Research.

Chart 4
Monetary policy rate (%)



Source: BBVA Research.

Calendar: Indicators

Next Week: 7 - 11 March 2011

Brazil	Data	Period	Forecast	Consensus	Previous	Comment
COPOM Monetary Policy Meeting Minutes	10-Mar					
Chile	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Imacec, Monthly Indicator of Economic Activity	13-Mar	Jan 2011	6.2%		6.2%	The economy keeps good performance. We maintain our prevision of a new increase in the monetary policy rate in March.
Wage Index	7-Mar	Feb 2011				
Inflation	8-Mar	Feb 2011				
Fortnightly Survey to Financial Operators	9-Mar	Feb 2011				
Survey of Economic Expectations	10-Mar	Feb 2011				
Colombia	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Building survey	7-Mar	4Q 2010	7.0% y/y		0.6% y/y	A increase in the new building in construction and a higher rate of ended buildings is expected.
Credit	7-11-mar	Jan 2011	16.0% y/y		18.7% y/y	Lower commercial credit growth in January, which moderates the increase with respect to the observed in 10Q4.
Resources	7-11-mar	Jan 2011	11.7% y/y		11.5% y/y	Low interest rates and liquidity preferences restricting savings.
Automobile sales	9-Mar	Feb 2011	22000 units		20771 units	High willingness of consumers to purchase vehicles can maintain positive momentum in the sector.
Mexico	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Total Formal Employment		Feb 2011	0.28 % m/m 4.8% y/y		0.30 % m/m 5.1% y/y	It is probable that employment dynamics starts a downside trend influenced by pause on industrial production
Inflation	9-Mar	Feb 2011	0.38% m/m 3.58% y/y	0.37% mom	0.49% m/m 3.78% y/y	Inflation will keep falling at an annual rate, however this reduction might be lighter than expected because of persistent pressures in some processed foods mainly tortilla, and some agricultural prices that were affected by the recent climate events.
Peru	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Trade Balance	11-Mar	Jan 2011			USD 1027 millions	

Source: BBVA Research

Calendar: Events

Peru: Monetary Policy Rate (March 10)

Forecast: 3.75%	Consensus: 3.75%	Previous: 3.5%

Indicators suggest that the strong growth in economic activity at the start of the year is continuing, so the output gap should become positive in 1Q11. This requires a more neutral monetary-policy position.

Calendar: holidays

Argentina, Brazil and Venezuela: March 7 and 8.

Markets
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Market Data
Charts

Market data

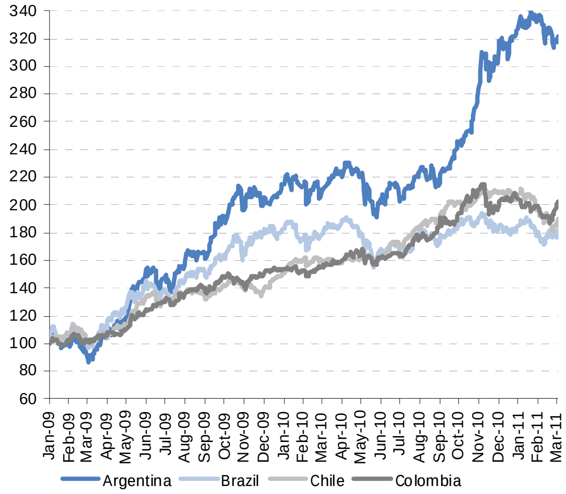
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	0	6
		2-yr yield	0.73	2	7	-16
		10-yr yield	3.54	13	7	-14
	EMU	3-month Euribor rate	1.16	7	8	51
		2-yr yield	1.78	24	29	78
		10-yr yield	3.31	15	5	15
Exchange rates (changes in %)	Europe	Dollar-Euro	1.399	1.6	1.4	2.8
		Pound-Euro	0.86	0.5	0.8	-4.5
		Swiss Franc-Euro	1.30	1.4	-0.3	-11.5
	America	Argentina (peso-dollar)	4.03	0.1	0.6	4.5
		Brazil (real-dollar)	1.65	-0.9	-1.3	-7.5
		Colombia (peso-dollar)	1893	-0.7	1.8	-1.8
		Chile (peso-dollar)	473	-0.4	-1.7	-7.1
		Mexico (peso-dollar)	11.99	-1.1	-0.4	-5.3
		Peru (Nuevo sol-dollar)	2.77	-0.3	0.1	-2.5
	Asia	Japan (Yen-Dollar)	82.43	0.8	0.9	-8.8
		Korea (KRW-Dollar)	1114.65	-0.8	1.0	-1.7
		Australia (AUD-Dollar)	1.012	-0.4	0.4	11.5
Comm. (changes in %)		Brent oil ($/b)	115.3	2.9	12.7	44.4
		Gold ($/ounce)	1422.1	0.8	6.5	25.3
		Base metals	622.4	0.9	1.6	25.1
Stock markets (changes in %)	Euro.	Ibex 35	10553	-2.5	-4.2	-4.2
		EuroStoxx 50	2975	-0.3	-1.2	3.4
	America	USA (S&P 500)	1330	0.8	2.0	16.8
		Argentina (Merval)	3486	1.5	-4.3	51.6
		Brazil (Bovespa)	68185	1.9	2.2	-1.0
		Colombia (IGBC)	15390	4.4	3.0	30.3
		Chile (IGPA)	21620	3.2	-2.1	22.6
		Mexico (CPI)	37133	0.7	-2.1	14.5
		Peru (General Lima)	22644	-0.5	-3.3	56.9
		Venezuela (IBC)	67692	0.1	1.5	18.9
	Asia	Nikkei225	10694	1.6	2.3	3.1
		HSI	23409	1.7	-2.1	12.6
Credit (changes in bps)	Ind.	Itraxx Main	99	0	3	21
		Itraxx Xover	384	-12	-19	-42
	Sovereign risk	CDS Germany	47	-7	-6	14
		CDS Portugal	469	1	80	352
		CDS Spain	239	-26	17	137
		CDS USA	44	-2	-3	---
		CDS Emerging	215	-11	3	-28
		CDS Argentina	614	-35	19	-420
		CDS Brazil	114	-4	-1	-8
		CDS Colombia	117	-3	0	-30
		CDS Chile	74	-5	-3	-3
		CDS Mexico	111	-6	-6	-5
		CDS Peru	109	-5	0	-15

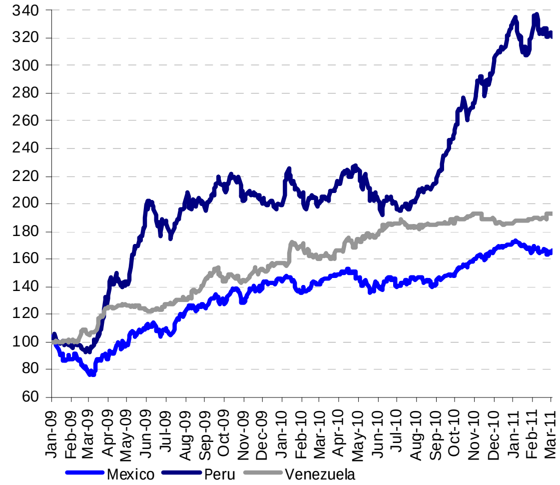
Source: Bloomberg and Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)



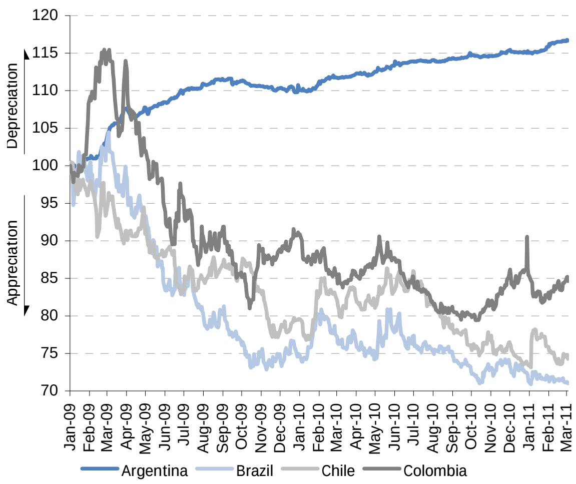


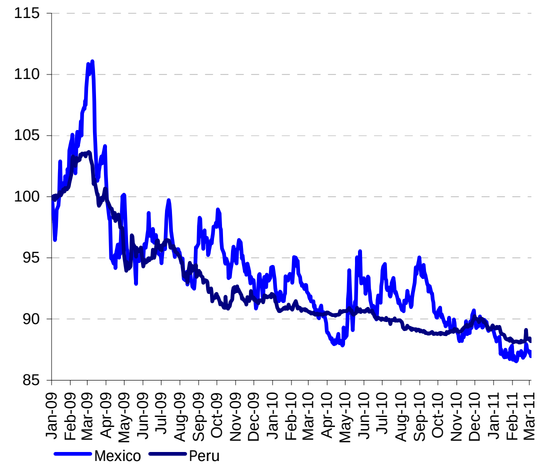
Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)



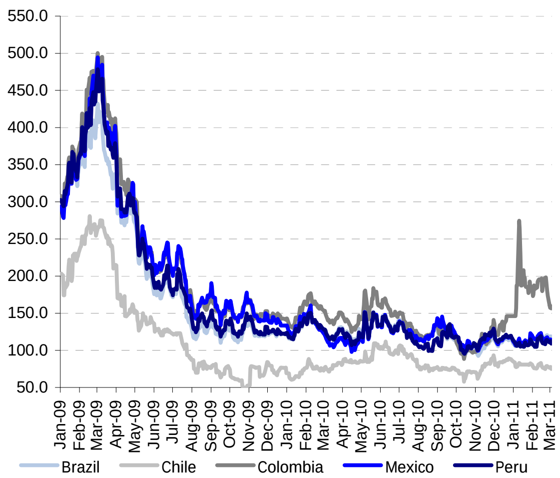


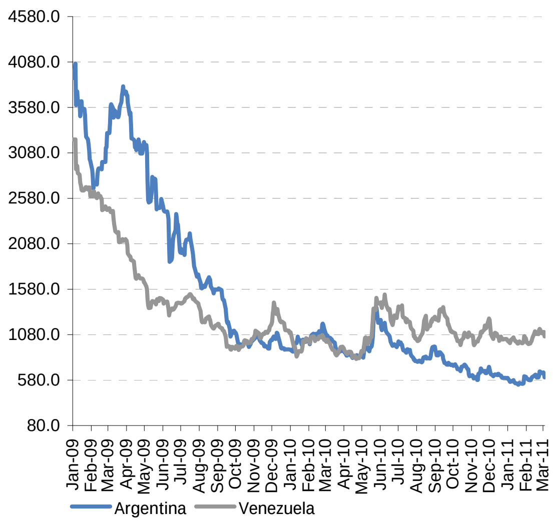
Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)





Source: Bloomberg

Source: Bloomberg

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