

Weekly Watch

Latin

September 5, 2011
Economic Analysis

South America

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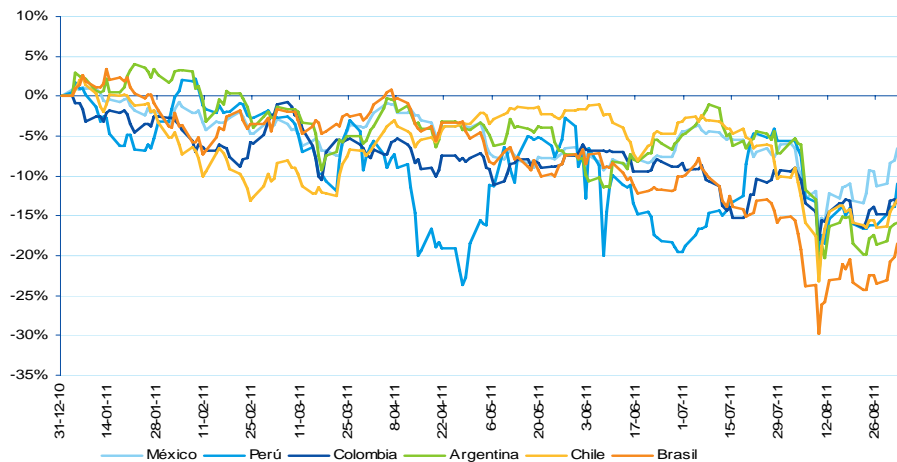
Focus of attention on inflation and monetary policy

The deterioration of global growth expectations has reduced concerns about inflation and changed the focus of monetary policy, as shown by the surprising cut in the SELIC rate. This week inflation figures in Argentina (unofficial), Chile and Venezuela could provide further clues in this respect, in addition to the IPOM in Chile, and thus stimulate attention on interest-rate decisions and messages from the central banks of Mexico and Peru.

The U.S. and the EU continue to generate high volatility across global markets

There has been an improvement in the mood of global markets, with expectations of a third round of monetary easing in the U.S. as well as economic data slightly above expectations. Latin American currencies were all up, except for the BRL, which reacted negatively to the cut of 50 bps in the policy rate. Stock market indices closed up, particularly in the case of Brazil and Mexico.

Chart 1
LatAm stock markets



Source: BBVA Research

Highlights

- Brazil cuts SELIC rate to 12.0%
- Signs of an economic slowdown in July
- Positive surprises in figures for the first half of the year
- Upgrade for Peru and Paraguay's long-term debt
- Credit shows steady growth in Mexico and Colombia
- Cabinet change in Panama leads to political realignments

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Markets

BRL falls following the SELIC decision, the MXN moves up on figures from the U.S.

Last week the global currency markets showed a positive bias due to expectations of a third round of quantitative easing in the U.S. They were fuelled by the speech by Ben Bernanke in Jackson Hole the previous week, as well as the minutes of the Fed meeting, which showed that some members had agreed with such a move since the August meeting. In addition, U.S. economic indicators surprised with mostly positive movements, which helped moderate cyclical uncertainties.

In this context, most of the Latin American currencies ended up. Particularly notable was the appreciation of nearly 1.6% in the MXN to Thursday, the best relative performance in the zone. Another reason for the rise was that in previous weeks it had been lagging behind other currencies in the zone, while the auction of put options by Banxico at the end of the week gave signs of a more positive market with respect to the MXN. At the opposite end are the BRL, which had depreciated by close to 4% to Thursday following the surprise decision by the COPOM to cut the SELIC rate by 50 bps. We consider that the BRL could lose more in the near future, although within a limited range.

Stock market indices perform well over the week

During the week, the stock markets and other risk assets performed well. The underlying reason appears to be the creation of expectations related to the upcoming meeting of the U.S. Federal Reserve towards the third week of September, after it was announced at the Jackson Hole meeting that the meeting would be extended to discuss the available tools of monetary policy. The performance was similar in the different regions, with Brazil and Mexico standing out towards the end of the week: Brazil due to the surprising reduction in the policy rate, which at one fell swoop removed doubts about the possibility of greater increases; and in the case of Mexico, a highly significant trading volume (3 times the annual average) in reaction to the imminent change of the basket of companies in the IPC index. Out go GCarso, Gfinbur, Ich and Incarso; and in come Liverpool and Ohlmex. We expect that the stock markets will remain at this level of volatility, influenced by macroeconomic figures and the balance of sovereign risks.

Chart 2
Relative performance of Latin American currencies



Source: BBVA Research

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Highlights

Brazil cuts SELIC rate to 12.0%

The COPOM surprised the markets by cutting the SELIC rate by 50 bps to 12.0%, given a more difficult foreign scenario that is expected to reduce inflationary pressures in the country.

Signs of an economic slowdown in July

Industrial output was up 0.5% m/m in July (against an expected figure of 0.7%), with the year-on-year rate down by 0.3%. In Argentina retail sales were up 29% and 30% y/y. In Chile industrial output grew by only 0.7% y/y, and was down 0.4% m/m. In Colombia, the indicator of Public Works fell by 8% y/y in 2Q11, in line with the low level of execution of the investment budget.

Positive surprises in figures for the first half of the year

Private investment in Peru was up 15.9% in 2Q11. In Brazil, GDP slowed to 3.1% y/y (0.8% q/q) in the same period.

Upgrade for Peru and Paraguay's long-term debt

S&P upgraded Peru's debt earlier than expected, from BBB- to BBB, highlighting the continuity of monetary and fiscal policy. In the case of Paraguay the upgrade was from B to BB-, supported by the greater compensation paid by Brazil for the use of energy generated in Itaipú.

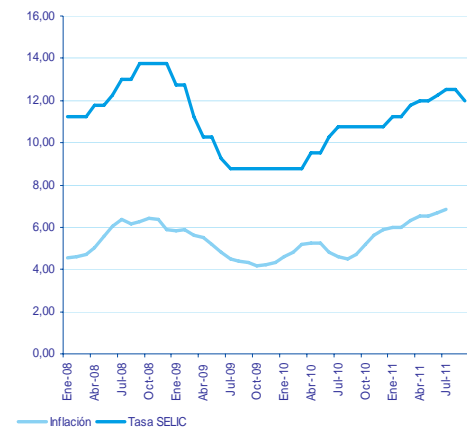
Credit shows steady growth in Mexico and Colombia

Credit to the private sector grew in Mexico by 14.5% in July, with an increase of 18.4% in consumer finance. In Colombia, bank credit was up by 24.8% in June. In both cases there were improvements in portfolio quality.

Cabinet change in Panama leads to political realignments

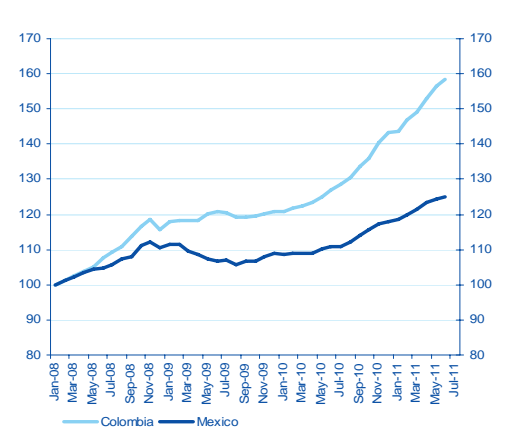
The President of Panama, Ricardo Martinelli, has dismissed the Minister for Foreign Relations, Juan Carlos Valera, who is also Vice-President and leader of the Panameñista party, until now the government's main coalition ally. This confirms the break in the governing coalition which would lose its majority in Congress if it does not consolidate alliances with other opposition parties.

Chart 3
SELIC rate and annual inflation in Brazil (Jan 2008 to date)



Source: BBVA Research

Chart 4
Bank Credits Jan 08 = 100.



Source: BBVA Research

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Calendar: indicators

Next Week: 5 - 9 September 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Brazil						
Inflation IPCA	6-Sep	Aug 2011		0.36%/m	0.16%/m	
COPOM Monetary Policy Meeting	8-Sep					
Chile						
Monthly Economic Activity Indicator	5-Sep	Jul 2011	4.0%	??	6.1%	Downward revision for monthly economic activity based on weak manufacturing and mining figures. Retail sales slowdown slightly.
Consumer Price Index	8-Sep	Aug 2011	0.2%	??	0.1%	Importable goods prices and items related to exchange rate effect explain low figure for August.
Colombia						
Inflation	5-Sep	Aug 2011	3.44% y/y y 0.13 m/m	3.44% y/y y 0.13 m/m	3.42% ay/y y 0.14 m/m	Slight increase in annual inflation expected due to the normalization of food prices and a recent cut in internal gasoline prices.
Exports	6-Sep	Aug 2011	40.0% y/y		54.0 y/y	There is some uncertainty about the industrial exports due to change outlook of the United States.
Automobiles sale	9-Sep	Aug 2011	25 500 u.		26 799 u.	Sales moderate in line with increases in interest rates.
Mexico						
Consumer Confidence	5-Sep	Aug 2011	95.3 pts (1.2% m/m)	N.A.	94.2 pts (1.9% m/m)	With three consecutive months of growth and job creation rates stable in the formal sector, along with real wages begin to improve, we believe that consumer confidence will have continue growing, although it might be at rates slightly lower than previous months.
Inflation	8-Sep	Aug 2011	0.17% mom (3.44% yoy)	0.24% mom	0.48% mom julio	Due to a strong reduction in the prices of agricultural produce, and the favorable performance of several core components, inflation reduced slightly in annual terms from 3.55% in July to around 3.45% in August.
Venezuela						
Inflation rate	40792	Aug 2011	2	NA	2.7	In August prices kept growing fast, continuing a trend that started last May, due to growing monetary pressures of fiscal nature.

Source: BBVA Research

Calendar of events

Monetary policy decisions in Mexico and Peru

Forecast: rates stable	Consensus: rates stable	Previous:
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After what happened in Brazil, and given the signs of a worsening of the global economic environment, combined with low inflation, there is concern regarding the future of monetary policy in the region.

Calendar of holidays

Brazil: September 3.

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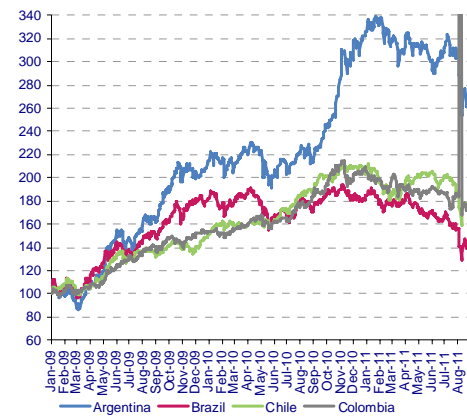
Market Data

			Close	Weekly change	Monthly change	Annual change		
Interest rates (changes in bps)	US	3-month Libor rate	0.33	1	6	4		
		2-yr yield	0.18	-1	-15	-33		
		10-yr yield	2.13	-6	-49	-57		
	EMU	3-month Euribor rate	1.54	0	-6	66		
		2-yr yield	0.60	-5	-45	-4		
		10-yr yield	2.11	-5	-29	-24		
Exchange rates (changes in %)	Europe	Dollar-Euro	1.424	-1.6	-0.4	10.6		
		Pound-Euro	0.88	-0.7	0.9	5.3		
		Swiss Franc-Euro	1.12	-4.6	1.6	-15.0		
	America	Argentina (peso-dollar)	4.19	0.2	1.1	6.3		
		Brazil (real-dollar)	1.62	1.0	3.6	-6.1		
		Colombia (peso-dollar)	1780	-0.8	0.4	-1.6		
		Chile (peso-dollar)	460	-1.5	0.1	-7.4		
		Mexico (peso-dollar)	12.34	-1.1	4.2	-4.7		
		Peru (Nuevo sol-dollar)	2.73	-0.1	-0.5	-2.4		
		Asia	Japan (Yen-Dollar)	76.81	0.2	-0.1	-9.0	
			Korea (KRW-Dollar)	1062.30	-1.5	0.3	-9.4	
			Australia (AUD-Dollar)	1.069	1.0	-0.3	16.7	
		Comm. (chg %)		Brent oil (\$/b)	113.5	1.9	0.2	48.1
	Gold (\$/ounce)		1849.2	1.2	11.3	48.3		
	Base metals		571.7	0.7	-3.2	12.1		
Stock markets (changes in %)	Euro	Ibex 35	8552	4.5	-5.4	-19.3		
		EuroStoxx 50	2247	2.6	-10.0	-18.2		
		USA (S&P 500)	1204	2.3	-4.4	9.0		
	América	Argentina (Merval)	2927	1.5	-11.5	20.8		
		Brazil (Bovespa)	58118	8.9	3.8	-12.8		
		Colombia (IGBC)	13470	2.0	-2.9	-4.2		
		Chile (IGPA)	20534	3.8	-0.6	-5.3		
		Mexico (CPI)	35638	4.7	3.3	9.3		
		Peru (General Lima)	20727	4.7	-3.7	33.1		
		Venezuela (IBC)	100033	0.1	7.9	53.8		
		Asia	Nikkei225	8951	1.7	-7.1	-1.8	
			HSI	20213	3.2	-8.1	-3.6	
		Credit (changes in bps)	Ind.	Itraxx Main	156	-12	29	51
				Itraxx Xover	653	-63	172	173
CDS Germany	76			-9	7	40		
Sovereign risk	CDS Portugal		957	-66	-37	658		
	CDS Spain		376	-2	-44	153		
	CDS USA		51	4	-5	---		
	CDS Emerging		268	-30	51	31		
	CDS Argentina		800	-31	202	-52		
	CDS Brazil		144	-20	28	25		
	CDS Colombia		143	-19	30	20		
	CDS Chile		96	-10	24	24		
	CDS Mexico		142	-21	30	10		
	CDS Peru		149	-22	24	41		

Source: Bloomberg and Datastream

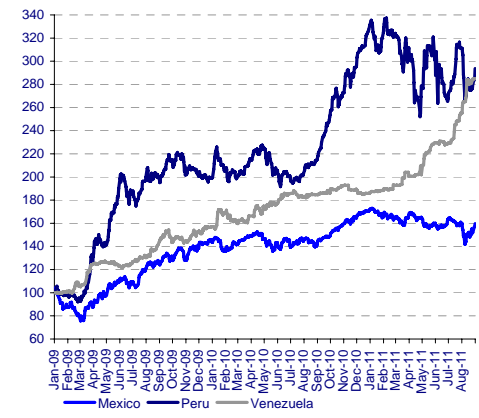
Charts

Chart 4
Stock markets (base index Jan09 = 100)



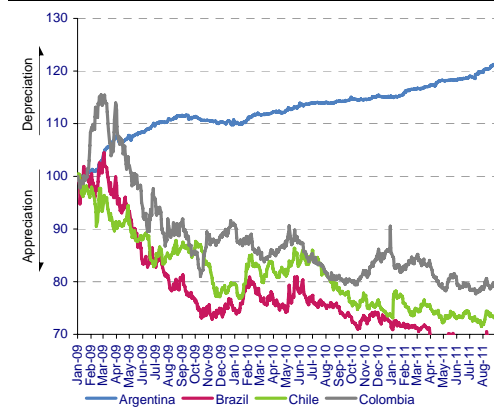
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



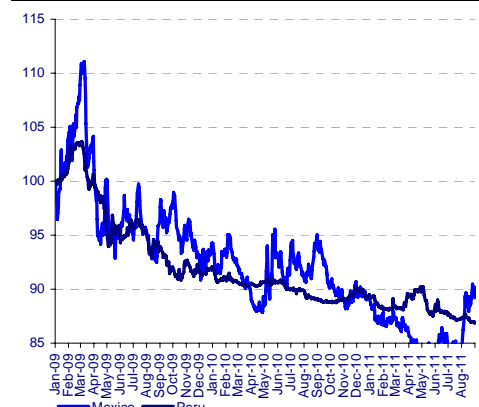
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



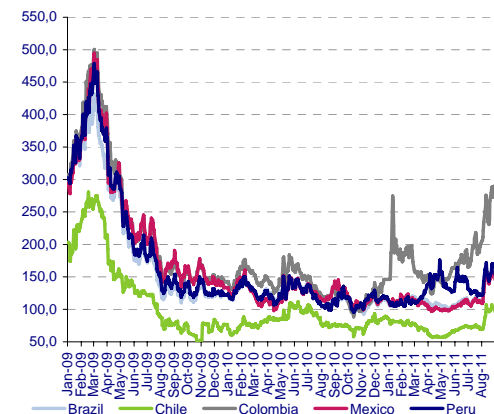
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



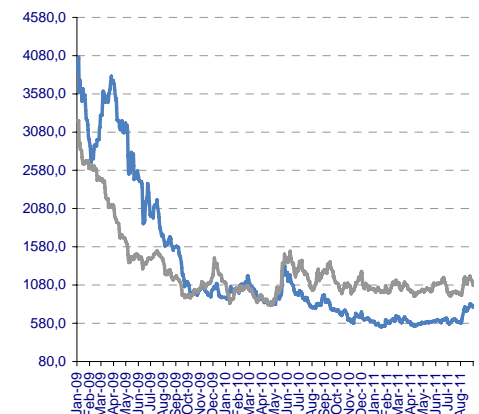
Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 9
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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