BBVA | RESEARCH

Weekly Watch

Latin

December 5, 2011
Economic Analysis

South America
Joaquín Vial
jvial@bbvaprovida.cl

Rodrigo Alfaro
ralfaro@bbva.com

Enestor Dos Santos
enestor.dossantos@grupobbva.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
oswaldo_lopez@provincial.com

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

Markets
Highlights
Calendar
Market Data
Charts

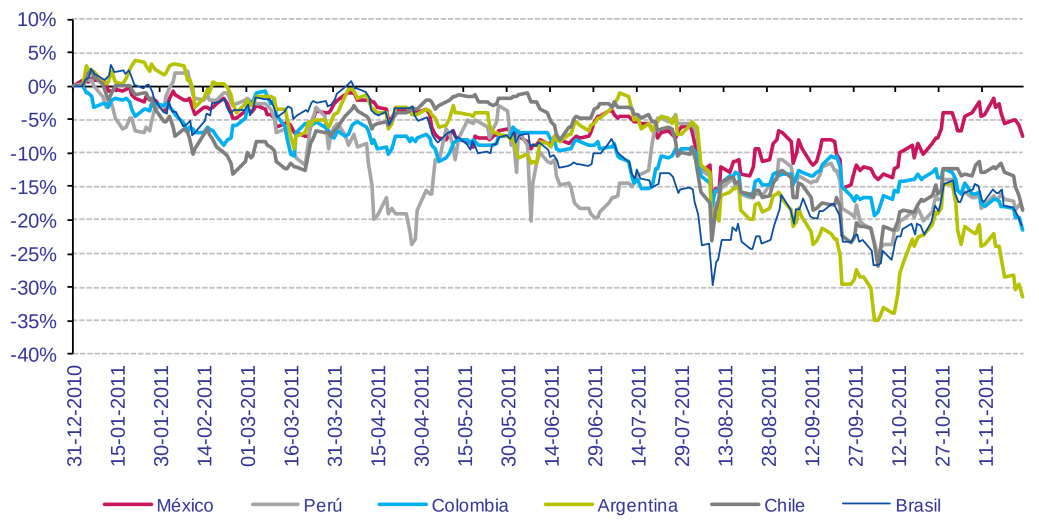
Data confirm slowdown

Data on industrial output in Argentina and Chile and GDP growth in Peru confirm a slowdown. In addition, the latest inflation data from Peru provide an upward surprise. These figures should be compared with the data from other countries in the region next week.

Equity and currency markets in Latin America rebound as global risks moderate

The program of USD liquidity provisions agreed by five central banks, together with expectations of further IMF involvement, increased the appetite for risk in global markets, which in turn led to a general upturn in Latin American equity and currency markets. Sovereign risk is still the main focus of attention for now.

Chart 1
Latin stock monitor



Source: Bloomberg

Highlights

Economic slowdown in Argentina, Chile and Peru

Job creation reduces the unemployment rates in Chile and Colombia

Argentina frees wheat sales abroad

November inflation provides an upward surprise in Peru

In Brazil the government acts to avoid a forced landing

Brazil cuts its reference rate and Chile leaves the door open to this possibility

Economic Analysis

Macro LatAm Strategy
Octavio Gutierrez
o.gutierrez3@bbva.bancomer.com

FX Global
FX Latam - FX Mexico/Brazil
Claudia Ceja
claudia.ceja@bbva.bancomer.com

Equity LatAm
Rodrigo Ortega
r.ortega@bbva.bancomer.com

Markets

Agreements on global monetary action ease the turmoil in the euro zone, though major decisions still have to be taken

The program of USD liquidity provisions agreed by five central banks headed by the Fed was the main boost for global markets last week and led to a cut in the costs of French and Spanish sovereign bond issues, overall currency gains against the USD, and stock market gains in the euro zone. The indicators of economic activity in the U.S. showed positive signs, with the Fed's Beige Book highlighting moderation in activity without any risk for the moment to the liquidity of the financial system. The indicators in the euro zone confirmed the weakness of the region, while China surprised with signs of contraction in the manufacturing sector. Given this situation, and with a fall in annual inflation, the Central Bank of China reduced its rate on excess reserves for the first time since 2008.

In this context, Latin American currencies ended the week with overall gains. The BRL ended with the best relative performance, gaining over 5.7%, not only in response to the fall in global risks, but also because of the corrected expectations that the Monetary Policy Committee would make an aggressive cut to the SELIC rate. The MXN gained nearly 5%, also in response to local factors (the announcement of foreign-exchange intervention by the Bank of Mexico and monetary policy expectations). The same was true for the other currencies, where as external risks reduced, domestic factors began to gain in importance (e.g. corporate flows for the COP, Central Bank minutes for the CLP). In all, we await more clarity from the EMU before adopting firm positions in any direction.

Global risk premiums fall and favor Latin American stock markets

As has happened each time that the sovereign risk premium was reduced by the overall macro environment, and in particular the negotiations for the European bailout, stock markets in developed countries (particularly Europe) performed better than emerging markets. Among the emerging markets, Latin America performed better than Asia, which was affected by some macro data indicating a slightly steeper slowdown than expected. Positive readings of US data helped in the two biggest markets: as a result, Mexico was the best performing market, while in Brazil there was also support from the expected adjustment to the reference rate. Sovereign risk continues to be the key in the coming weeks, with a new critical date of December 9, when the euro zone leaders meet again. The scarce corporate information and the economic agenda could well remain in the background as a result.

Home

Highlights

Calendar

Market Data

Charts

Economic Analysis

Highlights

Economic slowdown in Argentina, Chile and Peru

In Argentina, industrial output fell in October by 0.3% m/m due to problems in the chemicals and textile sectors, although it was up by 4.1% y/y. In Chile, industrial output provided a major downward surprise when it fell 3.2% m/m and 0.8% y/y (Chart 3). In Peru, GDP in 3Q11 confirmed the economic slowdown with growth of 1.0% q/q and 6.5% y/y in 3Q11 (2Q11: 1.2% q/q and 6.6% y/y), boosted basically by consumption.

Job creation reduces the unemployment rates in Chile and Colombia

The unemployment rates in Chile and Colombia fell by 0.4 pp in the moving quarter Aug-Oct to 7.2% and 1 pp (October) over the last 12 months to 10.2%. This fall is the result of faster job creation (3.5% y/y in Chile and 6.6% in Colombia), above the growth rate in the labor force (3.1% y/y in Chile and 5.4% y/y in Colombia. There was a significant salaried component in job creation in both countries (Chart 4).

Argentina frees wheat sales abroad

The government authorized more wheat exports of 2.7 million tons, amounting to around USD 600 million. Combined with the positive surprise in the October trade deficit, this should increase the trade surplus in 2011 to USD 10.6 billion (previous forecast USD 8.2 billion).

November inflation provides an upward surprise in Peru

November inflation was 0.43%, higher than expected (BBVA: 0.35% and Consensus: 0.30%). As a result, the year-on-year inflation rate hit a high for the year of 4.6%. Once more, the result for the month reflected the impact of supply shocks, which have affected the prices of locally produced foods. We expect these effects to reduce in 2012, and inflation to return to the target range (2% +/- 1 pp) in the third quarter of 2012.

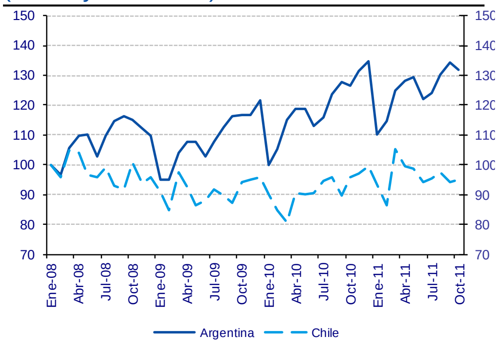
In Brazil the government acts to avoid a forced landing

The government announced today a series of tax reductions to prevent the economy from slowing down too sharply. The GDP should not grow more than 0.2% q/q in the third quarter after growing by around 1.0% q/q in the first two quarters. The measures announced could lead to a slight recovery in growth in the fourth quarter.

Brazil cuts its reference rate and Chile leaves the door open to this possibility

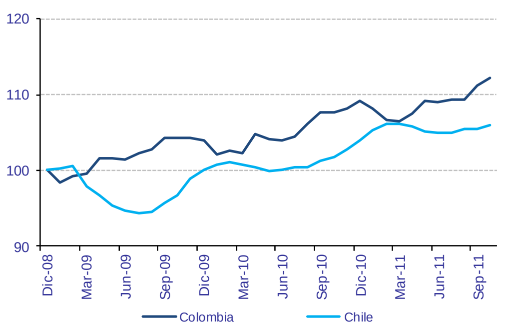
In its last meeting of the year, the Central Bank of Brazil decided to cut the reference rate by 50 bps for the third time in a row. We expect at least two more cuts of 50 points at the start of 2012. In Chile, the minutes of the monetary policy meeting in November reflected that the Central Bank was better disposed towards the idea of preventive cuts. However, we estimate that the strength of domestic demand and inflation will lead to a continued monetary pause in the December meeting.

Chart 2
Industrial production index
(January 2008=100)



Source: INE and BBVA Research

Chart 3
Salaried worker index
(Moving average quarters, Oct-Dec 2008=100)



Source: INE and BBVA Research

Home
Markets
Calendar
Market Data
Charts

Calendar of indicators

Next Week: 5 December- 9 December 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	6-Dec	November	1.9% m/m		1.8% m/m	Monetary pressures will continue being partially contained by higher imports of basic goods, specially food. Therefore, we except inflation to stay high (1.9% m/m) but below the year's average (2,2% m/m).
Brazil	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
GDP	6-Dec	3Q	0.2%q/q	0% q/q	0.8% q/q	GDP growth to drop down from around 1.0%q/q in the fist half of the year to no more than 0.2%q/q in Q3. A negative growth should not be ruled out.
COPOM Monetary Policy Meeting	8-Dec					We expect the focus to be in the external sector and, secondarily, in the recent moderation of domestic demand. In our view, the chances of CB signallig a more prolonged easing cycle are more significant than of suggesting more agressive cuts (75bps inste
IBGE Inflation	8-Dec	November	0.45%m/m	0.48% m/m	0.43%m/m	Inflation to trend up in monthly terms due to seasonall factors. Yearly inflation to drop from 7.0% in October to 6.6%m/m in November.
Chile	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Monthly Economic Activity index	5-Dec	October	3.9% a/a	4.8% a/a	5.7% a/a	
Consumer Price Index	7-Dec	November	0.1% m/m	0.1% m/m	0.5% m/m	
Colombia	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
CPI	5-Dec	November	0.18%m/m (4.0% a/a)	0.19% m/m (4.0% a/a)	0.19%m/m (4.0% a/a)	Monthly inflation under pressure due to supply shock on food prices. Core (non-food) inflation is expected to remain stable, near 3% y/y.
Exports	6-Dec	October			36.2% y/y	High international prices for export products continue to reflect in high growth in total exports, driven by oil and mining products.
Mexico	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
IMEF	5 Dec.	November	50pts	NA	50.8pts	Moderation in the conficence of manufacturing producers, in line with the behavior of the U.S. ISM
Formal Private Employment	Sin Fecha	November	0.30 m/m (4.0 y/y)	NA	0.32 m/m (4.1 y/y)	Slower employment growth, linked to manufacturing.
Peru	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
BCRP Monetary Policy Meeting	7-Dec	December	4,3%	NA	4,3%	We anticipate that the Central Bank will keep unchanged the reference interest rate, supporting its decision on the severign debt crisis at the eurozone.

Source: BBVA Research

Calendar of holidays

Thursday, December 8: Argentina, Chile, Colombia and Peru.
Friday, December 9: Argentina.

Home

Markets

Highlights

Market Data

Charts

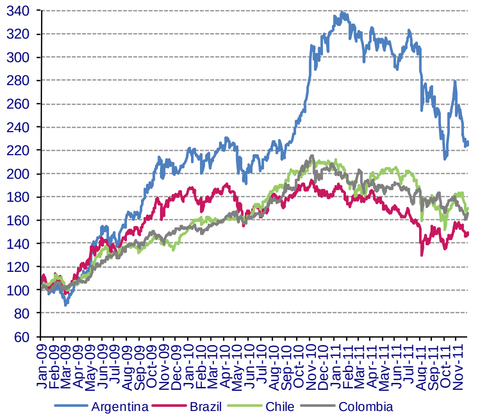
Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.53	1	9	22
		2-yr yield	0.25	-2	3	-21
		10-yr yield	2.11	14	12	-90
	EMU	3-month Euribor rate	1.47	-1	-12	44
		2-yr yield	0.32	-15	-11	-54
		10-yr yield	2.19	-7	37	-66
Exchange rates (changes in %)	Europe	Dollar-Euro	1.348	1.8	-1.9	0.8
		Pound-Euro	0.86	0.3	-0.2	1.2
		Swiss Franc-Euro	1.23	0.3	1.5	-5.4
	America	Argentina (peso-dollar)	4.28	0.3	0.7	7.6
		Brazil (real-dollar)	1.80	-4.6	3.1	6.8
		Colombia (peso-dollar)	1950	-0.3	2.2	3.6
		Chile (peso-dollar)	515	-2.2	2.8	7.3
		Mexico (peso-dollar)	13.56	-5.1	-0.1	9.6
		Peru (Nuevo sol-dollar)	2.70	-0.5	-0.3	-4.2
	Asia	Japan (Yen-Dollar)	77.86	0.2	-0.3	-5.9
		Korea (KRW-Dollar)	1125.95	-3.2	0.4	-0.5
		Australia (AUD-Dollar)	1.026	5.8	-0.5	3.8
Comm. (chg %)		Brent oil ($/b)	109.8	3.2	0.4	20.1
		Gold ($/ounce)	1749.3	3.9	0.6	23.7
		Base metals	527.0	1.1	-1.1	-7.1
Stock markets (changes in %)	Euro	Ibex 35	8568	10.4	-0.1	-14.4
		EuroStoxx 50	2352	11.4	2.6	-15.5
	América	USA (S&P 500)	1245	7.4	0.5	1.6
		Argentina (Merval)	2609	7.5	-3.0	-23.8
		Brazil (Bovespa)	58143	5.9	1.4	-16.7
		Colombia (IGBC)	12925	6.3	-0.8	-16.0
		Chile (IGPA)	20003	3.9	-2.5	-13.1
		Mexico (CPI)	36568	5.8	2.3	-2.2
		Peru (General Lima)	19814	4.5	1.7	-8.5
		Venezuela (IBC)	114657	-0.6	6.0	75.8
	Asia	Nikkei225	8644	5.9	0.0	-15.1
		HSI	19040	7.6	-3.5	-18.4
Credit (changes in bps)	Ind.	Itraxx Main	183	-24	8	76
		Itraxx Xover	756	-86	33	289
	Sovereign risk	CDS Germany	98	-20	9	52
		CDS Portugal	1048	-75	15	625
		CDS Spain	390	-94	10	96
		CDS USA	52	-4	6	---
		CDS Emerging	304	-43	11	93
		CDS Argentina	1015	-83	76	367
		CDS Brazil	161	-31	9	56
		CDS Colombia	159	-34	8	53
		CDS Chile	129	-20	15	52
		CDS Mexico	159	-31	10	50
		CDS Peru	164	-29	11	53

Source: Bloomberg and Datastream

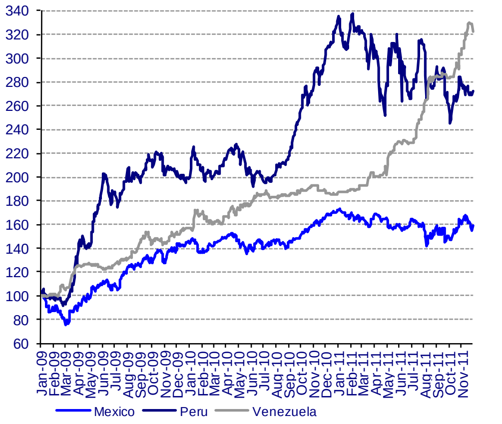
Charts

Chart 4
Stock markets (base index Jan09 = 100)



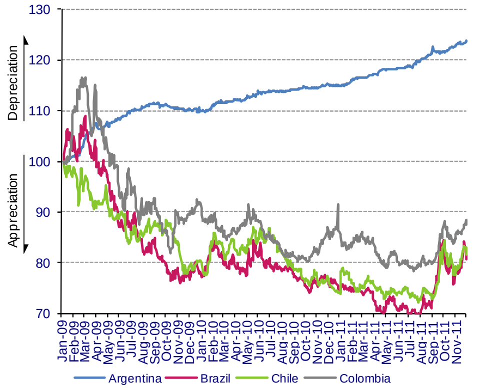
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



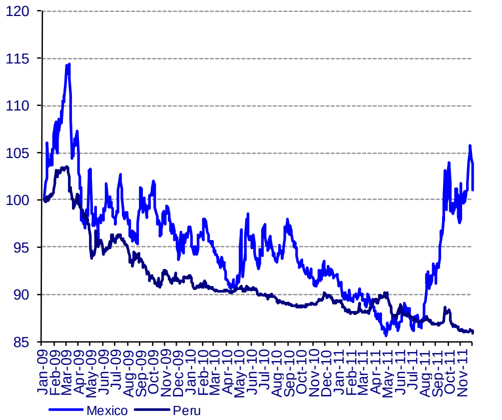
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



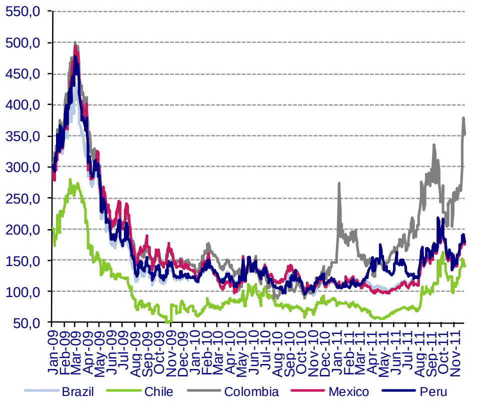
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



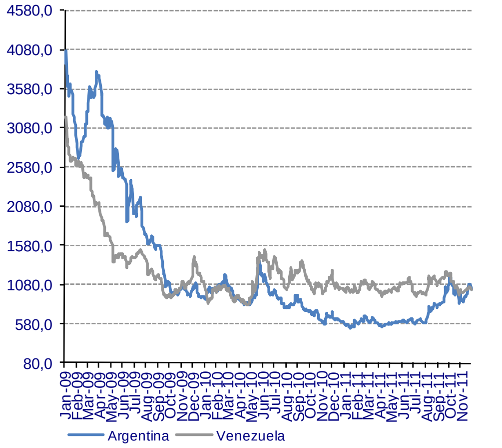
Source: Datastream and BBVA Research

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.