

Weekly Watch

Latin

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.

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Economic Analysis

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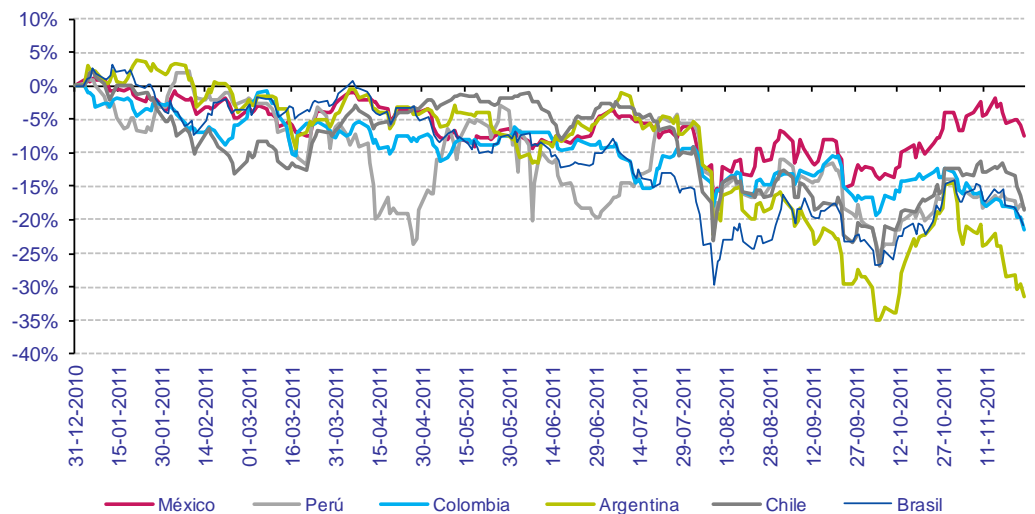
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Chart 1
Latin stock monitor



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

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Economic Analysis

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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.

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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.

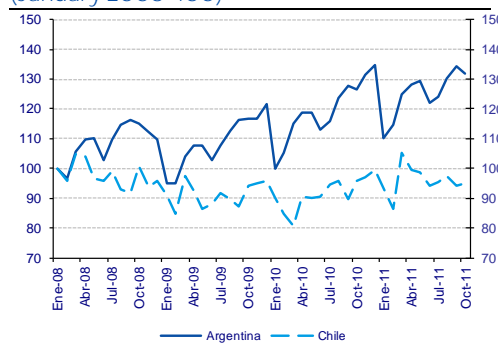
In Brazil the government acts to avoid a forced landing

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

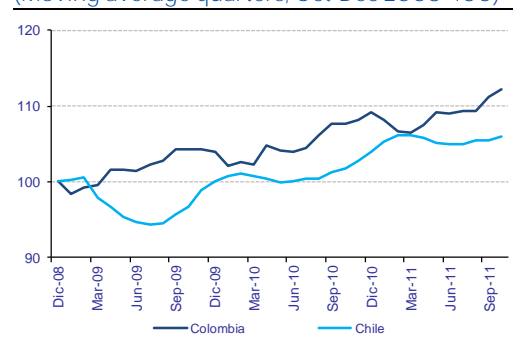
In its last meeting of the year, the Central Bank of Brazil decided to cut the reference rate by 50 bps for the third time in a row. We expect at least two more cuts of 50 points at the start of 2012. In Chile, the minutes of the monetary policy meeting in November reflected that the Central Bank was 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

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Calendar of indicators

Next Week: 5 December - 9 December 2011

Country	Data	Period	Forecast	Consensus	Previous	Comment	
Argentina							
	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 expect inflation to stay high (1.9% m/m) but below the year's average (2.2% m/m).
Brazil							
	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 first 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 signalling a more prolonged easing cycle are more significant than of suggesting more aggressive cuts (75bps instead).
	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 seasonal factors. Yearly inflation to drop from 7.0% in October to 6.6% m/m in November.
Chile							
	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							
	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							
	IMEF	5 Dec.	November	50pts	NA	50.8pts	Moderation in the confidence 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							
	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 sovereign debt crisis at the eurozone.

Source: BBVA Research

Calendar of holidays

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

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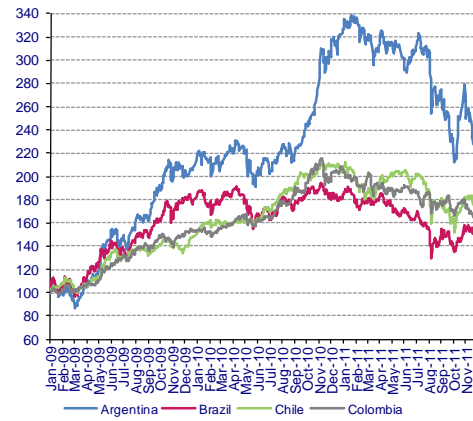
Markets Data

			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
		USA (S&P 500)	1245	7.4	0.5	1.6
	América	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
	Asia	Venezuela (IBC)	114657	-0.6	6.0	75.8
		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

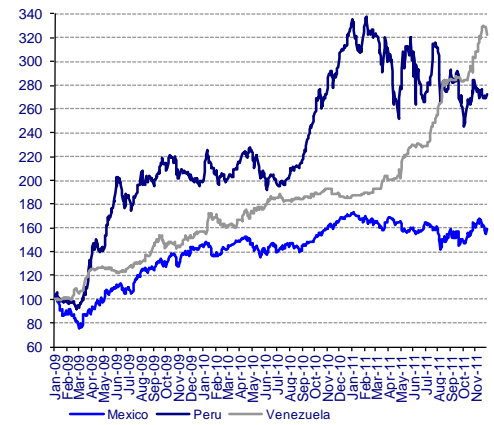
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Chart 4
Stock markets (base index Jan09 = 100)



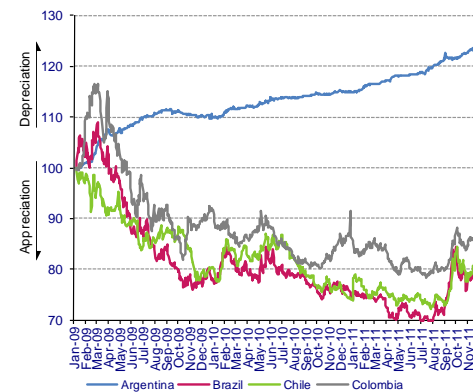
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



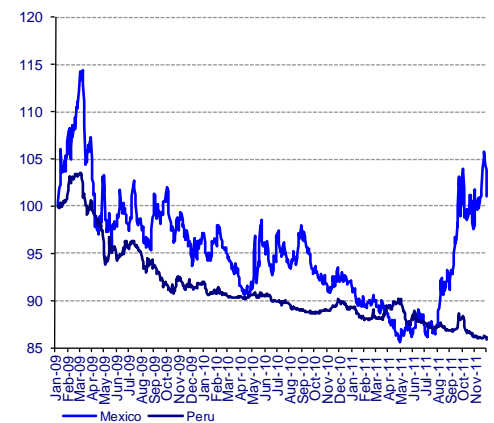
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



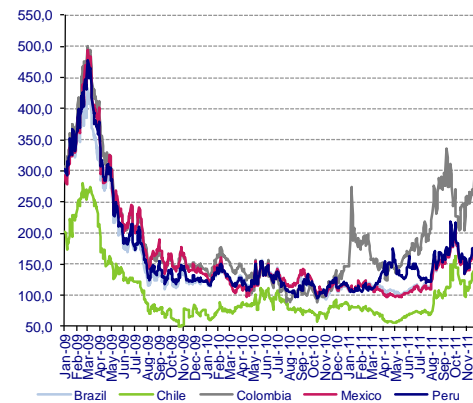
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



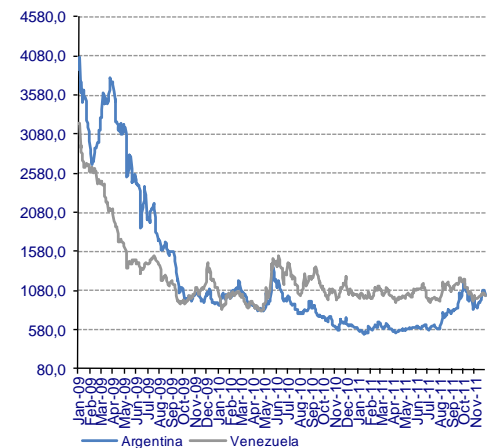
Source: Datastream and BBVA Research

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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