

# Weekly Watch

## Latin

May 6, 2011  
Economic Analysis

South America

Joaquín Vial  
jvial@bbvaprovida.cl

Enestor Dos Santos  
enestor.dossantos@grupobbva.com

Myriam Montañez  
miriam.montanez@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  
apuente@grupobbva.cl

Markets  
Octavio Gutiérrez Engelmann  
ogutierrez3@bbva.bancomer.com

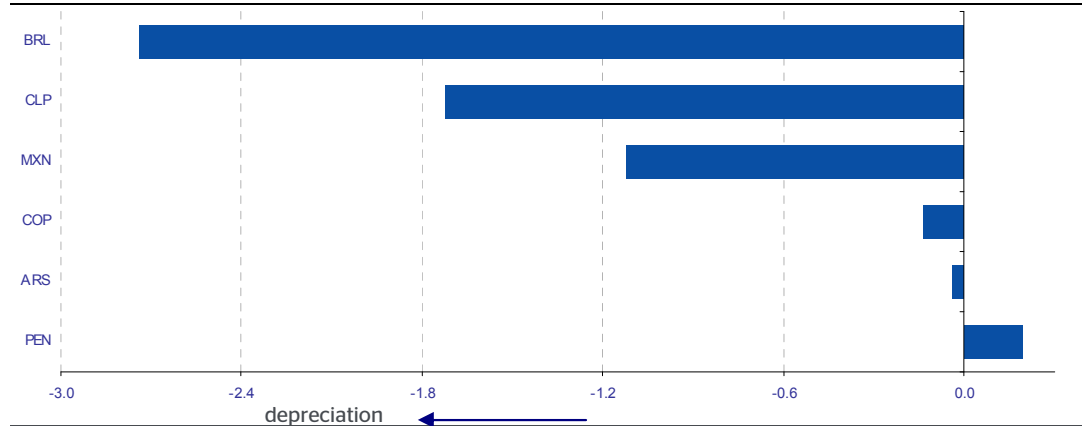
## High growth with stable inflation

The high-frequency indicators in Brazil and Chile once more showed strong growth in March. Inflation figures for April show a mixed picture, with lower than expected readings in Venezuela, Colombia and Chile, in line with expectations in Brazil and above expectations in Peru. The Central Bank of Colombia announced the purchase of foreign currencies for USD 1.2 billion in 2011.

### Asset prices weakened in the region by global factors: economic activity in the U.S., monetary policy in Europe and China, and the Portuguese rescue.

The combination of global factors led to downturns in the currencies in the region. The currencies of Chile and Brazil were the most sensitive to commodity prices and their countries' foreign-exchange intervention policies, while those of Colombia and Peru had the weakest relative performance in the face of expected capital flows in the case of Colombia and reduced political pessimism in Peru. A positive bias for the week cannot be ruled out. Latin America experienced the biggest losses in the capital markets due to local factors in Mexico and Brazil.

Chart 1  
Weekly performance of Latin American currencies



Source: BBVA Research

## Highlights

Economic activity continues strong in Brazil and Chile

Mixed signals in Inflation

Contrasting exchange-rate pressure in Argentina and Colombia

Daily oil production over 900,000 barrels in Colombia

In Venezuela banks will finance the special housing plan

Markets →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

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

Rodrigo Ortega  
r.ortega@bbva.bancomer.com

Claudia Ceja  
claudia.ceja@bbva.bancomer.com

Markets

**Weakness in the currencies in the region due to a mixture of global factors (cyclical, monetary, and risk premiums), with Peru being the exception**

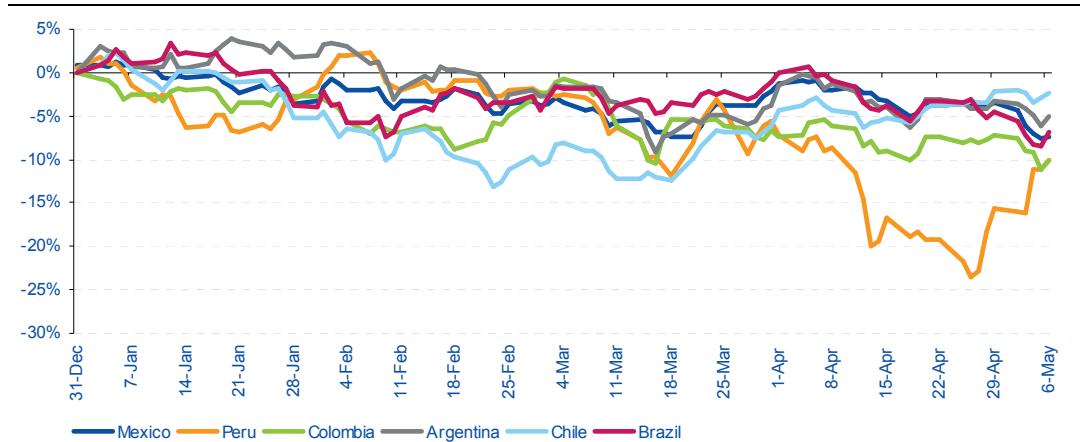
Last week, most Latin American currencies weakened due to a combination of factors related to the global cycle, monetary policies and risk premiums: 1) the restrictive language used in the quarterly report of the Central Bank of China; 2) the increase in the benchmark interest rate in India; 3) U.S. employment figures (with a negative surprise in the ADP private employment report); 4) a less hawkish ECB communication than expected by the market (without changes in the benchmark interest rate); 5) moderation in the positive bias of the corporate reports in the U.S. and Europe; 6) the Portuguese rescue for USD 78 billion; and, possibly the most important for Latin America, the fall in commodity prices.

The performance of currencies on global markets varied, with the EUR strengthening at the start of the week, then closing with significant losses, while currencies in emerging countries tended to depreciate over the week. In this environment, while the CLP, BRL and MXN depreciated by more than 1% (particularly so in the case of the CLP and BRL due to interventions and the fall in commodity prices), the COP remained relatively stable in the face of expectations of capital flows, and the PEN appreciated following a moderation in political fears. Given that the technical correction we were expecting has already taken place and there is an environment of high liquidity, we would once more expect a positive bias in most of the crosses.

**Global contraction in the capital markets: Latin America one of the most affected regions, particularly in Mexico and Brazil**

Global stock markets were in the red, despite the reporting seasons registering positive results in most markets. Latin America was one of the most affected regions, with major falls in the Mexican and Brazilian markets. In Mexico, changes in the regulatory environment in the telecommunications sector led to a fall of 7% in the AMX (the main share in the IPC stock market index, at 24%), while in Brazil there are continued concerns regarding the size of the increases in the benchmark rates.

Chart 2  
**Latin American stock market indices (var % accumulate since Jan10)**



Source: BBVA Research

- [Home](#) →
- [Highlights](#) →
- [Calendar](#) →
- [Market data](#) →
- [Charts](#) →

## Highlights

### Economic activity continues strong in Brazil and Chile

Industrial production in Brazil grew for the third month in a row (0.5% m/m) in March, and above expectations (0.2%). In Chile, the Monthly Economic Activity Indicator (IMACEC) was up 0.3% m/m in March, the fifth month in a row of monthly growth, although the rate is slowing.

### Mixed signals on inflation in April

Inflation in April was lower than expected in Colombia, Chile and Venezuela with monthly variations of 0.1%, 0.3% and 1.4% respectively. In Brazil was in line with expectations (0.8%) and in Peru it was higher than anticipated (0.7%). Among the countries following inflation targets, Brazil, Peru, Colombia and Chile, annual inflation reached 6.5%, 3.3%, 2.8% and 3.2% respectively, above targets for the first two, and within target bands for the latter. In Venezuela annual inflation reached 22.9% in line with our projection of 29.9% for 2011.

### Contrasting exchange-rate pressure in Argentina and Colombia

The Central Bank of Argentina sold dollars (a daily average of USD 20m) last week for the first time in 2011 to check the depreciation in the exchange rate, given the lower export settlements and increased dollarization of portfolios. In Colombia, the government announced that it would buy up to USD 1.2 billion in foreign currency in 2011 to moderate the appreciation of the peso. The money would be used to set up an external fund to pay debt in 2012, but it would not inject dollars into the economy this year.

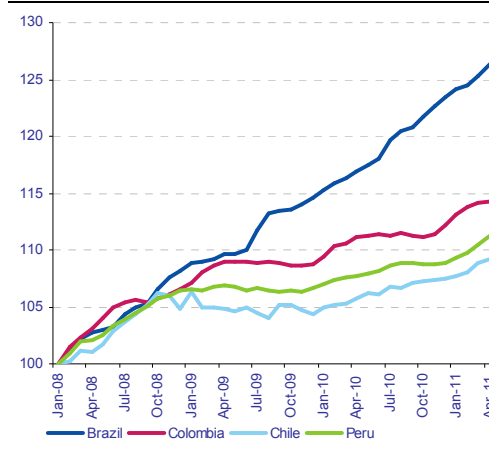
### Daily oil production over 900,000 barrels in Colombia

Crude oil production was up to 903,000 barrels a day in April. This is the highest level since the end of the 1990s and may indicate an earlier achievement of the official production target of 920,000 b/d by the end of the year.

### In Venezuela banks will finance the special housing plan

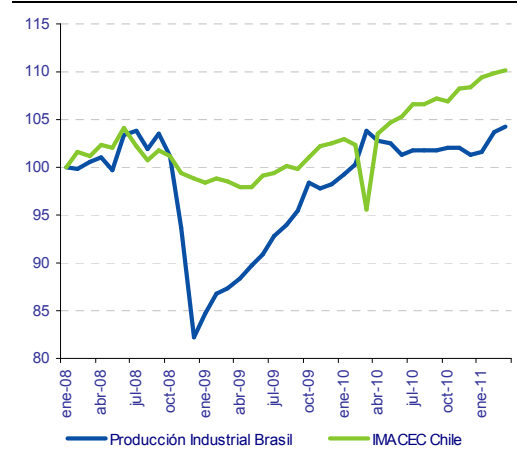
The government has announced an increase in the obligatory mortgage portfolio from 10% to 12% (+VEF 3,829m) to finance the new housing plan. We do not expect tensions in the interbank market, as the legal reserve requirement was reduced at the same time by 3 pp to 14% (VEF 8,800m).

Chart 3  
Inflation (% y/y)



Source: BBVA Research

Chart 4  
Activity indicators (base Jan 08=100)



Source: BBVA Research

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

## Calendar: indicators

## Next Week: 9 - 13 May 2011

	Data	Period	Forecast	Consensus	Previous	Comment
<b>Argentina</b>						
Consumer Price Index	13-May	Apr 11	1.0% m/m	1.1% m/m	0.8% m/m	
Wholesale Price Index	13-May	Apr 11			0.9% m/m	
Cost Construction Price Index	13-May	Apr 11			1.0% m/m	
<b>Brazil</b>						
Retail sales	12-May	Mar 11		1.5% m/m	-0.4% m/m	
<b>Chile</b>						
Survey of economic expectations	10-May	May 11				
Survey biweekly financial operators	11-May	May 11				
<b>Colombia</b>						
Exports	10-May	Mar 11	17.0% y/y		37.2% y/y	Exports are driven by high international prices and progress in the diversification of industrial markets.
Automobile sales	10-May	Apr 11	26 000 unids.		32 320 unids.	Upward bias in our forecast for fair prices for some brands
Industrial confidence	13-May	Mar 11	13.5		12.7	Recovery of confidence driven by better results in foreign trade.
Trade confidence	13-May	Mar 11	29		28.4	Would remain at historically high levels helped by a perception of high demand in the trade.
Consumer confidence	13-May	Apr 11	22		21.1	Mixed results on labor issues could slow the recovery in confidence
<b>Mexico</b>						
Industrial production	12-May	Mar 11	0.4% m/m (4.2% y/y)		-0.4% m/m (5.2% y/y)	After the negative surprise in February industrial activity, the manufacturing industries would tend to improve under the better external demand in key industries such as transport equipment and basic metals.
Inflation	9-May	Apr 11	0.02% m/m (3.39% y/y)	0.0%	0.19% m/m (3.04% y/y)	After the downwards surprise during April's first fortnight which was caused by unexpected reductions in mobile phone service prices and some tariffs set by local governments, and a stronger than expected reduction in electric service prices, monthly inflation during April will be around 0% however in annual terms it will begin an upwards cycle.
<b>Venezuela</b>						
GDP	12-May	IQ 11	3.9% y/y		0.6% y/y	Leading indicators support the economic recuperation expected
Commercial Balance	12-May	IQ 11	USD 8.661 MM		USD 6.495 MM	Crude oil prices improve the balance of payment forecasts
Current Account	40675	IQ 11	USD 7.362 MM		USD 3.554 MM	

Source: BBVA Research

## Calendar of events

## Chile and Peru: Monetary Policy Rate (May 12)

Forecast: Chi, 4.75%; Per, 4.25%

Consensus: Chi 4.75%

Previous: Chi, 4.5; Per, 4%

In Chile, we expect an increase of 25 basis points in the monetary policy rate at the May meeting. In Peru, with inflation on the rise (from 2.7% y/y in March to 3.3% in April), the Central Bank will increase the rate by 25 bps, a moderate rise because of the volatility in local markets.

## Calendar: holidays

No holidays in the region

- Home →
- Markets →
- Highlights →
- Market data →
- Charts →

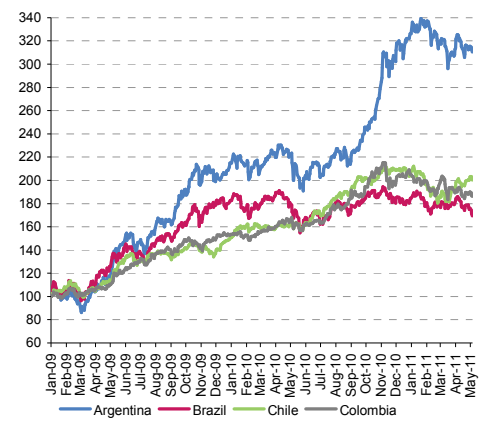
## Market data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.27	-1	-3	-16
		2-yr yield	0.60	0	-23	-21
		10-yr yield	3.22	-7	-33	-21
	EMU	3-month Euribor rate	1.42	3	15	74
		2-yr yield	1.79	1	-5	125
		10-yr yield	3.20	-4	-23	40
Exchange rates (changes in %)	Europe	Dollar-Euro	1.453	-2.0	1.4	14.3
		Pound-Euro	0.88	-0.5	0.7	2.8
		Swiss Franc-Euro	1.27	-1.1	-3.5	-10.1
	America	Argentina (peso-dollar)	4.08	0.0	0.6	4.8
		Brazil (real-dollar)	1.61	2.0	-0.6	-12.4
		Colombia (peso-dollar)	1760	-0.5	-3.9	-12.8
		Chile (peso-dollar)	466	1.2	-1.6	-12.3
		Mexico (peso-dollar)	11.61	0.9	-1.5	-9.6
		Peru (Nuevo sol-dollar)	2.81	-0.6	-0.2	-1.6
	Asia	Japan (Yen-Dollar)	80.65	-0.7	-5.4	-12.0
		Korea (KRW-Dollar)	1078.25	1.0	-0.6	-6.5
		Australia (AUD-Dollar)	1.076	-1.7	3.2	21.3
Comm. (change s in %)		Brent oil (\$/b)	110.3	-12.4	-9.8	41.0
		Gold (\$/ounce)	1490.5	-4.7	2.1	23.3
		Base metals	606.1	-2.2	-4.2	23.0
Stock markets (changes in %)	Euro.	Ibex 35	10614	-2.4	-2.1	17.3
		EuroStoxx 50	2954	-1.9	-0.6	18.2
	America	USA (S&P 500)	1351	-0.9	1.1	21.6
		Argentina (Merval)	3306	-2.9	-5.7	53.0
		Brazil (Bovespa)	64221	-2.9	-7.0	2.1
		Colombia (IGBC)	13767	-4.3	-5.9	14.7
		Chile (IGPA)	22784	0.0	1.2	29.2
		Mexico (CPI)	35325	-4.4	-6.7	12.2
		Peru (General Lima)	20596	4.9	-4.4	38.7
		Venezuela (IBC)	75745	7.0	7.6	22.6
	Asia	Nikkei225	9859	0.1	2.9	-4.9
HSI		23159	-2.4	-4.6	16.3	
Credit (changes in bps)	Ind.	Itraxx Main	97	1	2	-34
		Itraxx Xover	357	5	-2	-240
	Sovereign risk	CDS Germany	39	-4	1	-16
		CDS Portugal	632	-21	79	210
		CDS Spain	236	-1	35	-2
		CDS USA	43	-2	6	--
		CDS Emerging	207	7	7	-87
		CDS Argentina	598	11	33	-429
		CDS Brazil	105	0	-2	-48
		CDS Colombia	100	0	-5	-82
		CDS Chile	59	-1	0	-36
		CDS Mexico	100	2	0	-52
		CDS Peru	142	-13	-8	-11

Source: Bloomberg and Datastream

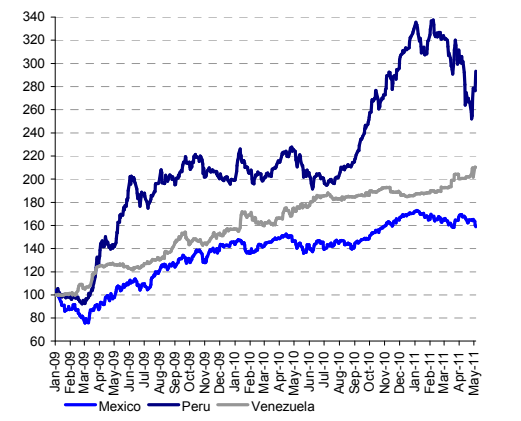
Charts

Chart 5  
Stock markets (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 6  
Stock markets (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



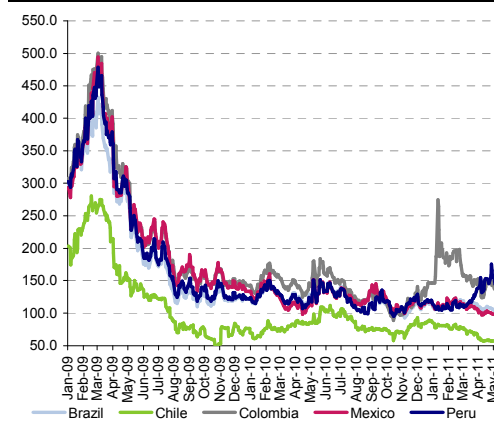
Source: Datastream and BBVA Research

Chart 8  
Exchange rates (base index Jan09 = 100)



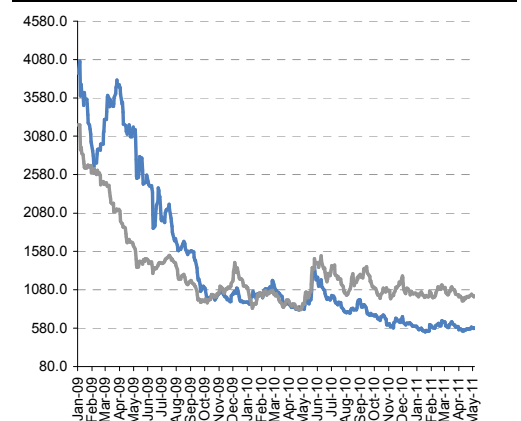
Source: Datastream and BBVA Research

Chart 9  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 10  
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](http://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.**