

Weekly Watch

Latin

May 6, 2011
Economic Analysis

South America

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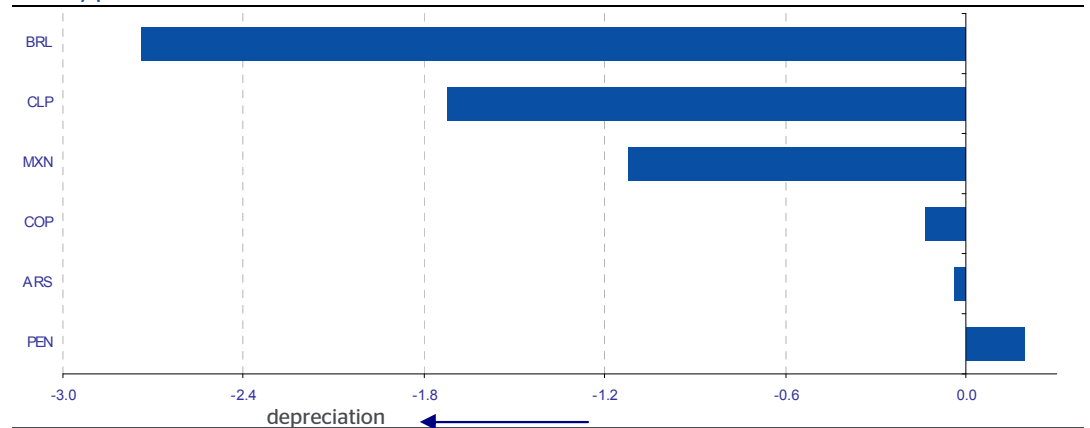
High growth with stable inflation

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

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Economic Analysis

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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.

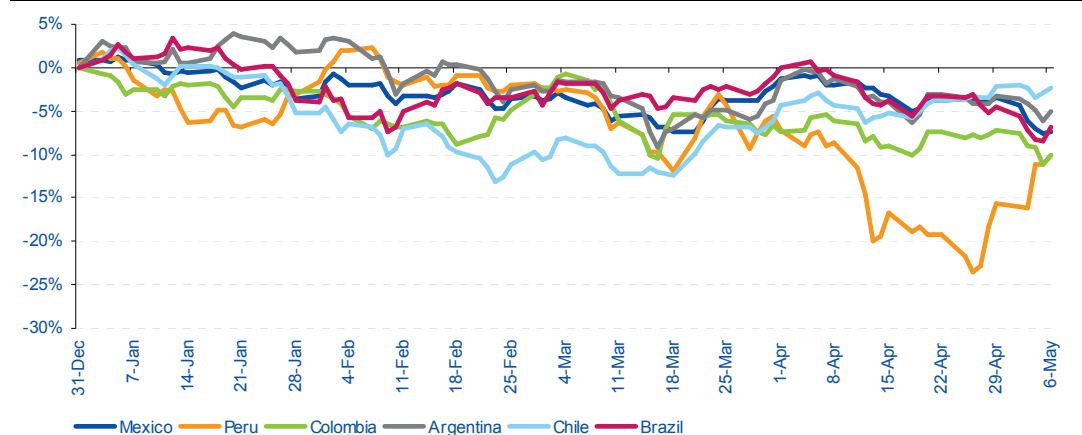
The performance of currencies on global markets varied, with the EUR strengthening at the start of the week, then closing with significant losses, while currencies in emerging countries tended to depreciate over the week. In this environment, while the CLP, BRL and MXN depreciated by more than 1% (particularly 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

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Economic Analysis

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.

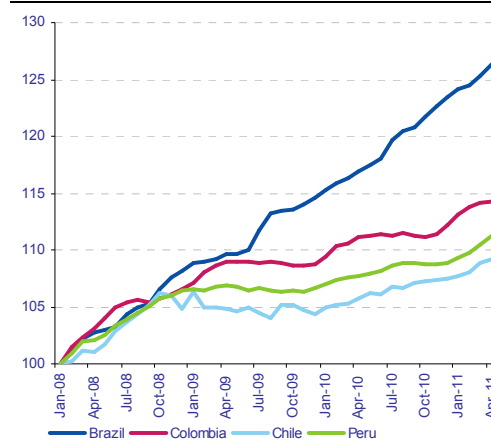
Daily oil production over 900,000 barrels in Colombia

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

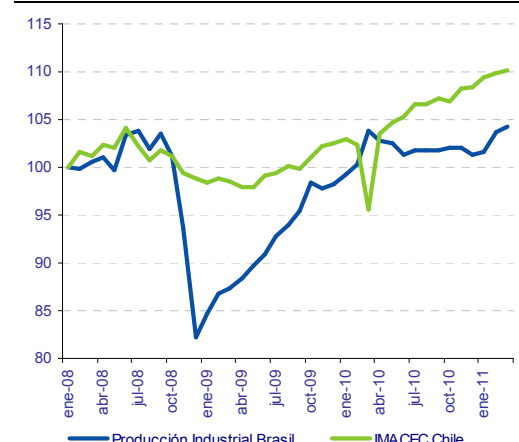
The government has announced an increase in the obligatory mortgage portfolio from 10% to 12% (+VEF 3,829m) to finance the new housing plan. We do not expect tensions in the interbank market, as the legal reserve requirement was reduced at the same time by 3 pp to 14% (VEF 8,800m).

Chart 3
Inflation (% y/y)



Source: BBVA Research

Chart 4
Activity indicators (base Jan 08=100).



Source: BBVA Research

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Calendar: indicators

Next Week: 9 - 13 May 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
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	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Retail sales	12-May	Mar 11		1.5% m/m	-0.4% m/m	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Survey of economic expectations	10-May	May 11				
Survey biweekly financial operators	11-May	May 11				
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
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
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
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.
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
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

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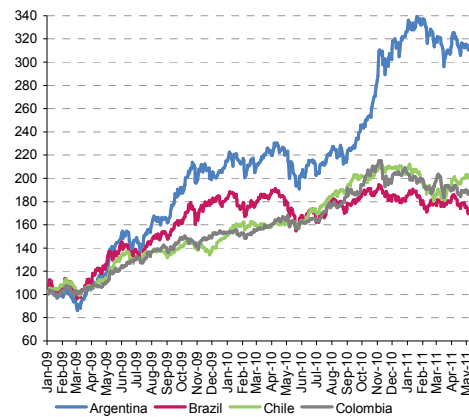
Market data

			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
		Japan (Yen-Dollar)	80.65	-0.7	-5.4	-12.0
	Asia	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

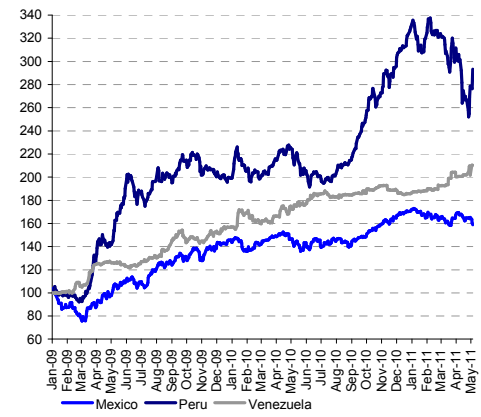
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Chart 5
Stock markets (base index Jan09 = 100)



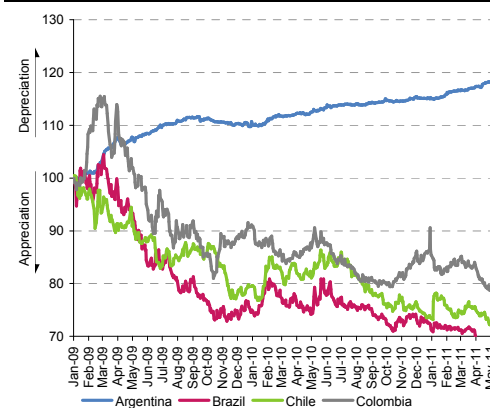
Source: Datastream and BBVA Research

Chart 6
Stock markets (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



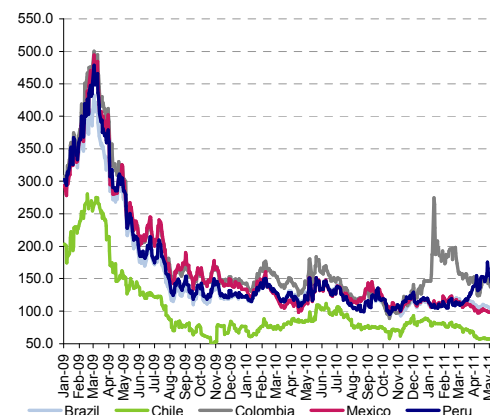
Source: Datastream and BBVA Research

Chart 8
Exchange rates (base index Jan09 = 100)



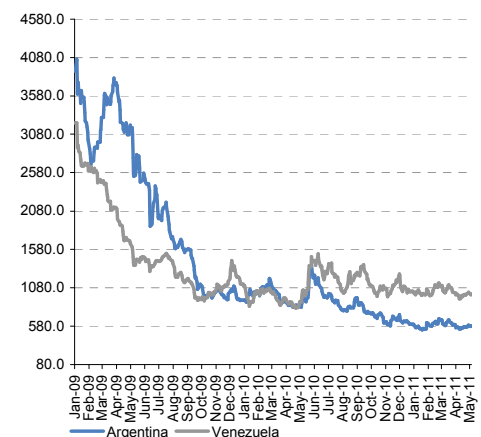
Source: Datastream and BBVA Research

Chart 9
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 10
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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