

Weekly Watch

Latin

November 7, 2011
Economic Analysis

South America

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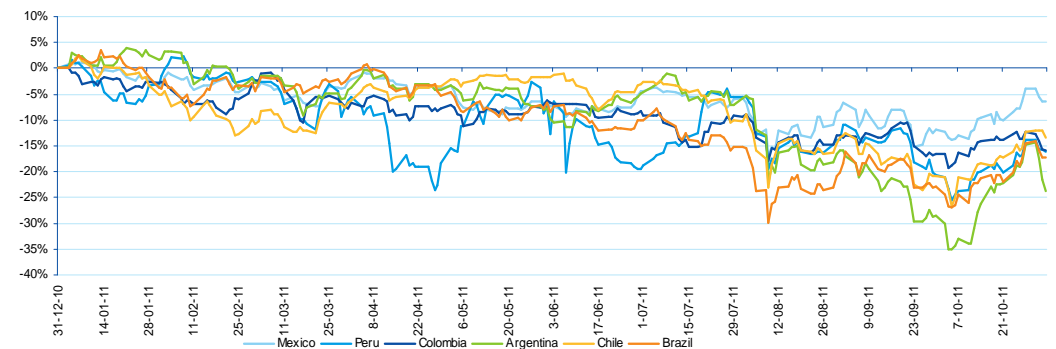
Between Greece and inflation

While Greece plays out its own tragedy, with its impact on global markets, October inflation figures are due to be released in South America. Given that in Peru and Mexico inflation (first half of the month) has surprised upwards, there is a chance that we will also have surprises in the same direction in Brazil, Chile, Colombia and Mexico (full month). As a result the enthusiasm for greater monetary stimuli could begin to cool. The first indication of this could be after the Monetary Policy Meeting in Peru.

High volatility due to events in Europe, with no obvious catalyst to moderate risk premiums

The uncertainties in the Greek bailout process have increased volatility in global markets and currencies in the Americas, which fluctuated in response to swings in European risks. This could continue to occur over the coming weeks. Although there is room for a future recovery in foreign flows, no obvious catalysts can be observed.

Chart 1
LatAm stock market monitor



Source: Bloomberg

Highlights

- New foreign-exchange measures in Argentina and Venezuela
- Inflation accelerates in Peru and continues high in Venezuela in October
- Tax receipts up in Argentina and Brazil
- Some slowdown in deposit growth in Peru
- Industrial output slows even more in Brazil

Markets

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Economic Analysis

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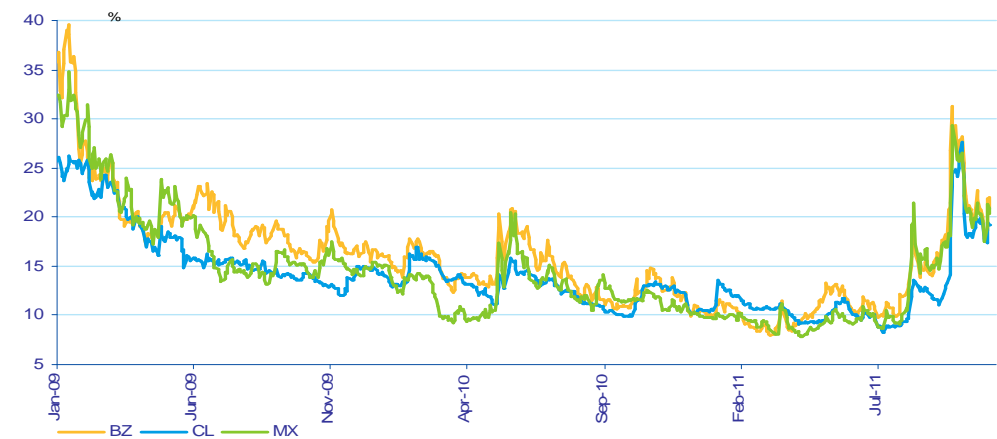
Latin American currencies buffeted by the wind of European risks

Last week Latin American currencies wiped out most of the gains of the previous week as risk aversion returned amid turmoil over the Greek bailout package. Risk aversion moderated over the week as the ECB and the Fed showed a more dovish stance (the ECB cut its rate by 25 bps). Thus currencies in the zone continue are still fluctuating in response to European risks, and this situation could continue to occur over the coming weeks. We continue to think that if the risk premiums moderate there is room for a strong recovery in foreign capital flows to the region. However, at the moment none of the factors are in place that could act as the necessary catalyst, so we expect the high rate of volatility to be maintained.

Stock markets have reacted with smaller corrections than in developed countries

Global stock markets also registered major corrections during the week within a range of 3-5%, with Europe posting the biggest losses. Emerging stock markets have not managed to remain free from the renewed mounting fears regarding the political response from Greece. However, just as their response to the reduction in the risk premium was less strong than in developed markets last month, the correction in the wake of the recent deterioration has also been less marked. Among emerging economies, Asia has performed better on macro data that continue to point to an orderly slowdown in China. The corporate reports have continued to be a source of calm for investors. With nearly 80% of the S&P 500 sample already reported, revenues are up 12.5% and net earnings 18.4%, 2.6 pp and 5.5 pp respectively more than expected. We believe that with the return of volatility they could continue to act as a support.

Chart 2
BRL, MXN and CLP Implied Volatilities



Source: Bloomberg and BBVA Research

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Highlights

New foreign-exchange measures in Argentina and Venezuela

Argentina imposed an obligation to show the origin of funds used to buy foreign currencies and to obtain authorization from the tax authorities as a way of moderating the high demand for dollars. The result was a major drop in retail demand for cash, which reduced pressure on the Central Bank. In Venezuela, the amount authorized for imports was increased by 19.3% y/y in the third quarter, in particular for food and medicine, items with the biggest shortages.

Inflation accelerates in Peru and continues high in Venezuela in October

The increase in prices in Peru (0.31% m/m) was greater than expected and accumulated inflation for the year hit 4.0% in October. Monthly inflation in Venezuela was 1.8%, and accumulated inflation for the year 22.7%.

Tax receipts up in Argentina and Brazil

Argentina announced the withdrawal of subsidies on water, gas and electricity services. Although the fiscal saving is estimated at only 0.03% of GDP, this could be the first step in the reduction of energy subsidies to the residential sector, whose annual fiscal cost is 2.2% of GDP. At the same time, tax receipts were up by 31.8% y/y. In Brazil, the tax receipts were up 14.4% y/y in September. This figure is significantly below that observed in previous years (22% y/y on average between January and August).

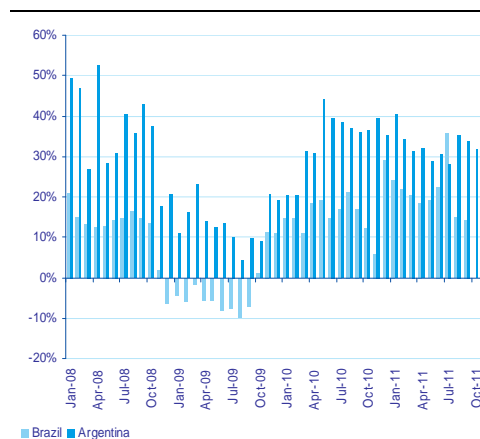
Some slowdown in deposit growth in Peru

Deposit growth in the private sector was 17.9% y/y in September, somewhat below the annual average (21.5%).

Industrial output falls again in Brazil

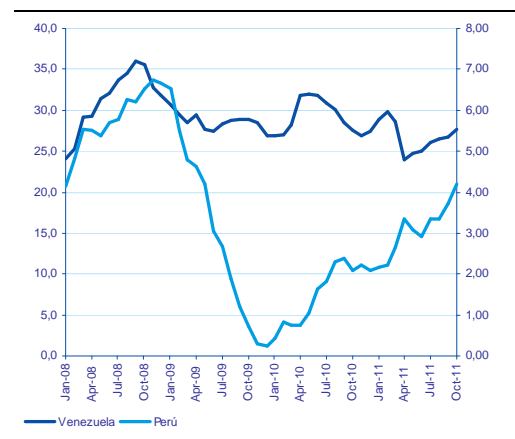
Industrial output in Brazil fell by 2.0% m/m in September, a negative surprise for the markets which expected a less steep fall. This has strengthened the perception that economic activity was moderating.

Chart 3
Argentina and Brazil: Tax receipts (y/y % change)



Source: Central Bank of Brazil (BCB)

Chart 4
Consumer price indices, Venezuela and Peru, y/y %



Source: BBVA Research

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Calendar of indicators

Next Week: 7 - 11 November 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Consumer Price Index	11-Nov	Oct 2011	0.8% m/m	0.8% m/m	0.8% m/m	
Whole Sale Price Index	11-Nov	Oct 2011			0.9% m/m	
Cost Construction Price Index	11-Nov	Oct 2011			1.4% m/m	
Brazil						
Retail Sales	10-Nov	Sep 2011		0.30% m/m	-0.40% m/m	
IBGE Inflation IPCA	11-Nov	Oct 2011	0.45% m/m	0.40% m/m	0.53% m/m	Inflation will decline both in monthly terms and in yearly terms (from 7.3%/yly to 6.9%/yly). This drop should reinforce CB's easing rhetoric. We see some room for agents revising their inflation forecasts slightly downwards.
Chile						
Monthly Economic Activity Index	7-Nov	Sep 2011	5.4% a/a	4.8% a/a	4.6% a/a	
Consumer Price Index	8-Nov	Oct 2011	0.2% m/m	0.3% m/m	0.5% m/m	
Survey of financial operators	9-Nov	Nov 2011				
Survey of Economic Expectations	10-Nov	Nov 2011				
Colombia						
Inflation	5-Nov	Oct 2011	0.13m/m, 3.96 yoy	0.10 m/m, 3.93 yoy	0.31 m/m, 3.73 yoy	Increase in food prices, added to low statistical base in 2010, would temporarily push inflation near the upper limit of the inflation target.
Automobiles sale	11-Nov	Oct 2011	28500 units		28883 units	A stabilization in sales volume and a moderation in growth rate is expected.
Industrial confidence	9-Nov	Sep 2011		5,00	10,10	A downturn in confidence is likely in response to greater global turbulence.
Commerce confidence	9-Nov	Sep 2011		20,00	24,90	Confidence could be moderated by the new tone in the BanRep statement that anticipates possible increases in rates.
Consumer confidence	10-Nov	Oct 2011		20,00	23,10	Households have been moderating expectations in response to increased global volatility.
Mexico						
Inflation	9-Nov	Oct 2011	0.7% mom (3.22% yoy)	0.71% mom	0.25% mom (3.14% yoy)	Inflation will have a slight rebound in annual terms due to the upwards adjustments in the prices of electricity, which could have been caused both by the exchange rate depreciation and the high prices of energy commodities.

Source: BBVA Research

Calendar of events

Peru: Monetary Policy Rate (November 10)

Forecast: 4.25%	Consensus:	Previous: 4.25%
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Year-on-year inflation (4.2%) and the strength of economic activity give less room for the Central Bank to ease its monetary policy position. Given this situation, despite the high level of risks from abroad we expect the policy rate to remain unchanged for the sixth month in a row.

Calendar of holidays

Colombia: November 7

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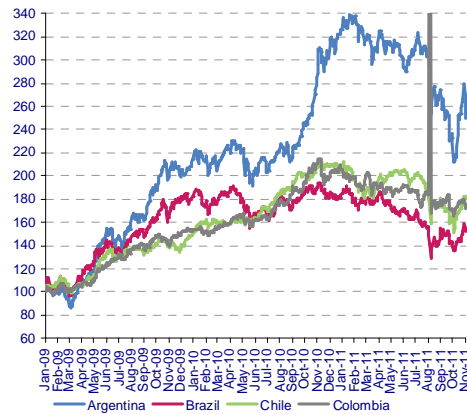
Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.44	1	5	15	
		2-yr yield	0.24	-5	-2	-13	
		10-yr yield	2.09	-23	20	-44	
	EMU	3-month Euribor rate	1.49	-10	-7	44	
		2-yr yield	0.41	-20	-9	-51	
		10-yr yield	1.93	-24	9	-48	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.384	-2.3	4.0	-1.6	
		Pound-Euro	0.86	-1.6	0.1	-0.4	
		Swiss Franc-Euro	1.22	0.0	-0.7	-9.4	
	America	Argentina (peso-dollar)	4.25	0.3	1.0	7.6	
		Brazil (real-dollar)	1.74	2.9	-5.3	3.5	
		Colombia (peso-dollar)	1911	2.5	-3.1	4.9	
		Chile (peso-dollar)	494	0.7	-7.0	3.5	
		Mexico (peso-dollar)	13.37	2.0	-2.3	9.5	
		Peru (Nuevo sol-dollar)	2.70	0.0	-2.3	-3.2	
		Japan (Yen-Dollar)	78.04	3.0	1.5	-4.1	
		Korea (KRW-Dollar)	1111.72	0.8	-6.4	0.4	
		Australia (AUD-Dollar)	1.039	-3.0	8.1	2.3	
Comm. (chg %)		Brent oil (\$/b)	112.0	1.9	9.0	27.1	
		Gold (\$/ounce)	1758.5	0.8	7.2	26.2	
		Base metals	536.1	-0.7	0.2	-4.0	
Stock markets (changes in %)	Euro	Ibex 35	8767	-5.0	3.4	-15.9	
		EuroStoxx 50	2359	-4.2	8.2	-18.0	
		USA (S&P 500)	1261	-1.9	10.2	2.9	
	América	Argentina (Merval)	2783	-7.7	20.5	-17.0	
		Brazil (Bovespa)	58196	-2.2	14.1	-19.8	
		Colombia (IGBC)	13257	-2.0	4.4	-18.6	
		Chile (IGPA)	20537	-0.8	13.9	-10.7	
		Mexico (CPI)	36579	-0.4	10.8	0.7	
		Peru (General Lima)	19580	-2.3	11.6	-4.0	
		Venezuela (IBC)	108192	1.8	8.5	60.0	
		Asia	Nikkei225	8801	-2.8	5.0	-8.6
			HSI	19843	-0.9	22.1	-20.2
Credit (changes in bps)	Ind.	Itraxx Main	168	18	-30	71	
		Itraxx Xover	689	70	-154	259	
	Sovereign risk	CDS Germany	87	11	-21	51	
		CDS Portugal	1005	37	-135	561	
		CDS Spain	371	57	-5	123	
		CDS USA	47	9	-4	--	
		CDS Emerging	275	13	-88	85	
		CDS Argentina	866	21	-279	266	
		CDS Brazil	140	6	-57	47	
		CDS Colombia	139	3	-61	44	
		CDS Chile	110	7	-46	44	
		CDS Mexico	141	11	-56	42	
		CDS Peru	144	8	-57	41	

Source: Bloomberg and Datastream

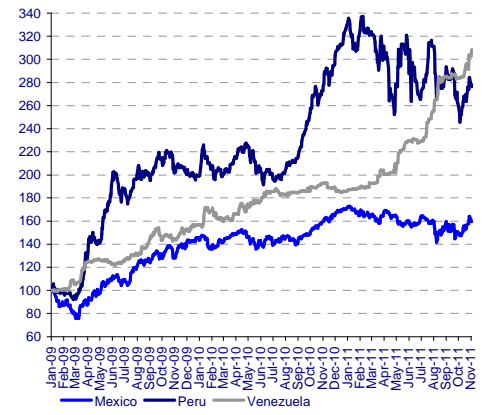
Charts

Chart 5
Stock markets (base index Jan09 = 100)



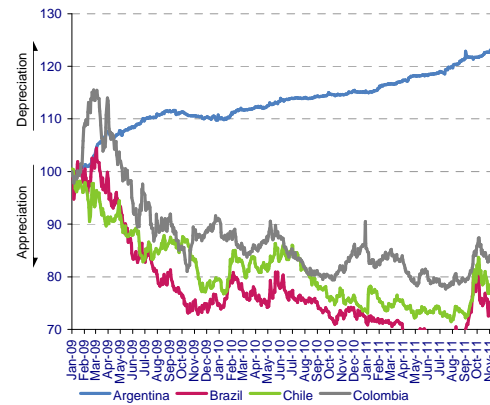
Source: Datastream and BBVA Research

Chart 6
Stock markets (base index Jan09 = 100)



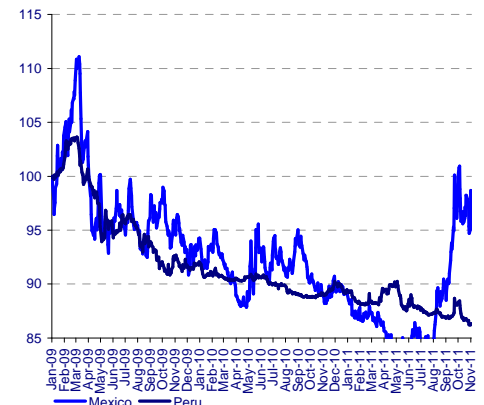
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



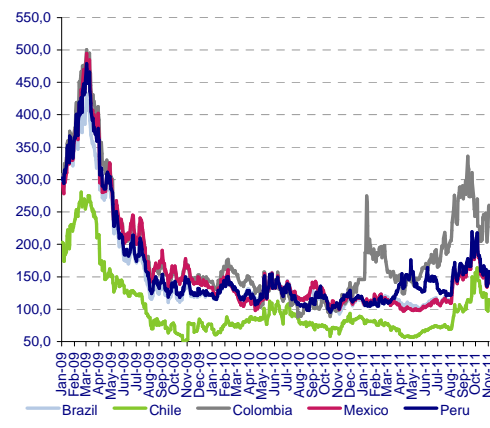
Source: Datastream and BBVA Research

Chart 8
Exchange rates (base index Jan09 = 100)



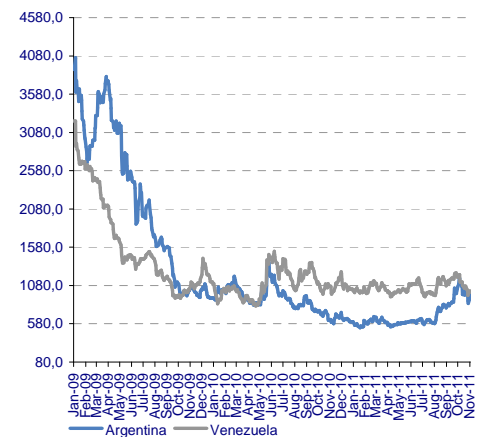
Source: Datastream and BBVA Research

Chart 9
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 10
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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