

Latin

Weekly Watch

April 8, 2011

Economic Analysis

South America

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Markets

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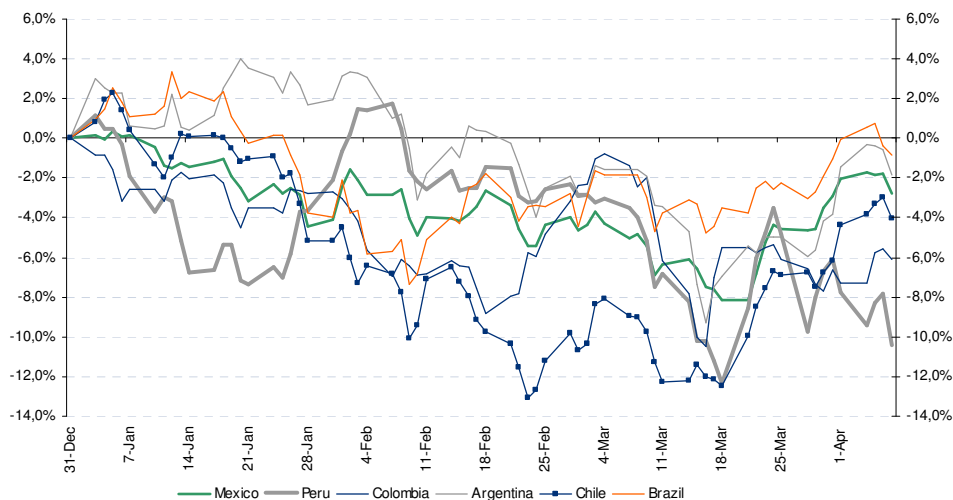
Commodity prices in the spotlight

Economic activity remains strong in the region, with positive surprises this week in Brazil and Chile. As a result, inflationary concerns have increased, boosted by high commodity prices. We therefore expect a rise in the benchmark rate in Chile next week. The downward surprises in the March consumer price index for Colombia and Mexico reflect temporary factors and will not affect monetary policy decisions. In Peru, this week's rate hike was accompanied by counter-cyclical fiscal measures, while the great unknown in the presidential election is who will join Humala in the highly probable second round

Continued positive outlook for assets in the region, but short-term corrections to currency values cannot be ruled out

Currencies gained in the region, supported by commodity prices, prospects in the U.S. and the maintenance of external flows. Although the outlook will continue favorable, a short-term adjustment cannot be ruled out. Highlights in capital markets are the imminent launch of MILA and corporate reports showing relatively better performance in cyclical sectors.

Chart 1
Latin American stock markets (accumulated variation in % since 31-Dec-10)



Source: Bloomberg and BBVA Research

- Markets →
- Highlights →
- Calendar →
- Markets Data →
- Charts →

Highlights

- Better than expected activity data in Brazil and Chile due to strong demand**
- Prices of basic products condition inflation results**
- Economic activity in Argentina and Colombia boosts tax revenues, while Peru applies countercyclical fiscal measures.**
- Increased supply of official currencies in Venezuela**
- Peru's cycle of adjustment in its monetary position continues**

Economic Analysis

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Markets

General currency appreciations thanks to external and internal cyclical factors; the positive outlook continues

Last week Latin American currencies once more appreciated in general, in response to a combination of local and external factors (with the focus of attention on the minutes of the Fed's meeting and the decisions of the Bank of England and the ECB).

The COP and CLP strengthened in line with the rise in commodity prices (e.g. a weekly gain of the order of 2% in copper and 3% in oil). The MXN extended its gains in response to positive cyclical expectations from the U.S., as reflected in the Fed minutes. The BRL continues to be the best relative performer, with greater inflows and lower pressures for intervention by the authorities. It has gained strength later than other currencies over the year (so far it has appreciated by 4.3%, compared with the rise of 4.49% in the MXN or 4.45% in the COP).

Finally, the PEN and ARS are lagging slightly behind, the PEN due to the persisting electoral risks, and the ARS responding as it typically does to local flows and interventions. In all, we consider that the outlook continues to be positive, but we do not rule out short-term corrections in most of the crosses.

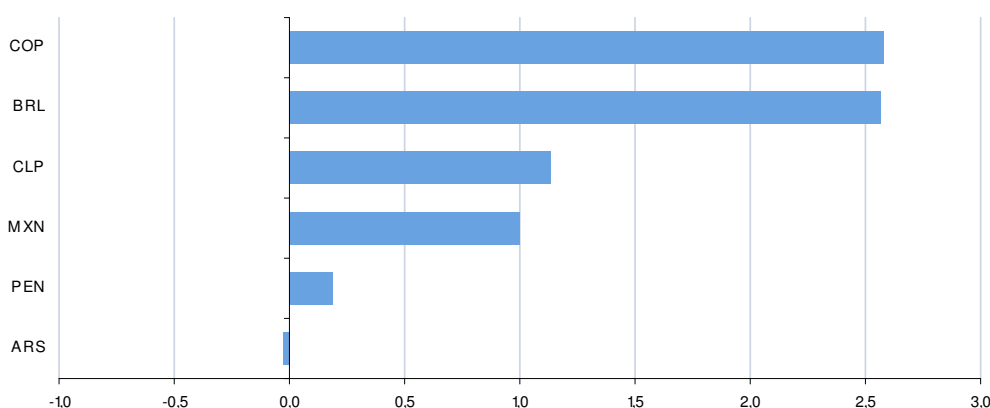
The highlight in capital markets is the imminent launch of MILA. Prospects for moderation in risk premiums and outflows in the region

Stock markets in Latin America outperformed other regions over the week, with Colombia and Chile doing particularly well. One of the highlights was the announcement by the Executive Committee of the Integrated Latin American Market (MILA) that integrated stock market operations will begin on May 30, with a pre-launch period starting April 25. After a delay of a few weeks, this clarifies the outlook for the integration of the second most important stock market in the region after that of Brazil.

In general, risk premiums and outflows from these markets in the region have moderated, while 1Q11 reports are expected to continue to show cyclical sectors performing best (in particular mining and metals). The reporting season starts in the U.S. this week, with expected growth of around 11% in EPS.

Chart 2

Weekly changes in Latin America currencies (in %)



Source: Bloomberg and BBVA Research

Highlights →

Calendar →

Markets Data →

Charts →

Economic Analysis

Highlights

Better than expected activity data in Brazil and Chile due to strong demand

In Brazil, industrial output increased by 1.9% m/m (6.9% y/y) in February, above market expectations, boosted by steady, strong demand. GDP is expected to grow in 1Q11 by 1.1% q/q, above the 0.75% q/q of 4Q10, but in line with our forecast of 4% for this year. In Chile, economic activity (IMAEC index) was up 0.4% m/m (7.2% y/y), also above expectations, boosted by the strength of retail trade. For 1Q11 we forecast growth of 1% q/q (9.5% y/y).

Prices of basic products condition inflation results

March inflation came in below expectations in Colombia (0.27% m/m, 3.2% y/y), Venezuela (1.4% m/m, 27.4% y/y) and Mexico (0.2% m/m, 3.2% y/y), due to the performance of agricultural prices. In Brazil, inflation was above consensus forecasts (0.8% m/m, 6.3% y/y), under pressure from high commodity prices and the strength of domestic demand. In Chile, inflation increased (0.8% m/m, 3.4% y/y) due to seasonal factors and rises in fuel and transport prices.

Economic activity in Argentina and Colombia boosts tax revenues, while Peru applies countercyclical fiscal measures

The Ministry of Economy in Peru will adjust fiscal spending in 2Q11 to generate public savings of 0.3% of GDP and support the Central Bank's countercyclical efforts. In Argentina, tax revenues were up 31.4% y/y in March. VAT revenues increased by 36.9% y/y, maintaining growth in real terms. In Colombia, tax revenues in 1Q11 amounted to COP 18.5 billion (3.1% of GDP), above the government target, due to the good results from VAT, taxes withheld at source and the tax on financial movements.

Increased official supply of hard currency in Venezuela

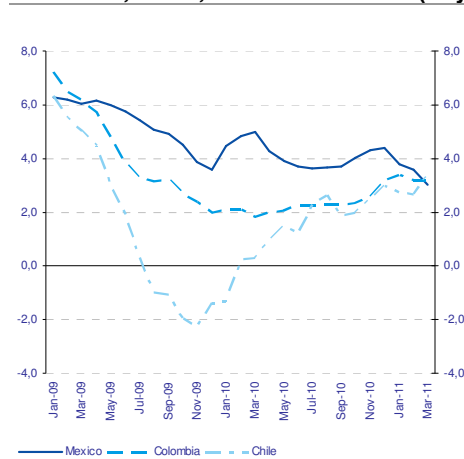
Official supply from CADIVI increased 11.8% y/y in 1Q11. The figure is below expectations considering the upturn in the price of the Venezuelan oil basket (26.3% y/y). The dollar supply was USD 7,031 million in 1Q11, of which 81.6% were used for imports (mainly food and health sector goods).

Peru continues its monetary tightening cycle

In line with expectations, the Central Bank increased the benchmark interest rate by 0.25 bp (to 4.00%) a rise of similar magnitude than in previous months. It happens in a situation of buoyant economic activity and high international food prices, which are already being passed on to local prices. The Central Bank also raised reserve requirements (+50 bp).

Chart 2

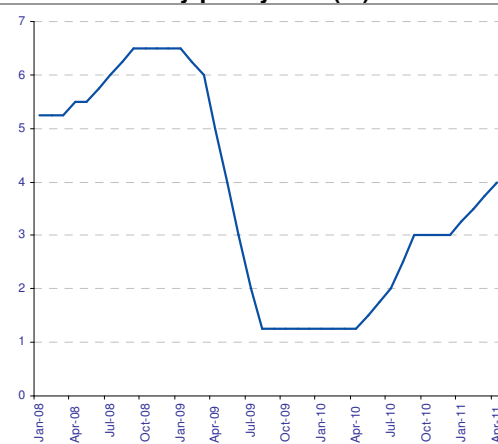
Colombia, Chile, Mexico: Inflation (% y/y)



Source: National sources and BBVA Research

Chart 3

Peru: Monetary policy rate (%)



Source: BBVA Research.

- Markets →
- Calendar →
- Markets Data →
- Charts →

Calendar: Indicators

Next Week: 11 - 15 April 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Consumer Price Index	15-Apr	Mar 2011	1,4% m/m	1,3% m/m	0,7% m/m	
Wholesale Price Index	15-Apr	Mar 2011			0,9% m/m	
Construction Price Index	15-Apr	Mar 2011			1,6% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Retail Sales	12-Apr	Feb 2011			1.2% m/m	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Economic Expectations Survey	12-Apr	Apr 2011	0.4% m/m	0.4% m/m		Central Bank Survey about inflation, interest rates, exchange rate and GDP growth expectations.
Financial Operators survey	13/04/20112	First half of April				Central Bank Survey about inflation, policy interest rate and exchange rate.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Imports	15/04/20112	Feb 2011	30.0% y/y		39.8% y/y	Imports stabilized at maximum levels due to moderation in demand for capital goods.
Trade balance	15/04/20112	Feb 2011	USD 250 millions		USD 209.9 millions	Surplus is explained by high oil prices and the recovery of industrial sales.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	11-Apr	Feb	0.7% (6.2% y/y)	NA	1.4% (6.6% y/y)	Moderation on a positive rate of growth in monthly basis is expected. The drivers will be exports of manufactures as has been the case in the recovery period.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
GDP (yoy)	15/04/20112	Feb 2011	8,5%		10,0%	Economic activity indicators show some moderation in February

Source: BBVA Research

Calendar: Events

Chile: Monetary Policy Rate (April 12)

Forecast: 4.5%	Consensus: 4.5%	Previous: 4.0%
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Accelerating inflation in March and strong growth data in February indicate that domestic demand shows no sign of abating. Consequently, we expect the Central Bank to continue tightening at the same rate

Mexico: Monetary Policy Rate (April 15)

Forecast: 4.5%	Consensus: 4.5%	Previous: 4.5%
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Inflation in line with Banxico's forecast, lack of demand pressures on prices and no evidence of changes on inflation expectations are consistent with another month of monetary pause

Calendar: holidays

No holidays in the region.

Markets →

Highlights →

Market Data →

Charts →

Market data

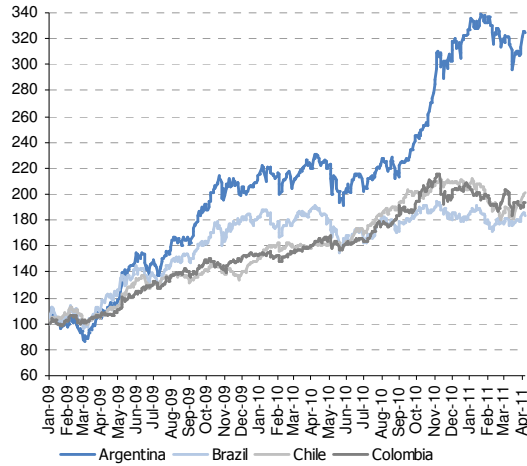
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.29	-2	-2	-1
		2-yr yield	0.82	2	13	-23
		10-yr yield	3.59	15	12	-29
	EMU	3-month Euribor rate	1.29	4	12	65
		2-yr yield	1.90	8	17	93
		10-yr yield	3.48	11	19	32
Exchange rates (changes in %)	Europe	Dollar-Euro	1.444	1.6	3.8	7.2
		Pound-Euro	0.88	-0.2	2.6	0.5
		Swiss Franc-Euro	1.32	0.0	1.8	-8.4
	America	Argentina (peso-dollar)	4.05	-0.1	0.6	4.5
		Brazil (real-dollar)	1.58	-2.6	-4.7	-11.0
		Colombia (peso-dollar)	1816	-2.0	-3.2	-5.7
		Chile (peso-dollar)	470	-1.2	-1.7	-8.9
		Mexico (peso-dollar)	11.74	-0.8	-1.8	-3.7
		Peru (Nuevo sol-dollar)	2.77	-1.4	0.0	-2.5
	Asia	Japan (Yen-Dollar)	85.20	1.2	2.9	-8.6
		Korea (KRW-Dollar)	1082.65	-0.4	-3.1	-2.7
		Australia (AUD-Dollar)	1.054	1.6	4.4	13.0
	Comm. (changes in %)	Brent oil (\$/b)	124.5	4.9	7.4	46.8
		Gold (\$/ounce)	1470.0	2.9	2.7	26.5
		Base metals	634.3	1.5	2.9	25.2
Stock markets (changes in %)	Euro	Ibex 35	10918	1.8	3.4	-4.2
		EuroStoxx 50	2986	0.8	1.7	-0.2
	America	USA (S&P 500)	1339	0.5	1.5	12.1
		Argentina (Merval)	3457	-0.4	0.0	38.9
		Brazil (Bovespa)	69139	-0.2	2.8	-3.2
		Colombia (IGBC)	14669	2.1	-3.4	18.6
		Chile (IGPA)	22359	0.6	5.3	24.6
		Mexico (CPI)	37472	-0.8	2.8	10.7
		Peru (General Lima)	21148	-1.9	-4.6	34.4
		Venezuela (IBC)	70366	0.1	4.1	17.1
	Asia	Nikkei225	9768	0.6	-7.8	-12.8
		HSI	24396	2.5	2.5	9.9
	Credit (changes in bps)	Ind.	Itraxx Main	96	-2	-5
Itraxx Xover			363	-11	-23	-58
Sovereign risk		CDS Germany	38	-6	-10	5
		CDS Portugal	549	-21	51	389
		CDS Spain	204	-14	-49	74
		CDS USA	40	0	-3	---
		CDS Emerging	196	-4	-10	-21
		CDS Argentina	562	-13	-29	-313
		CDS Brazil	107	-3	-3	-18
		CDS Colombia	104	-4	-8	-37
		CDS Chile	59	-4	-6	-26
		CDS Mexico	101	-2	-5	-13
		CDS Peru	132	-7	20	10

Fuente: Bloomberg y Datastream

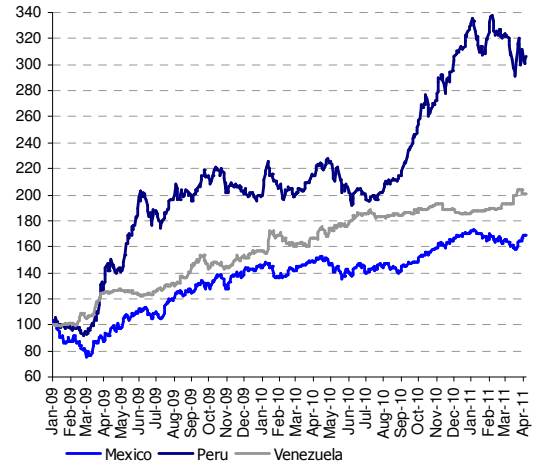
Charts

Charts 4 & 5

Stock exchanges (base index Jan09=100)



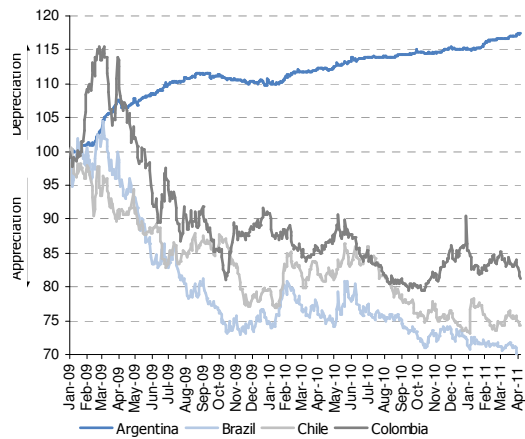
Source: Bloomberg



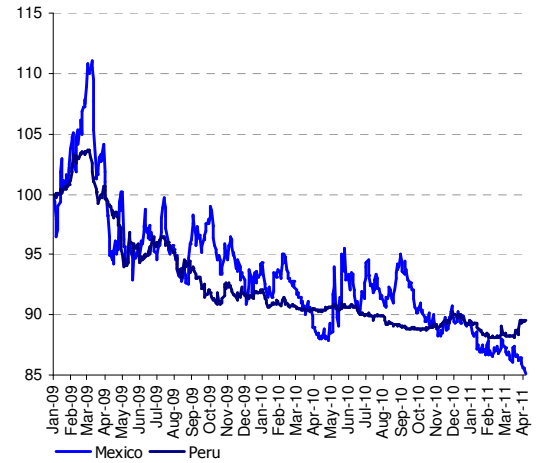
Source: Bloomberg

Charts 6 & 7

Exchange rates (base index Jan09=100)



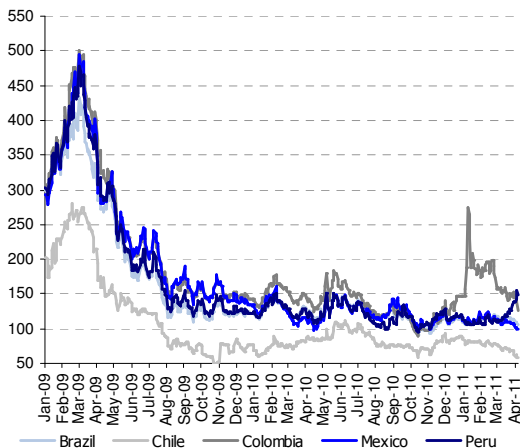
Source: Bloomberg



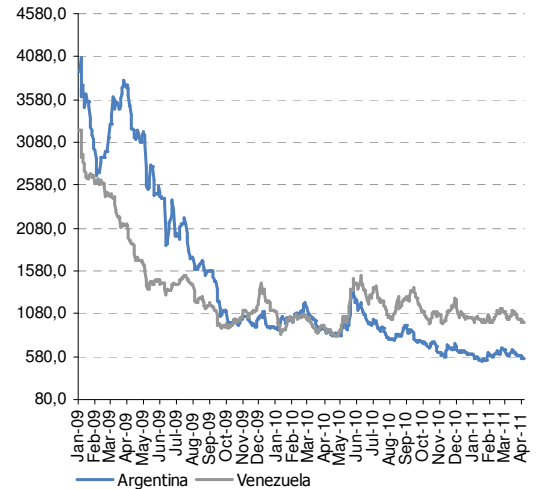
Source: Bloomberg

Charts 8 & 9

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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