

Weekly Watch

Latin

July 8 2011

Economic Analysis

South America

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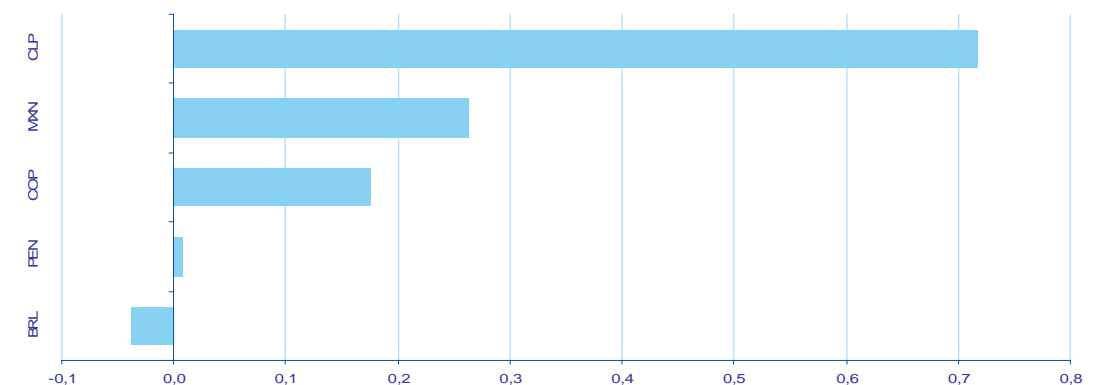
Stable inflation

Inflation rates in Brazil, Chile, Colombia and Mexico remain stable, while the trend in Venezuela is upward. The central banks of Mexico and Peru kept their benchmark interest rates unchanged, while Colombia celebrated its investment grade rating with a successful bond issue. Meanwhile, a court in New York ruled against the embargo on international Argentinean reserves and thus limited the options of debtors who rejected the exchange.

Global volatility led to mixed results in currencies in the region. Capital markets in Latin America will respond to the publication of results from the U.S.

Despite the fiscal agreements in Greece, sovereign uncertainty remains following statements by rating agencies about a selective default and the fiscal situation in Portugal. In addition, positive cyclical data in the U.S. were reversed at the close of the week, thus increasing volatility. We therefore expect wide operational ranges in Latin American foreign-exchange markets in the coming weeks. In equity markets, we expect favourable news at the start of the U.S. corporate reporting season, which could boost the stock markets in the region.

Chart 1
Weekly changes in LatAm currencies



Source: BBVA Research

Highlights

Strong growth in Chile

The Central Bank of the Republic of Argentina sells dollars, while a court decision protects its international reserves

Inflation stable in June

Bond issuance in Colombia and Venezuela

The monetary pause continues in Mexico and Peru

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Economic Analysis

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Markets

Global news increases market volatility: sovereign uncertainty continues (Portugal and Greece), as do doubts regarding the U.S. cycle

Last week the Latin American currencies were rather volatile in the face of a combination of elements. First, the downgrading of Portuguese debt by Moody's and comments by S&P about a possible selective default in Greece if the French proposal for private investor participation succeeds led to increased risk aversion on global markets. However, favorable data on private employment and unemployment benefit applications in the U.S. led to a recovery in risk assets. Nevertheless, these gains were dissipated with adverse surprises in non-agricultural payroll employment figures (Friday the 8th).

... leading to varied foreign-exchange behavior in the region

The CLP gained around 0.72%, boosted by the rise in copper prices and positive local economic figures. The COP and MXN showed their greater exposure to the U.S. cycle: gains at the start of the week were reversed on the bad labor market figures from the U.S. The BRL was among the biggest losers over the week in the region as a result of more interventionist language from the Central Bank and the Ministry of Finance. However, this was not reflected in the weekly forex report and we still think that any increase in USD purchases would be via the derivatives market. The global risk elements remain, so we expect that the wide ranges in foreign-exchange transactions will continue over the coming weeks.

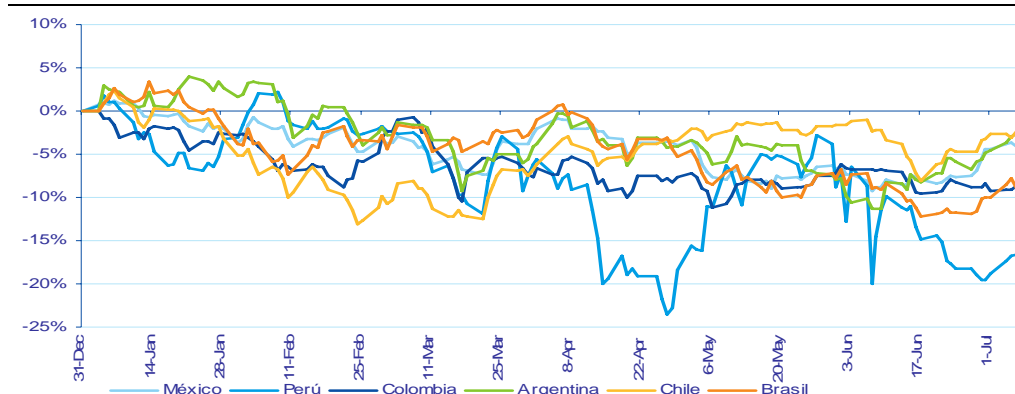
Slight profit-taking in Latin American stock markets. This week sees the start of the reporting season in the U.S.

Against this backdrop, combined with the interest-rate rises in China, stock markets in Latin America saw minor profit-taking, which moderated in the light of good employment figures from the U.S. Argentina performed best, with a rise of 2.9% over the week, followed by Peru, at 2.3%. The most significant falls were in Colombia (1.5%), Brazil (1.0%) and Mexico (0.3%).

Next week sees the start of the reporting season for 2Q11 in the U.S. (of particular note are Alcoa, Citigroup, JPMorgan and Google). Markets will watch these reports with special interest, with a consensus expecting a rise of 12% in year-on-year earnings per share (vs. 18% in 1Q11). Reported earnings above expectations, above all in the financial sector, could boost the capital markets in the region.

Chart 2

Latin American stock market monitor



Source: Bloomberg and BBVA Research

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Economic Analysis

Highlights

Strong growth in Chile

The economy grew by 7.3% year-on-year in May, above expectations, and maintained its strength in quarterly terms (0.4%). Growth in the first half of the year should be 8.1%.

The Central Bank of the Republic of Argentina sells dollars, while a court decision protects its international reserves

The Central Bank of Argentina has sold USD 275 million between June 27 and July 5 on lower than expected settlement of exports and greater portfolio dollarization. Meanwhile, an appeals court in New York found in favor of Argentina by declaring that the Central Bank reserves could not be embargoed, thus preventing creditors in default from embargoing the Central Bank reserves.

Inflation stable in June

In Brazil inflation was 0.15% m/m in June, far below the average for the five first months of the year (0.7% m/m). The figure for Chile was 0.2% m/m, below expectations (0.3%). In Colombia the rate in June was 0.3% m/m and in Mexico it remained at 3.3%. Only in Venezuela did inflation rise to 2.5% in June, as price controls became less effective.

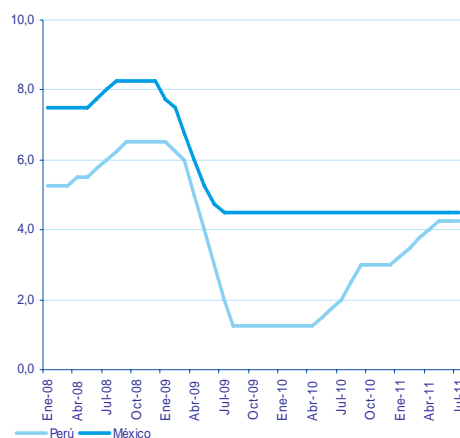
Bond issuance in Colombia and Venezuela

Colombia issued USD 2 billion of foreign 10-year bonds, with a bid-to-offer ratio of 3.7 times the nominal value and the lowest interest rate in the country's history (4.425%). The funds will be used to meet foreign debt commitments, without generating additional upward pressure on the currency. In Venezuela the PDVSA November 2013 bond was reopened for USD 1,783 million, thus increasing the stock of negotiable bonds in the SITME, and guaranteeing the system's operation for between 2 and 3 months.

The monetary pause continues in Mexico and Peru

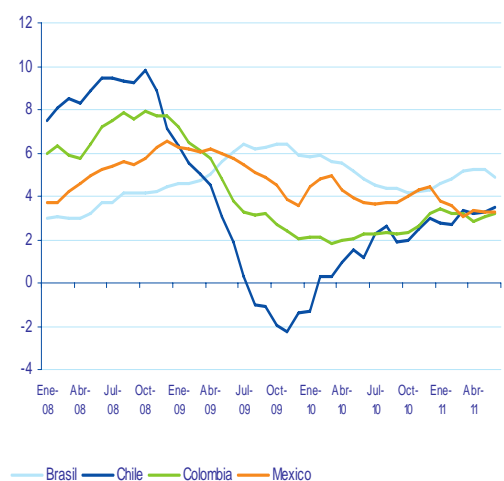
It was no surprise that the central banks of Mexico and Peru maintained their benchmark rates at 4.5% and 4.25% respectively. We believe that the pause will be maintained in both countries over the coming months.

Chart 3
Mexico and Peru: Benchmark interest rate (%)



Source: BBVA Research

Chart 4
Inflation: % y/y change since Jan 08



Source: BBVA Research

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Calendar: indicators

Next Week: 11 - 15 July 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Consumer Price Index	14-Jul	Jun 2011	0,9% m/m	1,0% m/m	0,7% m/m	
Wholesale Price Index	14-Jul	Jun 2011			0,9% m/m	
Construction Price Index	14-Jul	Jun 2011			0,1% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Retail Sales	12-Jul	May 2011			-0,20% m/m	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Survey of Economic Expectations	12-Jul	Jul 2011				
Survey of Financial Operators	13-Jul	First half of July				
Monetary Policy Meeting	14-Jul	Jul 2011	0,0%	0,0%	25 pb	We expect a pause in the process of monetary adjustment
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Automobiles sale	12-Jul	Jun 2011	25000 units.		28205 units.	Sales are low in June due to seasonal factors, but will remain significant interannual variations.
Imports	14-Jul	May 2011	35,0% y/y		32,2% y/y	Strong demand of industry and households maintained high growth rates.
Trade balance	14-Jul	May 2011	USD 580 millions		USD 697 Millions	Positive performance of exports of commodities and industrial goods sustains high levels of trade surplus.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	12-Jul	May 2011	0,3 mom (2,7% yoy)	NA	-0,1 mom (2,8% yoy)	Based on signals from indicators such as producer confidence, imports of intermediate goods and manufactured exports, we estimate that the moderation in industrial production in previous months was temporary and that we will see a spike in May and June
Peru	Data	Period	Forecast	Consensus	Previous	Comment
GDP (yoy%)	15-Jul	May 2011	6,7%		7,4%	Activity growth would remain moderated. The May figure reflects a lower contribution of Industrial and Primary Sectors, offset by a higher impulse of Construction Sector.

Source: BBVA Research

Calendar of events

Inflation: Argentina (July 14)

Forecast: 0.9% m/m

Consensus: 1% m/m

Previous: 0.7% m/m

Calendar of holidays

There are no holidays this week in the region.

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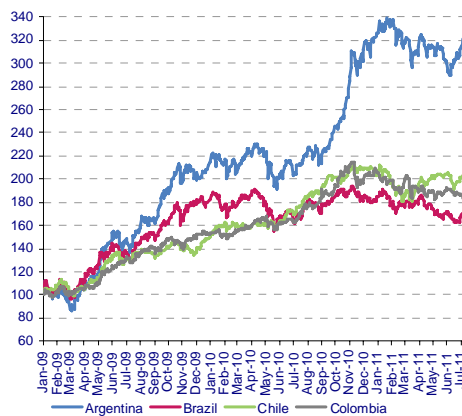
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	0	-28
		2-yr yield	0.47	0	9	-15
		10-yr yield	3.15	-4	21	9
	EMU	3-month Euribor rate	1.59	4	14	77
		2-yr yield	1.55	-10	-11	79
		10-yr yield	2.94	-9	-11	31
Exchange rates (changes in %)	Europe	Dollar-Euro	1.430	-1.5	-2.1	13.0
		Pound-Euro	0.90	-0.8	0.6	6.7
		Swiss Franc-Euro	1.21	-1.5	-0.6	-9.4
	America	Argentina (peso-dollar)	4.10	-0.2	0.3	4.3
		Brazil (real-dollar)	1.55	-0.2	-1.8	-11.6
		Colombia (peso-dollar)	1761	0.0	-0.7	-6.1
		Chile (peso-dollar)	461	-0.9	-1.4	-14.5
		Mexico (peso-dollar)	11.54	-0.8	-2.1	-9.7
		Peru (Nuevo sol-dollar)	2.74	-0.1	-1.2	-2.9
		Japan (Yen-Dollar)	81.34	0.6	1.9	-8.1
		Korea (KRW-Dollar)	1057.85	-0.7	-2.2	-11.7
	Asia	Australia (AUD-Dollar)	1.077	0.1	1.1	23.0
Comm. (chg %)		Brent oil (\$/b)	117.3	4.9	-0.5	55.5
		Gold (\$/ounce)	1526.2	2.6	-0.7	26.0
		Base metals	603.5	0.5	-0.2	27.5
Stock markets (changes in %)	Euro	Ibex 35	10155	-3.2	0.7	0.3
		EuroStoxx 50	2845	-1.1	3.4	6.1
		USA (S&P 500)	1353	1.0	5.8	25.5
	América	Argentina (Merval)	3487	2.7	11.7	52.3
		Brazil (Bovespa)	62207	-1.9	-1.3	-2.0
		Colombia (IGBC)	13847	-1.6	-4.1	10.3
		Chile (IGPA)	22645	-0.2	-0.5	17.1
		Mexico (CPI)	36583	-0.6	4.9	14.3
		Peru (General Lima)	19864	3.4	-3.5	42.0
		Venezuela (IBC)	81358	1.1	1.1	24.1
	Asia	Nikkei225	10138	2.7	7.3	5.8
		HSI	22726	1.5	0.3	11.5
Credit (changes in bps)	Ind.	Itraxx Main	109	6	3	-6
		Itraxx Xover	409	25	17	-120
		CDS Germany	43	2	5	2
	Sovereign risk	CDS Portugal	984	248	275	706
		CDS Spain	302	34	48	89
		CDS USA	52	2	3	---
		CDS Emerging	206	2	-14	-40
		CDS Argentina	594	16	-23	-312
		CDS Brazil	107	-2	-4	-22
		CDS Colombia	105	-3	1	-35
		CDS Chile	74	-1	3	-21
		CDS Mexico	106	-2	-1	-22
		CDS Peru	126	-6	-26	0

Source: Bloomberg and Datastream

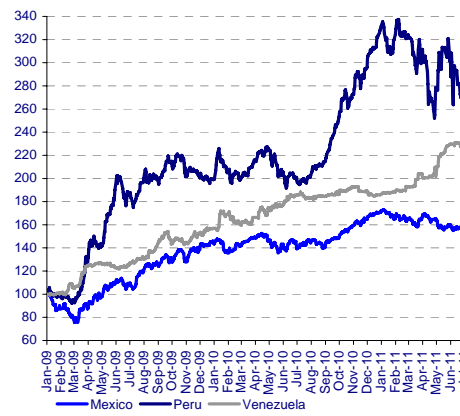
Charts

Chart 4
Stock markets (base index Jan09 = 100)



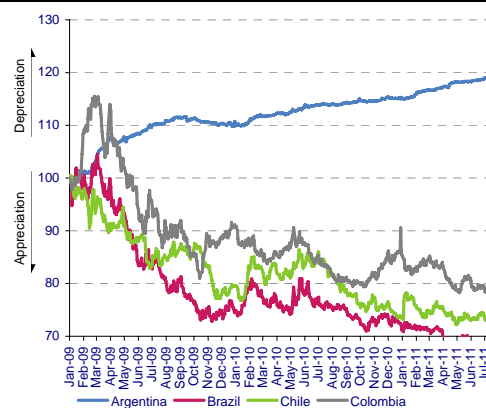
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



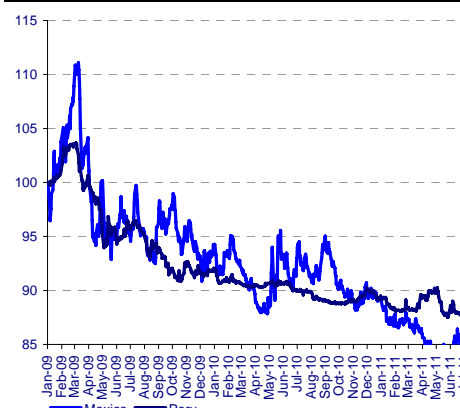
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



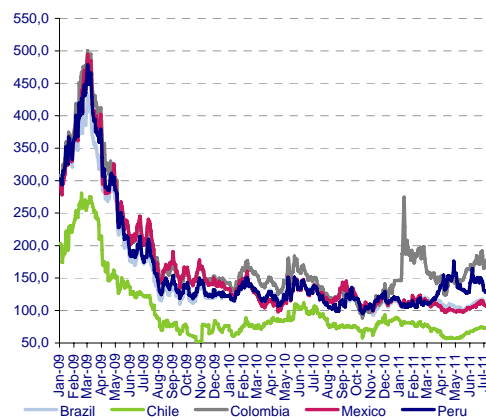
Source: Datastream and BBVA Research

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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