

Weekly Watch

Latin

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Economic Analysis

South America

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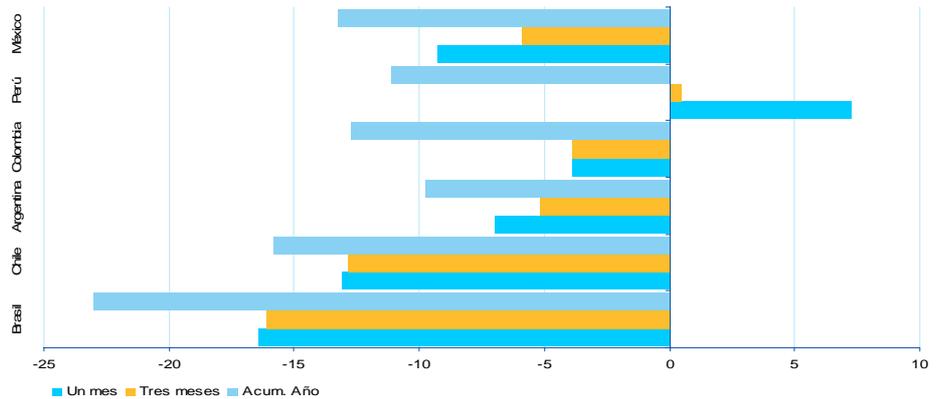
Inflation down in Chile and Colombia

Low inflation for July would support our forecast of a monetary pause at the next monetary policy meeting in Chile and also maintain the positive performance of the public debt market in Colombia.

Upturn in risk aversion due to bad cyclical data from the U.S., despite the fiscal and debt agreements: the uncertainty will continue

Falls in risk assets in the region in the face of uncertainty regarding the extent of U.S. slowdown generates a more pronounced depreciation in more exposed economies (MXN, BRL and CLP). Nevertheless local technical factors mitigate adjustments in the COP and PEN, while stock market performance in the region goes down on other emerging markets, also due to less positive local corporate results.

Chart 1
LatAm stock markets: accumulated performance 4-Aug-11 (1 month, 3 months and 2011; %)



Source: BBVA Research

Highlights

Economic activity moderates in Brazil and maintains dynamic in Chile

Fitch confirms the Peruvian debt classification at BBB-

Inflation trends upward in Peru and Brazil

In Argentina, July tax revenues increase below the expected figures to ARS 47,845 million

In Venezuela, the Global 2031 issue aims to guarantee the viability of the SITME

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Economic Analysis

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Markets

Market with more risk aversion due to slowdown expectation in the U.S.

Although the fiscal and debt agreements in the U.S., together with good manufacturing figures (PMI) from China, put a positive bias on the start of last week, there was more risk aversion in the markets due to the greater than expected risk of an economic slowdown in the U.S. Latin American assets were thus down over the week to varying extents, with the biggest losses in the case of MXN due to greater cyclical exposure (it fell to around 11.99 compared with 11.73 at the end of the previous week). The MXN may continue extremely volatile within this broad range of fluctuation in response to economic news from the U.S.

In the case of Brazil, statements from the Central Bank revealed concern about short term foreign flows (USD 15.8 billion in July, the highest level since January 2009) and the possibility of intervening more forcefully. Despite this, uncertainty regarding the global cycle led the BRL to trade at 1.58 (compared with 1.55 at the opening of the week) and has reduced the chance of renewed foreign-exchange market interventions. The depreciation bias in the BRL may continue to heighten with the global cyclical doubts. In Chile, the increased volatility of the CLP was affected by the fall in commodity prices. Weekly adjustments in the ARS, PEN and COP were less strong, following the increase in the monetary rate in Colombia and a more aggressive press statement than expected from the Bank of the Republic, which led to a flattening of the local curve (TES). In Peru, movements can be explained by favorable political factors.

Latin American stock markets more sensitive to adverse cyclical news from the U.S., in the face of weaker local corporate results

Global stock markets are still affected by the balance of cyclical risks of a global sovereign nature. In this environment, LatAm has performed more weakly than other regions. Part of this can be attributed to the fact that in Brazil, Chile and Peru corporate reports have been less positive than in the U.S. or Mexico (where a change was announced to the composition of the IPC stock market index). Although a good number of companies still have to report, so far EPS have been 3.3% down in Brazil, 14.0% down in Chile and 1.8% down in Peru. Stock markets will continue sensitive to cyclical risks in the U.S.

Chart 2
LatAm currencies: 1m implied volatility



Source: BBVA Research

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Highlights

Economic activity moderates in Brazil and maintains dynamic in Chile

Industrial output in Brazil fell by 1.6% m/m in June, more than the figure expected by the market (-0.4% m/m). It puts the accumulated fall at 0.7% q/q in 2Q11, contrasting with a rise of 2.0% q/q in 1Q11. Among the effects of the strength of the Brazilian real has been the competitiveness of local industry. To counter this, the government adopted measures that include tax **cuts**, export incentives, moves against "disloyal" imports and a new public procurement regime that favors domestic industry. In Chile, the monthly economic activity indicator IMACEC posted growth of 6.1% y/y and 0.7% m/m, maintaining the dynamics shown within the last quarters.

Fitch confirms the Peruvian debt classification at BBB-

The agency stated that Peru's credit fundamentals continue robust, supported by the country's strong external and fiscal balance sheets. In addition, it considers that the government of Ollanta Humala will continue with the policies that have generated macroeconomic stability, high growth, rising investment and strong fiscal accounts.

Inflation trends upward in Peru and Brazil

In Peru, year-on-year inflation stood at 3.3% y/y in July after registering 2.9% y/y the previous month. In monthly terms, inflation was 0.8% m/m in July, in line with our estimate (BBVA: 0.7%; market: 0.3%). However, the increase in inflation includes some temporary factors. In Brazil inflation hit 6.87% y/y in July, the highest figure for six years. Monthly inflation was 0.16% m/m, in line with expectations.

In Argentina, July tax revenues increase below the expected figures to ARS 47,845 million

Growth of 28% y/y (6.2% y/y in real terms) was the lowest in 17 months despite the good performance of taxes linked to domestic consumption. Revenues from export duties continue to disappoint, with a zero year-on-year growth, and a fall of 21.8% in real terms.

In Venezuela, the Global 2031 issue aims to guarantee the viability of the SITME

Given the imminent season of high demand for foreign currency, the government has allocated most of the issue (USD 4.2 billion) to the public banking system with the aim of increasing the stock of tradable bonds in the SITME. The currency-exchange commission CADIVI allocated USD 7,526 million in the second quarter. Although this figure is 7% up on 1Q11, it is still below the settlement amounts of 2008, the last year of positive economic growth.

Chart 3
Year-on-year inflation (%)



Source: IBGE, INEI

Chart 4
Industrial output in Brazil (Jan-08 = 100)



Source: BBVA Research

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Calendar: indicators

Next Week: 8 - 12 August 2011

| | Data | Period | Forecast | Consensus | Previous | Comment |
|------------------------------------|--------|------------------|---------------------|-----------|---------------------|---|
| Argentina | | | | | | |
| Índice de Precios al Consumidor | 11-Aug | Jul 2011 | 1.1% m/m | 1.1% m/m | 0.7% m/m | |
| Índice de Precios al por Mayor | 11-Aug | Jul 2011 | | | 0.9% m/m | |
| Índice de Costo de la Construcción | 11-Aug | Jul 2011 | | | -0.7% m/m | |
| Brazil | | | | | | |
| Retail Sales | 11-Aug | Jun 2011 | | | 0.60% m/m | |
| Chile | | | | | | |
| Consumer Price Index | 8-Aug | Jul 2011 | 0.1% m/m | 0.1% m/m | 0.2% m/m | |
| Survey of economic expectations | 10-Aug | Jul 2011 | | | | |
| Colombia | | | | | | |
| Exports | 8-Aug | Jun 2011 | 58.0% y/y | | 31.9% y/y | Shy industrial export growth accompanies strong sales of hydrocarbons. |
| Consumer confidence | 9-Aug | Jul 2011 | | 25 | 28 | After a slowdown in confidence at the beginning of the year, positive economic performance in first quarter drove households expectation. |
| Imports | 12-Aug | Jun 2011 | 45.0% y/y | | 54.9% y/y | Continued strong imports of machinery and equipment and goods of transport. |
| Trade balance | 12-Aug | Jun 2011 | USD 500 millions | | USD 12.7 millions | Large trade surplus due to exports of raw materials. |
| Mexico | | | | | | |
| Industrial Production | 11-Aug | Jun 2011 | 0.0% m/m (4.8% y/y) | NA | 1.1% m/m (4.4% y/y) | It is likely that data began to see lower than in previous months in the industry, largely due to moderation in the automotive industry. |
| Employment Structural Indicators | 12-Aug | 2Q11 | 55% SA | NA | 5.1% | These data will be very important as INEGI also publish historical indicators based on 2010 Census counts and not 2005 as before. |
| Venezuela | | | | | | |
| Labor Remuneration Index | 8-Sep | Apr-May-Jun 2011 | 1472.1 | | 1280.1 | Minimum wage rise (15%) in may drives an increase q/q of the Labor Remunerations Index |

Source: BBVA Research

Calendar of events

Peru: Monetary Policy Rate (August 11)

Forecast: 4.3%

Consensus: 4.3%

Previous: 4.3%

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 | 0.27 | 1 | 2 | -14 | |
| | | 2-yr yield | 0.27 | -8 | -15 | -23 | |
| | | 10-yr yield | 2.42 | -38 | -69 | -40 | |
| | EMU | 3-month Euribor rate | 1.56 | -4 | 0 | 66 | |
| | | 2-yr yield | 0.84 | -33 | -75 | 9 | |
| | | 10-yr yield | 2.31 | -23 | -62 | -21 | |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.414 | -1.7 | -1.3 | 6.6 | |
| | | Pound-Euro | 0.87 | -0.7 | -3.0 | 4.6 | |
| | | Swiss Franc-Euro | 1.08 | -4.3 | -9.8 | -21.2 | |
| | America | Argentina (peso-dollar) | 4.15 | 0.1 | 0.8 | 5.5 | |
| | | Brazil (real-dollar) | 1.59 | 2.4 | 1.5 | -9.8 | |
| | | Colombia (peso-dollar) | 1786 | 0.4 | 1.1 | -1.5 | |
| | | Chile (peso-dollar) | 462 | 0.9 | -0.3 | -10.2 | |
| | | Mexico (peso-dollar) | 12.05 | 2.7 | 3.6 | -5.2 | |
| | | Peru (Nuevo sol-dollar) | 2.74 | 0.1 | -0.3 | -2.1 | |
| | | Asia | Japan (Yen-Dollar) | 78.49 | 1.7 | -3.0 | -7.9 |
| | | | Korea (KRW-Dollar) | 1071.40 | 1.6 | 0.4 | -7.5 |
| | | | Australia (AUD-Dollar) | 1.044 | -5.0 | -2.4 | 14.2 |
| | | | | | | | |
| | | Comm. (chg %) | | Brent oil (\$/b) | 108.8 | -6.8 | -4.3 |
| | Gold (\$/ounce) | | 1664.9 | 2.3 | 8.9 | 38.1 | |
| | Base metals | | 586.8 | -1.4 | -2.4 | 17.9 | |
| Stock markets (changes in %) | Euro | Ibex 35 | 8722 | -9.4 | -14.5 | -18.1 | |
| | | EuroStoxx 50 | 2386 | -10.6 | -15.8 | -14.1 | |
| | | USA (S&P 500) | 1200 | -7.1 | -10.4 | 7.0 | |
| | América | Argentina (Merval) | 3110 | -6.4 | -10.2 | 28.2 | |
| | | Brazil (Bovespa) | 52811 | -10.2 | -15.6 | -22.4 | |
| | | Colombia (IGBC) | 13421 | -4.4 | -3.2 | 0.2 | |
| | | Chile (IGPA) | 19882 | -6.1 | -12.2 | -4.4 | |
| | | Mexico (CPI) | 33323 | -7.4 | -8.6 | 1.2 | |
| | | Peru (General Lima) | 20320 | -7.5 | 4.4 | 38.2 | |
| | | Venezuela (IBC) | 93009 | 3.8 | 15.6 | 43.7 | |
| | | Asia | Nikkei225 | 9300 | -5.4 | -7.8 | -3.5 |
| | | | HSI | 20946 | -6.7 | -7.0 | -3.4 |
| | | | | | | | |
| | | Credit (changes in bps) | Ind. | Itraxx Main | 132 | 16 | 22 |
| Itraxx Xover | 514 | | | 76 | 102 | 43 | |
| Sovereign risk | CDS Germany | | 72 | 8 | 28 | 32 | |
| | CDS Portugal | | 974 | 50 | 58 | 742 | |
| | CDS Spain | | 430 | 67 | 135 | 237 | |
| | CDS USA | | 55 | -7 | 2 | --- | |
| | CDS Emerging | | 238 | 25 | 28 | 27 | |
| | CDS Argentina | | 641 | 47 | 49 | -145 | |
| | CDS Brazil | | 127 | 13 | 18 | 12 | |
| | CDS Colombia | | 123 | 11 | 17 | 3 | |
| | CDS Chile | | 75 | 4 | 0 | -1 | |
| | CDS Mexico | | 125 | 14 | 18 | 10 | |
| | CDS Peru | | 140 | 17 | 13 | 35 | |

Source: Bloomberg and Datastream

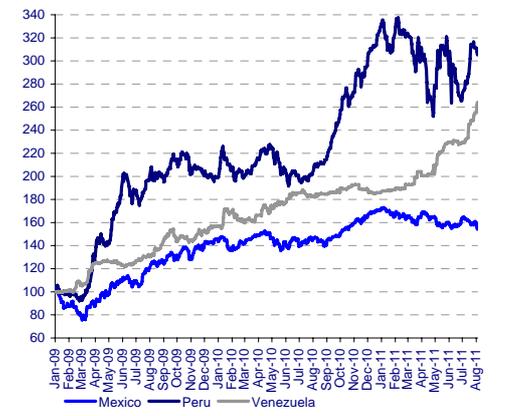
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Chart 4
Stock markets (base index Jan09 = 100)



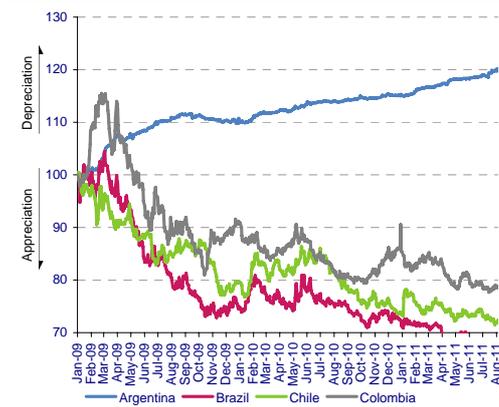
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



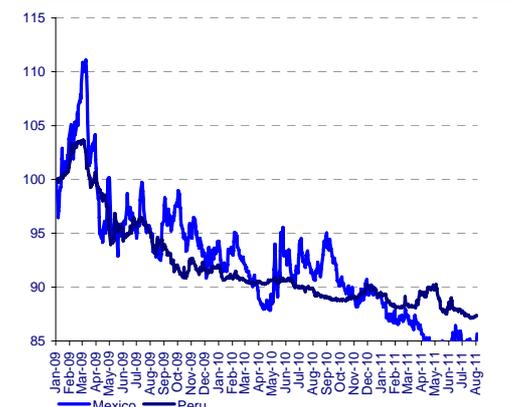
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



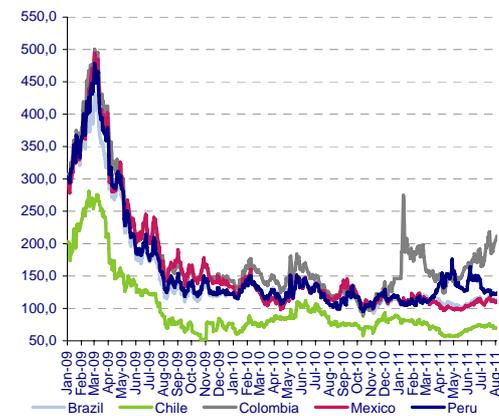
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



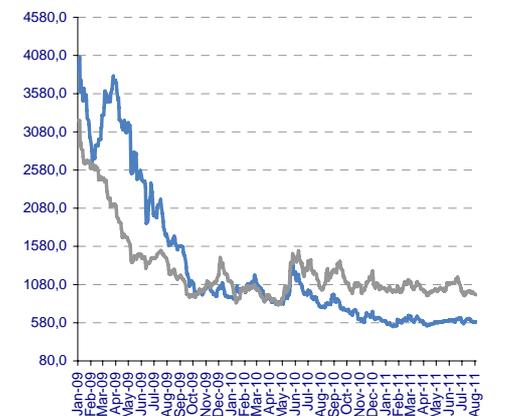
Source: Datastream and BBVA Research

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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