

Weekly Watch

Latin

June 10, 2011
Economic Analysis

South America

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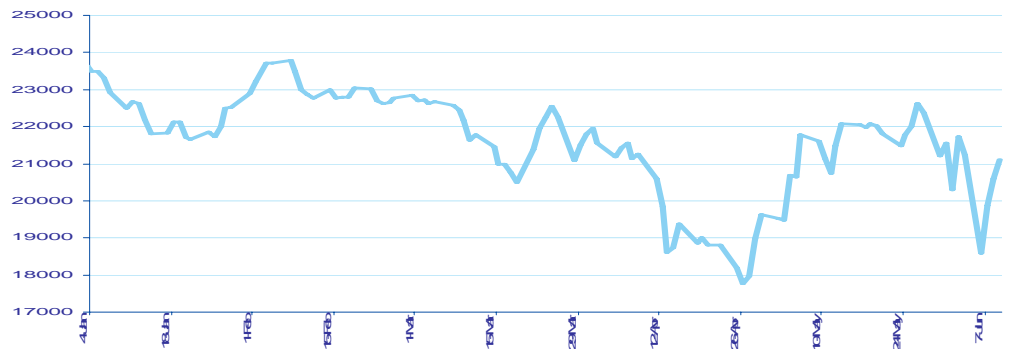
Markets react to the election in Peru

Ollanta Humala's victory in the presidential election in Peru triggered major instability in the country's markets, though they then reacted positively to signs of moderation by the president-elect and his team. In Brazil, the President's chief of staff, Antonio Palocci, resigned over accusations of corruption. Inflation in Brazil, Chile, Colombia and Mexico remained within the expected range, with small deviations on the forecasts for the month that did not affect the one-year horizon. In monetary policy Brazil increased its official rate by 25 bps to 12.25%, and suggested there would be new rises in the future, while Peru maintained its rate unchanged (4.25%).

Latin American markets remain sensitive to cyclical and sovereign risk premiums, except for the case of Peru

Risk premiums continue to affect Latin American currencies, with a slight recovery at the close of the week in response to increased commodity prices. In general, performance was mixed. Peruvian markets were notably volatile in reaction to the results of the presidential election, though reactions to news with respect to the cabinet encouraged a recovery at the close of the week.

Chart 1
Lima General Stock Exchange Index



Source: BBVA Research

Highlights

- Inflation within the expected range in Brazil, Mexico, Chile and Colombia**
- Brazil announces tighter monetary restriction**
- Humala wins the presidential election**
- Ministerial change in Brazil**

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Markets

Latin American currencies highly volatile due to an upturn in global risk aversion, with Colombia standing out on the positive and Peru on the negative side

Although at the start of last week there was a general appreciation in response to the possibility that Ecofin/IMF would grant a new aid package to Greece, as the days passed the feeling worsened due to uncertainty regarding the global cycle. The negative surprises in the manufacturing indicators in the U.S. and Europe and the ADP employment data in the U.S. (which revised down expectations for the payroll in non-farming businesses), combined with Moody's downgrading of Greece's credit quality, has led to a general phenomenon of risk aversion. The Latin American currencies affected were the BRL, MXN and CLP, which continued to move in line with economic indicators, commodity prices and risk premiums. Two stood out from the rest: 1) the COP benefited from the upgrade by Moody's; and 2) the PEN remained volatile, reflecting expectations surrounding the elections this weekend.

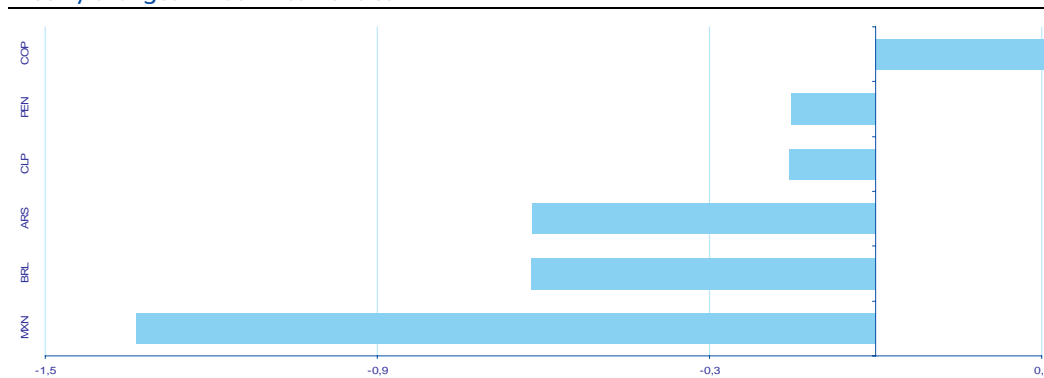
Global stock markets, except Asia, performed negatively due to global cyclical fears. Colombia stands out positively

Despite some optimistic news (although not definite) on the sovereign risk front, reflecting proposed action on Greece, it was the fear about the movement in the global cycle that had most effect on the markets. In Brazil there was less concern about interest rates, although it was not a differentiating factor this time. Of particular note this week was the performance of Peru, where volatility linked to the elections was reflected in the stock markets and country risk indices; and, in the positive side, Colombia was favored by Moody's upgrade from Ba2 to Baa3, a rise of two notches that means the country's debt is now investment grade.

MILA is launched with a capitalization making it the second biggest capital market in the region

One of the highlights was the launch of MILA and the agreement reached with S&P to create families of indices based on the new integrated stock exchange. MILA is the second biggest market in terms of number of listed companies and market capitalization, after that of Brazil, and the third in terms of volume. We expect the integration to help improve the region's visibility and increase transaction volumes (see the note "MILA: more than the sum of its parts" on January 18).

Chart 2
Weekly changes in LatAm currencies



Source: Bloomberg and BBVA Research

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Highlights

Inflation within the expected range in Brazil, Mexico, Chile and Colombia:

In Brazil and Mexico, inflation was slightly under the expected figures for seasonal reasons, with lower fuel prices in Brazil and a lower core component in Mexico. Inflation in May was 0.4% in Chile and 0.3% in Colombia, slightly above expectations. In all, these small deviations are not enough to alter our inflation forecast for the end of the year.

The Central Bank of Brazil suggests greater monetary restrictions:

The Central Bank of Brazil increased the SELIC rate by 25 bps to 12.25%, in line with expectations. However, in its statement it suggested that the rate will continue to increase in July. In Peru, the Central Bank decided to pause the monetary adjustment cycle. The interest rate stayed in 4.25%, as expected by us (BBVA: 4.25%, consensus: 4.5%).

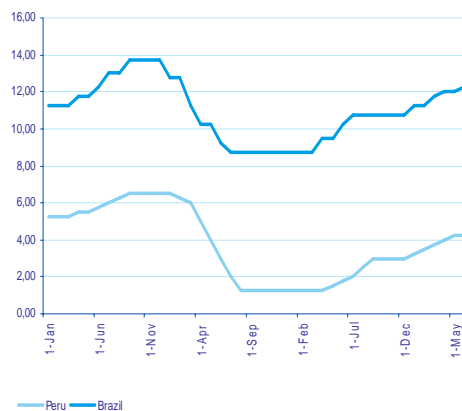
Humala wins the presidential election in Peru:

Ollanta Humala won 51.5% of the valid votes. The focus of attention now moves to those who will occupy the most important public positions. The president elect and his team have given signs that they are looking for moderate and respected figures, some of whom may even not be ranked among his supporters. In his first interview as president elect, Humala suggested that he would consider maintaining Julio Velarde in his position as Chairman of the Central Bank.

Ministerial change in Brazil:

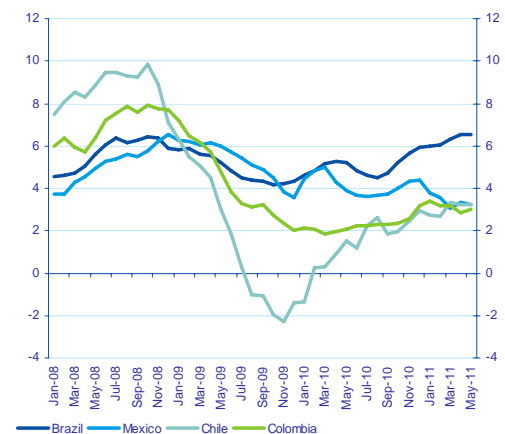
Following complaints about alleged illegal enrichment, the President's chief of staff Antonio Palocci, who was one of the key contacts between the private sector and the Workers' Party (PT), has resigned. He was replaced by the PT senator Gleisi Hoffmann, who has a more technical profile and less political experience. Palocci was one of the main supporters within the PT of a less expansive fiscal policy and an independent Central Bank. Nevertheless, his exit is not expected to mean any changes in the current economic policy.

Chart 3
Brazil and Peru: Benchmark interest rates (%)



Source: BBVA Research

Chart 4
Inflation in Brazil, Mexico, Chile and Colombia (% y/y change)



Source: BBVA Research

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Calendar: indicators

Next Week: 13 - 17 June 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Consumer Price Index (INDEC)	15-Jun	May 2011	1.0% m/m	0.9% m/m	0.8% m/m	
Wholesale Price Index(INDEC)	15-Jun	May 2011	-	-	0.9% m/m	
Construction Price Index(INDEC)	15-Jun	May 2011	-	-	2.5% m/m	
GDP: flash	17-Jun	1Q11	8.6% y/y	8.0% y/y	9.2% y/y	
Current account (Balance of Payments)	17-Jun	1Q11	-698 m U\$S	-350 m U\$S	-194 m U\$S	
Industrial Monthly Estimate	17-Jun	May 2011	8.4% y/y	8.3% y/y	8.2% y/y	
Brazil						
COPOM minutes	17-Jun					
Colombia						
Foreign Trade - Imports	14-Jun	Apr 2011			39.9%	
Trade Balance	14-Jun	Apr 2011	USD 500 millions		USD 481,40 millions	Trade surplus to continue increasing driven by strong sales of oil and mining.
Industrial Production	17-Jun	Apr 2011	0,042		0,052	Leading indicators support growth rates above 4%.
Retail Sales	17-Jun	Apr 2011	0,136		0,146	The dynamics of retail sales should remain strong despite the moderate decline in consumer confidence indicators.
Interest Rate	17-Jun	Jun 2011	0,0425	0,0425	0,04	BanRep to maintain the gradual increase in the policy rate anticipating inflationary pressures in 2S11.
Consumer Confidence	17-Jun	May 2011	10 points		11.9 points	Harsh weather conditions and monetary tightening could continue to moderate confidence
Civil Works	13-Jun	1Q11	-		0,047	The result will show the level of execution of public investment resources critical for expected GDP growth in 2011
Mexico						
Industrial Production	13-Jun	Apr 2011	-0.7 mom (2.4% yoy)	NA	0.4 (3.2% yoy)	Industrial Production have been severely affected by the shortage in the inputs chain derived by the tsunami in Japan.
Peru						
GDP (yoy %)	15-Jun	Apr 2011	6,9%		7,9%	Economic growth moderation would have continued. This reflects in part a downward correction in business confidence due to the uncertainty surrounding the electoral process result
Venezuela						
Tax collection	14-Jun	May 2011				Is expected to keep growth exhibited the first four month of the year, 38,6% y/y.

Source: BBVA Research

Calendar of events

Chile: Monetary policy meeting (June 14)

Forecast: 5.25%

Consensus: 5%

Previous: 5%

The cycle of rises in the monetary policy rate is expected to moderate.

Calendar of holidays

There are no holidays this week in the region.

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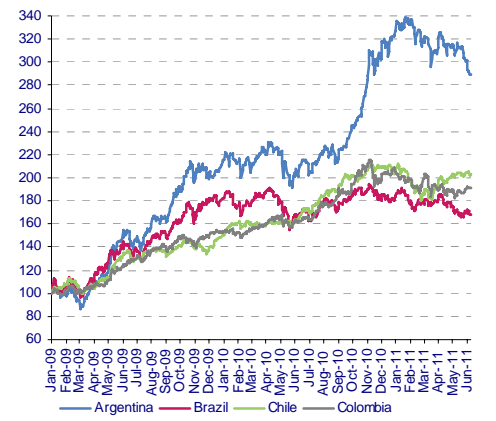
Market Data

			Close	Weekly change	Monthly change	Annual change		
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	-1	-29		
		2-yr yield	0.40	-2	-14	-33		
		10-yr yield	2.97	-2	-19	-27		
	EMU	3-month Euribor rate	1.46	3	4	75		
		2-yr yield	1.59	-10	-21	112		
		10-yr yield	3.01	-5	-12	44		
Exchange rates (changes in %)	Europe	Dollar-Euro	1.445	-1.2	1.6	19.8		
		Pound-Euro	0.89	-0.3	2.2	6.9		
		Swiss Franc-Euro	1.22	-0.4	-3.4	-12.4		
	America	Argentina (peso-dollar)	4.09	0.0	0.2	4.2		
		Brazil (real-dollar)	1.58	0.7	-2.3	-12.4		
		Colombia (peso-dollar)	1771	-0.6	-1.7	-8.0		
		Chile (peso-dollar)	466	-0.3	-0.3	-13.2		
		Mexico (peso-dollar)	11.80	1.4	1.5	-7.1		
		Peru (Nuevo sol-dollar)	2.76	0.1	-1.2	-2.9		
		Asia	Japan (Yen-Dollar)	80.06	-0.3	-1.0	-12.6	
			Korea (KRW-Dollar)	1084.30	0.8	0.3	-13.1	
			Australia (AUD-Dollar)	1.060	-1.5	-1.1	25.0	
		Comm. (chg %)		Brent oil (\$/b)	119.4	3.1	6.1	60.6
	Gold (\$/ounce)		1542.6	0.0	2.8	25.8		
	Base metals		604.7	-0.7	0.3	27.1		
Stock markets (changes in %)	Euro	Ibex 35	10055	-2.2	-4.5	5.2		
		EuroStoxx 50	2759	-1.1	-6.2	4.6		
		USA (S&P 500)	1289	-0.9	-4.0	18.1		
	América	Argentina (Merval)	3233	2.1	-4.5	41.7		
		Brazil (Bovespa)	63469	-1.4	-0.5	-0.2		
		Colombia (IGBC)	14424	-0.1	1.6	17.2		
		Chile (IGPA)	22559	-1.9	-1.7	22.2		
		Mexico (CPI)	35233	0.3	-0.4	9.7		
		Peru (General Lima)	20953	-1.3	1.1	47.4		
		Venezuela (IBC)	80104	-0.5	3.3	25.8		
		Asia	Nikkei225	9514	0.2	-3.5	-2.0	
			HSI	22400	-2.4	-3.8	12.7	
		Credit (changes in bps)	Ind.	Itraxx Main	106	2	9	-24
				Itraxx Xover	390	4	35	-207
Sovereign risk	CDS Germany		39	2	0	0		
	CDS Portugal		720	55	81	431		
	CDS Spain		259	22	15	53		
	CDS USA		50	3	8	---		
	CDS Emerging		216	-4	10	-69		
	CDS Argentina		602	-17	7	-507		
	CDS Brazil		111	2	7	-31		
	CDS Colombia		104	2	3	-59		
	CDS Chile		70	1	10	-35		
	CDS Mexico		106	1	8	-34		
	CDS Peru		143	-2	4	3		

Source: Bloomberg and Datastream

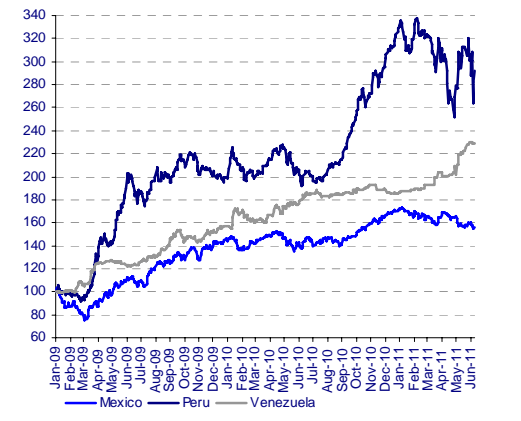
Charts

Chart 4
Stock markets (base index Jan09 = 100)



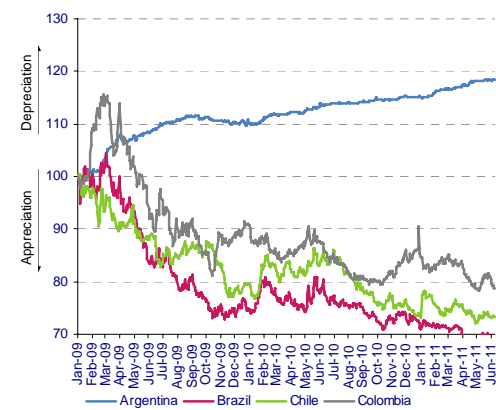
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



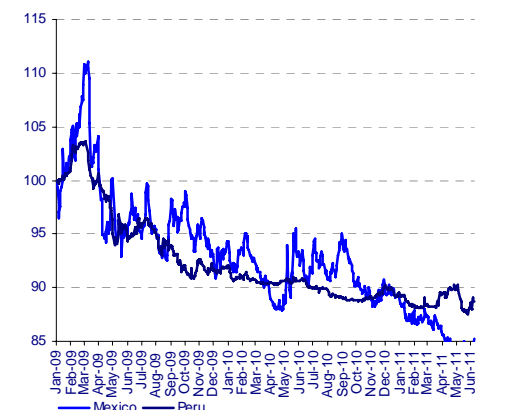
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



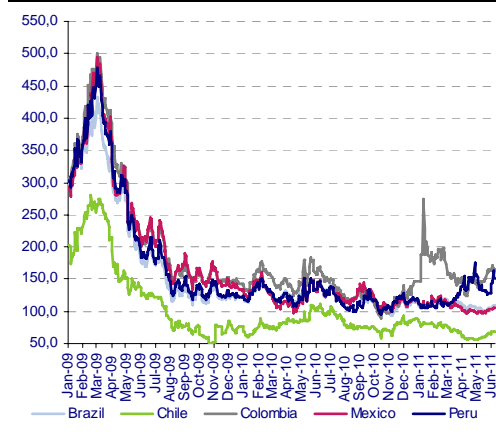
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



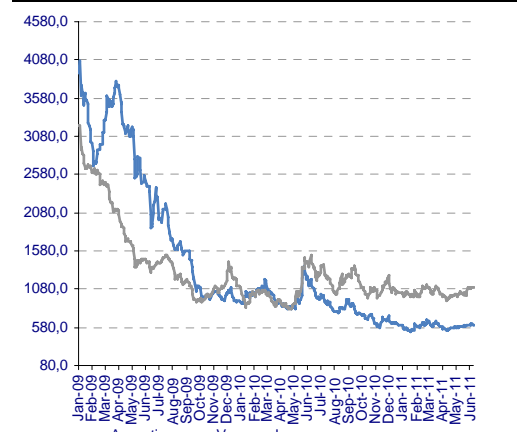
Source: Datastream and BBVA Research

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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