

Weekly Watch

Latin

June 10, 2011 Economic Analysis

South America

Joaquín Vial

jvial@bbvaprovida.cl

Enestor Dos Santos enestor.dossantos@grupobbva.com

Cristián Ashwell

Argentina
Gloria Sorensen
qsorensen@bancofrances.com.ai

Chile
Alejandro Puente
apuente@grupobbva.cl

Colombia **Juana Téllez** juana.tellez@bbva.com.co

México **Julián Cubero**juan.cubero@bbva.bancomer.com

Perú
Hugo Perea
hperea@grupobbva.com.pe

Venezuela Oswaldo López apuente@grupobbva.cl

Octavio Gutiérrez Engelmann o.gutierrez3@bbva.bancomer.com

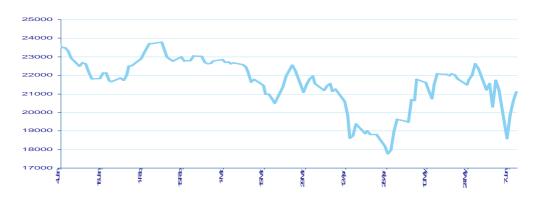
Markets react to the election in Peru

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





Economic Analysis

Octavio Gutiérrez Engelmann o.gutierrez3@bbva.bancomer.com

Claudia Ceja claudia.ceja@bbva.bancomer.com

Rodrigo Ortega r.ortega@bbva.bancomer.com

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).





Source: Bloomberg and BBVA Research





Economic Analysis

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



Calendar: indicators

Next Week: 13 - 17 June 2011						
Argentina	Data	Period	Forecast	Consensus	Previous	Comment
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	Data	Period	Forecast	Consensus	Previous	Comment
COPOM minutes	17-Jun		_	_		
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Foreign Trade - Imports	14-Jun	Apr 2011	1100 500		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%.
		·				The dynamics of retail sales should remain strong despite the
Retail Sales	17-Jun	Apr 2011	0,136		0,146	moderate decline in consumer confidence indicators
Interest Date	17-Jun	Jun 2011	0.0425	0.0425	0.04	BanRep to maintain the gradual increase in the policy rate
Interest Rate	I/-Juli	Juli 2011	0,0425	0,0425	0,04	anticipating inflationary pressures in 2S11.
Consumer Confidence	17-Jun	May 2011	10 points		11.9 points	Harsh weather conditions and monetary tightening could
consumer confidence	17 5411	May 2011	10 points		nio points	continue to moderate confidence
Civil Works	13-Jun	1Q11	-		0,047	The result will show the level of execution of public investment
Mexico	Data	Period	Forecast	Conconsus	Previous	resources critical for expected GDP growth in 2011 Comment
Mexico	Data	Periou	-O.7 mom	Consensus	0.4 (3.2%	Industrial Production have been severly affected by the shortage
Industrial Production	13-Jun	Apr 2011	(2.4% yoy)	NA	yoy)	in the inputs chain derived by the tsunami in Japan.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
1 61 4	Data	1 01104	1010000	00110011000	11011045	Economic growth moderation would have continued. This
GDP (yoy %)	15-Jun	Apr 2011	6,9%		7,9%	reflects in part a downward correction in business confidence
		·				due to the uncertainty surrounding the electoral process result
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Tax collection	14-Jun	May 2011				Is expected to keep growth exhibited the first four month of the
Tax collection	HJUH	1410 / 2011				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.





Market Data

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

Source: Bloomberg and Datastream

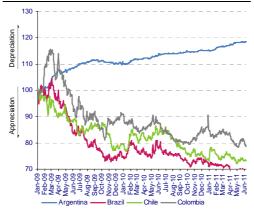
Charts

Chart 4
Stock markets (base index Jan09 = 100)



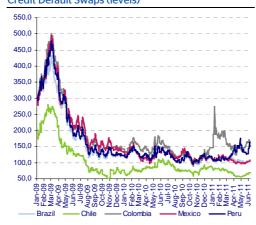
Source: Datastream and BBVA Research

Chart 6 Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



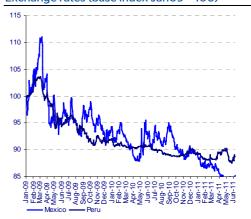
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



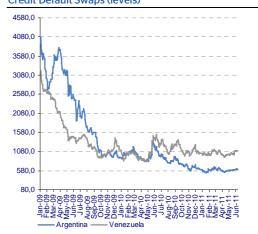
Source: Datastream and BBVA Research

Chart 7 Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 9
Credit Default Swaps (levels)



Source: Datastream and BBVA Research



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