

Latin

Weekly Watch

March 11, 2011

Economic Analysis

South America

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Markets

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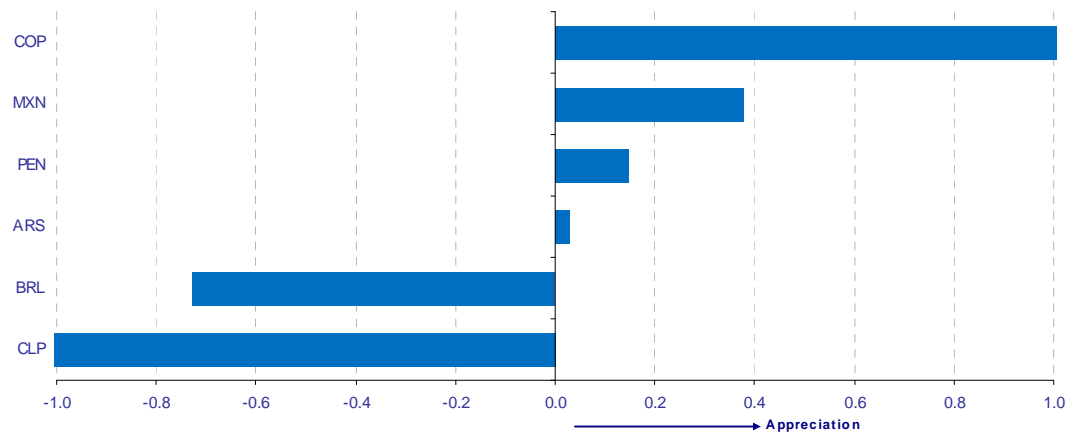
Inflation stable in February

Although February inflation did not increase, domestic demand continues strong, as can be seen in the figures for economic activity in Chile, Colombia and Peru. This suggests that inflationary risks remain in the region. Expectations will continue to be biased upwards as a result of the upturn in some commodity prices and the current geopolitical uncertainty. Given this situation, the central banks continue to take measures. In Peru, the Central Bank once more raised its benchmark rate to 3.75%.

Renewed risk aversion leads to increased volatility in the region, with currency appreciations in Colombia and Mexico and depreciations in Chile and Brazil.

Improvements in the terms of trade following the upturn in the oil price have benefited the Colombian and Mexican currencies, while for Chile and Brazil the main drivers were reductions in the price of copper in the case of Chile and monetary prospects in the case of Brazil. There is a trend to revalue the long end of the curves in the region.

Chart 1
Relative performance of Latin American currencies



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



Highlights

Inflation stable in February, but upward risks are still in place

Domestic demand continues strong in the region in January

Positive international trade figures confirm the strength of domestic demand

More monetary adjustments in the region

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Markets

The search for safe-haven assets continues, benefiting the fixed-income markets and leading to greater currency volatility in the region

With the reduced flow of economic data from the U.S., the mood of global markets was once more swayed by geopolitical conflicts in the Middle East and North Africa (the MENA region), as well as the increase in oil prices. There were also renewed concerns about European sovereign debt, resulting from a combination of factors: expectations ahead of the summit of EU leaders on Friday, negative results of auctions in Portugal and Greece, and the downgrade of Greece and Spain by Moody's. This sparked a renewed search for safe-haven assets that in general favored the global fixed-income markets (headed by the fall of 9 bps in the yield of the 10-year Treasury Bill in the U.S.). As a result, yield curves in Latin America were revalued at the long end.

The week for Latin American countries featured a high rate of volatility and greater divergence between economies. The COP and MXN showed strong gains. In the case of the COP, the movement was justified by the terms of trade factor, backed by increased oil prices; the MXN was boosted by the entry of foreign flows to the domestic fixed-income market. In the case of Mexico, increased crude oil prices could help in the short term, but they involve currency risks to the extent that the U.S. economic cycle is affected.

Meanwhile, the CLP and PEN closed down (particularly in the case of the CLP), in line with the fall of copper prices. Finally, the BRL fell back slightly ahead of expectations of a new intervention by the monetary authorities, but the fall was limited by the holidays on Monday and Carnival Tuesday.

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Economic Analysis

Highlights

Inflation stable in February, but upward risks are still in place

Inflation in February did not increase neither in Chile (stable at 2.7%), nor Colombia (down from 3.4% to 3.2%), Mexico (down from 3.8% to 3.6%) or Venezuela (28.7% vs. 28.5% in January). However, as a result of the possible impact of commodity price rises in an environment of fast-growing economies and rising expectations, we maintain a positive bias on our forecast.

Domestic demand continues strong in the region in January

In Chile the IMACEC index was up 6.8% y/y, above market expectations (6.0%), with the most dynamic sector being retail trade. Manufacturing industry was up 14.4% y/y in Peru, boosted not only by domestic demand, but also increased exports. Finally, lending was up 17.2% in Colombia, boosted mainly by mortgage lending and the greater use of credit cards.

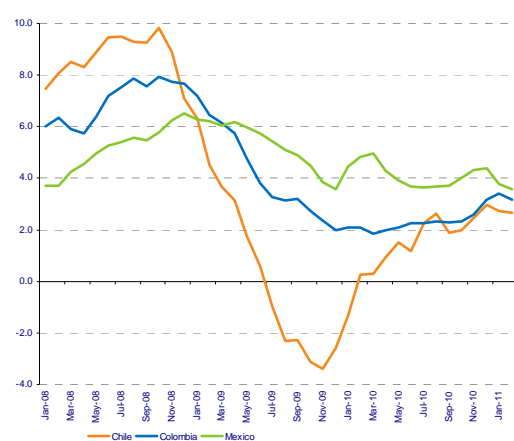
Positive international trade figures confirm the strength of domestic demand

In January exports in Colombia (up 29.8% y/y) were headed by hydrocarbons and mining, and backed by an improved balance in industrial vehicles. Imports in Peru in February (up 34.3% y/y) were boosted by purchases of capital goods for hydrocarbons, mining and transport, and showed the strength of investment.

Moreno monetary adjustments in the region

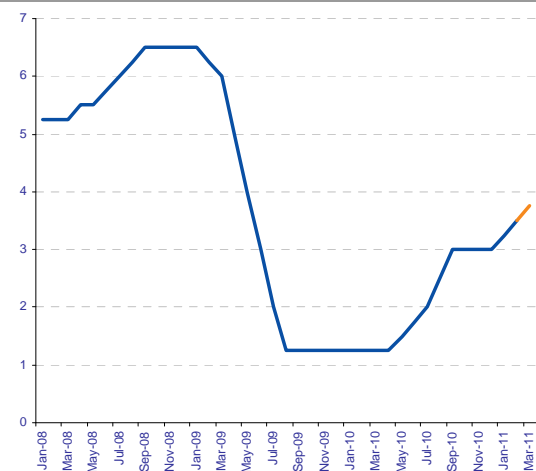
The Central Bank of Peru raised its benchmark rate from 3.50% to 3.75% amidst strong economic activity with rising inflationary expectations. In Brazil, the minutes of the Central Bank meeting revealed uncertainty about the economic environment and suggested that the adjustment of the monetary position could lead not only to increases in the SELIC but also macro-prudential measures.

Chart 3
Inflation (% y/y)



Source: BBVA Research.

Chart 4
Peru: Monetary Policy Rate (%)



Source: Central Reserve Bank of Peru.

Markets →

Calendar →

Markets Data →

Charts →

Calendar: Indicators

Next Week: 14 - 18 March 2011

Country	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Price Consumer Index	15-Mar	Feb 2011	1.0% m/m	1.4% m/m	0.7% m/m	
Wholesale Domestic Price Index	15-Mar	Feb 2011			0.9% m/m	
Construction Cost Index	15-Mar	Feb 2011			2.1% m/m	
Current Account	18-Mar	4Q 2010	USD 500 millions	USD 724 millions	USD 900 millions	
GDP	18-Mar	4Q 2010	8.8% y/y	8.0% y/y	8.6% y/y	Strong activity sustained by consumption and investment.
Brazil						
Job creation	14-21 mar 2011	Feb 2011			152,091	
Retail sales	15-Mar	Jan 2011	0.7% m/m		0.0% m/m	
Chile						
Quartely economic indicators	18-Mar	4Q 2010				
Colombia						
Imports	16-Mar	Jan 2011	40.0% y/y		30.1% y/y	Low statistical base in January 2010 enables high growth despite the reduced dynamics of capital goods' purchases.
Trade balance	16-Mar	Jan 2011	USD 20 millions		USD 81.4 millions	Record oil sales implies slightly positive surplus.
Industrial production	17-Mar	Jan 2011	5.9% y/y		4.0% y/y	Expected acceleration in monthly growth rate.
Retail sales	17-Mar	Jan 2011	10.0% y/y		12.4% y/y	Positive figures imply the consolidation in household consumption (in all types of goods).
Policy interest rate	18-Mar	Mar 2011	3.5% A.E.	3.38% A.E.	3.25% A.E.	Gradual retirement of monetary stimulus to continue in order to anchor inflation expectations
Mexico						
Industrial Production	14-Mar	Jan 2011	-0.2% m/m, 4.3% y/y, 5.8% NSA	5.3% NSA	0.7% m/m, 4.5% y/y SA	Moderation trend will be maintained. We expect a slight fall, partially related to a lack of dynamism on construction sector in contrast to manufactures.
Peru						
GDP	15-Mar	Jan 2011	9.2% y/y	9.2% y/y	8.9% y/y	Available indicators suggest that at the beginning of the year economic activity continues to expand at a significant pace, even with a slight acceleration.

Source: BBVA Research

Calendar: Events

Chile: Monetary Policy Rate (March 17)

Forecast: 4.0%	Consensus: 3.75%	Previous: 3.5%
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We expect the process of normalization of the monetary stimulus to speed up, given the inflationary pressures.

Calendar: holidays

No holidays in the region.

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Market data

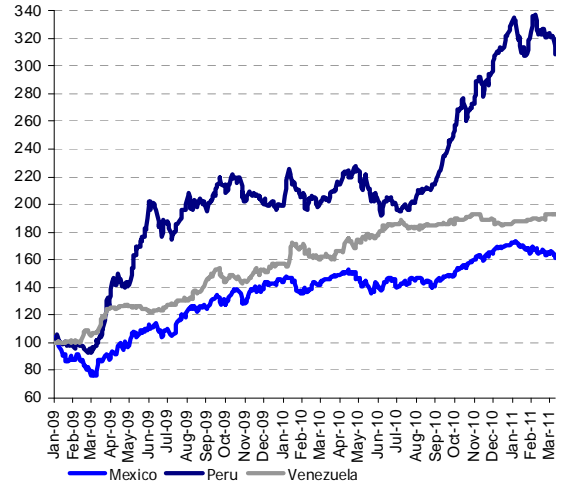
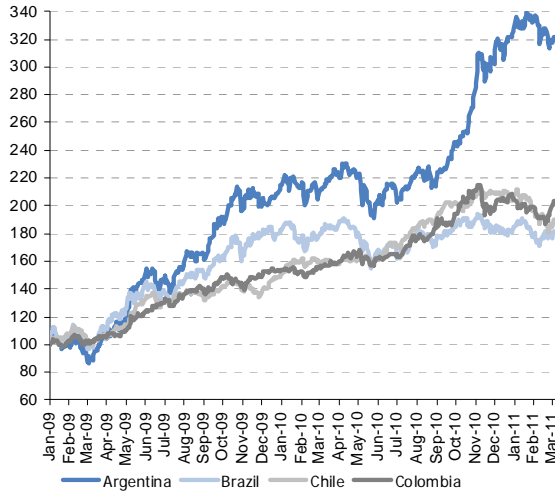
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	0	5
		2-yr yield	0.63	-6	-17	-32
		10-yr yield	3.35	-14	-30	-35
	EMU	3-month Euribor rate	1.17	1	8	52
		2-yr yield	1.65	-11	19	60
		10-yr yield	3.20	-7	-10	4
Exchange rates (changes in %)	Europe	Dollar-Euro	1.379	-1.4	0.6	0.2
		Pound-Euro	0.86	0.1	1.1	-5.0
		Swiss Franc-Euro	1.28	-0.8	-2.3	-11.9
	America	Argentina (peso-dollar)	4.03	0.0	0.4	4.4
		Brazil (real-dollar)	1.66	1.2	0.2	-5.7
		Colombia (peso-dollar)	1861	-1.8	-1.5	-2.0
		Chile (peso-dollar)	482	1.7	1.2	-6.7
		Mexico (peso-dollar)	12.02	0.1	-0.3	-4.2
		Peru (Nuevo sol-dollar)	2.77	0.0	0.0	-2.5
		Asia	Japan (Yen-Dollar)	82.06	-0.3	-0.4
	Korea (KRW-Dollar)		1126.15	0.7	1.6	0.0
	Australia (AUD-Dollar)		1.002	-0.9	-0.9	9.4
Comm. (changes in %)		Brent oil (\$/b)	113.0	-2.6	11.0	42.3
		Gold (\$/ounce)	1408.7	-1.6	3.3	27.8
		Base metals	616.5	-1.4	0.2	23.2
Stock markets (changes in %)	Euro.	Ibex 35	10417	-0.8	-4.7	-6.0
		EuroStoxx 50	2888	-2.1	-4.7	-0.4
		USA (S&P 500)	1295	-2.0	-2.0	12.6
	America	Argentina (Merval)	3399	-2.0	-3.0	44.0
		Brazil (Bovespa)	65587	-3.6	2.1	-5.4
		Colombia (IGBC)	14753	-4.1	1.7	24.3
		Chile (IGPA)	20743	-3.8	-2.4	16.4
		Mexico (CPI)	35891	-2.7	-3.0	10.2
		Peru (General Lima)	21637	-4.5	-5.9	50.5
		Venezuela (IBC)	67613	0.0	1.6	18.8
	Asia	Nikkei225	10254	-4.1	-3.4	-4.6
		HSI	23250	-0.7	0.4	9.6
Credit (changes in bps)	Ind.	Itraxx Main	103	4	7	29
		Itraxx Xover	393	4	-3	-18
	Sovereign risk	CDS Germany	48	1	-5	22
		CDS Portugal	504	22	71	393
		CDS Spain	257	20	21	162
		CDS USA	44	0	-2	---
		CDS Emerging	215	2	2	-2
		CDS Argentina	619	9	20	-387
		CDS Brazil	115	0	-4	-2
		CDS Colombia	115	0	-5	-23
		CDS Chile	68	-5	-10	-8
		CDS Mexico	109	0	-10	2
		CDS Peru	116	5	1	-1

Source: Bloomberg and Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)

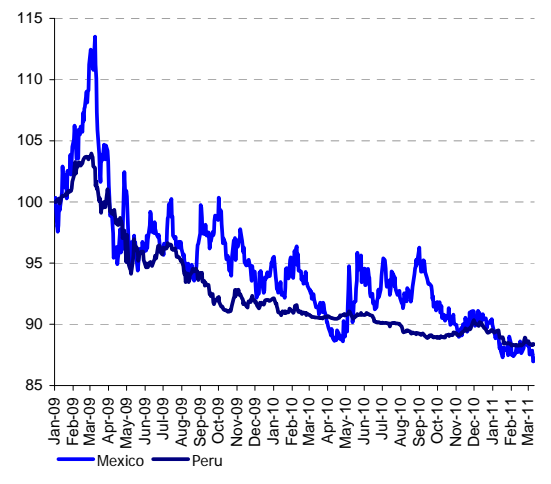
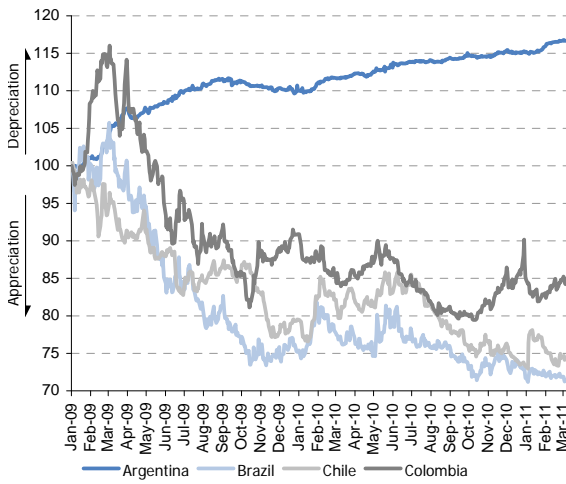


Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)

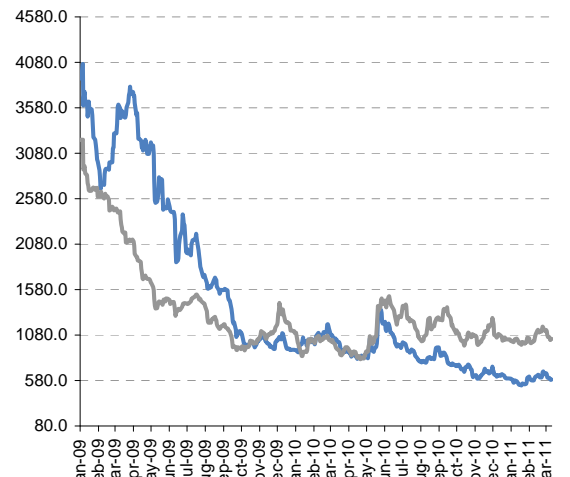
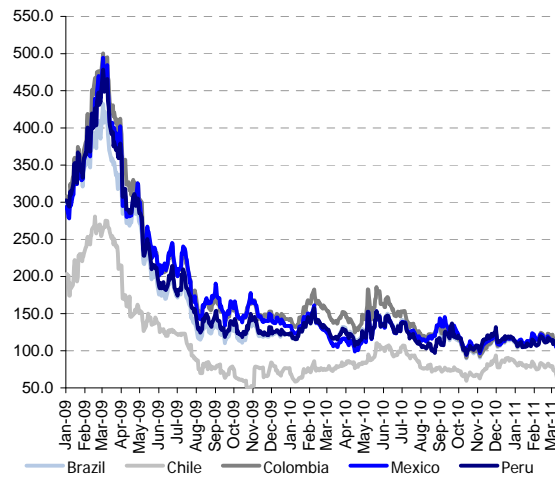


Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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