RESEARCH

Weekly Watch

Latin

August 15, 2011
Economic Analysis

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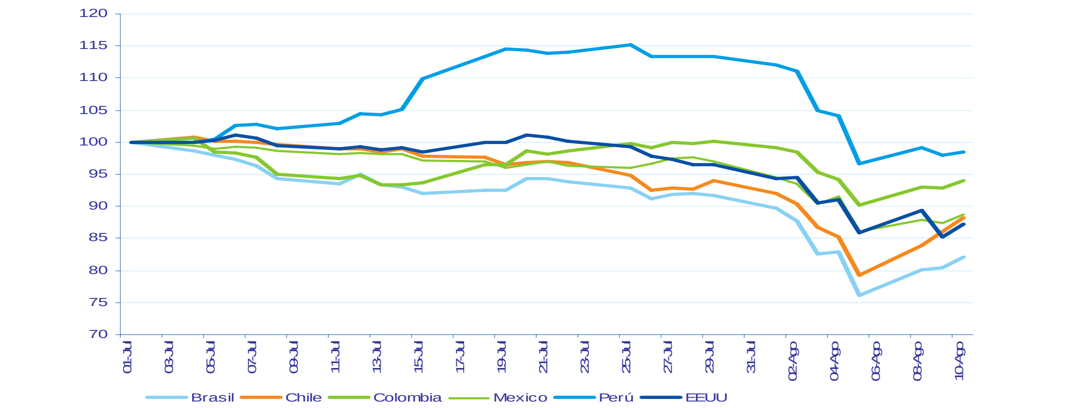
Pause at the central banks?

The contagion from global tension affecting the region is adding uncertainty as to the next decisions by the central banks. We expect a monetary pause in Chile (next week) and there is a growing possibility that the same will occur in Brazil (Aug 30), but not in Colombia (Aug 19), where the Central Bank has revised its growth forecast up. The market will keep a close watch on confirmation of economic trends in figures from Argentina, Colombia and Venezuela, as well as the primaries in Argentina on August 14.

Strong upturn in global risk aversion has a varied impact on assets in the region

S&P's downgrade of the U.S. and fiscal weakness in the Euro zone have led to fears of a new phase of economic contraction, with possible injections of liquidity in developed economies. Weak growth prospects led to greater asset movements in Mexico and Brazil, while in Chile, Colombia and Peru there were fewer adjustments, with favourable prospects from capital flows, exposure to Asia and normalization of the political cycle. Volatility will continue as long as there are no political solutions to the fiscal problem.

Chart 1
Stock markets: (1-Jul-2011 = 100)



Source: BBVA Research

Highlights

More signs of economic moderation

Inflation figures in Chile, Colombia and Mexico in line with our estimates and those of the market

Exports in Colombia: positive sales figures in the manufacturing sector

The Central Reserve Bank of Peru maintains its rate at 4.25%

Elections in Argentina

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Markets

The U.S. downgrade triggers strong global risk aversion and fears of a recession, combining with the sovereign debt problems in Europe

S&P's downgrade of U.S. debt triggered a vicious cycle in the markets, with fears of lower growth in global economic activity and contagion to the more vulnerable economies in Europe (doubts about fiscal sustainability in Greece, together with rumours of a downgrade in France and weakness of some of the country's banks). Monetary policy reactions were quick off the mark: they included the Fed's statement that interest rates would remain exceptionally low at least until mid-2013 and that other policy tools (e.g. QE3) may be applied; the ECB purchased Italian and Spanish bonds; and the Bank of England announced it may extend its bond purchasing program. The market is still beset by uncertainty, but is beginning to anticipate new liquidity injections (QE3) in the U.S., although their effect on reactivating the economy may be more limited.

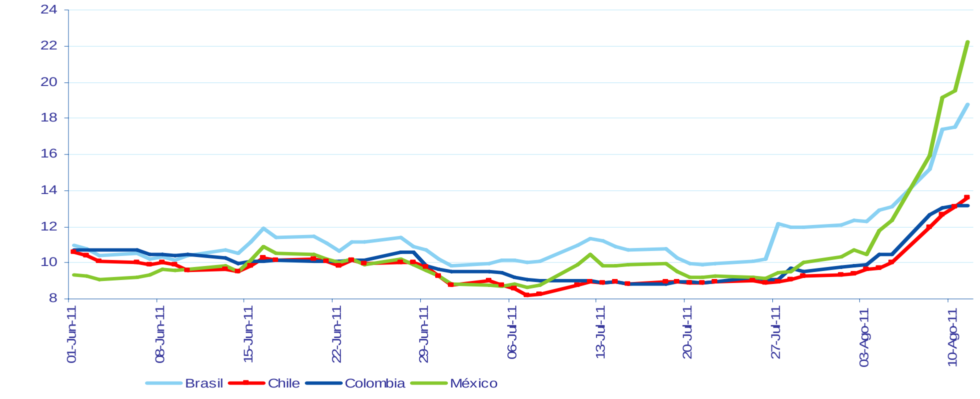
Markets in Latin America: different adjustments according to the level of exposure

There was a strong upturn in implied volatility among currencies in the region. The biggest rises in volatility were in the MXN and BRL, given their exposure to potentially lower growth in the U.S. and EU, which was also translated into lower commodity prices. These currencies fell back by 5% during the week, though they later moderated to levels of around 3%. In the other economies, the adjustments were more moderate, given their greater exposure to the Asian cycle. The depreciation of the CLP was under 2%, as a result of adjustments in commodity prices, with a downside bias expected in the USD/CLP cross as markets stabilize. The COP and PEN showed greatest resistance: the COP was helped by foreign investment inflows remaining strong, and the PEN by the improved domestic outlook, with local banks increasing their liquidity positions and reduced concerns regarding the new government.

Cyclical risk leads to correction in the stock markets and corporate risk premiums

The risk of a deterioration in corporate performance in the region due to bad global economic prospects lead to a contraction in the main stock market indices. Mexico performed in line with the Dow Jones, Chile recovered towards the end, Brazil was less positive and Peru and Colombia were relatively better. The risk premiums of corporate bonds in Latin America have adjusted, but they are still favouring Mexican corporate over those of Brazil and other countries. The major issue of Brazilian corporate bonds on international markets and a smaller issue of Mexican corporate have resulted in an excess of LatAm corporate paper (not counting Mexico). The yield spreads of oil companies in the region are an example of this.

Chart 2
LatAm: Implied 1-month exchange-rate volatility



Source: BBVA Research

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Highlights

More signs of economic moderation

In Brazil retail sales confirmed signs of moderation by growing only 0.2% m/m in June, following a rise of 0.7% m/m in May. Vehicle sales pointed the same way in Colombia (growth of 27.3% y/y in July, well under the rate of 50% y/y at the start of the year) and Venezuela (down 1.3% between January and July on the same period in 2010). In Mexico industrial output was down 0.6% on the May figure and up 3.8% in year-on-year terms.

July inflation figures in Chile, Colombia, Mexico and Venezuela

The CPI increase in Chile (0.1% m/m) and Colombia (0.1% m/m) was in line with our forecasts and those of the market. It is also consistent with our 2011 year-end forecast of 3.9% for Chile and 3.5% for Colombia. Chile is showing signs of moderation in inflationary pressures, thus strengthening our expectation of a monetary pause at the next monetary policy meeting. Core inflation is steady in Colombia, with expectations of greater increases in the future due to a low base of comparison, while in Mexico inflation (0.48% m/m, in line with the consensus) picked up annually solely due to non-core factors, above all agricultural prices. Headline inflation should be under 4% at the end of the year, supported by core prices. In Venezuela inflation gathered pace (2.7% m/m, 25.1% y/y) due mainly to revisions to the controlled prices of staple foods and public transport and to the increasing pace of monetary growth for fiscal reasons (37.8% y/y).

Exports in Colombia: positive sales figures in the manufacturing sector

Exports grew by 54% y/y in June, boosted by increased oil sales (97% y/y). Non-traditional sales (not counting gold and emeralds) were particularly outstanding, up 40.4% y/y and with a rise of 11.3% YTD.

The Central Reserve Bank of Peru maintains its rate at 4.25%

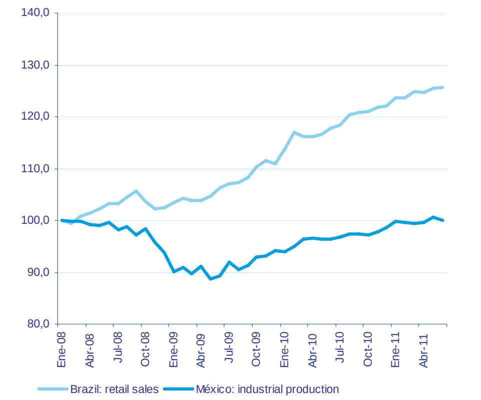
As expected (BBVA, Bloomberg consensus: 4.25%), the Central Bank announced that the reference interest rate will be maintained at 4.25% in August (where it has been since May) due to signs of weakness in the global economy and the fact that current and leading indicators point to lower growth of the Peruvian economy.

Elections in Argentina

The clear triumph of the "traditional" Peronist candidate De La Sota in the provincial elections in Cordoba does not imply a substantial change to the national scenario, where the key will be the mandatory national primary elections of August 14, which will give an indication as to whether the incumbent President is likely to be returned to office in the first round of voting.

Chart 3

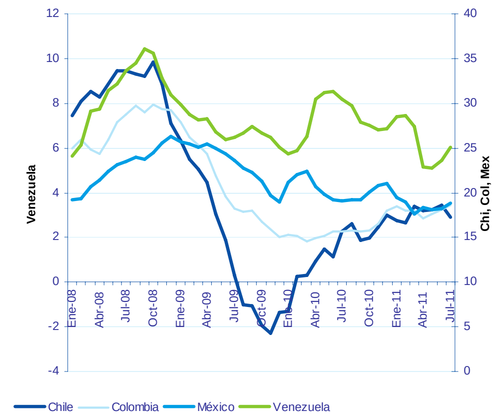
Economic activity (Jan 2008 = 100)



Source: BBVA Research

Chart 4

Inflation (% y/y change)



Source: BBVA Research

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Calendar: indicators

Next Week: 15 - 19 August 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Monthly Economic Activity Estimator	19-Aug	Jun 2011	8,3% y/y	7,7% y/y	8,1% y/y	The economic activity keeps the good performance
Industrial Monthly Estimate	19-Aug	Jun 2011	8,3% y/y	7,5% y/y	8,2% y/y	
Brazil	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Economic Activity Index	15-19-Aug	Jun 2011			0.17% m/m	
Chile	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Quarterly economic indicators (GDP and Balance of Payments)	18-Aug	2Q11				
Colombia	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Retail sales	19-Aug	Jun 2011	14.7% y/y		11.5% y/y	A major spike in sales of non durable goods, accompanying the growth of durable goods, is expected.
Industrial production	19-Aug	Jun 2011	1.7% y/y		4.3% y/y	Despite the slow growth, explained by the number of working days of the month, is expected to continue expansion in the margin.
Mexico	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
GDP constant prices	19-Aug	2Q11	1% q/q (3.43% y/y) SA	0,0	0.5% q/q (4.4% y/y)	Despite the moderation in annual terms, conjuncture variables of production and consumption, suggest that economic growth would have accelerated over the first quarter of this year. Thus, we estimate a variation of 1%qoq for the 2nd quarter, influenced by good data in the automotive sector, and slow recovery in trade, where the sustained gain in private formal employment is the key.
Peru	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
GDP (yoy change)	15-Aug	Jun 2011	6,2%	6,2%	7,1%	Indicators reflect a gradual economic deceleration. This in line with a lower investment spending.
Business confidence	19-Aug	Jul 2011			47	
Venezuela	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
GDP, Aggregate Demand and Supply	18-Aug	2Q11	2.7% y/y	3% y/y	4.5% y/y	We expect a slow down of GDP growth due to the supply constraint imposed by the electric rationing plan

Source: BBVA Research

Calendar of events

Monetary Policy Meeting in Chile (August 18) and Bank of the Republic benchmark rate in Colombia (August 19)

Forecast: Chile, 5.25%; Colombia, 4.75%	Consensus: Chile, 5.25%; Colombia, 4.5%	Previous: Chile, 5.25%; Colombia, 4.5%

Calendar of holidays

Chile: Monday, August 15

Colombia: Monday, August 15

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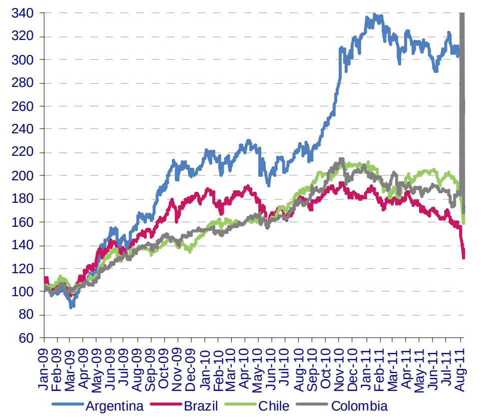
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.29	1	4	-8
		2-yr yield	0.17	-12	-18	-36
		10-yr yield	2.27	-29	-62	-41
	EMU	3-month Euribor rate	1.54	-3	-7	64
		2-yr yield	0.68	-8	-60	3
		10-yr yield	2.29	-6	-46	-10
Exchange rates (changes in %)	Europe	Dollar-Euro	1.423	-0.1	0.5	11.2
		Pound-Euro	0.87	0.5	-0.5	6.6
		Swiss Franc-Euro	1.10	0.7	-5.2	-18.2
	America	Argentina (peso-dollar)	4.16	0.0	0.8	5.7
		Brazil (real-dollar)	1.63	2.5	3.6	-8.1
		Colombia (peso-dollar)	1789	-0.4	1.7	-2.4
		Chile (peso-dollar)	473	1.7	2.2	-7.2
		Mexico (peso-dollar)	12.35	3.2	5.6	-2.9
		Peru (Nuevo sol-dollar)	2.74	0.1	0.1	-2.2
	Asia	Japan (Yen-Dollar)	76.72	-2.3	-2.9	-11.0
		Korea (KRW-Dollar)	1080.65	1.8	2.3	-9.1
		Australia (AUD-Dollar)	1.031	-1.7	-4.2	15.0
Comm. (chg %)		Brent oil ($/b)	107.8	-1.5	-9.3	43.5
		Gold ($/ounce)	1760.7	5.8	11.3	44.9
		Base metals	564.9	-2.9	-5.2	13.5
Stock markets (changes in %)	Euro	Ibex 35	8330	-3.9	-13.8	-18.9
		EuroStoxx 50	2248	-5.3	-17.2	-17.0
	América	USA (S&P 500)	1173	-2.2	-11.0	8.7
		Argentina (Merval)	2949	-3.9	-12.1	24.5
		Brazil (Bovespa)	53343	0.7	-12.1	-19.5
		Colombia (IGBC)	13262	0.1	-0.6	-0.3
		Chile (IGPA)	20142	3.1	-10.1	-3.4
		Mexico (CPI)	33590	-0.3	-7.3	4.6
		Peru (General Lima)	19679	-2.4	-2.7	33.0
		Venezuela (IBC)	96415	3.7	17.8	48.9
	Asia	Nikkei225	8964	-3.6	-10.0	-3.1
		HSI	19620	-6.3	-10.5	-6.9
Credit (changes in bps)	Ind.	Itraxx Main	156	19	38	43
		Itraxx Xover	654	103	213	141
	Sovereign risk	CDS Germany	87	13	31	43
		CDS Portugal	876	-43	-198	601
		CDS Spain	369	-36	50	151
		CDS USA	52	-3	1	---
		CDS Emerging	294	45	73	65
		CDS Argentina	793	113	164	-40
		CDS Brazil	161	30	45	41
		CDS Colombia	160	33	48	38
		CDS Chile	106	28	30	26
		CDS Mexico	161	33	47	43
		CDS Peru	171	28	44	61

Source: Bloomberg and Datastream

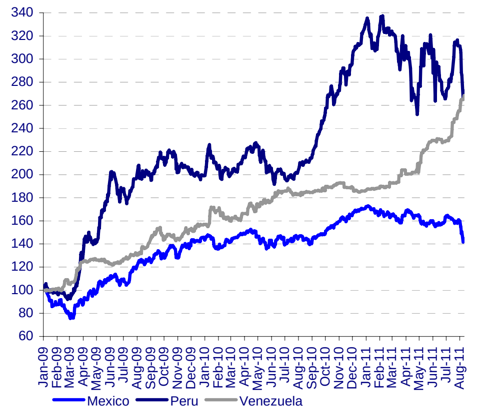
Charts

Chart 4
Stock markets (base index Jan09 = 100)



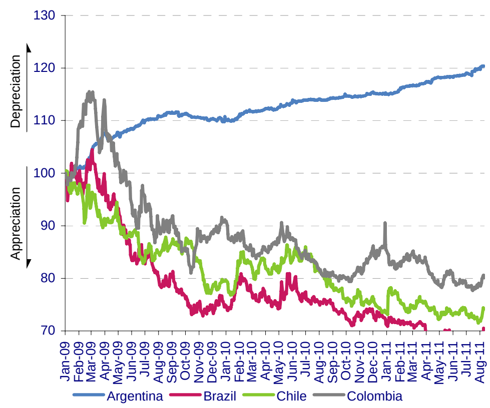
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



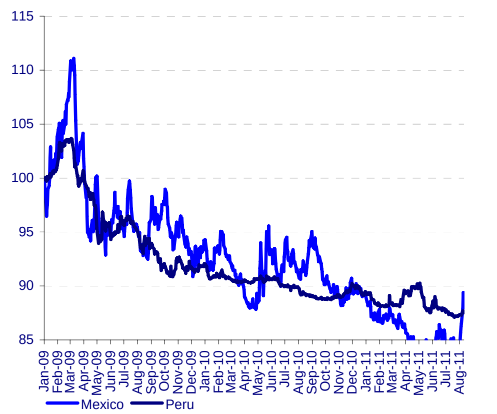
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



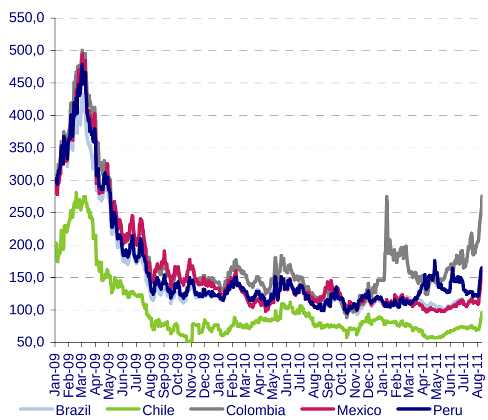
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



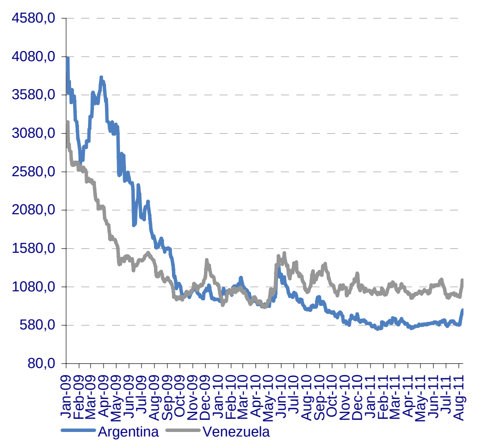
Source: Datastream and BBVA Research

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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