

# Weekly Watch

## Latin

August 15, 2011  
Economic Analysis

**South America**

**Joaquín Vial**  
jvial@bbvaprovida.cl

**Enestor Dos Santos**  
enestor.dossantos@grupobbva.com

**Cristián Ashwell**  
cashwell@bbva.com

**Argentina**  
**Gloria Sorensen**  
gsorensen@bancofrances.com.ar

**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

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

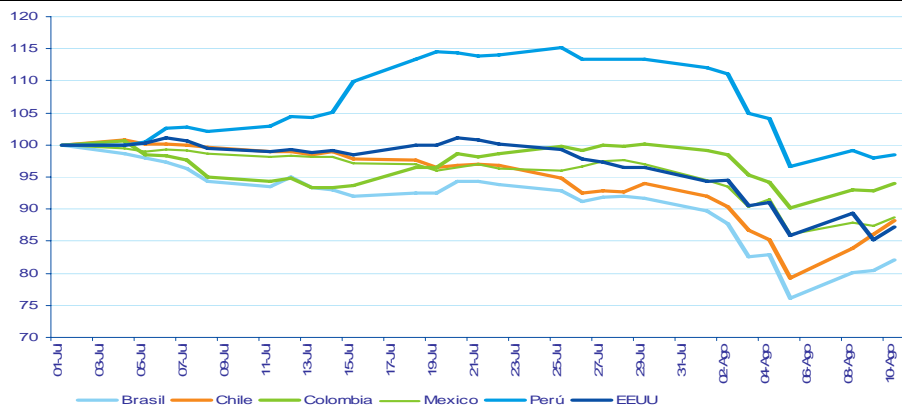
## Pause at the central banks?

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

Markets →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

Octavio Gutiérrez Engemann  
ogutierrez3@bbva.bancomer.com

Edgar Cruz

## 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.

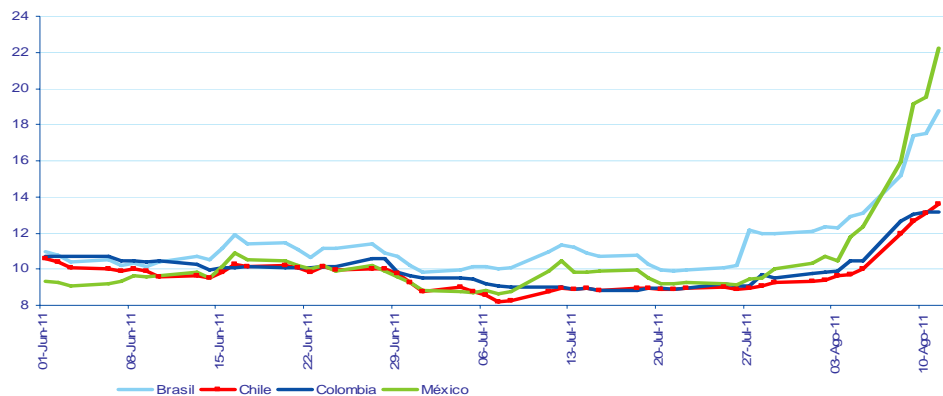
### Markets in Latin America: different adjustments according to the level of exposure

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

- Home →
- Highlights →
- Calendar →
- Market data →
- Charts →

## 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.

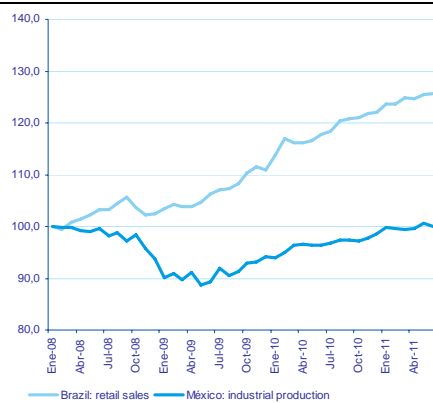
### The Central Reserve Bank of Peru maintains its rate at 4.25%

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

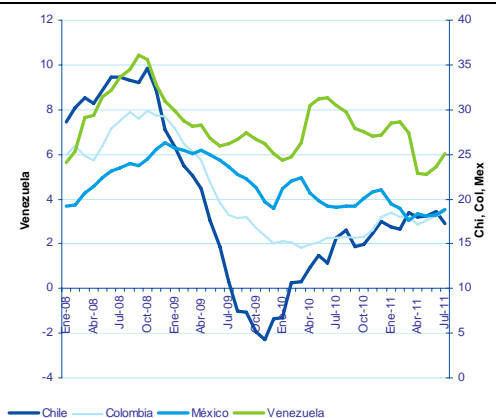
The clear triumph of the "traditional" Peronist candidate De La Sota in the provincial elections in Cordoba does not imply a substantial change to the national scenario, where the key will be the mandatory national primary elections of August 14, which will give an indication as to whether the incumbent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

- Home →
- Markets →
- Calendar →
- Market data →
- Charts →

## Calendar: indicators

### Next Week: 15 - 19 August 2011

	Data	Period	Forecast	Consensus	Previous	Comment
<b>Argentina</b>						
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	
<b>Brazil</b>						
Economic Activity Index	15-19-Aug	Jun 2011			0.17% m/m	
<b>Chile</b>						
Quarterly economic indicators (GDP and Balance of Payments)	18-Aug	2Q11				
<b>Colombia</b>						
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.
<b>Mexico</b>						
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.
<b>Peru</b>						
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	
<b>Venezuela</b>						
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

[Home](#) →

[Markets](#) →

[Highlights](#) →

[Market data](#) →

[Charts](#) →

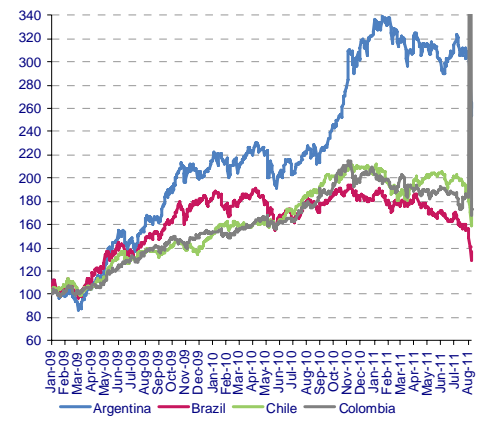
## Market Data

			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	-15	-9.3
	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	
		USA (S&P 500)	1173	-2.2	-11.0	8.7	
	América	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
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

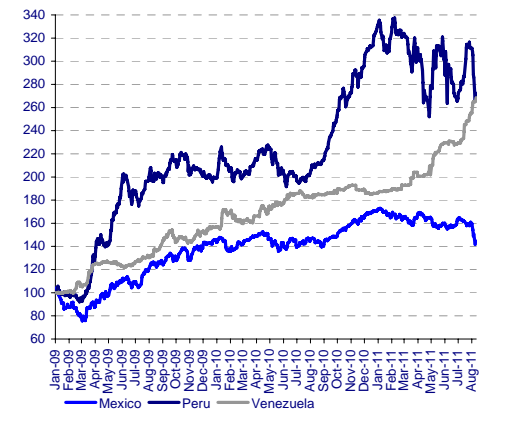
Charts

Chart 4  
Stock markets (base index Jan09 = 100)



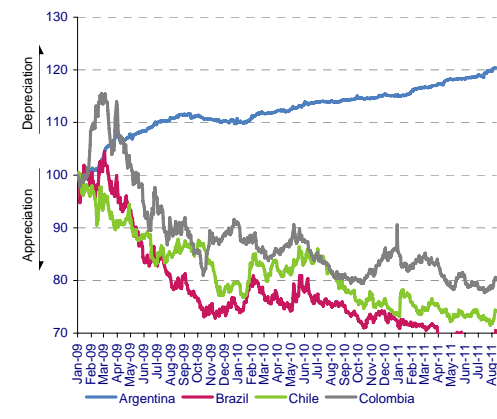
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



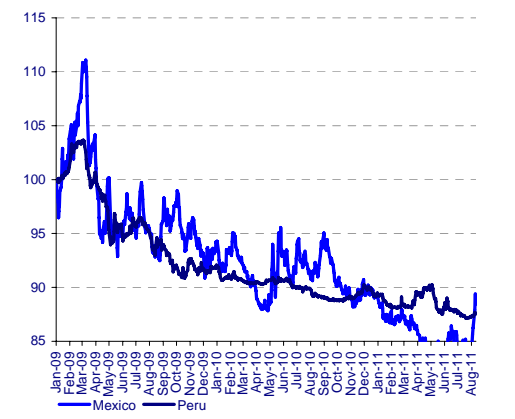
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



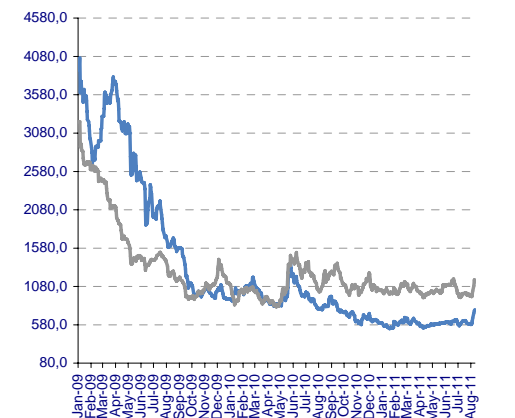
Source: Datastream and BBVA Research

Chart 8  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 9  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

**BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.**