

# Weekly Watch

## Latin

September 12, 2011  
Economic Analysis

### South America

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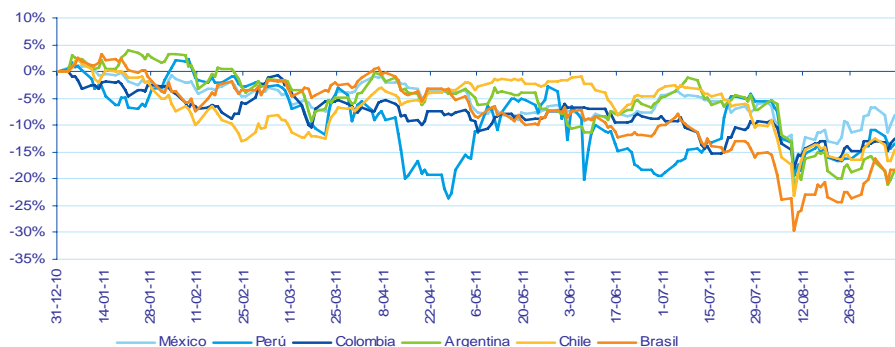
## Inflation supports monetary pause

Inflation data from last week support the pauses in monetary policy shown in central bank actions and messages we have recently seen. In this vein, economic output data from Brazil, Argentina and Peru should show slowdown signs to consolidate said expectations.

### Positive global signals (fiscal in the US and ESFS in Europe), but market sentiment will be dominated by political debate.

Regional currencies saw slight falls in an uncertain scenario of sovereign and fiscal risks. Although fiscal stimulus proposals in the US and the possibility of German participation in new support programs injected optimism, the coming political debate may lead to volatility. Local factors in Latin America contributed to set the course for the BRL, MXN, CLP and COP. We expect the wide trading ranges for these currencies to remain in the short-term.

Chart 1  
LatAm stock markets



Source: BBVA Research

## Highlights

Inflation stable in line with forecasts for Brazil, Colombia, Chile and Mexico and a slight upswing in Venezuela

Central banks in Peru and Chile reassert the end of monetary tightening

Strong export figures in Colombia and Peru

Output slows in Chile and Colombia

Higher tax revenues in Argentina and Peru

Markets →

Highlights →

Calendar →

Market data →

Charts →

## Economic Analysis

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## Markets

## Local factors took on importance as determining factors for currencies for the first time in months

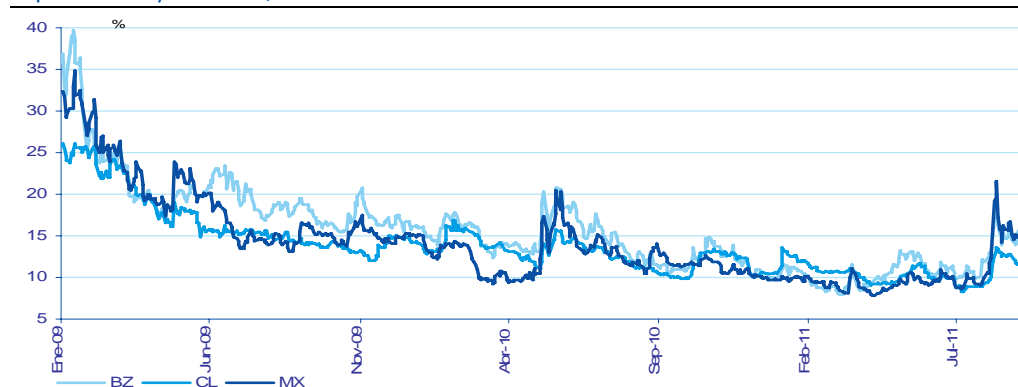
Latin American currencies mostly saw negative performances over the week. This was again due to influence from global risk aversion in the face of persistent fiscal concern in the EU and doubts surrounding the US cycle. Although there was a small breather at the end of the week thanks to possible further fiscal stimulus in the US and the chance of a third round of unorthodox stimulus (such as balance adjustment or higher liquidity injection), this was not enough to reverse the trend.

In turn, for the first time in several months local factors started to act as determining factors in currency trades. This is especially so in Brazil where the BRL continued to fall in response to last week's SELIC rate cut and to expected additional short-term cuts. The MXN also remained downward with trading continuing to react to the risks of cuts in Banxico's benchmark rates but mainly to the greater exposure to the US economy. The CLP and COP saw the same reaction albeit with more limited downward moves since the positions at their Central Banks are slightly less dovish as well as Colombia placing a sovereign bond. In short, volatility remains on FX markets meaning we expect to see continued wide trading ranges in the short-term.

## Positive global signals for stock markets, but the political debate set to dominate investor sentiment

In contrast, regional stock markets saw marginally favourable performances (except in Chile and Peru) with positive global news at the end of the week. German constitutional court approval for support for Greece has a positive effect on equity investors; although it does not guarantee future support (parliamentary votes on September 29 will be crucial). In turn, the analysis of the new fiscal stimulus package announced by Obama (Thursday 8) and the later political debate could mark investor sentiment. For the time being, continued support for household income (an extension of lower payroll tax) and higher infrastructure spending (schools and transport) is favourable. However, the stress levels in Europe remain high with the Greek CDS hitting new highs (due to compliance doubts around fiscal commitments) and US and German bonds hitting new lows. In this setting, the market should continue to be led by political debate (US and Europe) imposing an outlook of volatility.

Chart 2  
Implied volatility of the BRL, MXN and CLP



Source: BBVA Research

Home →

Highlights →

Calendar →

Market data →

Charts →

## Economic Analysis

## Highlights

**Inflation stable in line with forecasts for Brazil, Colombia, Chile and Mexico and a slight upswing in Venezuela**

Year-on-year inflation fell to 3.3% y/y and 3.4% y/y in August in Colombia and Mexico. It rose slightly in Brazil and Chile in line with forecasts, hitting 7.2% y/y and 3.2% y/y respectively. Inflation rose for the fourth month in a row, hitting 25.8% y/y in Venezuela.

**Central banks in Peru and Chile reassert their maintaining of interest rates**

While the Central Bank of Peru again held its rate at 4.25%, the Central Bank of Chile cut its growth forecast to a range of 6.25% - 6.75%, with a downward bias, and confirmed forecasts for lower inflation (3.3% y/y in contrast to the previous 4%) for the end of 2011, stating that the rate should remain at the current level. The Central Bank of Argentina meanwhile strongly intervened on currency markets to contain the fall of the peso due to strong retail and business demand in an uncertain global scenario.

**Strong export figures in Colombia and Peru**

Exports in Colombia and Peru grew 55% y/y and 40% y/y respectively in July. The diversion of industrial products to other markets that before went to Venezuela stands out in Colombia. In both cases figures show the impact of higher staple commodity prices.

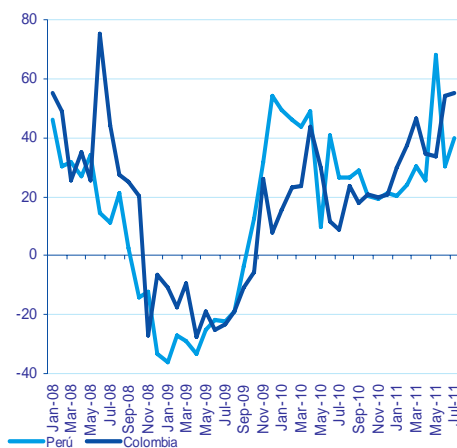
**Output slows in Chile and Colombia**

In Chile, the Monthly Economic Activity Indicator (IMACEC) was up 4.3% y/y in July, with a 0.3% m/m decline in margins showing the impact of stoppages to copper production. Colombia saw car sales of 28,500 units in August, a growth of 28.4% y/y. This figure shows a slowdown with regard to rates of 50% y/y at the start of the year.

**Higher tax revenues in Argentina and Peru**

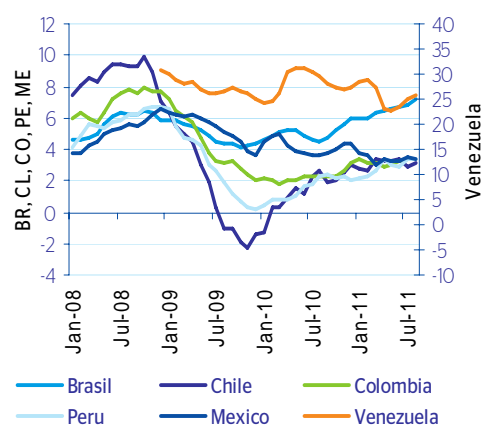
Tax revenues increased 35.4% y/y (consensus: +30.2%) in August in Argentina, income from earnings (51%) and foreign trade (42.1%) standing out. Tax revenue at the Central Government in Peru increased 9.8% y/y in July in real terms with a moderation in the growth rate due to a reduction in the general sales tax rate in 1Q11.

Chart 3  
Export figures in Colombia and Peru (y/y, %)



Source: BBVA Research

Chart 4  
Annual inflation in Brazil, Chile, Colombia, Mexico, Peru and Venezuela



Source: BBVA Research

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

## Calendar: indicators

Next Week: 12 - 16 September 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Price Consumer Index	14-Sep	Aug 2011	0.9% m/m	1.0% m/m	0.8% m/m	
Wholesale Price Index	14-Sep	Aug 2011			0.9% m/m	
Cost of Construction Index	14-Sep	Aug 2011			1.6% m/m	
GDP	16-Sep	2Q11	7.8% y/y	7.1% y/y	9.9% y/y	The activity reduces slightly
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Retail sales	13-Sep	Jul 2011		0.8% m/m	0.2% m/m	
Economic Activity Index - CB	14-21-Sep	Jul 2011			-0.25% m/m	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Survey of Economic Expectations	12-Sep	Sept 2011				
Survey of Financial Operators	12-Sep	First fortnight of Septiembre				
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Imports	13-Sep	Jul 2011	33.0% y/y		45.9% y/y	imports are driven by purchases of capital goods and raw materials for industry.
Trade balance	13-Sep	Jul 2011	USD 400 millions		USD 378 millions	Significant recovery in industrial exports guaranteed trade surplus.
Building permits	15-Sep	Jul 2011	20.0% y/y		66.5% y/y	The construction sector will be around 200 thousand homes built this year.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	12-Sep	Jul 2011	0.5% m/m (3.9% y/y)	NA	-0.6% m/m (3.8% y/y)	Good production data in the U.S. have benefited the export industries as automotive, electrical and electronic equipment and foodstuffs. We believe this will contribute to a slight recovery for August.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
GDP	15-Sep	Jul 2011	6.9%	n.a.	5.3%	We expect a positive behaviour in primary sectors and those linked to private consumption.

Source: BBVA Research

## Calendar of events

### Chile: Monetary Policy Meeting (September 15)

Forecast: 5.25%	Consensus: 5.25%	Previous: 5.25%
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We expect the monetary policy rate to remain steady in the face of a worsening external scenario. The September monetary policy report (IPoM) confirms this.

## Calendar of holidays

Mexico: September 16

Home	➔
Markets	➔
Highlights	➔
Market data	➔
Charts	➔

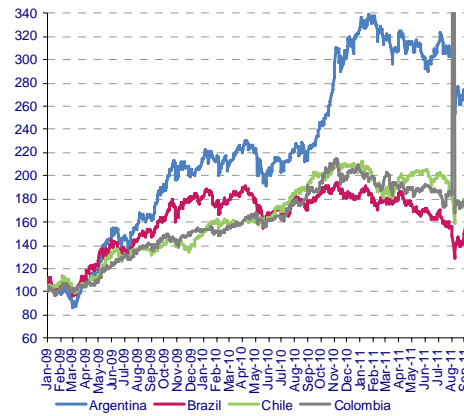
## Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.34	1	6	4
		2-yr yield	0.19	0	0	-37
		10-yr yield	2.02	3	-23	-74
	EMU	3-month Euribor rate	1.53	-1	-2	65
		2-yr yield	0.49	-3	-29	-21
		10-yr yield	1.90	-11	-47	-44
Exchange rates (changes in %)	Europe	Dollar-Euro	1.407	-0.9	-1.1	10.8
		Pound-Euro	0.88	0.9	0.7	7.5
		Swiss Franc-Euro	1.21	8.5	16.8	-6.0
	America	Argentina (peso-dollar)	4.20	0.1	1.1	6.5
		Brazil (real-dollar)	1.66	1.4	1.9	-3.7
		Colombia (peso-dollar)	1790	0.4	-0.7	-0.8
		Chile (peso-dollar)	463	0.6	-2.2	-6.6
		Mexico (peso-dollar)	12.49	1.0	1.0	-4.3
		Peru (Nuevo sol-dollar)	2.73	-0.1	-0.5	-2.4
	Asia	Japan (Yen-Dollar)	77.38	0.8	0.4	-7.7
		Korea (KRW-Dollar)	1074.75	0.9	-1.5	-7.8
		Australia (AUD-Dollar)	1.059	-0.7	4.4	14.7
Comm. (chg %)		Brent oil (\$/b)	115.0	2.4	12.1	48.5
		Gold (\$/ounce)	1837.4	-2.4	5.6	47.7
		Base metals	573.3	0.4	0.4	12.0
Stock markets (changes in %)	Euro	Ibex 35	8249	-2.5	-2.1	-23.0
		EuroStoxx 50	2157	-2.8	-6.0	-22.5
		USA (S&P 500)	1199	2.1	2.2	8.6
	América	Argentina (Merval)	2877	0.2	0.4	18.3
		Brazil (Bovespa)	56607	0.1	10.7	-15.0
		Colombia (IGBC)	13543	0.6	3.5	-5.8
		Chile (IGPA)	20166	-0.8	4.8	-8.4
		Mexico (CPI)	35180	0.1	8.6	8.2
		Peru (General Lima)	20135	-1.5	4.8	27.2
		Venezuela (IBC)	99806	-0.3	7.1	52.9
	Asia	Nikkei225	8793	-1.8	-1.7	-3.4
		HSI	19913	-1.5	3.0	-5.9
Credit (changes in bps)	Ind.	Itraxx Main	175	10	33	68
		Itraxx Xover	718	23	125	235
		CDS Germany	79	0	-4	38
	Sovereign risk	CDS Portugal	1037	61	176	710
		CDS Spain	369	-23	20	134
		CDS USA	51	-1	-2	---
		CDS Emerging	280	-2	4	27
		CDS Argentina	833	17	89	-55
		CDS Brazil	152	2	0	27
		CDS Colombia	152	3	1	21
		CDS Chile	101	5	12	25
		CDS Mexico	151	2	-2	10
		CDS Peru	157	3	-5	31

Source: Bloomberg and Datastream

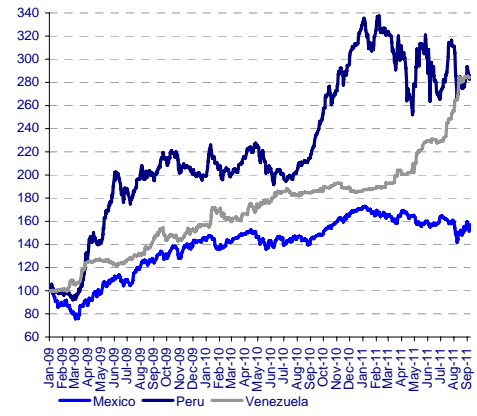
## Charts

Chart 4  
Stock markets (base index Jan09 = 100)



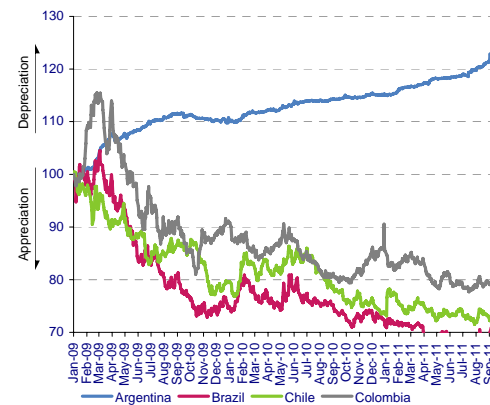
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



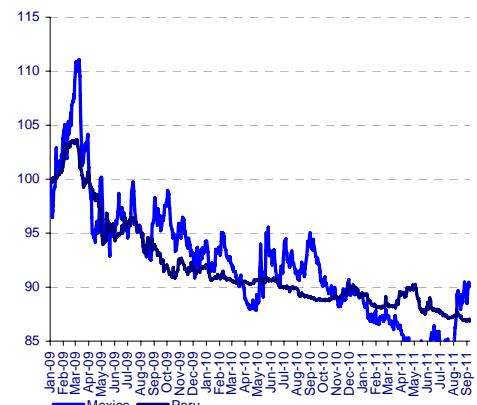
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



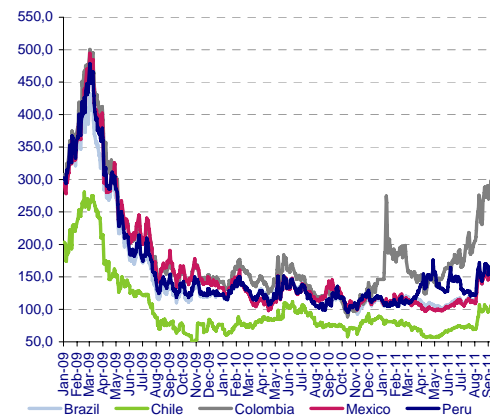
Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



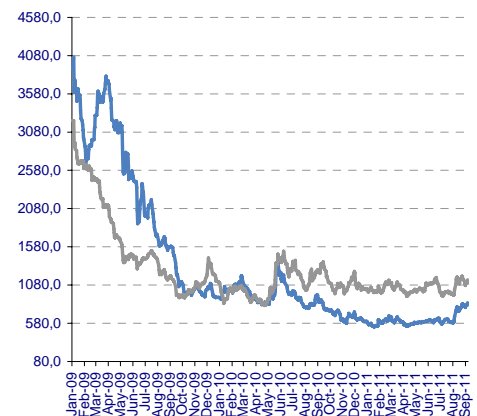
Source: Datastream and BBVA Research

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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