

# Weekly Watch

## Latin

May 13, 2011  
Economic Analysis

### South America

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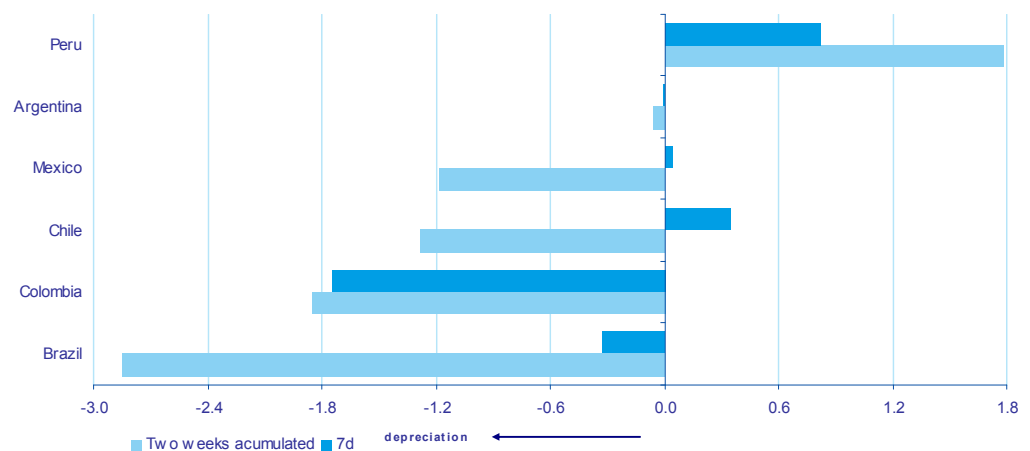
## Fujimori leads Humala

Economic growth continues strong in South America, as reflected in figures from Brazil, Colombia and Peru, prompting the central banks to adopt new measures. In Uruguay the deposit reserve requirements were raised, while in Chile and Peru benchmark interest rates rose by 50 and 25 bps, respectively. In Peru, the latest polls show that Fujimori is winning supporters against Humala. The Brazilian Senate approved an increased payment to Paraguay for surplus energy produced by the Itaipu dam.

### Mixed results for currencies in the region

Although prospects for overheating in China and the strength of U.S. recovery influenced the performance of currencies in the region, local events made the difference. Among the news worth highlighting are the expectation of increased monetary rates in Chile and Peru (together with political expectations), as well as interventions in Brazil and Colombia. Of particular note was the depreciation of the COP over the week, which had lagged behind the rest of the currencies in the region.

Chart 1  
Weekly performance of Latin American currencies



Source: BBVA Research

## Highlights

Economic activity up in the first quarter

Uruguay adopts measures to control liquidity and lower inflation

Chile and Peru continue with their normalization of monetary policy

Fujimori continues to move up in the polls

A new gas field increases Argentina's reserves

Brazil approves an increase in payment for Paraguay's electricity

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## Economic Analysis

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## Markets

**Global events qualified by local factors determine the appetite for assets and lead to mixed results in currencies in the region**

Although cyclical global and sovereign news continue to determine the appetite for financial assets in the region, last week local events marked the difference on the region's foreign-exchange markets. On the global level, higher than expected inflation in China, far from the authorities' comfort levels, generated expectations of more restrictive measures in the economy and led to an adjustment in commodity prices. Combined with uncertainty about sovereign debt in Europe and mixed data on U.S. recovery and inflation, this led the MXN and BRL to continue depreciating, although at a slower rate. Intervention in the foreign-exchange market was particularly strong in Brazil (USD 1.4 billion), despite a moderation in capital inflows, according to the weekly report on foreign-exchange transactions (USD 7,620m).

Of particular note was the depreciation over the week of the Colombian peso (COP), which in this respect was lagging behind the other currencies in the region. This movement, which may continue over the next few days, can be explained by global factors and the purchase of USD by the government. In Argentina, the Central Bank once more bought dollars and showed its intention to maintain the exchange rate stable.

In Chile, expectations of an increase in the benchmark rate and the assessment of the language used in the statement led to a slight appreciation in the currency, even after the downward adjustment in the copper price. In Peru, news on the electoral front, combined with expectations of an increase in the benchmark rate, pushed the PEN up over the week.

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## Economic Analysis

## Highlights

## Economic activity up in the first quarter

Retail sales in Brazil were up 1.2% m/m in March and 2.3% q/q, picking up their pace on Q410 (1.5% q/q). Formal employment was up in Peru by 5.5% y/y in January, while in Colombia bank lending was up 20.5% y/y in March, and 1.3% of GDP higher than the level at the close of 2010. In Mexico industrial production fell back by 0.2% m/m in March, in line with a seasonal adjustment and within the moderate trend for the year.

## Uruguay adopts measures to lower liquidity and inflation

The Central Bank of Uruguay increased average reserve requirements for peso deposits by 3 pp, and 5 pp for dollar deposits. In addition, it created marginal reserve requirements on average deposits for April 2011, setting them at 15% for pesos and 27% for USD. The marginal reserve requirements will receive a similar remuneration to the deposit rate in the banking system.

## Chile and Peru continue with their normalization of monetary policy

In Chile, the Central Bank surprised the market raising the policy rate by 50 bps to 5%. In Peru, in line with expectations, the Central Bank raised the rate 25 basis points to 4.25%.

## Fujimori continues to move up in the polls

The latest Ipsos-Apoyo poll (May 8) showed that support for Keiko Fujimori continues to rise, and is now 41%, while Ollanta Humala remains at 39%.

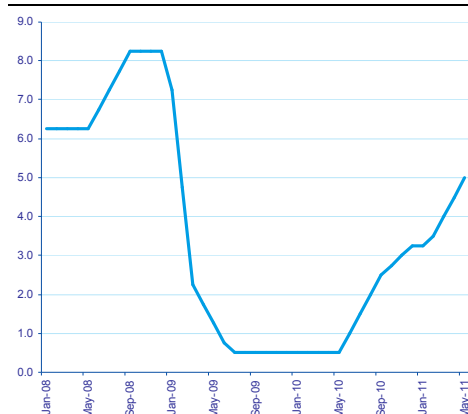
## A new gas field increases Argentina's reserves

YPF-Repsol has discovered an unconventional gas field (shale gas) with a potential production of 150m barrels. This would increase YPF's reserves by 35% and those of Argentina by 8%.

## Brazil approves an increase in payment for Paraguay's electricity

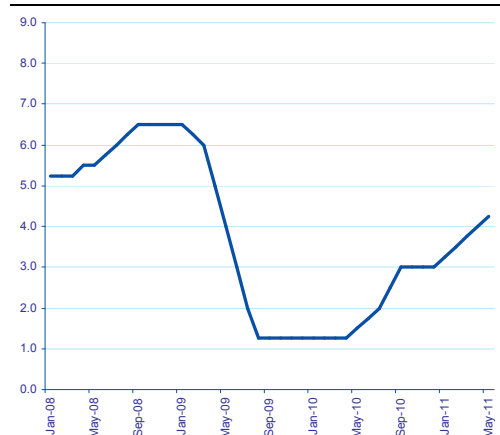
On Wednesday the Brazilian Senate approved an increase from USD 120m to USD 360m in the payment made to Paraguay for its surplus power from the Itaipu hydroelectric plant. The government will propose a law to distribute the additional USD 240m through a socio-economic development fund with four key elements: social investment (USD 100m), infrastructure (USD 100m), human capital (USD 20m) and a stabilization fund (USD 20m).

Chart 2  
Chile: Reference interest rate (%)



Source: BCRP and BCCh

Chart 3  
Peru: Reference interest rate (%)



Source: BCRP and BCCh

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## Calendar: indicators

## Next Week: 16 - 20 May 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Economic Activity Monthly Estimator	20-May	Mar 11	8.1% y/y	8.2% y/y	8.7% y/y	
Industrial Monthly Estimate	20-May	Apr 11	8.3% y/y	8.3% y/y	8.4% y/y	
Unemployment Rate	20-May	1Q 11	7.9%	7.7%	7.3%	Seasonal effects in the unemployment rate
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Quarterly economic indicators	18-May	1Q 11				
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Imports	17-May	Mar 11	28.0% y/y		29.1% y/y	Purchases of transport goods drove imports in march.
Trade balance	17-May	Mar 11	USD 100 millions		USD 362.6 millions	High commodity prices can achieve a surplus.
Building permits	17-May	Mar 11	25.0% y/y		63.4% y/y	Residential sector will lead growth in 2011.
Industrial production	19-May	Mar 11	2.6% y/y		2.4% y/y	Moderate growth in the industry for heterogeneity among industries.
Retail sales	19-May	Mar 11	11.4% y/y		13.2% y/y	Show the strength of consumption.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IGAE	19-May	Mar 11	-0.1mom (3.3% yoy)		0.3% (4.6% yoy)	We expect some moderation in activity linked to the decline in March in the industry and the beginning of lower growth in the number of job creation
GDP	19-May	1Q 11	1.1 qoq (5.6% yoy)		1.3% t/t (4.4% yoy)	While the 1Q11 was somewhat better than initially expected, at the end of the period we observe moderation in most areas, so do not rule out that growth is still somewhat lower.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
GDP (yoy, %)	16-May	Mar 11	7.7%	8.5%	8.5%	Growth is expected to moderate in March, mainly related to the Construction sector and to Primary sectors
Business confidence index	20-May	Apr 11			65	Uncertainty due to political elections could have negatively affected business confidence in April
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
GDP	17-May	1Q 11	3.9% yoy		0.6% yoy	Leading indicators support the economic recuperation expected
Commercial Balance	17-May	1Q 11	USD 8.661 MM		USD 6.495 MM	Crude oil prices improve the balance of payment forecast

Source: BBVA Research

## Calendar: holidays

No holidays in the region

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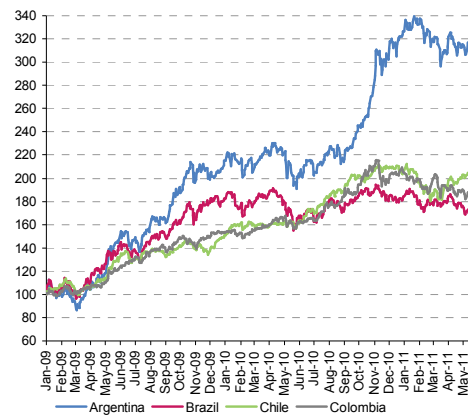
## Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.26	-1	-2	-18
		2-yr yield	0.55	0	-17	-23
		10-yr yield	3.22	7	-24	-23
	EMU	3-month Euribor rate	1.42	0	9	74
		2-yr yield	1.81	5	-5	126
		10-yr yield	3.14	-3	-30	28
Exchange rates (changes in %)	Europe	Dollar-Euro	1429	-0.8	-1.1	15.0
		Pound-Euro	0.88	-0.1	-1.2	3.0
		Swiss Franc-Euro	1.26	-0.1	-2.5	-10.0
	America	Argentina (peso-dollar)	4.08	0.0	0.6	4.7
		Brazil (real-dollar)	1.62	0.7	1.7	-10.1
		Colombia (peso-dollar)	1800	1.9	-1.1	-8.8
		Chile (peso-dollar)	467	-0.3	-1.0	-12.6
		Mexico (peso-dollar)	11.63	0.1	-1.5	-7.3
		Peru (Nuevo sol-dollar)	2.77	-0.8	-1.6	-2.5
		Japan (Yen-Dollar)	80.52	0.2	-3.9	-12.6
		Korea (KRW-Dollar)	1086.55	0.7	-0.2	-5.0
	Asia	Australia (AUD-Dollar)	1.070	-0.4	1.9	20.4
Comm. (chg %)		Brent oil (\$/b)	114.3	4.7	-7.0	48.1
		Gold (\$/ounce)	1514.3	1.2	3.9	22.8
		Base metals	602.7	-0.1	-5.1	22.9
Stock markets (changes in %)	Euro	Ibex 35	10497	-1.1	-2.7	12.7
		EuroStoxx 50	2926	-0.9	-0.8	11.1
		USA (S&P 500)	1349	0.6	2.6	18.8
	América	Argentina (Merval)	3390	2.2	-0.5	53.2
		Brazil (Bovespa)	64003	-0.6	-3.7	0.9
		Colombia (IGBC)	14277	3.1	0.1	16.8
		Chile (IGPA)	23013	1.0	4.2	28.1
		Mexico (CPI)	35161	-0.1	-5.9	10.5
		Peru (General Lima)	21484	-1.3	15.4	41.4
		Venezuela (IBC)	77434	0.8	10.0	24.0
	Asia	Nikkei225	9649	-2.1	0.1	-7.8
		HSI	23163	0.0	-4.0	15.0
Credit (changes in bps)	Ind.	Itraxx Main	97	1	0	-12
		Itraxx Xover	358	4	-11	-154
		CDS Germany	39	0	-3	-9
	Sovereign risk	CDS Portugal	627	-8	52	389
		CDS Spain	242	0	20	63
		CDS USA	43	0	1	---
		CDS Emerging	206	-1	8	-45
		CDS Argentina	587	-4	35	-344
		CDS Brazil	103	-1	-4	-28
		CDS Colombia	102	2	2	-56
		CDS Chile	60	0	1	-29
		CDS Mexico	99	-1	-1	-29
		CDS Peru	135	-2	-14	5

Source: Bloomberg and Datastream

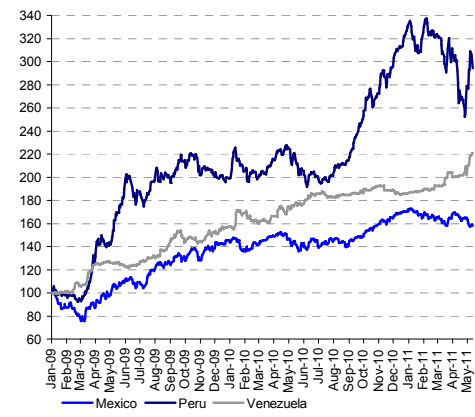
## Charts

Chart 4  
Stock markets (base index Jan09 = 100)



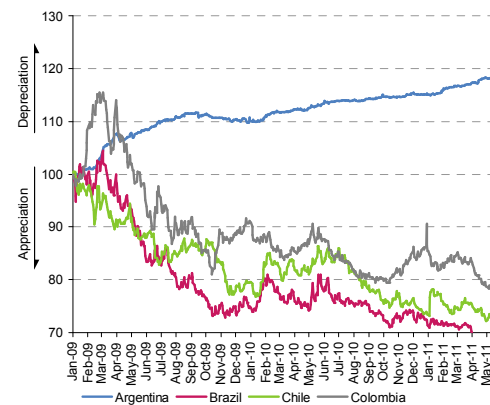
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



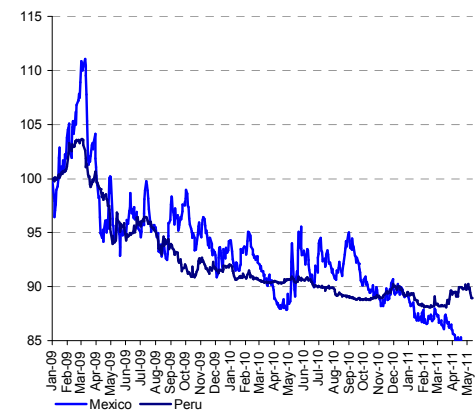
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



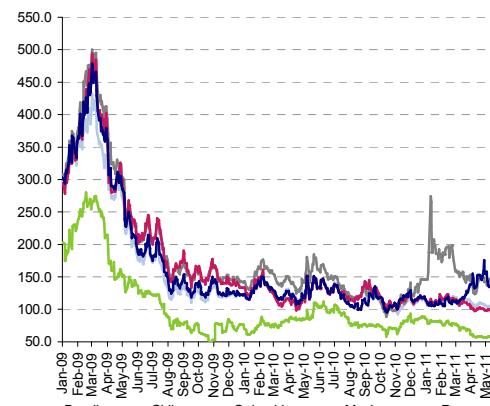
Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



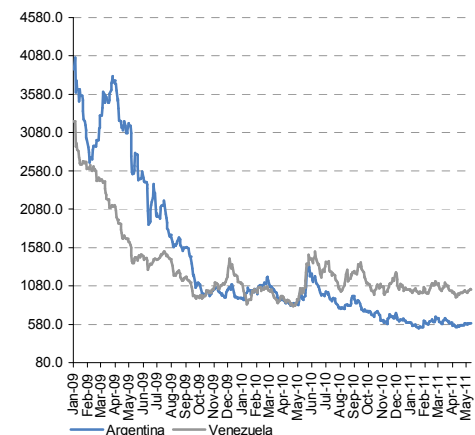
Source: Datastream and BBVA Research

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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