

Latin

Weekly Observatory

January 14, 2011

Economic Analysis

South America

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Markets

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Is the anti-inflationary commitment weakening?

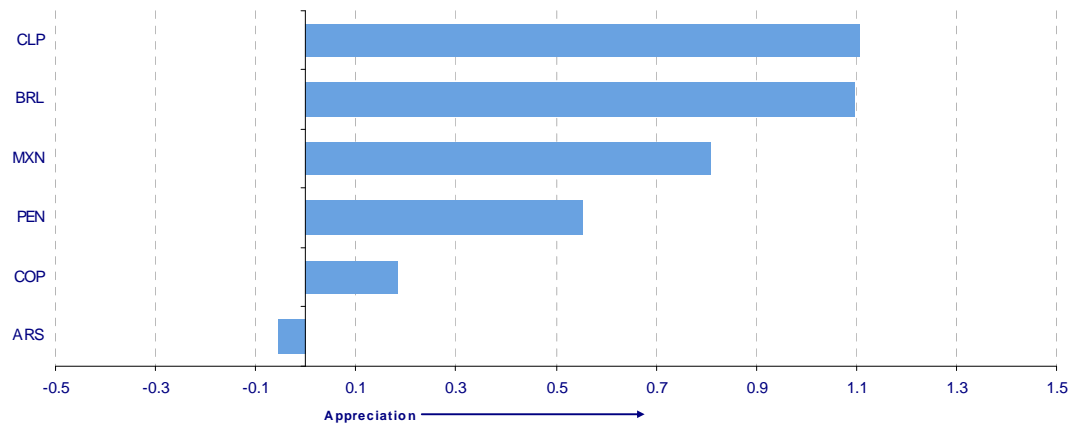
Data on economic activity in November continue to show signs of growth. It can be seen in the industrial output of Mexico, the Indicator of Economic Activity in Brazil and the trade balance of Peru. Expectations of economic growth in Peru were up in December. Meanwhile, Colombia revised upwards the increase in the minimum wage in response to the December inflationary surprise. Finally, the Central Bank of Chile decided to maintain its reference rate at 3.25%, despite the upward surprises in economic activity and greater inflationary expectations in its last survey.

The appetite for assets from the region is being reflected in currency gains and rising share prices; the yield curve responds more to local factors

Improved cyclical perspectives in the U.S., earnings reports and favorable bond issues in European countries are combining to give a greater appetite for assets in the region, despite the foreign-exchange intervention measures in some countries. In contrast, yield curves were dominated by monetary policy expectations, particularly in Chile and Brazil.

Chart 1

Weekly changes in LatAm currencies (% , 7d)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



Highlights

The Central Bank of Chile surprises by not raising official rates

Economic activity up in Brazil and Mexico

Peru's trade balance in November

Surveys of expectations in December maintain their optimistic slant

Colombia revises upward the increment in the minimum wage due to the inflationary surprise

Economic Analysis

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Markets

Despite intervention measures in foreign-exchange markets, the main currencies in the region gained ground thanks to a greater appetite for risk...

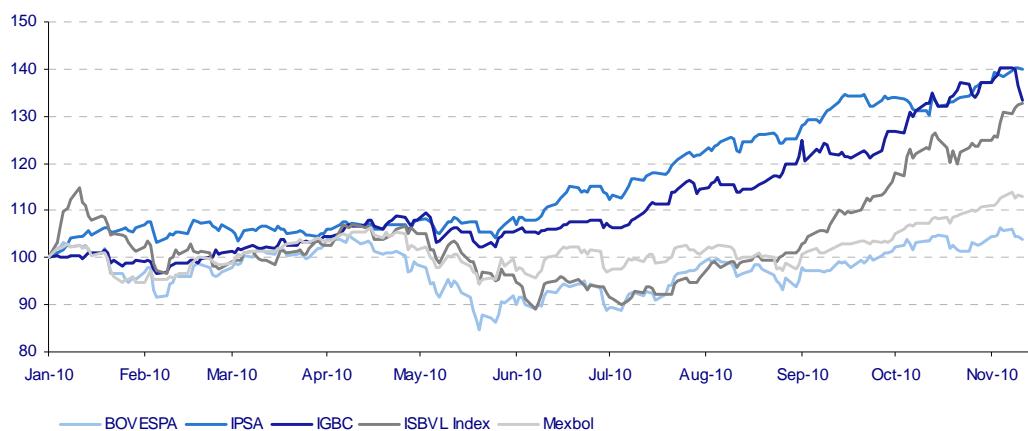
The sound performance of global markets resulting from improved growth expectations in the U.S., the start of the corporate reporting season and successful bond issues by Portugal, Spain and Italy over the week boosted appetite for risk and spread to most of the currencies in the region. This was particularly notable in the Chilean peso, the Brazilian real and the Mexican peso. In the case of the Chilean and Brazilian currencies, the positive impulse was despite the recently announced foreign-exchange intervention measures. Stock markets in the region were indifferent to the general euphoria, and the main indices in the region closed the first two weeks of the year in positive territory.

... while in fixed-income, the main determinants continued to be domestic in nature

Local yield curves have responded more to domestic than international factors, and in countries such as Chile and Brazil the expectations regarding monetary policy decisions were the main determinant throughout the week.

One question that remains in the market is whether the increased interest rates in some countries may not stimulate more portfolio inflows and mitigate some of the effect of foreign-exchange intervention measures.

Chart 2
Latin American stock market index, Jan 10 = 100



Source: BBVA Research with data from Bloomberg

Highlights →

Calendar →

Markets Data →

Charts →

Economic Analysis

Highlights

The Central Bank of Chile surprises by not raising official rates

Despite the fact that the Central Bank's survey showed higher inflation expectations and the fact that the indices of economic activity have posted sound growth figures, the monetary authority chose not to increase its monetary policy rate.

Economic activity up in Brazil and Mexico

Mexican industrial output was up 0.2% m/m in November (5.3% y/y). Particularly notable was the construction industry and the branches linked to the cycle of manufacturing industry abroad. In Brazil, the Central Bank's Index of Economic Activity was up by 0.4% m/m in November, above the average in the third quarter (0.3% m/m). Retail sales in November also rose by 1.1% m/m (9.9% y/y).

Peru's trade balance in November

The balance of trade registered a positive USD 557m, with the accumulated balance through November standing at USD 5,547m. Both exports and imports continue to grow at double-digit rates, although less than in previous months.

Surveys of expectations in December suggest that optimism continues

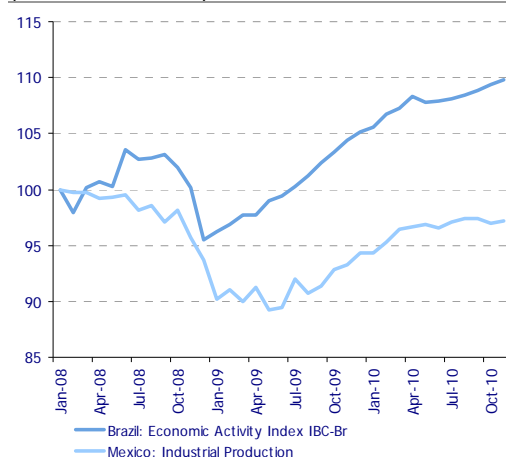
Surveys of economic expectations in Peru showed an increase in growth prospects for the Peruvian economy (from 6.0% to 6.3% among economic analysts). At the same time, in Colombia the seasonally-adjusted index of consumer confidence remains close to all-time high levels.

Colombia revises upward the increment in the minimum wage due to the inflationary surprise

The government decreed a revision of the increment in the minimum wage for 2011 from the 3.4% y/y published on 30 December to 4.0% y/y. This was in response to the surprise increase in inflation at the close of 2010 (3.2% y/y) resulting from the effects of the winter flooding. The greater adjustment of the minimum wage and the ensuing indexation effect will put greater pressure on prices in 2011.

Chart 3

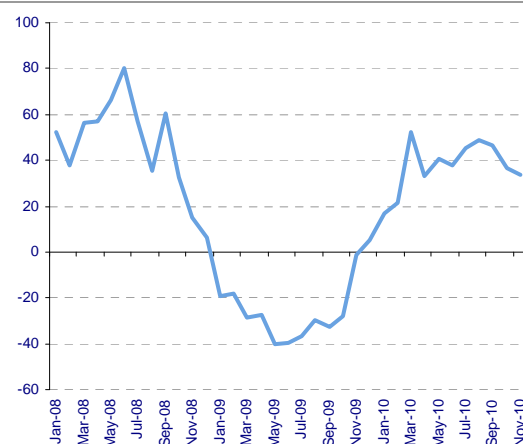
Economic activity - seasonally adjusted
(Jan 2008 = 100)



Source: BBVA Research

Chart 4

Peru: Imports (% y/y change)



Source: Central Reserve Bank of Peru

Markets →

Calendar →

Markets Data →

Charts →

Calendar: Indicators

Next Week: 17-21 January 2011

Country	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Monthly Estimador of Economic Activity (EMEA)	21-Jan	Nov 2010	7.7% y/y		7.2% y/y	
Brazil						
Capacity Utilization - Industry	20-Jan	Nov 2010			82.2%	
Formal Job Creation	14-21 Jan 2011	Dec 2010			138,247	
Colombia						
Exports	17-Jan	Nov 2010	19.0% y/y		20.5% y/y	It is expected that non-traditional exports are located above the yearly average.
Industrial production	20-Jan	Nov 2010	5.2% y/y		2.7% y/y	The effect of an additional business day allow further growth of the industry.
Retail sales	20-Jan	Nov 2010	14.6% y/y		15.0 y/y	Dynamism of private consumption continues.
Mexico						
Unemployment Rate	21-Jan	Dec 2010	5.2 SA		5.4 SA	The unemployment rate continued to decline to be slow. Favorable impact of the surge in private formal employment at the end of the year
Peru						
GDP	17-Jan	Nov 2010	9.2% y/y		8.3% y/y	In November, the economic activity keep growing at a high rate due to the performance of the Construcción and Commerce Sectors.
Unemployment rate	17-Jan	Dec 2010			7.6%	
Business confidence index	21-Jan	Dec 2010			70	
Inventory index	21-Jan	Dec 2010			59	
Venezuela						
Unemployment Rate	21-Jan	Dec 2010	7.6%		7.7%	

Source: BBVA Research

Calendar: Events

Brazil and Mexico: Monetary policy meetings (January, 19 and 21, respectively)

Forecast: Bra 11.25%; Mex 4.5% **Forecast: Bra 11.25%; Mex 4.5%** **Previous: Bra 11.25%; Mex 4.5%**

The Central Bank of Brazil will probably announce a rise of 50 bps in the SELIC rate in response to increased inflation, as well as the economic prospects for this year. The movement of the monetary authority should also strengthen the institution's stance of independence from political pressures to reduce interest rates. In Mexico, Banxico will maintain its monetary pause, with no inflationary pressures and with economic activity expanding moderately.

Calendar: holidays

No holidays in the region.

Markets →

Highlights →

Market Data →

Charts →

Market data

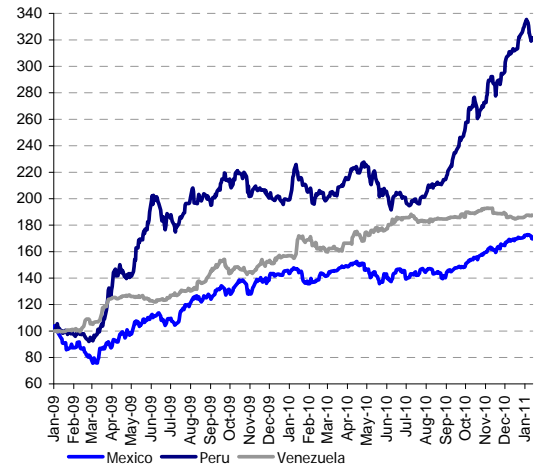
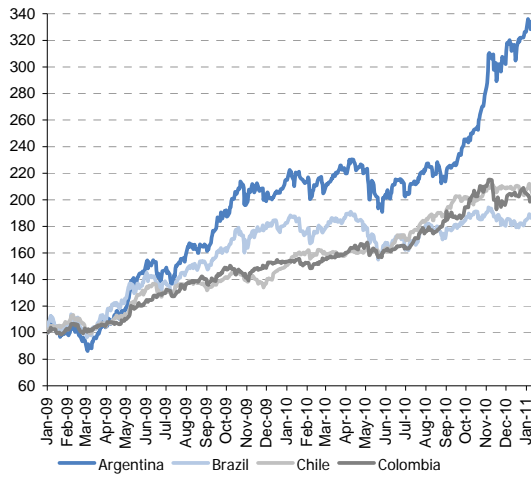
			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.30	0	0	5	
		2-yr yield	0.57	-2	-10	-29	
		10-yr yield	3.27	-5	-26	-41	
	EMU	3-month Euribor rate	1.01	1	-2	33	
		2-yr yield	1.13	27	7	0	
		10-yr yield	3.01	14	-2	-25	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.339	3.6	0.8	-6.9	
		Pound-Euro	0.84	1.4	-1.1	-4.8	
		Swiss Franc-Euro	1.29	3.3	0.8	-12.6	
	America	Argentina (peso-dollar)	3.98	0.0	0.1	4.7	
		Brazil (real-dollar)	1.68	-0.3	-1.1	-5.1	
		Colombia (peso-dollar)	1876	0.2	-1.7	-4.8	
		Chile (peso-dollar)	491	-1.3	3.6	0.4	
		Mexico (peso-dollar)	12.10	-1.3	-2.6	-4.9	
		Peru (Nuevo sol-dollar)	2.79	-0.6	-1.1	-2.3	
		Asia	Japan (Yen-Dollar)	82.69	-0.3	-1.6	-8.9
	Korea (KRW-Dollar)		1116.75	-0.6	-3.7	-0.9	
	Australia (AUD-Dollar)		0.990	-0.4	0.0	7.2	
	Comm. (changes in %)	Brent oil (\$/b)	98.6	5.6	6.9	27.9	
		Gold (\$/ounce)	1364.5	-0.4	-1.2	20.7	
		Base metals	591.5	1.6	3.1	19.4	
Stock markets (changes in %)	Euro.	Ibex 35	10338	8.1	3.3	-12.7	
		EuroStoxx 50	2909	3.6	2.4	-1.1	
	America	USA (S&P 500)	1285	1.1	4.0	13.1	
		Argentina (Merval)	3540	-0.2	7.6	49.3	
		Brazil (Bovespa)	70923	1.2	4.5	2.8	
		Colombia (IGBC)	15265	1.1	-0.6	30.3	
		Chile (IGPA)	23214	0.0	0.0	33.8	
		Mexico (CPI)	38134	-1.2	1.2	18.2	
		Peru (General Lima)	22186	-3.2	1.0	46.9	
	Asia	Venezuela (IBC)	65918	0.3	1.6	9.3	
		Nikkei225	10499	-0.4	1.8	-4.4	
	Credit (changes in bps)	Ind.	Itraxx Main	106	-7	2	31
			Itraxx Xover	416	-25	-25	3
Sovereign risk		CDS Germany	60	2	8	28	
		CDS Portugal	496	-37	58	365	
		CDS Spain	308	-45	-11	181	
		CDS USA	42	1	3	---	
		CDS Emerging	202	-3	-15	-44	
		CDS Argentina	541	-42	-107	-466	
		CDS Brazil	107	-4	-8	-21	
		CDS Colombia	108	-4	-8	-36	
		CDS Chile	81	-3	-6	17	
		CDS Mexico	111	-3	-7	-22	
		CDS Peru	106	-4	-14	-24	

Source: Bloomberg and Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)

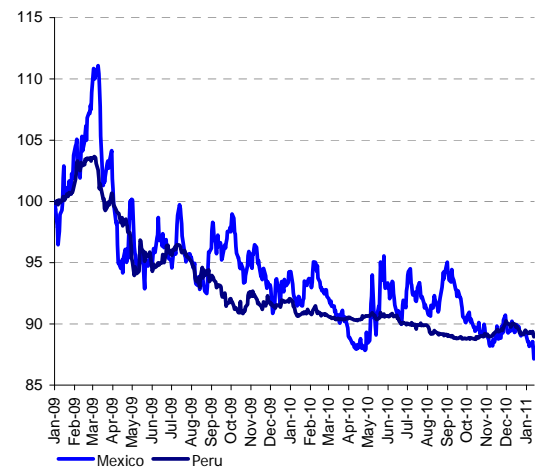
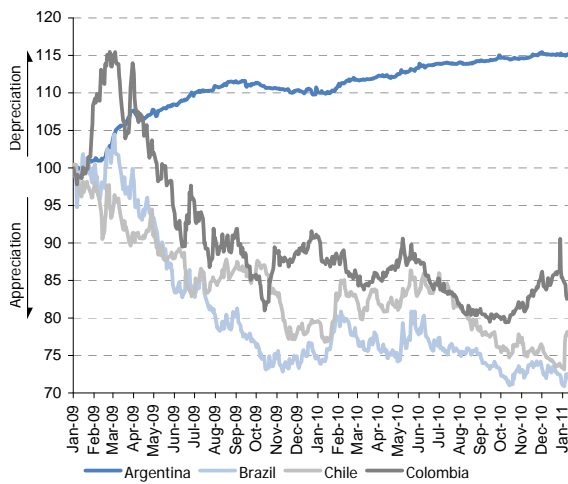


Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)

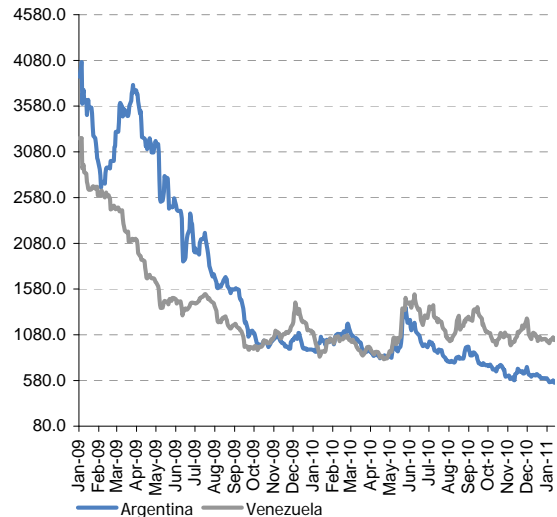
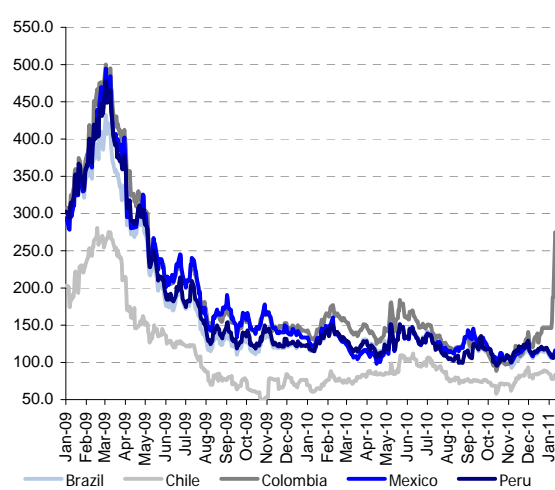


Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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