BBVA Research

Latin

Weekly Observatory

February 14, 2011

Economic Analysis

South America
Joaquín Vial
jvial@bbvaprovida.cl

Enestor Dos Santos
enestor.dossantos@grupobbva.com

Myriam Montañez
miriam.montanez@grupobbva.com

Argentina: Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile: Alejandro Puente
apuente@grupobbva.cl

Colombia: Juana Téllez
juana.tellez@bbva.com.co

Mexico: Julián Cubero
juan.cubero@bbva.bancomer.com

Peru: Hugo Perea
hperea@grupobbva.com.pe

Venezuela: Oswaldo López
Oswaldo.loperz@provincial.com

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

Markets →
Highlights →
Calendar →
Markets Data →
Charts →

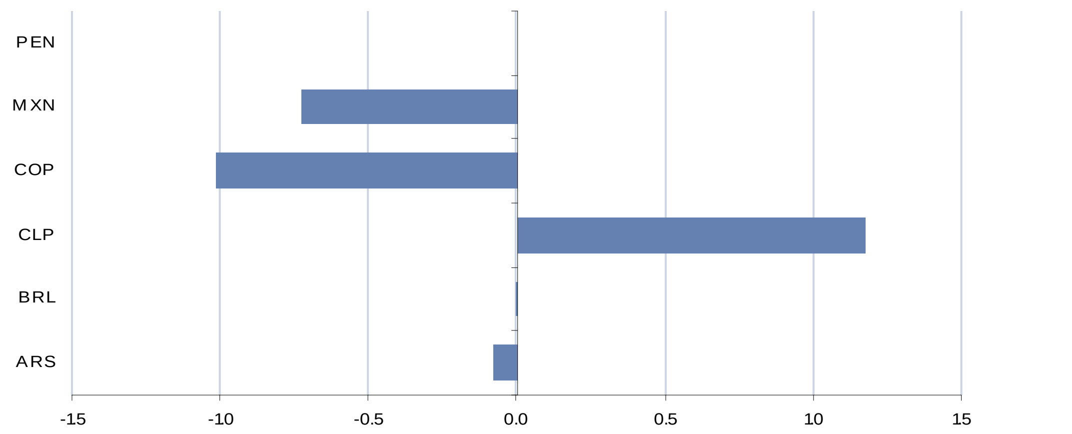
Inflationary pressures appear in Latin America

Inflation up in the January figures and in expectations for Latin American countries as a whole. Indicators of domestic demand remain strong. Brazil announces a countercyclical fiscal policy of spending cuts in 2011. Currencies move differently according to local factors and in response to different elements on the foreign front.

The performance of currencies was determined by global inflationary pressures, statements by Bernanke and the risk premium in the EU.

Within this context, the currencies in the area also responded to different elements on the domestic front and closed the week with mixed results. The CLP increased gains and broke through the 474 support, while the COP closed with a depreciation of almost 1%.

Chart 1
Weekly changes in LatAm currencies



Source: Bloomberg and BBVA Research

Highlights

Inflation rises in line with expectations

Inflationary expectations up

Domestic demand continues strong in Latin America

Fiscal adjustment in Brazil

Monetary adjustment in Peru

Foreign-exchange intervention in Peru

Economic Analysis

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

Equity Latam
Chief Analist
Rodrigo Ortega
r.ortega@bbva.bancomer.com

FX Latam
Chief Analist
Moisés Junca, CFA, CMT
moises.junca@bbva.bancomer.com

Claudia Ceja
claudia.ceja@bbva.bancomer.com

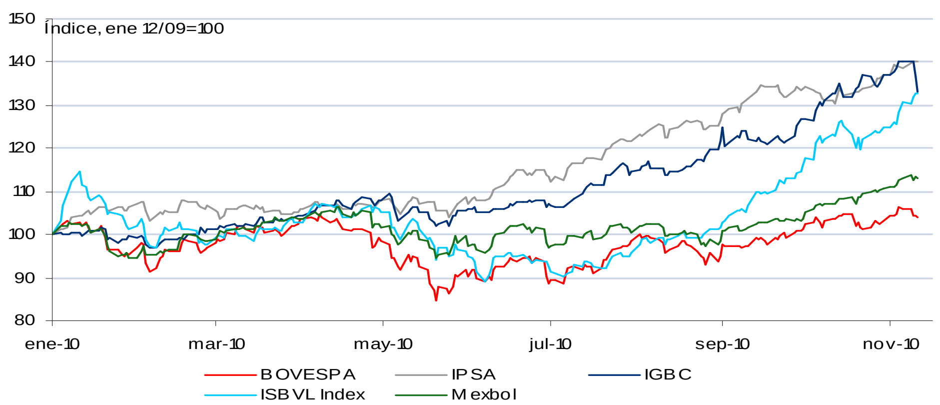
Markets

Latin American currencies move differently according to local factors and in response to different elements on the foreign front

Since last week was less busy than the previous in terms of economic news from the U.S., movements in the global currency markets were determined by concerns for inflationary risks (beginning in China, which increased its policy rate by 25 bps; the U.K., where inflation data was above expectations; and specifically in the region in Brazil), statements by Bernanke with respect to a prolonged high unemployment rate, and a renewed increase in the risk premiums in the EU (the Portuguese 10-year bond rate hitting a maximum intraday rate of 7.6% during the session on Thursday).

In this context, the currencies of reference in the area continue to move in different directions. The CLP ended the week with gains, even though copper prices weakened at the close, largely due to concerns easing about greater intervention (the Central Bank maintained the amount of daily purchase at USD 50m). The BRL remains within the 1.66-1.69 range, responding not only to external factors but to expectations related to monetary policy (the adjustments in the budget resulted in a fall in fixed-income instrument rates) and interventions by the Central Bank (mainly via reverse currency swaps). The COP closed again with losses of close to 1% in response to interbank flows on the domestic front. Finally, the PEN and ARS remained stable, while the MXN weakened with the fall in stock market indices, and showed a greater correlation with the EUR.

Chart 2
Latin American stock market indices



Source: BBVA Research with data from Bloomberg

Highlights
Calendar
Markets Data
Charts

Economic Analysis

Highlights

Inflation up, in line with expectations: in Brazil the IPCA price index was up 0.8% m/m (6.0% y/y) due to commodity prices and seasonal factors. In Chile, where inflationary pressures also persist, the CPI was up 0.3% m/m (2.7% y/y). Inflation in line with expectations in Colombia (0.9% m/m; 3.4% y/y) should help stabilize inflationary expectations. In Mexico, inflation was up 0.49% m/m in January and in annual terms fell from 4.4% in December to 3.8% in January due to the comparison base effect with January 2010. In Venezuela inflation was surprisingly up (2.7% m/m; 28.5% y/y) due to the devaluation of the official exchange rate and the reduction in the supply of food resulting from the recent floods.

Inflationary expectations up. In Peru, the Central Bank's January Survey of Macroeconomic Expectations indicates that the economic analysts increased their forecast inflation for 2011 from 2.5% to 3.3%, while in Chile the increase was from 3.6% to 4.0%, at the upper limit of the Central Bank's tolerance range.

Strong domestic demand continues in Latin America: In Chile the IMACEC was up 5.2% y/y in 2010, although economic activity moderated in 4Q10. In Colombia, energy demand was up in January (2.0% y/y), as were car sales (40.4% y/y), confirming a slow upturn in manufacturing industry in 1Q11, in part thanks to the automotive sector. In Peru, energy production was up 9.1% y/y, suggesting demand will be strong in 2011. In Mexico, the manufacturing sector (4.5% y/y) is headed by sectors linked to the domestic cycle.

Fiscal adjustment in Brazil and proposed tax reductions in Peru: The government announced a cut of BRL 50 billion (1.2% of GDP) in spending under the 2011 budget. The measure is positive, as it will supplement the countercyclical efforts of monetary policy and help moderate economic growth and inflation. After the adjustments, spending by the federal government should be 18% of GDP this year, compared with 19.1% in 2010 (around 18% not including extraordinary expenditure linked to the capitalization of Petrobras). In contrast, in Peru there was controversy regarding the proposal by the government to reduce VAT from 19% to 18%, in the context of strong growth in domestic demand.

The Central Bank of Peru continues with the return to normal of monetary policy: At its meeting on Thursday the Central Bank raised its intervention rate by 25 percentage points to 3.50%,in an environment of strong domestic demand and inflation expectations adjusted upward

PDVSA yesterday surprisingly announced a USD 3 billion dollar bond issue. The securities will pay a coupon of 12.75% per year and are repayable in three equal parts between 2020 and 2022. Although the issue does not alter the profile of short-term debt maturities, it is notable that in less than six months PDVSA issuance has been more than USD 9 billion.

Markets

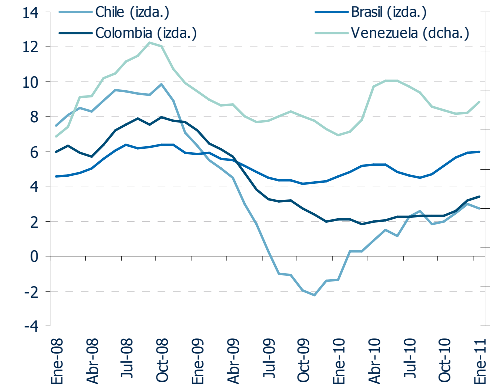
Calendar

Markets Data

Charts

Chart 3

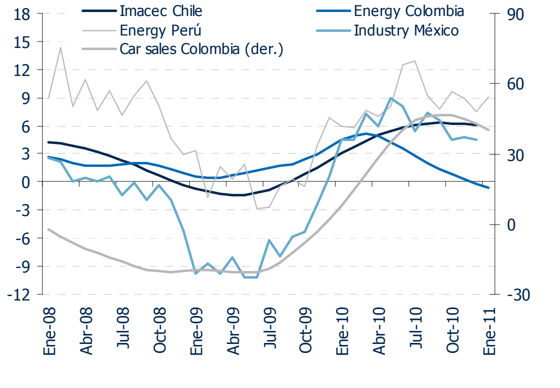
Inflation (% y/y)



Source: BBVA Research and local sources

Chart 4

Activity (seasonally-adjusted series, y/y %)



Source: BBVA Research and local sources

Calendar: Indicators

Argentina

Indicator	Date	Period	Forecast	Consensus*	Previous	Comment
Monthly Economic Activity Estimator	18/2/20111	December	9% y/y	7,4% y/y	9,8% y/y	Activity supported by the high performance of the industry and good wheat crop

Brazil

Indicator	Date	Period	Forecast	Consensus	Previous	Comment
Retail Sales	15/2/2011	December		0.6% m/m	1.1% m/m	
Job Creation	Feb. 14-21	January			-407510	

Chile

Indicator	Date	Period	Forecast	Consensus	Previous	Comment
Monetary Policy Meeting	2-17-2011	February	0.035	0.035	0.0325	Activity and inflation data, along with significant misalignment of expectations, we do expect an increase of 25 basis points at the February meeting

Colombia

Indicator	Date	Period	Forecast	Consensus	Previous	Comment
Imports	2-15-2011	December	23.1% YoY		34.5% YoY	Imports were pushed up by a capital assets investment growth at the end of the year (explained by a regulatory change).
Exports	2-16-2011	December	6.6% YoY		19.7% YoY	Statistical basis of 2009 and slow recovery of non-traditional sales reduce the rate of growth.
Trade balance	2-16-2011	December	USD -147 millions	USD -107 millions	USD -161.1 millions	Trade deficit in the second half push to increase the current account deficit.

Peru

Indicator	Date	Period	Forecast	Consensus	Previous	Comment
GDP (yoy%)	2-15-2011	December 2010	0.087	0.092	0.1	With December's figure, economic growth in 4Q10 would have been of around 8,9%yoy, moderating with respect to the previous quarter (9,7%yoy), but maintaining a strong pace

Venezuela

Indicator	Date	Period	Forecast	Consensus	Previous	Comment
GDP	2-18-2011	Fourth Quarter	-0.4% y/y		-0.4% y/y	

Calendar: Events

Chile: Monetary policy meeting (February 17)

Forecast: 3.50%	Consensus: 3.50%	Previous: 3.25%

Further monetary adjustment in February, in an environment of strong domestic demand and inflationary expectations out of line with respect to the Central Bank target.

Calendar: holidays

There are no holidays this week in the region

Markets

Highlights

Market Data

Charts

Market data

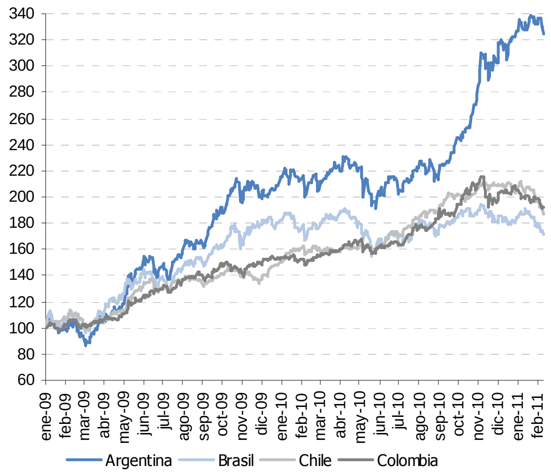
Category	Region		Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	1	6
		2-yr yield	0.79	5	19	-3
		10-yr yield	3.62	-2	25	-8
	EMU	3-month Euribor rate	1.09	0	10	43
		2-yr yield	1.39	-5	41	41
		10-yr yield	3.27	0	21	7
Exchange rates (changes in %)	Europe	Dollar-Euro	1.356	-0.1	3.7	-0.5
		Pound-Euro	0.85	0.4	2.0	-2.6
		Swiss Franc-Euro	1.32	1.3	3.7	-10.2
	America	Argentina (peso-dollar)	4.02	0.1	1.2	4.3
		Brazil (real-dollar)	1.67	-0.6	-0.6	-10.5
		Colombia (peso-dollar)	1879	0.4	0.6	-2.9
		Chile (peso-dollar)	473	-1.2	-3.5	-10.4
		Mexico (peso-dollar)	12.06	0.5	-0.1	-7.0
		Peru (Nuevo sol-dollar)	2.76	-0.1	-0.9	-3.1
	Asia	Japan (Yen-Dollar)	83.33	1.1	0.2	-7.3
		Korea (KRW-Dollar)	1122.50	1.9	1.1	-3.2
		Australia (AUD-Dollar)	1.002	-0.9	0.8	13.1
Comm. (changes in %)		Brent oil ($/b)	101.5	1.6	3.4	39.2
		Gold ($/ounce)	1366.2	1.3	-1.6	24.9
		Base metals	616.6	0.7	4.0	29.9
Stock markets (changes in %)	Euro.	Ibex 35	10757	-0.9	6.5	5.2
		EuroStoxx 50	3015	0.4	4.7	12.7
	America	USA (S&P 500)	1321	0.8	2.7	22.9
		Argentina (Merval)	3413	-6.0	-5.2	50.1
		Brazil (Bovespa)	65285	0.0	-8.9	-0.9
		Colombia (IGBC)	14463	-1.1	-4.7	26.1
		Chile (IGPA)	21650	-1.5	-5.7	23.7
		Mexico (CPI)	36550	-2.4	-3.7	17.9
		Peru (General Lima)	22868	-3.5	1.0	60.1
		Venezuela (IBC)	66282	-0.6	0.7	16.5
	Asia	Nikkei225	10606	0.6	0.9	5.1
		HSI	22829	-4.5	-5.4	12.6
Credit (changes in bps)	Ind.	Itraxx Main	97	2	-8	7
		Itraxx Xover	398	-4	-20	-97
	Sovereign risk	CDS Germany	53	0	-6	9
		CDS Portugal	440	35	-73	247
		CDS Spain	236	13	-96	104
		CDS USA	46	-1	5	---
		CDS Emerging	218	7	17	-65
		CDS Argentina	614	31	61	-461
		CDS Brazil	120	7	14	-19
		CDS Colombia	122	8	16	-45
		CDS Chile	83	8	2	7
		CDS Mexico	122	7	12	-19
		CDS Peru	118	11	13	-24

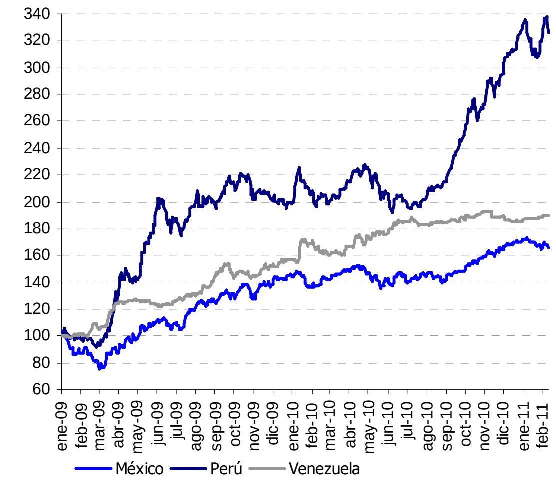
Fuente: Bloomberg y Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)



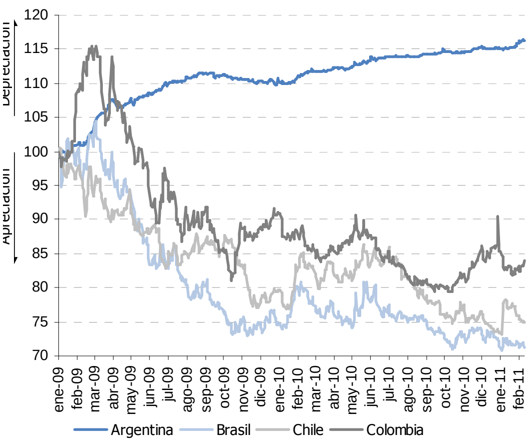


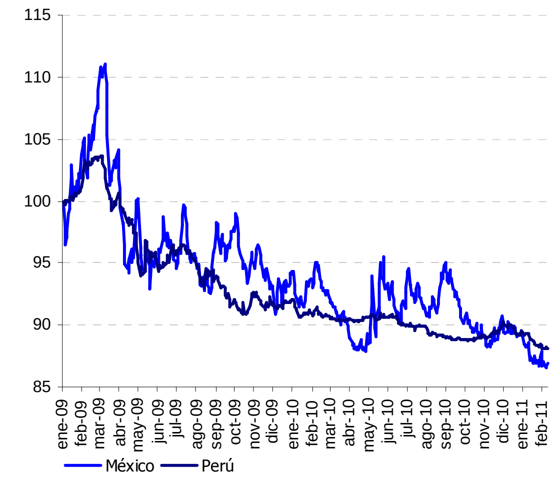
Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)



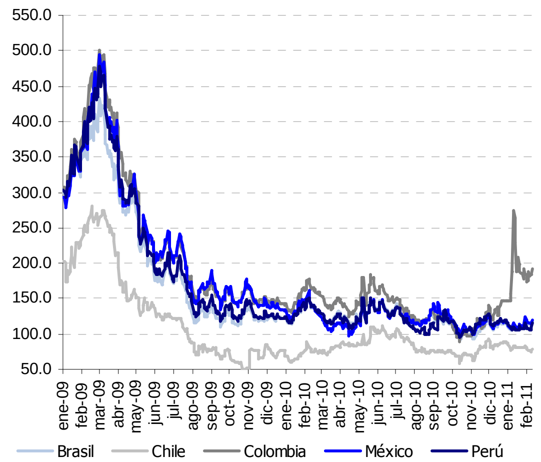


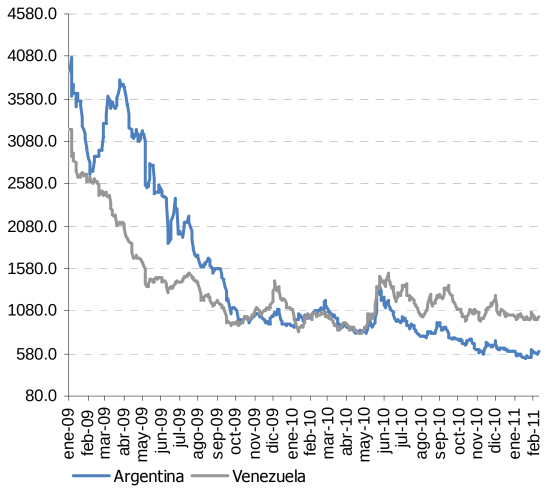
Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)





Source: Bloomberg

Source: Bloomberg

DISCLAIMER