

Weekly Watch

Latin

November 14, 2011
Análisis Económico

América del Sur

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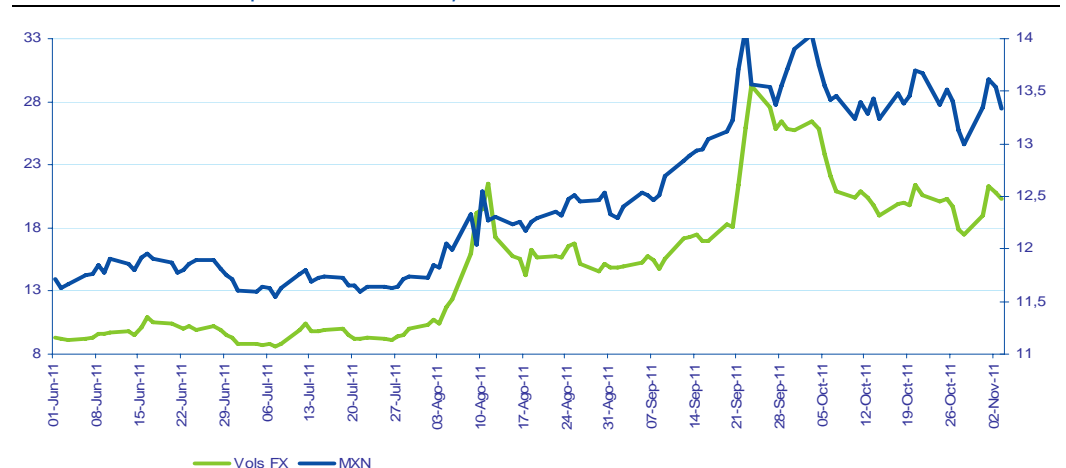
New inflation surprises

The indicators of domestic demand have remained stable, but the new inflation data have again provided an upward surprise (Chile and Colombia), in line with the figures last week in Mexico.

Falls in Latin American asset markets in the face of global risk aversion, but with a better relative performance than advanced markets

The lack of forceful decisions continues to feed fears of a vicious circle of sovereign debt affecting growth that could lead to contagion to other parts of the zone. However, the relatively more favorable news from the U.S. and China has meant that the weekly movements in Latin American currencies and stock markets were more positive than in the G10 countries.

Chart 1
Mexico: MXN/USD and implied 1-month volatility (%)



Source: Bloomberg

Highlights

In Chile, economic activity up 5.7% y/y in September, slightly above expectations

Recent inflation surprises cool interest rates down

Unemployment remains stable in Venezuela (8.3%)

Consumer confidence falls in Colombia, business confidence increases in Peru

Liquidity falls in Argentina, in Peru the Central Bank maintains its interest rate

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Economic Analysis

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Markets

With no forceful decisions in the structure of the euro zone, tensions will continue

The possibility of a recession has increased, and with it the risks of a vicious circle heightening the fiscal crisis in the euro zone and spreading contagion within it. This was suggested by the European Commission when it revised down the euro zone's growth prospects (from 1.5% to 0.8% for 2012). The lack of credible fiscal measures in Greece and Italy has prompted changes in government in these countries, and led to historically high levels of financial costs: 10-year bonds in Italy reached 6.79% (500 bps above the German Bund and the level at which Greece, Ireland and Portugal were bailed out). The sovereign debt situation obscured the figures from China (sales, industrial output and inflation) pointing to a "healthy" slowdown and employment data in the U.S. suggesting signs of a recovery.

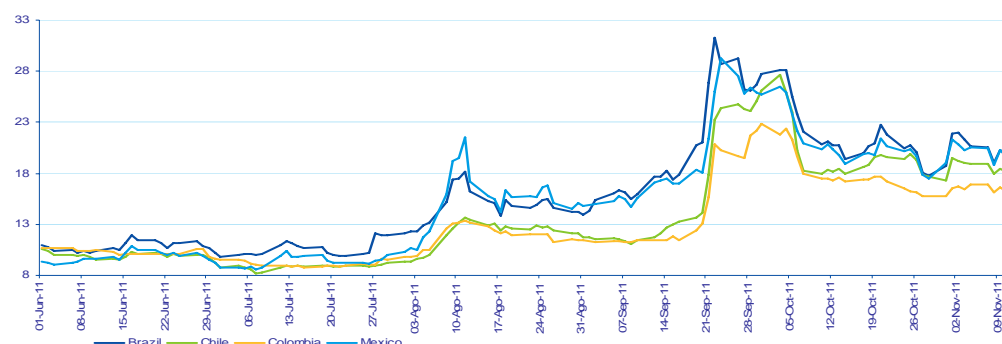
General depreciation in the region, although less marked than that of the G10 currencies against the USD...

The MXN, BRL and CLP fell over the week by more than 1% in the face of an upturn in global risk aversion, with their implied volatility (1m) remaining high since September. However, the G10 currencies (except the JPY) fell back even more against the USD. The varied growth news from around the world (favorable in U.S. and China, compared with the euro zone) could be behind these short-term movements. The COP registered a slight loss in a market with little trading and favorable foreign investment flows at levels of USD/COP 1,920. The PEN performed best out of the LatAm currencies, in part because of intervention by its Central Bank for most of the week and prospects of a monetary pause.

... similarly, stock markets in the region outperformed similar their advanced counterparts last week

In this environment, fears about a feedback from sovereign risk to the euro zone cycle continues to have a positive relative impact on the region, provided there are no negative effects from Asia. The reporting season has given off good signals in Mexico and Chile, though with signs of moderation even in Peru and Brazil, which are markets that are more exposed to commodity price volatility. In this environment focused on global risks, the region could continue to stand out positively if this volatility continues.

Chart 2

LatAm: Implied 1-month exchange-rate volatility

Source: Bloomberg and BBVA Research

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Economic Analysis

Highlights

In Chile, economic activity up 5.7% y/y in September, slightly above expectations

Growth was 4.8% y/y in Q3, down on the figure of 6.8% in Q2. In Brazil, retail sales were strong in September (0.6% m/m), but GDP should grow by 0.2% q/q in Q3, substantially under the figure of 0.8% q/q in Q2. In Colombia, vehicle sales increased by 10.1% y/y in October, the highest figure ever for the period. However, there was a fall of 1.3% m/m, in line with the expected slowdown in consumption of durable goods.

Recent inflation surprises cool interest rates down

In Chile October inflation stood at 3.7% y/y, mainly due to increased prices in tradable goods. In Colombia, inflation was 4.0% y/y, boosted by food prices and the low basis of comparison with October 2010. In Mexico, inflation was 3.2% y/y, with major movements in food & drink and energy prices. In contrast, a reduction of up to 7% y/y is expected in Brazil.

Unemployment remains stable in Venezuela (8.3%)

Meanwhile, wages increase, including a rise in the minimum wage (10%) and improved salaries for doctors, teachers and civil servants. These policies were reflected in an increase in the Remuneration Index of 36% y/y, above the inflation figure for September. As a result, the index also increased in real terms. The unemployment rate for September remained unchanged with respect to August and fell by barely 0.1 pp compared with the same month last year (8.4%), despite the economic recovery in 2011 against 2010.

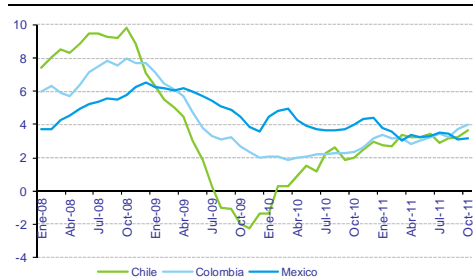
Consumer confidence falls in Colombia, business confidence increases in

Peru In Colombia, the fall in the indicator is the result of the lower likelihood of purchasing a home and durable goods during the month. In Peru, business confidence moved away from the pessimistic/neutral band in which it had remained since the election period in April. However, it is still under the average level for 2010.

Liquidity falls in Argentina, in Peru the Central Bank maintains its interest rate

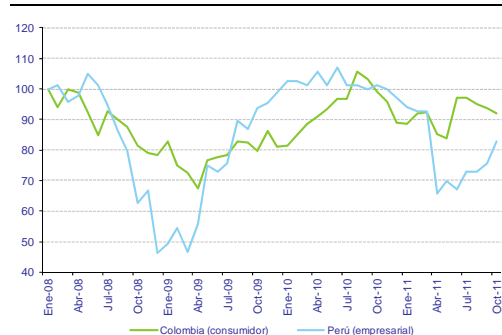
In Argentina, the slowdown in deposits continued (in ARS, 0.2% m/m vs. 0.8% in September; in USD, 1.7% m/m vs. 3.6%). However, as credit has continued to grow strongly (up 3.2% m/m), the liquidity of the system fell more. Despite this, the Central Bank is still not renewing all its bond maturities. In Peru, the Central Bank maintained the interest rate at 4.25% for the sixth month in a row, due to risks associated with the European crisis.

Chart 3
Inflation (% y/y change)



Source: BBVA Research

Chart 4
Confidence indexes (Jan 2008 = 100)



Source: BCV and BCRP

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Calendar: indicators

Next Week: 14 - 18 November 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Monthly Economic Activity Estimator	18-Nov	Sep 2011	8.0% y/y	7.5% y/y	8.6% y/y	
Brazil						
Formal Job Creation	21-Nov	Oct 2011			209078 Jobs	
Chile						
National Accounts	18-Nov	3Q11				The records of the third quarter should account for a slowdown in domestic demand components
Colombia						
Trade balance	17-Nov	Sep 2011	USD -100 millions		USD 404.9 millions	Lower oil production in September would affect the trade balance results.
Imports	17-Nov	Sep 2011	22.0% yoy		31.9% yoy	A moderation in growth rates is expected by soft landing of durable goods consumption and a high base effect of 2010.
Industrial production	18-Nov	Sep 2011	5.9% yoy		9.5 yoy	Recent leading indicators support a continuation of the industrial recovery.
Retail sales	18-Nov	Sep 2011	12.0% yoy		9.7% yoy	Consumer confidence levels high anticipate higher sales in the trade.
Peru						
GDP (growth, y/y)	15-Nov	Sep 2011	6.3% y/y	NA	7.5% y/y	Sectors most linked to private consumption, such as Commerce and Other Services, will continue supporting the expansion of economic activity.
Venezuela						
GDP	7-Nov	3Q11	2.2% y/y	2.7% y/y	2.5% y/y	In a business environment with severe supply constraints (price and fx controls, electricity rationing) and violations to property rights (frequent expropriations and interventions of tangible assets) we expect the economy to slow down to 2.2% y/y, relative
Current account balance	7-Nov	3Q11	USD 7,603 MM	USD 7,500 MM	USD 8,303 MM	We expect a reduced current account balance, relative to 2Q, mostly due to a lower value in oil exports, and higher imports.

Source: BBVA Research

Calendar of events

Chile: Monetary policy meeting (November 15)

Forecast: 5.25%

Consensus: 5.25%

Previous: 5.25%

The figures for economic activity in sectors linked to domestic demand, together with the latest inflation data, have strengthened our expectations of a prolonged monetary policy pause.

Calendar of holidays

Brazil: November 15

Colombia: November 14

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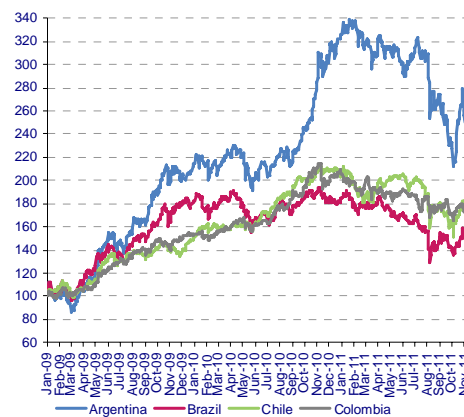
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.45	2	5	17
		2-yr yield	0.23	1	-5	-27
		10-yr yield	2.06	2	-15	-73
	EMU	3-month Euribor rate	1.46	-2	-11	42
		2-yr yield	0.36	-5	-35	-67
		10-yr yield	1.80	-2	-39	-71
Exchange rates (changes in %)	Europe	Dollar-Euro	1.366	-1.0	-1.1	-0.1
		Pound-Euro	0.86	-0.2	-2.1	1.2
		Swiss Franc-Euro	1.24	1.3	0.2	-7.7
	America	Argentina (peso-dollar)	4.26	0.2	1.2	7.3
		Brazil (real-dollar)	1.76	1.2	-0.5	2.3
		Colombia (peso-dollar)	1915	0.2	1.0	2.5
		Chile (peso-dollar)	502	1.0	0.0	4.2
		Mexico (peso-dollar)	13.50	0.4	2.1	9.4
		Peru (Nuevo sol-dollar)	2.71	0.0	-0.6	-3.5
		Japan (Yen-Dollar)	77.36	-1.0	0.0	-6.3
		Korea (KRW-Dollar)	1125.55	0.8	-3.4	-0.4
		Australia (AUD-Dollar)	1.016	-2.2	-0.3	3.2
	Asia					
Comm. (chg %)		Brent oil (\$/b)	114.2	2.0	2.6	32.3
		Gold (\$/ounce)	1765.7	0.6	5.3	29.0
		Base metals	530.4	0.2	-1.6	-5.8
Stock markets (changes in %)	Euro	Ibex 35	8410	-2.2	-6.8	-17.8
		EuroStoxx 50	2273	-0.8	-4.2	-19.4
		USA (S&P 500)	1240	-1.1	2.7	3.4
	América	Argentina (Merval)	2694	-2.5	6.1	-16.2
		Brazil (Bovespa)	57322	-2.3	6.5	-18.5
		Colombia (IGBC)	12714	-2.3	-4.3	-15.8
		Chile (IGPA)	20562	0.3	7.1	-10.8
		Mexico (CPI)	36615	-0.2	6.2	1.5
		Peru (General Lima)	19128	-1.3	3.1	-5.5
		Venezuela (IBC)	111529	2.9	11.5	68.2
	Asia	Nikkei225	8514	-3.3	-2.6	-12.4
		HSI	19137	-3.6	4.4	-21.0
Credit (changes in bps)	Ind.	Itraxx Main	184	11	12	81
		Itraxx Xover	758	46	16	297
		CDS Germany	93	6	3	55
	Sovereign risk	CDS Portugal	1078	37	-19	627
		CDS Spain	429	41	74	162
		CDS USA	42	-5	-6	---
		CDS Emerging	302	19	-3	91
		CDS Argentina	927	50	-37	282
		CDS Brazil	159	15	7	55
		CDS Colombia	160	17	6	55
		CDS Chile	128	19	4	53
		CDS Mexico	157	17	8	47
		CDS Peru	162	16	7	46

Source: Bloomberg and Datastream

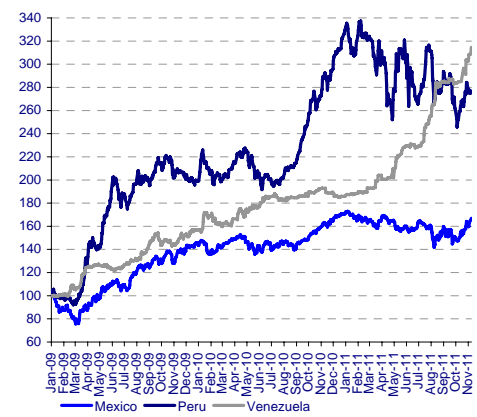
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Chart 4
Stock markets (base index Jan09 = 100)



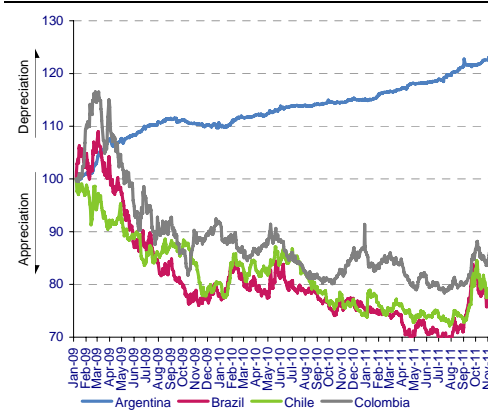
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



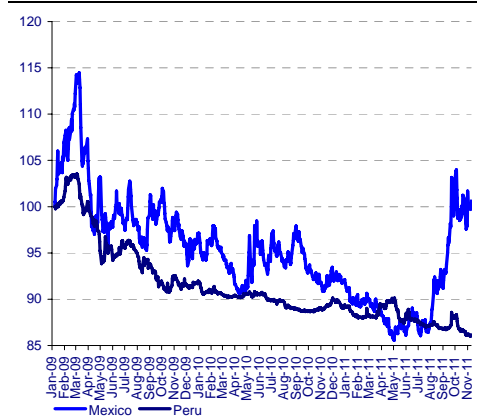
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



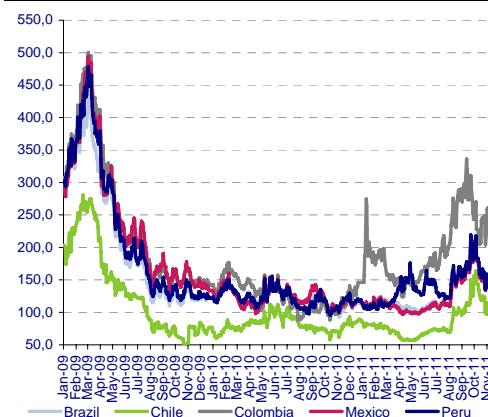
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



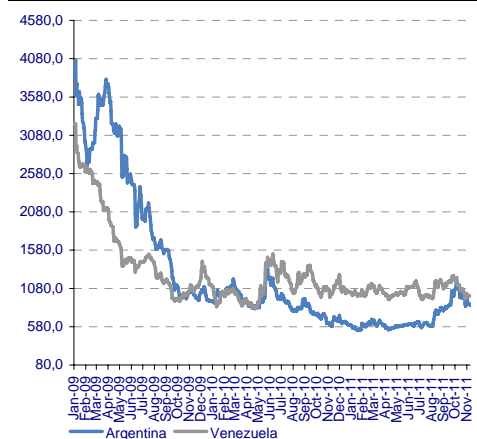
Source: Datastream and BBVA Research

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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