

# Weekly Watch

## Latin

April 15, 2011  
Economic Analysis

### South America

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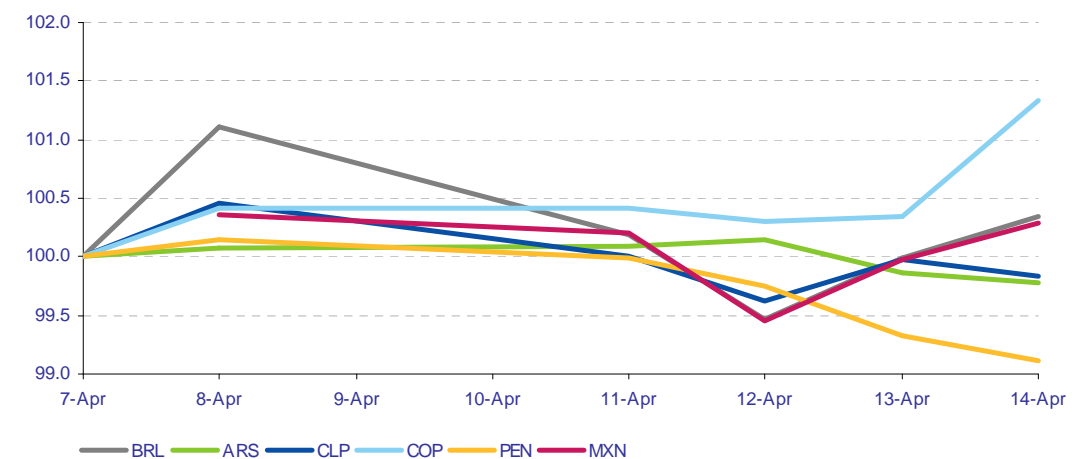
## Humala vs. Fujimori

The results of the first round of presidential elections in Peru have affected local financial markets, particularly the stock market. We expect the volatility to continue until the end of May. Economic activity and inflationary expectations in the region are giving off mixed signals. Credit and retail and car sales in Colombia are up, while industrial output in Mexico and retail sales in Brazil have fallen. In the case of Brazil, this is in fact the first clear indicator of an adjustment in demand in the country. Meanwhile, inflationary expectations are rising in Chile and Peru, and falling in Colombia. The benchmark policy rate has risen by 50 bps in Chile to positive levels in real terms.

### Differences in assets in the region due to asymmetric shocks: domestic (electoral) factors, growth prospects and global liquidity, and the pace of monetary policy.

Although last week started with losses in regional currencies, it ended with marked appreciation in Colombia, and to a lesser extent in Brazil and Mexico. More dovish statements from the Fed contributed to increased appetite for these currencies. In contrast, currencies depreciated in Peru, Chile and Argentina, due to electoral factors, copper prices and moderation resulting from foreign-exchange intervention, respectively. Capital markets contracted, particularly in the case of Peru, as a result of concerns relating to the recent election.

Chart 1  
Weekly performance of Latin American currencies



Source: BBVA Research

## Highlights

Humala and Fujimori into the second round.

Economic activity still going strong in Colombia.

Banxico maintains its rate, the Central Bank of Chile raises it by 50 bps.

Inflationary expectations move up in Chile and Peru, but moderate in Colombia.

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## Economic Analysis

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## Markets

## Varying exchange-rate movements in the region in reaction to asymmetric shocks, the trend could continue over the coming days

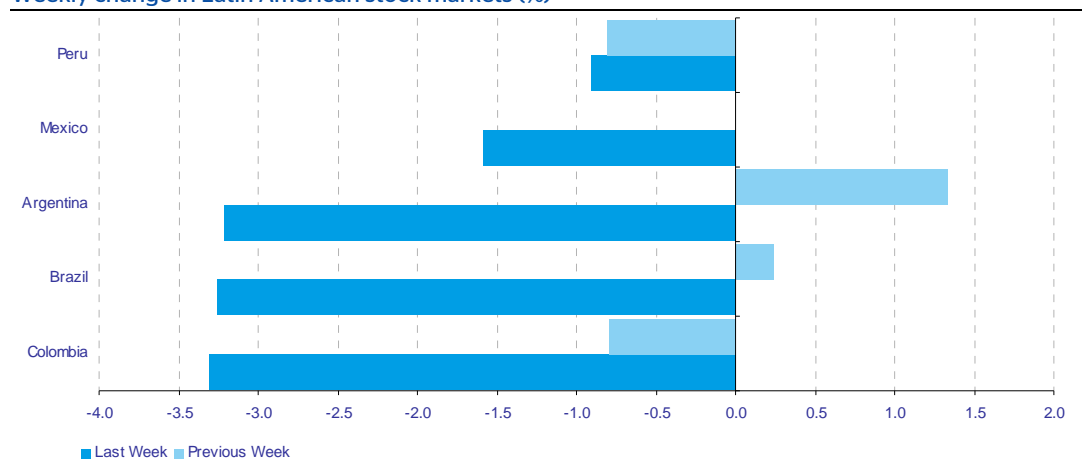
Latin American currencies moved within their ranges last week. In the first few days they depreciated as a result of three factors: 1) the nuclear alerts in Japan; 2) initial corporate reports from the U.S. below market expectations; and 3) profit taking in the EUR, with figures below expectations.

However, as the days passed, the market returned to focus its attention on varied monetary policy expectations (with new dovish comments from Fed members and figures for unemployment benefit applications above expectations in the U.S.), and most of the currencies recovered. There were appreciations in the BRL, MXN and COP (particularly strong in the latter), while the remaining currencies weakened. The PEN depreciated by close to 0.90%, as it continued to reflect electoral factors; **the CLP by around 0.1%**, in line with copper prices; and the ARS maintained its trend of gradual depreciation in response to Central Bank interventions (which have increased following the debt repayment registered at the end of March). We expect these divergent movements to be maintained in the short term.

## The capital markets are sensitive to local news, but the week of corporate reports from the U.S. could provide a positive bias

Stock markets in the region presented weekly losses ranging between -0.9% and -15%. The biggest adjustment was in Peru following the electoral results. This is because of the strong stock market gains so far this year in Peru (50% YTD up to last week's adjustment) and because political uncertainty will remain until the second round of elections. For the rest of the stock markets in the region, we consider that lateral movements will continue, but with a positive bias, given the corporate reporting week in the U.S.

Chart 2  
Weekly change in Latin American stock markets (%)



Source: BBVA Research

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## Economic Analysis

## Highlights

## Humala and Fujimori into the second round

After nearly all the votes in the first round have been counted, Humala (31.7%) and Fujimori (23.5%) are confirmed as the two candidates who will go head-to-head in a run-off for the presidency on 5 June. Whoever is finally elected will govern without a majority in Congress (which advance results suggest is extremely fragmented) and will have to look for allies among moderate political groups.

## Economic activity still going strong in Colombia

Data released this week reflect strong growth in Colombia, with a positive trend in industrial output. There has been an increase in industrial exports and car sales (increasing 3% m/m since October), with a larger proportion of vehicles assembled within the country. Improved confidence indicators and credit growth also point to continuing strength in the economy. In Mexico industrial output fell in February due both to sluggish manufacturing and a fall in construction. Finally, in Brazil retail sales were down in February, after averaging an increase of 0.7% in the three previous months. This is the first sign of a slowdown in domestic demand.

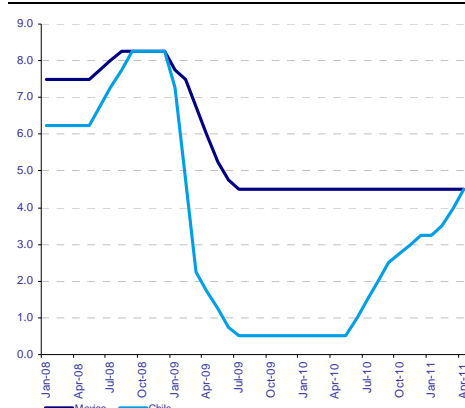
## Banxico maintains its rate; the Central Bank of Chile raises it by 50 bps.

In Mexico, lack of pressure from demand led Banxico to maintain its benchmark rate at 4.5%. In Chile, the strength of economic activity and the upturn in inflation led to an increase of 50 bps to 4.5%, moving it into positive territory in real terms.

## Inflationary expectations in Chile and Peru rising, while in Colombia they are moderating as a result of the CPI moving surprisingly downward

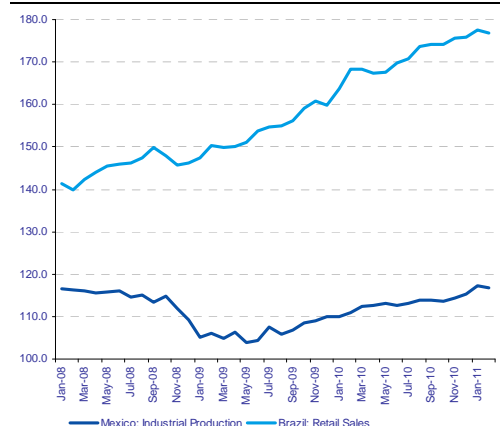
In Chile, surveys of inflationary expectations point to 4.4% towards the end of 2011, 10 basis points above the Central Bank forecasts. In Peru, they rose from 2.8% in February to 3.2% in March. For 2012 the average forecasts remain at 2.5%. In Colombia, expectations for the close of 2011 fell from 3.5% in March to 3.3% in April, while inflation rates implicit in the public debt market curves show that confidence in achieving the CB inflation target has increased.

Chart 3  
Monetary policy rate (%)



Source: BBVA Research

Chart 4  
Activity Indicators (Index)



Source: BBVA Research

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## Calendar: indicators

Next Week: 18 - 22 April 2011

Argentina						
	Data	Period	Forecast	Consensus	Previous	Comment
Monthly Economic Activity Estimator	18/4/2011	February	8.9% y/y	8.1% y/y	9.5% y/y	The activity keeps high its level
Industrial Monthly Estimate	20/4/2011	March	9.2% y/y	8.9% y/y	9.0% y/y	
Brazil						
	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment	19/4/2011	March		6.7% m/m	6.4% m/m	
Colombia						
	Data	Period	Forecast	Consensus	Previous	Comment
Building permits	18-Apr	February	1 400 000 m2		1 677 401 m2	A growth of building permits for homes of higher value is expected.
Industrial production	19-Apr	February	4.3% y/y		6.2% y/y	Industry recovery coincides with the best performance of nontraditional exports.
Retail sales	19-Apr	February	9.9% y/y		12.3% y/y	Strong automobile sales allow higher growth rates in retail.
Mexico						
	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	20/04/2011	April's 1st fortnight	0.08% q/q	-0.01% q/q	0.19% m/m	In April inflation will begin an important upwards trend, due to the end of the base effect that supported it during the first quarter. During April's first fortnight inflation will rebound from the 3.04% at March's end to around 3.39%. April's usually low monthly inflation rates are caused by a reduction in electricity prices, because of the beginning of the hot season in Mexico.
Unemployment Rate	20/04/2011	March	5.2%		5.3%	Seasonal adjusted series. Unemployment rate will be far from pre-crisis levels. Under-occupation rate is still high too, around 8% of total occupation.
Peru						
	Data	Period	Forecast	Consensus	Previous	Comment
Bank credit	18-20 April	March 2011			19% y/y	Credit will keep growing at high rates, supported by a strong economic activity

Source: BBVA Research

## Calendar: events

## Brazil: Monetary Policy Rate (April 20)

Forecast: 12.25%

Consensus: 12.25%

Previous: 11.75%

A new rise of 50 bps is expected following the last rise in March.

## Calendar: holidays

April 19, 21 and 22: Venezuela

April 21 and 22: Argentina, Colombia, Mexico and Peru

April 22: Chile

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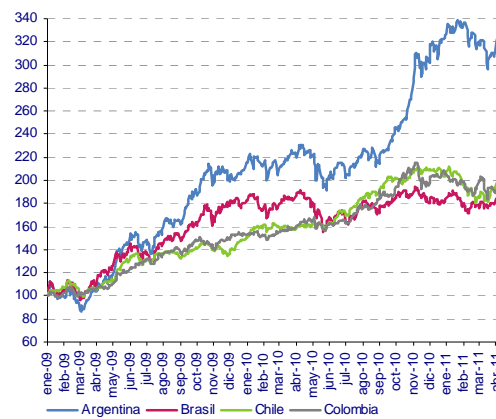
## Market data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.27	-1	-3	-3
		2-yr yield	0.71	-10	17	-24
		10-yr yield	3.42	-15	25	-34
	EMU	3-month Euribor rate	1.33	4	16	69
		2-yr yield	1.84	-6	37	96
		10-yr yield	3.38	-10	29	30
Exchange rates (changes in %)	Europe	Dollar-Euro	1.440	-0.1	3.7	6.7
		Pound-Euro	0.88	0.0	1.6	0.6
		Swiss Franc-Euro	1.29	-2.0	2.0	-10.1
	America	Argentina (peso-dollar)	4.07	0.3	0.7	5.1
		Brazil (real-dollar)	1.58	0.5	-5.5	-10.3
		Colombia (peso-dollar)	1803	-0.7	-4.7	-7.3
		Chile (peso-dollar)	473	0.6	-2.7	-9.6
		Mexico (peso-dollar)	11.73	-0.1	-3.2	-4.5
		Peru (Nuevo sol-dollar)	2.82	0.7	1.8	-0.5
		Japan (Yen-Dollar)	83.17	-2.1	3.9	-9.6
	Asia	Korea (KRW-Dollar)	1087.75	0.4	-4.5	-2.4
		Australia (AUD-Dollar)	1.054	0.1	7.4	14.0
Comm. (changes in %)		Brent oil (\$/b)	122.3	-3.5	10.5	42.2
		Gold (\$/ounce)	1474.2	0.0	5.4	29.6
		Base metals	633.9	-0.3	4.6	23.5
Stock markets (changes in %)	Euro.	Ibex 35	10530	-3.5	4.3	-6.5
		EuroStoxx 50	2912	-2.4	7.0	-1.3
	America	USA (S&P 500)	1317	-0.8	4.8	10.5
		Argentina (Merval)	3382	-2.8	5.8	41.0
		Brazil (Bovespa)	66561	-3.1	0.8	-4.1
		Colombia (IGBC)	14071	-3.3	1.4	13.8
		Chile (IGPA)	22208	-0.7	7.1	24.8
		Mexico (CPI)	37070	-1.1	4.0	10.3
		Peru (General Lima)	18715	-12.0	-10.8	20.9
		Venezuela (IBC)	70477	0.2	0.9	16.1
	Asia	Nikkei225	9592	-1.8	5.5	-13.6
		HSI	24008	-1.6	5.8	9.8
Credit (changes in bps)	Ind.	Itraxx Main	97	2	-8	17
		Itraxx Xover	369	11	-40	-44
	Sovereign risk	CDS Germany	44	6	-1	9
		CDS Portugal	592	54	82	399
		CDS Spain	220	22	-8	71
		CDS USA	42	1	-1	---
		CDS Emerging	201	9	-23	-10
		CDS Argentina	558	9	-104	-286
		CDS Brazil	108	3	-12	-7
		CDS Colombia	101	-1	-19	-30
		CDS Chile	60	2	-13	-19
		CDS Mexico	101	2	-13	-3
		CDS Peru	153	23	31	41

Source: Bloomberg and Datastream

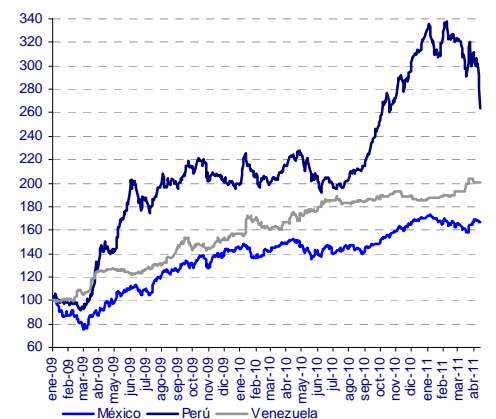
## Charts

Chart 5  
Stock markets (base index Jan09 = 100)



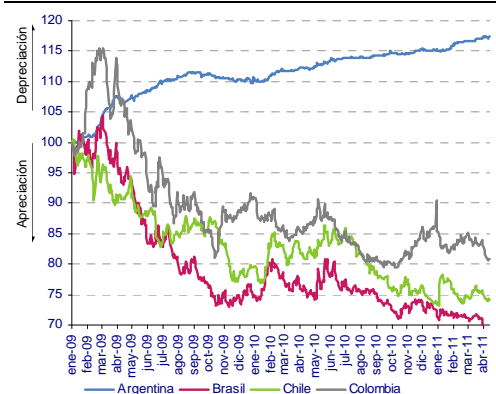
Source: Datastream and BBVA Research

Chart 6  
Stock markets (base index Jan09 = 100)



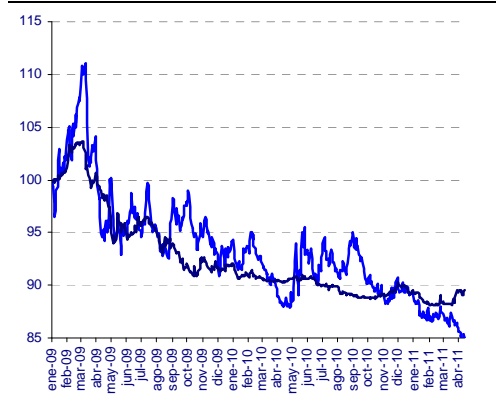
Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 8  
Exchange rates (base index Jan09 = 100)



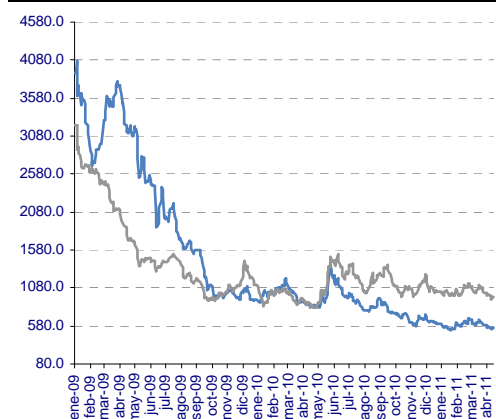
Source: Datastream and BBVA Research

Chart 9  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 10  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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