

Weekly Watch

Latin

July 15 2011

Economic Analysis

South America

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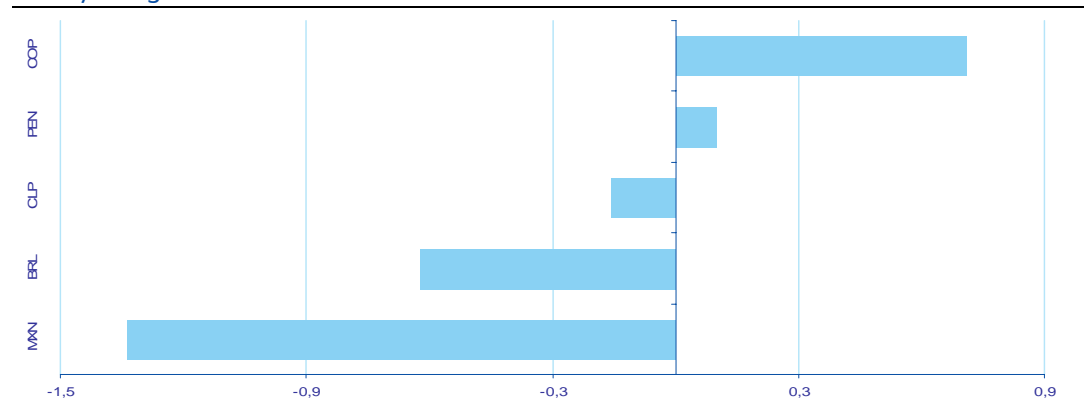
Renewed concern over currencies

The Central Bank of Peru tried to limit rises in the exchange rate by buying USD 94 million over the week, while in Brazil changes were announced to the bank reserve requirements linked to short dollar positions. The Central Bank of Chile maintained the monetary policy rate at 5.25%. In Mexico, there was a positive surprise in industrial output in May.

The U.S. and the EU generate high volatility in global markets

Concerns regarding potential contagion from the situation of Greece, Portugal and Ireland to other countries such as Spain or Italy continue to generate flight from risk assets. This has been countered by expectations of a third round of quantitative easing by the Fed, though the signals are still not strong. Behavior of Latin American currencies is mixed, while stock market indices continue down.

Chart 1
Weekly changes in LatAm currencies



Source: BBVA Research

Highlights

The Central Bank of Chile maintains its interest rate at 5.25%

Exchange rate measures in Brazil and Peru

Positive surprise in industrial output in Mexico, sales in Brazil in line with expectations

Inflationary expectations go down in Chile and Peru, up in Colombia.

Accumulated trade surplus in Colombia of USD 2.3 billion to May

The Central Bank of Venezuela reduces the legal reserve requirement to 14% for banks that participate in the financing of the Great Housing Mission

Markets →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

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Markets

Sovereign tensions are heightened with the uncertainty about the second Greek bailout, falls in credit ratings in Europe and the Fed's statements

There were episodes of volatility and flows to safe-haven assets last week as a reaction to the lack of conclusions on the second Greek bailout plan, Moody's downgrades of Portugal and Ireland to under investment grade, and the U.S. credit rating being put under review. However, although Fed Chairman Bernanke's statements highlighted the level of uncertainty with respect to the labor market, they left the door open to any additional quantitative stimulus that may be necessary and led to a recovery in the main risk assets. Despite this, the Fed Chairman's vision continues to be one of recovery for the rest of the year, and we do not see clarity in the greater appetite for risk derived from a QE3.

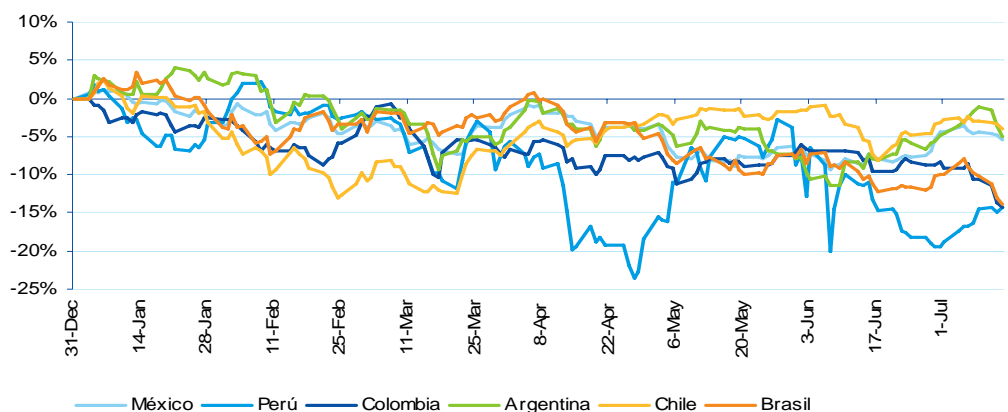
The performance of Latin American currencies was mixed last week. The BRL and MXN depreciated by over 1% in response to the elements of risk aversion mentioned earlier. Also affecting the BRL were the measures announced by the Central Bank increasing reserve requirements for banks in their short positions, combined with a more interventionist language by the Ministry of Finance. The MXN continued to show greater sensitivity to elements linked to the U.S. economic cycle. The CLP was down by around 0.3% in reaction to the fall in copper prices, while the COP continued to perform positively as a result of portfolio inflows due to the credit upgrade of a few weeks earlier. Meanwhile, the PEN ended the week up 0.3%, despite interventions by the Central Bank.

The start of the reporting season may show weaker results in 2T11 in the U.S.

Against this background, the performance of global stock markets has been markedly negative, though Latin America stood out thanks to the upturn in some commodity prices in reaction to growth figures from China.

The reporting season begins in the U.S. with expectations that 2Q11 will be weaker, and a growth in EPS of around 12%. In any event, we believe that in investors' minds the reports will remain in the background behind the situation of the U.S. and Europe. Nevertheless, in the environment of weakness, the maintenance of the growth trends could be key for the stock markets to confirm the floors tested recently.

Chart 2
LatAm Stock Market Monitor



Source: Bloomberg and BBVA Research

- Home →
- Highlights →
- Calendar →
- Market data →
- Charts →

Economic Analysis

Highlights

The Central Bank of Chile maintains its interest rate at 5.25%

The Central Bank of Chile made a pause in its monetary adjustment temporarily by maintaining the benchmark rate at 5.25%, in line with expectations. It pointed out that this did not mean an interruption of the process in which we expect the MPR to reach 5.75%.

Exchange rate measures in Brazil and Peru

The central banks are taking measures to limit the appreciation of their currencies. In Brazil the bank reserve requirements were raised to remove incentives for short dollar positions, and additional measures have not been ruled out. In Peru, the Central Bank resumed its interventions on foreign-exchange markets by buying USD 172m over last week.

Positive surprise in industrial output in Mexico, sales in Brazil in line with expectations

Mexican industrial output figures came as a positive surprise in May, growing by 1.1% m/m (4.4% y/y), and significantly above forecasts (0.3% m/m BBVA Research). Retail sales in Brazil were up 0.6% m/m (6.2% y/y) in May, in line with expectations. In Colombia vehicle sales moderated slightly (up 32.6% y/y) in June.

Inflation forecast: down in Chile and Peru, up in Colombia.

In Chile, inflationary expectations for December 2011 fell slightly to 4% y/y, although they remain within the upper limit of the Central Bank's target range. In Peru, they also fell to 3.2% (May: 3.4%) after downward surprises in the 2 previous months, but they are still above the upper range. In Colombia, expectations increased to 3.3% y/y (June: 3.2%), although they continue in line with the Central Bank targets.

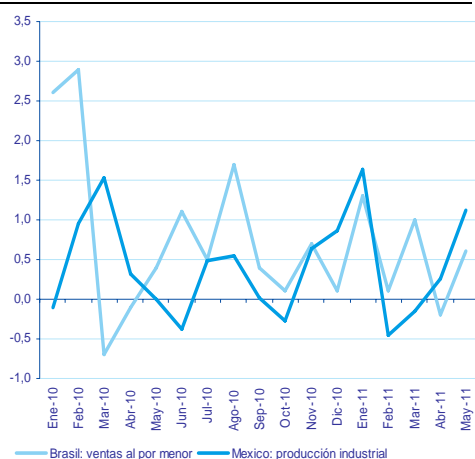
Accumulated trade surplus of USD 2.3 billion to May in Colombia

There was a trade surplus of USD 500 million in May, supported by oil price expectations (91.4% y/y) and a moderate recovery in industrial products. These exports offset the 35.0% y/y increase in imports.

The Central Bank of Venezuela reduces the legal reserve requirements for banks to finance housing

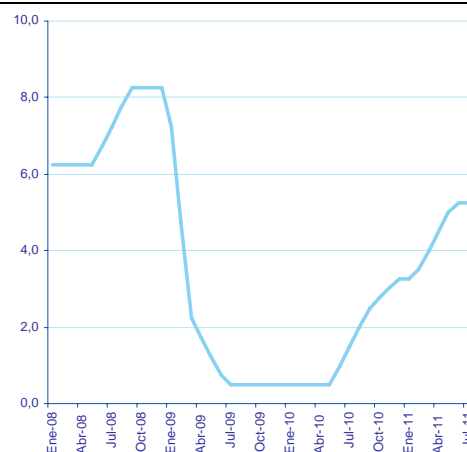
The amount of the reduction (3 pp) must be allocated to the purchase of Bandes bank certificates to finance the Great Housing Mission program. Banks that do not participate will have a legal reserve requirement of 23%. We expect that most banks will participate in the program to avoid the increase in legal requirements, given their limited impact on liquidity.

Chart 3
Economic activity (% m/m)



Source: BBVA Research

Chart 4
Monetary policy rate in Chile



Source: BBVA Research

- Home →
- Markets →
- Calendar →
- Market data →
- Charts →

Calendar: indicators

Next Week: 18 - 22 July 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Monthly Economic Activity Estimator	18-Jul	May 2011	6.5% y/y	7.0% y/y	7.1% y/y	
Industrial Monthly Estimate	22-Jul	Jun 2011	8.5% y/y	7.9% y/y	9.2% y/y	
Trade Balance	22-Jul	Jun 2011	USD 846 MM	USD 970 MM	USD 1680 MM	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Economic Activity Index	(18-22)-Jul	May 2011			0.44% m/m	
Unemployment rate	19-Jul	Jun 2011			6.4%	Markets will remain very focused on labor market indicators as they will be key to determine the pace of economic slow down.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Industrial production	19-Jul	May 2011	5.8% yoy		2.0% yoy	Indicators suggest that the low growth in industrial production in March and April was transitory.
Retail sales	19-Jul	May 2011	16.7% yoy		23.2% yoy	A more balanced behavior by type of goods can maintain high growth rates in sales.
Building permits	21-Jul	May 2011	25.0% yoy		45.4% yoy	Expected moderation in growth rates due to depletion of change regulartorio this year.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment Rate	21-Jul	Jun 2011	5.30	NA	5.50	With the good performance of industry in the last months, unemployment rate should diminish in the second half of the year.
Inflation	22-Jul	July's first fortnight	0.21% f/f (3.43% y/y)	0.2% f/f	0% m/m June	After four months without inflationary pressures, some Non-Core Factors -mostly agricultural prices- will cause slight upwards pressure since July.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Banking system credit (yoy % change)	(18-22)-Jul	June 2011			21.9%	
Public Investment (real yoy % change)	(18-22)-Jul	June 2011			0	
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	22-Jul	June 2011	8.1%		8.4%	We expect an slow down on the unemployment rate due to a better activity indicators in the quarter

Source: BBVA Research

Calendar of events

Brazil: SELIC rate publication (July 20)

Forecast: 12.5%

Consensus: 12.5%

Previous: 12.5%

Calendar of holidays

Colombia: July 20

Home	➔
Markets	➔
Highlights	➔
Market data	➔
Charts	➔

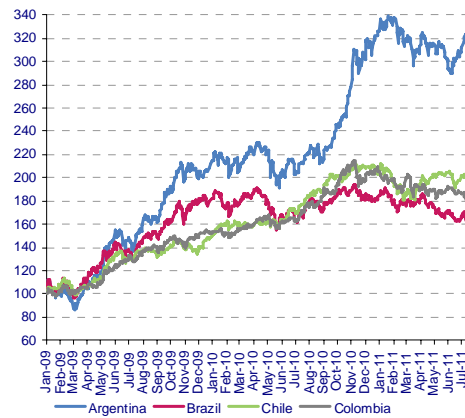
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	0	-27
		2-yr yield	0.37	-2	0	-21
		10-yr yield	2.94	-9	-3	2
		3-month Euribor rate	1.61	1	12	75
	EMU	2-yr yield	1.19	-26	-31	42
		10-yr yield	2.70	-13	-26	9
Exchange rates (changes in %)	Europe	Dollar-Euro	1.411	-1.1	-0.7	9.3
		Pound-Euro	0.88	-1.6	-0.2	3.7
		Swiss Franc-Euro	1.15	-3.3	-4.8	-15.0
		Argentina (peso-dollar)	4.12	-0.1	0.6	4.7
	America	Brazil (real-dollar)	1.58	1.0	-1.2	-11.5
		Colombia (peso-dollar)	1747	-0.7	-2.0	-7.1
		Chile (peso-dollar)	462	-0.1	-1.4	-12.8
		Mexico (peso-dollar)	11.73	0.9	-1.7	-9.4
		Peru (Nuevo sol-dollar)	2.74	0.0	-0.7	-2.9
		Japan (Yen-Dollar)	79.24	-1.8	-1.9	-8.5
	Asia	Korea (KRW-Dollar)	1061.05	0.5	-2.1	-12.7
		Australia (AUD-Dollar)	1.065	-0.9	0.7	22.3
Comm. (chg %)		Brent oil (\$/b)	115.7	-2.2	-1.2	53.5
		Gold (\$/ounce)	1577.4	2.2	3.0	32.2
		Base metals	596.3	-1.1	-1.6	26.9
Stock markets (changes in %)	Euro	Ibex 35	9508	-4.3	-4.3	-4.8
		EuroStoxx 50	2665	-4.5	-2.4	0.7
		USA (S&P 500)	1309	-2.6	3.4	22.9
		Argentina (Merval)	3302	-4.8	1.8	44.6
	América	Brazil (Bovespa)	59679	-3.0	-3.1	-4.3
		Colombia (IGBC)	13130	-4.4	-6.4	1.6
		Chile (IGPA)	22312	-1.3	2.4	14.1
		Mexico (CPI)	36165	-0.9	2.4	13.8
		Peru (General Lima)	20182	1.3	0.2	45.0
		Venezuela (IBC)	83864	3.2	3.6	29.5
	Asia	Nikkei225	9974	-1.6	4.2	6.0
		HSI	21813	-4.0	-2.4	7.7
Credit (changes in bps)	Ind.	Itraxx Main	120	7	9	2
		Itraxx Xover	447	23	35	-88
		CDS Germany	56	10	15	16
		CDS Portugal	1095	72	297	807
	Sovereign risk	CDS Spain	323	9	35	103
		CDS USA	54	5	2	---
		CDS Emerging	221	13	-5	-24
		CDS Argentina	634	33	18	-289
		CDS Brazil	117	9	2	-9
		CDS Colombia	114	8	5	-22
		CDS Chile	76	2	1	-18
		CDS Mexico	115	8	5	-12
		CDS Peru	129	2	-19	7

Source: Bloomberg and Datastream

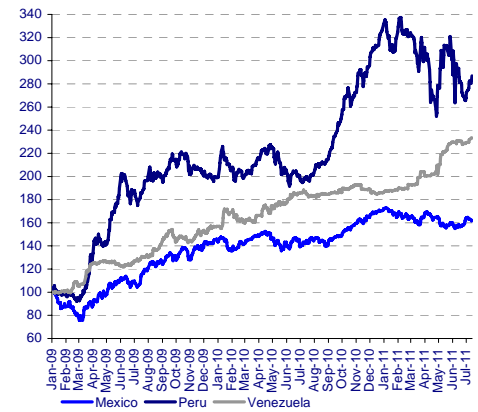
Charts

Chart 4
Stock markets (base index Jan09 = 100)



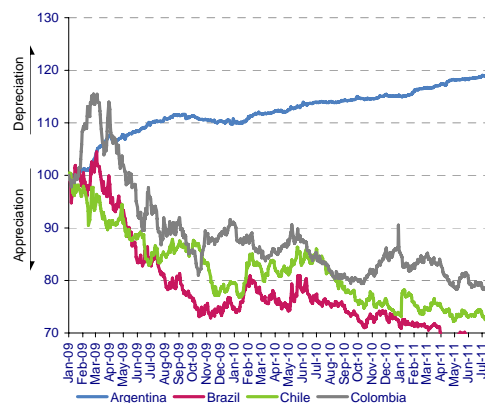
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



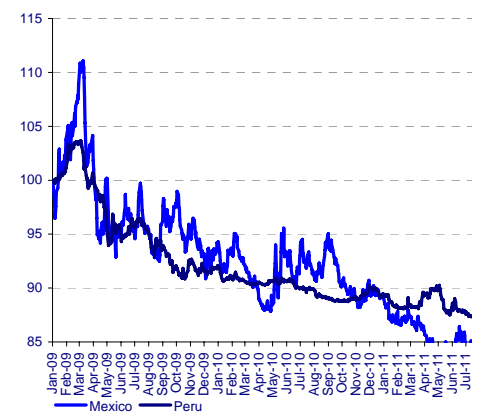
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



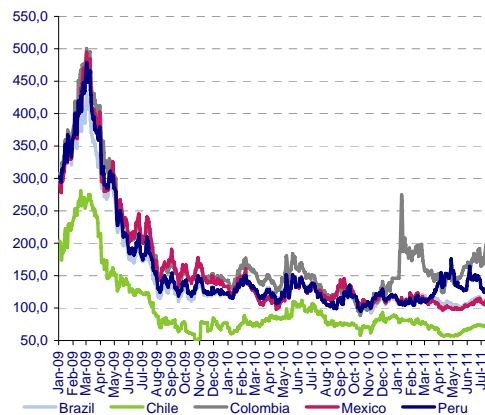
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



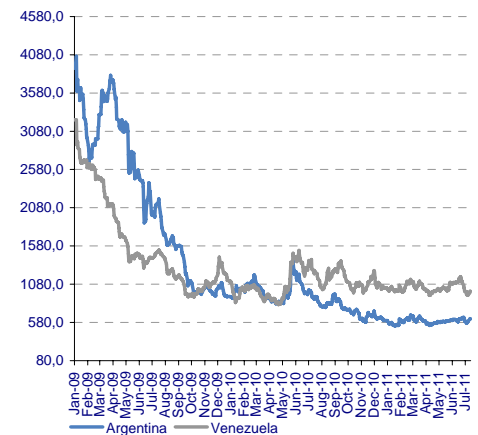
Source: Datastream and BBVA Research

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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