BBVA | RESEARCH

Weekly Watch

Latin

January 16, 2012
Análisis Económico

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A new surprise in inflation

The inflationary surprise in Mexico follows those last week in Chile and Colombia, thus it freezes the enthusiasm to reduce interest rate. This fact was confirmed by the decision of the Central Bank of Peru where interest rate remains unchanged. However, the exception was Chile where the Central Bank reduced interest rate by 25 bp, a decision in line with the Monetary Policy Report presented last week.

Currency gains reflect improvements in the fundamentals and reduced risk

With more liquidity in the second week of the year, the relative stability of international markets, recovery in commodity prices and some positive data from Asia, the currencies in the region gained more than significantly, and broke through their key levels: 1.80 for the BRL (up around 4.2% YTD), 500 for the CLP (up 3.6%) and 1,860 for the COP (up 5.4%). Once more it was the MXN that performed more sluggishly, but still in line with the S&P index (up 2.6%). On the domestic front the figures for economic activity were relatively optimistic, as were those for the United States, while the upturn in inflation at the end of last year has reduced expectations of cuts in the reference rate, as in the case of Chile. This has provided the currencies with more support.

Nevertheless, we continue to be relatively cautious in our expectations. This is because it is difficult to predict how much the rally could last, as many of the market doubts have not cleared. We have seen similar situations before, but it is difficult to remember many consecutive days without profit-taking. As well as this trend continuing in some currencies, we were approaching the possibility of intervention. This is initially verbal, in the case of the USD/BRL 1.80-1.70 range, but also there is also a chance of options being executed by mechanisms implemented by central banks such as the Colombian (USD 200 million options if the COP moves +/-4% from the 20-day moving average). From the local point of view we continue without any significant catalysts in the short term, with the rate cut by the Central Bank of Brazil expected and already discounted. Thus attention continues focused on the international market, in particular Europe.

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Different reactions in central banks of Chile and Peru

The Central Bank of Chile reduced the interest rate by 25 bp ending up at 5%, a decision that confirmed the message of reducing the interest rate, which was indicated in the last Monetary Policy Report. Instead, the Central Bank of Peru extended its pause for the eighth month, mainly due to annual inflation and inflationary expectations above target range.

December inflation provides an upward surprise in Mexico

Inflation ended 2011 at 3.8% y/y, compared with 3.4% in November, with its more volatile components steepening the upward curve. The upward pressure from imports and energy costs more than offset the limited influence of demand. Prices in the merchandise sub-index rose sharply, not only due to food, but as a reflection of the impact of the exchange rate. However, services continue to be held in check, clearly showing that demand is still not the main factor in the upward pressure on prices.

Mixed data on economic activity Brazil and Mexico

Retail sales in Brazil were up 1.3% m/m November, far above expectations. The figures strengthen the view that economic activity recovered at the end of the year after a major slowdown in the three previous months. In Mexico, the figures for industrial output in November were up 0.1% m/m, slightly below expectations (0.3% m/m).

Successful USD 1.5 billion bond issue by Colombia

The funds from the global bond, which matures in 2041 and has a yield of 4.964% (the lowest in the country's history), will be used to buy back foreign public debt and finance dollar budget requirements in 2012.

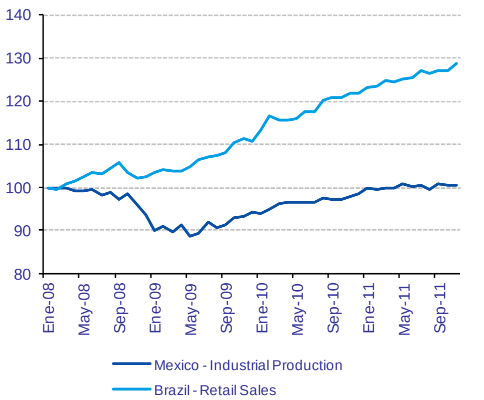
Drought in Argentina affects the harvest

Drought is estimated to have generated losses of around 3 million tons of corn and could negatively affect the soybean harvest if it continues. It is also affecting Paraguay, Uruguay and the south of Brazil.

Unemployment rate steady in Venezuela

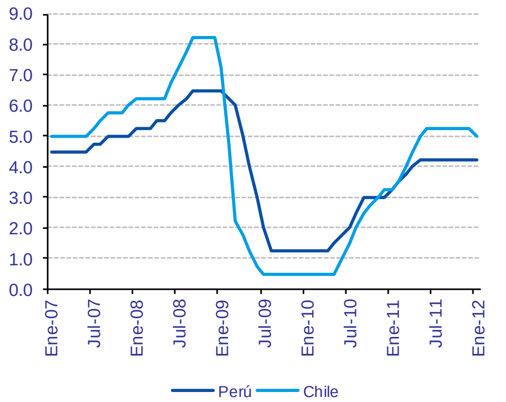
The relatively limited seasonal fall in unemployment in December (0.3 pp) left the rate at 6.5%.

Chart 1
Indices of economic activity in Brazil and Mexico (Jan 2008=100)



Source: BBVA Research

Chart 2
Reference rates (annual %)



Source: BBVA Research

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Calendar of indicators

Next Week: 16 - 20 January 2012

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Econimic activity monthly estimator	20/1/2012	November	7.7% y/y	6,5% y/y	8.2% y/y	
Brazil	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
SELIC Target - Central Bank	18-Jan	January	0	10.5 %	11 %	We expect the SELIC to be cut by 50bps next week and then a last 50bps cut in March. From then on the SELIC would be constant at 10%.
Colombia	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Imports	18-Jan	November	33.1% y/y		33.6% y/y	Strong domestic demand for transport equipment and recovery of the consumption of non-durable goods sustain momentum of imports.
Trade balance	18-Jan	November	USD 9 millions		USD 103.2 millions	The trade balance equilibrium is achieved by the impulse of the oil and mining on exports.
Industrial production	19-Jan	November	5.8% y/y	4.7% y/y	5.0% y/y	High growth in electricity demand in November anticipates a good performance of the industry.
Retail sales	19-Jan	November	8.4% y/y	6.5% y/y	6.1% y/y	Commerce and consumers confidence remained strong at year's end.
Mexico	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Unemployment	January 19th	December	5%	na	0.05	The unemployment rate will be close to that observed the previous month, this result is related to the stability in the labor market
Monetary policy rate	January 20th	January	0.05	0.05	0.05	The neutral policy stance expressed by Banxico's Board in the last minute, along with the negative surprise in inflation in December, reduces the posibility of a rate cut
Peru	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
GDP	16-Jan	November	4,8% y/y		5,1% y/y	We estimate a growth of 4,8% y/y, the lowest growth rate in the year, mainly explained by the slowdown in Manufacturing, Primary sectors and other services
Venezuela	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Credit	20-Jan	December	41.4% a/a			

Source: BBVA Research

Calendar of holidays

There are no holidays

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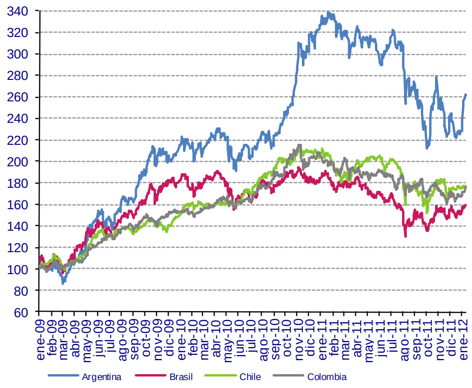
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.57	-1	2	27
		2-yr yield	0.22	-3	-2	-35
		10-yr yield	1.92	-4	2	-140
	EMU	3-month Euribor rate	1.25	-4	-18	24
		2-yr yield	0.16	0	-11	-99
		10-yr yield	1.84	-2	-9	-119
Exchange rates (changes in %)	Europe	Dollar-Euro	1.284	0.9	-1.2	-3.8
		Pound-Euro	0.84	1.4	-0.4	-0.5
		Swiss Franc-Euro	1.21	-0.5	-2.2	-6.0
	America	Argentina (peso-dollar)	4.31	-0.2	0.7	8.5
		Brazil (real-dollar)	1.78	-4.0	-5.0	5.6
		Colombia (peso-dollar)	1841	-2.1	-5.0	-1.6
		Chile (peso-dollar)	500	-1.9	-4.1	2.2
		Mexico (peso-dollar)	13.54	-1.3	-2.6	12.3
		Peru (Nuevo sol-dollar)	2.69	-0.1	-0.2	-3.4
	Asia	Japan (Yen-Dollar)	76.70	-0.5	-1.8	-7.5
		Korea (KRW-Dollar)	1148.50	-1.1	-0.9	2.9
		Australia (AUD-Dollar)	1.035	1.2	4.3	4.5
Comm. (chg %)		Brent oil ($/b)	112.0	-1.0	6.6	13.5
		Gold ($/ounce)	1643.7	1.6	4.4	20.7
		Base metals	526.9	1.2	2.4	-10.8
Stock markets (changes in %)	Euro	Ibex 35	8523	2.8	4.2	-17.9
		EuroStoxx 50	2365	2.9	7.2	-19.0
	América	USA (S&P 500)	1296	1.4	6.9	0.2
		Argentina (Merval)	2820	1.8	17.1	-20.3
		Brazil (Bovespa)	59921	2.3	5.8	-15.5
		Colombia (IGBC)	13080	1.1	5.4	-13.8
		Chile (IGPA)	20318	0.4	2.2	-12.3
		Mexico (CPI)	37321	1.4	3.6	-1.8
		Peru (General Lima)	20540	3.7	6.4	-5.7
		Venezuela (IBC)	117666	1.3	0.5	78.5
	Asia	Nikkei225	8500	1.3	-0.2	-19.0
		HSI	19204	3.3	4.6	-20.9
Credit (changes in bps)	Ind.	Itraxx Main	171	-6	-20	67
		Itraxx Xover	717	-35	-96	304
	Sovereign risk	CDS Germany	101	-11	-5	41
		CDS Portugal	1063	-52	-61	582
		CDS Spain	394	-56	-53	94
		CDS USA	48	-3	-5	---
		CDS Emerging	303	-11	-14	103
		CDS Argentina	884	2	-77	352
		CDS Brazil	159	-2	-2	53
		CDS Colombia	152	0	-3	44
		CDS Chile	127	-2	-1	48
		CDS Mexico	151	-1	-7	42
		CDS Peru	179	4	5	74

Source: Bloomberg and Datastream

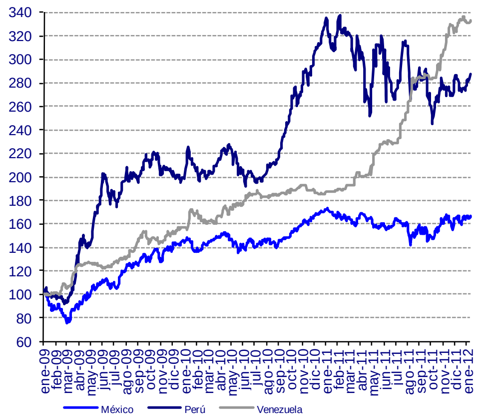
Charts

Chart 3
Stock markets (base index Jan09 = 100)



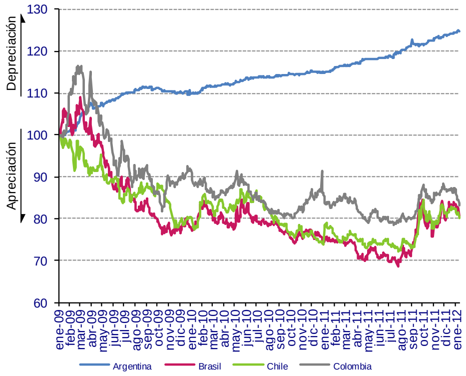
Source: Datastream and BBVA Research

Chart 4
Stock markets (base index Jan09 = 100)



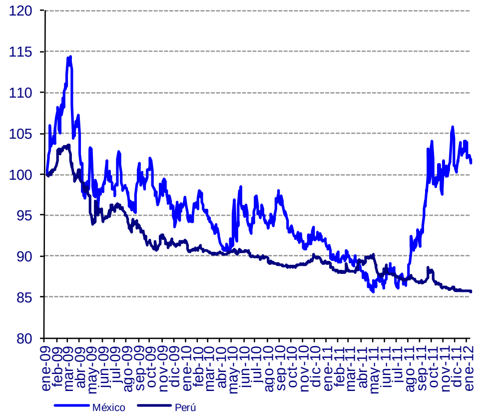
Source: Datastream and BBVA Research

Chart 5
Exchange rates (base index Jan09 = 100)



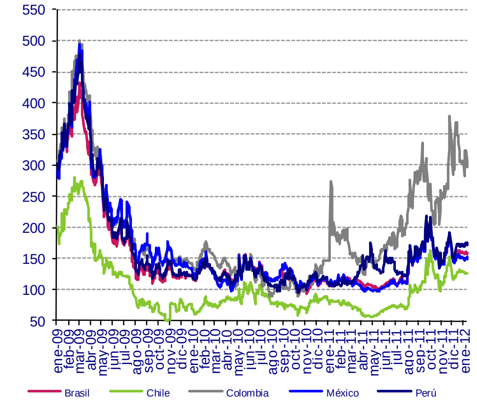
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



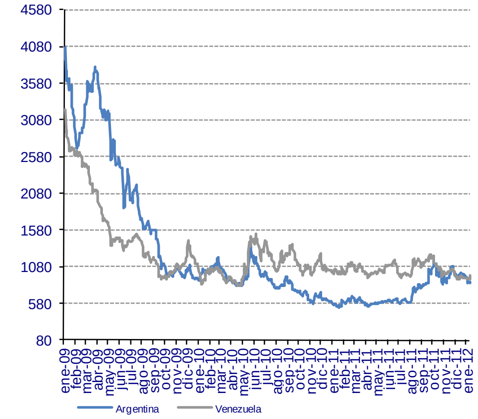
Source: Datastream and BBVA Research

Chart 7
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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