

Weekly Watch

Latin

January 16, 2012

Análisis Económico

América del Sur

Joaquín Vial
jvial@bbva.com

Rodrigo Alfaro
ralfaro@bbva.com

Enestor Dos Santos
enestor.dossantos@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Alejandro Puente
apuente@bbva.com

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

México
Julián Cubero
juan.cubero@bbva.bancomer.com

Perú
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Mercados
Alejandro Cuadrado
Alejandro.Cuadrado@bbvany.com

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: 180 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.

Highlights

Different reactions in central banks of Chile and Peru

December inflation provides an upward surprise in Mexico

Mixed data on economic activity Brazil and Mexico

Successful USD 1.5 billion bond issue by Colombia

Drought in Argentina affects the harvest

Unemployment rate steady in Venezuela

Home	➔
Highlights	➔
Calendar	➔
Market Data	➔
Charts	➔

Highlights

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.

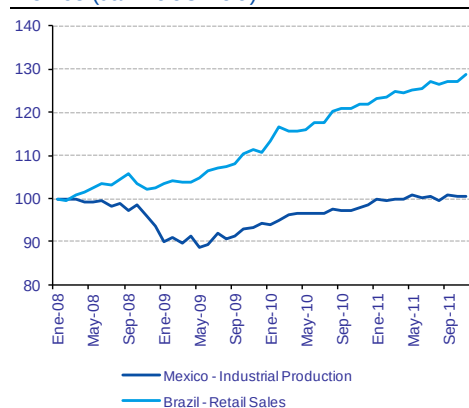
Drought in Argentina affects the harvest

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

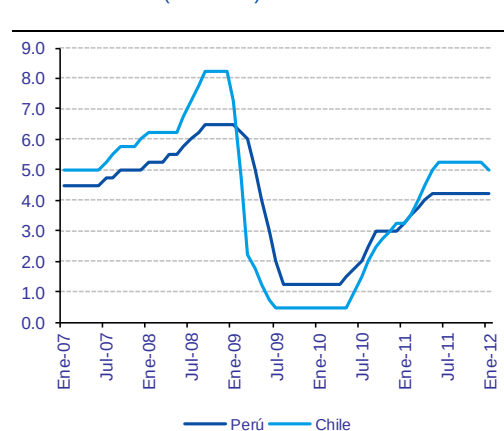
The relatively limited seasonal fall in unemployment in December (0.3 pp) left the rate at 6.5%.

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



Source: BBVA Research

Chart 2
Reference rates (annual %)



Source: BBVA Research

Home



Highlights



Calendar



Market Data



Charts



Calendar of indicators

Next Week: 16 - 20 January 2012

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Economic 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 possibility 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

Home	→
Highlights	→
Calendar	→
Market Data	→
Charts	→

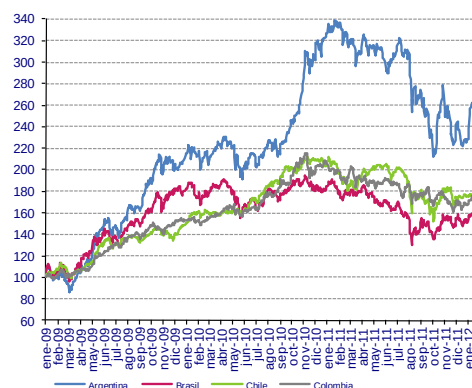
Market Data

			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	14	-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
		Japan (Yen-Dollar)	76.70	-0.5	-1.8	-7.5
	Asia	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	16	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
		USA (S&P 500)	1296	14	6.9	0.2
	América	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
		CDS Germany	101	-11	-5	41
	Sovereign risk	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

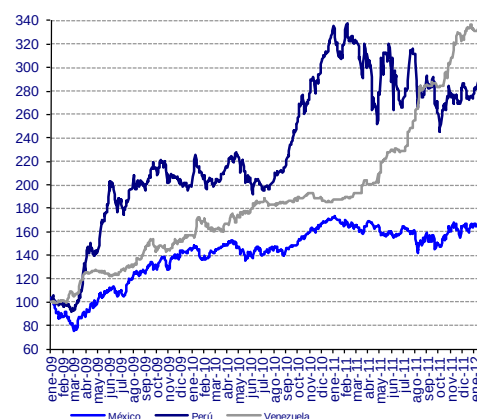
Charts

Chart 3
Stock markets (base index Jan09 = 100)



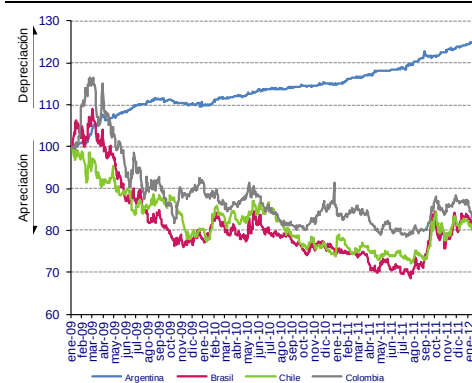
Source: Datastream and BBVA Research

Chart 4
Stock markets (base index Jan09 = 100)



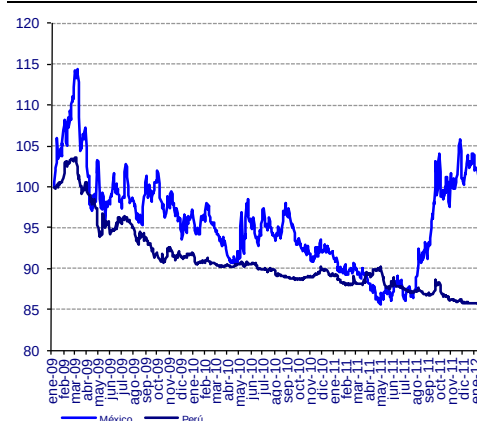
Source: Datastream and BBVA Research

Chart 5
Exchange rates (base index Jan09 = 100)



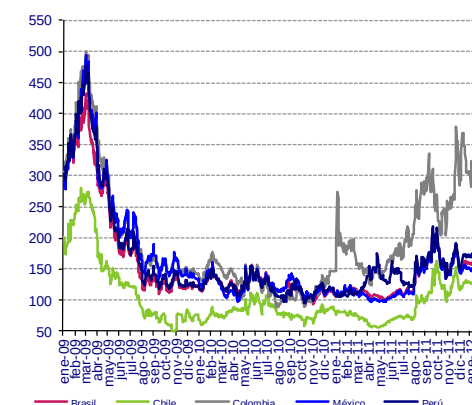
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



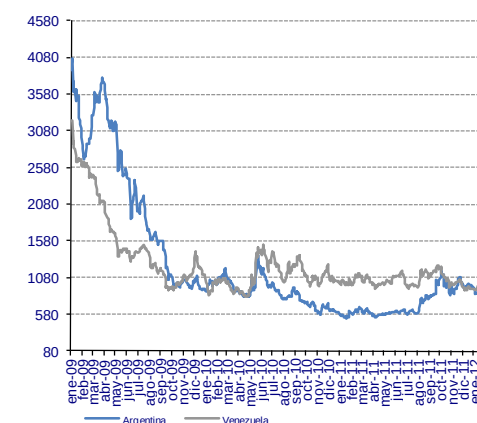
Source: Datastream and BBVA Research

Chart 7
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The content of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.