

Weekly Watch

Latin

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Economic Analysis

South America

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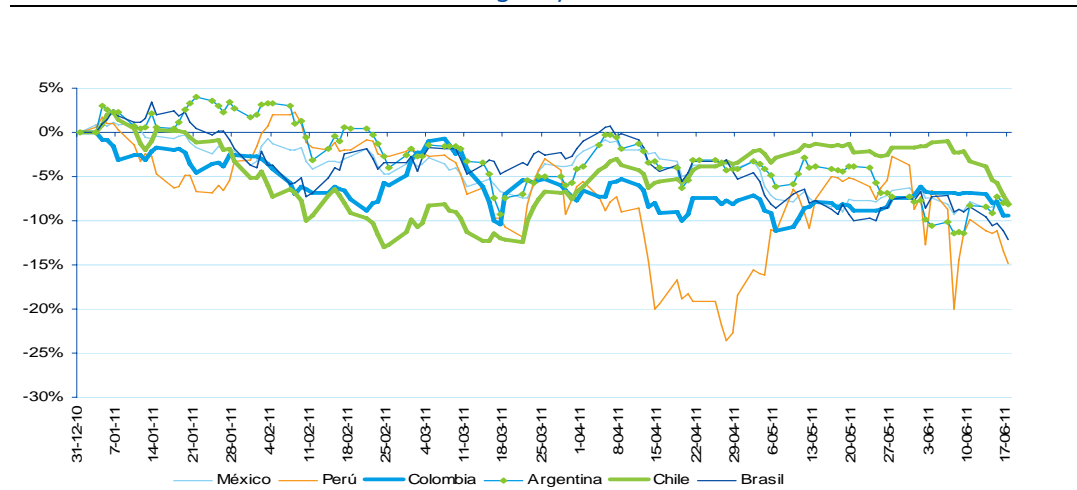
Slowdown in the rise of central bank interest rates

The central banks of Chile and Brazil slowed the rate of increase of their interest rates to 25 bps (5.25% and 12.25% respectively), signalling that they are close to the start of a pause. Meanwhile, various indicators point to high rates of growth in Peru and Colombia, and a slowdown in industrial output in Mexico, which can in part be explained by problems with essential supplies from Japan.

Prolonged risk aversion due to global cyclical and sovereign factors in Europe, and volatility will remain high

Markets will continue to be dominated by the level of slowdown in the U.S. and uncertainty regarding its duration, together with concerns about the details of the Greek bailout plan. Thus market volatility in the region will remain high.

Chart 1
Stock Market's Evolution (acumulative % during the year)



Source: BBVA Research

Highlights

Slowdown in the rate of monetary adjustment in Chile and Brazil

Congress releases unofficial inflation figures in Argentina, Peru allows for a higher pass through of international oil prices

High rate of economic growth in Peru and Colombia, Mexico suffers the impact of external shocks

Compulsory restrictions on electricity consumption limit the rate of recovery in Venezuela

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Economic Analysis

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Markets

Higher global risk aversion is felt in Latin America, except in the PEN and ARS, which are dominated by local factors

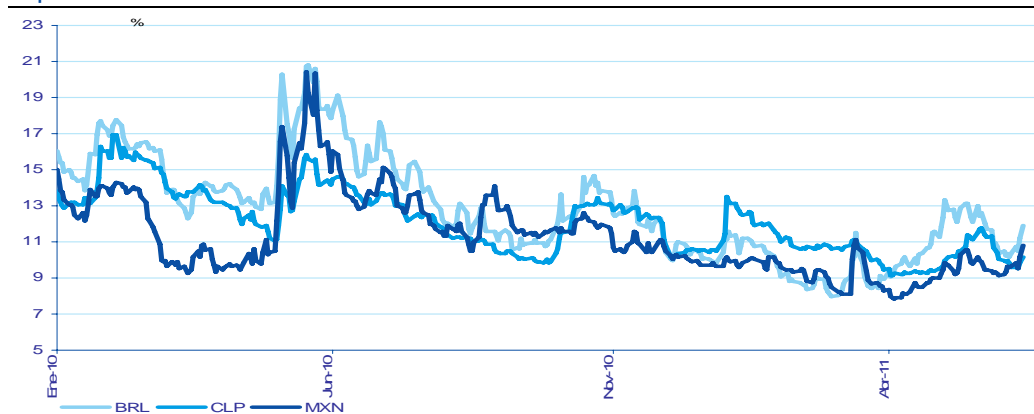
Global currencies continued extremely volatile, as they have been over the last three weeks. They are responding to factors such as uncertainty regarding global growth, and concerns about the situation in Greece and details of the bailout plan that could be announced this week. In particular, the lack of consensus on the country's bailout generated an abrupt increase in the costs of protection against it not being implemented.

These factors resulted in a general phenomenon of risk aversion, which in turn led to depreciations in most Latin American currencies (around 1.6% in the BRL and MXN). The exceptions were the PEN and ARS, which continued to react to local factors (election results in the case of the PEN and local MULC flows for the ARS). At present, we consider that the currencies will continue to fluctuate in response to these two elements, so we expect that they will remain extremely volatile in the short term.

Global stock markets, except Asia and Colombia, performed negatively due to global cyclical concerns.

Over the week, most global stock markets continued to register falls, with only Asia posting marginally positive results and Latin America appearing the most affected. In Latin America, the performance of the Chilean stock market continues separate from international markets (-3.7% in USD vs. -0.3% MSCI ACWI), due to problems in a retail company that has dampened investor confidence. The decision on the Greek bailout expected for the week June 20-24 will be key for the risk premium to return to normal and the focus in the Latin American region to be once more on fundamentals.

Chart 2
Implied volatilities of reference LatAm currencies



Source: Bloomberg and BBVA Research

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Highlights

Slowdown in the rate of monetary adjustment in Chile and Brazil:

The monetary adjustment in Brazil and Chile continues, with increases in the benchmark rate of 25 bps to 12.25% and 5.25% respectively. Both central banks have left open the possibility of a pause, but they made it clear that any decision will depend entirely on the internal variables and the international environment. Although Colombia once again raised its rate by 25 bps, the previous debate made clear that pressure is increasing for pauses in the future.

Congress releases unofficial inflation figures in Argentina, Peru passes on more international oil price rises:

Opposition deputies in Argentina released the "Congress CPI" for May, which was up 1.5% m/m. The index is higher than the official CPI of 0.7% m/m. It is an average of measurements taken by private consultants who have stopped releasing them following fines imposed by the Secretariat of State for Trade. In Peru, the government raised the price bands of the Fuel Price Stabilization Fund in June. This will impact the CPI for the month, but reduce the rate at which the government is accumulating debt with the refineries due to the difference between local and international prices.

High rate of economic growth in Peru and Colombia, Mexico suffers the impact of external shocks:

Economic activity continues strong in Colombia in the second quarter of the year, as reflected by a growth of more than 30% in imports in April. By sectors, growth in residential construction is particularly notable. In Peru, GDP was up 7.4% y/y in April, slowing slightly on previous months. Meanwhile, in Mexico there was a slight fall in industrial output in April as the automotive industry was hit by supply problems from Japan.

Compulsory restrictions on electricity consumption limit the rate of recovery in Venezuela:

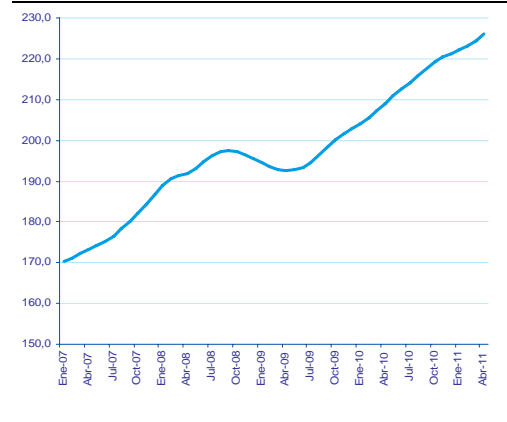
The government has extended the incentive plans and consumption penalties applied in Gran Caracas since the 2010 crisis to the rest of the country. This pushes small and medium-sized enterprises to disconnect from the national power grid and use their own supply from distributed generation plants during peak consumption periods. The measure will limit economic growth and put additional pressure on inflation.

Chart 3
Monetary policy: benchmark interest rates



Source: BBVA Research

Chart 4
Peru: seasonally-adjusted GDP (index)



Source: BBVA Research

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Calendar: indicators

Next Week: 13 - 17 June 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Trade Balance	23-Jun	May 2011	USD M 1.795	USD M 1.700	USD M 1.300	
Monthly Economic Activity Estimator	24-Jun	Apr 2011	7.4% y/y	7.5% y/y	7.8% y/y	
Brazil						
Economic Activity Index	20-24 Jun	Apr 2011			0.51% m/m	
Unemployment rate	22-Jun	May 2011			6.4%	
Chile						
Biweekly financial operators survey	22-Jun	Jun 2011				
Colombia						
Building permits	20-Jun	Apr 2011	29.7% y/y		78.9% y/y	Higher-value housing is resuming the leadership of residential construction. Unexpected decline in public investment would be offset by better performance of private consumption and investment in machinery and equipment.
GDP	23-Jun	1Q11	4.8% y/y	5.0% y/y	4.6% y/y	
Mexico						
GDP, Components	21-Jun	1Q11	Aggregate Demand: 1.6% qoq, 5.8% yoy	NA	0.5% qoq, 6.8% yoy	Some of the components of GDP growth will moderate, but still improving. Such is the case of private consumption and exports, investment will have begun to recover. For their part, imports have grown strongly. Inflation will rise slightly in annual terms during June because some non-core seasonal factors -like the reduction of electric fees and tariffs due to the hot season- will disappear. However we estimate inflation will remain under control thanks to lower farm produce prices and the absence of pressures over the services and real estate.
Inflation	23-Jun	June's first fortnight	0.16% fof (3.41% yoy)	0.14% fof	-0.75% mom Mayo (3.25% yoy)	
Trade Balance	24-Jun	May 2011	857 md	NA	767 md	We expect that the trade Balance will remain positive due to the higher oil prices and the weak recovery of capital and consumption imports.
Peru						
Banking system credit (yoy % change)	20-24 Jun	May 2011			22.1%	
Business confidence (index)	24-Jun	May 2011			46	The index will keep at low levels in a context of uncertainty linked with the entry of the new administration.
Venezuela						
Banking Numbers	22-Jun	May 2011				
Unemployment	23-Jun	May 2011	8,1		8,1	There's no expectation of improvement beyond the observed. The electric restrictions will limit the economic growth

Source: BBVA Research

Calendar of events

Mexico: Inflation first half of June

Forecast: 0.16%q/q.(3.41%y/y)

Consensus: 0.14%q/q

Previous: -0.74%m/m(3.35%a/a)

The inflation information will confirm the positive surround of prices of the Mexican economy, consistent with the continuity of the monetary pause further the end of 2011.

Calendar of holidays

Argentina: 20 June (Flag Day).

Venezuela: 24 June (Battle of Carabobo).

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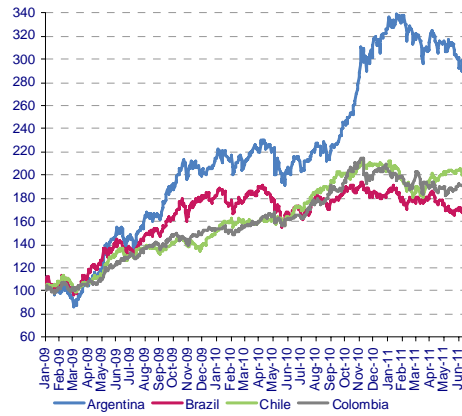
Market Data

			Close	Weekly change	Monthly change	Annual change		
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	-1	-29		
		2-yr yield	0.38	-2	-17	-33		
		10-yr yield	2.93	-4	-25	-29		
	EMU	3-month Euribor rate	1.49	3	6	76		
		2-yr yield	1.45	-9	-37	87		
		10-yr yield	2.93	-3	-19	20		
Exchange rates (changes in %)	Europe	Dollar-Euro	1.417	-1.4	-0.6	14.6		
		Pound-Euro	0.88	-0.7	-0.3	5.2		
		Swiss Franc-Euro	1.20	-0.6	-4.3	-12.4		
	America	Argentina (peso-dollar)	4.09	0.0	0.1	4.2		
		Brazil (real-dollar)	1.60	0.4	-0.5	-9.5		
		Colombia (peso-dollar)	1795	1.1	-1.6	-6.0		
		Chile (peso-dollar)	471	0.8	0.3	-11.8		
		Mexico (peso-dollar)	11.98	1.0	2.2	-4.4		
		Peru (Nuevo sol-dollar)	2.76	-0.1	0.4	-2.4		
		Asia	Japan (Yen-Dollar)	80.45	0.2	-1.3	-11.3	
			Korea (KRW-Dollar)	1085.80	0.2	-0.2	-9.7	
			Australia (AUD-Dollar)	1.053	-0.3	-0.8	21.1	
		Comm. (chg %)		Brent oil (\$/b)	111.9	-5.8	-0.4	43.0
	Gold (\$/ounce)		1523.2	-0.6	1.7	21.2		
	Base metals		606.0	-0.1	0.1	27.2		
Stock markets (changes in %)	Euro	Ibex 35	9841	-1.1	-4.9	-1.3		
		EuroStoxx 50	2707	-0.9	-5.6	-1.1		
		USA (S&P 500)	1268	-0.3	-5.4	13.4		
	América	Argentina (Merval)	3235	0.2	-4.5	39.4		
		Brazil (Bovespa)	60881	-2.9	-3.1	-5.5		
		Colombia (IGBC)	14026	-2.6	-1.3	12.2		
		Chile (IGPA)	21604	-3.8	-6.0	13.5		
		Mexico (CPI)	35221	0.7	-0.4	7.3		
		Peru (General Lima)	19814	-4.1	-10.2	38.1		
		Venezuela (IBC)	80867	-0.2	3.5	24.2		
		Asia	Nikkei225	9351	-1.7	-3.2	-6.4	
			HSI	21695	-3.2	-5.7	6.9	
		Credit (changes in bps)	Ind.	Itraxx Main	113	4	15	-4
				Itraxx Xover	417	17	60	-103
Sovereign risk	CDS Germany		43	2	4	4		
	CDS Portugal		809	71	194	520		
	CDS Spain		300	27	59	89		
	CDS USA		52	1	5	---		
	CDS Emerging		232	10	28	-20		
	CDS Argentina		629	32	33	-366		
	CDS Brazil		116	4	16	-11		
	CDS Colombia		110	4	12	-37		
	CDS Chile		75	3	12	-19		
	CDS Mexico		112	4	14	-13		
	CDS Peru		151	7	20	27		

Source: Bloomberg and Datastream

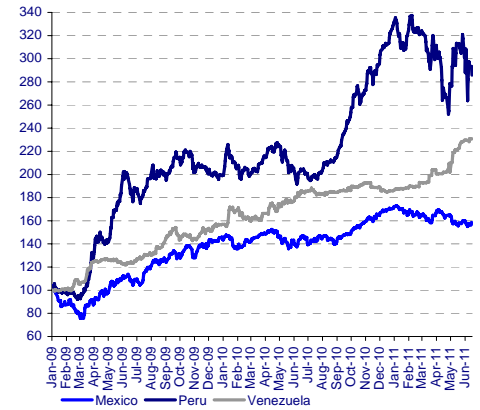
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Chart 4
Stock markets (base index Jan09 = 100)



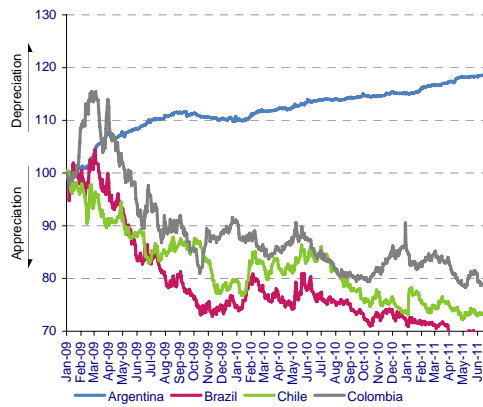
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



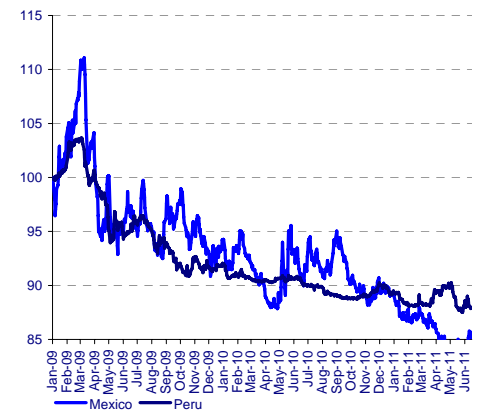
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



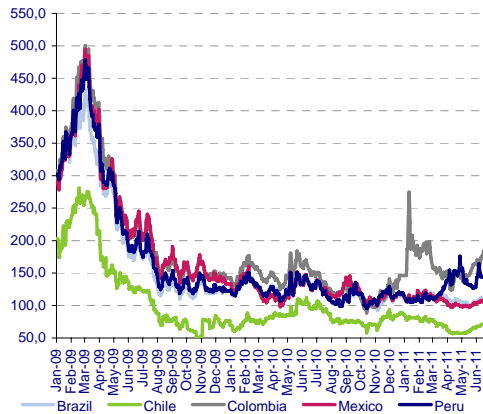
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



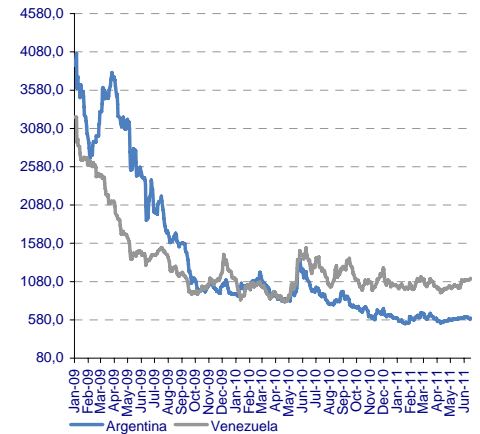
Source: Datastream and BBVA Research

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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