

Weekly Watch

Latin

October 17, 2011
Economic Analysis

South America

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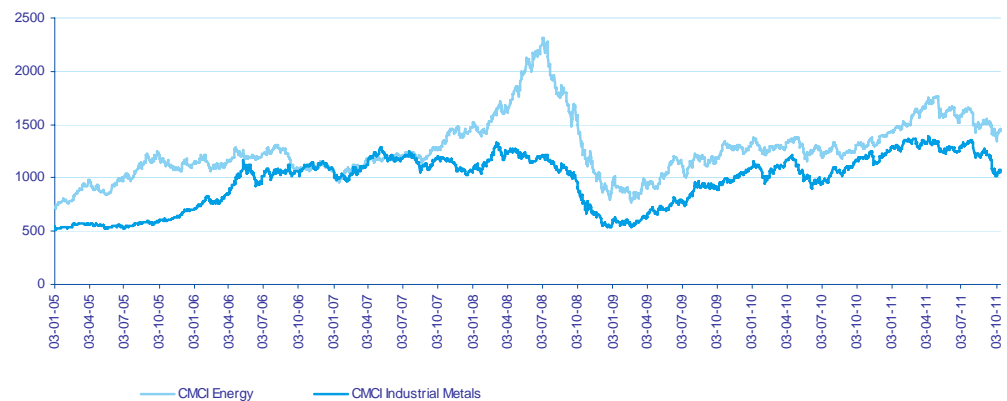
Latin American giants anticipate a slowdown

The most recent economic data in Brazil and Mexico indicate that growth began to moderate in August, before the resurgence of financial tension. In contrast, in the medium-sized economies in the region that follow inflation targets, confidence and economic strength are in general being maintained. Over the coming weeks the leading indicators of economic activity will be key in determining whether the contagion to financial variables is being passed on to the real economy.

Relief in the risk premiums in Latin America in the light of prospects of measures being taken in the euro zone. Commodities could become less volatile.

Currency gains were strongest in Chile and Colombia in reaction to the copper price (Chile) and M&A rumors (Colombia). In Brazil and Peru, interventions by the central banks eased the effect of corrections. Mexico showed the smallest gain, as there was caution with respect to the U.S. cycle. Commodities recovered slightly in the face of reduced financial risk. We expect a global adjustment in supply that could reduce their volatility.

Chart 1
Commodity indices (CMCI Energy and Industrial Metals)



Source: Bloomberg

Highlights

- The economy moderates in Brazil and Mexico, but not in Peru
- No changes in monetary rates in Chile and Mexico
- The Central Bank of Argentina continues to keep peso losses in check
- Bank credit conditions in Chile
- Colombia: business and household confidence remains strong in 3Q11
- Venezuela announces the issue of USD 3 billion in bonds with maturity in 2026
- U.S. Congress passes FTAs with Colombia and Panama

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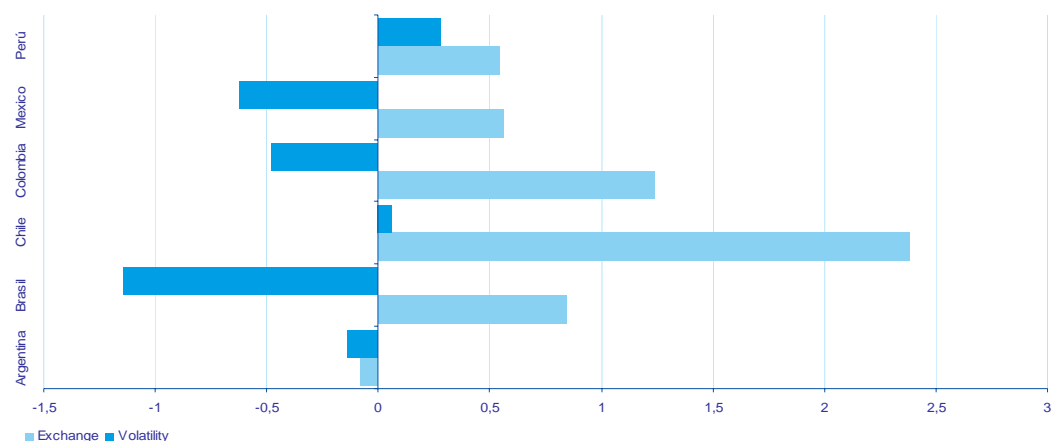
Relief in the markets in the face of prospects in Europe, currency gains in the region vary

Last week Latin American currencies gained in general in response to news from the European Union, particularly with expectations that measures will be announced at the end of October to ensure that Greece remains in the EU, and the recapitalization plan for European banks. The CLP had the best relative performance among the currencies in the zone, with a rise of 3.3%. This move was in line with the rise in copper prices, and despite the fact that the trade balance with China was below expectations. The COP was up by around 2.2%, boosted by local M&A rumors in the financial system. However, its margin for gains against other currencies in the region remains more limited. The BRL and PEN gained by around 1.4% and 1.0% respectively, both in response to global factors. They were kept relatively stable by the interventionist policies of their central banks. Finally, the MXN had the smallest gain in the region (0.5%), as the market is showing signs of caution again, given the possibility of new negative surprises in the U.S. economy.

Reduced volatility in the future is not ruled out in commodity prices

In recent weeks commodities have recovered slightly in the face of a moderation in the financial risk premium. The strong downward corrections in September (mainly copper and agricultural) could find a first zone of support. Although this relief is due to financial risk factors, there are also some fundamentals that could help reduce volatility. These include a potential adjustment in commodity supplies due to expectations of a contraction in global demand. In the case of oil, OPEC could announce a reduction in output (particularly Saudi Arabia, given the recovery of output in Libya), following production highs. The withdrawal of this "cheap" supply and the response of supplies from less efficient fields (e.g. Canada) leads us to think that the corrections in the price of Brent crude will not extend beyond 90 dpb. The performance of metals has varied according to the margins between prices and costs of production: the copper price showed a bigger correction (30% on the August figure) than aluminum (20%). Although energy costs will fall, we do not rule out an announcement of production cuts by mining companies given current prices. In the case of copper, our forecast of USD 6,200/ton will not change for the next 5 years.

Chart 2
LatAm: Weekly change in currencies and 1m implied volatility (% and pp; positive means appreciation)



Source: Bloomberg and BBVA Research

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Highlights

The economy moderates in Brazil and Mexico, but not in Peru

Both retail sales in Brazil (down 0.4% m/m) and industrial output in Mexico (down 1.1% m/m) surprised negatively in August and suggested that these economies were already moderating before September's turbulence. The fall in Brazil contrasts with the increase over the year to August. In Mexico, the downward correction is due to lower exports of manufactures. In Peru, the economy continues buoyant: vehicle sales increased 36.6% y/y in September and exports were up 53.6% y/y in August.

No changes in monetary rates in Chile and Mexico

As expected, the central banks of Chile and Mexico maintained their reference rates at 5.25% and 4.50% respectively. They also announced that they would keep close watch on the impact of the global economic situation on the balance of inflation risks. A volatile financial environment and major uncertainty in the real economy justify this position of wait and see by both central banks.

The Central Bank of Argentina continues to keep peso losses in check

Its accumulated sales on the spot market in October amounted to USD 570 million, and it is continuing to sell USD futures until February 2012 at implied rates of 6%.

Bank credit conditions in Chile

In accordance with the quarterly survey on General Conditions and Standards in the Credit Market carried out in September 2011 by the Central Bank, the banks were more restrictive in approving credit compared with the previous quarter in most credit segments. In commercial lending, standards of approval have been restricted regardless of the sector and size of the company. With personal loans, conditions have become more restrictive in the mortgage segment, but remain similar for consumer finance. However, there appears to be a rising demand for both personal and corporate loans.

Colombia: business and household confidence remains strong in 3Q11

Indices of household and business confidence deteriorated slightly due to a fall in medium-term expectations, although they are still above the historical average and anticipate stronger private consumption in 3Q11. Industrial confidence increased moderately, due to the better balance in manufacturing exports. Constructors expect activity in 4Q11 to be up on 3Q11.

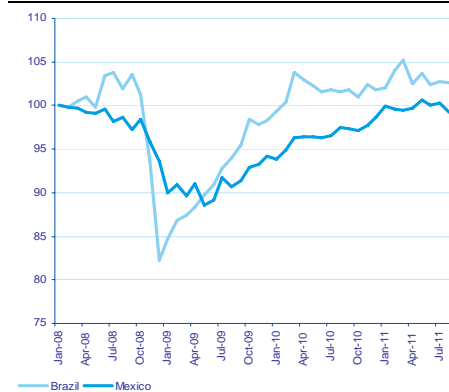
Venezuela announces the issue of USD 3 billion in bonds with maturity in 2026

The financial conditions of the issue will validate an exchange rate of between VEF 5.50/USD and VEF 5.80/USD. This new debt issue contrasts with the size of funds accumulated by the government in local currency, which would imply that the issue aims to offer foreign currency in the foreign-exchange market. As a result, we expect that these bonds will be mainly targeted at corporations and natural persons.

U.S. Congress passes FTAs with Colombia and Panama

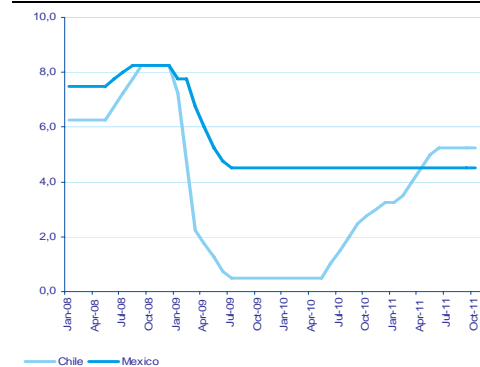
After a process lasting six years, Congress approved with a large majority the free-trade treaties with Colombia, Panama and South Korea. As a result, bilateral trade between the economies is expected to increase. The treaty is now awaiting the signature of President Obama before it enters into force.

Chart 3
Brazil and Mexico's Industrial Production



Source: BBVA Research

Chart 4
Monetary Policy Rate for Chile and Mexico



Source: BBVA Research

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Calendar: indicators

Next Week: 17 - 21 October 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Economic Activity Monthly Estimator	18-Oct	Aug 2011	8.1% y/y	7.7% y/y	7.6% y/y	
Trade Balance	21-Oct	Sep 2011	USD 435 M	USD 640 M	USD 639 M	
Colombia						
Industrial production	19-Oct	Aug 2011	7.6% yoy	3.6% yoy	3.9% yoy	Recent leading indicators show an acceleration of industrial activity, which will be complemented by the presence of an additional business day.
Retail sales	19-Oct	Aug 2011	13.5% yoy	8.3% yoy	11.8% yoy	Leading indicators of consumption (imports, credit, confidence) anticipate a continued high growth rates in retail sales.
Mexico						
Retail Sales	20-Oct	Aug 2011	-0.3 m/m (2.8% y/y)	NA	0.4% m/m (4.3% y/y)	The moderation in external demand may already be implying slower growth and even decline in indicators related to the domestic market such as retail sales.
Unemployment Rate	21-Oct	Sep 2011	5.5% SA	NA	0,054	The unemployment rate continues to decrease in proportion to EAP. Remember that this rate has remained around 5% since the start of the 2009 economic crisis.
Peru						
GDP	17-Oct	Aug 2011	7.2%	NA	6.5%	GDP in August will be sustained by growth in the primary sectors, commerce and construction.
Venezuela						
CADIVI's foreign currency supply	21-Oct	3Q11	USD 8.379 MM		USD 7.526 MM (2nd Quarter)	We expect a seasonal acceleration of authorizations for foreign currency by CADIVI, in line with increased demand for imports in the 3rd quarter.

Source: BBVA Research

Calendar of events

Brazil: Publication of SELIC rate

Forecast: 11.5%

Consensus: 11.5%

Previous: 12%

We expect an additional cut of 50 bps in the SELIC. A bigger cut cannot be ruled out, but we consider it is unlikely, given the frequent references by the Central Bank to a "moderate" adjustment in interest rates.

Calendar of holidays

Colombia: October 17

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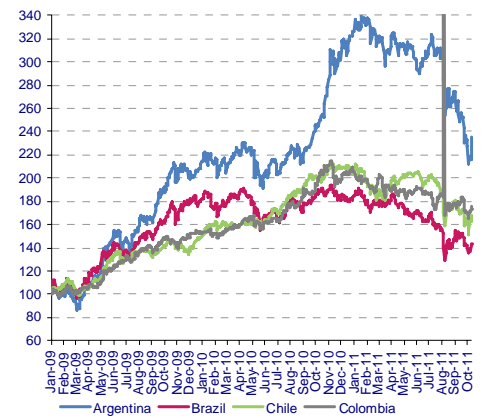
Market Data

			Close	Weekly change	Monthly change	Annual change		
Interest rates (changes in bps)	US	3-month Libor rate	0.40	1	5	11		
		2-yr yield	0.27	-2	8	-9		
		10-yr yield	2.19	11	20	-37		
	EMU	3-month Euribor rate	1.57	1	4	58		
		2-yr yield	0.66	5	10	-16		
		10-yr yield	2.13	13	25	-24		
Exchange rates (changes in %)	Europe	Dollar-Euro	1.377	2.8	0.4	-1.7		
		Pound-Euro	0.87	1.5	0.4	-0.1		
		Swiss Franc-Euro	1.24	-0.1	2.9	-7.7		
	America	Argentina (peso-dollar)	4.21	0.0	0.2	6.6		
		Brazil (real-dollar)	1.75	-1.7	1.3	5.6		
		Colombia (peso-dollar)	1903	-1.7	4.1	5.3		
		Chile (peso-dollar)	506	-2.4	5.6	5.6		
		Mexico (peso-dollar)	13.38	-0.3	3.1	7.7		
		Peru (Nuevo sol-dollar)	2.72	-0.8	-0.2	-2.4		
		Japan (Yen-Dollar)	76.98	0.3	0.4	-5.3		
		Korea (KRW-Dollar)	1156.70	-1.8	4.4	4.2		
		Australia (AUD-Dollar)	1.021	4.6	-0.2	3.1		
		Comm. (chg %)	Brent oil (\$/b)	111.5	5.3	-0.8	35.2	
			Gold (\$/ounce)	1676.9	2.4	-7.8	22.5	
Base metals	539.4		0.3	-5.3	-0.1			
Stock markets (changes in %)	Euro	Ibex 35	8855	0.6	10.1	-18.5		
		EuroStoxx 50	2326	2.5	11.6	-18.1		
		USA (S&P 500)	1204	4.2	1.3	2.3		
	América	Argentina (Merval)	2597	11.6	-5.6	-5.1		
		Brazil (Bovespa)	54601	6.6	-3.0	-24.0		
		Colombia (IGBC)	13307	3.4	-1.8	-13.1		
		Chile (IGPA)	19262	3.2	-1.2	-13.0		
		Mexico (CPI)	34585	4.8	-0.2	-0.5		
		Peru (General Lima)	18624	4.9	-7.7	-3.5		
		Venezuela (IBC)	99999	0.0	-0.8	51.0		
		Asia	Nikkei225	8748	1.7	2.7	-7.9	
			HSI	18382	3.8	-3.5	-22.6	
		Credit (changes in bps)	Ind.	Itraxx Main	178	-11	-5	77
				Itraxx Xover	765	-48	23	295
Sovereign risk	CDS Germany		94	-5	9	61		
	CDS Portugal		1135	16	1	777		
	CDS Spain		373	4	-3	172		
	CDS USA		48	-2	-3	---		
	CDS Emerging		310	-36	1	109		
	CDS Argentina		957	-155	76	229		
	CDS Brazil		157	-27	-14	60		
	CDS Colombia		157	-31	-14	58		
	CDS Chile		130	-18	14	64		
	CDS Mexico		154	-29	-16	49		
	CDS Peru		160	-28	-16	60		

Source: Bloomberg and Datastream

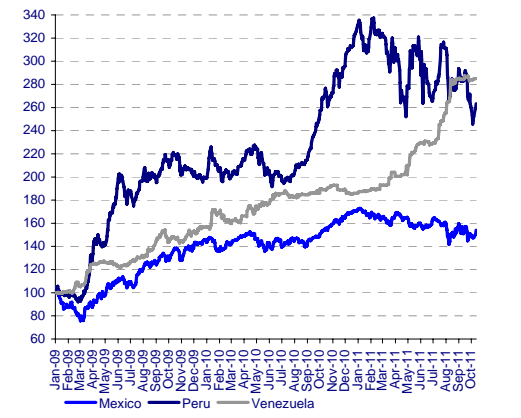
Charts

Chart 4
Stock markets (base index Jan09 = 100)



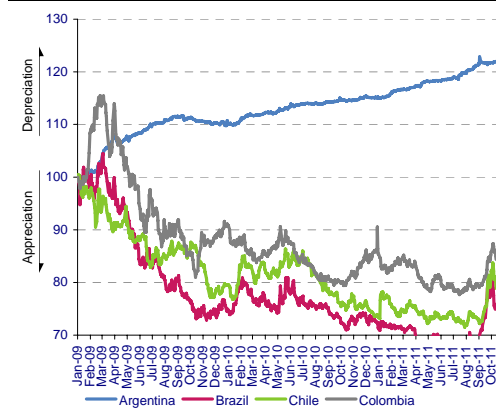
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



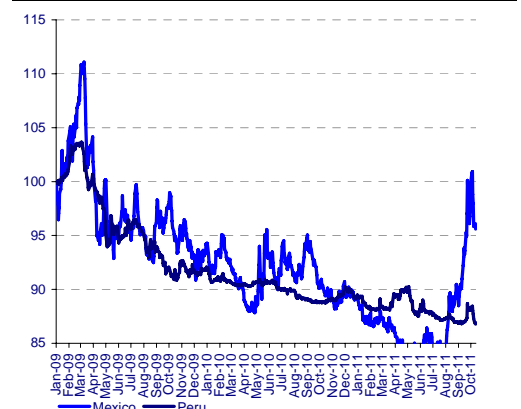
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



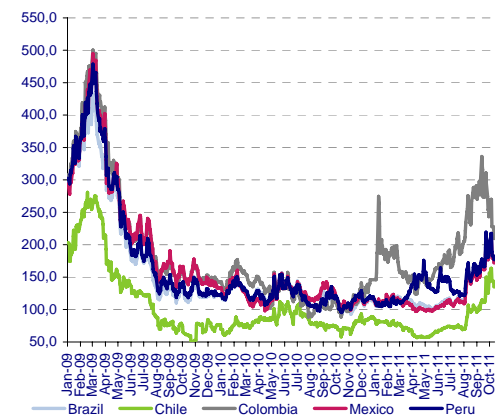
Source: Datastream and BBVA Research

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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