BBVA Research

Latin

Weekly Observatory

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Economic Analysis

South America
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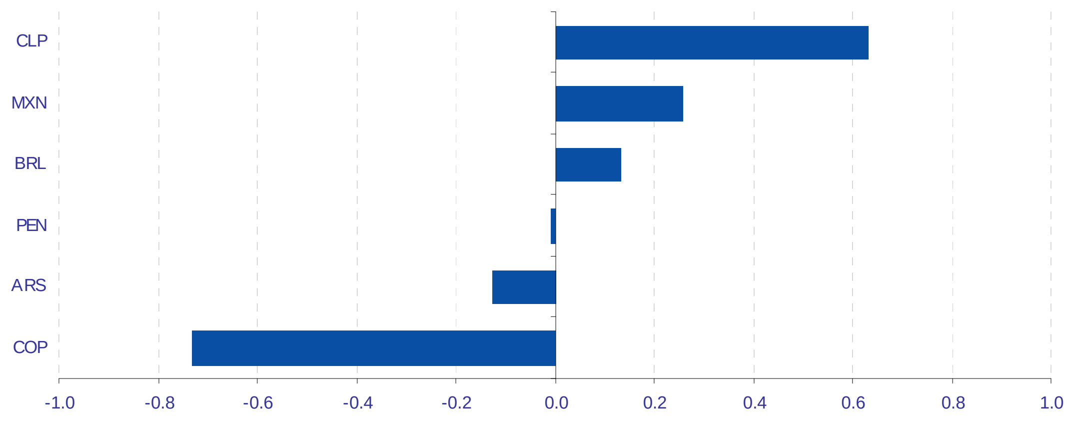
Mixed signs at the end of 2010

Whilst available data points to continuing growth in Argentina and Peru at the end of 2010, Brazil was showing signs of slowing down. The trade balances of Colombia and Peru ended the year in surplus due to high commodity prices. In order to avoid deterioration in its foreign trade accounts, the Government of Argentina extended the list of imports subject to prior authorization. As expected, Chile's Central Bank raised its policy rate by 25 bps to 3.5%.

Positive outlook for assets for the region, although there are differences among Latin American countries due to domestic factors

Whilst US economic figures are giving a positive outlook to the region's markets, there are differences between countries depending on their degree of linkage to the US economy, local exchange rate policies and exposure to the business cycle in Asia. As a result, we recommend taking long positions on the high parts of the range for MXN, CLP and BRL.

Chart 1
Weekly changes in LatAm currencies (7d)



Source: Bloomberg and BBVA Research

Highlights

The strength of economic activity in 2010 disguises mixed growth rates at the end of the year

High international prices are supporting the Latin American trade surplus

Chile's Central Bank raises its monetary policy rate

The Government of Argentina places restrictions on imports

In Peru, Toledo is leading opinion polls for the presidential elections

High demand for the 2022 Petrobono reflects the scarcity of foreign currency

Economic Analysis

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Markets

A more positive outlook for currencies in the region based on US economic figures, but unevenly due to domestic factors

Over the last week, the performance of currency markets was dependent on the flow of US economic news. Whilst at the beginning of the week there was a flight from risk assets, better than expected data (particularly for the real estate sector and inflation) led to a more positive outlook for exchange rates.

Against this international background, there was mixed performance by Latin American currencies in response to various domestic factors. The BRL remained within a limited range of movement as a result of interventions by the Central Bank which offset the effects of foreign currency flows (intervention over the week amounted to US$1.5bn, whilst financial flows amounted to US$3.2bn). The COP weakened during the week by around 0.7% as a result of both domestic and international outflows, leaving open arbitrage opportunities on the NDF curve. The CLP continued gaining, despite interventions by the Central Bank and a fall in copper prices. There were more pronounced movements in the MXN, which is more exposed to the US cycle, whilst the ARS and PEN remained relatively stable. Overall, although the final rates continue to be mixed, there is a lateral dynamic for most exchange rates. As a result, we recommend taking long positions on the high parts of the range for MXN, CLP and BRL.

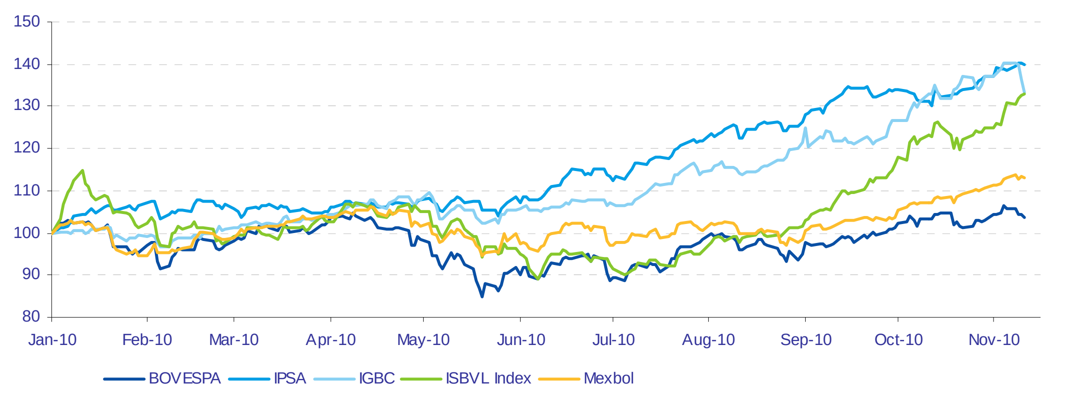
Equities and credit remain of interest, but in the short term we may see a more cautious market

Over the year, the flow from emerging to developed economies explained the negative difference in the performance of Latam stock markets, influenced in part by investor concerns about changes to rates in the region. However, over the last week Latam has been performing positively in equities, with a strong performance by Brazil as it is considered that the measures adopted by the Government will help contain credit growth. Over the longer terms, the markets in the region will become differentiated positively from those of developed economies due to expectations of higher growth; however, in the short term, they will continue to be defined by feelings about economic figures from Asia and, above all, the periods for application and scale of monetary policy.

In terms of credit, there continues to be interest in corporate issues from emerging economies on the global market. In Latin America Brazilian banks and corporations have issued around US$9,500 million; the Chileans US$1,750 million and the Colombians US$520 million. However, we have observed an increase in risk premiums on some LATAM corporate bonds, and this suggests we may see a more cautious market over future weeks.

Chart 2

Latin American stock market indices (Jan 10=100)



Source: BBVA Research with data from Bloomberg

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Economic Analysis

Highlights

The strength of economic activity in 2010 disguises differing growth rates at the end of the year

In Argentina, the EMAE monthly indicator of economic activity increased by 1.1% m/m and 9.4% y/y (consensus: 8.4%). As a result, growth accelerated in 4Q10 to 2.2% q/q from 0.3% in 3Q10. GDP growth in Peru also continues to be high: 8.9% y/y in December (consensus: 8.9%) and 8.9% in 4Q10 (3Q10: 9.7%). However, in Brazil there continue to be signs of a slowdown, as retail sales remained flat in December (0.0% m/m vs. consensus: 0.4% m/m) and the IBC-Br only increased by 0.07% m/m.

High international prices are underpinning a Latin American trade surplus

In 2010, Colombia and Peru had trade surpluses of USD 1.469 billion and USD 6.750 billion, respectively. Exports were driven by sales of mining products, which finished the year with growth of 21.2% y/y in Colombia and 32.3% y/y in Peru. Strong domestic demand underpinned growth in imports of consumer durables, industrial supplies and capital goods.

Chile's Central Bank raises its monetary policy rate

As we expected, the Central Bank of Chile increased its monetary policy rate by 25 basis points.

Argentina places restrictions on imports to avoid eroding its trade surplus

Argentina's government has expanded the number of products requiring prior authorization for import from 400 to 600. These now represent 45% of imports.

In Peru, Toledo leads Presidential opinion polls

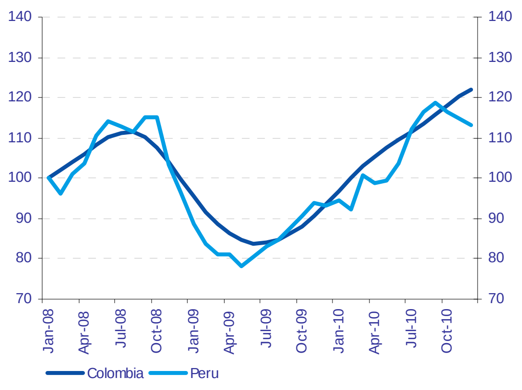
With eight weeks to go to the presidential elections, the results of the latest opinion poll by the market research company Apoyo on urban-rural voting intentions show that ex-President Alejandro Toledo is in first place (28% of the votes), followed by Keiko Fujimori (22%). Lagging behind are Luis Castañeda (18%) and Ollanta Humala (12%).

High demand for the 2022 Petrobono reflects the scarcity of foreign currency

PDVSA received USD 9,076 million in purchase orders, reflecting the large demand in the local market for currencies; the sectors which most benefited were those related to productive areas (food and health), with amounts of up to USD 20 million, and public banking, with amounts up to USD 100 million.

Chart 3

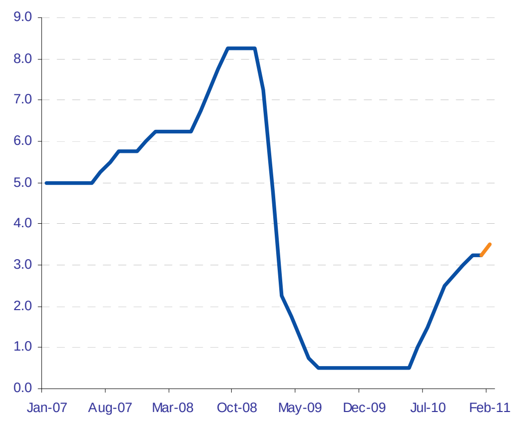
Imports in Peru and Colombia (seasonally adjusted, January 08=100)



Source: BBVA Research.

Chart 4

Chile: Monetary policy rate (%)



Source: Central Bank of Chile.

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Calendar: Indicators

Next Week: 21 - 25 February 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment Rate	22-Feb	4Q 2010	7.2%	7.6%	7.5%	Improvement according to the expected variation in activity
Industrial Monthly Estimate	23-Feb	Jan 2011	10.5% y/y	9.5% y/y	10.6% y/y	Sustained industrial improvement. High performance of of car makers and cement.
Trade Balance	23-Feb	Jan 2011	USD 372 mill	USD 537 mill	USD 241 mill	Impact of the seasonal effect on the balance
Brazil	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Current Account	23-Feb	Jan 2011	-$4200M		-$3493M	
Unemployment Rate	24-Feb	Jan 2011		6.0%	5.3%	
Credit Data	24-Feb	Jan 2011				Markets will focus on any moderation signs following the implementation of macro-prudential measures in December.
Fiscal Data	25-Feb	Jan 2011				Preliminary signs of the magnitud of public sector's fiscal effort could impact inflation and SELIC expectations.
Chile	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Foreign Trade Indicators	23-Feb	4Q 2010				
Colombia	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Industrial production	24-Feb	Dec 2010	1.5% y/y		4.5% y/y	Industrial production would register a monthly increase for the first time since May 2010
Retail sales	24-Feb	Dec 2010	15.5% y/y		21.4% y/y	High confidence levels support positive dynamics of retail sales
Mexico	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
GDP	21-Feb	4Q 2010	0.6% q/q (3.6% y/y)	3.2% y/y	0.7% q/q (5.3% y/y)	The economic activity will slow its fall in the last months of 2010. Some key indicators such as industrial production and particularly of manufactures rose above expectations, driven by external demand. On the other hand, at a slower rate, domestic demand components have begun a clearer improvement than in previous quarters.
IGAE	21-Feb	Dec 2010	0.75% m/m (4.7% y/y)		0.7% m/m (4.7% y/y)	The last month of the year will have been influenced by the positive surprise of industrial production that stopped its moderating trend.
Inflation	24-Feb	1st half feb 2011	INPC 0.21% q/q 3.64% y/y		0.49% m/m january	February's first foorthnight inflation will be relevant to find out if the incrases of grains in the international markets are passing through to the prices of processed foods. Plus it will be relevant to evaluate the effects of the extreme cold weather that affected the crops in the state of Sinaloa -one of Mexico's main agricultural producers- to the consumer prices of agricultural products.
Balance of Payments	25-Feb	4Q 2010	Current Account - 0.8% of GDP year 2010		Current Account - 0.6% of GDP year 2009	Next week the Balance of Payments for 2010 will be published, we expect it to show a reduced deficit as it did in 2009, this result is due to the asimetric recovery of the mexican economy where the external sector has reactivated faster than the internal one.
Peru	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Quarterly statistics	25-Feb	4Q 2010				
Public Investment (yoy%)	25-Feb	Jan 2011				
Bank Credit (yoy %)	21-25 feb	Jan 2011			19%	The credit will continue to show solid expansion accompanied the Peruvian economy growth.
Venezuela	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Unemployment Rate	25-Feb	Jan 2011	10.3%		6.5%	

Source: BBVA Research

Calendar: Events

Colombia: Monetary Policy Meeting (February 25)

Forecast: 3.0% **Consensus: 3.0%** **Previous: 3.0%**

Stability in core inflation will support the decision, although the monetary authorities are strengthening their language towards hardening monetary policy

Calendar: holidays

No holidays in the region.

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Market data

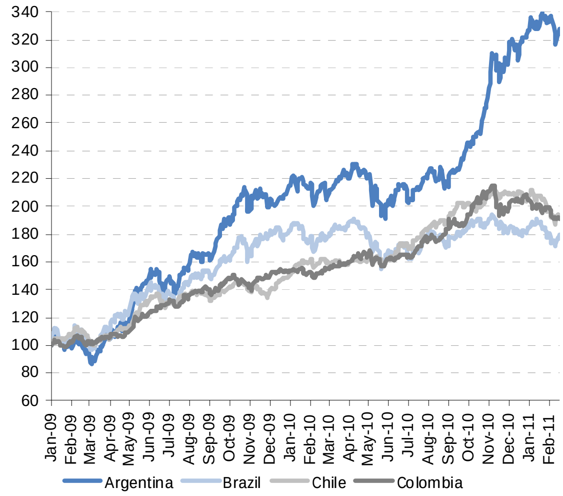
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	1	6
		2-yr yield	0.79	-5	22	-13
		10-yr yield	3.60	-2	27	-17
	EMU	3-month Euribor rate	1.08	-1	6	42
		2-yr yield	1.38	-3	22	30
		10-yr yield	3.23	-7	12	-6
Exchange rates (changes in %)	Europe	Dollar-Euro	1.361	0.7	1.0	0.3
		Pound-Euro	0.84	-0.7	-0.5	-4.3
		Swiss Franc-Euro	1.29	-1.9	0.4	-11.7
	America	Argentina (peso-dollar)	4.02	0.0	0.9	4.2
		Brazil (real-dollar)	1.67	0.1	-0.3	-7.4
		Colombia (peso-dollar)	1879	-0.3	2.1	-2.9
		Chile (peso-dollar)	470	-0.6	-4.6	-11.7
		Mexico (peso-dollar)	12.03	-0.3	-0.5	-6.1
		Peru (Nuevo sol-dollar)	2.77	0.1	-0.3	-3.0
	Asia	Japan (Yen-Dollar)	83.27	-0.3	1.6	-9.4
		Korea (KRW-Dollar)	1111.33	-1.1	-0.3	-3.7
		Australia (AUD-Dollar)	1.012	1.2	1.0	12.8
Comm. (changes in %)		Brent oil ($/b)	101.0	-0.5	2.9	29.1
		Gold ($/ounce)	1385.9	2.1	1.2	23.8
		Base metals	621.4	0.8	4.5	28.4
Stock markets (changes in %)	Euro.	Ibex 35	11003	1.8	4.2	3.1
		EuroStoxx 50	3060	1.2	4.7	9.6
	America	USA (S&P 500)	1340	0.8	4.5	20.8
		Argentina (Merval)	3538	2.3	-2.7	51.5
		Brazil (Bovespa)	67875	3.2	-3.1	0.4
		Colombia (IGBC)	14311	-0.9	-4.3	23.5
		Chile (IGPA)	21412	-1.8	-7.4	20.1
		Mexico (CPI)	37226	0.6	-1.5	15.7
		Peru (General Lima)	22789	0.1	3.0	57.7
		Venezuela (IBC)	66551	0.4	1.2	17.2
	Asia	Nikkei225	10843	2.2	2.7	7.1
		HSI	23595	3.4	-3.4	18.6
Credit (changes in bps)	Ind.	Itraxx Main	96	-1	-7	9
		Itraxx Xover	384	-16	-27	-83
	Sovereign risk	CDS Germany	53	-1	-5	10
		CDS Portugal	453	11	-14	291
		CDS Spain	250	8	-33	133
		CDS USA	47	0	-3	---
		CDS Emerging	218	-3	16	-56
		CDS Argentina	627	3	92	-483
		CDS Brazil	115	-7	6	-16
		CDS Colombia	117	-7	7	-42
		CDS Chile	78	-6	-3	1
		CDS Mexico	114	-8	1	-17
		CDS Peru	112	-8	3	-22

Source: Bloomberg and Datastream

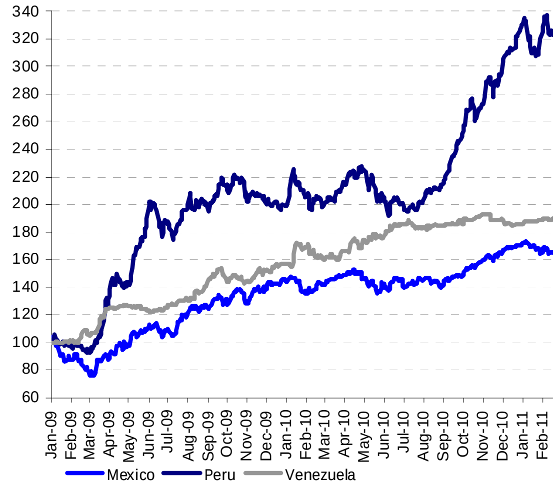
Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)



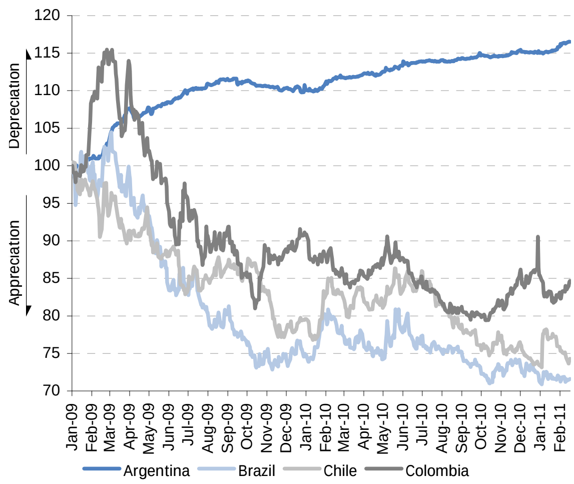
Source: Bloomberg



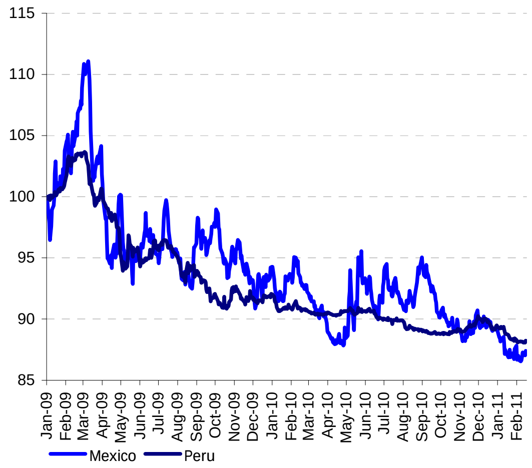
Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)



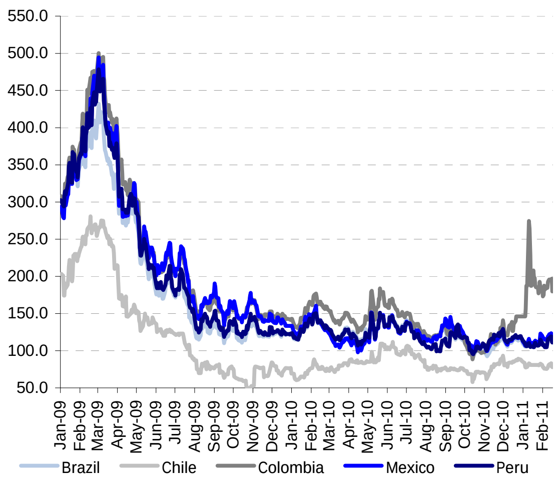
Source: Bloomberg



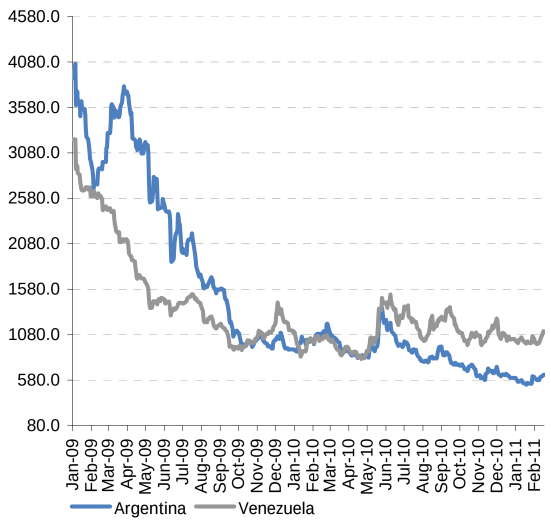
Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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