

Latin

# Weekly Watch

March 18, 2011

## Economic Analysis

South America

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Markets

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## Economic activity remains strong

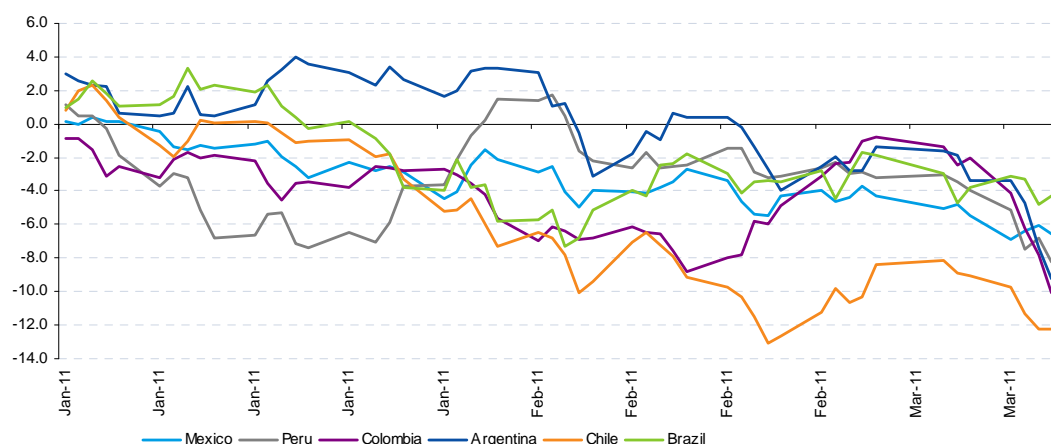
Economic activity figures for the start of the year keep showing the continued economic strength the region. Economic indicators for Brazil and Peru registered fast growth in January, while the industrial sector also expanded in Colombia and Mexico. In the light of these figures and to keep inflation expectations under control, the central banks of Chile and Colombia increased their interest rates (50 and 25 bps respectively).

**Appetite for safe-haven assets, trading links with Japan and possible capital repatriation will all continue to have an effect on the markets.**

Capital repatriation to Japan for its reconstruction will weaken currencies in the region. However, this situation reduces fears of possible asset bubbles in the region and eases the interventionist moves shown by the region in earlier months.

Chart 1

### Stock markets in Latin America (% change over year-end 2010)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



## Highlights

**Economic activity confirm strong demand-led growth**

**Positive industrial results in Colombia and Mexico**

**The current account continued to deteriorate in Argentina**

**Chile and Colombia continue with their normalization of monetary policy**

**Venezuela signs a new financing agreement with China for USD 4 billion**

## Economic Analysis

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## Markets

Last week financial markets in the region responded badly to the events (natural and nuclear) in Japan, which together with the persistent conflicts in the MENA region helped to exacerbate global cyclical fears and spurred demand for safe-haven assets. Thus yields on 10-year U.S. Treasury bills fell 15 bps over the week, lower-risk currencies appreciated (the DXY was index up 0.7%), and in contrast, world stock markets fell back (MSCI global index down 4.15%).

### Greater weekly depreciations in Brazil, Mexico and Chile, while domestic factors in Peru and Colombia reduce the impact

In the wake of the earthquake in Japan and the subsequent nuclear crisis in the country, the appetite for safe assets increased, leading to capital outflows in the region and currency depreciations of up to 1.7% over the week. The biggest falls were in Mexico, Chile and Brazil. The recent incorporation of Mexican bonds into the WGBI (which boosted Asian investment in the country in 2010) and the importance of Brazilian assets in Japanese investment funds (the fourth main destination by accumulated investment flows) fed expectations of outflows in these markets. The MXN and BRL were trading at levels as low as 12.2 and 1.69 respectively (compared with previous weekly closes at 11.90 and 1.66). In Chile, prospects of a temporary halt to exports to Japan (without forgetting the uncertainty about the time it will take to return to normal after the nuclear crisis) led the CLP to fall to levels of 487 (vs 478.9 at the end of the previous week).

Currency pressures were mitigated in Peru and Colombia by favorable news on the domestic front. The keys were greater than expected economic growth in Peru, and in Colombia an increase in the sovereign debt rating, together with prospects for an increase in monetary rates. Despite this, a bias towards weakness cannot be ruled out if the uncertainty in Japan continues.

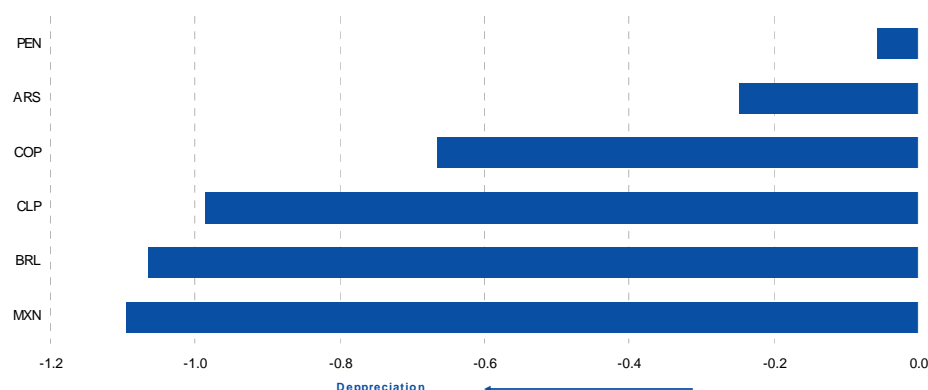
This week the key events will continue to be prospects for repatriation of Japanese capital for reconstruction, and thus the sale of assets in Latin America. This will lead to a trend for currency depreciation in the region.

### ... while adjustments in stock markets were less extreme in Latin America than in other areas thanks to more favorable local news.

The determinants of stock markets around the world will continue to be uncertainty regarding the oil price, the extent of the devastation in the wake of the earthquake in Japan, and mixed economic activity indicators in the U.S. In this situation, on average the markets in Latin America performed better than in developed economies and other emerging regions, although only the Chilean stock exchange gained over the week, in part supported by good reports from the retail sector. Colombia managed to offset more than half the accumulated fall after receiving an investment grade rating from S&P, maintaining the BBB- rating for long-term foreign-currency debt.

Chart 1

### Relative performance of Latin American currencies (7-day change)



Highlights



Calendar



Markets Data



Charts



## Economic Analysis

## Highlights

**Economic activity confirm strong demand-led growth**

In Argentina, GDP grew by 9.2% y/y in 4Q10, and the year began hot in Brazil and Peru, where the monthly seasonally-adjusted indicators of economic activity registered a monthly growth of 0.7% m/m and 1% m/m respectively.

**Positive industrial results in Colombia and Mexico**

Industrial output posted a significant monthly expansion in Colombia and Mexico, at 0.9% m/m and 1.4% m/m respectively, as a result of the increased strength of foreign demand. The different recovery patterns in the different industrial branches may lead to slower growth in the sector in Mexico, while in Colombia there are signs that the monthly rate of growth is picking up.

**The current account continued to deteriorate in Argentina**

In Argentina the current account continued to deteriorate in 4Q10 due to the seasonal fall in exports and the continued strength of imports (up 4% q/q). The capital account grew as a result of the inflow of financial loans from abroad.

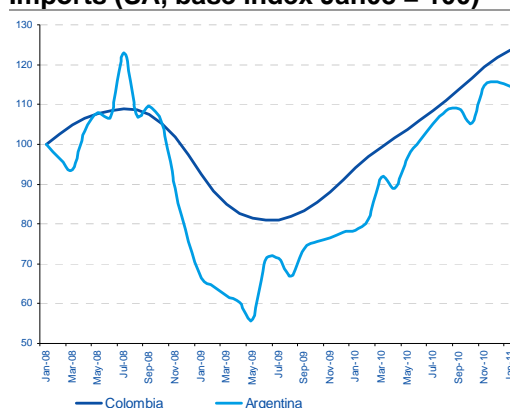
**Chile and Colombia continue with their normalization of monetary policy**

Concerns about inflationary expectations and strong economic activity led to increases of 50 bps and 25 bps in the monetary policy rate in Chile and Colombia, respectively. In Colombia, it was the second month in a row with an increase of this size. We estimate that both countries will continue to withdraw the monetary stimulus over the coming months.

**Venezuela signs a new financing agreement with China for USD 4 billion**

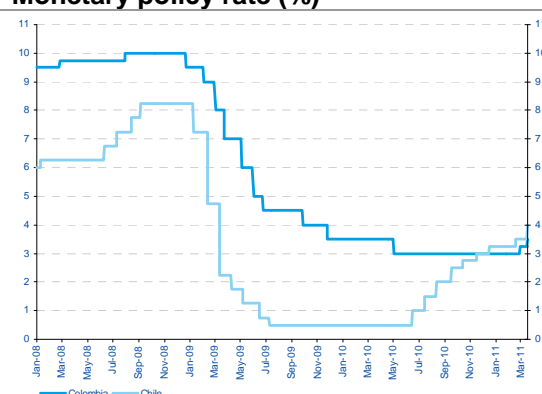
PDVSA signed a contract with a Chinese business conglomerate that includes the bank ICBC, to a loan of 4 billion dollars for housing construction. Today Venezuela sends China 250,000 barrels of oil a day and this figure is expected to reach 300,000 in 2012.

Chart 3

**Imports (SA, base index Jan08 = 100)**

Source: BBVA Research.

Chart 4

**Monetary policy rate (%)**

Source: BBVA Research.

Markets →

Calendar →

Markets Data →

Charts →

## Calendar: Indicators

Next Week: 21 - 25 March 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Monthly Estimator	23-Mar	Feb 2011	9,6% y/y	8,2% y/y	10,3% y/y	
Trade Balance	23-Mar	Feb 2011	USD 201 mm	USD 332 mm	USD 513 mm	Less result in trade balance due to stronger imports
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Current account	24-Mar	Feb 2011			-\$5409mm	
Unemployment rate	25-Mar	Feb 2011			6.1%	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Survey of financial operators	23-Mar	first biweekly march				This survey will show any changes in expected inflation after the monetary policy meeting in March.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
GDP	24-Mar	4Q 2010	4.3% y/y, 1.8% q/q	3.8% y/y, 1.3% q/q	3.6% y/y, 0.25 q/q	Recovery in industrial exports determines a lower negative contribution of the net external demand with respect to the previous quarters.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Trade Balance	25-Mar	Feb 2011	767 md		69 md	We expect a superavit in February's trade balance due to the impulse of manufacturing exports and a reduction in oil related imports (gasiolines).
Inflation	24-Mar	first biweekly march	0.21% bi-weekly (3.26% a/a)	0.24% bi-weekly	0.38% m/m	March's first fortnight inflation should continue reflecting rises in the prices of processed foods related to corn. The prices of fruits and vegetables must be monitored to confirm the limited effects the extremely cold weather in the north of Mexico, had over this prices so far.
GDP demand side	22-Mar	4Q 2010	1.1% (domestic demand contribution)		2.2% (domestic demand contribution)	External demand coul'b have been the driver of growth for Mexico in the last quarter of 2010. Internal demand improvement is low particularly on investment.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Bank credit	21-25 Mar 2011	Feb 2011			18,9% y/y	Credit will keep growing at high rates, supported by a strong economic activity

Source: BBVA Research

## Calendar: holidays

**March 21: Colombia and Mexico**

**March 24 and 25: Argentina**

Markets →

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## Market data

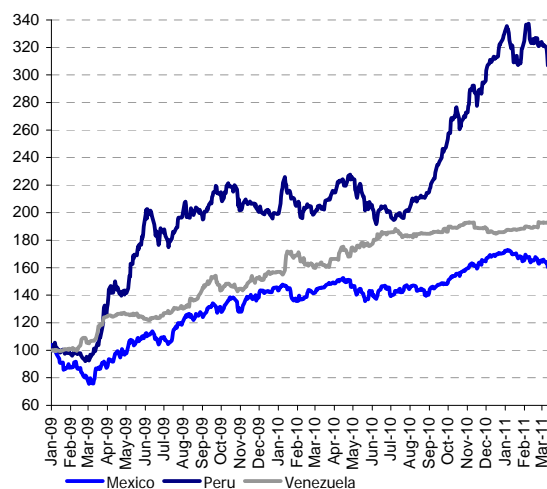
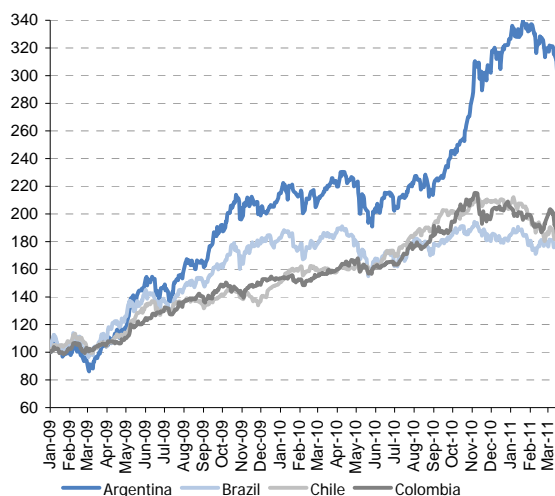
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	0	3
		2-yr yield	0.58	-6	-24	-40
		10-yr yield	3.27	-13	-35	-42
	EMU	3-month Euribor rate	1.17	0	8	53
		2-yr yield	1.60	-5	22	60
		10-yr yield	3.18	-3	-5	8
Exchange rates (changes in %)	Europe	Dollar-Euro	1.413	1.8	4.3	4.4
		Pound-Euro	0.87	1.2	3.7	-3.0
		Swiss Franc-Euro	1.28	-0.9	-1.9	-11.0
	America	Argentina (peso-dollar)	4.04	0.3	0.4	4.5
		Brazil (real-dollar)	1.67	0.5	0.1	-6.8
		Colombia (peso-dollar)	1874	0.2	-1.9	-1.8
		Chile (peso-dollar)	483	0.8	1.8	-8.7
		Mexico (peso-dollar)	12.05	1.0	-0.4	-4.2
		Peru (Nuevo sol-dollar)	2.76	-0.1	-0.1	-2.5
	Asia	Japan (Yen-Dollar)	81.18	-0.9	-3.0	-10.1
		Korea (KRW-Dollar)	1126.65	0.1	0.8	-0.7
		Australia (AUD-Dollar)	0.993	-1.9	-0.6	8.4
Comm. (changes in %)		Brent oil (\$/b)	114.6	0.6	10.4	43.4
		Gold (\$/ounce)	1418.9	0.1	3.2	28.2
		Base metals	606.1	-1.1	-2.5	20.1
Stock markets (changes in %)	Euro.	Ibex 35	10358	-0.4	-6.2	-5.8
		EuroStoxx 50	2808	-2.6	-8.3	-3.1
	America	USA (S&P 500)	1285	-1.5	-3.8	10.8
		Argentina (Merval)	3291	-3.3	-7.2	38.2
		Brazil (Bovespa)	67230	0.8	-0.5	-2.3
		Colombia (IGBC)	14526	-0.1	0.3	21.9
		Chile (IGPA)	20683	-0.2	-4.5	17.3
		Mexico (CPI)	35673	-1.2	-3.8	8.0
		Peru (General Lima)	20780	-4.6	-8.8	41.1
		Venezuela (IBC)	69875	2.9	5.0	24.0
	Asia	Nikkei225	9207	-10.2	-14.8	-14.9
		HSI	22300	-4.1	-3.7	4.3
Credit (changes in bps)	Ind.	Itraxx Main	102	-1	6	24
		Itraxx Xover	404	7	11	-23
	Sovereign risk	CDS Germany	45	-3	-8	16
		CDS Portugal	542	27	89	414
		CDS Spain	223	-34	-26	115
		CDS USA	43	-1	-4	---
		CDS Emerging	222	9	1	4
		CDS Argentina	658	28	16	-260
		CDS Brazil	118	4	1	-2
		CDS Colombia	119	4	-1	-23
		CDS Chile	71	3	-9	-7
		CDS Mexico	113	5	-3	5
		CDS Peru	121	5	8	3

Source: Bloomberg and Datastream

## Charts

Charts 5 &amp; 6

### Stock exchanges (base index Jan09=100)

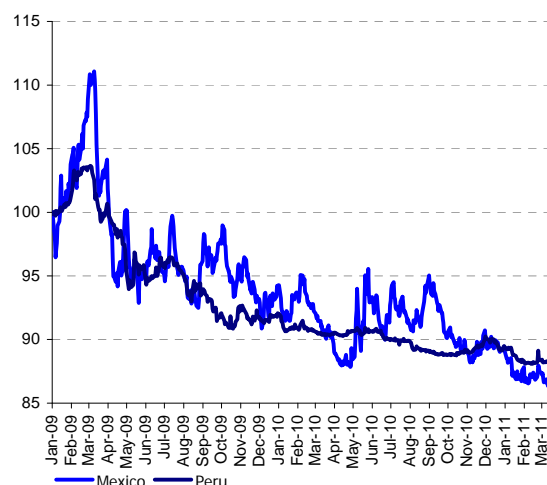
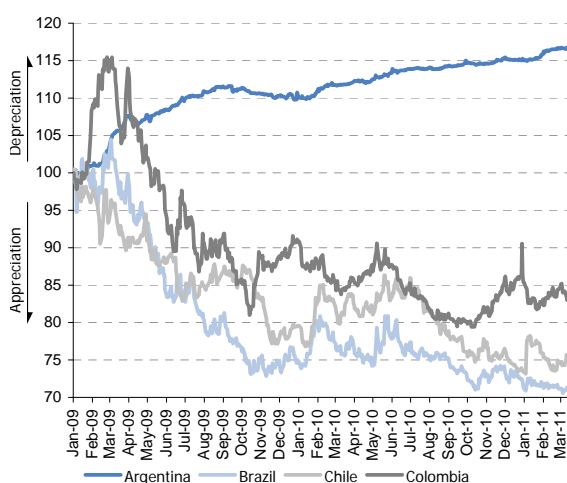


Source: Bloomberg

Source: Bloomberg

Charts 7 &amp; 8

### Exchange rates (base index Jan09=100)

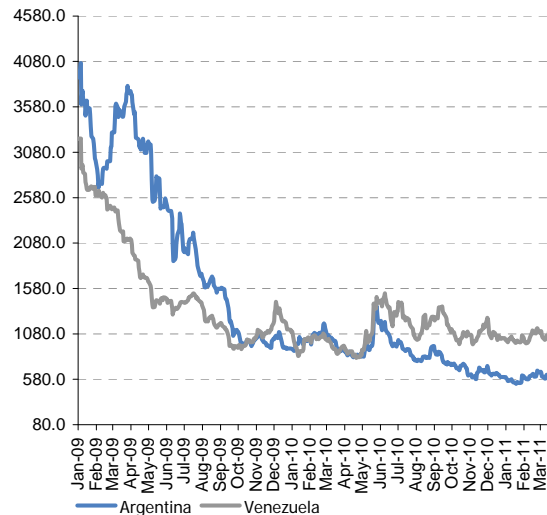
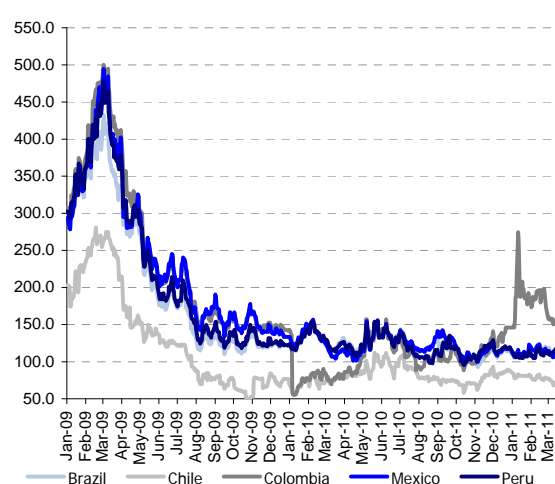


Source: Bloomberg

Source: Bloomberg

Charts 9 &amp; 10

### Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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