

Weekly Watch

Latin

September 19, 2011
Economic Analysis

South America

Joaquín Vial
jvial@bbvaprovida.cl

Enestor Dos Santos
enestor.dossantos@grupobbva.com

Cristián Ashwell
cashwell@bbva.com

Argentina
Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile
Alejandro Puente
apuente@grupobbva.cl

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
apuente@grupobbva.cl

Markets
Octavio Gutiérrez Engelmann
ogutierrez3@bbva.bancomer.com

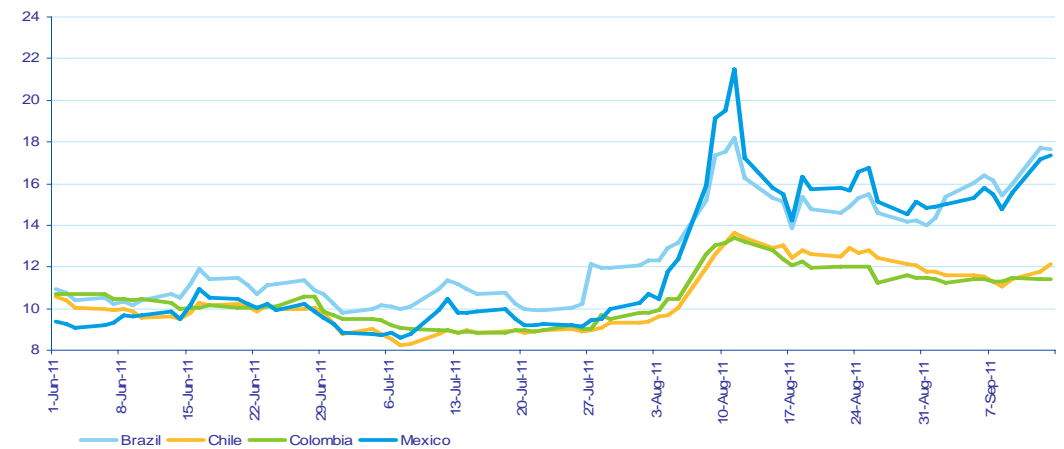
Expecting signs of slowdown

This week's figures did not show signs of the expected economic slowdown, particularly in the case of Brazil, where expectations now focus on the current account and unemployment data. In Argentina, where there is some pressure on the foreign-exchange market, the presidential proposal for the 2012 budget law has taken on particular importance, both in terms of the planned deficit and the composition of its financing.

Moderation of EU risk is passed on to Latin American stock markets, but the correlation with regional currencies is still low

Prospects for German and French support for Greece, coordinated global liquidity measures by central banks, and possible action by the Fed, have combined to favor a greater appetite for risk in developed countries. Stock markets in Latin America benefited, although to a lesser extent, but currencies have not reflected this risk moderation and may continue to show a broad range of fluctuation.

Chart 1
Implied 1-month exchange-rate volatility



Source: BBVA Research

Highlights

Mixed figures for the Latin American economy at the start of the second half of the year

Monetary and exchange-rate policy

Date set for 2012 elections in Venezuela

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Economic Analysis

Octavio Gutiérrez Engelmann
o.gutierrez3@bbva.bancomer.com

Cladudia Cejas

Rodrigo Ortega

Markets

Environment of risk moderation amid expectation of global measures...

A number of events has led to an improvement in the mood among investors: the support offered by Sarkozy and Merkel to Greece; the extension of the austerity program in Italy; the ECOFIN meeting; the possibility of bond purchases by China; and the announcement of coordinated liquidity measures in USD by the central banks of the U.S., euro zone, Britain, Japan and Switzerland. In this environment, there was an increase in appetite for Spanish debt issues (lower interest rates for 2019-2020), a rally in favor of the EUR, and a rise in the 10-year German bund from record lows. Despite this, the weak sovereign debt situation in the region and the risk of contagion to its financial system remains. As a result, volatility will continue until institutional agreements are implemented in the region and the adjustments in Greece are seen to be firmly in place.

The markets are also discounting potential monetary announcements at the Fed's meeting (September 20-21) with respect to an extension of its securities portfolio (possibly in coordination with its Operation Twist). This has led to a record demand for 30-year notes.

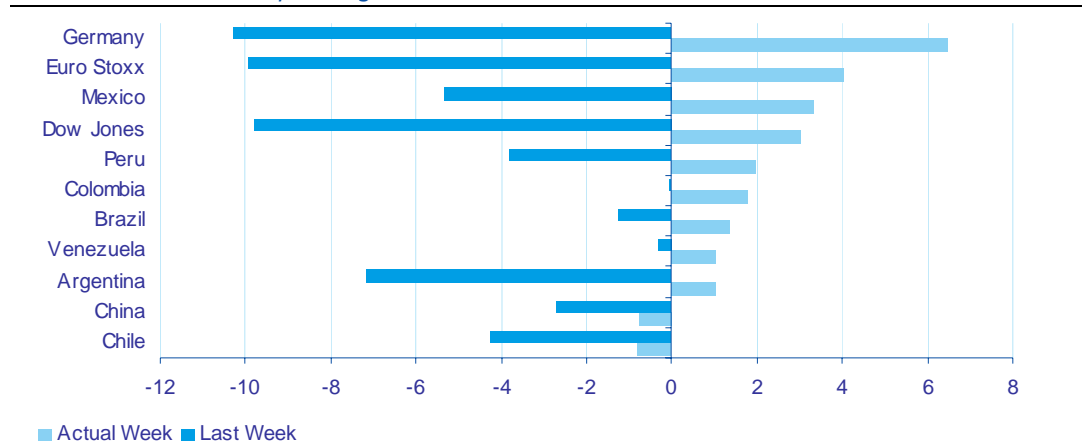
... but a relative fall in Latin American currencies...

Latin American currencies ended the week with overall losses against the USD amid the fluctuating expectations provoked by the news outlined above. In fact, the main beneficiary of risk moderation in the EU has been the EUR. For the moment, we continue to see elements that justify broad trading ranges. Given the greater liquidity, the BRL and MXN could continue to show greater fluctuation.

... which have uncoupled from the performance of the regional stock markets

Latin American stock markets recovered at the close of the week in response to expectations of support for sovereign debt in the euro zone and monetary actions in the U.S. However, their performance was notably below that of developed countries, particularly in Europe. The stock market indices with the biggest rise in the region over the 5 days were Mexico, Peru, Colombia and Brazil, due to their correlation with the U.S. indices. In contrast, Chile has over the last month moved more in line with the Chinese stock market.

Chart 2
Selected stock markets: 5-day % change



Source: BBVA Research

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Highlights

Mixed figures for the Latin American economy at the start of the second half of the year

Industrial output in Mexico grew by 3.2% in July, suggesting that GDP growth in the quarter will pick up on the 2Q11 figure. In Peru economic activity was up 6.5% in July, above that observed in June (5.3% y/y), due to the faster growth of the primary sectors. In Brazil, retail sales were up 1.4% m/m in July, the highest figure so far this year. However, in other countries there were some signs of a slowdown: in Colombia, imports in July rose 32.8% y/y, slightly down on the previous months; while in Uruguay there was a major slowdown in growth in 2Q to 4.8% y/y (0.5% q/q), far below forecasts. In Venezuela, oil production was down 0.7% m/m in August, due partly to the recurrent electrical outages.

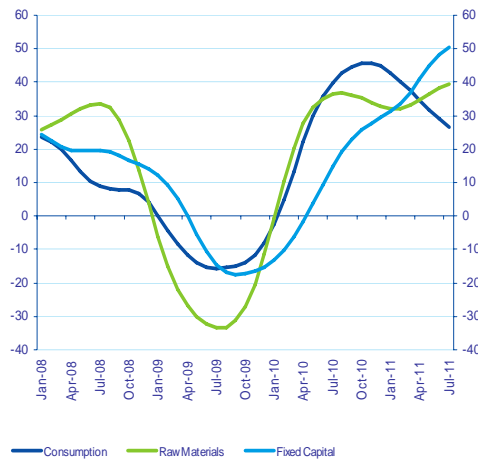
Monetary and exchange-rate policy

In line with our expectations and those of the market, the Central Bank of Chile maintained its policy rate at 5.25%, with a neutral bias, while the Central Bank of Argentina maintained its selling position in forex markets, although at a lower level than the previous week. As a result, the exchange rate stabilized at around ARS 4.2/USD.

Date set for 2012 elections in Venezuela

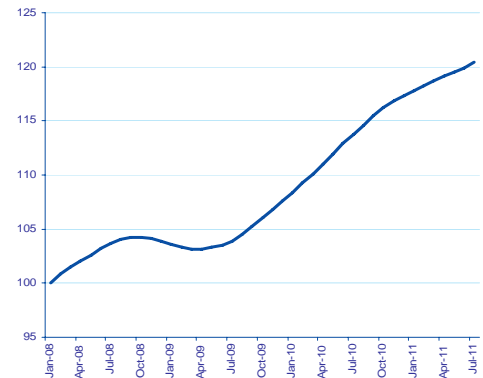
The date for the presidential election has been set at October 7 next year. It has been separated from the municipal elections, which were set for December 2012. The transfer of presidential office will take place on January 10, 2013. This means there will be a transition period of three months, rather than the current one month. The decision clears up uncertainty and was greeted positively by both government and opposition supporters.

Chart 3
Colombia: Monthly imports by component (% change y/y, seasonally adjusted series)



Source: BBVA Research

Chart 4
Peru: Seasonally-adjusted GDP (Jan-08 = 100)



Source: BBVA Research

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Calendar: indicators

Next Week: 19 - 23 September 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Trade Balance	23-Sep	Aug 2011	USD 770M	USD 768M	USD 672M	
Industrial Monthly Estimate	24-Sep	Aug 2011	6.5% y/y	7.9% y/y	7.1% y/y	
Economic Activity Monthly Estimator	24-Sep	Jul 2011	8.3% y/y	7.7% y/y	8.2% y/y	
Current Account	24-Sep	2Q11	USD 1933M	USD 1829M	USD -673M	
Brazil						
Current Account	23-Sep	Aug 2011			-\$3497M	
Colombia						
Industrial production	19-Sep	Jul 2011	1.0% y/y	2.7% y/y	2.2% y/y	In July, the production would have positive growth despite having one working day less than in the previous year.
Retail sales	19-Sep	Jul 2011	9.8% y/y	12.2% y/y	11.9% y/y	Despite the slower growth in vehicle sales, the momentum is maintained by the purchase of other goods.
GDP	22-Sep	2Q11	4.6% y/y	5.0% y/y	5.1% y/y	Growth will be led by private demand, both consumption and investment.
Mexico						
Retail Sales	21-Sep	Jul 2011	-0.2 m/m (3.0 y/y)	NA	0.7 m/m (4.6 y/y)	Moderation in retail sales and service indicator. Domestic demand will continue to grow but less than the first quarter. However, it will remain an important support to growth.
Services Indicator	21-Sep	Jul 2011	0.3 m/m (3.8 y/y)	NA	-0.4 m/m (3.6 y/y)	Moderation in retail sales and service indicator. Domestic demand will continue to grow but less than the first quarter. However, it will remain an important support to growth.
GDP Demand Side	22-Sep	2Q11	1.8 t/t (5.7 y/y)	NA	0.7 t/t (5.6 y/y)	Knowing the GDP growth data for the supply side (1.1% q / q) we believe that domestic demand will be significantly driven recovery from previous 0.6%.
Peru						
Banking credit	22-Sep	Aug 2011	-	-	19.5%	
Venezuela						
Credit	22-Sep	Aug 2011			0.371	We expect nominal credit to expand at a rate above 30% a/a, thus increasing real credit for fifth month in a row.
Deposits	22-Sep	Aug 2011			0.387	We expect a moderation in deposits' growth, in line with our forecast of 35.1% a/a by the end of the year.

Source: BBVA Research

Calendar of events

Brazil: Unemployment rate (September 23)

Forecast: 6.1%.

Consensus: 6.1%.

Previous: 6.0%.

Markets could be affected by surprises in this variable, and to a lesser extent by surprises on the current account data to be released on the same day.

Calendar of holidays

Chile: September 19

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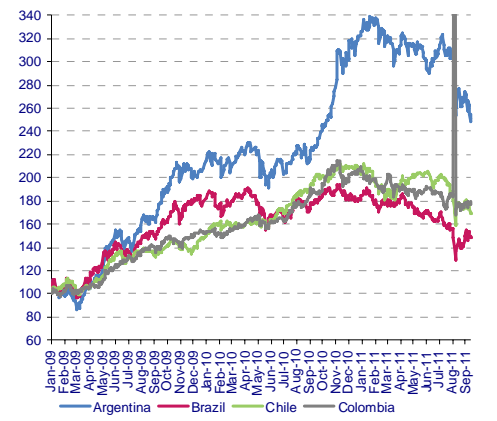
Market Data

			Close	Weekly change	Monthly change	Annual change		
Interest rates (changes in bps)	US	3-month Libor rate	0.35	1	5	6		
		2-yr yield	0.19	2	-1	-28		
		10-yr yield	2.07	15	-9	-67		
	EMU	3-month Euribor rate	1.53	0	0	65		
		2-yr yield	0.58	19	-13	-20		
		10-yr yield	1.90	13	-30	-52		
Exchange rates (changes in %)	Europe	Dollar-Euro	1.380	0.8	-4.4	5.7		
		Pound-Euro	0.88	1.6	0.4	4.9		
		Swiss Franc-Euro	1.21	-0.3	5.7	-8.5		
	America	Argentina (peso-dollar)	4.20	-0.1	0.9	65		
		Brazil (real-dollar)	1.71	1.6	7.6	-0.7		
		Colombia (peso-dollar)	1821	1.2	2.9	0.9		
		Chile (peso-dollar)	478	1.8	2.4	-4.1		
		Mexico (peso-dollar)	12.95	2.5	6.4	1.4		
		Peru (Nuevo sol-dollar)	2.73	0.1	-0.5	-2.2		
		Japan (Yen-Dollar)	76.71	-0.9	0.2	-10.6		
		Korea (KRW-Dollar)	1108.80	2.4	3.8	-4.5		
		Australia (AUD-Dollar)	1.033	-1.2	-1.9	10.2		
		Comm. (chg %)	Brent oil (\$/b)	113.3	0.4	2.4	44.8	
			Gold (\$/ounce)	1775.1	-4.3	-0.9	39.3	
Base metals	568.5		-0.9	-0.3	9.2			
Stock markets (changes in %)	Euro	Ibex 35	8290	4.8	-5.0	-21.7		
		EuroStoxx 50	2156	4.0	-7.5	-21.8		
		USA (S&P 500)	1209	4.8	1.3	7.4		
	América	Argentina (Merval)	2771	0.7	-7.4	12.0		
		Brazil (Bovespa)	56381	1.1	2.4	-16.0		
		Colombia (IGBC)	13684	2.0	1.6	-2.6		
		Chile (IGPA)	19578	-0.7	-3.3	-13.0		
		Mexico (CPI)	35181	4.0	3.3	6.5		
		Peru (General Lima)	20427	2.6	2.2	22.2		
		Venezuela (IBC)	100760	1.0	2.6	54.6		
		Asia	Nikkei225	8864	1.4	-2.1	-7.9	
			HSI	19455	-2.1	-4.1	-11.4	
		Credit (changes in bps)	Ind.	Itraxx Main	174	-15	32	67
				Itraxx Xover	715	-47	118	244
Sovereign risk	CDS Germany		83	-1	8	42		
	CDS Portugal		1061	-75	208	696		
	CDS Spain		374	-39	43	138		
	CDS USA		50	0	1	---		
	CDS Emerging		298	-10	42	57		
	CDS Argentina		869	30	120	99		
	CDS Brazil		164	-4	26	46		
	CDS Colombia		164	-4	30	38		
	CDS Chile		116	10	21	43		
	CDS Mexico		163	-2	26	35		
	CDS Peru		169	-1	25	38		

Source: Bloomberg and Datastream

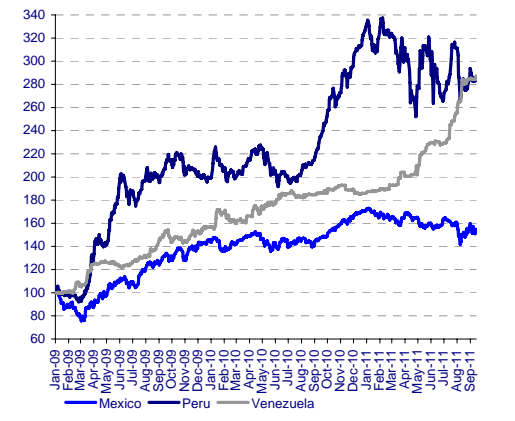
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Chart 4
Stock markets (base index Jan09 = 100)



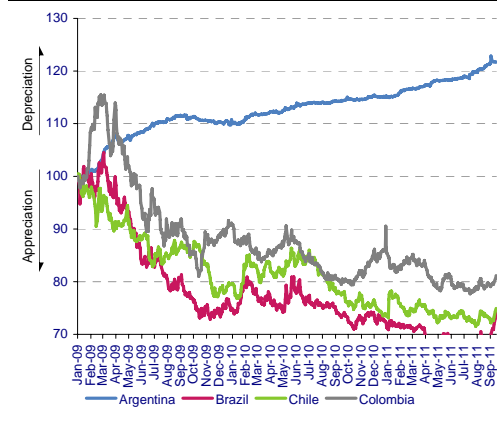
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



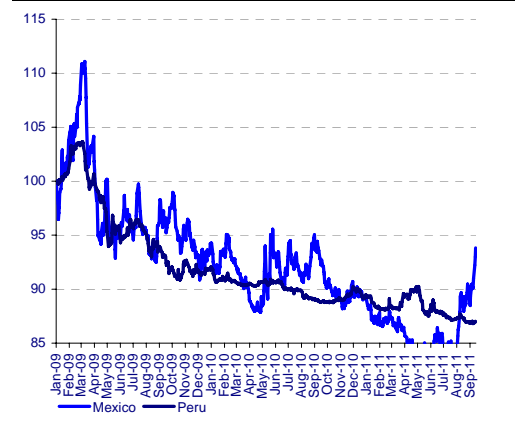
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



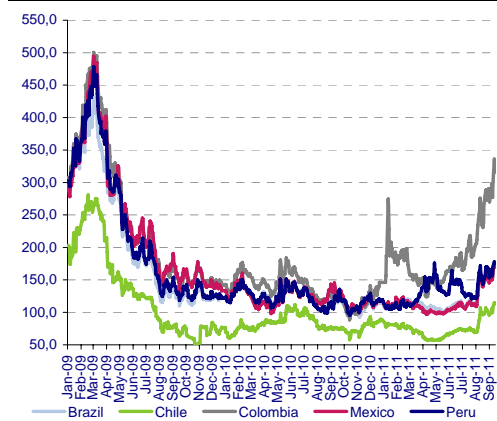
Source: Datastream and BBVA Research

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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