

Weekly Watch

Latin

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[Economic Analysis](#)

South America

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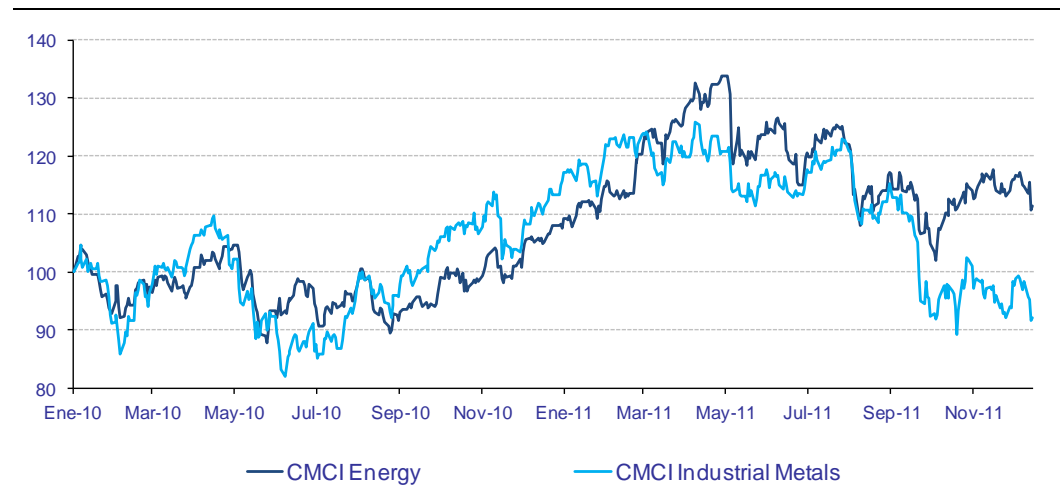
The slowdown continues

Data on economic activity in Brazil and Peru confirm the slowdown, on top of the figures for Argentina and Chile discussed two weeks ago. Meanwhile, expected-inflation for 2012 remains within the upper band of the target ranges in Colombia and Peru.

Volatility in risk aversion, while uncertainty about sovereign situation in Europe remains

Upturn in risk aversion at the start of last week, due to fears of a cut in France's rating, which was partially corrected by favorable cyclical data in the U.S. and Europe. Latin American currencies responded with losses in reaction to these factors and to falls in commodity prices; there were particularly notable movements in the CLP and BRL, due to monetary signals in Chile and economic indicators in Brazil.

Chart 1
 Commodity indices (Energy and industrial metals)
 (01-01-2010 =100)



Source: Bloomberg

Highlights

- Figures for economic activity in Brazil and Peru confirm a slowdown
- Expansive bias in the monetary policy in Chile
- Expected-Inflation for 2012 remains high in Colombia and Peru
- Uruguay completes successful bond issue

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Markets

Concerns about the euro zone to continue: "There will be no quick solution" (Merkel)...

The negative mood on the financial markets continued last week, with the possibility that S&P and Moody's could downgrade countries in the EU as decisive measures were not taken at the last EU summit (8-9 December). Although the summit involved progress towards a new fiscal agreement (e.g. automatic adjustments to spending at the constitutional level in each country), it also made clear the differences between countries (e.g. taxes on certain financial activities) and the difficulties each will have if it is to toughen its fiscal legislation. In particular, in France fears have heightened about a downgrade as it has the biggest debt (85% of GDP) among countries with a similar rating in the region and its financial institutions are highly exposed to the debt of countries with bigger sovereign problems (estimated at EUR 681 billion, according to the BIS).

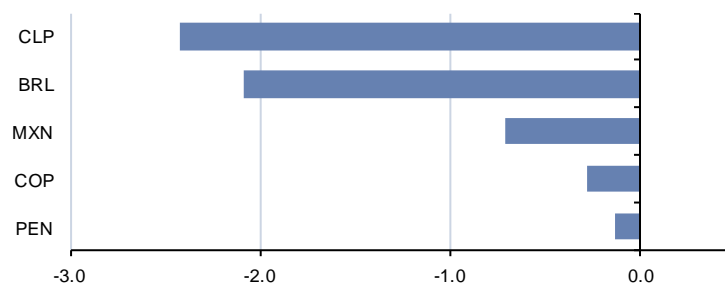
On the question of global cyclical risk, the economic data published in the U.S. were particularly favorable (unemployment benefit applications, the Fed's manufacturing surveys), as were even those in Europe (PMI). In contrast, economic prospects in China continue down (PMI). This led to setbacks over the week in the main commodity price indices (mainly metals and energy).

... so Latam currencies showed a negative bias

Latin American countries showed a negative bias last week, amid high volatility reacting to varying news and declarations from Europe. The main risk element continues to be the possibility of a French downgrade. This led to a feeling of risk aversion at the start of the week. Part of this mood was later corrected on the back of economic data published in developed economies. As a result, Latam currencies closed with losses, with notable depreciations in the CLP and BRL.

The CLP was also affected by the more dovish tone of its Central Bank in its monetary policy statement. Meanwhile, in Brazil there was a downside surprise in the economic indicators. This continues to impact the BRL as a more aggressive monetary policy easing is expected. The PEN and COP performed relatively better; the PEN in response to its Central Bank interventions, while the COP benefitted from continued FDI inflows. Finally, although the MXN maintains one of the highest betas among Latin American currencies, the depreciation was limited by the possibility of foreign-exchange intervention by Banxico. In all, we expect that the currencies will continue to react more to factors of a global nature.

Chart 2
Weekly changes in currencies



Source: Bloomberg and BBVA Research

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Highlights

Figures for economic activity in Brazil and Peru confirm a slowdown

Data on retail sales (0.0% m/m) and the Central Bank's indicator of economic activity (-0.3% m/m) both suggest that economic activity continued to slow in October in Brazil. We expect a moderate reaction at the end of the fourth quarter, due to a slight recovery in confidence by economic agents and the positive impact of recent measures. In Peru, growth in economic activity in October (5.1% y/y) was below expectations (BBVA and Consensus: 5.8%). In the future, we expect strength in consumption and a greater boost from public expenditure will help moderate the slowdown in economic activity. This means the growth rates should reach an average of around 5% y/y.

Expansive bias in the monetary policy in Chile

In Chile, the Central Bank maintained its reference rate at 5.25%, in line with our expectations. More importantly, it reaffirmed its stance of being more open to future cuts. We anticipate an expansive bias in the Monetary Policy Report on 20 December and an initial cut of 25 bps at the January meeting.

Inflationary expectations for 2012 remain high in Colombia and Peru

In Colombia, the Central Bank's survey of inflationary expectations resulted in a consensus for December that is slightly above our forecast for the end of the year (3.6% y/y vs. 3.5% y/y). However, the inflation expected for the end of 2012 remained stable at 3.4% y/y. However, the recent agreement about increasing minimum wage by 5.8% in 2012—well above the expected inflation for 2011 and increments in productivity—puts upward pressure on the forecast. In Peru, the survey by the Central Bank shows inflationary expectations for 2012 up from 2.7% to 2.8%, close to the target range (2% +/- 1pp). This would be one of the elements that led the Central Bank to take a more neutral tone in its last monetary policy statement, despite the persistent risks in the international environment.

Uruguay completes successful bond issue

The issue was of USD 2 billion of domestic-currency index-linked bonds, maturing in 2028 and at an interest rate of only 4.375%. The operation more than covers the financing needs for 2012 and improves the maturity profile. It is a further step towards de-dollarization, as half the total was used to repurchase foreign-currency denominated bonds and cut the foreign-currency sovereign debt down to 46.6% of the total, compared with 95% in 2004.

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Calendar of indicators

Next Week: 19 - 23 December 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Monthly Estimator	20-Dec	November	3.5% y/y	4.7% y/y	4.1% y/y	
Current Account	21-Dec	3T11	USD -174 M	USD 451 M	USD 1553 M	
Trade Balance	21-Dec	November	USD 598 M	USD 327 M	USD 1222 M	
Economic Activity Monthly Estimate	22-Dec	October	8.2% y/y	7.0% y/y	7.7% y/y	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Current Account	20-Dec	November			- \$3109 M	
Unemployment Rate	22-Dec	November		5.7%	5.8%	
Credit Data	22-Dec	November				
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Financial operators survey	21-Dec	First half of December				
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Industrial production	19-Dec	October	4.3% a/a	4.2% a/a	5.2% a/a	Export performance early in the fourth quarter slowed and may reduce industrial growth.
Retail sales	19-Dec	October	8.4% a/a	8.7% a/a	8.1% a/a	Growth rate of household consumption will moderate in line with the lower increase in durable goods.
Building permits	21-Dec	October	20% a/a		9.6% a/a	Construction of higher-value housing will continue to determine a good performance of the sector.
GDP	22-Dec	Third quarter	6.3% a/a	6.0% a/a	5.2% a/a	We have an upward bias in the projection due to the higher growth of the civil engineering works.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Retail Sales	20-Dec	October	0.27 m/m (3.5 y/y)	na	0.9 m/m (4.3 y/y)	Moderation in services and retail sales at the end of the year, associated with lower employment growth and a marginal improvement in real wages.
Services Indicator	20-Dec	October	-0.1 m/m (7.8 y/y)	na	0.9 m/m (7.6 y/y)	Moderation in services and retail sales at the end of the year, associated with lower employment growth and a marginal improvement in real wages.
Supply & Demand	21-Dec	3q11	1.1 t/t (3.4 y/y)	na	1.1 t/t (4.8 y/y)	The components of demand in relation to expenditure have grown at similar pace to the previous quarter, however we do not rule fall in investment, as indicated by the capital goods imports
Unemployment Rate	22-Dec	November	490.0%	na	480.0%	The unemployment rate had remained around 5%, thus corroborate the better trend since October.
Inflation	40899	December's first fortnight	0.36 fof (3.56% yoy)	0.36% fof	1.08 mom 3.48 yoy	After two months of strong upwards adjustments, inflation will stabilize during decembers first fortnight and will close the year at 3.56% yoy, only to begin 2012 trending downwards.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Credit data	12-Dec	November	-	-	17.5% y/y	
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Credit	22-Dec	November	40.5%	NA	39.9%	We expect credit in November to stay growing at a rate of 40.5 y/y, in line with our forecast of 41.4% y/y by year-end, due to an expected good economic performance in Q4, as well as to the low delinquency rate of the financial system's credit portfolio.
Deposits	22-Dec	November	0-Jan	NA	0-Jan	Growth rate of deposits should slow down in November to 36%, given the current large amounts of excess liquidity in the financial system.

Source: BBVA Research

Calendar of holidays

Argentina: December 23 (public sector only)

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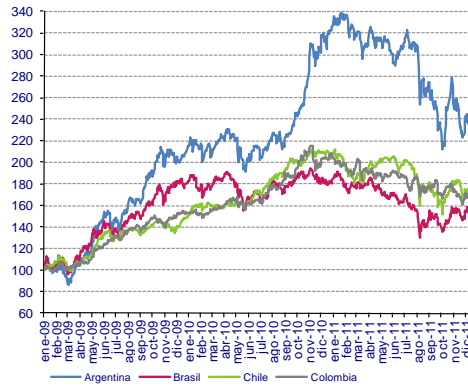
Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.56	2	9	26
		2-yr yield	0.24	2	0	-37
		10-yr yield	1.92	-14	-8	-141
	EMU	3-month Euribor rate	1.42	-2	-4	40
		2-yr yield	0.25	-8	-16	-81
		10-yr yield	1.94	-21	12	-109
Exchange rates (changes in %)	Europe	Dollar-Euro	1303	-2.5	-3.6	-0.9
		Pound-Euro	0.84	-1.8	-2.1	-1.3
		Swiss Franc-Euro	1.22	-1.0	-1.2	-4.2
	America	Argentina (peso-dollar)	4.28	0.2	0.5	7.7
		Brazil (real-dollar)	1.86	2.9	4.5	8.5
		Colombia (peso-dollar)	1933	0.4	1.4	0.8
		Chile (peso-dollar)	518	1.6	1.5	9.7
		Mexico (peso-dollar)	13.83	1.6	1.9	11.1
		Peru (Nuevo sol-dollar)	2.70	0.0	-0.2	-4.2
		Japan (Yen-Dollar)	77.88	0.3	1.1	-7.4
		Korea (KRW-Dollar)	1155.65	1.3	2.0	-0.6
		Australia (AUD-Dollar)	1.000	-1.9	-1.3	1.5
Comm. (chg %)	Brent oil (\$/b)	104.2	-4.1	-6.9	13.6	
	Gold (\$/ounce)	1594.1	-6.9	-9.6	15.9	
	Base metals	513.8	-2.3	-3.1	-10.6	
Stock markets (changes in %)	Euro	Ibex 35	8278	-4.3	-0.3	-16.4
		EuroStoxx 50	2224	-5.1	-2.0	-21.2
		USA (S&P 500)	1216	-3.1	-1.7	-2.3
	América	Argentina (Merval)	2401	-6.1	-8.5	-29.4
		Brazil (Bovespa)	56331	-3.3	-3.8	-17.1
		Colombia (IGBC)	12314	-3.9	-3.2	-19.9
		Chile (IGPA)	19942	-1.1	-4.5	-14.3
		Mexico (CPI)	36007	-3.3	-1.9	-5.2
		Peru (General Lima)	19390	-3.0	-0.7	-12.0
		Venezuela (IBC)	117228	0.7	2.4	80.8
		Asia	Nikkei225	8402	-1.6	-0.7
	HSI	18285	-1.6	-3.6	-19.5	
	Credit (changes in bps)	Ind.	Itraxx Main	186	10	2
Itraxx Xover			790	30	41	342
Sovereign risk		CDS Germany	103	4	9	47
		CDS Portugal	1121	20	44	660
		CDS Spain	435	13	-34	104
		CDS USA	53	0	1	...
		CDS Emerging	314	19	-10	105
		CDS Argentina	970	35	11	326
		CDS Brazil	162	13	-11	49
		CDS Colombia	157	12	-13	41
		CDS Chile	130	9	-5	40
		CDS Mexico	157	9	-13	41
		CDS Peru	174	19	2	57

Source: Bloomberg and Datastream

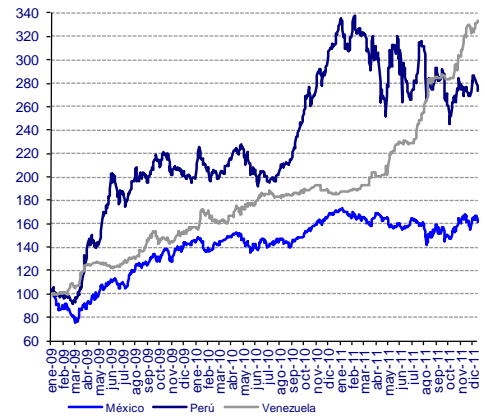
Charts

Chart 3
Stock markets (base index Jan09 = 100)



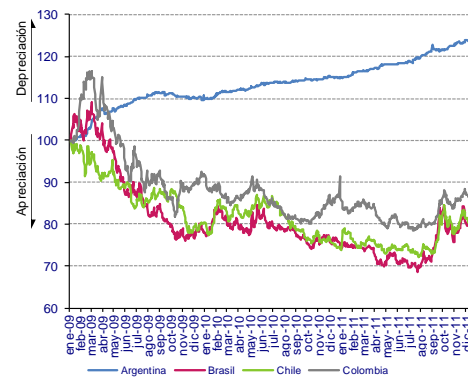
Source: Datastream and BBVA Research

Chart 4
Stock markets (base index Jan09 = 100)



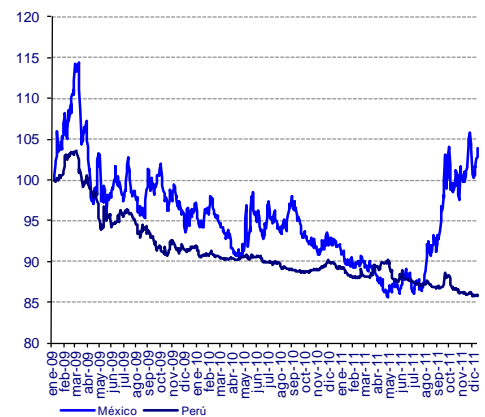
Source: Datastream and BBVA Research

Chart 5
Exchange rates (base index Jan09 = 100)



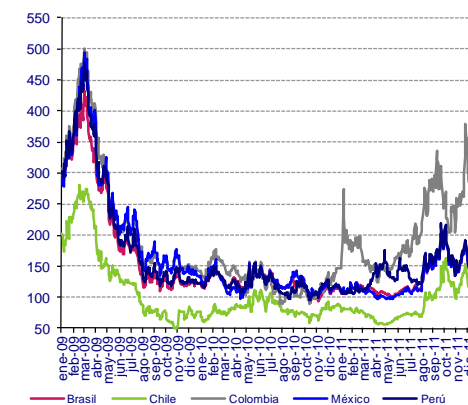
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



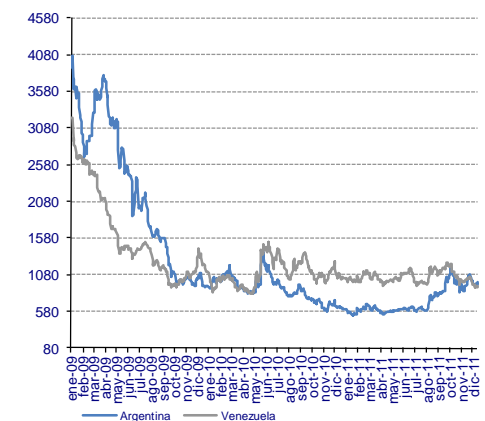
Source: Datastream and BBVA Research

Chart 7
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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