

Weekly Watch

Latin

May 20, 2011
Economic Analysis

South America

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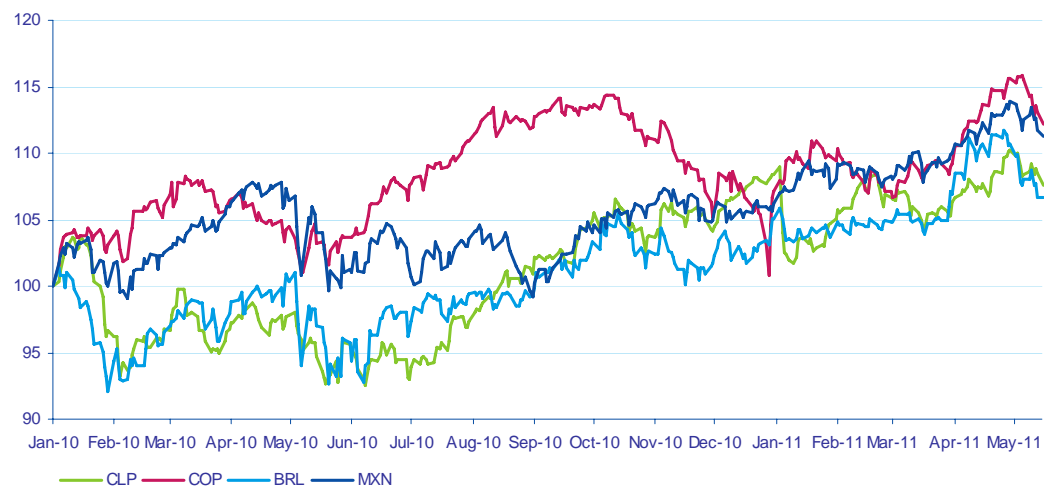
GDP strength in 1Q11 confirmed

Initial economic figures for 1Q11 continue to show better than expected growth in Chile and Venezuela, and also in Mexico, although with a slight slowdown on previous months in this case. Increased exports have offset buoyant imports and ensured positive trade balances in the first quarter in Chile, Colombia and Venezuela. Meanwhile, the latest poll in Peru showed no clear front runner.

The performance of Latin American currencies remains mixed; corporate issuance begins to gather pace

Latin American currencies continue to be determined by risk premium factors, differences in monetary policies and expectations regarding the global cycle. At present there are no obvious factors that justify a clear movement in the currencies as a whole over the coming weeks. In the debt market, there may be a variety of issues in Mexico over the coming weeks.

Chart 1
Relative performance of Latin American currencies (base index Jan 10 = 100)



Source: BBVA Research

Highlights

GDP growth in the first quarter better than expected in Chile and Venezuela, with signs of slight slowdown in Mexico and Peru

Leading indicators of economic activity for Brazil and Colombia in 1Q11 confirm their strength

Countries in the region show positive foreign balances in 1Q11

The election result in Peru remains in doubt

Greater portfolio dollarization than expected in 1Q11 in Argentina

Conflict on import barriers between Argentina and Brazil on the way to a political solution

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Economic Analysis

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Markets

Mixed closes in Latin American currencies, still no clarity in an overall trend

Over the last week, the performance of Latin American currencies was determined by three factors: 1) expectations with respect to the Ecofin meeting held at the start of the week in Europe, which approved the rescue package for Portugal, but came to no conclusions on Greece; 2) economic news from the U.S. and the Fed minutes, which reminded the markets that there is still internal division with respect to the time for introducing exit strategies; and 3) commodity prices, which had a particular impact on the CLP and COP.

Thus currencies were mixed, with one block formed by the BRL, MXN and PEN (the latter continues to respond to local expectations regarding the presidential election) closing up as a whole; and a second, formed by the CLP and COP, which were affected by the fall in commodity prices at the start of the week, although they recovered at the end. For the moment, we expect that the lack of clear direction in the markets will continue, so the differences between the currencies may be maintained. From a medium-term perspective we expect that most of the crosses in the zone will resume a positive bias.

Corporate issuance may gather pace over the coming weeks

There could be auctions of the corporate bonds of two government-owned companies in Mexico over the coming weeks: Pemex and CFE. Each could sell up to USD 3 billion of 10-year bonds on the international markets. Mexican corporations are looking for finance abroad as interest rates are at their lowest this year. Another corporation that could be looking to raise finance abroad is TV Azteca, the second biggest TV channel in Mexico; while a number of Mexican companies that do not have investment grade reckon that this is a good time to issue debt, given their improved growth plans and a "benign" debt market for non-investment grade issues.

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Economic Analysis

Highlights

GDP growth in the first quarter better than expected in Chile and Venezuela, with signs of slight slowdown in Mexico and Peru.

In Chile and Venezuela GDP was up by 9.8% y/y and 4.5% y/y, with quarterly growth of 1.3% and 2.1% respectively. In Chile it was boosted by domestic private demand, and in Venezuela by public demand. In Mexico GDP was up 4.6% y/y (0.5% q/q), boosted by the manufacturing sector and services, though it slowed on previous quarters. In Peru GDP in March continued to slow, with growth of 7.9% y/y and an estimated growth of 8.8% in the first quarter.

Leading indicators of economic activity for Brazil and Colombia in 1Q11 confirm their strength

In Brazil, the Central Bank's economic activity indicator was up 0.5% m/m in March, above both the performance in February and the average for the 12 previous months. In Colombia, industrial production was up 5.2% y/y in March, boosted by sectors with diversified exports and by strong retail sales (up 14.6% y/y).

Countries in the region show positive foreign balances in 1Q11

Chile, Colombia and Venezuela posted a balance of trade surplus, as the increased value of exports helped offset buoyant imports.

The election result in Peru remains in doubt

The Ipsos-Apoyo polls shows that Fujimori maintains a 41% share of the vote against 40% for Humala (41% and 39% in the previous poll), with a technical draw between the two candidates.

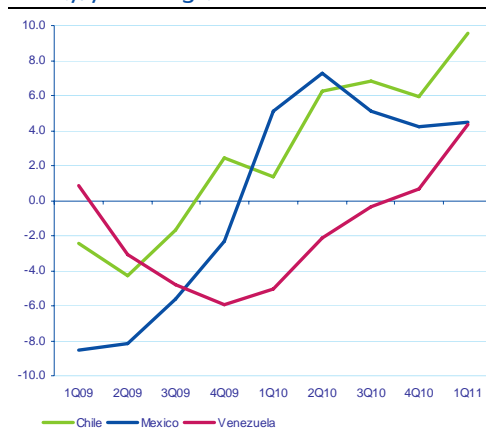
Greater portfolio dollarization than expected in 1Q11 in Argentina

The foreign-exchange balance in 1Q11 registered a capital outflow of USD 2.7 billion (BBVA Research: USD 1.8 billion), due to a high level of Foreign Asset Formation by the Private Non-Financial Sector, which more than offset greater inflows from loans and credit. Thus portfolio dollarization is already appearing due to the election uncertainty expected in 2Q11 - 3Q11.

Conflict on import barriers between Argentina and Brazil on the way to a political solution

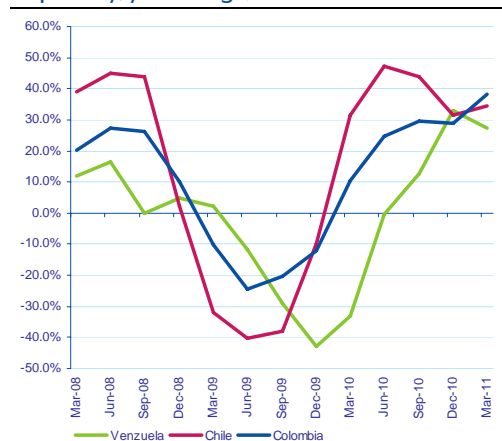
The two countries' ministers for Industry will meet on Monday to solve the dispute affecting bilateral trade as a result of the use of non-automatic import licenses.

Chart 2
GDP (y/y % change)



Source: BBVA Research

Chart 3
Imports (y/y % change)



Source: BBVA Research

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Calendar: indicators

Next Week: 23 - 27 May 2011

| Argentina | Data | Period | Forecast | Consensus | Previous | Comment |
|--|--------|-------------------------|---------------------|-------------|---------------------|---|
| Trade Balance | 23-May | Apr 2011 | USD 2235 m. | USD 1857 m. | USD 667 m. | |
| Shopping Centers Sales | 27-May | Apr 2011 | | | 30.5% y/y. | |
| Brazil | Data | Period | Forecast | Consensus | Previous | Comment |
| Current account | 25-May | Apr 2011 | -4500 | | -\$5676M | |
| Unemployment rate | 26-May | Apr 2011 | 6.5% | | 6.5% | |
| Credit data | 26-May | Apr 2011 | | | | Markets' focus will be on signs of credit slowdown. |
| Chile | Data | Period | Forecast | Consensus | Previous | Comment |
| Biweekly survey of financial operators | 25-May | May 2011 | | | | |
| Mexico | Data | Period | Forecast | Consensus | Previous | Comment |
| Retail Sales | 23-May | Mar 2011 | 0.3% m/m (1.8% y/y) | | 0.3% m/m (2.7% y/y) | Sales have continued to grow at rates similar to the previous month but will initiate a process of moderation, mainly due to lower sales of durable products. |
| Unemployment Rate | 27-May | Apr 2011 | 5.3% | | 5.1% | In line with the least private formal jobs, the unemployment rate could have been slightly higher in April, remember that it remains in proportion of employed losniveles significantly above pre-crisis. |
| Inflación | 24-May | April's first fortnight | -0.5% f/f | 0.42% f/f | -0.01% mom April | Despite inflation will show a negative monthly rate -due to the reduction of electric fees that takes place in the summer months-. In annual terms it will pick up further because of an unfavorable base effect against may 2010, when the rate was unusually low. |
| Peru | Data | Period | Forecast | Consensus | Previous | Comment |
| Banking system credit (yoy % change) | 27-May | Apr 2011 | | | 20.8 | |
| Consumers confidence (index) | 24-May | May 2011 | | | 53 | |

Source: BBVA Research

Calendar: events

Mexico: Monetary policy rate (May 27)

Forecast: 4.5%

Consensus: 4.5%

Previous: 4.5%

With downward surprises in inflation continuing, we expect Banxico to maintain its lending rate at 4.5% and to give more information on the inflation risks that it has pointed to in its last two statements. This will give a clearer view of the monetary policy posture for the coming months

Calendar: holidays

Argentina: Wednesday, May 24 - May Revolution Day

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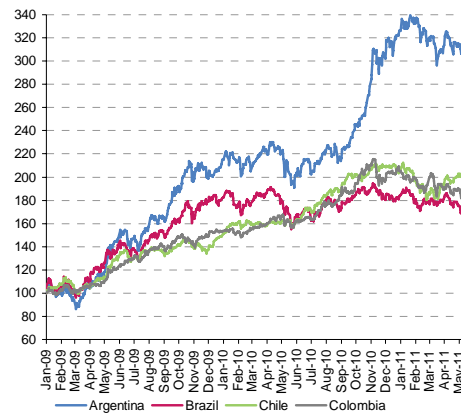
Market Data

| | | | Close | Weekly change | Monthly change | Annual change |
|------------------------------------|----------------|-------------------------|---------|---------------|----------------|---------------|
| Interest rates (changes in bps) | US | 3-month Libor rate | 0.26 | 0 | -2 | -24 |
| | | 2-yr yield | 0.53 | 0 | -13 | -24 |
| | | 10-yr yield | 3.17 | 0 | -23 | -6 |
| | | 3-month Euribor rate | 1.43 | 1 | 9 | 74 |
| | EMU | 2-yr yield | 1.83 | 6 | 0 | 132 |
| | | 10-yr yield | 3.12 | 4 | -19 | 45 |
| | | | | | | |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.433 | 1.7 | -1.1 | 14.2 |
| | | Pound-Euro | 0.88 | 1.2 | -0.2 | 1.4 |
| | | Swiss Franc-Euro | 1.26 | 0.0 | -2.4 | -12.6 |
| | | Argentina (peso-dollar) | 4.08 | 0.0 | 0.0 | 4.5 |
| | America | Brazil (real-dollar) | 1.62 | -1.1 | 2.5 | -13.0 |
| | | Colombia (peso-dollar) | 1816 | 0.3 | 1.9 | -8.9 |
| | | Chile (peso-dollar) | 469 | 0.2 | 0.0 | -13.6 |
| | | Mexico (peso-dollar) | 11.61 | -1.2 | -0.2 | -10.8 |
| | | Peru (Nuevo sol-dollar) | 2.75 | -0.3 | -2.3 | -3.1 |
| | | Japan (Yen-Dollar) | 81.58 | 1.1 | -1.0 | -9.2 |
| | Asia | Korea (KRW-Dollar) | 1082.28 | -0.9 | 0.3 | -10.6 |
| | | Australia (AUD-Dollar) | 1.070 | 1.2 | 0.3 | 29.4 |
| Comm. (chg %) | | Brent oil (\$/b) | 112.0 | -1.6 | -9.6 | 56.2 |
| | | Gold (\$/ounce) | 1503.4 | 0.6 | 0.1 | 27.7 |
| | | Base metals | 605.1 | 0.6 | -3.5 | 25.2 |
| | | | | | | |
| Stock markets (changes in %) | Euro | Ibex 35 | 10415 | 0.6 | -1.1 | 10.7 |
| | | EuroStoxx 50 | 2904 | 0.3 | -0.6 | 12.8 |
| | | USA (S&P 500) | 1344 | 0.4 | 1.0 | 23.5 |
| | | Argentina (Merval) | 3386 | 0.2 | -0.8 | 59.4 |
| | América | Brazil (Bovespa) | 62367 | -1.4 | -7.0 | 3.5 |
| | | Colombia (IGBC) | 14115 | -1.0 | -1.6 | 18.9 |
| | | Chile (IGPA) | 22804 | -0.7 | 1.9 | 28.7 |
| | | Mexico (CPI) | 35276 | 0.7 | -4.2 | 15.2 |
| | | Peru (General Lima) | 22034 | -0.2 | 17.2 | 51.3 |
| | | Venezuela (IBC) | 78139 | 0.9 | 10.3 | 26.3 |
| | Asia | Nikkei225 | 9607 | -0.4 | 0.0 | -1.8 |
| | | HSI | 23199 | -0.3 | -2.9 | 18.7 |
| | | | | | | |
| Credit (changes in bps) | Ind. | Itraxx Main | 98 | 1 | -1 | -22 |
| | | Itraxx Xover | 357 | 3 | -8 | -230 |
| | | CDS Germany | 38 | 0 | -6 | -5 |
| | | CDS Portugal | 625 | 7 | -11 | 303 |
| | Sovereign risk | CDS Spain | 243 | 7 | 0 | 41 |
| | | CDS USA | 48 | 5 | 3 | --- |
| | | CDS Emerging | 204 | -3 | 0 | -100 |
| | | CDS Argentina | 596 | 7 | 25 | -703 |
| | | CDS Brazil | 100 | -2 | -9 | -48 |
| | | CDS Colombia | 98 | -3 | -3 | -81 |
| | | CDS Chile | 65 | 3 | 4 | -46 |
| | | CDS Mexico | 98 | -1 | -3 | -49 |
| | | CDS Peru | 131 | -1 | -18 | -16 |
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Source: Bloomberg and Datastream

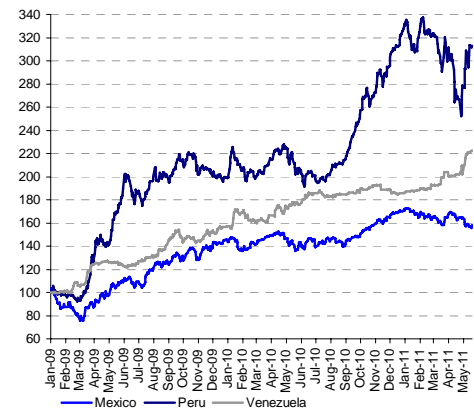
Charts

Chart 4
Stock markets (base index Jan09 = 100)



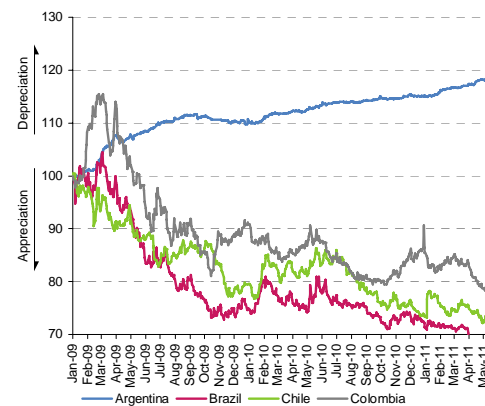
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



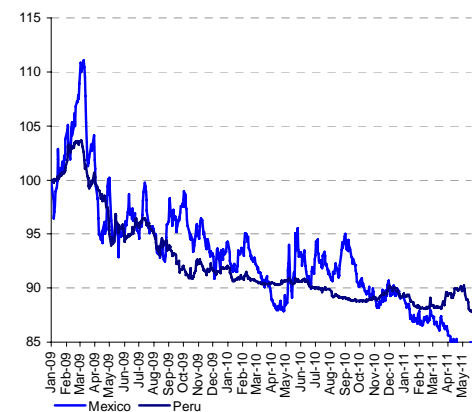
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



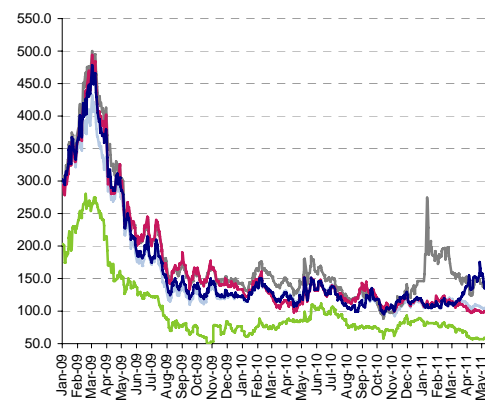
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



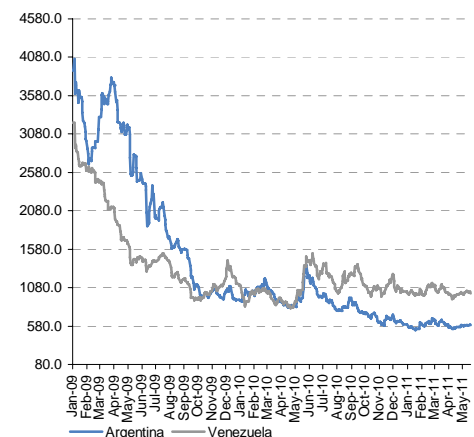
Source: Datastream and BBVA Research

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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