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Weekly Watch

Latin

November 21, 2011

Economic Analysis

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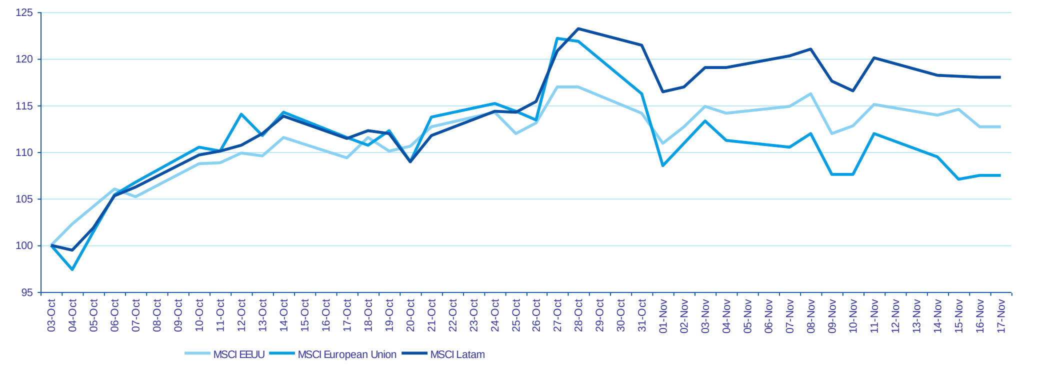
Favorable macroeconomic figures

The figures released this week remain in line with forecasts, as real economic activity in the region has not been affected by the external environment. Nevertheless, the authorities continue to be cautious in their policies.

Fears of systemic risks in Europe, mixed performance by Latin American currencies and stock markets relatively stronger

An upturn in nominal sovereign debt costs in Europe increased fears of systemic risks in the euro zone, which will not be resolved without decisive political agreements. The performance of Latin American currencies varied: the CLP, BRL and MXN were sensitive to the global environment and lost ground, while there was resistance in the COP, PEN and ARS in response to continued capital inflows and the chance of foreign-exchange interventions

Chart 1
MSCI: US, EU and Latin America (1 Oct 2011 = 100, USD)



Source: Bloomberg

Highlights

Macroprudential measures in Brazil, Monetary Policy Rate in Chile

Domestic demand supports growth in Peru and Venezuela, and it accelerates in Chile

Business confidence in Colombia remains strong in September

Positive fiscal news in Argentina and Peru

Credit growth moderates in Venezuela

Brazil: S&P upgrades Brazil and economic activity remains stable

Economic Analysis

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Markets

No improvement in the global mood, markets await decisive action in the euro zone

Last week fears of systemic risks in the euro zone intensified when Germany and France failed to reach a political agreement on the role of the ECB as lender of last resort for EU sovereigns. Stock markets in Europe fell back over the week, while generic 10-year bonds for most of the euro zone countries (other than Greece, Ireland and Portugal) posted highs in their spreads against the German Bund. There was a notable fall in demand for Spanish 10-year bonds, and their yield was up to 6.975% (vs. 5.433% at the previous auction). This news, together with statements by Fitch on the risk of banking contagion to the U.S., pushed the favorable US cyclical data (industrial output, unemployment benefit and housing) and the positive valuation of Portugal by the Troika into the background. Markets will keep a close eye on the upcoming Ecofin meetings.

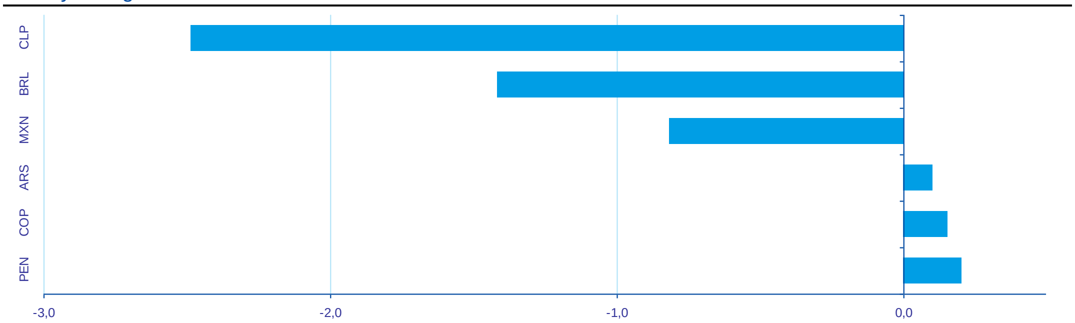
Mixed foreign-exchange movements in the region: the CLP, MXN and BRL lose value, while there are slight gains in the COP, PEN and ARS.

Last week most of the G10 and emerging currencies weakened against the USD in response to persistent risks of contagion in the EMU, as reflected in high yields in the debt auctions in Italy, Spain and Portugal. At the same time, the series of economic data published in the U.S. surprised upside, which encouraged a greater appetite for USD. The JPY was the only one of the G10 currencies to emerge strengthened, as it continues to be used as a safe-haven currency. Meanwhile, the performance of Latin American currencies varied. The CLP came out worst in relative terms in response to the fall in copper prices. The BRL and MXN lost around 1.3% and 0.9% respectively, reflecting that they continue to be highly sensitive to European events, while the COP, ARS and PEN gained in response to the positive capital flows and action on the domestic front (FDI in Colombia and the chance of foreign-exchange intervention by the Central Banks of Peru and Argentina). In general, we consider that the current broad trading bands will remain in place in the short term.

Stock markets in the region continue to stand out positively from those in developed markets

The different behavior of the Latin American stock markets can be explained by the positive reading of the US economic data in the case of Mexico, and good GDP figures from Japan combined with positive economic news from China last week (in the case of South America). The MSCI Latam index fell 1.7% over the week. This was better than the MSCI Global (-2.2%) MSCI US (-2.1%) and MSCI Europe (-3.1%). Within the region, the best performance was in South America, thanks to its strong links to the Asian economy. The best markets were Chile, Peru and Brazil. We continue to expect market volatility in anticipation of proposals for fiscal consolidation in the U.S. (November 23) and the Ecofin meetings at the end of the month.

Chart 2
Weekly changes in LatAm currencies



Source: Bloomberg and BBVA Research

Home
Highlights
Calendar
Market Data
Charts

Economic Analysis

Highlights

Macroprudential measures in Brazil, Monetary Policy Rate in Chile

In Brazil, the Central Bank announced the reversal of some of the macroprudential measures adopted at the end of 2010 amid signs of growing concern about the slowing economy. It cancelled the increase from 15% to 20% in the minimum payment of credit card bills and reduced some capital requirements linked to consumer finance transactions. In Chile, the Central Bank maintained its reference rate at 5.25%, as expected by the market, and reiterated that the next move will depend on the effect of the external deterioration on growth and inflation. As a result, we maintain our expectation of a prolonged monetary policy pause.

Domestic demand supports growth in Peru and Venezuela, and it accelerates in Chile

In Peru, GDP grew 6.6% in 3Q11, boosted by sectors linked to consumption, such as Retail Trade and Other Services. In Venezuela, GDP for 3Q11 posted a surprising rise of 4.2% y/y due to significant increases in public (4.7% y/y) and private consumption (4.2% y/y) buoyed by significant fiscal spending and wage increases. In Chile, the GDP for 3Q11 increased 4.8% y/y, meanwhile aggregate demand increased from 8.6% y/y in 2T11 to 9.4% y/y in 3T11.

Business confidence in Colombia remains strong in September

Industrial confidence fell by 4 pp m/m to 6% in September, although it remains at levels that imply expansion in the sector. The effect of global turbulence also continues to be limited. Commercial confidence remained practically unchanged, from 25% in August to 26% in September, which is associated with a perception of high domestic demand.

Positive fiscal news in Argentina and Peru

The Argentine government announced new cuts in subsidies on gas, electricity and water by large companies in a number of sectors (gas, biofuel, etc.) totaling ARS 3.5 billion; and further subsidy cuts for residential users in gated communities and other exclusive areas for ARS 530 million. In Peru, real tax receipts grew by 9.7% y/y in October (12.2% in 3Q11), with a particularly notable increase in revenues from internal duties (14.1%).

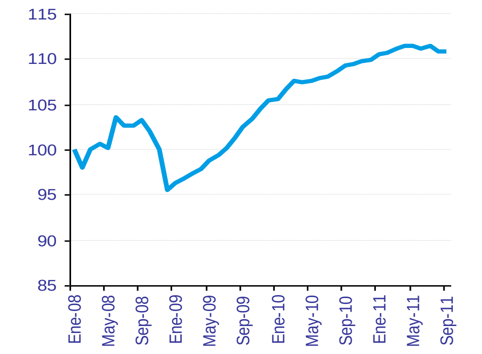
Credit growth moderates in Venezuela

The volume of credit continued to grow strongly (39.9% y/y) in October, in line with the growth forecast of 41.4% y/y for the close of the year, though it slowed for the first time in 13 months. This moderation affected all categories of lending, with the biggest in car loans, whose rate of growth of 18.5% y/y was 12.7 pp down on September. Corporate lending was up 40.5% y/y (down 1 pp m/m).

Brazil: S&P upgrades Brazil and economic activity remains stable

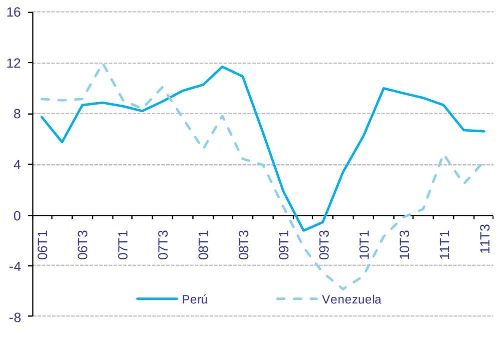
S&P raised Brazil's foreign-currency rating to BBB from BBB- and its local currency rating to A- from BBB+. Ratings outlook is stable. Equivalent upgrades had previously been announced by both Moody's and Fitch. Also, the index of economic activity was stable in September, with a quarterly fall of only 0.3%.

Chart 3
Brazil: Central Bank's Index of Economic Activity (Jan-2008=100, seasonally adjusted)



Source: BCB

Chart 4
Peru and Venezuela: GDP growth (% y/y)



Source: BCV and BCRP

Home
Markets
Calendar
Market Data
Charts

Calendar: indicators

Next Week: 21 - 25 November 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment Rate	21-Nov	3Q11	6.9%	7.2%	7.3%	
Trade Balance	22-Nov	Oct 2011	USD 915 M	USD 639 M	USD 1064 M	
Shopping Centers Sales	24-Nov	Oct 2011			34% y/y	
Industrial Monthly Estimator	25-Nov	Oct 2011	6% y/y	6.1% y/y	5% y/y	
Supermarkets Sales	25-Nov	Oct 2011			29.7% y/y	
Brazil	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Current Account	22-Nov	Oct 2011			-$2200M	
Credit Data	23-Nov	Oct 2011				
Unemployment Rate	24-Nov	Oct 2011			6.0%	
Fiscal Data	25-Nov	Oct 2011				
Chile	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Foreign Trade Indicators	23-Nov	3Q11				
Survey of financial operators	23-Nov	November's Second fortnight				
Colombia	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Building permits	21-Nov	Sep 2011	20.0%		28.4%	Our projections are based on a strong growth in private construction. These data would confirm the prediction of BBVA Research.
Intervention interest rate	25-Nov	Nov 2011	475.0%	475.0%	450.0%	The last BanRep statement gave more importance to the domestic demand. However, overall volatility imply a forecast uncertainty.
Mexico	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Inflation	40871	November's first fortnight	0.98% f/f (3.46% y/y)	0.86% f/f	0.67% m/m (3.2% y/y)	During novembers first fortnight inflation rebounded due to an increase in energy prices, particularly electric tariffs and to increases in some agricultural prices. However in contrast with this volatile factors core inflation remained bounded due to the absense of demand pressures and limited pass-through.
Trade Balance	40871	Oct 2011	-2899 md	NA	-1830 md	During October the trade deficit widened due to the need of importing intermidiate goods in order to produce manufactured products to export to the US industrial and final consumption sectors, which increase their needs during the years final months. Despite the growth rate of exports and imports keeps recducing, both keep expanding at rates close to 15% y/y and at this time there is no solid evidence of a contraction.
Peru	**Data**	**Period**	**Forecast**	**Consensus**	**Previous**	**Comment**
Credit to the private sector	25-Nov	Oct 2011	NA	NA	20.1% (y/y)	

Source: BBVA Research

Calendar of events

Mexico: GDP (November 22)

Forecast: 1.2% q/q (4.2% y/y)	Consensus: -	Previous: 1.1% q/q (3.6% y/y)

In the third quarter of the year economic activity was slightly better than expected at the start of the quarter. The slowdown in the manufacturing sector was not as marked as expected and domestic demand continues to fuel growth. The MICA estimate including "real time" information suggests growth of 1.2%, compared with the 1% estimated at the start of the quarter.

Calendar of holidays

Mexico: November 21

Home
Markets
Highlights
Market data
Charts

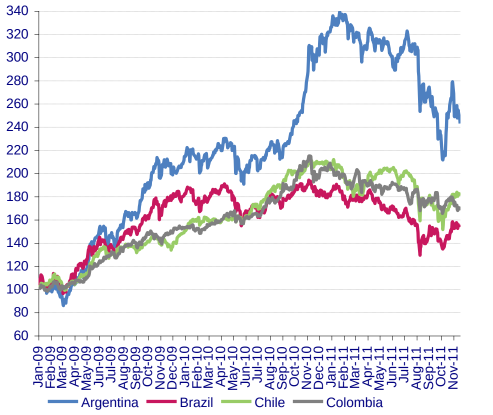
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.48	2	7	20
		2-yr yield	0.26	3	0	-24
		10-yr yield	1.97	-8	-19	-90
	EMU	3-month Euribor rate	1.46	0	-12	42
		2-yr yield	0.43	2	-19	-68
		10-yr yield	1.89	0	-17	-81
Exchange rates (changes in %)	Europe	Dollar-Euro	1.351	-1.7	-2.0	-1.0
		Pound-Euro	0.85	-0.1	-2.0	0.0
		Swiss Franc-Euro	1.24	-0.2	-0.5	-9.2
	America	Argentina (peso-dollar)	4.25	-0.2	0.5	7.0
		Brazil (real-dollar)	1.78	1.9	0.6	3.6
		Colombia (peso-dollar)	1920	0.2	1.1	2.3
		Chile (peso-dollar)	510	2.4	-0.2	6.1
		Mexico (peso-dollar)	13.71	2.0	2.5	11.6
		Peru (Nuevo sol-dollar)	2.70	-0.2	-0.7	-3.7
	Asia	Japan (Yen-Dollar)	76.74	-0.6	-0.1	-8.1
		Korea (KRW-Dollar)	1138.45	1.0	0.5	0.5
		Australia (AUD-Dollar)	0.999	-2.9	-2.8	1.4
Comm. (chg %)		Brent oil ($/b)	108.7	-4.7	0.3	28.9
		Gold ($/ounce)	1726.9	-3.5	5.2	27.6
		Base metals	527.4	-0.7	-1.5	-5.3
Stock markets (changes in %)	Euro	Ibex 35	8248	-3.6	-6.8	-19.7
		EuroStoxx 50	2226	-4.2	-4.4	-21.8
	América	USA (S&P 500)	1216	-3.8	0.5	1.4
		Argentina (Merval)	2519	-8.5	-7.9	-22.7
		Brazil (Bovespa)	56989	-2.7	3.7	-19.6
		Colombia (IGBC)	12708	-1.4	-4.9	-15.0
		Chile (IGPA)	20578	-0.9	4.8	-10.6
		Mexico (CPI)	36111	-3.8	4.6	-1.3
		Peru (General Lima)	19305	-0.8	2.9	-5.3
		Venezuela (IBC)	114676	1.8	10.8	73.2
	Asia	Nikkei225	8375	-1.6	-4.5	-16.4
		HSI	18491	-3.4	1.0	-21.7
Credit (changes in bps)	Ind.	Itraxx Main	188	13	12	88
		Itraxx Xover	760	33	26	305
	Sovereign risk	CDS Germany	95	4	7	57
		CDS Portugal	1085	29	17	671
		CDS Spain	480	60	110	218
		CDS USA	52	2	8	---
		CDS Emerging	332	31	26	114
		CDS Argentina	986	67	16	305
		CDS Brazil	179	20	24	72
		CDS Colombia	177	17	22	68
		CDS Chile	137	10	15	57
		CDS Mexico	177	20	25	64
		CDS Peru	179	18	21	62

Source: Bloomberg and Datastream

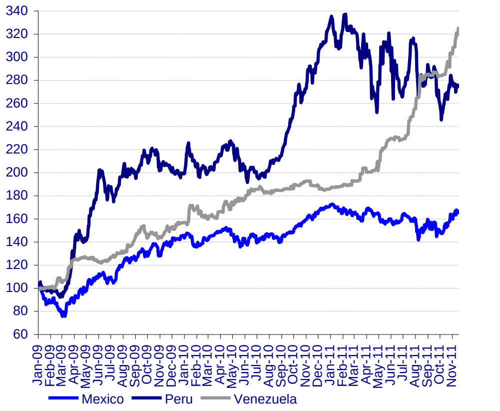
Charts

Chart 4
Stock markets (base index Jan09 = 100)



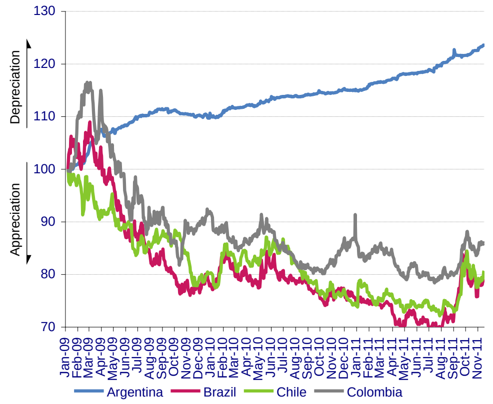
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



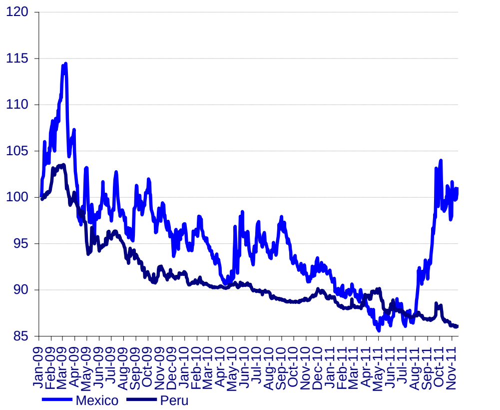
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



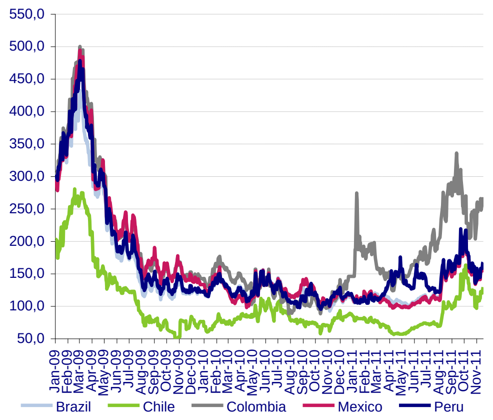
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



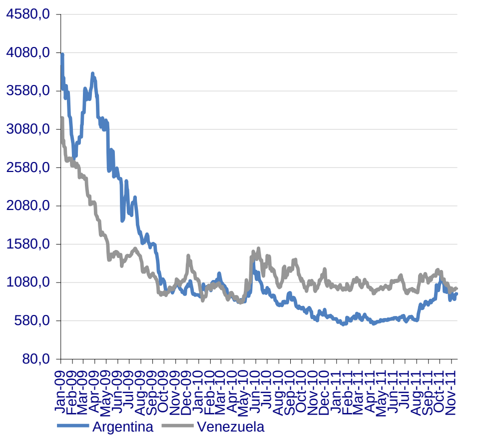
Source: Datastream and BBVA Research

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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