

Weekly Watch

Latin

July 25, 2011
Economic Analysis

South America

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Markets
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Politics take center stage

Peru is eagerly awaiting the inaugural speech by President Humala, in which he will define his government's priorities, as well as more appointments of key officials. In Argentina the elections in Santa Fe will provide important clues about Cristina Fernández's chances of reelection in Argentina. In Colombia details of the draft budget for 2012 are being eagerly awaited; if bigger than expected there could be pressure on the country's debt market.

The fiscal situation in the EU and U.S. will continue to determine risk premiums, with corporate reports in the U.S. providing support

The markets continue to react to decisions on the fiscal situation in the EU and U.S., so there will be some short-term volatility. Last week, there were gains in most currencies in the region, while the performance of stock markets was below that of developed economies. Local-currency corporate debt issuance in Brazil is at an all-time high.

Chart 1

Relative performance of Latin American currencies



Source: BBVA Research

Highlights

Wages recover in Brazil, unemployment rises in Venezuela and Mexico

Cabinet appointments in Peru and Chile

Rising spending reduces the primary fiscal surplus in Argentina in June

Positive surprises in economic activity in May in Argentina and Peru

Central Banks: against the current

The fiscal situation in the EU and U.S. will continue to determine appetite for assets in the region, while corporate reports in the U.S. provide support

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Economic Analysis

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Markets

A volatile week for assets in the region, partly held in check by the extraordinary EU summit and corporate reports in the U.S.

The main determinants continued to be the fiscal situation in the EU and U.S. Attention was focused on the extraordinary EU summit that led to a recovery of the euro, which was passed on to the Latin American currencies. Equally, discussions about a debt ceiling in the U.S. will take on increasing importance in the markets. Finally, corporate reports in the U.S. have provided a support for risk assets and also boosted currencies in the area.

The BRL and MNX performed best in relative terms, with an appreciation of 1.2% and 1.0% respectively. The COP was notable in having a weekly depreciation of close to 0.1% on profit-taking. However, our outlook for the currency continues to be favorable, as we expect high levels of FDI and portfolio inflows. Finally, the CLP and PEN closed with marginal movements in response to copper prices (CLP) and political and economic factors (PEN). We estimate that the currencies will remain volatile in the short term.

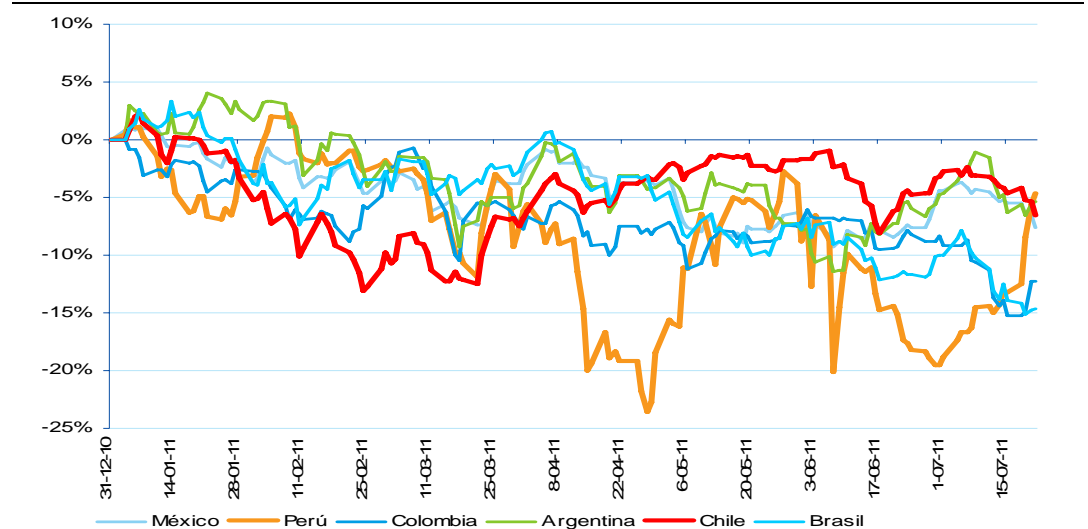
The quarterly reporting season provides support to stock market levels, with a strong upturn in Peru

In the U.S. sales results were 0.3% higher than estimates and EPS were up 7.5%. In Mexico, results have been weaker: sales are 1.5% up, EBITDA down 1.9%, but net profits remained at 1.5% above estimates. However, the performance of stock markets in the region has continued to be more closely linked to the balance of global risks. We believe that this is why developed markets outperformed Latin American stock markets over the week. Peru was outstanding among the Latin American markets, with strong gains following the appointment of key officials who will ensure continuity in economic management under the new administration.

Brazil's local debt market continues to grow strongly

So far this year more than BRL 26,634m have been issued, a record that is higher than the figure for the whole of 2010 (BRL 25,380m). The issuance is almost entirely in the form of floating notes from companies and financial institutions in a variety of sectors. In contrast, the domestic debt market in Mexico is growing slowly in line with growth in the economy as a whole.

Chart 2
Annual stock market performance (% YTD)



Source: BBVA Research

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Economic Analysis

Highlights

Appointments of officials in Peru

In Peru, Humala has confirmed the appointment of Julio Velarde as President of the Central Bank and Miguel Castilla as the new Minister for Economy and Finance. Both appointments have been well received by the markets as a signal that macroeconomic stability will be maintained.

Unemployment falls in Brazil, rises in Venezuela and Mexico

The unemployment rate fell to 6.2% in Brazil against a background of growth in real wages (4% y/y); in Mexico it increased to 5.7%, the highest level since September 2009, with wage growth lagging far behind pre-crisis levels. In Venezuela the rate rose to 8.6%.

Increased spending reduces the primary fiscal surplus in Argentina in June

The primary fiscal surplus in June was below the expected figure, as primary expenditure accelerated to 35.9% y/y following an increase of 32.6% y/y YTD total to May. The primary budget surplus for the first half of 2011 was ARS 7,736m, in line with our annual forecast of ARS 14,629m.

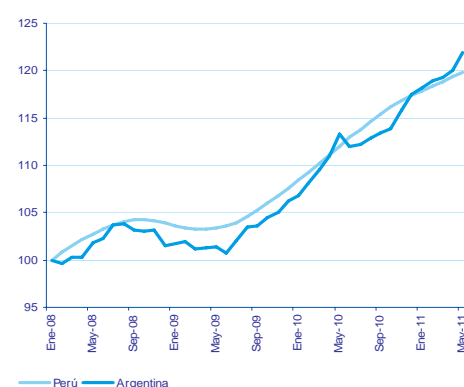
Positive surprises in economic activity in May in Argentina and Peru

The EMAE monthly economic activity indicator in Argentina was up 8.1% y/y (1.5% m/m), above the April figure (up 7.1% y/y); in Peru there are some signs of a slowdown on the first four months (up 7.1% y/y, 0.4% m/m), which will continue into the second half of the year.

Central Banks: against the current

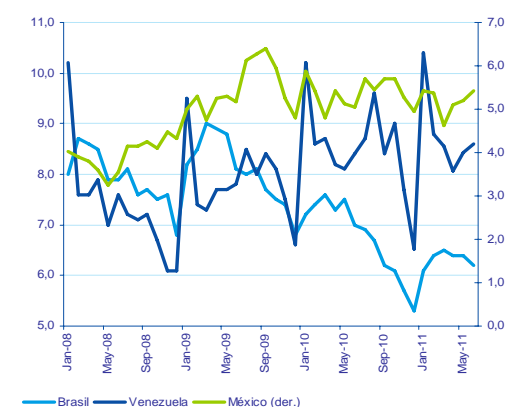
This week the Central Bank of Brazil increased its SELIC rate as expected by 25 bps, and announced that the cycle of monetary adjustment was near its end. The Bank also increased the risk factor used for calculating provisions for credit card operations with a deduction in the payslip. In Peru, the Central Bank is still buying to cushion the appreciation of the PEN. In Argentina, the trend for dollarization of asset portfolios continues. This is reducing liquidity and leading to a slight rise in the BADLAR, so for the third week in a row the Central Bank has not been able to extend all the maturities of its debt instruments.

Chart 3
Seasonally adjusted GDP (Jan 2008=100)



Source: INDEC (Argentina) and INEI (Peru)

Chart 4
Unemployment Rate (%)



Source: INE, IBGE, INEGI

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Calendar: indicators

Next Week: 25 - 29 July 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Shopping's Sales	27-Jul	Jun 2011			10.3% y/y	
Supermarket's Sales	28-Jul	Jun 2011			14.1% y/y	
Public Service's Statistics	29-Jul	Jun 2011			12.7% y/y	
Synthetic Indicator of Construction Activity	29-Jul	Jun 2011			14.0% y/y	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Current Account	26-Jul	Jun 2011			- \$ 4103M	
Credit Data	27-Jul	Jun 2011				
Minutes - Monetary Policy Meeting	28-Jul					More information about the length of the current monetary tightening cycle.
Fiscal Data	29-Jul	Jun 2011				
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	29-Jul	Apr-Jun 2011	0,074		0,072	
Industrial production	28-Jul	Jun 2011	7.8% y/y		9.7% y/y	We expect signs of deceleration.
Financial intermediaries survey	27-Jul	2nd half of July			0.2% m/m	Consider monthly inflation figure for July.
Minute MPM July	29-Jul	Jul 2011				Messages would point out to an interest rate hike of 25 bp in the next meeting, after the first pause in July.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Urban unemployment rate	29-Jul	Jun 2011	11.2%	11.2%	11.0%	Reducing unemployment rates to levels close to the NAIRU is consistent with the gradual closing of the output gap.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IGAE	27-Jul	May 2011	0.3 mom% (3.2% yoy)	NA	0.4 mom% (3.4% yoy)	We believe there are elements for the IGAE has remained relatively stable in May. On the one hand, the industry had good growth (+1.1% positive surprise mom) but on the other hand, the dynamic services and retail sales in May were contrasting: the services performed well (0.9% m / m) while sales fell significantly (-2.1% m / m). However, we believe that growth will be maintained at the same rate as the previous month.
Trade Balance	26-Jul	Jun 2011	235 md	NA	535 md	July's trade Balance will be slightly less positive in July due to the lower oil prices. However the lack of domestic demand will continue to cause positive balances

Source: BBVA Research

Calendar of events

Colombia: BanRep Intervention reference rate (July 29)

Forecast: 5%

Consensus: 5%

Previous: 4%

Positive GDP growth in 1Q11, with emphasis on strong expansion for private demand, allows expect further tightening of monetary policy.

Calendar of holidays

Peru: July 28 and 29

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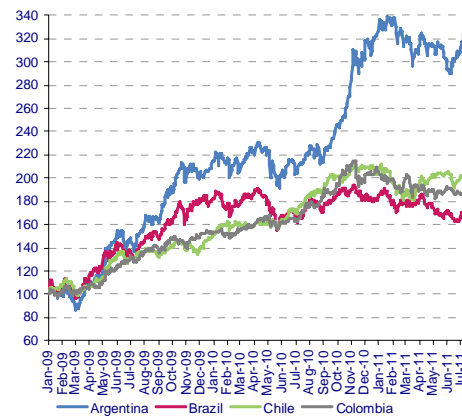
Market Data

			Cierre	Cambio semanal	Cambio mensual	Cambio anual
Tipo de interés (cambio en pbs)	EE.UU	3-meses Libor	0,25	0	1	-24
		Tipo 2 años	0,38	3	1	-20
		Tipo 10 años	3,00	10	2	1
	UEM	3-meses Euribor	1,61	0	8	72
		Tipo 2 años	1,46	25	-2	71
		Tipo 10 años	2,91	22	-3	20
Divisas (cambios en %)	Europa	Dólar-Euro	1,440	1,8	-0,1	12,1
		Libra-Euro	0,88	0,9	-1,0	6,0
		Franco Suizo-Euro	1,19	2,8	-1,6	-12,4
	América	Argentina (peso-dólar)	4,14	0,3	0,9	5,2
		Brasil (real-dólar)	1,55	-1,3	-2,1	-12,0
		Colombia (peso-dólar)	1761	0,4	-1,1	-5,7
		Chile (peso-dólar)	461	-0,3	-2,4	-11,6
		México (peso-dólar)	11,59	-1,1	-1,5	-9,1
		Perú (Nuevo sol-dólar)	2,74	-0,2	-0,7	-3,0
		Japón (Yen-dólar)	78,64	-0,5	-1,9	-9,9
	Asia	Corea (KRW-dólar)	1051,90	-0,6	-2,0	-12,2
		Australia (AUD-dólar)	1,084	1,8	2,0	21,2
MMPP (Var %)		Brent de petróleo (\$/b)	117,8	0,5	3,2	52,1
		Oro (\$/onza)	1586,3	-0,5	2,4	33,4
		Metales	594,0	0,0	-0,6	24,8
Renta Variable (cambios en %)	Euro	Ibex 35	10127	6,8	-1,0	-2,5
		EuroStoxx 50	2785	4,1	-0,4	2,4
		EE.UU. (S&P 500)	1344	2,1	4,4	21,9
	América	Argentina (Merval)	3367	1,2	1,0	41,8
		Brasil (Bovespa)	60263	1,3	-1,5	-9,1
		Colombia (IGBC)	13881	5,7	-2,8	4,6
		Chile (IGPA)	21979	-1,9	-1,4	9,8
		México (CPI)	35556	-1,7	0,4	8,4
		Perú (General Lima)	22164	8,9	15,7	56,6
		Venezuela (IBC)	87105	1,2	9,1	35,3
	Asia	Nikkei225	10132	1,6	5,2	7,4
		HSI	22445	2,6	2,7	7,8
Crédito (cambios en pbs)	Ind.	Itraxx Main	112	-11	2	0
		Itraxx Xover	419	-40	9	-87
	Riesgo soberano	CDS Alemania	55	-3	13	15
		CDS Portugal	946	-197	162	677
		CDS España	309	-37	25	108
		CDS EE.UU	53	-2	2	---
		CDS Emergentes	213	-9	-13	-18
		CDS Argentina	608	-22	-22	-239
		CDS Brasil	112	-5	-2	-8
		CDS Colombia	111	-4	1	-16
		CDS Chile	73	-2	-2	-16
		CDS México	111	-4	1	-10
		CDS Perú	122	-7	-24	9

Fuente: Bloomberg y Datastream

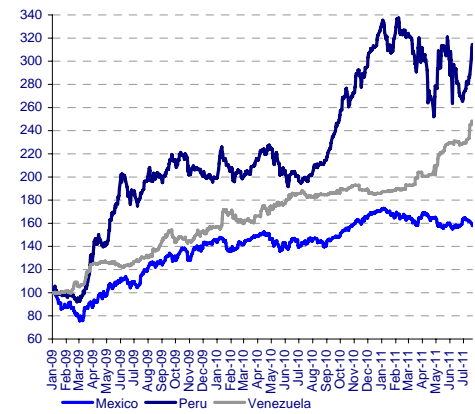
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Chart 4
Stock markets (base index Jan09 = 100)



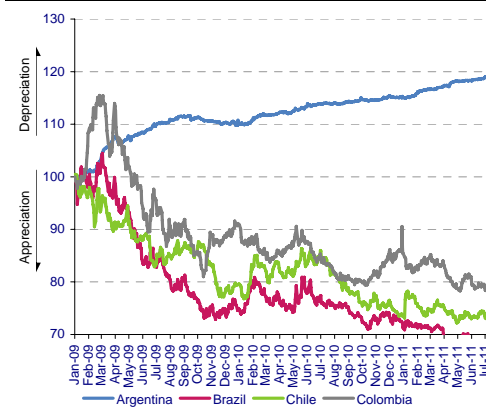
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



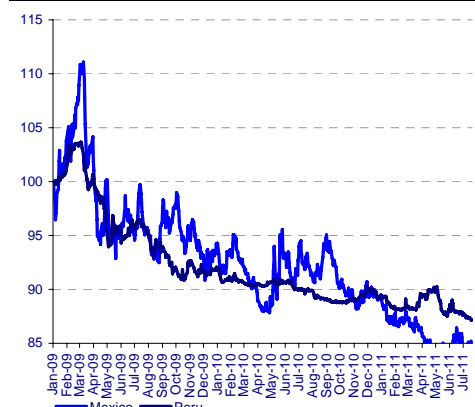
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



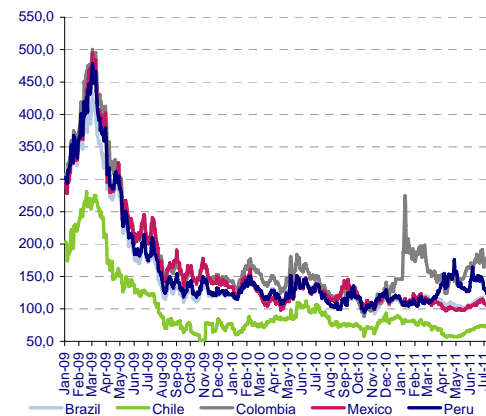
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



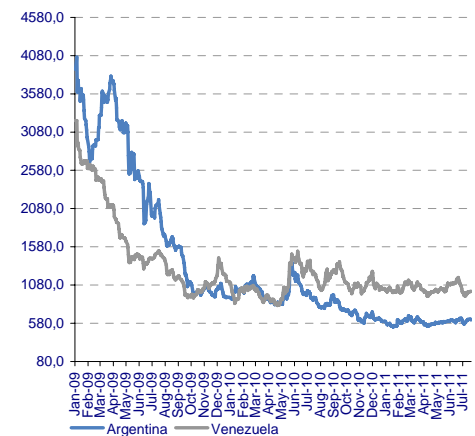
Source: Datastream and BBVA Research

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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