

# Weekly Watch

## Latin

August 22, 2011  
Economic Analysis

### South America

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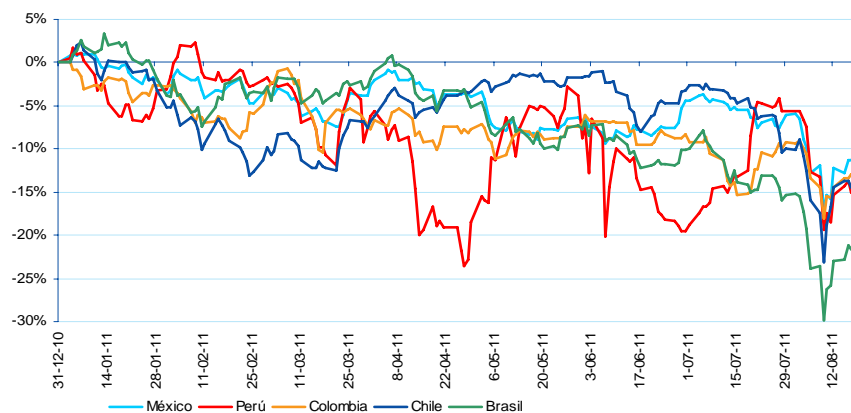
## The global environment will set the pace this week

The interpretation of economic figures in Mexico and possible surprises in bank credit and foreign accounts in Brazil will be key factors at a regional level. In Chile the government's capacity to refocus the economic and political agenda will be tested by public demonstrations. At the same time, the global background of major uncertainty may well dominate market developments.

### High volatility in the face of problems in the U.S. and EMU

Although most Latin American currencies recovered over the week against their levels on the previous Friday, market volatility persisted in the face of the lack of clear agreements to tackle cyclical and sovereign risks in the U.S. and EMU. Stock markets in the region outperformed their peers in developed countries and were only slightly worse than the Asian capital markets.

Chart 1  
Latin American stock markets: 2011 change YTD (%)



Source: BBVA Research

## Highlights

High growth data in Argentina, Chile and Mexico

Major growth in credit in Peru and Venezuela

Chile maintains its benchmark interest rate

Colombia makes a temporary adjustment to its customs tariffs and announces health reforms

Christina Kirchner emerges as the clear leader after the primary elections

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## Economic Analysis

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## Markets

**High level of FX volatility: the COP and BRL perform better, the MXN and CLP weaker**

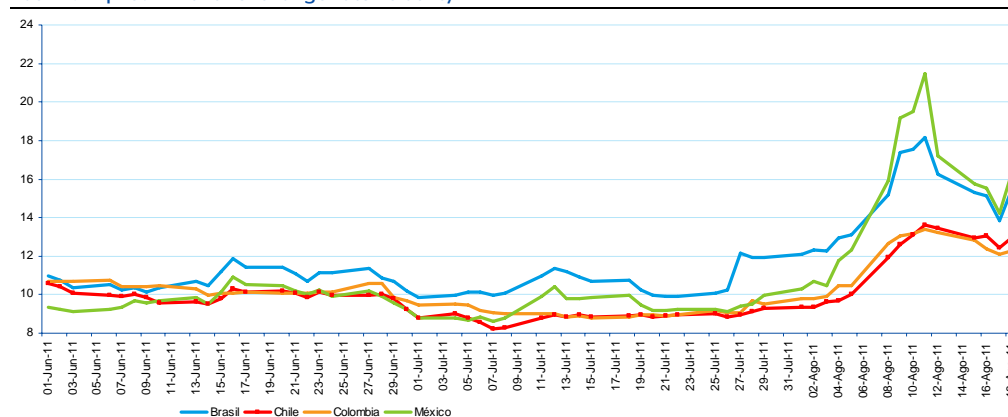
Although most Latin American currencies recovered last week on their position the previous Friday, markets remained highly volatile. Risk linked to the U.S. economic cycle and the fiscal situation in the EMU persisted. In the U.S., the negative surprises in the economic indicators published over the week boosted a new search for safe-haven currencies (the CHF and JPY), though this effect continues to be countered in part by the interventionist language of their central banks. With respect to the fiscal situation of the EU, the lack of clear solutions offered at the press conference following the meeting between Merkel and Sarkozy led to a fall in the euro and in general of all the currencies exposed to the region.

Latin American currencies remained volatile, but most of them closed up over the week, thanks to moderation in risk aversion at the start of the week. The COP continues to be the best relative performer on the back of positive foreign capital flows, followed by the BRL, which still has an attractive interest-rate differential. At the other end of the scale are the MXN and CLP, which are influenced by the high level of correlation with the U.S. stock market indices (MXN) and the price of copper (CLP). We expect the high volatility of currencies in the region to continue.

**Modest corrections in the stock markets in the region last week, after a strong contraction triggered by the U.S. downgrade**

This time the stock markets in the region outperformed their peers in developed countries and were only slightly worse than the Asian capital markets. After major equity outflows the previous week, investors appeared to value more positively the links to high-growth regions (i.e. Asia). The exception was Mexico, due to its close relationship with the U.S. cycle, and in particular after the release of the bad manufacturing figures in the North American Union. In addition, with the corporate reporting season almost over, the consensus was disappointed with the results from Brazil and Chile, which were 10% down on the estimated EPS; while the reports from Peru were in line with expectations. Despite the recent reduction in financing costs in EMU peripheral countries (thanks to the purchase of Spanish and Italian paper by the ECB), we expect the environment to remain volatile over the coming weeks, while the markets continue to weigh up the lack of clear agreements on the fiscal front in the U.S. and Europe.

Chart 2  
**LatAm: Implied 1-month exchange-rate volatility**



Source: BBVA Research

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## Economic Analysis

## Highlights

**High growth data in Argentina, Chile and Mexico**

The growth forecast for 2011 is maintained in all three (7.5%, 6.5% and 4.1% y/y, each) although with an upward bias in Argentina and Chile, while in Mexico, the higher risks for the US outlook pose a downside bias. The Chilean economy grew 6.8% in 2Q11, with Domestic Demand being the main factor of growth in the quarter (9.4% y/y). In Argentina, GDP grew above expectations in 2Q11 (+2.0% q/q; BBVA Research: 1.1% q/q). Meanwhile Mexico grew 1.1% q/q, boosted by external demand and service activities strongly related with it.

**Major growth in credit in Peru and Venezuela**

In Peru, bank credit grew by 19.5% in July, boosted by buoyant mortgage and consumer finance. In Venezuela, the recovery in economic activity led to an increase of 9.6% y/y in bank credit, with the NPA ratio down to 2.3%.

**Chile maintains its benchmark interest rate**

The Central Bank maintained its policy rate at 5.25% and announced that the change in the foreign scenario means a lower neutral MPR, thus suggesting a longer monetary pause.

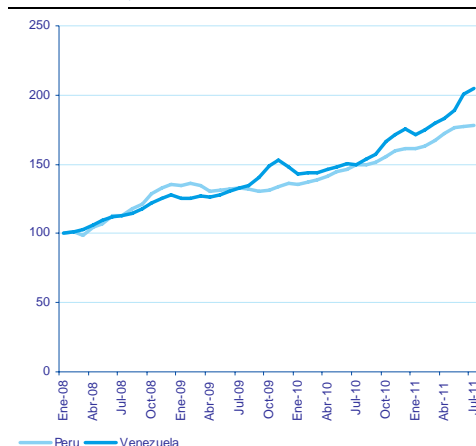
**Colombia makes a temporary adjustment to its customs tariffs and announces health reforms**

The government cut the customs tariff on 3,170 sub-headings of commodities and capital goods not produced domestically to 0%, and increased it from 5% to 10% on 317 locally manufactured products. The net fiscal effect of the measure is calculated at USD 292 million. The health reform will aim to update the obligatory health plan and base it on pathologies (rather than drugs), at the same time improving the inspection, oversight and control of the system with the aim of increasing its quality and liquidity.

**Christina Kirchner emerges as the clear leader after the primary elections**

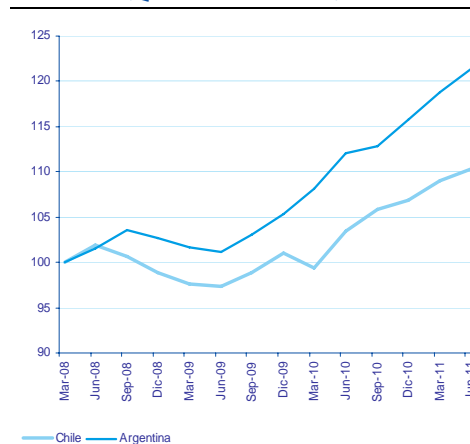
The President won over 50% of the votes in the primary elections held on August 14, in which the turnout was a high 77% of the eligible voters. The spread of opposition votes suggests that she will almost certainly win re-election in the first round.

Chart 3  
**Credit figures for Peru and Venezuela (Jan 2008 = 100)**



Source: BBVA Research

Chart 4  
**GDP Level (Q1 Index 2008=100)**



Source: BBVA Research

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## Calendar: indicators

Next Week: 22 - 26 August 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	23-Aug	2Q11	7.3%	7.3%	7.4%	
Trade Balance	23-Aug	Jul 2011	USD 535 MM	USD 761 MM	USD 1108 MM	
Shopping Centers Sales	26-Aug	Jul 2011			32.3% y/y	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Current Account	23-Aug	Jul 2011			-\$ 3300M	
Credit Data	24-Aug	Jul 2011				
Unemployment rate	25-Aug	Jul 2011		6.1%	6.2%	
Fiscal Accounts	26-Aug	Jul 2011				
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Foreign Trade Indicators	23-Aug	2Q11				
Survey of financial operators	24-Aug	First half of August				
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Aggregate Index of Services	22-Aug	Jun 2011	0.2 m/m (5.7% y/y)	NA	0.9 m/m (6.7% y/y)	We expect some moderation in the aggregate indicator of services, be considered that several of its componentes react with a lag compared to external stimuli, so that good data could be moderated in May to June.
Retail Sales	22-Aug	Jun 2011	0.5 m/m (3.1% y/y)	NA	-21 m/m (1.1% y/y)	In retail it is expected to improve after the negative surprise of the May data.
Inflation	24-Aug	First half of August	0.08 t/f	NA	0.48% m/m July	During August headline inflation will benefit from lower farm produce prices, after the pressures suffered during July Core inflation will maintain its lowering trend.
Current Account	25-Aug	2Q11	-175 md	Na	-1375 md	Current Account registered a small deficit during the 2Q11 due to positive trade and transfer balances, the last one driven by higher remittances from mexicans working abroad.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Public investment (real yoy% change)	26-Aug	Jul 2011			17.2%	
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	23-Aug	Jul 2011	8.9	8.7	8.6	

Source: BBVA Research

## Calendar of events

### Mexico: Monetary policy rate

Forecast: 4.5%	Consensus: 4.5%	Previous: 4.5%
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After the slight downward revision of its growth forecasts in the Inflation Report for 2Q 2011, we expect that Banxico will maintain a tone consistent with a prolonged monetary pause. The mentions of changes and the outlook for the domestic economy are of particular interest.

## Calendar of holidays

Argentina: Monday, August 26

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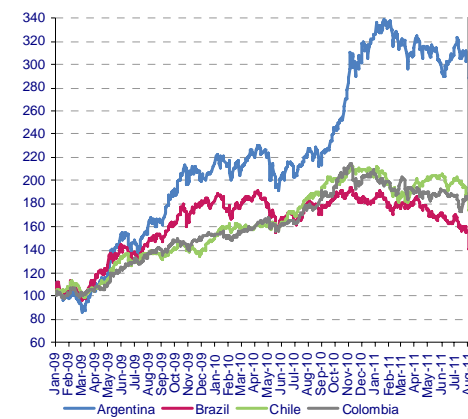
## Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	1	4	-3
		2-yr yield	0.19	0	-19	-30
		10-yr yield	2.10	-16	-83	-52
	EMU	3-month Euribor rate	1.53	0	-7	64
		2-yr yield	0.64	-5	-66	3
		10-yr yield	2.10	-24	-67	-17
Exchange rates (changes in %)	Europe	Dollar-Euro	1.434	0.7	1.0	12.8
		Pound-Euro	0.87	-0.7	-1.2	6.2
		Swiss Franc-Euro	1.13	3.3	-2.6	-13.8
	America	Argentina (peso-dollar)	4.17	0.4	0.9	6.0
		Brazil (real-dollar)	1.60	-1.1	2.2	-9.2
		Colombia (peso-dollar)	1778	-0.4	1.1	-2.3
		Chile (peso-dollar)	471	0.1	1.7	-6.8
		Mexico (peso-dollar)	12.32	0.2	5.6	-3.5
		Peru (Nuevo sol-dollar)	2.74	-0.2	0.0	-2.2
		Japan (Yen-Dollar)	76.41	-0.6	-3.0	-10.8
		Korea (KRW-Dollar)	1085.45	0.5	2.9	-8.3
	Asia	Australia (AUD-Dollar)	1.037	0.3	-3.4	16.5
Comm. (chg %)		Brent oil (\$/b)	105.9	-2.0	-10.4	42.6
		Gold (\$/ounce)	1863.5	6.7	16.4	51.8
		Base metals	567.9	0.0	-4.5	13.5
Stock markets (changes in %)	Euro	Ibex 35	8178	-5.4	-16.0	-19.0
		EuroStoxx 50	2155	-6.6	-20.4	-18.5
		USA (S&P 500)	1141	-3.2	-14.0	6.4
	América	Argentina (Merval)	2870	-3.3	-13.9	17.7
		Brazil (Bovespa)	53134	-0.6	-10.1	-20.3
		Colombia (IGBC)	13049	-2.7	-4.0	-3.0
		Chile (IGPA)	19927	-1.8	-9.1	-5.7
		Mexico (CPI)	33247	-0.3	-5.9	3.0
		Peru (General Lima)	19516	-2.1	-12.0	31.2
		Venezuela (IBC)	98575	-1.0	13.2	52.1
	Asia	Nikkei225	8719	-2.7	-12.9	-5.0
		HSI	19400	-1.1	-11.8	-7.5
Credit (changes in bps)	Ind.	Itraxx Main	153	3	35	39
		Itraxx Xover	646	18	207	139
		CDS Germany	80	0	22	37
	Sovereign risk	CDS Portugal	878	34	-215	599
		CDS Spain	362	7	21	135
		CDS USA	48	-2	-5	---
		CDS Emerging	284	8	64	50
		CDS Argentina	783	26	160	-41
		CDS Brazil	146	-5	29	24
		CDS Colombia	142	-9	27	19
		CDS Chile	97	-5	22	22
		CDS Mexico	145	-8	31	25
		CDS Peru	152	-11	23	52

Source: Bloomberg and Datastream

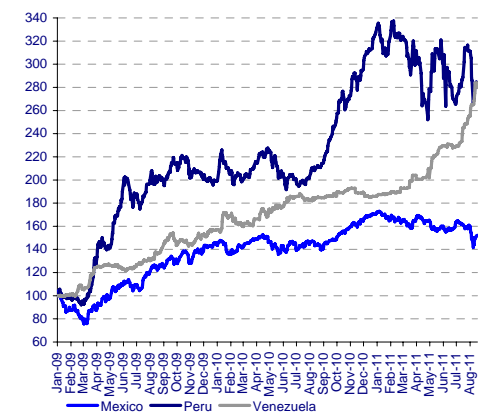
## Charts

Chart 4  
Stock markets (base index Jan09 = 100)



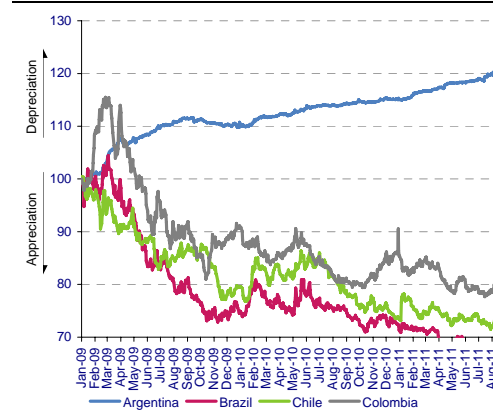
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



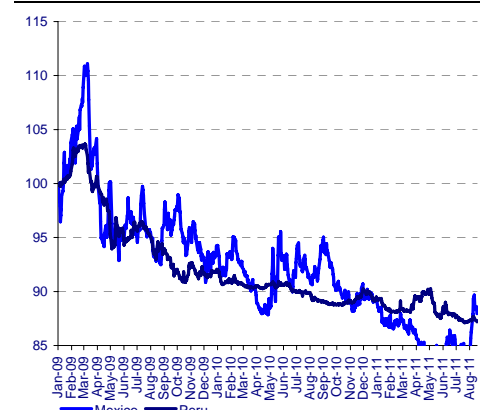
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



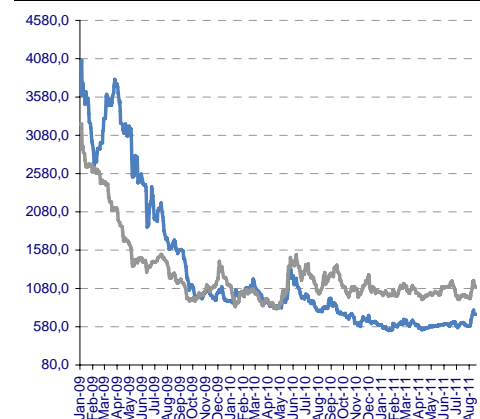
Source: Datastream and BBVA Research

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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