

LatAm Weekly Flash

Monetary policy steady as the economy remains robust

The monetary authorities in Brazil and Mexico maintained their monetary policies, in both cases in line with market expectations. In the case of Brazil there was a cut of 50 basis points, leaving the SELIC at 10.5%, while in Mexico the rate remained at 4.5%. At the same time, the data on economic activity in Brazil, Colombia and Peru confirm the strength of domestic demand. In the case of Colombia, this is also reflected in the indicators of confidence.

- **Currencies in emerging markets and Latam in particular took off strongly this week**
 - Currencies in emerging markets and Latin America in particular took off strongly this week, boosted by economic data from the U.S. and China, and some stability in Europe, where there were positive results in bond auctions. In particular, currencies linked to commodities, which had been weak since the end of last year, showed the biggest appreciations. The CLP broke through a number of technical barriers, boosted by rising copper prices, while the BRL, COP and MXN also gained strongly. Market positioning has improved but still remains far from its saturation point. The region is thus showing some resistance to the problems in Europe. However, at this point we should be cautious. First, any conviction appears limited and the European crisis seems far from being resolved. In addition, the interventionist and expansive policies adopted in a number of countries mean the current situation has its limits. The most notable case is the BRL, which moved through various technical levels in recent weeks. The Brazilian authorities have now warned that they may impose interventionist measures.
- **No major surprises in the decisions by the monetary authorities in Brazil (reduction of 50 bps) and Mexico (no change)**
 - In Brazil, the monetary authority cut the SELIC reference rate by 50 basis points to 10.50%. The decision was in line with expectations. The accompanying statement was the same as the previous one, and highlighted that the adjustments made are consistent with inflation converging with its target this year.
 - In Mexico, Banxico maintained its reference rate at 4.5%, in line with expectations. As at the previous meeting, the message of neutrality leaves room to assess the impact of the different factors on inflation.
- **In November, economic activity expands in Brazil (1.1% m/m) and Peru (5% y/y), while industrial production in Colombia and imports in Peru maintain their levels**
 - The indicator of economic activity in Brazil (IBC-Br) was up 1.1% m/m in November after three successive falls. Leading indicators suggest that the expansion was maintained in December, so the fourth quarter should end with a positive figure. In Peru, the economy grew by 5% y/y in November, mainly due to the sectors linked to strong consumption, such as services and retail trade.
 - In Colombia, industrial production grew 6.5% y/y based on the increment of their exports to neighboring countries and the United States. In Peru imports were up 19.4% y/y, slightly above the rate in the two previous months (average of 18%). Imports of consumer goods and raw materials picked up their pace notably, while imports of capital goods maintained their rate of growth.
- **The labor market in Mexico and Peru gains in strength**
 - In Mexico, the rate of unemployment has moderated in recent months to 4.5%, but it is still above the average rate of 4% before the 2008-2009 crisis. There is no evidence that the rate of underemployment is falling. It now stands at 8.2% of the working population.
 - In Peru, employment in Lima was up 2.3% y/y, with growth of 8.2% in adequate employment, while the level of underemployment fell by 5.2%.
- **In Colombia, the confidence indices show few signs of global turbulence being passed on to domestic demand**
 - In December, consumer confidence was up for the second consecutive month, boosted mainly by the sharp drop in people's fears of losing their jobs. The balance of expectations in construction at the close of 2011 confirmed what had been anticipated by other indicators: the sector was gathering pace by 2012, with a positive impact on formal job creation. However, the index of retailer confidence in November fell marginally, with high inventory levels and a lower level of optimism about sales for the coming six months. Even so, the index remained close to its all-time high.

Calendar of indicators

Argentina: Monthly Manufacturing Indicator (January 24)

Forecast: 2.8% y/y

Consensus: 3.5% m/m

Previous: 4.4% m/m

This slowdown is a result not only of reduced economic activity, but also the higher base of comparison.

Mexico: Monthly Indicator of Economic Activity (January 24)

Forecast: 0.15% m/m

Consensus: N/D

Previous: -0.6% m/m

We expect a slight improvement in the monthly indicator of economic activity, linked to the increase in industrial output, which after the 0.5% fall in October grew by 0.1% in November. Services grew by around 0.2%, so economic activity will have grown by some 0.15%.

Mexico: Bi-weekly inflation (January 24)

Forecast: 0.15% m/m

Consensus: N/D

Previous: -0.6% m/m

Inflation will have fallen in the first two weeks of the year as the downward adjustments in the prices of telephone services offset the pressure from some processed foods and non-core prices.

Note: From now on, this report will be discontinued.

Markets Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates	(changes in bps)	US	3-month Libor rate	0.56	-1	-1	26
			2-yr yield	0.23	0	-4	-38
			10-yr yield	1.96	10	-1	-144
		EMU	3-month Euribor rate	1.20	-4	-22	17
			2-yr yield	0.20	5	-3	-109
			10-yr yield	1.85	9	-8	-132
Exchange rates	(changes in %)	Europe	Dollar-Euro	1.292	1.9	-1.2	-5.2
			Pound-Euro	0.84	0.9	0.3	-1.9
			Swiss Franc-Euro	1.21	0.0	-1.1	-7.5
		America	Argentina (peso-dollar)	4.32	0.2	0.6	8.5
			Brazil (real-dollar)	1.77	-1.2	-5.1	5.2
			Colombia (peso-dollar)	1826	-0.8	-5.5	-0.9
			Chile (peso-dollar)	491	-2.6	-6.2	-0.5
			Mexico (peso-dollar)	13.27	-2.4	-4.2	10.0
			Peru (Nuevo sol-dollar)	2.69	-0.1	-0.1	-2.9
		Asia	Japan (Yen-Dollar)	77.26	0.4	-0.9	-6.4
			Korea (KRW-Dollar)	1134.21	-1.2	-1.2	0.9
			Australia (AUD-Dollar)	1.039	0.6	3.1	5.0
Comm.	(chg %)	Brent oil (\$/b)	111.2	0.7	3.2	13.9	
		Gold (\$/ounce)	1648.8	0.9	2.2	22.7	
		Base metals	532.1	0.9	3.4	-10.8	
Stock markets	(changes in %)	Euro	Ibex 35	8597	1.7	2.6	-20.6
			EuroStoxx 50	2432	4.0	8.4	-18.1
		América	USA (S&P 500)	1315	2.0	5.7	2.4
			Argentina (Merval)	2882	4.7	18.1	-21.0
			Brazil (Bovespa)	61927	4.7	9.3	-10.4
			Colombia (IGBC)	13477	2.7	6.2	-9.9
			Chile (IGPA)	20515	1.2	1.8	-11.0
			Mexico (CPI)	37680	3.1	2.9	1.0
			Peru (General Lima)	21007	2.6	8.5	-3.0
		Venezuela (IBC)	120955	2.8	3.1	83.4	
		Asia	Nikkei225	8766	3.1	3.6	-14.7
			HSI	20110	4.7	9.2	-15.8
Credit	(changes in bps)	Ind.	Itraxx Main	151	-20	-26	52
			Itraxx Xover	646	-81	-128	235
		Sovereign risk	CDS Germany	95	-9	-10	40
			CDS Portugal	1259	170	166	821
			CDS Spain	383	-25	-15	118
			CDS USA	46	-2	-5	---
			CDS Emerging	287	-24	-27	85
			CDS Argentina	797	-91	-172	253
			CDS Brazil	154	-7	-8	45
			CDS Colombia	147	-8	-8	37
			CDS Chile	124	-5	-8	44
			CDS Mexico	148	-5	-7	35
			CDS Peru	175	-8	3	68

Source: Bloomberg and Datastream

Charts

Chart 1
Stock markets (base index Jan09 = 100)

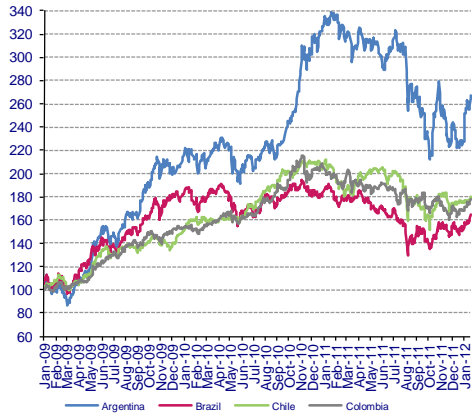


Chart 2
Stock markets (base index Jan09 = 100)

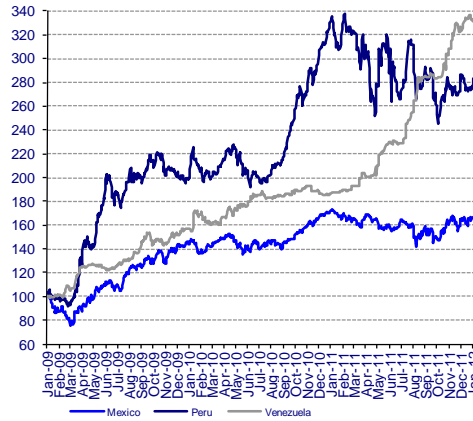


Chart 3
Exchange rates (base index Jan09 = 100)

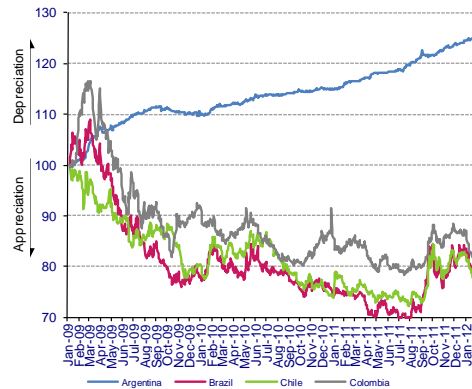


Chart 4
Exchange rates (base index Jan09 = 100)

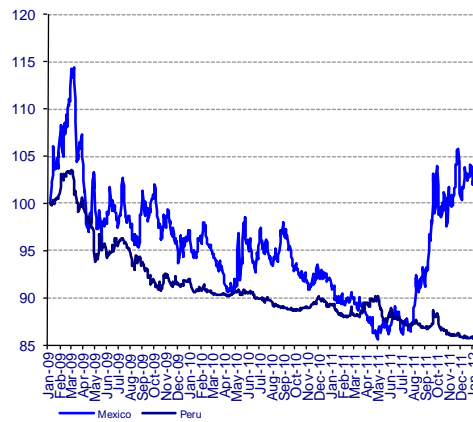


Chart 5
Credit Default Swaps (levels)

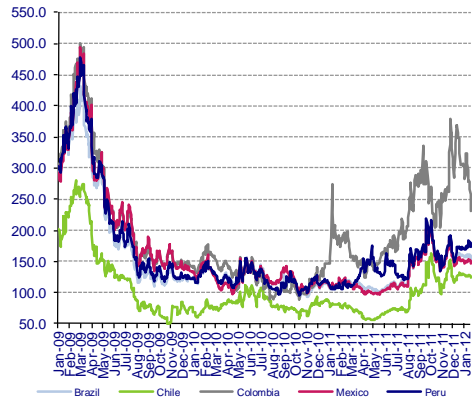
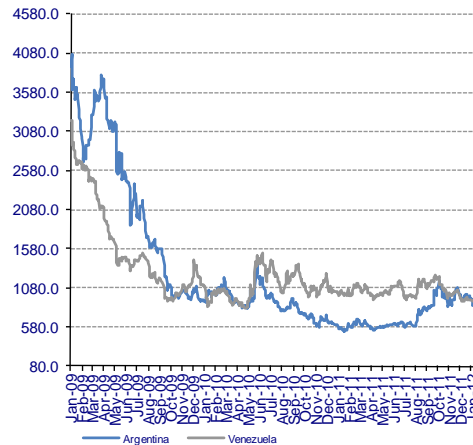


Chart 6
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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