

Weekly Watch

Latin

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Economic Analysis

South America

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Growth and inflation stable

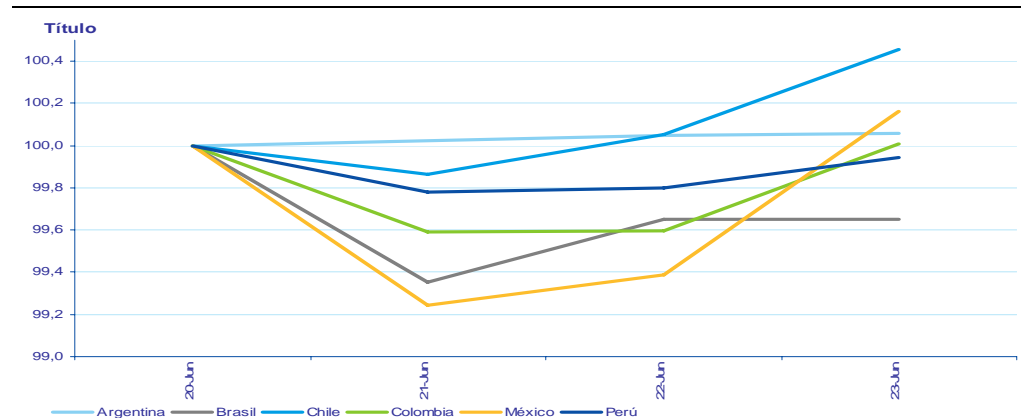
A number of indicators suggest that domestic demand continues to grow strongly and is boosting growth in Argentina, Colombia, Mexico and Peru. Paradoxically, inflation is either not rising or surprisingly even falling (Chile and Mexico this week), although there are worrying signs in the Brazilian labor market. In Argentina, President Cristina Kirchner has announced her decision to seek re-election.

Risk asset sales impact Latin American currencies following the Fed statements

Although chances of a QE3 is limited in the current circumstances, the Fed has revised down U.S. growth, thus injecting greater cyclical risk premiums in the region. This led to currency falls at the end of last week, with the exception of the COP following Colombia's upgrade.

Chart 1

Latam: Weekly exchange rate performance (20-Jun=100)



Source: BBVA Research

Highlights

Indicators reveal the strength of domestic demand

Inflation stable in Mexico and Chile, upward pressure in Brazil and Venezuela

Bank credit remains buoyant in Peru

Slight current account deficit in Argentina in 1Q11

Cristina Kirchner announces she is standing for president

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Markets

The Fed reduces prospects of a new liquidity cycle (QE3), but appetite for risk falls in response to cyclical messages

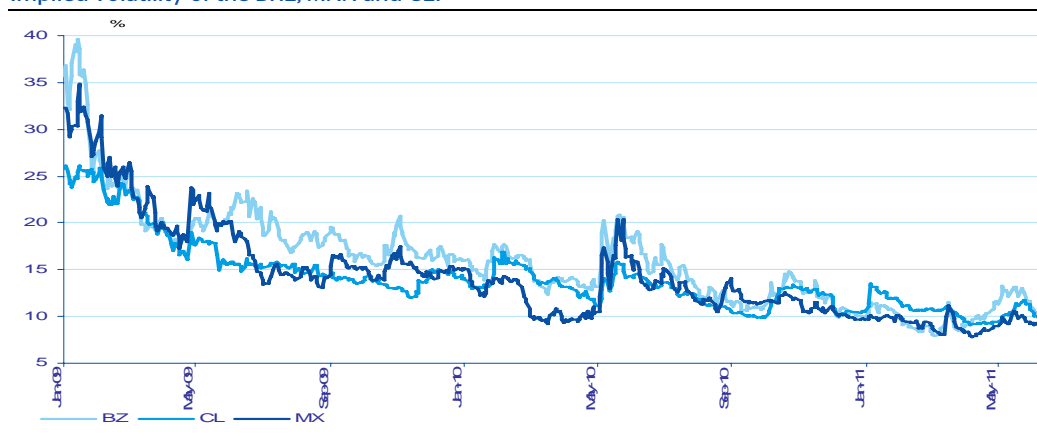
Financial markets continued to await news of the resolution of the Greek crisis, and this time in particular to the monetary message from the Federal Reserve. The Fed's message was slightly milder this time. It revised down its range of growth projections for 2011 and 2012, and slightly raised its forecast of core inflation. It stressed that it is closer to its dual objective (growth-inflation), thus reducing the possibility of an additional quantitative easing (QE3). In contrast, it did not alter its language in terms of maintaining Fed fund rates for an extended period of time, and kept open the possibility of reacting to any economic changes. The global markets reacted with a gradual increase in volatility and increased sales of risk assets.

Limited fluctuation in Latin America at the start of the week, and with a bias towards depreciation following the Fed message

Foreign-currency movements between Latin American countries showed a bias towards appreciation within limited ranges at the start of the week as markets awaited the Fed announcement, and subsequent corrections in reaction to the sale of risk assets. The corrections were most clearly noted in Mexico and Chile, given their exposure to the cyclical weakness mentioned by the Fed. In Brazil, despite the holiday, we expect the BRL to consolidate at 1.59. It should be pointed out that at the start of the week Moody's upgraded Brazil's debt to Baa2, but this had no significant effects on the currency.

In Colombia, the exchange-rate adjustments were affected by the country's upgrade by Fitch Ratings (the third agency to do so) and by the increase in the government's discretionary US dollar purchases.

Chart 2
Implied volatility of the BRL, MXN and CLP



Source: Bloomberg and BBVA Research

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Economic Analysis

Highlights

Indicators reveal the strength of domestic demand

GDP grew in Argentina and Colombia by 9.9% and 5.1% y/y respectively in 1Q11. As in the case in Colombia, in Mexico the main components of growth were expansion in consumption and private investment, which offset the fall in public investment. At the start of 2Q11, the automotive and construction material industries continued to lead the way in manufacturing output in Argentina (May) and Colombia (April). As a result, industrial output rose by 9.1% y/y in Argentina and 2.0% in Colombia.

Inflation stable in Mexico and Chile, upward pressure in Brazil and Venezuela

In Mexico there was a surprising fall in inflation in the first half of June (-0.05%), while in Chile the Central Bank reduced its forecast rate for 2011 from 4.3% to 4%. In Brazil a tight labor market is pushing wages up (1.1% m/m in May) and making it more difficult for inflation to fall soon, while the authorization of a 29% rise in the prices of meat will add 0.7% to July inflation in Venezuela.

Bank credit remains buoyant in Peru

In May, loans to the private sector increased by 21.9% year-on-year, a similar rate to previous months (Apr-11: 22%; Mar-11: 21%). Lending in the mortgage and business sector continues strong.

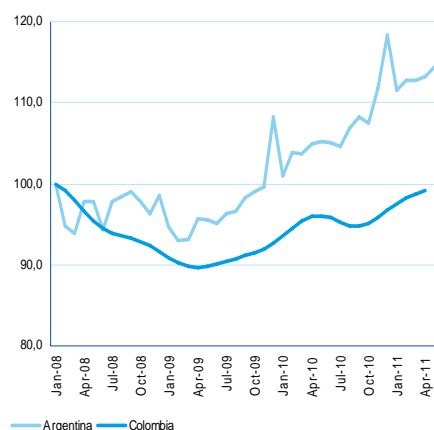
Slight current account deficit in Argentina in 1Q11

The current account in Argentina was slightly in the red by USD 673 million in 1Q11, mainly due to an increased deficit in services. Seasonal factors suggest that there will be surpluses in the coming months, and the year should end with a surplus of 0.5% of GDP.

Cristina Kirchner announces she is standing for president

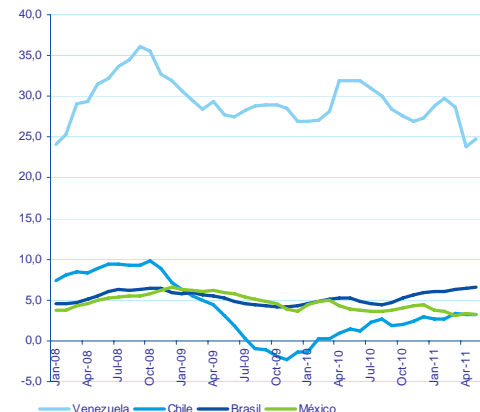
Cristina Kirchner has finally announced that she will run for election in October 2011. Given her highly positive image, this increases the chances of renewed success for the governing FPV party. The markets are discounting the lack of any change in economic policy and there was a minimal increase in 5-year CDS spreads.

Chart 3
Indices of Industrial Production (seasonally-adjusted index Jan08=100)



Source: BBVA Research

Chart 4
Consumer Price Index (% y/y change)



Source: BBVA Research

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Calendar: indicators

Next Week: 27 June - 1 July 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Shopping Center 's Sales	27-Jun	May 2011			31.5% y/y	
Supermarket Sales	30-Jun	May 2011			31.7% y/y	
Public Service's Statistics	30-Jun	May 2011			11.4% y/y	
Synthetic Estimator of Construction Activity	30-Jun	May 2011			9.9% y/y	
Wage Index	1-Jul	May 2011				
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Current Account	27-Jun	May 2011			- \$ 3.488 M	
Credit Data	28-Jun	May 2011				Markets will focus on deceleration signs.
Fiscal Data	30-Jun	May 2011				Main indicator: public sector's primary surplus.
Industrial Production	1-Jul	May 2011			-2.1% M/M	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Sectoral activity indicators	29-Jun	May 2011				
Unemployment rate	30-Jun	May 2011	7.2%		7.0%	We expect a slight rise in the unemployment rate for May
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Urban Unemployment	30-Jun	May 2011	11.8%	11.6%	11.8%	Slow reduction in unemployment rate compared to 2010 levels.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IGAE	28-Jun	Apr 2011	0.9% mom 3.9% yoy	NA	-0.2% mom 3.0% yoy	Economic activity have been moderate in April due to negative effect related to Japan's tsunami and less external demand. Services sector on the other hand maintained its growth however forecast is downwards biased
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	1-Jul	May 2011	8.0%		8.1%	

Source: BBVA Research

Calendar of events

Peru: Inflation of June

Forecast: 0% (m/m)

Consensus:-

Previous: 0% (m/m)

A downward correction on the prices of some foodstuffs (poultry, vegetables) will offset the rise in domestic fuel prices

Calendar of holidays

Chile, Colombia and Venezuela: June 27.

Peru: June 29.

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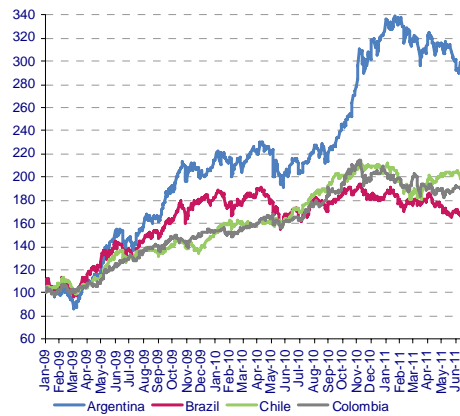
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	-1	-29
		2-yr yield	0.35	-3	-19	-30
		10-yr yield	2.93	-2	-20	-18
		3-month Euribor rate	1.53	2	9	78
	EMU	2-yr yield	1.39	-12	-27	83
		10-yr yield	2.88	-8	-17	27
Exchange rates (changes in %)	Europe	Dollar-Euro	1.420	-0.6	0.7	15.0
		Pound-Euro	0.89	0.6	2.7	8.0
		Swiss Franc-Euro	1.19	-1.6	-3.1	-11.8
		Argentina (peso-dollar)	4.10	0.0	0.3	4.2
	America	Brazil (real-dollar)	1.59	-0.4	-2.2	-10.4
		Colombia (peso-dollar)	1787	0.0	-2.3	-5.9
		Chile (peso-dollar)	474	0.6	0.6	-11.7
		Mexico (peso-dollar)	11.88	-0.4	1.6	-6.4
		Peru (Nuevo sol-dollar)	2.76	-0.1	0.4	-2.4
		Japan (Yen-Dollar)	80.60	0.5	-1.7	-9.8
	Asia	Korea (KRW-Dollar)	1082.50	-0.5	-1.7	-10.5
		Australia (AUD-Dollar)	1.051	-0.9	-0.2	20.7
Comm. (chg %)		Brent oil (\$/b)	107.0	-5.5	-6.9	37.0
		Gold (\$/ounce)	1517.9	-1.4	-0.5	20.9
		Base metals	595.6	-1.0	-1.8	23.4
Stock markets (changes in %)	Euro	Ibex 35	10033	-1.0	-1.8	5.2
		EuroStoxx 50	2767	-0.1	-1.8	5.3
		USA (S&P 500)	1284	0.9	-2.8	19.2
		Argentina (Merval)	3314	1.4	1.0	43.0
	América	Brazil (Bovespa)	61194	0.2	-3.5	-5.6
		Colombia (IGBC)	14215	1.3	0.2	13.5
		Chile (IGPA)	22202	1.1	-2.4	16.4
		Mexico (CPI)	35327	0.9	-0.5	8.3
		Peru (General Lima)	19014	-4.4	-13.6	33.9
		Venezuela (IBC)	80159	-0.9	0.1	23.1
	Asia	Nikkei225	9679	3.5	2.7	-0.6
		HSI	22140	2.1	-2.7	7.0
Credit (changes in bps)	Ind.	Itraxx Main	116	5	13	-11
		Itraxx Xover	426	17	55	-123
		CDS Germany	45	5	5	0
		CDS Portugal	827	36	159	503
	Sovereign risk	CDS Spain	294	5	38	43
		CDS USA	53	2	4	---
		CDS Emerging	233	2	20	-23
		CDS Argentina	641	11	36	-326
		CDS Brazil	118	2	13	-13
		CDS Colombia	114	3	12	-35
		CDS Chile	78	3	9	-21
		CDS Mexico	115	3	12	-13
		CDS Peru	150	0	22	22

Source: Bloomberg and Datastream

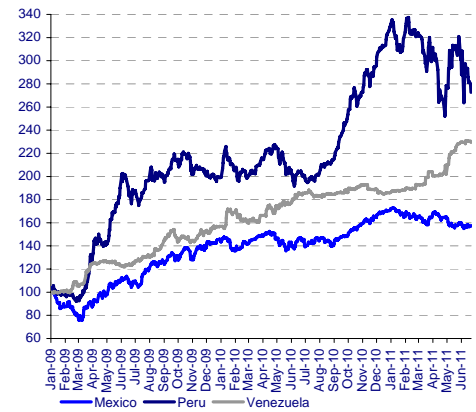
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Chart 4
Stock markets (base index Jan09 = 100)



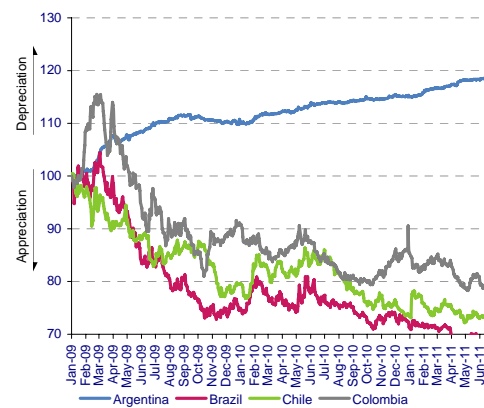
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



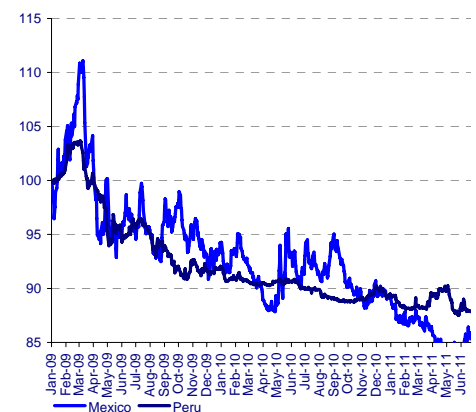
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



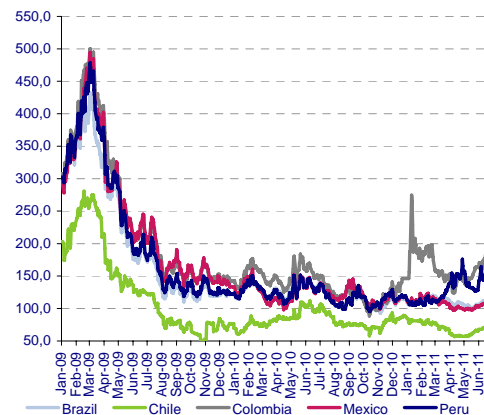
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



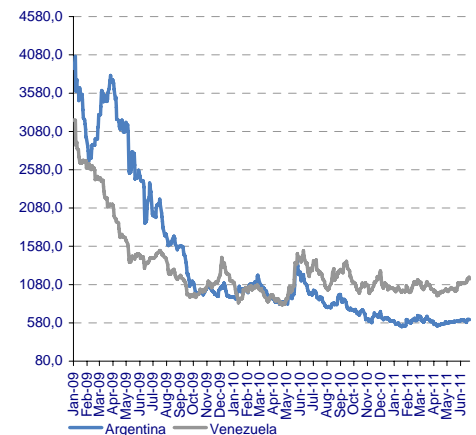
Source: Datastream and BBVA Research

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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