

# Weekly Watch

## Latin

October 24, 2011

### Economic Analysis

#### South America

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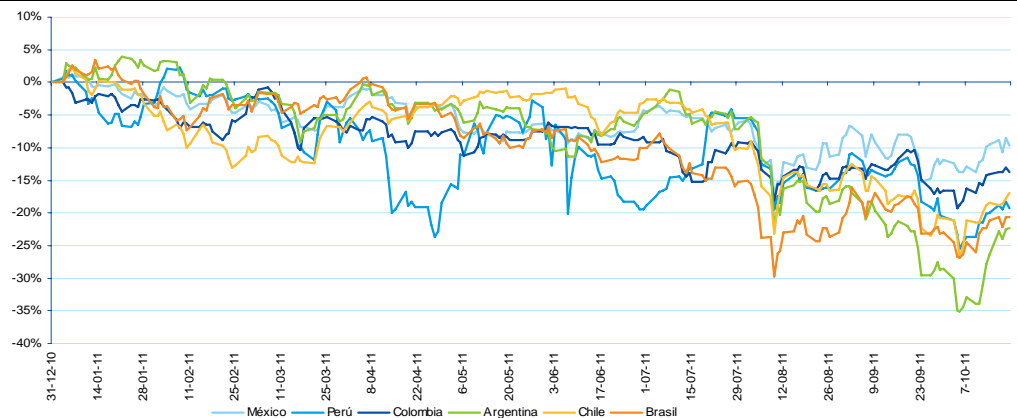
## Tensions increase

After a week in which risk aversion increased as the G20 meeting was drawing closer, with no clear signs of progress, the focus in Latin America turned to Argentina. Although the re-election of President Cristina Fernández with an outright majority in parliament is being taken for granted, there is concern about the growing tensions in the foreign-exchange market and tight liquidity conditions.

### Doubts about the G20 meeting more than counteract the U.S. economic data and corporate reports

Latin American currencies and stock market indices were highly volatile last week and posted losses through Thursday. This was in reaction to a reduction in market optimism with respect to the G20 meeting at the weekend, while the economic figures were not enough to counter risk aversion.

Chart 1  
**LatAm stock market monitor**



Source: Bloomberg

## Highlights

**Financial tensions persist in Argentina**

**Mixed economic data in August**

**Brazil cuts the SELIC rate**

**Credit on the rise in Venezuela in September**

**Underemployment rate falls to 5.3% in Mexico**

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## Economic Analysis

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## Markets

## Risk aversion hits global markets again

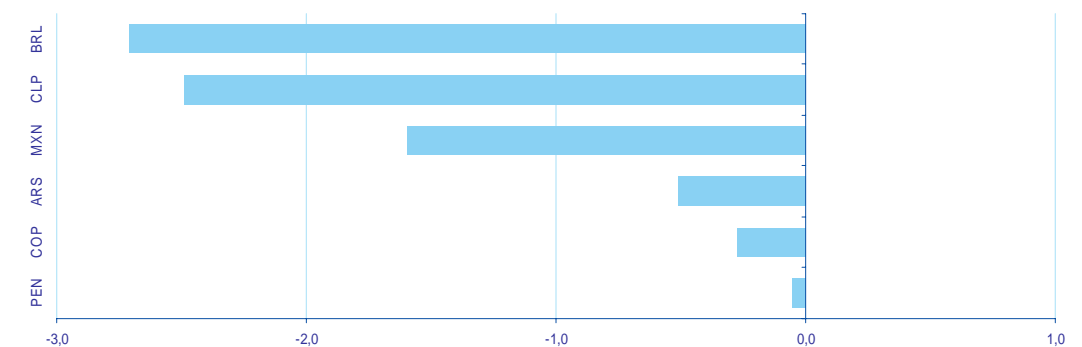
Last week, some key commodity prices (such as copper) and currencies in the region weakened amid high volatility in response to news from the EU. The markets were awaiting the outcome of the G20 meeting, so statements/rumors in Germany and France increased risk aversion. In addition, economic data from the U.S. were mixed and the Fed's Beige Book showed that growth is still only moderate. Finally, although U.S. corporate reports were surprisingly good, they were not sufficient to counter worries about Europe and concerns regarding the banking sector.

Against this background, Latin American currencies lost ground in general by an average of 1.7%. The most affected was the BRL, which was also affected by the 50 bps cut in the SELIC rate. Although the market had already anticipated this cut, expectations remain that upcoming meetings will ease monetary policy still further. The COP, PEN and ARS performed best in relative terms. The COP remains sensitive to global factors, although they are limited by movements in local capital flows; the PEN and ARS are conditioned by the possibility of new (or more aggressive) interventions by their central banks. Finally, the MXN continues to fluctuate in response to factors in Europe and the U.S., although within a more limited range. We expect these movements to remain in place in the short term.

## High volatility on the global stock markets

Stock markets were volatile over the week and extremely sensitive to any comment by the European authorities with respect to measures that could be adopted at the weekend. In this situation, markets in developed countries, particularly Europe, were most vulnerable to corrections, while those in emerging markets performed better, particularly in Asia. The corporate reports have so far been positive in the case of the U.S., although it is still too early to make a final judgment about them. So far, sales are up 7.0% in the U.S. and EPS 15.1%. As we expected, the reports will have little effect on stock markets given the lack of solutions to the sovereign/financial risk situation in Europe. However, they remain in positive territory, which is important as this confirms the support levels that have been in place and tested for some months.

Chart 2  
Weekly changes in LatAm currencies



Source: Bloomberg and BBVA Research

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## Economic Analysis

## Highlights

**Financial tensions persist in Argentina**

Over the week the authorities injected liquidity in pesos into the markets, with the result that by the end of the week they managed to stabilize the Badlar rate at around 20%. However, they had to continue to intervene on the foreign-exchange market and have accumulated sales of USD 1,046 million on the spot market so far in October. Despite this, the peso lost ground slightly.

**Mixed economic data in August**

In Argentina, economic activity as measured by the EMAE indicator was up 0.6% m/m in August (8.6% y/y). This has not offset the seasonal fall in July (down 1.1% m/m) and confirms the slowdown in 3Q11. In Colombia, industrial production was up by 0.4% m/m (9.5% y/y) and retail sales grew by 0.3% m/m (9.7% y/y), thus confirming the good performance of private consumption in 3Q11. In Peru, the monthly indicator of economic activity was up 7.5% in August, boosted by domestic demand, which has found strong support from the increase in workers' income (17.5% y/y in 3Q11). In Mexico, retail sales fell by 0.3 m/m (2.8% y/y), as anticipated by the recent weakness of consumer confidence.

**Brazil cuts the SELIC rate**

As expected, the Central Bank in Brazil cut the SELIC rate by 50 bps to 11.5%. A reference to a "moderate adjustment" was included in the statement issued yesterday and supports our view that the SELIC will be cut by a further 50 bps at the end of November.

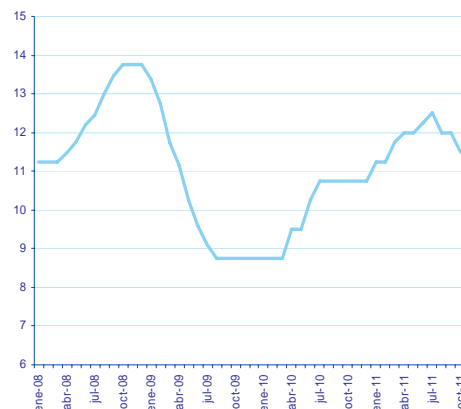
**Credit on the rise in Venezuela in September**

Bank credit was up by 42.9% y/y (3.8% m/m) in September, far above expectations, and closed the quarter with a year-on-year increase of 40.3%. Deposits were up by 39.5% y/y, also an upward surprise.

**The underemployment rate falls to 5.3% in Mexico**

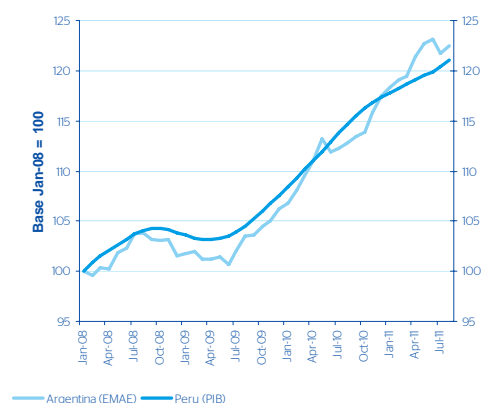
The unemployment rate fell by one decimal point, to 5.3% in September, while underemployment remained just below 9%.

Chart 3  
**Brazil: Selic rate (%)**



Source: Central Bank of Brazil (BCB)

Chart 4  
**Monthly economic activity indices**



Source: BBVA Research

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## Calendar: indicators

Next Week: 24 - 28 October 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Monthly Estimate	25-Oct	Sep 2011	5.6% y/y	7.3% y/y	5.2% y/y	
Shopping Centers' Sale	25-Oct	Sep 2011			44.9% y/y	
Supermarket's Sales	27-Oct	Sep 2011			27.5% y/y	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Current Account	25-Oct	Sep 2011			-\$ 4862 M	
Credit Data	26-Oct	Sep 2011				
COPOM Monetary Policy Meeting	27-Oct	Sep 2011				
Unemployment rate	27-Oct	Sep 2011		6.0%	6.0%	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Actividad Sectorial	28-Oct	Sep 2011				
Employment	28-Oct	Sep 2011	7.2%		7.4%	We expect a further reduction in the unemployment rate that would reach 7.2% due to an increase in employment growth over the workforce.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Intervention rate	28-Oct	Oct 2011	4.5%	4.5%	4.5%	BanRep is alert to deteriorating external environment and its possible impact on the Colombian economy.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IGAE	27-Oct	Aug 2011	-0.3 m/m (3.7% y/y)	NA	0.9 m/m (4.5% y/y)	The drop in industrial production in August will be reflected in less dynamics in the service sector, where we estimate that August will have been (-) 0.4% lower than the previous month. However, the moderation observed comes mainly from external factors.
Trade Balance	25-Oct	Sep 2011	-430 md	NA	-806 md	In September exports and imports kept growing at annual rates close to 20%, however the trade deficit remained close to zero due to the slower recovery of local consumption and investment.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Banking credit (annual variation)	26-Oct	Sep 2011			21.3%	
Public investment (annual variation)	28-Oct	Sep 2011			-26.9%	
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Credit	25-Oct	Sep 2011	42% y/y		40.6% y/y	We expect a faster monthly growth of credit due to seasonal reasons. Thus, we expect real credit to continue the steady growth path that started last April.
Deposits	25-Oct	Sep 2011	37.8% y/y		38.8% y/y	We expect the high monetary component of Public Sector financing will keep deposits growing at the current levels (around 10pp above inflation)

Source: BBVA Research

## Calendar of events

## Peru: Inflation (October 24)

Forecast: 0.47% m/m

Consensus: 0.44% m/m

Previous: 0.25% m/m

Temporary factors are putting upward pressure on prices. Markets will concentrate on core inflation.

## Calendar of holidays

There are no holidays this week in the region.

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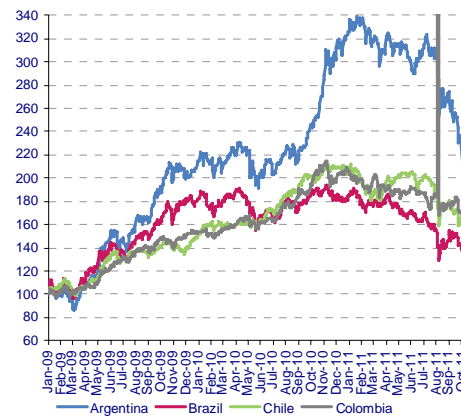
## Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.42	1	6	13
		2-yr yield	0.27	0	7	-8
		10-yr yield	2.17	-7	32	-38
	EMU	3-month Euribor rate	1.58	1	5	56
		2-yr yield	0.59	-7	15	-41
		10-yr yield	2.02	-18	25	-45
Exchange rates (changes in %)	Europe	Dollar-Euro	1.374	-0.8	0.0	-1.3
		Pound-Euro	0.87	-0.7	-0.9	-1.9
		Swiss Franc-Euro	1.23	-1.1	-0.1	-10.1
	America	Argentina (peso-dollar)	4.23	0.4	1.1	7.1
		Brazil (real-dollar)	1.78	2.6	-3.0	4.5
		Colombia (peso-dollar)	1909	0.7	1.6	4.6
		Chile (peso-dollar)	517	3.5	3.5	6.2
		Mexico (peso-dollar)	13.70	3.3	2.0	10.6
		Peru (Nuevo sol-dollar)	2.73	0.2	-1.2	-2.4
	Asia	Japan (Yen-Dollar)	76.71	-0.8	0.5	-5.8
		Korea (KRW-Dollar)	1151.20	-0.5	-0.1	2.1
		Australia (AUD-Dollar)	1.023	-0.6	0.3	4.4
Comm. (chg %)		Brent oil (\$/b)	109.4	-4.6	-0.9	31.8
		Gold (\$/ounce)	1621.3	-3.5	-9.0	22.0
		Base metals	535.6	-0.7	-4.1	-1.9
Stock markets (changes in %)	Euro	Ibex 35	8733	-2.7	6.4	-20.1
		EuroStoxx 50	2296	-2.5	9.4	-20.1
		USA (S&P 500)	1215	-0.8	4.2	2.7
	América	Argentina (Merval)	2738	0.8	4.1	-4.0
		Brazil (Bovespa)	54010	-1.9	-3.5	-22.3
		Colombia (IGBC)	13364	0.1	-2.0	-16.0
		Chile (IGPA)	19618	2.0	0.8	-12.4
		Mexico (CPI)	34396	-1.3	1.1	-2.1
		Peru (General Lima)	18568	-1.7	-6.8	-1.0
		Venezuela (IBC)	103990	3.9	3.3	55.2
	Asia	Nikkei225	8679	-0.8	-0.7	-7.9
		HSI	18026	-2.6	-4.2	-23.4
Credit (changes in bps)	Ind.	Itraxx Main	183	10	-4	84
		Itraxx Xover	757	19	-46	299
		CDS Germany	92	-3	-7	59
	Sovereign risk	CDS Portugal	1122	-21	-19	776
		CDS Spain	388	8	-44	183
		CDS USA	43	-5	-9	---
		CDS Emerging	319	22	-25	110
		CDS Argentina	1003	70	24	263
		CDS Brazil	162	9	-34	63
		CDS Colombia	164	7	-33	62
		CDS Chile	126	1	0	58
		CDS Mexico	158	7	-42	50
		CDS Peru	165	8	-38	62

Source: Bloomberg and Datastream

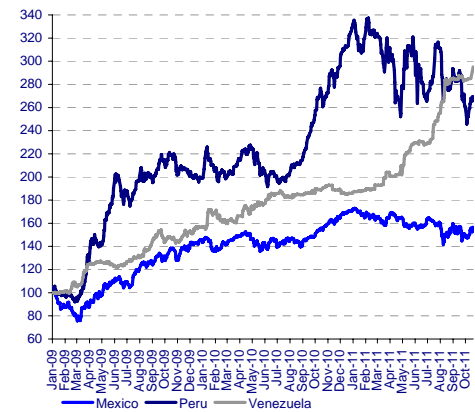
## Charts

Chart 4  
Stock markets (base index Jan09 = 100)



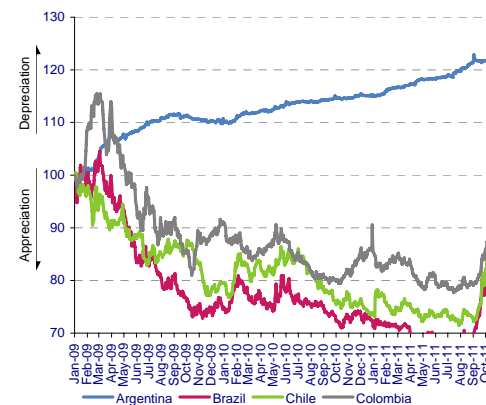
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



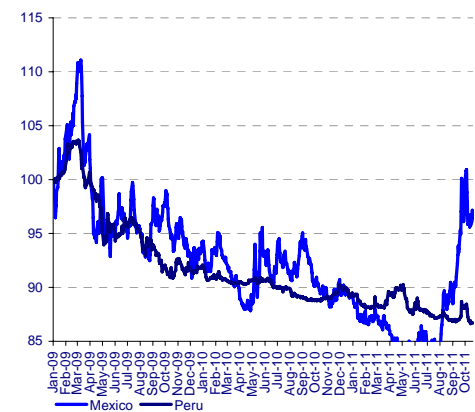
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



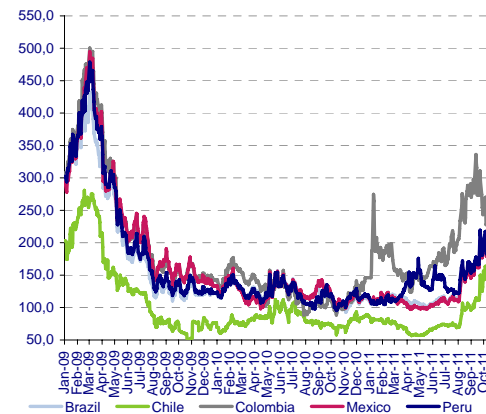
Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



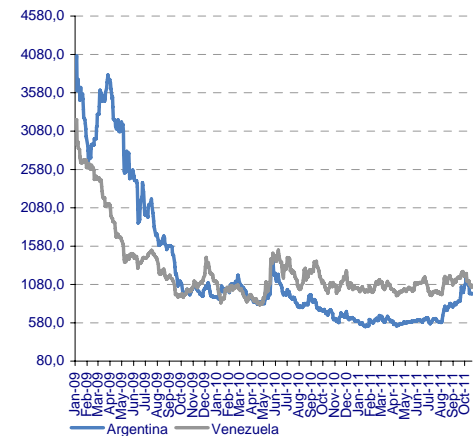
Source: Datastream and BBVA Research

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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