

Latin

Weekly Watch

March 25, 2011

Economic Analysis

South America

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Domestic demand drives growth

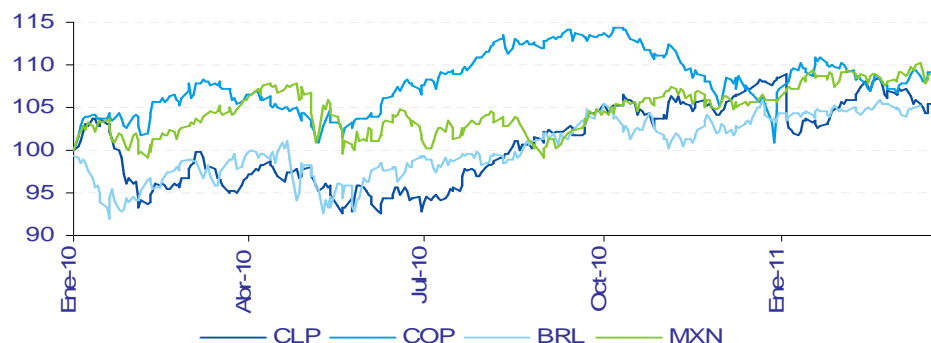
Good economic outlooks in the region with figures higher than those forecast for 1Q10 in Colombia, an upward revision in 2011 and 2012 forecasts from the Central Bank of Peru and dynamic private consumption and public investment in Mexico set to continue in 1Q11. In this dynamic domestic demand scenario, the balance of payments in Brazil deteriorates, fiscal revenue in Peru and Argentina rises and the Ministry of Finance in Chile announces a cut to public spending to contain inflationary pressure.

Appetite for risk despite global uncertainty boosts currencies and equity assets in the region

Uncertainty continued over the week but investor spirits seem to point to contained or already discounted events (Asia, Europe and US cycle). In this sense, share and currency markets in the region came in positive. Although the short-term trend could remain positive, we cannot rule out corrections due to global uncertainty.

Chart 1

Relative performance of Latin American currencies



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



Highlights

Despite global uncertainty continued appetite for risk in the region.

While maintaining strength in Latam currencies.

Demand drives growth in Latam, with positive effects on fiscal accounts and external accounts mixed.

Moody's upgrades Peruvian credit risk perspective.

International inflation forces the government to review the regulated prices of some goods in Venezuela.

Economic Analysis

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Markets

Despite continuing global uncertainty, the appetite for risk on markets continues...

Although risks associated to the Japanese nuclear crisis dissipated somewhat, several risk factors appeared last week on global markets: firstly, the persistent geopolitical tension in Libya; secondly, greater uncertainty regarding the fiscal situation in European periphery nations (i.e. taking into account the Portuguese Congress rejecting the austerity measures and the resignation of Prime Minister José Socrates), and lastly, the flow of below-forecast economic data for the US.

Despite this scenario, the appetite for risk remaining high stands out. This was seen in the rise in stock markets, showing positive changes that corrected the falls seen in previous weeks. On the fixed income securities market, an appetite for risk was seen in the general falls in international debt curves in line with US T-Bills.

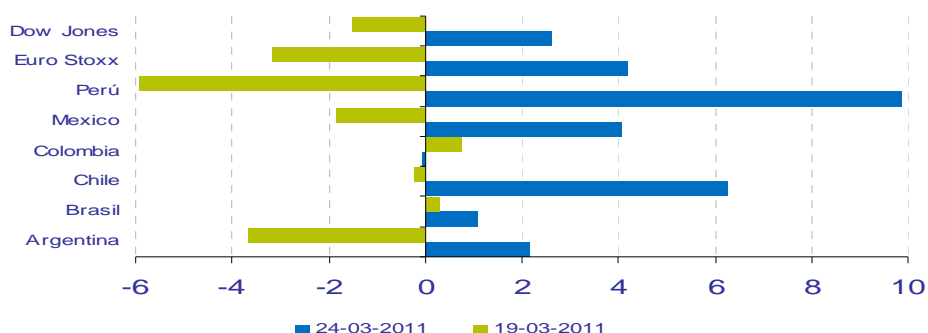
...and LatAm currencies remained strong despite external risk factors

LatAm currencies saw positive moves over the week except for the PEN (which finally incorporated external volatility factors from previous weeks) and the ARS (which continues its gradual depreciation due to Central Bank interventions).

The BRL, COP, CLP and MXN saw significant correlation – something not seen since the beginning of March. In this way, the currencies continue to incorporate a favorable cycle scenario and more restrictive monetary policy outlooks. Although we see the short-term trend remaining positive, we cannot discount short-term corrections due to the aforementioned risk factors on global markets.

Chart 1

Stock markets in Latin America (7-day change)



Highlights



Calendar



Markets Data



Charts



Economic Analysis

Highlights

Demand drives growth in LatAm. In Mexico, 4Q10 GDP growth (4.4% y/y, 1.3% q/q) was based on private spending and public investment while private investment and overseas trade lagged behind. In Colombia, private and public investment led growth of 4.6% y/y (1.9% q/q) in GDP. In Peru, the Central Bank increased its growth outlook for 2011 and 2012 to 7% (previously 6.5%) and 6.5% (previously 6%) respectively due to expected higher private spending.

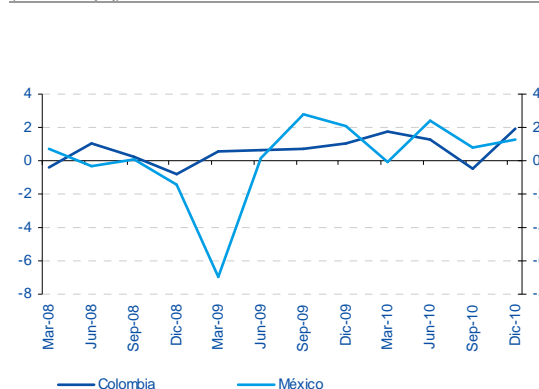
Fiscal improvements in Argentina and Peru and spending cut in Chile. In Argentina, in line with projected primary fiscal surplus registered an increase of 19.4% y / y in February, although this situation is not sustainable in the medium term. In Peru, in a context in which the activity continues to expand at a high rate, tax revenues grew 17.1% yoy real in February. For its part, the Ministry of Finance in Chile announced a spending cut of about 0.4% of GDP, as it seeks to curb inflationary pressures and the appreciation of the peso.

External sector with mixed results in Brazil and Argentina. In Brazil the current account deficit amounted to USD 3.391 million in February, due to the deficit in income and services, pressured by dynamism of domestic demand and the appreciation of exchange rate, more than offset the trade surplus. In Argentina, however, the February trade balance, USD 608 million, was better than expected due to the slowdown in imports and despite the specific factors that lagged exports.

Moody's improves credit risk outlook for Peru. The move from stable to positive is based on forecasts that, in coming years, the economic policies implemented in the last decade will remain in place, favoring growth and continued improvement in the fiscal balance. It should be stated that the intensified process of opening-up the economy is included in these policies. In this sense, the recent signing of a FTA with South Korea stands out.

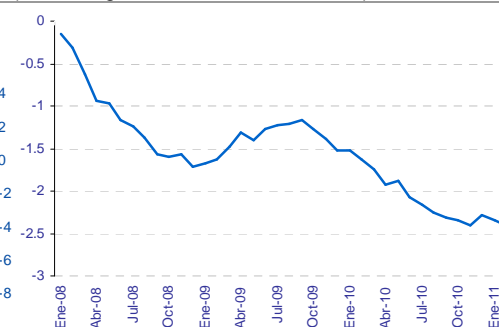
International inflation leads to government revision of administered prices for some goods in Venezuela. The adjustment was applied to wheat-based products (bread and pasta) at between 24 and 33% in response to the upswing in agriculture prices on international markets as well as the devaluation in the exchange rate at the start of the year. We forecast the adjustment to have a 0.4 additional percentage point impact at the most on consumer inflation in April.

Chart 3
Gross Domestic Product
(Var. % q/q)



Source: BBVA Research.

Chart 4
Brazil. Current Account
(Percentage of GDP, Var% 12 month)



Source: BBVA Research.

Markets



Calendar



Markets Data



Charts



Calendar: Indicators

Next Week: 28 march - 01 april 2011

| Argentina | Data | Period | Forecast | Consensus | Previous | Comment |
|-------------------------------------------|------------|----------|----------|-----------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Monthly Economic Activity Estimator | 28/3/2011 | January | 7,8% y/y | 8,2% y/y | 9,4% y/y | Strong growth by high performance of the demand. |
| Shopping center's sales | 29/3/2011 | February | | | 34,0% y/y | |
| Supermarket's sales | 30/3/2011 | February | | | 27,9% y/y | |
| Public Services Statistic | 31/3/2011 | February | | | 12,1% y/y | |
| Construction synthetic activity indicator | 31/3/2011 | February | | | 11,6% y/y | |
| Wages Index | 4-Jan | February | | | 26,8% y/y | |
| Brazil | Data | Period | Forecast | Consensus | Previous | Comment |
| Credit data | 29/03/2011 | February | | | | More evidence of credit moderation is expected given the recent monetary tightening measures. Market will focus on federal government expenditures. Some slow down is expected. |
| Fiscal data | 30/03/2011 | February | | | | |
| Industrial production | 4-Jan | February | | 1.0% m/m | 0.2% m/m | |
| Trade balance | 4-Jan | March | | | \$1.199M | |
| Chile | Data | Period | Forecast | Consensus | Previous | Comment |
| Unemployment rate | 30-Mar | February | 7.5% | | 7.3% | |
| Sectoral Activity | 31-Mar | February | | | | |
| Colombia | Data | Period | Forecast | Consensus | Previous | Comment |
| Unemployment rate | 31-Mar | February | 12.8% | 12.7% | 14.7% | Better performance of the industry will continue promoting the creation of formal employment. |
| Peru | Data | Period | Forecast | Consensus | Previous | Comment |
| Inflation (mom % change) | 1-Apr | March | 0.6% | | 0.4% | Inflation would accelerate due to price increases in specific foodstuff and to higher demand of some goods and services related to the beginning of the school year |

Source: BBVA Research

Calendar: holidays

No holidays in the region.



Markets

Highlights

Market Data

Charts

Market data

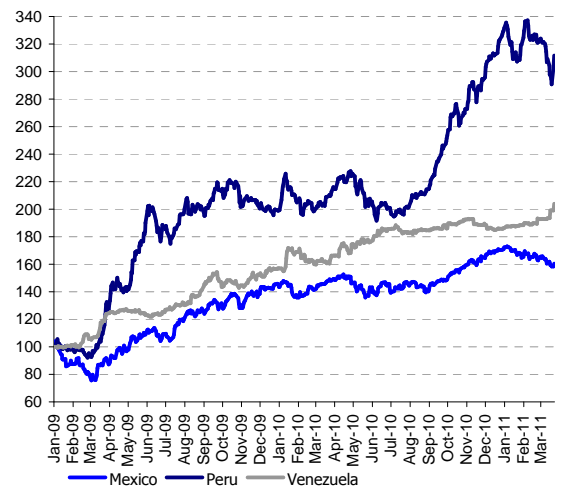
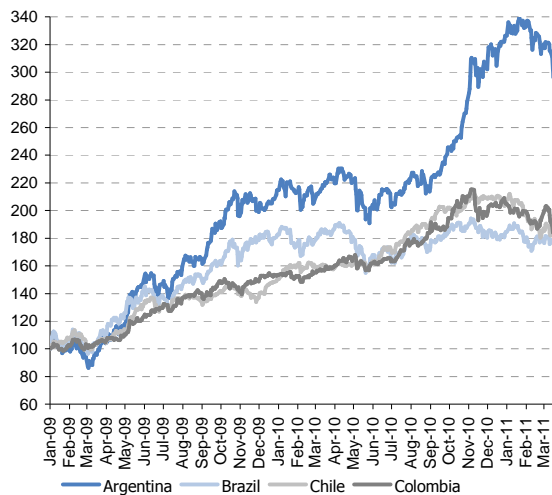
| | | | Close | Weekly change | Monthly change | Annual change |
|---------------------------------------|----------------|-------------------------|---------|------------------|-------------------|------------------|
| Interest rates (changes in bps) | US | 3-month Libor rate | 0.31 | 0 | 0 | 2 |
| | | 2-yr yield | 0.69 | 11 | -5 | -35 |
| | | 10-yr yield | 3.40 | 13 | -9 | -45 |
| | EMU | 3-month Euribor rate | 1.20 | 3 | 11 | 56 |
| | | 2-yr yield | 1.71 | 8 | 16 | 71 |
| | | 10-yr yield | 3.27 | 8 | 13 | 12 |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.416 | 0.0 | 3.0 | 5.7 |
| | | Pound-Euro | 0.88 | 0.9 | 3.8 | -2.1 |
| | | Swiss Franc-Euro | 1.29 | 1.4 | 1.0 | -9.4 |
| | America | Argentina (peso-dollar) | 4.04 | 0.1 | 0.3 | 4.6 |
| | | Brazil (real-dollar) | 1.66 | -0.6 | -0.9 | -9.2 |
| | | Colombia (peso-dollar) | 1865 | -0.5 | -1.7 | -3.7 |
| | | Chile (peso-dollar) | 480 | -0.6 | 0.9 | -9.8 |
| | | Mexico (peso-dollar) | 11.96 | -0.8 | -2.1 | -4.6 |
| | | Peru (Nuevo sol-dollar) | 2.78 | 0.5 | -0.2 | -2.0 |
| | Asia | Japan (Yen-Dollar) | 81.20 | 0.4 | -1.4 | -12.3 |
| | | Korea (KRW-Dollar) | 1113.10 | -1.1 | -1.5 | -2.6 |
| | | Australia (AUD-Dollar) | 1.023 | 2.6 | 2.4 | 13.7 |
| Commodities (changes in %) | | Brent oil (\$/b) | 115.6 | 1.5 | 3.9 | 45.8 |
| | | Gold (\$/ounce) | 1433.2 | 1.0 | 1.5 | 29.4 |
| | | Base metals | 622.4 | 0.7 | 1.2 | 24.1 |
| Stock markets (changes in %) | Europe | Ibex 35 | 10761 | 4.2 | 1.2 | -2.8 |
| | | EuroStoxx 50 | 2917 | 4.5 | -1.3 | -0.8 |
| | | USA (S&P 500) | 1310 | 2.4 | 0.2 | 12.3 |
| | America | Argentina (Merval) | 3349 | 2.2 | -2.3 | 39.4 |
| | | Brazil (Bovespa) | 67533 | 1.0 | 0.9 | -1.7 |
| | | Colombia (IGBC) | 14667 | 0.1 | 0.4 | 22.6 |
| | | Chile (IGPA) | 21749 | 5.3 | 5.4 | 23.7 |
| | | Mexico (CPI) | 36872 | 4.1 | 1.1 | 11.2 |
| | | Peru (General Lima) | 22558 | 10.1 | -0.3 | 50.6 |
| | Asia | Venezuela (IBC) | 71588 | 2.5 | 5.6 | 22.7 |
| | | Nikkei225 | 9536 | 3.6 | -9.9 | -13.3 |
| | | HSI | 23159 | 3.8 | 1.1 | 10.0 |
| Credit (changes in bps) | Ind. | Itraxx Main | 101 | 2 | -1 | 23 |
| | | Itraxx Xover | 381 | -9 | -24 | -50 |
| | Sovereign risk | CDS Germany | 45 | 0 | -8 | 16 |
| | | CDS Portugal | 561 | 62 | 85 | 430 |
| | | CDS Spain | 218 | 4 | -46 | 113 |
| | | CDS USA | 42 | 0 | -5 | --- |
| | | CDS Emerging | 211 | -5 | -20 | -23 |
| | | CDS Argentina | 602 | -40 | -69 | -302 |
| | | CDS Brazil | 115 | -2 | -7 | -17 |
| | | CDS Colombia | 115 | -3 | -8 | -38 |
| | | CDS Chile | 66 | -5 | -17 | -13 |
| | | CDS Mexico | 109 | -2 | -10 | -8 |
| | | CDS Peru | 126 | 7 | 9 | -4 |

Source: Bloomberg and Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)

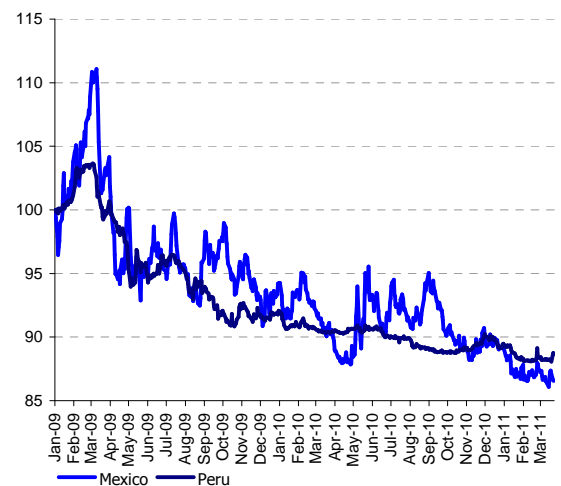
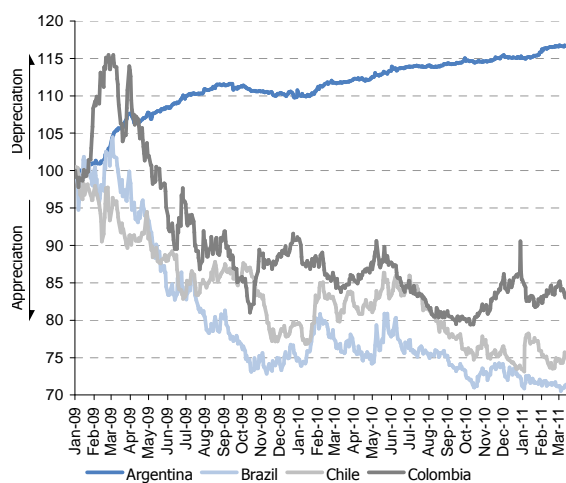


Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)

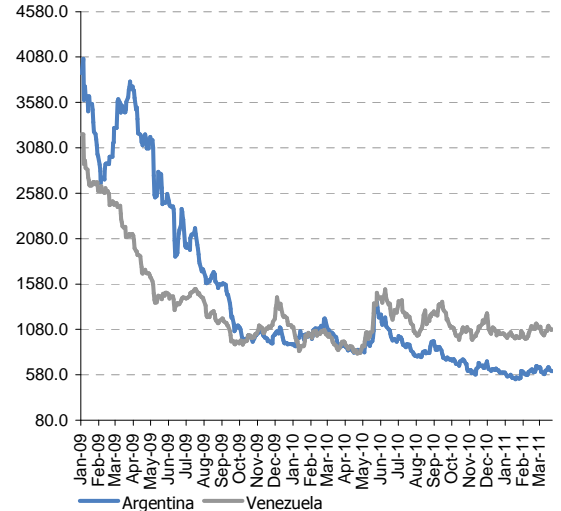


Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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