

Latin Weekly Observatory

June 25th, 2010

Economic Analysis

South America

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Markets
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LatAm pushes forward on the back of domestic demand

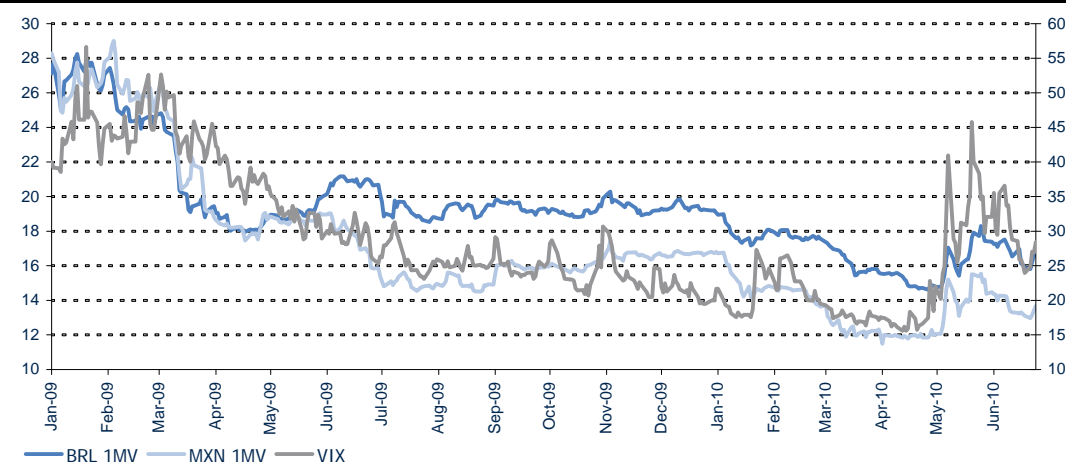
Imports data from Argentina, Brazil and Chile confirm strong growth of domestic demand in the region. Lending continued to grow in Brazil in May (19% y/y). Also Colombian GDP (4.4% y/y, 1.3% q/q) beat expectations due to robust expansion of domestic demand. Argentina completed with a 66% acceptance rate the debt swaps with holdouts, beating expectations, while en Venezuela Cadivi increased access to formal exchange rate market in May by 59.2% y/y. Mexico's GDP fell -0.3% q/q (4.4% y/y), as a result of a drop in private consumption and public sector investment. Chile announced new local issue of sovereign long-term debt for value equivalent to 3 billion dollars.

Positive outlook for Latin American currencies, despite the uncertain international environment.

Uncertainty about European economies added to jitters about U.S. recovery, and fears surrounding appreciation of the Chinese Yuan; however, domestic factors in each economy prevailed and contributed to strengthening the region's currencies.

Chart 1

VIX vs. Implied MXN and BRL volatility



Source: Bloomberg and BBVA Research

Markets

Highlights

Calendar

Market data

Highlights

Imports in the region remain highly dynamic

Brazil: Credit gathers pace in spite of higher interest rates

Argentina: Successful debt swap

Venezuela: Cadivi increases daily allocations in May

Peru: Increase in Reserve requirements

Diverging growth rates in Colombia and Mexico.

Market analysis

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Positive bias for Latin American currencies, despite uncertainty in the U.S. and Europe.

Over the past week, the market focused not only on the fiscal situation of European Union countries but also on global cycle factors (strength of the U.S. recovery, and the announcement of the Federal Open Market Committee), as well as China's exchange rate policy amid expectations that an appreciation of the Yuan will fortify the competitive position of Latin American economies.

Locally, we expect the COP to continue with a positive bias resulting from potentially greater Government monetizations versus an increase in external debt issue, given the favorable outlook for economic growth and that the Bank of the Republic is not extending its dollar purchases (range between 1880 and 1922). As for the PEN, we expect stability at around 2.83 due to dollar purchases and reserves measures adopted by the Central Bank, in addition to caps on foreign investment for pension funds.

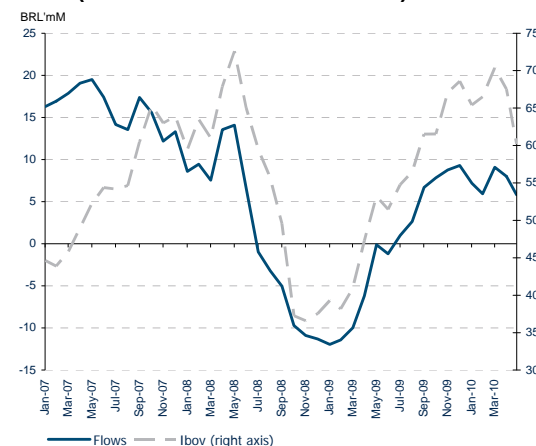
As for the Chilean currency (CLP), we expect a correction of last week's fall and consolidation at around 530 levels. The latter in response to the prospect of a more stable external environment, and positive domestic cycle forecasts. The market expects industrial output growth of 5%, which would add to retail sales growth figures of 18% in May released by the Chamber of Commerce.

Petrobras placement delay may slow capital inflows into the region

The highlight in equity markets was Petrobras's unexpected announcement to defer its stock offering to September, because it requires a second appraisal by an independent institution. This placement delay may weigh on Brazil's market, given excess shares generated by offer and the fact that some funds will keep liquidity back to take part in the issue, thus detracting resources not only from Brazil, but also other markets in the region. Given the above, the margin for appreciation of the Brazilian real is limited to the region of around 1.75 in the short term.

Chart 2

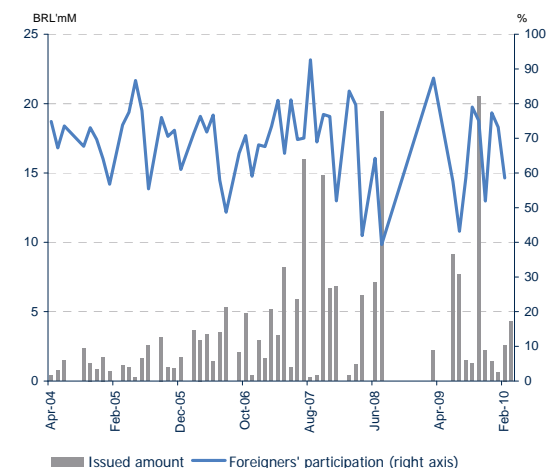
Net foreign transactions at the Bovespa vs. IBOV (accrued balance since 1994)



Source: Bovespa and BBVA Research

Chart 3

Net foreign participation in Bovespa vs.



Source: Bovespa and BBVA Research

Economic Analysis

Highlights

Imports in the region remain highly dynamic

Annualized imports growth figures of 72%, 52.3% and 70.6% registered in Argentina, Brazil and Chile, respectively, are proof that expenditure is recovering rapidly in these countries.

Brazil: Credit gathers pace in spite of higher interest rates

The credit stock grew 19.0% y/y in May, and reached 45.3% of GDP. While the credit expansion was widespread, public sector (31% y/y) and real estate sector figures (50.6% y/y) were the highlights. This happened in spite of a recent increase in interest rates and spreads.

Argentina: Successful debt swap

Debt swap offer ended with a 66% acceptance rate, exceeding the 60% floor expected by the Ministry of Economy, although this was lower than initial expectations. Debt restructuring with the Paris Club for approximately USD 6.5 billion is still pending, and approximately USD 3 billion still remains in the hands of investors that are pursuing legal action through the courts of New York, and they block immediate access to international credit markets at reasonable rates.

Venezuela: Cadivi increases daily allocations in May

Daily total Cadivi authorizations to access the formal exchange market totaled USD 150m (59.2% y/y), an amount significantly higher than daily allocations in the first quarter of the year (USD 101m). This has been supplemented by progressive increases in amounts traded under the band-based system, which is about USD 40 million daily.

Peru: Reserves are on the rise

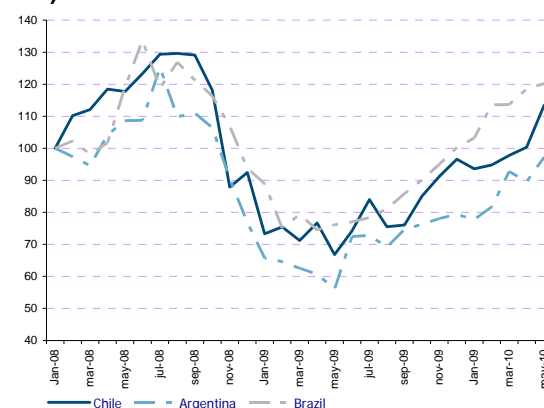
The Central Bank raised reserve requirements for domestic and foreign currency, in a context where strengthening pressures on the PEN are increasing. It is noteworthy that this institution resumed dollar purchases last week, after staying away from the currency markets since April.

Diverging growth in Colombia and Mexico.

Colombia's GDP grew by 1.3% q/q (4.4% y/y) in 1Q10, exceeding expectations, as a result of a stronger final consumption (1.2% q/q) and good investment performance due to a sharp increase in public investment. Though the Mexican economy grew at the same annual rate, GDP fell -0.3 % q/q, as a result of drops in both private consumption (-0.1% q/q) and public sector investment (-0.2% q/q).

Chart 4

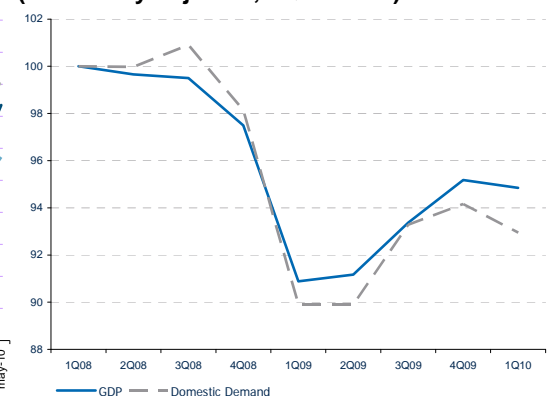
Import Index (seasonally adjusted, Jan 08 = 100)



Source: BCCH and BBVA Research

Chart 5

Mexico: GDP and domestic demand (seasonally adjusted, 1Q08 = 100)



Source: BBVA Research

Calendar: indicators

| Argentina | Data | Period | Forecast | Consensus | Previous | Comment |
|--|--------|-------------|-----------|-----------|-------------------|--|
| Shopping center sales | 28-Jun | May 2010 | | | 41,9% y/y | |
| Supermarket sales | 29-Jun | May 2010 | | | 23,7% y/y | |
| Synthetic Indicator of Construction Activity | 29-Jun | May 2010 | | | 12,6% y/y | |
| Public Service's Statistics | 30-Jun | May 2010 | | | 10,0% y/y | |
| Brazil | Data | Period | Forecast | Consensus | Previous | Comment |
| Fiscal Accounts | 30-Jun | May 2010 | | | | Stronger revenues could drive an improvement in public accounts. |
| Industrial Production | 1-Jul | May 2010 | | | -0.7% m/m | Monthly recovery is expected after last month's correction. |
| Trade Balance | 1-Jul | June 2010 | | | R\$ 3443 millions | Both exports and imports to remain strong, but trade balance will hardly be as positive as in May |
| Chile | Data | Period | Forecast | Consensus | Previous | Comment |
| Industrial Production | 30-Jun | May 2010 | 5% y/y | | -1.3% y/y | |
| Unemployment rate | 30-Jun | March-May10 | 8.8% | | 8.6% | |
| Colombia | Data | Period | Forecast | Consensus | Previous | Comment |
| Unemployment rate | 30-Jun | May 2010 | 0.12 | N.A. | 0.124 | Lower labor market participation would drive fall in unemployment rate |
| Monthly inflation | 3-Jul | June 2010 | 0.17% m/m | 0.12% m/m | 0.10% m/m | Food prices could show upward correction after low figure in May |
| Mexico | Data | Period | Forecast | Consensus | Previous | Comment |
| IGAE | 28-Jun | Abril 2010 | 4.5 | N.A. | 6.9 | -1.42 m/m |
| Peru | Data | Period | Forecast | Consensus | Previous | Comment |
| Monthly Inflation | 1-Jul | June 2010 | 0.2% | | 0.2% | The result is explained mainly by an increase in the food prices (vegetables) |
| Venezuela | Data | Period | Forecast | Consensus | Previous | Comment |
| Unemployment rate | 30-Jun | 40308 | 8.6% | N.A. | 8.2% | We forecast an increase at the unemployment rate, mainly due to the bad automotive industry figures and the extension of the electricity crisis. |

Source: BBVA Research

Calendar: holidays

Chile and Venezuela: June 28.

Peru: June 29.

Table 1

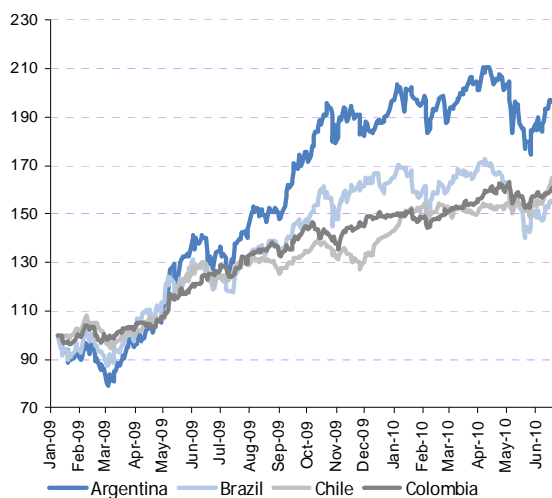
Market movements

| | | | Close | Weekly change | Monthly change | Annual change |
|------------------------------------|----------------|-------------------------|-------|---------------|----------------|---------------|
| Interest rates (changes in bps) | US | 3-month Libor rate | 0.53 | 0 | 0 | -6 |
| | | 2-yr yield | 0.66 | -5 | -22 | -45 |
| | | 10-yr yield | 3.11 | -11 | -25 | -42 |
| | EMU | 3-month Euribor rate | 0.75 | 2 | 5 | -37 |
| | | 2-yr yield | 0.56 | -2 | 2 | -76 |
| | | 10-yr yield | 2.61 | -12 | -10 | -79 |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.230 | -0.5 | -0.4 | -12.7 |
| | | Pound-Euro | 0.82 | -1.5 | -3.1 | -3.5 |
| | | Swiss Franc-Euro | 1.35 | -1.7 | -5.3 | -11.5 |
| | America | Argentina (peso-dollar) | 3.93 | 0.2 | 0.5 | 3.5 |
| | | Brazil (real-dollar) | 1.78 | 0.7 | -2.3 | -8.3 |
| | | Colombia (peso-dollar) | 1900 | -0.5 | -3.5 | -11.8 |
| | | Chile (peso-dollar) | 537 | 0.5 | 1.4 | 1.4 |
| | | Mexico (peso-dollar) | 12.71 | 1.4 | -1.3 | -3.8 |
| | | Peru (Nuevo sol-dollar) | 2.83 | -0.1 | -0.8 | -6.1 |
| | | | | | | |
| | Asia | Japan (Yen-Dollar) | 89.27 | -1.6 | -1.6 | -6.2 |
| | | Korea (KRW-Dollar) | 1210 | 0.6 | 0.3 | -5.6 |
| | | Australia (AUD-Dollar) | 0.866 | -0.4 | 2.2 | 7.2 |
| Comm. (changes in %) | | Brent oil (\$/b) | 76.9 | -1.6 | 3.0 | 11.6 |
| | | Gold (\$/ounce) | 1253 | -0.3 | 3.3 | 33.4 |
| | | Base metals | 480.5 | 0.8 | -0.1 | 19.5 |
| Stock markets (changes in %) | Euro. | Ibex 35 | 9632 | -3.4 | 3.2 | -0.6 |
| | | EuroStoxx 50 | 2645 | -3.4 | 1.0 | 10.7 |
| | | | | | | |
| | America | USA (S&P 500) | 1073 | -4.0 | -2.8 | 16.7 |
| | | Argentina (Merval) | 2301 | -0.8 | 5.7 | 45.6 |
| | | Brazil (Bovespa) | 64111 | -0.5 | 3.3 | 24.5 |
| | | Colombia (IGBC) | 12483 | -0.1 | 3.1 | 27.4 |
| | | Chile (IGPA) | 18923 | -0.6 | 6.1 | 27.7 |
| | | Mexico (CPI) | 32321 | -1.5 | 0.8 | 32.1 |
| | | Peru (General Lima) | 14118 | -1.6 | -3.6 | 7.0 |
| | | Venezuela (IBC) | 64578 | -0.8 | 4.6 | 47.1 |
| | Asia | Nikkei225 | 9737 | -2.6 | 1.0 | -1.4 |
| | | HSI | 20691 | 2.0 | 6.5 | 11.2 |
| Credit (changes in bps) | Ind. | Itraxx Main | 129 | 12 | 12 | 9 |
| | | Itraxx Xover | 558 | 38 | -2 | -186 |
| | | | | | | |
| | Sovereign risk | CDS Germany | 43 | 5 | 1 | 8 |
| | | CDS Portugal | 323 | 34 | 4 | 246 |
| | | CDS Spain | 266 | 55 | 31 | 173 |
| | | CDS USA | 37 | 1 | -2 | --- |
| | | CDS Emerging | 263 | 11 | -11 | -147 |
| | | CDS Argentina | 974 | -21 | -248 | -1349 |
| | | CDS Brazil | 135 | 7 | 0 | -48 |
| | | CDS Colombia | 153 | 5 | -10 | -61 |
| | | CDS Chile | 99 | 5 | -3 | -29 |
| | | CDS Mexico | 132 | 8 | -1 | -86 |
| | | CDS Peru | 133 | 9 | 1 | -52 |

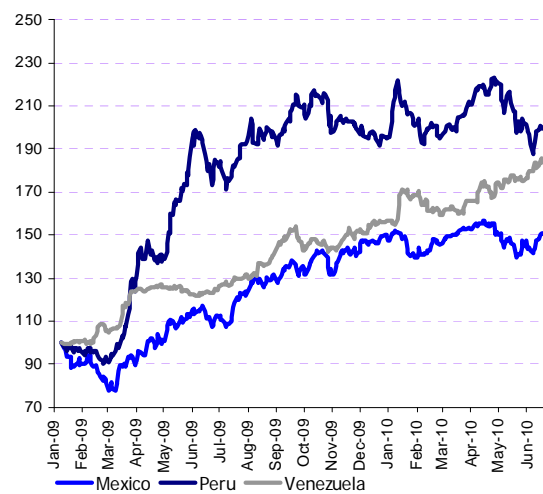
Source: Bloomberg, Datastream and JP Morgan

Charts 6 & 7

Stock exchanges (base index Jan09=100)



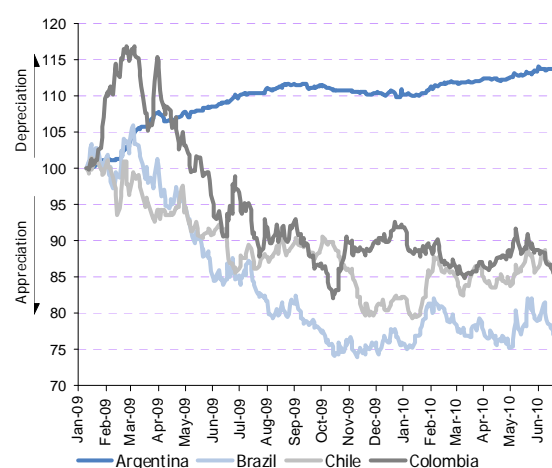
Source: Bloomberg



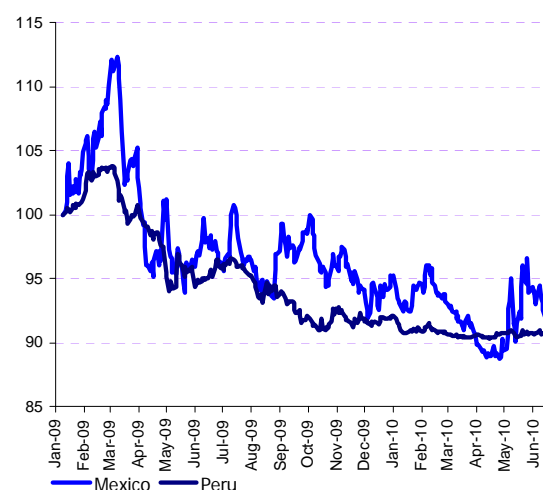
Source: Bloomberg

Charts 8 & 9

Exchange rates (base index Jan09=100)



Source: Bloomberg



Source: Bloomberg

Charts 10 & 11

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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