

Latin

# Weekly Observatory

November 26, 2010

Economic Analysis

**South America**

**Joaquín Vial**  
jvial@bbvaprovida.cl

**Enestor Dos Santos**  
enestor.dossantos@grupobbva.com

**Myriam Montañez**  
miriam.montanez@grupobbva.com

**Argentina: Gloria Sorensen**  
gsorensen@bancofrances.com.ar

**Chile: Alejandro Puente**  
apuente@grupobbva.cl

**Colombia: Juana Téllez**  
juana.tellez@bbva.com.co

**Mexico: Julián Cubero**  
juan.cubero@bbva.bancomer.com

**Peru: Hugo Perea**  
hperea@grupobbva.com.pe

**Venezuela: Oswaldo López**  
oswaldo.lopez@pronvincial.com

**Markets**  
**Octavio Gutiérrez Engelmann**  
o.gutierrez3@bbva.bancomer.com

## Assistance of IMF to create a national CPI in Argentina

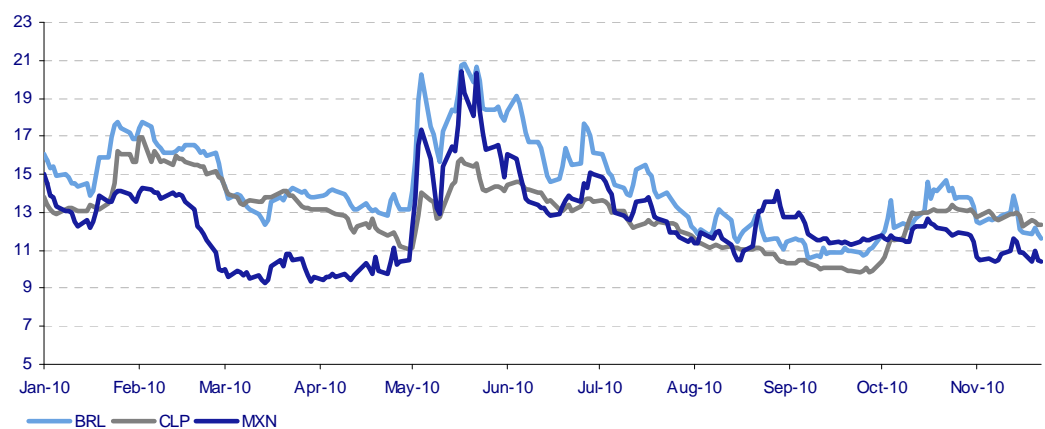
Data released this week on economic activity show economic growth moderating in 3Q10 in Argentina and Mexico, while the most recent data for October reveal growth in credit and confidence in Peru. This strength has also been reflected in falling unemployment in Argentina and Brazil. In addition, the markets have welcomed Argentina's request to the IMF to construct a new general CPI, although they are still waiting for what will actually occur. This week saw the unveiling of Rousseff's new economic team in Brazil, while the Central Bank of Mexico announced it would maintain the lending rate at 4.5%, thus consolidating the prolonged monetary pause, which we expect will be in place until 2012.

## European risk premium impacts the markets in the region

Last week the behavior of most Latin American assets was once more determined by risk premiums in Europe and economic data from the U.S. The markets registered high levels of volatility but closed the week without significant changes on last Friday. In our opinion the broad operating ranges could be repeated over the coming sessions, but we maintain our favorable perspective for the zone.

Chart 1

### Implied volatilities of reference LatAm currencies (%)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



## Highlights

**Indicators of economic activity moderate in Mexico and Argentina and gain strength in Peru.**

**Unemployment down in Argentina and Brazil, but it increases in Mexico**

**Mixed results for foreign accounts in October**

**Argentina asks the IMF for technical assistance to construct a national CPI**

**New economic team in Brazil**

**Venezuela: stock exchanges must sell government securities in USD**

## Economic Analysis

**Octavio Gutiérrez Engelmann**  
o.gutierrez3@bbva.bancomer.com

*Equity Latam*  
Chief Analyst  
**Rodrigo Ortega**  
r.ortega@bbva.bancomer.com

*Credit Mexico*  
Chief Analyst  
**Edgar Cruz**  
edgar.cruz@bbva.bancomer.com

*FX Latam*  
Chief Analyst  
**Moisés Junca, CFA, CMT**  
moises.junca@bbva.bancomer.com

**Claudia Ceja**  
claudia.ceja@bbva.bancomer.com

## Markets

### Another week of volatility on the foreign-exchange markets

Last week the global foreign exchange markets were once more characterized by a high level of volatility. The combination of factors derived from the European risk premiums and geopolitical conflicts in Asia led to a major depreciation of most of the crosses. This was corrected starting on Wednesday on news of the favorable employment data from the U.S. and reduced uncertainty with respect to the restructuring of the Irish budget. It is important to note that despite the movements in recent days, implied volatilities remained without significant changes and even registered weekly falls of the order of 0.3 vegas at the close. Although the operating ranges will continue to be determined by risk premiums, we maintain our forecast of appreciation towards the end of the year.

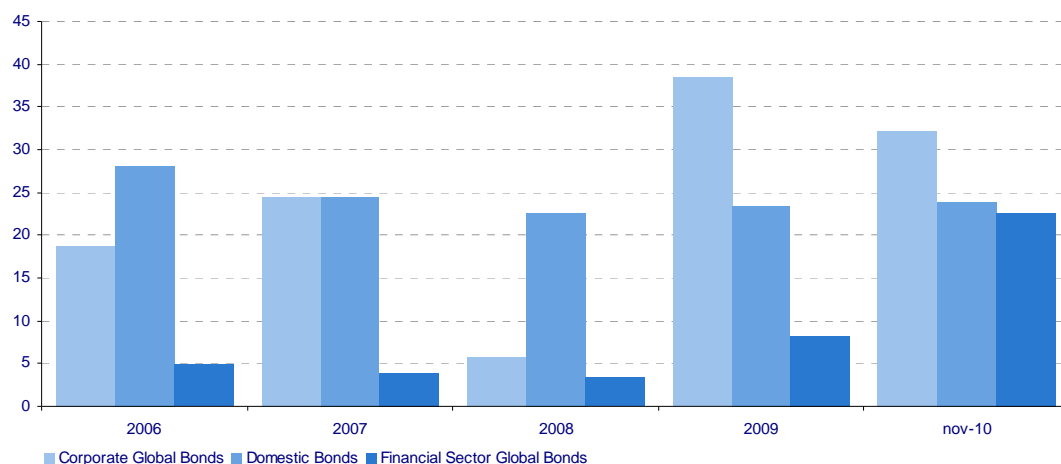
### Stock markets in the area are being affected by the European risk premium, while the corporate lending market is being squeezed in Brazil.

During the week stock markets in the region were affected by the resurgence of fears about European sovereign risk, but most managed to close on a positive note following data from the U.S. that were better than expected by the consensus (particularly the University of Michigan data on confidence and unemployment benefit claims). The exceptions were Brazil and Peru, with the result that on aggregate the MSCI index for the region did worse than the U.S., but outperformed Asia and Europe. The threat of a more restrictive monetary policy has reared its head in Brazil as a result of a number of factors: the replacement of Meirelles by Tombini at the Central Bank; inflation figures that were worse than expected in recent reviews; and the risks affecting the financial sector with the case of Banco Panamericano and fears that it will not be the only bank that could be subject to scrutiny by the authorities. The dynamics between the regional cycle and European sovereign risk will continue to be a significant issue, with the positive cycle of Latin America continuing to prevail in the long term.

The global credit market for some Brazilian issuing banks was restricted in recent weeks on negative news from an issuer. This had an impact on the increase in risk premiums of certain corporate bonds in this sector and the postponement of some issues on the domestic market. Despite this situation, Itau Unibanco (BBB / Baa2) managed to place BRL 500m at 5 years on international markets, the first such issue in BRL in 3 years. International issues by the Latin American banking sector have increased by more than 3 times year-on-year and in 2010 represented more than 40% of corporate issues.

Chart 2

### Corporate issues in Latin America. (USD billion)



Source: BBVA Research

Highlights



Calendar



Markets Data



Charts



## Economic Analysis

# Highlights

### Indicators of economic activity moderate in Mexico and Argentina and gain strength in Peru.

In 3Q10, Mexican GDP increased by 0.7% q/q (5.3% y/y), while it remained stable in Argentina (8.1% y/y). In contrast, in Peru credit growth continued to gain pace in October and business confidence remained at maximum levels, suggesting that economic activity will remain strong in the fourth quarter. However, in Chile Industrial production fell by 0.4% y/y, while industrial sales fell by 0.6%. Nevertheless, real retail sales increased by 19.0%.

### Unemployment down in Argentina and Brazil, but it increases in Mexico

The unemployment rate stood at 7.5% in 3Q10, better than expected (BBVA: 7.8%), as a result of strong demand for labor. There were also positive signs in the Brazilian labor market, where in October the unemployment rate stood at 6.1%. This confirms the strength of the labor market, which is a key determinant of demand, while in Mexico it rose up to 5.5% related to the concentration of the intensive recovery in the capital and less in workforce.

### Mixed results for foreign accounts in October

Mexico increased its trade balance, supported by the positive performance of imports of intermediate and consumer goods. In Argentina there was a surprising increase, with a balance of USD 931m as a result of the high prices of cereals and strong exports in the automotive industry. Meanwhile in Chile the surplus amounted to USD 3,749m, due to the high price of copper and a quantum leap in imports. In Brazil the trade balance stood at USD 1,853m, although this was offset by deficits in services and income (USD 5,553m) and the current account (USD 3,700m).

### Argentina asks the IMF for technical assistance to develop a national CPI

The request is a new sign of the more moderate tone in the current administration and was received positively by the markets as a step towards cleaning up the official statistics. However, the move should be seen with caution. First, there are doubts about whether the delivery will actually take place and improve the government's capacity to issue new debt at reasonable rates. And second, if it does happen, it will not be before 2012.

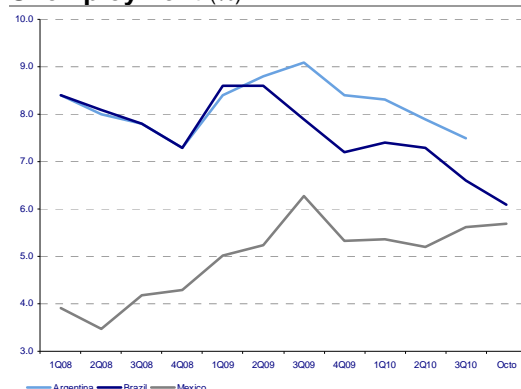
### New economic team in Brazil

The current Economic Minister Guido Mantega is to continue in Dilma Rousseff's new government, which will take office on 1 January (though this has not lessened doubts regarding a stricter fiscal policy); while the Central Bank President Henrique Meirelles will be replaced by the Central Bank's current Regulation Director, Alexandre Tombini.

### Venezuela: stock exchanges must sell government securities in USD

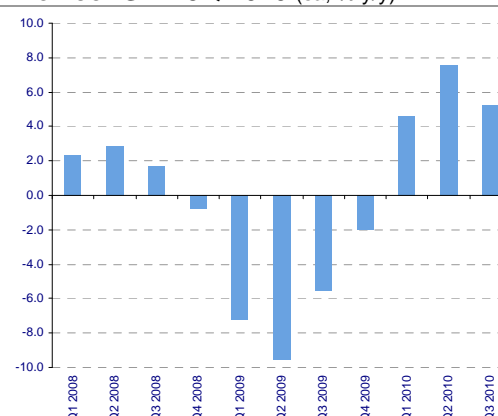
The National Securities Superintendency issued a resolution calling on stock exchanges to deregister sovereign bonds in their balance sheets and sell them to the banking system or through the Sitme market.

Chart 3  
Unemployment (%)



Source: BBVA Research

Chart 4  
Mexico: GDP 3Q 2010 (sa, % y/y)



Source: BBVA Research

- Markets →
- Calendar →
- Markets Data →
- Charts →

## Calendar: Indicators

Next Week: 29 November - 3 December 2010

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Public Services Statistic	30-Nov	October 2010			11,9% y/y	
Synthetic Indicator of Construction Activity	30-Nov	October 2010			8,3% y/y	
Wage Index	1-Dec	October 2010		1,9% m/m	2,2% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Credit Data	29-Nov	October 2010				Credit stock as well as credit conditions (NPL, interest rates, spreads...) will be among the main figures released.
Fiscal Data	30-Nov	October 2010				Focus on public sector's primary surplus.
Trade Balance (FOB) - Monthly	1-Dec	November 2010			\$1854M	
Industrial Production	2-Dec	October 2010			-0.2% m/m	Industrial production could react after some months contracting, following the dynamism of domestic demand.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Sectoral indicators	29-Nov	October 2010				
Employment	30-Nov	October 2010	7.8%		8.0%	Expect to continue the trend of employment growth above the workforce, supported by positive seasonal this time of year in the Commerce sector.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment	30-Nov	October 2010	11.5%		11.5%	Low growth in laboral participation rate and strong employment creation in retail.
Exports	3-Dec	October 2010	9.0%		15.0%	Stability in mining exports and diversification of industrial markets slow
Banco de la República Minutes	3-Dec	November 2010				It will present details on the inflation forecast for 2011
Inflation	4-Dec	November 2010	2.44% y/y, 0.05% m/m		2.33% y/y, -0.09% m/m	-It is expected upward pressure on food prices due to weather problems
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Producer Confidence	2-Dec	November 2010	51.8 pts (30.9 y/y) (1.0 m/m)		51.2 pts (28.2 y/y) (1.3 m/m)	Producer confidence points to stabilization on growth rates related to stable manufactures in USA.
Consumer Confidence	3-Dec	November 2010	92.7 pts (16.0 y/y) (1.3 m/m)		91.5 pts (15.9 y/y) (1.8 m/m)	Consumer confidence improvement will continue although at a smaller extent than in the previous months. The key will be behaviour of real wages & employment levels.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation (mom)	1-Dec	November 2010	0.3%		-0.1%	The month's result was mainly explained by the increase in fuel and rice prices (seasonal factors).
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Cars Production	3-Dec	November 2010	26,0% m/m; - 2,7% y/y		-29,9% m/m; - 29,6% y/y	

Source: BBVA Research

## Calendar: holidays

There are no holidays this week in the region.

Markets →

Highlights →

Market Data →

Charts →

## Market data

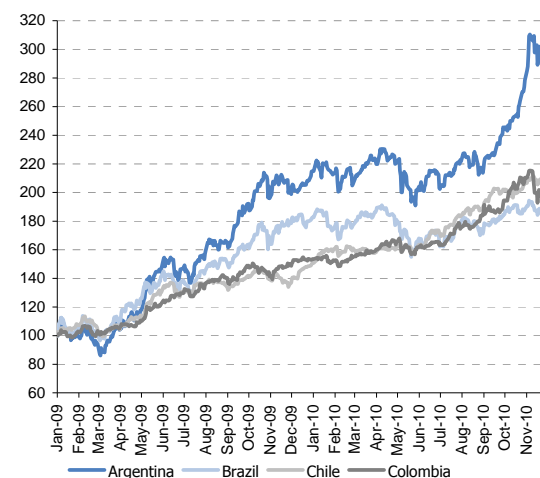
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.29	1	1	4
		2-yr yield	0.53	3	17	-15
		10-yr yield	2.89	2	23	-32
	EMU	3-month Euribor rate	1.03	-1	-2	31
		2-yr yield	0.93	-18	-10	-32
		10-yr yield	2.73	3	17	-44
Exchange rates (changes in %)	Europe	Dollar-Euro	1.325	-2.9	-4.8	-11.4
		Pound-Euro	0.85	-0.9	-3.0	-6.6
		Swiss Franc-Euro	1.33	-2.5	-2.9	-11.8
	America	Argentina (peso-dollar)	3.98	0.0	0.5	4.4
		Brazil (real-dollar)	1.73	0.6	0.9	-0.9
		Colombia (peso-dollar)	1904	1.5	3.7	-4.4
		Chile (peso-dollar)	482	0.4	-1.5	-2.3
		Mexico (peso-dollar)	12.46	1.5	0.5	-3.6
		Peru (Nuevo sol-dollar)	2.82	0.3	0.7	-2.4
	Asia	Japan (Yen-Dollar)	83.97	0.5	3.6	-3.2
		Korea (KRW-Dollar)	1164.05	2.8	3.6	-0.5
		Australia (AUD-Dollar)	0.967	-1.9	-1.1	6.7
Comm. (change s in %)		Brent oil (\$/b)	85.5	1.4	2.3	10.8
		Gold (\$/ounce)	1356.5	0.3	0.9	15.2
		Base metals	550.7	-1.1	1.1	18.0
Stock markets (changes in %)	Euro.	Ibex 35	9518	-7.3	-11.5	-19.2
		EuroStoxx 50	2728	-4.1	-4.1	-3.6
		USA (S&P 500)	1192	-0.6	0.7	9.2
	America	Argentina (Merval)	3282	0.7	11.1	50.0
		Brazil (Bovespa)	68842	-2.9	-2.1	2.6
		Colombia (IGBC)	14737	-1.5	-5.9	29.9
		Chile (IGPA)	23006	0.0	1.1	50.9
		Mexico (CPI)	36812	0.6	4.1	19.6
		Peru (General Lima)	20662	1.4	8.8	44.6
		Venezuela (IBC)	66196	0.0	-1.7	23.6
	Asia	Nikkei225	10040	0.2	7.2	10.5
		HSI	22877	-3.1	-1.4	8.2
Credit (changes in bps)	Ind.	Itraxx Main	108	8	10	19
		Itraxx Xover	484	29	25	-60
	Sovereign risk	CDS Germany	42	4	8	18
		CDS Portugal	474	60	114	402
		CDS Spain	302	40	91	216
		CDS USA	41	1	3	---
		CDS Emerging	224	5	21	-55
		CDS Argentina	661	-20	44	-334
		CDS Brazil	113	6	14	-17
		CDS Colombia	115	6	14	-38
		CDS Chile	77	2	-6	1
		CDS Mexico	117	3	12	-34
		CDS Peru	120	4	16	-12

Source: Bloomberg and Datastream

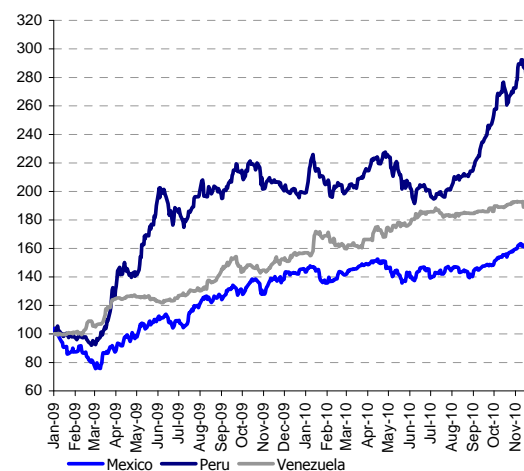
## Charts

Charts 5 &amp; 6

### Stock exchanges (base index Jan09=100)



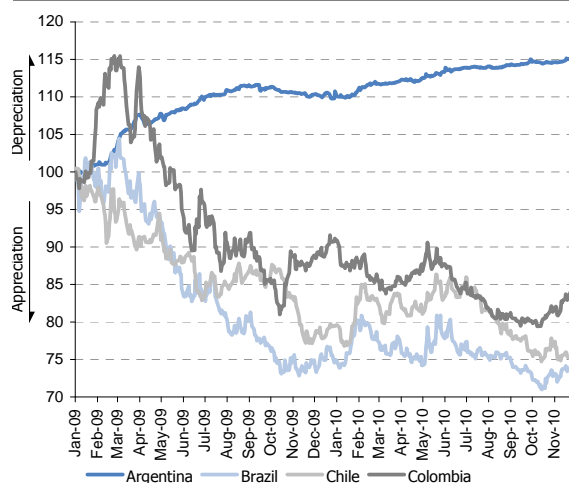
Source: Bloomberg



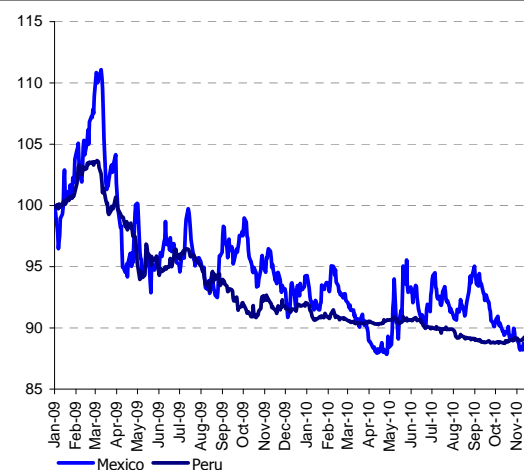
Source: Bloomberg

Charts 7 &amp; 8

### Exchange rates (base index Jan09=100)



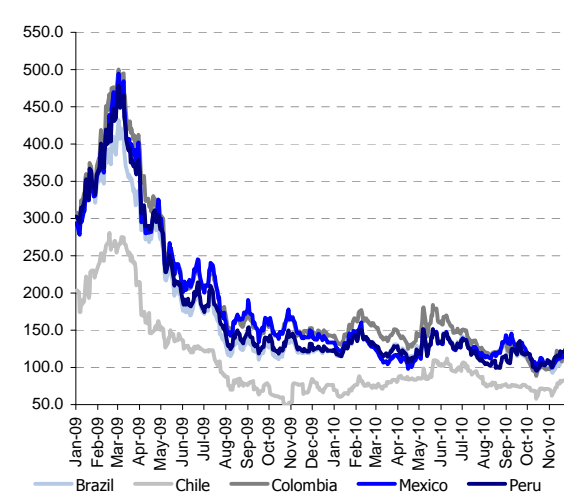
Source: Bloomberg



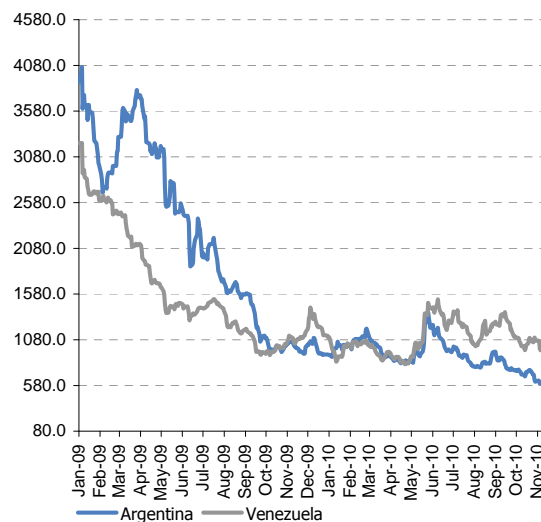
Source: Bloomberg

Charts 9 &amp; 10

### Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

**DISCLAIMER**

This document, and all data, opinions, estimates, forecasts or recommendations contained herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, "BBVA"), with the purpose of providing its customers with general information as at the date of issue of the report, and are subject to change without notice. BBVA does not accept any obligation to report these changes or to update the content of this document.

Neither this document nor its content constitutes an offer, invitation or request to purchase or subscribe to securities or other financial instruments, or to make or cancel any such investments; nor may it be used as the basis for any contract, commitment or decision of any type.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may be inappropriate for their specific investment objectives, financial position or risk profile, as they have not been taken into account when preparing this report.** Thus they should adopt their own investment decisions, taking into account these circumstances and obtaining any specific and specialized advice that may be necessary. The content of this document is based on information that is considered publicly available and gathered from sources considered reliable. However, this information has not been subject to independent verification by BBVA, and therefore no guarantee, whether express or implicit, is offered in terms of its accuracy, completeness or correctness. BBVA does not accept any responsibility for any loss, whether direct or indirect, that may result from the use of this document or its content. Investors should remember that the past performance of securities or instruments, or the historical results of investments, do not guarantee future performance or results.

**The price of securities and instruments or the results of investments may fluctuate to the detriment of the interests of investors and even result in a loss of the initial investment. Transactions in futures, options or high-yield securities or instruments may involve major risks that are not suited to all investors. In fact, in some investments, losses may be greater than the initial investment. In these cases additional funds may be required to cover all these losses. Therefore, before engaging in any transactions with these instruments, investors should be aware of the way they function, and the rights, obligations and risks they involve, as well as those of their underlying securities. There may not be a secondary market for these instruments.**

BBVA or any other organization in the BBVA Group, as well as the respective directors or employees thereof, may hold a direct or indirect position in any of the securities or instruments referred to in this document, or in any other securities or instruments related to them; they may trade these securities or instruments themselves or through a third party, provide advice or other services to the issuer of these securities or instruments, companies related to them or to their shareholders, directors or employees, and may have stakes or carry out any transactions in these securities or instruments or investments related to them, either before or after the publication of this report, to the extent permitted by applicable law.

The employees of sales or other departments of BBVA or other organizations in the BBVA Group may provide customers with comments on the market, either verbally or in writing, or investment strategies, which reflect opinions contrary to those expressed in this document; at the same time, BBVA or any other organization in the BBVA Group may adopt investment decisions on their own account that are inconsistent with the recommendations contained in this document. No part of this document may be (i) copied, photocopied or duplicated in any way, form or method, (ii) redistributed or (iii) cited, without prior permission in writing from BBVA. No part of this report may be reproduced, taken or transmitted to those Countries (or persons or entities in them) in which such distribution may be prohibited by applicable law. Breach of these restrictions may constitute a violation of the legislation in the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be directed in accordance with the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, and it is not for direct or indirect delivery or distribution to any other class of persons or entities. In particular, this document is only aimed for, and may only be delivered to, the following persons or entities: (i) those who are outside the United Kingdom; (ii) those who have professional experience in investment as set forth in Article 19(5) of Order 2001; (iii) high net worth individuals or entities and those to whom its content may be legally communicated, under Article 49(1) of Order 2001.

No part of this report may be reproduced, taken or transmitted to the United States of America or to American persons or entities. Breach of these restrictions may constitute a violation of legislation of the United States of America.

The system of remuneration of the analyst(s) who are the author(s) of this report is based on a variety of criteria, among them earnings obtained in the economic year by BBVA and, indirectly, the results of the BBVA Group, including those generated by its investment banking activity, even though they do not receive compensation based on earnings from any specific investment banking transaction.

BBVA and the rest of the BBVA Group organizations that are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc. are not subject to the rules of disclosure for these members.

**"BBVA is subject to the BBVA Group Stock Market Code of Conduct; this includes rules of conduct established for preventing and avoiding conflicts of interest with regard to recommendations, including barriers to information. The BBVA Group Stock Market Code of Conduct is available for consultation on /Corporate Governance."**