

Weekly Watch

Latin

May 27, 2011
Economic Analysis

South America

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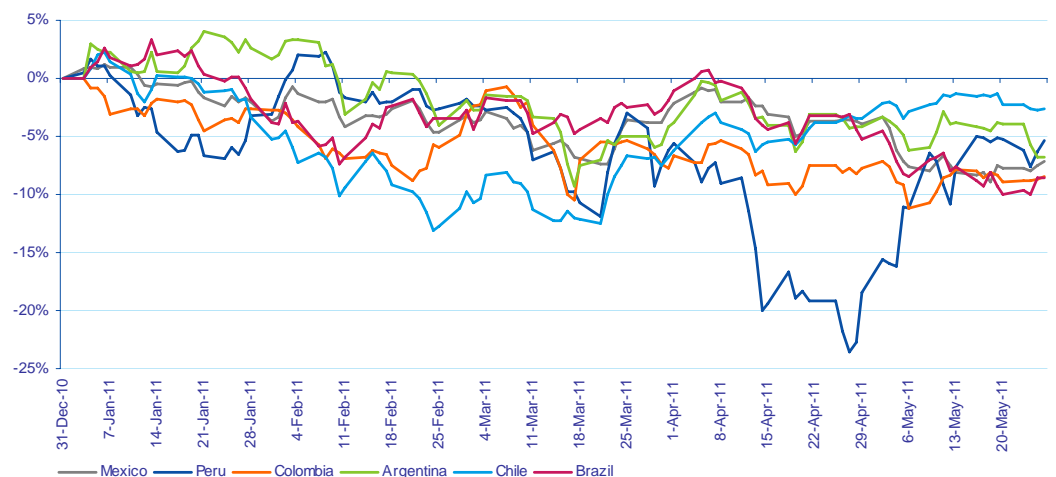
The economy of the region remains buoyant

Figures for economic activity and credit in Argentina and Peru confirm that their economies are still growing fast. In Argentina and Brazil, imports were up again in April, while unemployment rates kept falling. The same is not true in Mexico (where the fall in inflation in the first half of May was a surprise) and, the Central Bank has maintained its benchmark rate at 4.5%. Finally, uncertainty remains regarding the elections in Peru, causing major falls in business confidence surveys.

Global uncertainty increases risk aversion

In a week of concern about the economic cycle and sovereign debt there was a bigger bias to risk aversion in Latin American markets. As a result, the main currencies in the region fell back and increased their volatility. In contrast, Latin American capital markets posted relative gains, boosted by Brazil, in reaction to a positive outlook from S&P and betting by some investors on a possible monetary pause.

Chart 1
Latin American stock market monitor (% change YTD 2011)



Source: BBVA Research

Highlights

Strong growth favors the fiscal balance in Argentina

Mixed results in the foreign accounts of Argentina and Brazil

Labor markets remain dynamic

Monetary policy decision in Mexico

Fujimori up in the election polls in Peru

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Economic Analysis

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Markets

Sovereign and cyclical risks continue to be the main determinants of currencies in the region...

Last week the dynamics of the global currency markets were determined by the sovereign risk premium in the euro zone and by cyclical risk, mainly in the U.S. Despite the budget cuts and increased pace of asset sales announced by the Greek government at the start of last week, uncertainty remained about the possibility of a debt restructuring, with the differences of opinion between the ECB and the Eurogroup in this respect.

In addition, there was a surprising fall in economic indicators, mainly in the U.S., so concerns remained regarding the global economic cycle. The bias was rather to risk aversion leading to a high level of volatility in most Latin American currencies, which in general closed down. Apart from this, local elements (such as interventions and elections) did not help currencies. Currently we consider that elements external to the region (the economic cycle and peripheral Europe) will continue to be the main determinants for its currencies.

... in contrast, capital markets in the region progressed compared to other parts of the world

Global stock markets continue to weigh up macroeconomic signs and developments in sovereign risk in Europe. However, on this occasion, the stock markets in the region stood out from those in other parts of the world, with a major boost from Brazil (+ 1.3% WTD). Brazil was buoyed by: a) the upgrade by S&P of its outlook from stable to positive; and b) betting by some investors on the imminent end to the restrictive cycle. Chile and, in particular, Argentina, were the stock markets with the weakest performances. Next week the market will pay close attention to the economic data from China (manufacturing output, PMI), which could have an effect on expectations for the region due to the strong trading links between the two.

Chart 2
Implied volatility of the BRL, MXN and CLP (%)



Source: BBVA Research

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Economic Analysis

Highlights

Strong growth favors the fiscal balance in Argentina

The monthly economic activity indicator (EMAE) in Argentina was up 2.3% q/q and 8.6% y/y in 1Q11, above the expected levels, thus pushing the growth ceiling for 2011 up to 5.3%. This good performance also helped the fiscal balance. The primary fiscal surplus in April was ARS 1.97 billion above the figure for May 2010, as the positive performance of tax receipts was combined with transfers of profits from BCRA. Primary expenditure (up 34% y/y) continues to grow more than revenues (up 32%).

Mixed results in the foreign accounts of Argentina and Brazil

The slowdown in exports in Argentina (up 12% y/y) and upturn in imports (38%) resulted in a trade surplus of USD 1.3 billion, below our estimates. In Brazil, the good performance of exports (31% y/y) against imports (28% y/y) and moderation in the balance of services prevented a greater deterioration of the current account (2.3% of GDP). Capital inflows, in particular direct investment (USD 5,512m) remain high.

Labor markets remain dynamic

In Argentina unemployment reached 7.4% in the first quarter of the year, below the expected figure. In Brazil unemployment was 6.4% in April, in line with forecasts and close to the all-time low. Average real wage growth in Brazil (-1.8% m/m, 1.8% y/y) was below previous months, suggesting a trend to moderation.

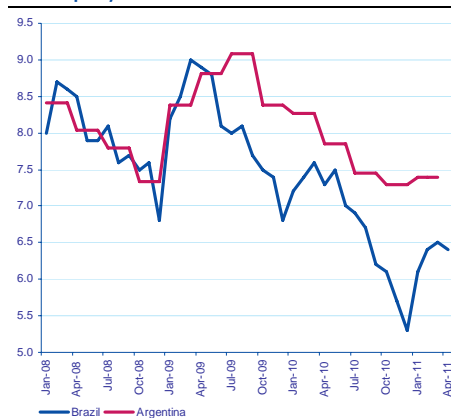
Monetary policy decision in Mexico

Banxico kept the policy rate unchanged at 4.5% in line with BBVA Research and market expectations. There are no demand side pressures on inflation in an environment with a slowing growth. Improvements in the inflation balance of risks make us think that the monetary pause will remain through 2011.

Fujimori up in the election polls in Peru

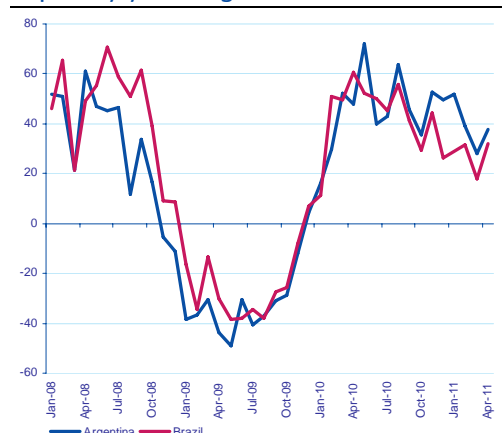
The Ipsos-Apoyo poll published last weekend put Keiko Fujimori up from 41% to 43% in voting intentions, while Ollanta Humala fell back 1 pp to 39%. However, this difference is still within the statistical margin of error (+/- 2.2 pp). The elections-related uncertainty knocked business confidence surveys down from 65 to 46 points in April. Nevertheless, bank lending to the private sector continued to pick up in April to 22.1% y/y, the highest rate in 2 years, while markets have recovered much of the losses from previous weeks in tune with more recent polls.

Chart 3
Unemployment (%)



Source: BBVA Research

Chart 4
Imports (y/y % change)



Source: BBVA Research

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Calendar: indicators

Next Week: 30 May - 3 June 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Survey of Supermarkets	30-May	Apr 2011			26.1% a/a	
Public Sector Statistics	31-May	Apr 2011			12.4% a/a	
Synthetic Indicator of Construction Activity	31-May	Apr 2011			5.1% a/a	
Wage Index	1-Jun	Apr 2011		1.8% m/m	1.4% m/m, 26.0% a/a	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Credit data	30-May	Apr 2011				
Industrial production	31-May	Apr 2011		0.3% m/m	0.5% m/m	
Fiscal accounts	31-May	Apr 2011				Markets focus will be on public expenditures data to check whether the government will be able to deliver the announced fiscal adjustment.
Trade balance	1-Jun	May 2011			\$1863M	
GDP	3-Jun	1Q 2011	1.1%q/q	1.0% q/q	0.7% q/q	GDP growth to increase to 1.1%q/q from 0.7%q/q in Q4, but private consumption should slow down.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Sectoral activity	30-May	Apr 2011				
Employment	31-May	Apr 2011	7.4%		7.3%	We expect a moderate increase in employment (basically the wage component) below the growth of the labor force.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	31-May	Apr 2011	11.8%	11.9%	12.2%	Performance of employment in industry and retail could slow the participation of non-salaried employment in total.
Exports	3-Jun	Apr 2011	20.0% y/y		46.5% y/y	We expect further strengthening in the recovery of industrial exports.
Inflation	4-Jun	May 2011	2.93% y/y, 0.19% m/m		2.93% y/y, 0.19% m/m	Food prices to accelerate slightly due to the strong rainy season starting late March
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Consumer Confidence	2-Jun	May 2011	89.0 (4.8 y/y, - 0.4% m/m)		89.3 (7.7 y/y, - 2.8% m/m)	The trend in consumer confidence continues to decline, is particularly relevant in moderation possibility of acquiring data from a durable good.
Producer Confidence	3-Jun	May 2011	54.8 (0.2 y/y, - 0.6% m/m)		55.1 (3.5 y/y, - 3.1% m/m)	Producer confidence will moderate slightly, although we believe that anything less than the previous month where the negative effects of the tsunami in Japan on the industry were particularly relevant
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation (% mom)	1-Jun	May 2011	-0.1%	0.3%	0.7%	Downward adjustments in some food prices and reduction in utility tariffs

Source: BBVA Research

Calendar of events

Colombia: Monetary Policy Rate (May 30)

Forecast: 4%

Consensus: 4%

Previous: 3.75%

The Central Bank will continue to increase the interest rate steadily as the output gap is expected to close in the second half of 2011.

Calendar of holidays

There will be no holidays in the region next week.

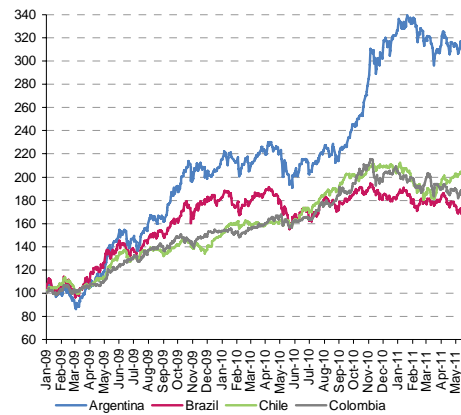
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Market Data

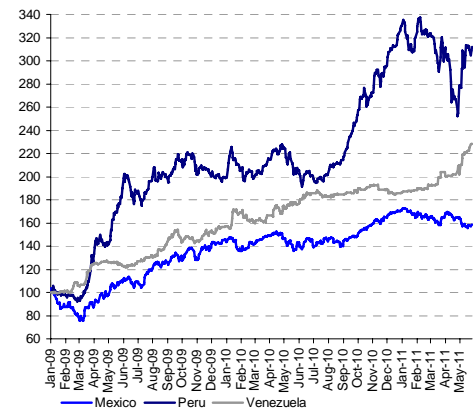
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	-2	-28
		2-yr yield	0.49	-2	-15	-27
		10-yr yield	3.07	-7	-28	-22
	EMU	3-month Euribor rate	1.43	0	7	73
		2-yr yield	1.61	-16	-20	109
		10-yr yield	3.01	-5	-29	32
Exchange rates (changes in %)	Europe	Dollar-Euro	1.425	0.4	-2.9	15.6
		Pound-Euro	0.87	-0.8	-2.3	2.0
		Swiss Franc-Euro	1.22	-1.9	-5.2	-14.2
	America	Argentina (peso-dollar)	4.08	0.0	0.2	4.3
		Brazil (real-dollar)	1.62	0.2	3.0	-11.3
		Colombia (peso-dollar)	1826	0.2	2.5	-7.5
		Chile (peso-dollar)	470	0.7	1.7	-11.4
		Mexico (peso-dollar)	11.66	0.3	0.7	-9.6
		Peru (Nuevo sol-dollar)	2.75	-0.3	-3.0	-3.6
		Japan (Yen-Dollar)	80.94	-0.8	-1.8	-10.8
	Asia	Korea (KRW-Dollar)	1082.10	0.0	0.4	-11.3
		Australia (AUD-Dollar)	1.069	0.1	-1.2	26.3
Comm. (chg %)		Brent oil (\$/b)	115.4	2.7	-7.8	55.9
		Gold (\$/ounce)	1527.7	1.0	0.0	25.8
		Base metals	606.4	-0.1	-2.1	26.0
Stock markets (changes in %)	Euro	Ibex 35	10293	0.6	-4.2	9.2
		EuroStoxx 50	2830	-0.8	-4.9	8.3
		USA (S&P 500)	1326	-0.6	-2.2	21.7
	América	Argentina (Merval)	3269	-3.4	-3.2	50.7
		Brazil (Bovespa)	64099	2.4	-3.3	3.5
		Colombia (IGBC)	14344	1.5	0.8	17.3
		Chile (IGPA)	22897	0.3	1.7	27.7
		Mexico (CPI)	35742	1.3	-2.9	13.3
		Peru (General Lima)	22619	3.7	25.9	55.9
		Venezuela (IBC)	80077	1.3	9.0	29.7
	Asia	Nikkei225	9522	-0.9	-1.8	-2.5
		his	23118	-0.4	-3.2	17.0
Credit (changes in bps)	Ind.	Itraxx Main	103	3	5	-15
		Itraxx Xover	372	11	11	-184
		CDS Germany	40	1	-4	-1
	Sovereign risk	CDS Portugal	678	39	11	368
		CDS Spain	253	-7	1	37
		CDS USA	50	-1	5	---
		CDS Emerging	219	12	12	-58
		CDS Argentina	613	16	15	-593
		CDS Brazil	108	6	-1	-29
		CDS Colombia	104	5	3	-58
		CDS Chile	70	5	10	-35
		CDS Mexico	105	5	4	-32
		CDS Peru	127	-5	-45	-7

Source: Bloomberg and Datastream

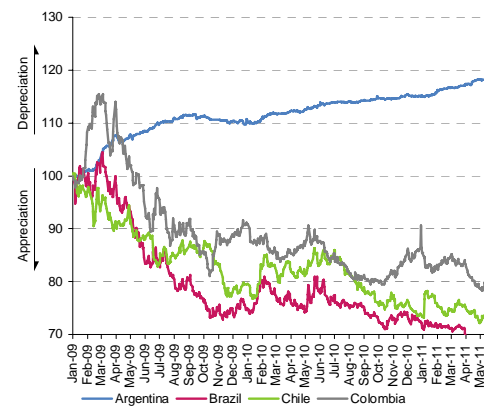
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Chart 5
Stock markets (base index Jan09 = 100)

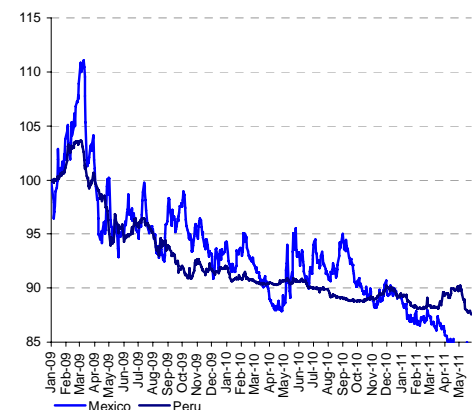
Source: Datastream and BBVA Research

Chart 6
Stock markets (base index Jan09 = 100)

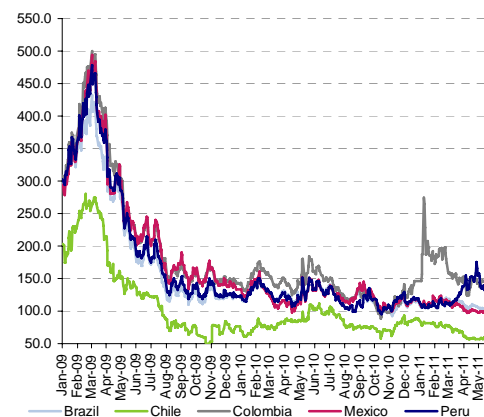
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)

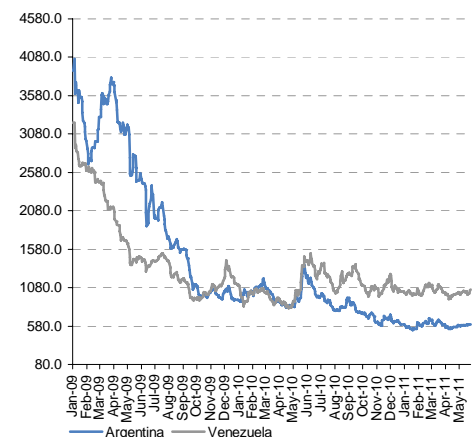
Source: Datastream and BBVA Research

Chart 8
Exchange rates (base index Jan09 = 100)

Source: Datastream and BBVA Research

Chart 9
Credit Default Swaps (levels)

Source: Datastream and BBVA Research

Chart 10
Credit Default Swaps (levels)

Source: Datastream and BBVA Research

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