

Latin

Weekly Observatory

January 28, 2011

Economic Analysis

South America

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Markets

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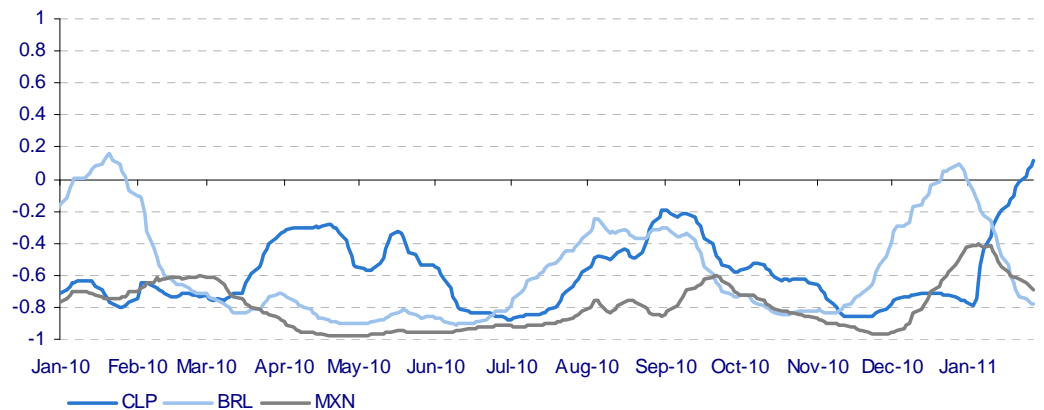
Upturn in activity at the end of 2010

The data published this week show an upturn in monthly activity at the end of 2010 in Argentina, Chile and Mexico. We can also see signs of strength in domestic demand in credit growth data in Brazil and Peru, the fall in unemployment in Chile and Venezuela and the rate of growth of imports in Argentina, Brazil and Columbia. All of them point towards faster growth than predicted at the start of 2011, which could have an impact on higher inflation expectations.

The region's currencies recorded a positive trend last week following the widespread fall of the USD, although they ended the week with mixed performances due to local factors.

Although cycle and risk premium expectations continue to be the main factors determining currency performance in the region, local factors related to interventions and inflation expectations are starting to gain importance.

Chart 1
S&P's correlation with Latin American currencies (3M)



Source: Bloomberg and BBVA Research

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

Highlights

- Argentina, Chile and Mexico see upturn in activity late last year.**
- Some increase in current account deficits in Argentina, Brazil and Colombia**
- Strong credit growth in Brazil and Peru.**
- Unemployment down in Chile and Venezuela.**
- Peru sets maximum limit on net foreign currency derivatives position.**

Economic Analysis

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Markets

Latin American currencies still showed a positive trend in keeping with the foreign climate, although local factors caused mixed performances.

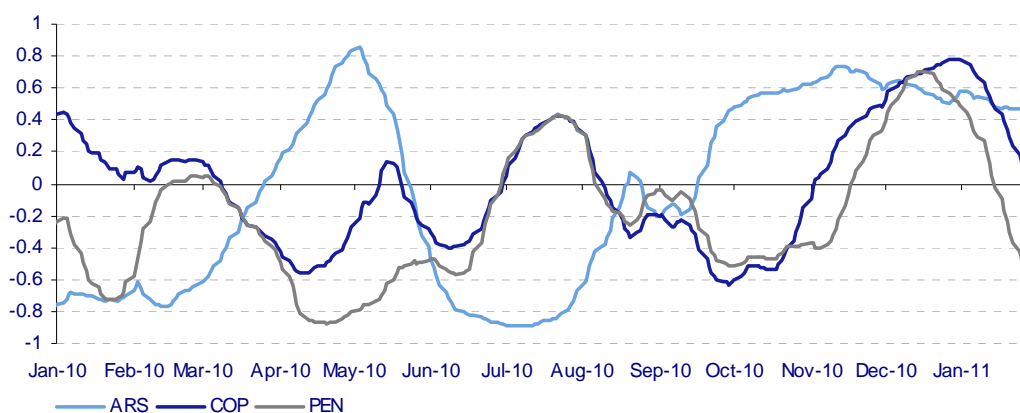
The region's FX trend was subject to fluctuations in the USD in relation to the main currencies due to the flow of economic news in the US last week, where expectations of an improvement in the economic cycle caused cross rates to reach support levels, which then went on to offset a large part of gains. The COP is the exception, devaluating during the week and offsetting the distortion in the forward curve.

In particular, the CLP outperformed other local currencies, supported by higher copper prices (1.8% at the end of Thursday). The change in this trend will depend on news relating to the tightening cycle and inflation expectations in China. There was different news in Brazil on the domestic front: credit and foreign account data and the COPOM minutes continued to cause the currency to appreciate further, even though the central bank announced new intervention measures (through forward auctions). Expectations regarding capital control measures remain, justifying stability within the 1.67-1.70 range.

As far as the PEN is concerned, interventions allowed the currency to stabilize, even though the risk premium continued to fall in light of expectations of a rise in the credit rating. A similar case applies to the ARS, which continued to gradually depreciate following USD purchases by the BCRA, even though the end of negotiations with the Paris Club is anticipated. Finally, MXN performance continued to be determined by the foreign climate (the Secretariat of Finance's statement regarding monitoring capital inflows were a "non event" for the currency's rate of exchange) and by speculative positions (which started to get close to the highs of April 2010, which would cause a risk of correction). This week we expect most of the cross rate ranges to stay where they are.

Chart 2

S&P's correlation with Latin American currencies (3M)



Source: BBVA Research with data from Bloomberg

Highlights →

Calendar →

Markets Data →

Charts →

Highlights

Argentina, Chile and Mexico see upturn in activity late last year.

Argentina recorded growth driven by domestic demand, based on high commodity prices (EMAE: 1.7% m/m), while Mexico also recorded growth due to specializing in manufacturing (IGAE: 0.7% m/m), a lot of which goes to the North American market. Chile posted strong retail sales as well an increase in industrial production leading to an upward revision of the IMACEC growth estimates for December.

Some increase in current account deficits in Argentina, Brazil and Colombia

The trade surplus in Argentina in 2010 stood at USD 12.0 million, 29% down on the previous year, while in Brazil the current account deficit doubled (USD 47.5 million). In November, Colombia's trade balance recorded a USD 0.2 MM deficit. A common factor for the fall in foreign accounts is the rise in imports caused by growth in domestic demand and real currency appreciation.

Strong credit growth in Brazil and Peru.

Credit rose 20.5% y/y in Brazil and 18.8% y/y in Peru, in both cases a reflection of the strong trend in domestic demand. Non-performing loans also fell in both countries, ending the year at 1.5% in Peru and 3.2% in Brazil.

Unemployment down in Chile and Venezuela.

Santiago saw unemployment fall 2.9 pp in 12 months, standing at 7.9% in December. In Venezuela the unemployment rate reached 6.5%, 1 pp less than in 2009. In the case of Chile, this is explained by strong workforce occupation growth while in Venezuela it is due to seasonal factors.

Peru increases maximum limit on net foreign currency derivatives position.

The limit set by the Superintendence for Banks is 40% of banks' real assets (or PEN 400 million, whichever is the greatest). The measure is aimed at limiting short positions in FX *forwards* by agents who anticipate a strengthening of the PEN. The FX impact in the short term will be insignificant because there is a 90-day adaptation period.

Chart 3

Peru and Brazil: Banking System Credit (% y/y change)

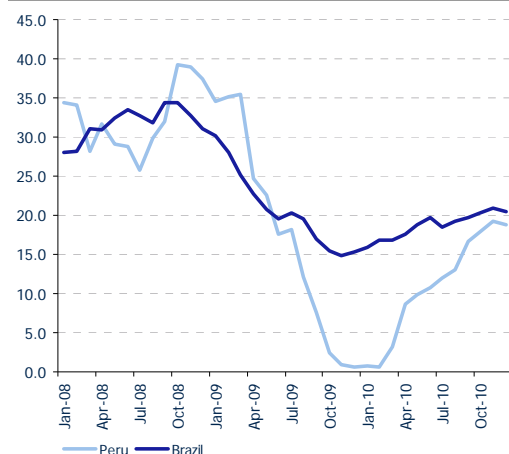
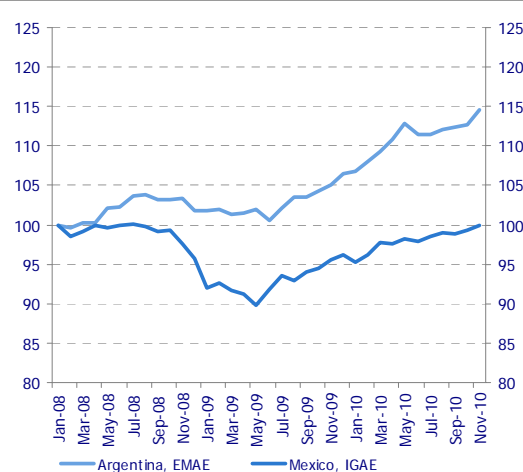


Chart 4

Monthly activity indicators (Index January08=100).



Source: Peru: Superintendence for Banks, Insurance, and AFPs (SBS); Brazil: BCB. Source: BBVA Research

Markets →

Calendar →

Markets Data →

Charts →

Calendar: Indicators

Next Week: 31 January - 4 February 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Public Service's Statistics	31-Jan	Dec10			12,2% y/y	Growth is sustained by cargo and mobile
Synthetic Indicator of Construction Activity	31-Jan	Dec10			21,0% y/y	Continuing recovery of activity
Wages Index	1-Feb	Dec10			1,1% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Fiscal Accounts	31-Jan	Dec10				Although revenues trended up in 2010, fiscal expenditures could have prevented public sector's primary surplus to have reached the goal (3.1% of the GDP).
Trade Balance	1-Feb	Jan11	\$1200M		\$5368M	
Industrial Production	2-Feb	Dec10			-0.1%	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	31-Jan	Dec10	6.9%	6.9%	7.1%	Again expected job growth over the workforce, generating a decrease in the unemployment rate, which closed 2010 at 6.9%
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Urban unemployment	31-Jan	Dec10	11.0%	11.0%	10.6%	The effect of winter on productive activity and the rise in labor participation at this time would lead to an increase in the unemployment rate in December.
Building permits	3-Feb	Nov10	15.6% y/y		12.3% y/y	Continue the growth of building permits, especially those targeting higher-value housing.
Consumer prices	5-Feb	Jan11	0.86 MoM, 3.35 YoY	0.88 MoM, 3.37 YoY	0.65 MoM, 3.17 YoY	Monthly inflation will reflect start of the year increases in prices of gasoline, transport and other services, as well as continued pressures on food prices.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Producer Confidence	3-Feb	Jan11	0% m/m 25.9% y/y		-0.6% m/m, 25% y/y	Producer confidence will continue a process of moderation in trend terms, until a clear recovery in external demand is seen
Consumer Confidence	4-Feb	Jan11	-0.7% m/m, 9.5% y/y		-0.2% m/m, 14% y/y	It is likely that the consumer confidence indicator is stagnating or even declining trend continues under unfavorable indicators have evolved as real wages
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	1-Feb	Jan11	0.45% m/m (2.2%y/y)		0.18% m/m (2.1%y/y)	In January, inflation would accelerate due to higher administered prices (electricity and fuel) and to seasonal upward pressures on food prices
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Car sales	4-Feb	Jan11	-3.7 m/m, 32.1 y/y		-10.8 m/m, 1.7 y/y	The high yearly variation expected reflects a statistical rebound due to foreign exchange supply shortages observed in early 2010.

Source: BBVA Research

Calendar: Events

Colombia: Monetary Policy Meeting (January 31)

Forecast: 3.0%

Consensus: 3.0%

Previous: 3.0%

The press release seems to point to a risk balance that leans more towards inflation, following the upturn recorded in December, the supply shock regarding food prices and the increase in inflation expectations.

Calendar: holidays

No holidays in the region.

Markets



Highlights



Market Data



Charts



Market data

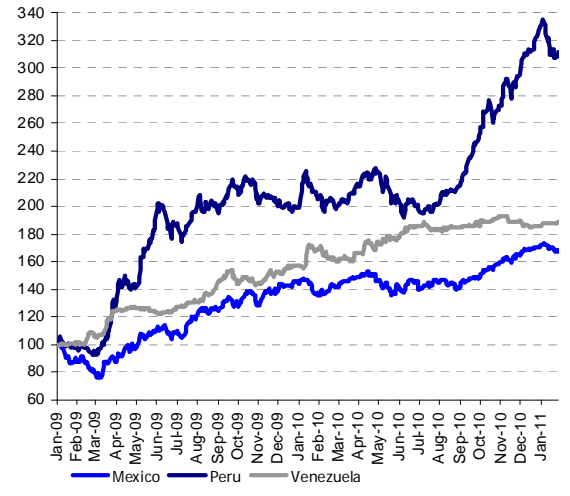
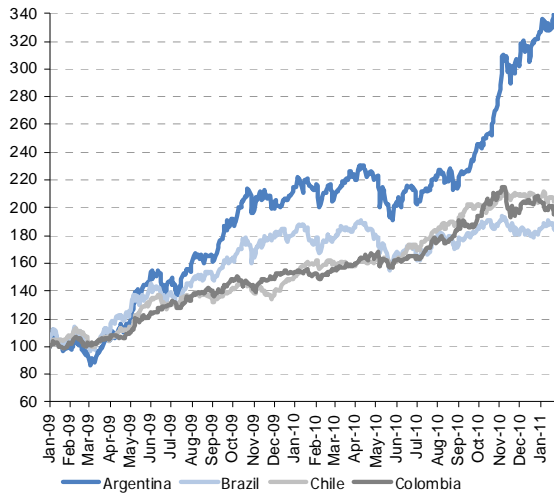
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	0	0	6
		2-yr yield	0.59	-2	-4	-22
		10-yr yield	3.42	1	7	-17
	EMU	3-month Euribor rate	1.06	4	5	40
		2-yr yield	1.43	15	55	32
		10-yr yield	3.20	3	19	1
Exchange rates (changes in %)	Europe	Dollar-Euro	1.371	1.0	4.0	-1.3
		Pound-Euro	0.86	1.5	1.2	-0.6
		Swiss Franc-Euro	1.29	-0.5	3.4	-12.1
	America	Argentina (peso-dollar)	4.00	0.4	0.4	4.2
		Brazil (real-dollar)	1.67	0.2	-0.2	-11.2
		Colombia (peso-dollar)	1852	0.6	-4.8	-6.5
		Chile (peso-dollar)	483	-1.7	3.0	-7.9
		Mexico (peso-dollar)	12.04	-0.3	-2.7	-7.6
		Peru (Nuevo sol-dollar)	2.77	0.1	-1.1	-2.9
		Asia	Japan (Yen-Dollar)	82.29	-0.5	0.6
	Korea (KRW-Dollar)		1111.90	-0.7	-2.7	-4.1
	Australia (AUD-Dollar)		0.998	0.9	-1.8	12.3
	Comm. (changes in %)	Brent oil (\$/b)	97.6	0.0	3.7	36.6
		Gold (\$/ounce)	1317.8	-1.9	-6.7	21.9
		Base metals	603.6	1.2	4.1	27.1
Stock markets (changes in %)	Euro.	Ibex 35	10854	0.2	8.7	-0.9
		EuroStoxx 50	2990	0.7	5.2	7.7
		USA (S&P 500)	1302	1.5	3.4	21.3
	America	Argentina (Merval)	3622	-0.7	2.8	57.6
		Brazil (Bovespa)	67695	-2.1	-1.8	3.5
		Colombia (IGBC)	15104	1.0	-2.8	30.8
		Chile (IGPA)	22432	-2.7	-1.7	27.5
		Mexico (CPI)	37425	0.3	-2.1	23.1
		Peru (General Lima)	22504	3.9	-2.9	55.8
		Venezuela (IBC)	66098	0.2	1.4	11.5
	Asia	Nikkei225	10360	0.8	0.2	1.6
		HSI	23617	-1.1	2.8	17.4
	Credit (changes in bps)	Ind.	Itraxx Main	100	0	-6
Itraxx Xover			412	1	-27	-42
Sovereign risk		CDS Germany	60	4	2	26
		CDS Portugal	459	21	-40	299
		CDS Spain	276	10	-74	152
		CDS USA	50	2	9	---
		CDS Emerging	209	7	7	-64
		CDS Argentina	558	14	-43	-469
		CDS Brazil	115	6	3	-29
		CDS Colombia	115	5	1	-53
		CDS Chile	82	2	-5	5
		CDS Mexico	117	4	3	-33
		CDS Peru	109	2	-5	-36

Source: Bloomberg and Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)

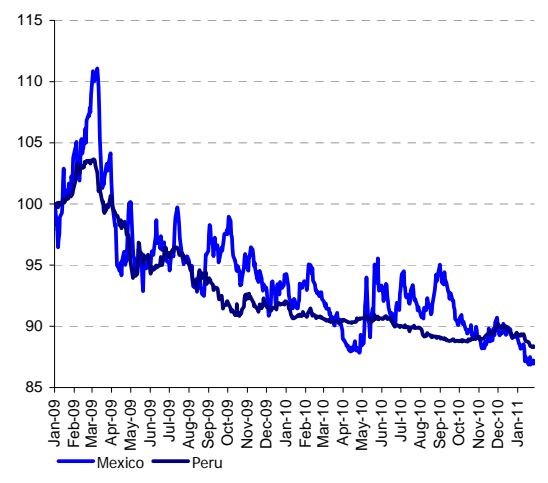
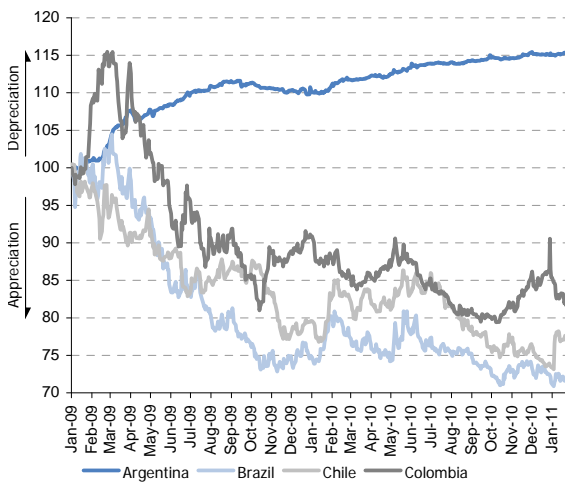


Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)

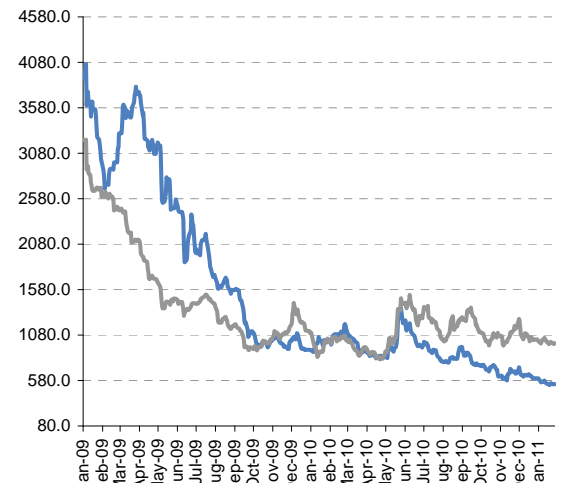
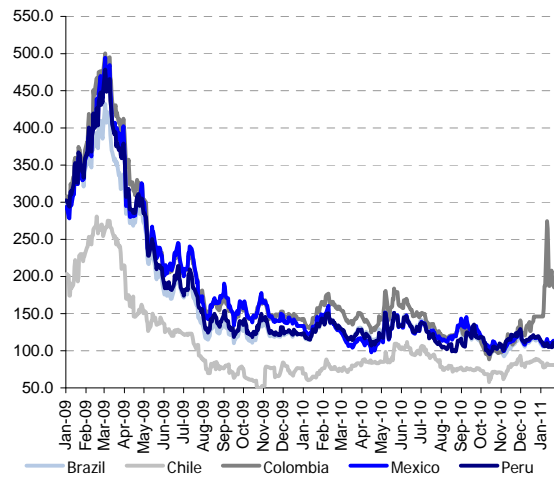


Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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