

Weekly Watch

Latin

April 29, 2011
Economic Analysis

South America

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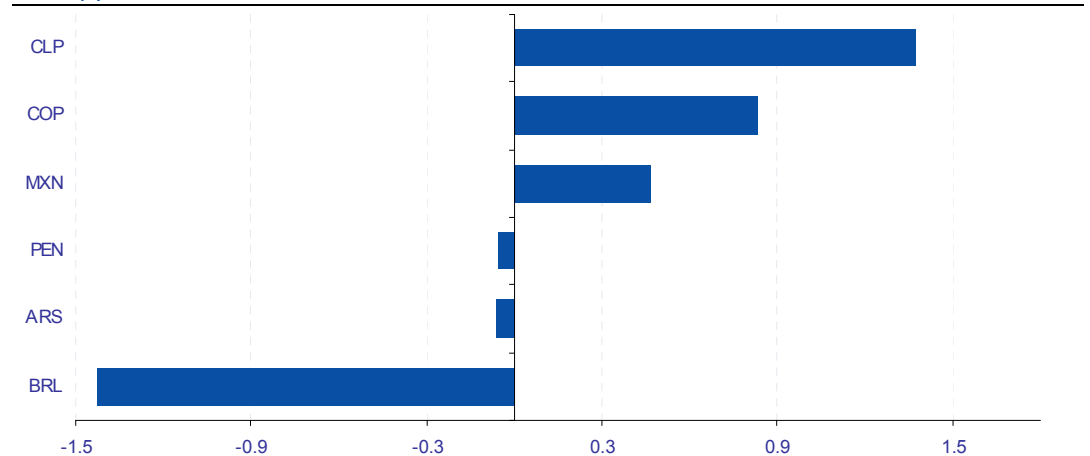
Still going strong

Figures released this week on economic activity continue to show strength in Chile (industrial output and employment), as well as Peru and Brazil where credit is growing fast. This strength is also reflected in increased imports in Argentina and Brazil. In addition, the governments of Peru and Venezuela have given new signs of fiscal easing by proposing major rises in public-sector wages (for the Armed Forces in Peru and general in Venezuela). For its part, the Central Bank of Colombia has once more increased its benchmark rate by 25 bps, given the strength of the economy. In Peru, the latest polls reveal that Humala is ahead in voting intention against Fujimori.

Rises in most Latin American currencies and stock markets over the week

Expectations of prolonged high levels of liquidity in global markets following the Fed's statement and the favorable U.S. corporate results boosted most higher-risk assets last week. Currencies and stock price indices in Latin America both closed the week up, although there were some exceptions in response to domestic factors of uncertainty.

Chart 1
Weekly performance of Latin American currencies



Source: BBVA Research

Highlights

The Central Bank of Colombia maintains its monetary adjustment policy

Latin American economic indicators

Bank lending strong in Peru and Brazil in March

Labor market

High export prices boost trade surplus

Humala ahead in the polls in Peru

Wage increases in Venezuela and Peru

Markets →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

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Markets

Most Latin American currencies close the week up following the Fed's statement. The exceptions are the BRL and PEN, due to domestic factors.

Last week the behavior of most currencies in the region was defined by expectations following the decision of the FOMC and Ben Bernanke's press conference. Thus the maintenance of the Committee's easy tone ("exceptionally low rates for a prolonged period"), the end of QD2 in June and continued reinvestment of the balance) has led to a general appetite for risk that has benefited many of the currencies in the region.

Key support levels were broken across the region (11.60 in the MXN, 1,782 in the COP and 465 in the CLP), with appreciations of more than 0.6%. There were two clear exceptions to this: 1) the PEN remained above the 2.82 zone given the uncertainties about the election and despite the intervention by the Central Bank on the foreign-exchange markets (through sales of dollars and CDR auctions); and 2) the BRL depreciated by around 1% in reaction to the stronger interventionist language used by the monetary authorities. We consider that the general weakness of the USD and the strength of currencies in the region could persist in the short term on expectations that the appetite for carry strategies may continue, given the global scenario of high liquidity levels. Nevertheless, some technical and positioning factors could limit future gains and even give rise to temporary corrections.

Global stock markets are positive following Bernanke's comments and U.S. corporate results

Over the week global stock markets performed positively, supported by the perception that liquidity would be maintained, following Ben Bernanke's comments in determining the monetary stance. Latin America performed weaker than other regions, due to investor uncertainties with respect to Brazil's monetary policy. Attention has focused on corporate results. Half the S&P companies have reported in the U.S., and 65% have presented better than expected results, (an average of 6% above expectations). In the case of Mexico, results have been slightly better than expected. Mexico completed its reporting season on Monday, while in Chile, Peru, Colombia and Brazil it will continue until mid-May. If the trends observed so far persist, these results at least provide support for share prices.

Chart 2
Latin American stock market indices (base Jan10=100)



Source: BBVA Research

Home →

Highlights →

Calendar →

Market data →

Charts →

Economic Analysis

Highlights

The Central Bank of Colombia maintains its monetary adjustment policy

At its meeting on April 29, the Bank of the Republic increased its benchmark interest rate by 25 bps to 3.75%. This decision was mainly based on the strength of economic activity, which led the Central Bank to revise its growth forecast for 2011 from a range of 3.5-5.5% to 4.0-6.0%.

Latin American economic indicators

In Chile, industrial output was up 30.9% year-on-year (2.4% quarterly) in March, largely due to the base effect of the earthquake of February 27, 2010. There has been a significant recovery in the manufacturing, energy and retail trade sectors. Retail trade was up 16.4% year-on-year, basically due to increased sales of durable goods. Meanwhile, in Mexico retail trade continued its slowdown of recent months with a rise of 2.7% y/y.

Bank lending strong in Peru and Brazil in March

Private-sector lending was up 21% y/y in Peru, gathering pace on previous months. This trend is mainly the result of mortgage lending and consumer finance. In Brazil, the rate of growth of credit was 20.7% y/y, practically the same as in previous months. The strong performance in Brazil comes in spite of the moderation in lending by the Brazilian Development Bank (BNDES) and recent monetary measures.

Labor market

Moderate employment growth in Colombia and Chile in the margin, remaining unchanged the unemployment rate at 12.1% and 7.3% respectively. In annual terms, employment grew 4.2% in Colombia and 7% in Chile, which due to a lower growth in labor force determines falls in the unemployment rate of 0.1% and 1.7%.

High export prices boost trade surpluses

In Argentina, the trade surplus grew to USD 667m in March (March 2010: USD 276m), as exports (35% y/y) increased more than imports (28% y/y). The trade surplus in Brazil increased to USD 1.5 billion (March 2010: USD 1.2 billion), with exports up 23% y/y, imports up 18%. Despite this, Brazil's current-account deficit was USD 5.6 billion (consensus: USD 4.8 billion), although it was offset by a major USD 6.8 billion inflow of FDI.

Humala ahead in the polls in Peru

The IPSOS-Apoyo poll published on Sunday April 24 reveals that Humala is holding on to 42% of the voting intention and the lead that he achieved in the first round, with Fujimori on 36%. A subsequent poll (Thursday the 28th) by the company CPI showed a smaller margin between the two candidates (41% for Humala vs 37% for Fujimori). Some 22% of voters have still not made up their minds.

Wage increases in Venezuela and Peru

The Venezuelan government announced an increase of 25% in the minimum wage and additional increases of between 45% and 65% for public-sector workers. In Peru, the Armed Forces and National Police received an increase of 20% for active agents and 25% for those with disabilities. We estimate this will increase the fiscal burden by around 0.5% of GDP in Venezuela and 0.2% in Peru. These wage rises do not change our inflation forecasts for the end of the year, which remain at 29.9% for Venezuela and 3.4% for Peru.

Home	→
Markets	→
Calendar	→
Market data	→
Charts	→

Calendar: indicators

Next Week: 2 - 6 May 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Wages Index	2-May	Mar 2011		2.1% m/m	1.1% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	4-May	Mar 2011		0.0% m/m	1.9% m/m	
Inflation	6-May	Apr 2011	0.70% m/m	0.74% m/m	0.79% m/m	Inflation will remain too strong. In yearly terms it should be around the upper-bound of the inflation target system (6.5%). April's inflation should, therefore, continue putting pressure on the CB and impacting the exchange rate intervention policy.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Wages Index	5-May	Mar 2011			0.5 m/m	
Monthly Indicator of Economic Activity	5-May	Mar 2011	14.2% y/y	13% y/y	7.2% y/y	The sharp increase was mainly due to the favorable comparison basis because of the earthquake on February 27, 2010.
Inflation (Consumer Prices, Producer Prices and Wholesales Prices)	6-May	Apr 2011	0.4% m/m	0.4% m/m	0.8% m/m	The divisions that would largely contribute to the increase: Fresh Food, Transportation, and Housing, Water, Electricity, Gas and Other Fuels.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	5-May	Apr 2011	0.33% m/m, 3.05% y/y	0.35% m/m, 3.07% y/y	0.27% m/m, 3.19% y/y	Despite moderate inflation in April, adverse weather conditions and floodings continue putting pressure on food prices
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Employment (IMSS)		Apr 2011	0.3 (4.6%)		0.4 (4.7%)	Stability will continue in the pace of private formal employment creation (about 30% of total employment)
Producer Confidence	3-May	Apr 2011	4.2 (14%)		-1.6 (13.7%)	After the negative surprise in producer confidence during March, we believe that this trust is partially recovered in April, given the robust growth in the export sector and manufacturing U.S.
Consumer Confidence	4-May	Apr 2011	0.3 (12.8%)		-0.4 (14.1%)	Consumer confidence will continue to grow at a moderate pace, will be relevant indicator subscript of durable goods.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	2-May	Apr 2011	0.5% mom, 3.2% yoy	0.43% mom	0.7% mom, 2.7% yoy	Increasing food prices would keep monthly inflation at a high level
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	4-May	Apr 2011	2.2% m/m	2.8% m/m	1.6% m/m	Inflation pressures remain in the market: the government had been delaying the passthrough effects of the devaluation at the beginning of the year with the controll prices system
Cars sales	4-May	Apr 2011				

Source: BBVA Research

Calendar: holidays

No holidays in the region

Home →

Markets →

Highlights →

Market data →

Charts →

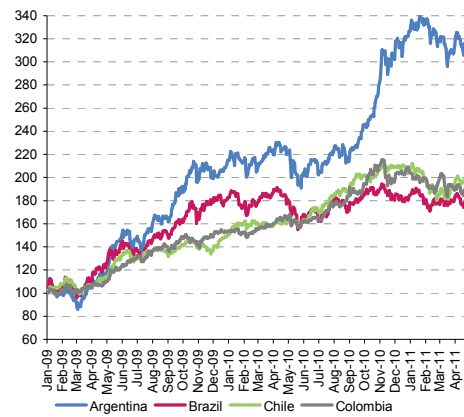
Market data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.27	0	-3	-7
		2-yr yield	0.63	-3	-16	-34
		10-yr yield	3.31	-8	-13	-34
	EMU	3-month Euribor rate	1.39	3	15	72
		2-yr yield	1.79	3	3	102
		10-yr yield	3.26	0	-8	25
Exchange rates (changes in %)	Europe	Dollar-Euro	1.485	2.0	5.1	11.9
		Pound-Euro	0.89	1.2	1.3	2.7
		Swiss Franc-Euro	1.29	-0.1	-0.8	-10.1
	America	Argentina (peso-dollar)	4.08	0.0	0.9	5.0
		Brazil (real-dollar)	1.57	0.5	-3.6	-9.1
		Colombia (peso-dollar)	1769	-0.8	-5.8	-9.4
		Chile (peso-dollar)	460	-1.5	-4.5	-11.6
		Mexico (peso-dollar)	11.54	-0.6	-3.2	-6.1
		Peru (Nuevo sol-dollar)	2.82	-0.2	0.3	-1.2
	Asia	Japan (Yen-Dollar)	81.32	-0.7	-1.8	-13.5
		Korea (KRW-Dollar)	1069.10	-1.2	-2.7	-3.8
		Australia (AUD-Dollar)	1.095	2.0	6.0	18.2
Comm. (change s in %)		Brent oil (\$/b)	125.5	1.2	9.0	43.5
		Gold (\$/ounce)	1544.1	2.5	8.5	30.9
		Base metals	618.9	-1.4	-0.9	21.3
Stock markets (changes in %)	Euro.	Ibex 35	10869	2.7	1.3	3.6
		EuroStoxx 50	3010	2.5	2.5	6.8
	America	USA (S&P 500)	1361	1.7	2.4	14.7
		Argentina (Merval)	3378	-1.1	0.0	41.0
		Brazil (Bovespa)	65852	-1.8	-3.2	-2.5
		Colombia (IGBC)	14410	0.5	0.7	15.2
		Chile (IGPA)	22604	0.6	3.9	25.3
		Mexico (CPI)	36744	-0.2	-1.3	12.4
		Peru (General Lima)	19731	5.0	-9.5	24.5
		Venezuela (IBC)	73785	4.1	3.1	20.3
	Asia	Nikkei225	9850	1.7	1.5	-10.9
		HSI	23721	-1.7	1.1	12.4
Credit (changes in bps)	Ind.	Itraxx Main	97	-2	-6	9
		Itraxx Xover	352	-11	-34	-74
	Sovereign risk	CDS Germany	43	-1	-1	-2
		CDS Portugal	659	0	84	379
		CDS Spain	242	-6	24	83
		CDS USA	45	0	4	---
		CDS Emerging	203	0	-3	-18
		CDS Argentina	590	19	-9	-261
		CDS Brazil	107	-2	-6	-17
		CDS Colombia	102	0	-9	-45
		CDS Chile	60	-1	-3	-24
		CDS Mexico	100	-2	-6	-15
		CDS Peru	164	16	25	43

Source: Bloomberg and Datastream

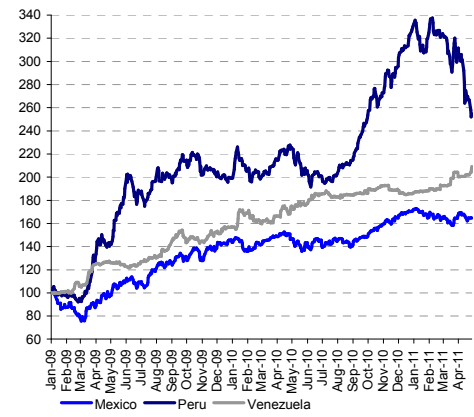
Charts

Chart 3
Stock markets (base index Jan09 = 100)



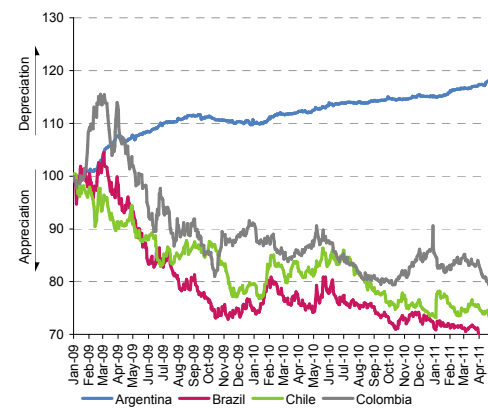
Source: Datastream and BBVA Research

Chart 4
Stock markets (base index Jan09 = 100)



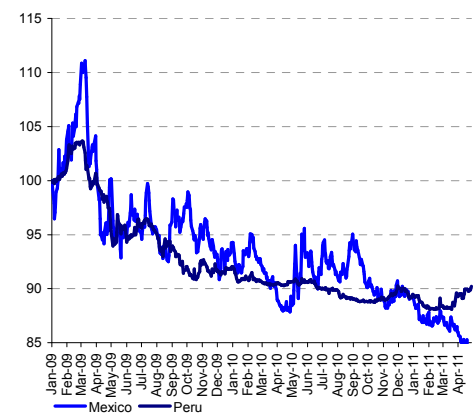
Source: Datastream and BBVA Research

Chart 5
Exchange rates (base index Jan09 = 100)



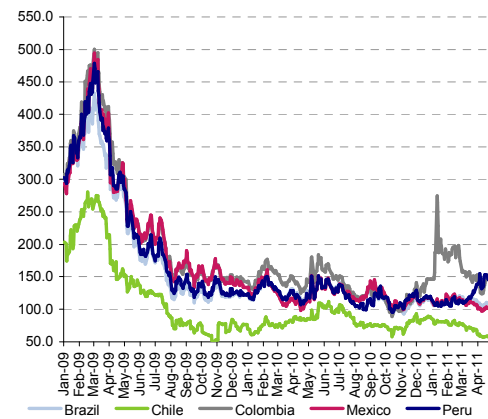
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



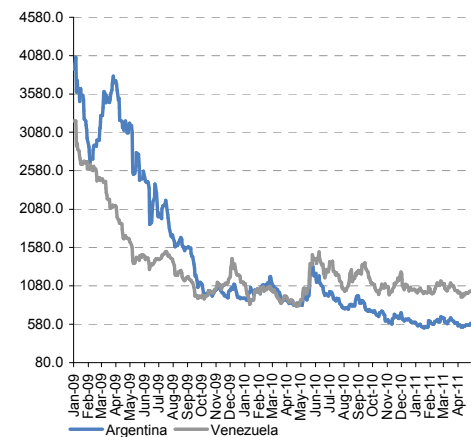
Source: Datastream and BBVA Research

Chart 7
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

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