

# Weekly Watch

## Latin

August 29, 2011  
Economic Analysis

### South America

**Joaquín Vial**  
jvial@bbvaprovida.cl

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

**Cristián Ashwell**  
cashwell@bbva.com

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

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

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

**México**  
**Julián Cubero**  
juan.cubero@bbva.bancomer.com

**Perú**  
**Hugo Perea**  
hperea@grupobbva.com.pe

**Venezuela**  
**Oswaldo López**  
apuente@grupobbva.cl

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

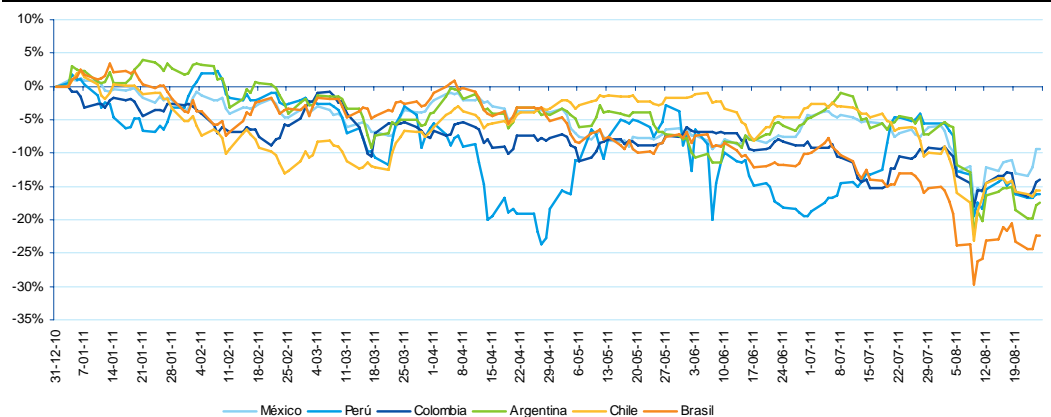
## Global uncertainty and signs of moderation in the region

The decision to adjust the benchmark interest rate in Brazil (SELIC) and signs as to its future movement will set the tone for the week in the region. In other countries we expect signs of moderation in economic activity (Chile) and inflation (Peru), which should support the decision to maintain interest rates unchanged. In Colombia figures on the execution of public works in 2Q 2011 should show a significant fall over 12 months.

### Renewed appetite for risk before the Bernanke speech, mixed behaviour in Latin American markets

Global markets awaited the speech by Ben Bernanke in Jackson Hole (Friday 26) which was similar to previous messages of monetary policy (August 9). In adding, markets showed a slight rise up in their risk exposure. This has been passed on differently to the various stock market indices in the region. In currencies we may well continue to see high levels of volatility in Latin America and strength in safe-haven currencies (JPY and CHF) while the cyclical weakness in the U.S. continues.

Chart 1  
LatAm stock markets



Source: BBVA Research

## Highlights

**Walkthrough to a minor tensioning of the Monetary Policy in Colombia and Mexico**

**Slowdown in credit in Brazil and successful bond issues in Peru**

**Positive June economic activity indicators in Colombia and Mexico**

**No surprises in the foreign sector in Argentina and Brazil**

Markets →

Highlights →

Calendar →

Market data →

Charts →

## Economic Analysis

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

Cladudia Cejas

Rodrigo Ortega

## Markets

### Varied expectations in the run-up to Bernanke's speech: mixed in Latin America, with the COP and CLP up, the MXN and BRL down

The foreign exchange market was once more extremely volatile last week in response to the fluctuating expectations related to a possible third round of quantitative easing in the U.S. At the same time, markets were eager to anticipate the message of Bernanke's speech in Jackson Hole (Friday, August 26).

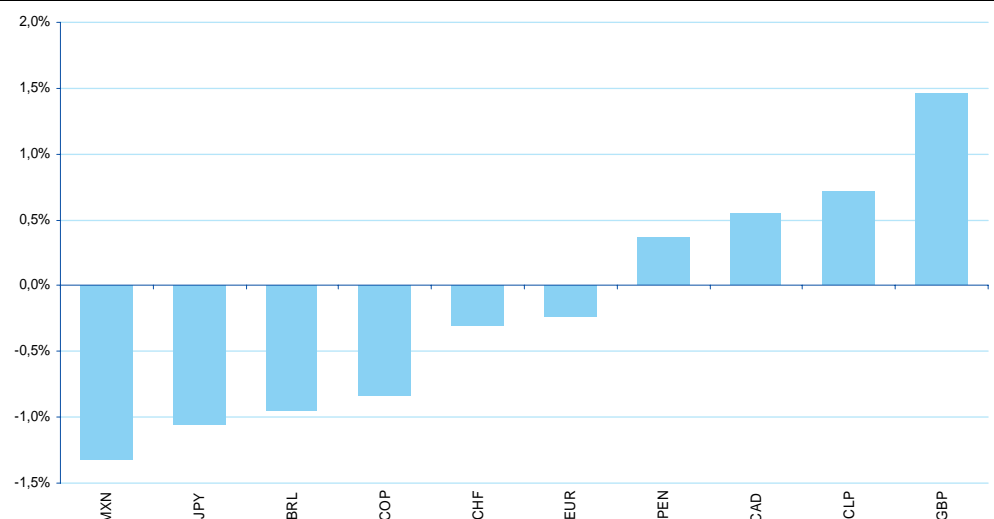
Overall, on Thursday 25 behaviour continued to vary in both EM and G10 currencies; in general, the EUR and currencies exposed to this parity had appreciated or stabilized in response to the reduction of sovereign spreads in the euro zone. In contrast, risk-free currencies (JPY and CHF) were down on Thursday (0.5% and 1.4% respectively) due to (1) greater appetite for risk in the face of expectations of increased global liquidity; and (2) verbal interventions by finance ministers.

In Latam, we could see mixed behaviours: COP and CLP with positive numbers in response to flows and rise up's in commodities prices; nevertheless MXN and BRL were depreciated under the prevailing uncertainty regarding the global economic cycle, in particular in the U.S. Given that Bernanke's speech in Jackson Hole went in line with what was expected, we consider that actual elements continue justifying high volatility in short terms.

### Appetite for risk was reflected in global stock market indices; Latin America slightly weaker

Equity markets benefitted from a renewed appetite for risk as investors sought positions prior to the speech by Bernanke, with global markets averaging rises of just over 3%. In this environment, Latin America performed slightly weaker than the rest of the regions because of the close link of stock markets in the region to the Asian cycle (except for Mexico). In this context, it was precisely Mexico that stood out, with a rise of just over 4.5%. We repeat that the movements in risk assets will continue to be linked to the balance of sovereign and cyclical risks affecting the U.S. and Europe.

Chart 2  
Relevant Currencies



Source: BBVA Research

Home →

Highlights →

Calendar →

Market data →

Charts →

## Economic Analysis

## Highlights

**Walkthrough to a minor tensioning of the Monetary Policy in Colombia and Mexico**

In Colombia, external volatility and fears of a high deterioration in global recovery triggered a stop in the adjustment process of the interest rate. Something similar happens in Mexico, where Banxico changes its communication in response to the deterioration of the global environment and its possible domestic impact, so maybe we can see downfalls in Fondo rates if growth is damaged and monetary conditions stress up.

**Slowdown in credit in Brazil and successful bond issues in Peru**

Bank credit to the private sector in Brazil slowed to rates of 1.1% m/m and 19.8% y/y in July (1.5% m/m and 19.9% y/y in June). In Peru, the auction of sovereign bonds for PEN 125 million maturing in 2013 had a bid-to-offer ratio of 6, while the auction of PEN 300 million with a maturity in 2042 had a bid-to-offer ratio of 3. The final interest rates were 4.4% and 6.5% respectively.

**Positive June economic activity indicators in Colombia and Mexico**

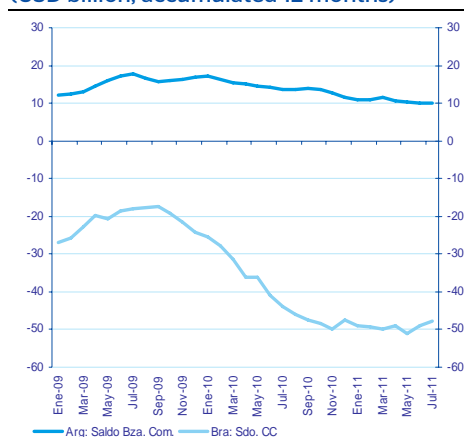
In Colombia industrial output and retail sales were up by 2.2% y/y and 11.9% y/y respectively. Particularly notable were results for semi-durable and non-durable goods, which offset the weaker performance of durable goods. In Mexico retail sales were up 4.8% y/y, boosted by vehicle and apparel sales, while wholesale sales were 2.0% down on the figure for May.

**No surprises in the foreign sector in Argentina and Brazil**

The trade surplus of Argentina was USD 672 million in July (down 22% y/y; consensus: USD 761 million) and USD 6,458 million from January to July (down 21% y/y; exports up 24% y/y, imports up 37% y/y). In Brazil, the trade surplus fell in July to USD 3,300 million (June: USD 4,400 million) and the current account deficit was USD 3,497 million for the month and USD 47,900 million (2.1% of GDP) over the last 12 months, with FDI (2.8% of GDP between January and July) being the main source of finance.

Chart 3

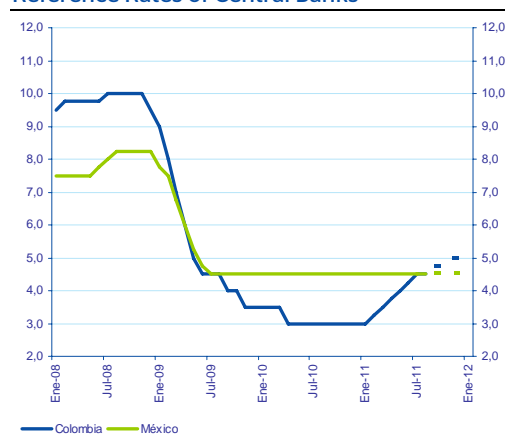
**Trade balance in Argentina  
and current account balance in Brazil  
(USD billion, accumulated 12 months)**



Source: BBVA Research

Chart 4

**Reference Rates of Central Banks**



Source: BBVA Research

Home →

Markets →

Calendar →

Market data →

Charts →

## Calendar: indicators

Next Week: 22 - 26 August 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Supermarkets Sales	29-Aug	Jul 2011			26.5% y/y	
Utilities Statistics	31-Aug	Jul 2011			12.0% y/y	
Construction Index	31-Aug	Jul 2011			8.7% y/y	
Wages Index	1-Sep	Jul 2011		2.2% m/m		
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	31-Aug	Aug 2011	0.7% m/m		-1.60% m/m	
Trade Balance	1-Sep	Aug 2011			\$ 3135M	
GDP	2-Sep	2Q11	0.8%q/q		1.30% q/q	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	30-Aug	Jul 2011	5.2% y/y		4.0% y/y	Expectations of recovery in the industrial sector in July, after weak data released the previous month, based on favorable performance of industrial exports.
Unemployment rate	31-Aug	May-Jul 2011	7.5%		7.2%	Increase in unemployment rate mainly explained by seasonal drivers. Spare capacity continue to decline.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Urban unemployment	31-Aug	Jul 2011	11.9%		11.8%	Positive sectorial performance indicates a higher formal job creation in recent months.
Civil works engineering	1-Sep	2Q11	-8.6% y/y		-12.5% y/y	Indicators of progress in public expenditure show a slow growth of resources for investment over previous years.
Building survey	2-Sep	2Q11	19.8% y/y		3.3% y/y	Record levels of building permits from 11Q1 boost a higher volume of works in progress.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	1-Sep	Aug 2011	0.3%		79.0%	
Urban employment for firms with more than 10 workers	1-Sep	May 2011			0	

Source: BBVA Research

## Calendar of events

## Brazil: publication of SELIC rate (August 31)

Forecast: 12.5%	Consensus: -	Previous: 12.5%
-----------------	--------------	-----------------

## Calendar of holidays

Peru: Tuesday, August 30

Home	➔
Markets	➔
Highlights	➔
Market data	➔
Charts	➔

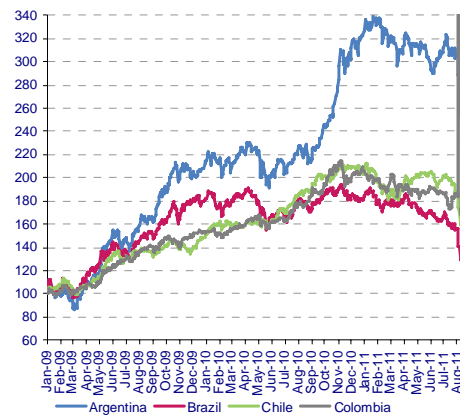
## Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.32	2	7	2
		2-yr yield	0.20	1	-24	-35
		10-yr yield	2.22	16	-76	-43
		3-month Euribor rate	1.54	1	-7	65
	EMU	2-yr yield	0.66	1	-61	2
		10-yr yield	2.19	9	-46	-1
Exchange rates (changes in %)	Europe	Dollar-Euro	1.444	0.3	0.5	13.3
		Pound-Euro	0.88	1.5	0.5	7.6
		Swiss Franc-Euro	1.15	1.1	-0.7	-12.5
		Argentina (peso-dollar)	4.18	0.1	1.1	6.0
	America	Brazil (real-dollar)	1.62	1.0	3.2	-7.8
		Colombia (peso-dollar)	1791	0.5	1.3	-1.4
		Chile (peso-dollar)	467	-0.3	2.1	-6.7
		Mexico (peso-dollar)	12.47	1.7	7.0	-4.4
		Peru (Nuevo sol-dollar)	2.73	-0.3	-0.1	-2.4
		Japan (Yen-Dollar)	77.00	0.8	-1.4	-9.7
	Asia	Korea (KRW-Dollar)	1081.55	-0.5	3.0	-9.2
		Australia (AUD-Dollar)	1.050	0.6	-4.6	17.1
Comm. (chg %)		Brent oil (\$/b)	110.4	1.6	-6.0	44.0
		Gold (\$/ounce)	1786.9	-3.5	10.7	44.3
		Base metals	565.5	-0.1	-5.2	12.4
Stock markets (changes in %)	Euro	Ibex 35	8283	1.7	-14.1	-18.4
		EuroStoxx 50	2203	2.0	-18.2	-16.3
		USA (S&P 500)	1159	3.2	-11.2	8.9
		Argentina (Merval)	2866	1.4	-12.4	22.0
	América	Brazil (Bovespa)	52953	1.0	-9.2	-19.3
		Colombia (IGBC)	13200	1.9	-5.3	-5.1
		Chile (IGPA)	19776	-0.2	-6.4	-5.9
		Mexico (CPI)	33904	2.3	-4.8	6.8
		Peru (General Lima)	19475	0.5	-11.3	28.9
		Venezuela (IBC)	99569	0.6	12.0	53.7
	Asia	Nikkei225	8798	0.9	-12.4	-2.1
		HSI	19583	0.9	-13.1	-4.9
Credit (changes in bps)	Ind.	Itraxx Main	168	14	53	50
		Itraxx Xover	701	41	266	174
		CDS Germany	85	4	23	41
		CDS Portugal	1039	138	81	706
	Sovereign risk	CDS Spain	376	11	61	129
		CDS USA	47	0	-15	---
		CDS Emerging	300	24	85	41
		CDS Argentina	842	65	240	-99
		CDS Brazil	163	16	48	34
		CDS Colombia	161	18	49	29
		CDS Chile	105	6	35	29
		CDS Mexico	162	16	50	29
		CDS Peru	171	18	46	57

Source: Bloomberg and Datastream

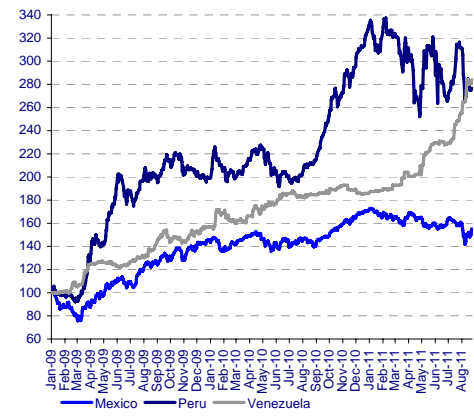
## Charts

Chart 4  
Stock markets (base index Jan09 = 100)



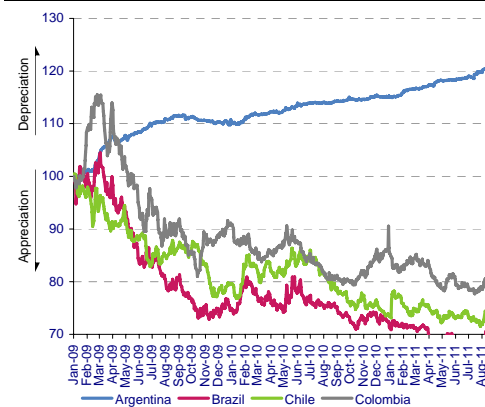
Source: Datastream and BBVA Research

Chart 5  
Stock markets (base index Jan09 = 100)



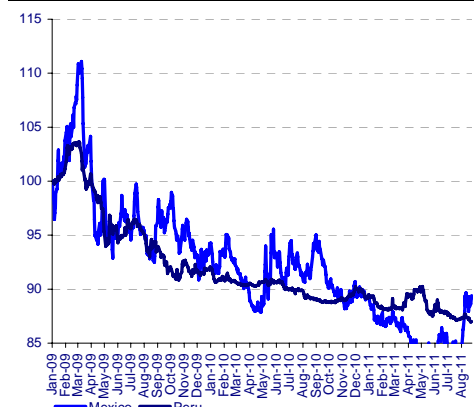
Source: Datastream and BBVA Research

Chart 6  
Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 7  
Exchange rates (base index Jan09 = 100)



Source: Datastream and BBVA Research

Chart 8  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 9  
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.