

Weekly Watch

Latin

August 29, 2011
Economic Analysis

South America

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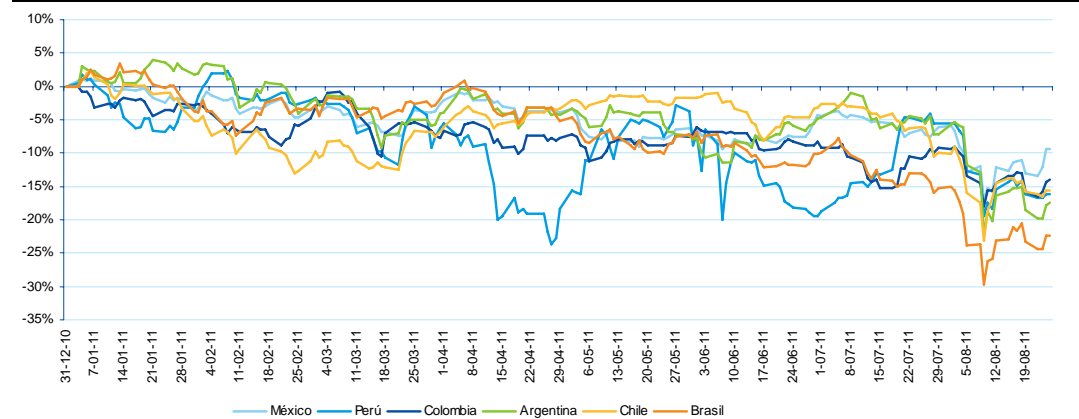
Global uncertainty and signs of moderation in the region

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 exposal. 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

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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).

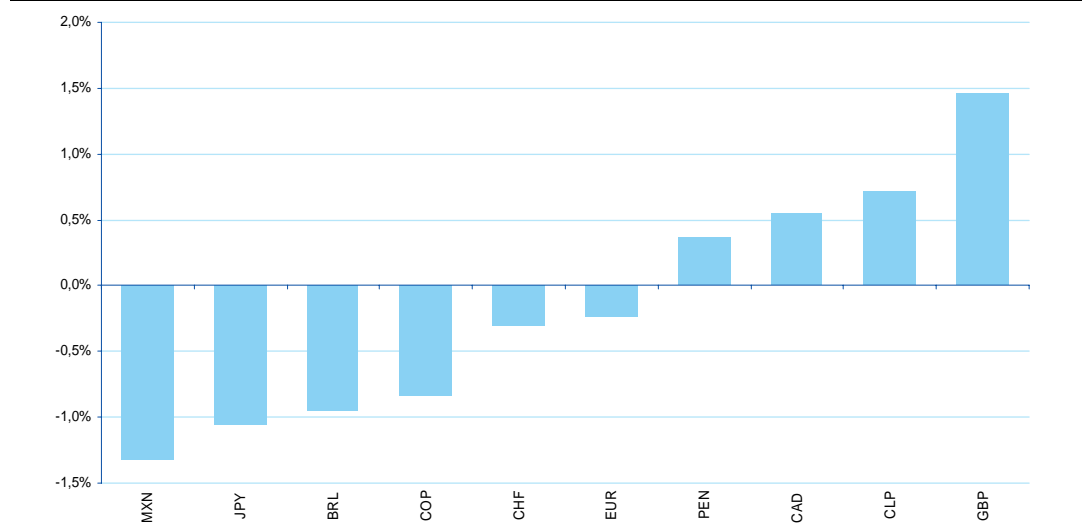
Overall, on Thursday 25 behaviour continued to vary in both EM and G10 currencies; in general, the EUR and currencies exposed to this parity had appreciated or stabilized in response to the reduction of sovereign spreads in the euro zone. In contrast, risk-free currencies (JPY and CHF) were down on Thursday (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

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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.

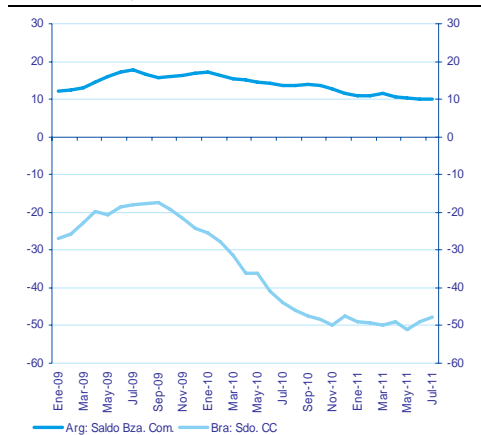
Positive June economic activity indicators in Colombia and Mexico

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

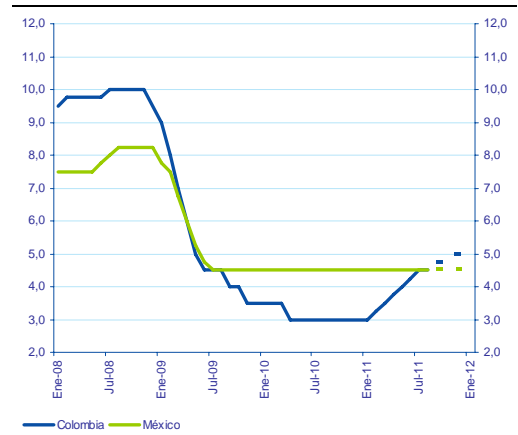
The trade surplus of Argentina was USD 672 million in July (down 22% y/y; consensus: USD 761 million) and USD 6,458 million from January to July (down 21% y/y; exports up 24% y/y, imports up 37% y/y). In Brazil, the trade surplus fell in July to USD 3,300 million (June: USD 4,400 million) and the current 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

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Calendar: indicators

Next Week: 22 - 26 August 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
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						
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						
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						
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						
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%
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Calendar of holidays

Peru: Tuesday, August 30

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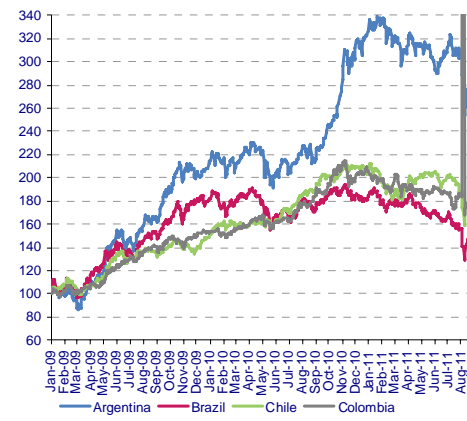
Market Data

			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		
	EMU	3-month Euribor rate	1.54	1	-7	65		
		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	133		
		Pound-Euro	0.88	15	0.5	7.6		
		Swiss Franc-Euro	1.15	1.1	-0.7	-125		
	America	Argentina (peso-dollar)	4.18	0.1	1.1	6.0		
		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		
		Asia	Japan (Yen-Dollar)	77.00	0.8	-1.4	-9.7	
			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		
	América	Argentina (Merval)	2866	1.4	-12.4	22.0		
		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
Sovereign risk	CDS Germany		85	4	23	41		
	CDS Portugal		1039	138	81	706		
	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

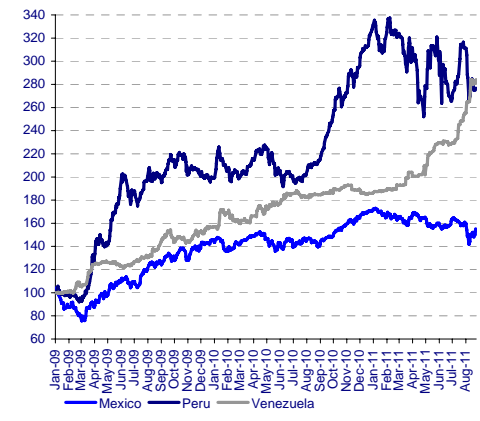
Charts

Chart 4
Stock markets (base index Jan09 = 100)



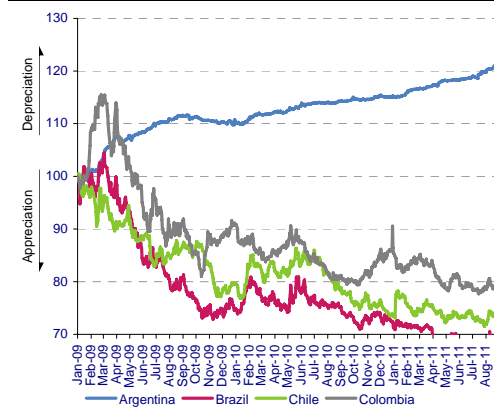
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



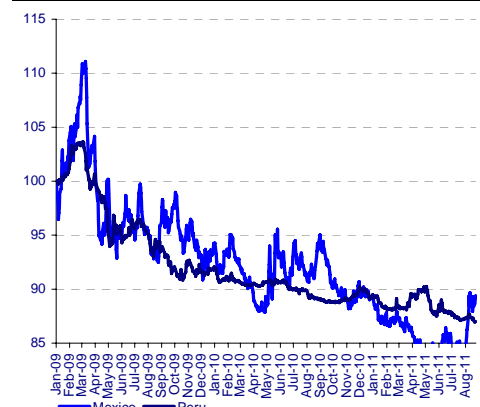
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



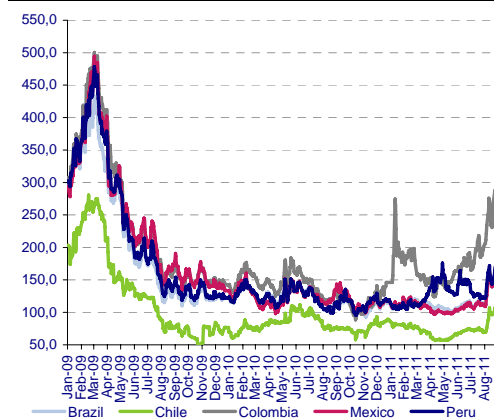
Source: Datastream and BBVA Research

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

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