

Weekly Watch

Latin

October 31, 2011
Economic Analysis

South America

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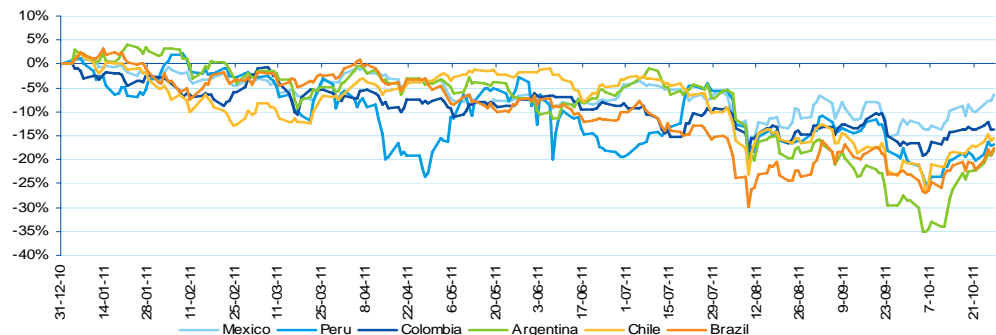
Is inflation really dead?

After a spectacular recovery in the markets this week and an upward surprise in inflation in Mexico, attention next week will have to focus on possible signs of slowdown in domestic demand in the economic indicators from Brazil, Peru and Colombia, as well as possible surprises in the inflation data from Colombia and Peru.

Stocks and currencies in Latin America rise in response to a fall in global risk

Last week the main focus of attention in Latin America was the European summit. Following the release of the statements, most assets closed on a positive note. Now that European risks have moderated (though they still persist) the market may focus its attention once more on expectations in the North American business cycle.

Chart 1
LatAm stock market monitor



Source: Bloomberg

Highlights

Upward inflation surprise in Mexico

Credit continues to grow in Brazil and Peru at an annual 20%

Restrictions in the foreign exchange market in Argentina

Current account deficits down in Argentina and Brazil

Activity stays dynamic in Argentina and Chile

Cristina Fernández re-elected with overwhelming majority

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Economic Analysis

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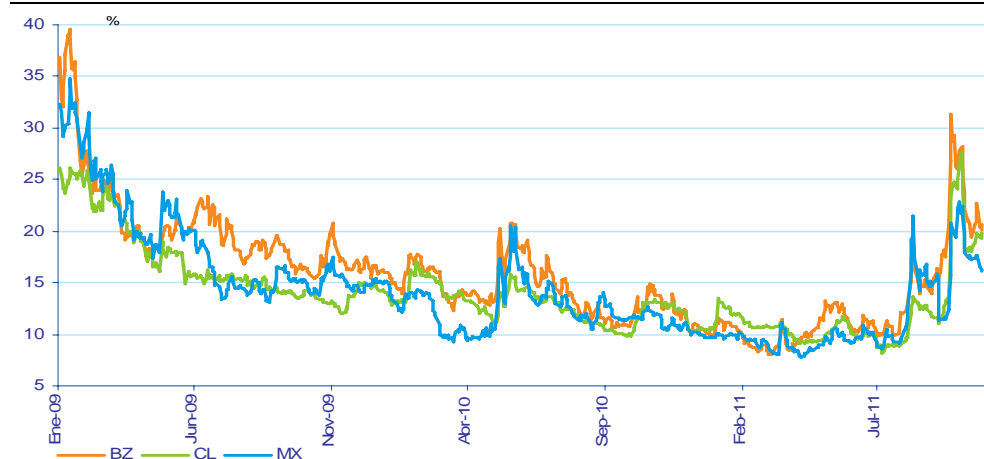
Gains in Latin American currencies

Latin American currencies continued highly volatile over the week as markets awaited results from the European Union summit on Wednesday. After the summit, currencies in the region recovered the ground lost in the early part of the week and posted a weekly gain on Thursday of more than 0.7%. The CLP was up 3%, in line with the rise in the price of copper, while the MXN was up 2%. Gains in the COP and BRL were more limited. The PEN and ARS remained relatively stable

Stock markets respond to movements in risk in the EU

Stock markets recovered following the European Union summit last weekend and the conclusions released on Wednesday. The result was a fall in risk aversion. In our opinion, the conclusions are an important step in the right direction, although it is true that some details still have to be cleared up with respect to the exit strategy. In this environment, developed stock markets, which had been more contaminated by the risk premium, are dominating those of emerging countries. Among the emerging stock markets Latin America is lagging behind after the most recent data from China boosted the Asian region with expectations of an orderly slowdown. Meanwhile, corporate reporting continues, and so far results have been positive. This could be a source of additional strength in the coming weeks as the influence of risk aversion lessens.

Chart 2
Weekly changes in LatAm currencies



Source: Bloomberg and BBVA Research

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Economic Analysis

Highlights

Inflationary surprise in Mexico

In the first half of October inflation rose above expectations in Mexico, but we expect it to close the year at around 3.3% y/y.

Credit continues to grow in Brazil and Peru at an annual 20%

Credit in Brazil grew 19.6% year-on-year in September. This is within the range of 19-21% growth since August 2010. In Peru, the year-on-year rise of 20.1% was led by growth in consumer loans (24%).

Argentina takes measures to keep foreign-currency revenues at home

The government has issued a decree making it mandatory to negotiate on the local market all the foreign currency revenues from exports of oil, derivatives, gas and mining, which until now had benefited from an exceptional status for their export revenues. In addition, the government announced that insurance companies must repatriate funds from investments they have abroad. The aim of these measures is to reverse the flow of reserves out of the country (USD 1.5 billion in October). In all, this week the Central Bank has accumulated foreign-currency sales of more than USD 500 million.

Current account deficits down in Argentina and Brazil

The trade balance in Argentina posted a surprising rise to USD 1,064 million in September as a result of weaker imports. In Brazil, the trade balance fell to USD 3,074 million in the same month. However, the current account deficit was below expectations as the deficit in the income and services accounts was down due to the significant loss in value of the Brazilian real.

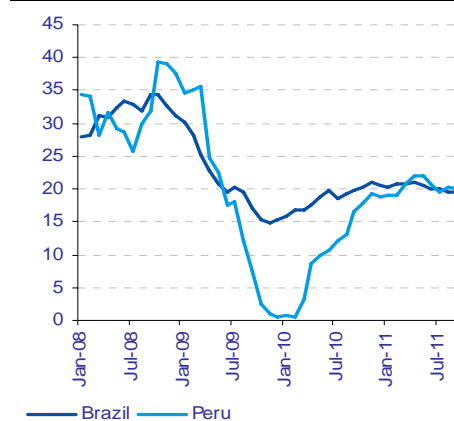
Activity stays dynamic in Argentina and Chile

In Argentina, industrial production grew 5.1% y/y in September (0.6% m/m in the seasonally adjusted series). In Chile, the increase in the manufacturing industry was 5.2% y/y, which surprised in a positive way although month to month growth was zero. In both countries dynamic stayed strong in retail sales, reaching 34.4% nominal y/y in Argentina and 9.6% real y/y in Chile.

Cristina Fernández re-elected with overwhelming majority

The current President obtained an expected and overwhelming victory in the presidential elections, with 54% of the votes. The governing party also recovered control of Congress, with a majority in each of the houses, and won 8 of the 9 provincial governorships up for election.

Chart 3
Bank credit in Brazil and Peru (% y/y)



Source: Central Bank of Brazil (BCB)

Chart 4
Industrial Production yearli variation in Argentina and Chile



Source: BBVA Research

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Calendar: indicators

Next Week: 31 October - 4 November 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Public Service's Statistics	31-Oct	Sep 2011			10.8% y/y	
Construction Activity Synthetic Indicator	31-Oct	Sep 2011			11.5% y/y	
Wages Index	1-Nov	Sep 2011		2.4% m/m	2.9% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Fiscal Accounts	31-Oct	Sep 2011				
Industrial Production	1-Nov	Sep 2011		-0.90% m/m	-0.20% m/m	
Trade Balance	1-Nov	Sep 2011			\$ 3.074 M	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Actividad Sectorial	28-Oct	Sep 2011				
Empleo	28-Oct	Sep 2011	7.2%		7.4%	We expect a further reduction in the unemployment rate that would reach 7.2% due to an increase in employment growth over the workforce.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Urban Unemployment rate	31-Oct	Sep 2011	10.4%	10.1%	10.4%	Sectors with significant rise in formal employment creation (as industry) would maintain progress in the quality of employment.
Exports	11-Apr	Sep 2011	45.0% YoY		50.5% YoY	Preliminary indicators of customs registration anticipate maximum levels in exports despite higher global turbulence.
Automobiles sale	11-Nov	Oct 2011	28500 units		28883 units	A stabilization in sales volume and a moderation in growth rate is expected.
Inflation	5-Nov	Oct 2011	0.13% m/m, 3.93% YoY		0.31% m/m, 3.73% YoY	Low statistical base of 2010 determines the increase in inflation. For the month, food and regulated goods could present the highest increase in prices.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Formal Private Employment		Oct 2011	0.32% m/m (4.1% y/y)	n.a.	0.39% m/m (4.2% y/y)	With the moderation in industrial production is likely that it will be reflected into lower pace of job creation, yet buoyant.
Consumer Confidence	4-Nov	Oct 2011	-0.5% m/m (90 pts)	n.a.	-1.5% m/m (90.7 pts)	If the slower pace of job creation materializes, along with a moderation in the positive contribution that has already been observed in the real wage component of the disposable income, those would be factors that contribute to lower consumer confidence towards the last quarter of the year.
Producer Confidence	4-Nov	Oct 2011	-0.8% m/m (53.5 pts)	n.a.	-0.4% m/m (53.9 pts)	The lower industrial production related with moderation in external demand and the continuing doubts about the recovery in U.S. economic activity, will help to dampen the spirits of manufacturing producers.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation (CPI)	2-Nov	Oct 2011	0.2%	0.15%	0.3%	With this result annual inflation will reach 4.1%
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation rate	3-Nov	Oct 2011	2.1%		1.7%	Monetary pressures stemming from a growing public spending, along with the upward adjustment of some of the controls in the foods sector will cause a rebound in inflation in October.
Unemployment rate	1-Nov	Sep 2011	8.5%		8.0%	We expect unemployment rate, which reached 8% in August, increases a bit, staying below the annual average of 8.7%, in line with our expectations of a slower GDP growth of 2.2% in 3Q.
Imports	40848	Sep 2011	USD 3.250 MM		USD 3.497 MM	We expect imports to continue reaching levels above USD 3.000 MM, due to the higher seasonal demand on the part of the public sector.

Source: BBVA Research

Calendar of events

Brazil: September's Industrial Production

Previsión: -0.5% m/m

Consenso: -0.9% m/m

Anterior: -0.2% m/m

Our forecast for September is Industrial production will remain weak; indeed the correction is expected to be stronger than last month as a result of global uncertainty and its effects on economic activity.

Calendar of holidays

Brazil: November 2
Chile: October 31 and November 1
Mexico: November 2
Peru: November 1

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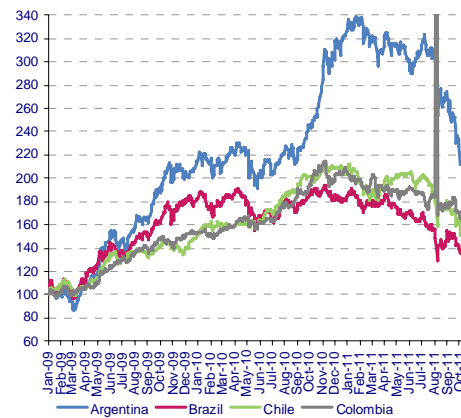
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.43	1	6	14
		2-yr yield	0.30	3	5	-4
		10-yr yield	2.40	18	42	-20
	EMU	3-month Euribor rate	1.59	1	5	55
		2-yr yield	0.70	4	11	-29
		10-yr yield	2.27	16	25	-25
Exchange rates (changes in %)	Europe	Dollar-Euro	1.419	2.4	4.2	1.9
		Pound-Euro	0.88	1.2	1.1	1.3
		Swiss Franc-Euro	1.22	-0.2	0.2	-10.6
	America	Argentina (peso-dollar)	4.23	-0.1	0.7	7.1
		Brazil (real-dollar)	1.71	-3.6	-6.0	0.8
		Colombia (peso-dollar)	1862	-1.8	-2.7	1.6
		Chile (peso-dollar)	492	-4.1	-4.0	0.6
		Mexico (peso-dollar)	13.11	-3.6	-2.5	6.2
		Peru (Nuevo sol-dollar)	2.70	-0.6	-2.3	-3.4
	Asia	Japan (Yen-Dollar)	75.85	-0.5	-0.9	-5.8
		Korea (KRW-Dollar)	1103.80	-3.8	-6.0	-1.8
		Australia (AUD-Dollar)	1.069	3.5	8.2	8.9
Comm. (chg %)		Brent oil (\$/b)	111.8	2.0	7.7	34.5
		Gold (\$/ounce)	1737.2	5.8	8.0	27.8
		Base metals	538.9	1.4	-0.8	-0.7
Stock markets (changes in %)	Euro	Ibex 35	9316	5.2	9.9	-13.8
		EuroStoxx 50	2499	6.9	14.8	-12.2
		USA (S&P 500)	1285	3.7	11.6	8.6
	América	Argentina (Merval)	3006	7.4	19.5	-0.1
		Brazil (Bovespa)	59270	7.3	11.3	-16.1
		Colombia (IGBC)	13583	0.6	5.5	-14.6
		Chile (IGPA)	20663	4.2	9.6	-9.7
		Mexico (CPI)	36727	4.9	9.8	3.3
		Peru (General Lima)	20012	6.1	7.9	4.1
		Venezuela (IBC)	106566	3.1	7.0	57.9
	Asia	Nikkei225	9050	4.3	5.0	-1.7
		HSI	20019	11.1	11.1	-13.3
Credit (changes in bps)	Ind.	Itraxx Main	150	-26	-43	53
		Itraxx Xover	635	-93	-171	178
		CDS Germany	71	-19	-33	37
	Sovereign risk	CDS Portugal	992	-87	-102	614
		CDS Spain	322	-53	-58	107
		CDS USA	36	-5	-16	---
		CDS Emerging	258	-55	-95	53
		CDS Argentina	862	-148	-182	237
		CDS Brazil	134	-29	-57	34
		CDS Colombia	132	-30	-55	32
		CDS Chile	103	-26	-39	35
		CDS Mexico	130	-29	-58	24
		CDS Peru	135	-30	-57	28

Source: Bloomberg and Datastream

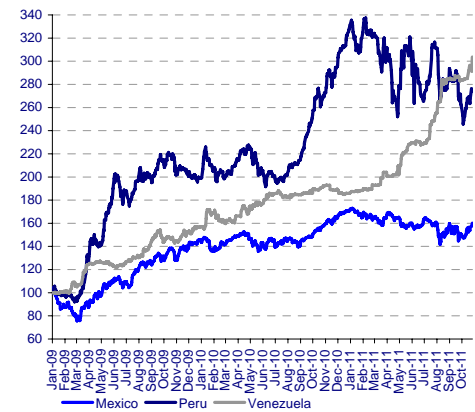
Charts

Chart 4
Stock markets (base index Jan09 = 100)



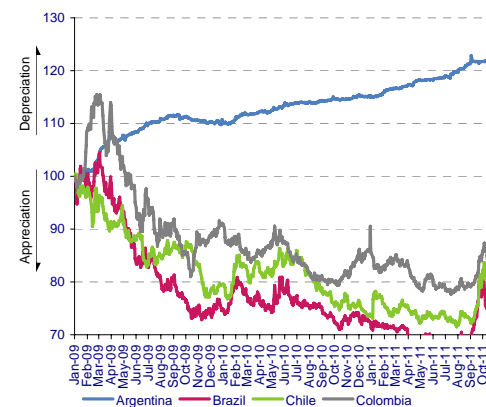
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



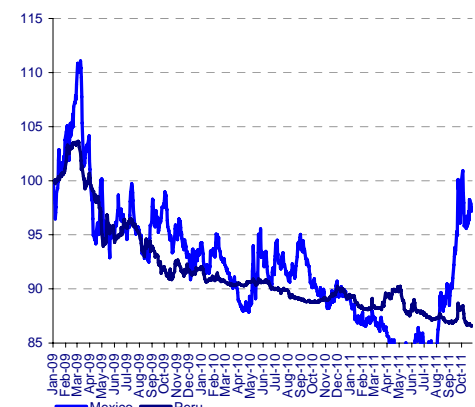
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



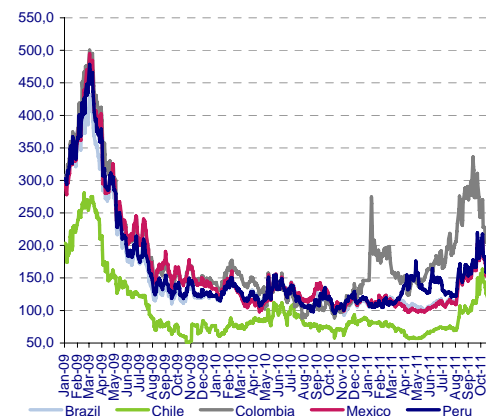
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



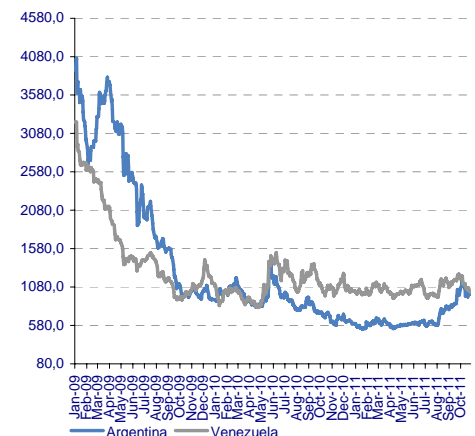
Source: Datastream and BBVA Research

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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