

Weekly Watch

Latin

July 1, 2011
Economic Analysis

South America

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Growth: signs of moderation

Growth figures in Mexico and Chile show that these economies are slowing; in the case of Mexico mainly due to external factors, but also because of contraction in public investment. In Peru public investment has fallen to cut public expenditure, while in Brazil the strength of the labor market, credit and greater concern over inflationary risk all suggest an increase of 25 bps in the SELIC.

A positive week for risk assets: currencies and stock market indices close up in Latin America

The moderation in risk premiums in the EU following the approval of the budget adjustments in Greece has led to greater appetite for risk in global markets. Latin American currencies gained, with the BRL performing particularly well due to local factors. Stock markets ended with gains, but volatility remains in Peru as key government positions are announced following the recent election.

Chart 1
Relative performance of Latin American currencies



Source: BBVA Research

Highlights

The economy slows in Mexico and Peru, grows in Chile

Economic performance conditions labour figures in May

Extended monetary adjustment in Brazil

Argentina: gas supply restrictions begin due to the severe cold spell

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Markets

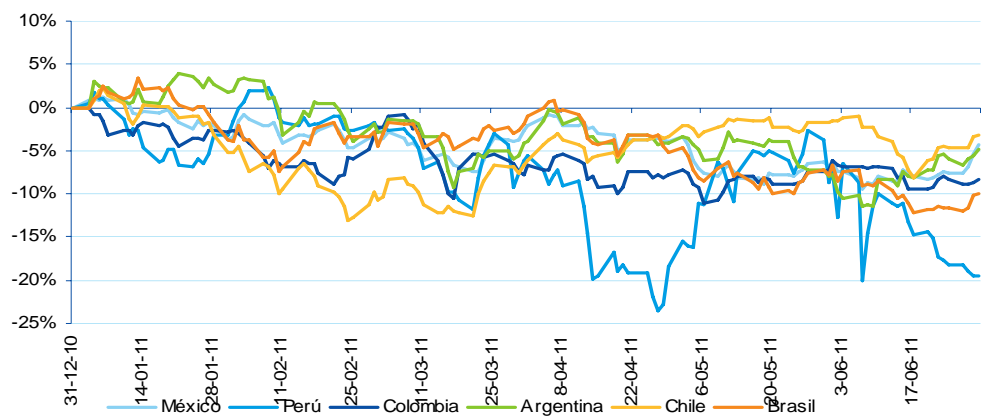
Markets are optimistic about the approval of budget measures in Greece and favourable economic figures in the U.S.

Currency market was positive last week in response to two factors. First, expectations (later proved correct) of the approval of austerity measures in Greece resulted in a moderation in risk premiums and greater appetite for emerging currencies. Markets also expected German banks to agree to roll over their holdings of Greek debt. Second, after the vote in Greece, markets focused on economic data from the U.S., where the positive surprise in the Chicago Purchasing Manager Index led to extended risk asset gains. Against this background Latin American currencies appreciated in general. The BRL posted the biggest gains, as it was strengthened by the inflation report showing a slightly more hawkish bias, which favoured short-term upward pressure. In contrast, the appreciation of the COP was more restricted than on other occasions, as the market continued to await more foreign-exchange interventions on the domestic front. In all, we consider that the determinant over the next few weeks will continue to be the level of aversion/appetite for global risk. Given the lower risks in the EU, this will respond to global economic data, which continue to give no clear signs of strong activity. Thus we do not rule out that volatility may continue over the coming weeks.

With the exception of Peru, the Latin American stock markets ended the week up as a result of the greater appetite for risk in global markets.

Over the week, stock markets were positive in response to the voting process on the Greek austerity plan. All the regions posted gains, particularly (of course) Europe and to a lesser extent, the U.S. In Latin America, Mexico stood out with a rise of 3.5%. The only stock market that fell back in Latin America was Peru, where the announcements of key government positions following the recent elections continued to be set against a volatile background. In the coming weeks, markets will continue to be driven by the process of EU and IMF authorization of rescue funds for Greece. This backdrop could maintain the positive difference of European stock markets against Latin America.

Chart 2
Latin American stock market monitor



Source: Bloomberg and BBVA Research

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Highlights

The economy slows in Mexico and Peru, grows in Chile

Economic activity in Mexico slowed in April as a result of the fall for the third month in a row in industrial output (due to the earthquake and tsunami in Japan, and to a drop in foreign demand), while the service sector continues to grow. In Chile, the May figures show that industrial output grew by 9.7% y/y, mainly due to a low basis of comparison, as monthly growth was negative (-0.5%). Both in Mexico and Peru, figures on public investment suggest moderation: the national accounts in Mexico in the first quarter showed the biggest fall in the public investment series in recent years (-21.1% y/y). Similarly, public investment in Peru fell 21% in May and 41.8% in April, reflecting the measures implemented by the government to reduce public spending in the second quarter.

Economic performance conditions labor results in May

In Chile and Colombia the improved economic performance reduced the unemployment rate on the same period in 2010 to 11.8% and 7.2% respectively, although in Chile the seasonal factor accounted for 0.2 pp of the increase on April, due to a zero growth in employment. In Venezuela, unemployment increased 30 bps y/y to 8.4%, as the growth in the labor force (240,000 more people) was greater than the number of jobs created (180,000).

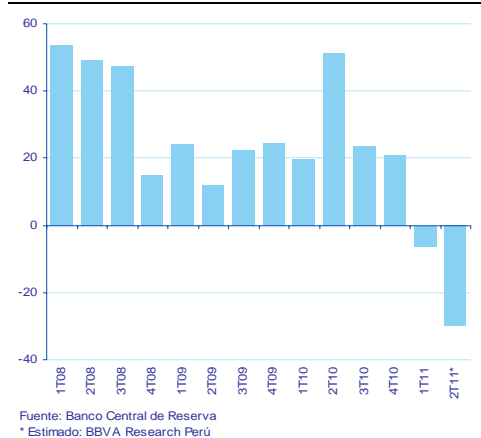
Extended monetary adjustment in Brazil

The Inflation Report issued by the Central Bank suggests that the SELIC will increase by 25 bps in July. There is a growing possibility that the monetary adjustment will extend beyond July, particularly due to the strength of the labor and credit market (figures this week show that the stock of credit increased by 20.4% y/y in May, far above the target of 15% y/y for the end of the year). The focus on inflation has for the moment pushed the concern about exchange-rate appreciation in the background. The recent stability of the current-account deficit (which was 2.29% of GDP in May, within its range of 2.20% to 2.30% since August 2010) supports this strategy.

Argentina: gas supply restrictions begin due to the severe cold spell

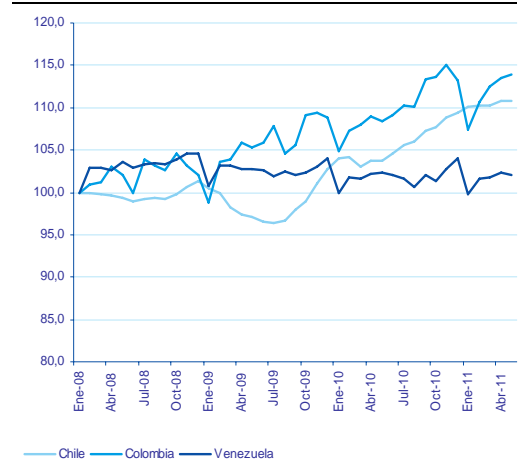
They aim to control the strong upturn in gas needs in homes, which affects companies in a number of sectors (citrus fruit, mining, steel and automotive). These measures will slow industrial output growth in 2Q11, but will not have a significant effect over the year as a whole, as they are offset by increased output when the climate improves.

Chart 3
Public investment (year-on-year % change)



Source: BBVA Research

Chart 4
Employment index for Chile, Colombia and Venezuela (Jan 08 = 100)



Source: BBVA Research

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Calendar: indicators

Next Week: 4 - 8 July 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Tax Collection	4-Jul	Jun 2011	\$47,8MM	\$50,6MM	\$48,20MM	
Brazil						
IBGE Inflation IPCA	7-Jul	Jun 2011	0.10% m/m	0.06% m/m	0.47% m/m	
Chile						
Monthly index of economic activity	5-Jul	May 2011	6.5% a/a		6.3% a/a	
Consumer price index	8-Jul	Jun 2011	0.3% m/m	0.3% m/m	0.4% m/m	
Colombia						
Inflation	5-Jul	Jun 2011	3.14 y/y, 0.23 m/m	3.3 y/y, 0.22 m/m	3.0 y/y, 0.28 m/m	
Exports	8-Jul	May 2011	30.0 y/y		34.6 y/y	Better balance of industrial exports can sustain high growth rates of total shipments.
Mexico						
Producer Confidence	7-Apr	Jun 2011	1.9 mom (57.1 level)	NA	1.7 mom (56.1 level)	Optimism returns to manufacture producers related to better external demand aimed at recovery from temporary blip related to commodity prices and Japan's tsunami.
Consumer Confidence	7-May	Jun 2011	1.1 mom (90.8 level)	NA	0.8 mom (89.9 level)	After the break in March and April, we expect an improvement in consumer confidence, bolstered by continued improvement in employment and in real wages.
Inflation	7-Jul	Jun 2011	-0.09 m/m (3.19% y/y)	0.04% m/m	-0.75% m/m (3.25% y/y)	During June's first fortnight inflation surprised downwards again, this new surprise is due to a lower than expected reduction in the prices of fruits and vegetables and the stability of the core component.
Venezuela						
Inflation	8-Jul	Jun 2011	2.2%	2.2%	2.5%	

Source: BBVA Research

Calendar of events

Mexico and Peru: Monetary Policy Rate (July 8 and 7, respectively)

Forecast: Mexico 4.5%, Peru 4.25%

Consensus: Mexico 4.5%, Peru 4.25%

Previous: Mexico: 4.5%, Peru: 4.25%

Output figures below expectations in Mexico and the downward surprise in inflation strengthen the improvement in Banxico's balance of inflationary risks. There are renewed prospects of a monetary pause at least until the summer of 2012. In Peru, the year-on-year inflation rate is once more within the target range (1% - 3%) in June, and with the economy gradually slowing, the Central Bank will maintain its policy rate unchanged.

Calendar of holidays

Colombia: July 4.

Venezuela: July 4 and 5.

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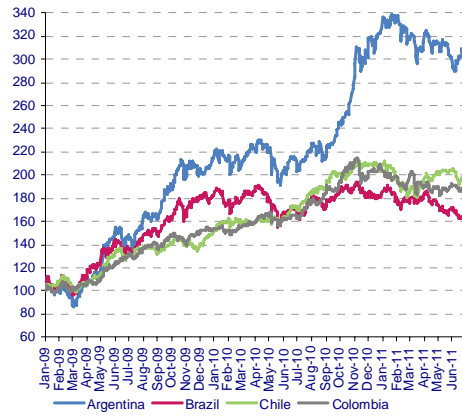
Market Data

			Cierre	Cambio semanal	Cambio mensual	Cambio anual	
Tipo de interés (cambio en pbs)	EE.UU	3-meses Libor	0,25	0	-1	-29	
		Tipo 2 años	0,46	13	3	-17	
		Tipo 10 años	3,17	31	23	19	
	UEM	3-meses Euribor	1,56	3	12	77	
		Tipo 2 años	1,63	27	2	96	
		Tipo 10 años	3,02	19	3	44	
Divisas (cambios en %)	Europa	Dólar-Euro	1,452	2,3	0,9	15,5	
		Libra-Euro	0,91	1,9	3,0	9,6	
		Franco Suizo-Euro	1,23	3,7	1,3	-8,2	
		Argentina (peso-dólar)	4,11	0,2	0,6	4,5	
	América	Brasil (real-dólar)	1,56	-2,6	-1,9	-11,8	
		Colombia (peso-dólar)	1,771	-1,3	-1,1	-6,2	
		Chile (peso-dólar)	467	-1,4	-0,2	-13,0	
		México (peso-dólar)	11,69	-1,8	0,4	-10,7	
		Perú (Nuevo sol-dólar)	2,75	-0,4	-1,0	-2,6	
		Japón (Yen-dólar)	80,72	0,4	-0,2	-8,0	
	Asia	Corea (KRW-dólar)	1066,65	-1,1	-0,7	-13,2	
		Australia (AUD-dólar)	1,072	2,2	0,3	27,4	
	MMPP (Var %)	Brent de petróleo (\$/b)		111,4	6,0	-2,7	55,5
		Oro (\$/onza)		1490,5	-0,8	-3,5	23,2
Metales		600,6	0,6	-1,8	26,9		
Renta Variable (cambios en %)	Euro	Ibex 35	10416	6,1	0,7	12,6	
		EuroStoxx 50	2855	5,1	1,0	13,2	
		EE.UU. (S&P 500)	1321	4,1	0,5	29,1	
	América	Argentina (Merval)	3361	2,2	5,8	51,6	
		Brasil (Bovespa)	62404	2,3	-1,6	1,6	
		Colombia (IGBC)	14068	-0,5	-2,7	14,0	
		Chile (IGPA)	22642	2,0	-1,2	20,2	
		México (CPI)	36558	3,4	3,2	16,5	
		Perú (General Lima)	18879	-0,6	-6,9	36,6	
		Venezuela (IBC)	80398	0,3	-0,3	23,4	
		India (Nikkei225)	9868	2,0	1,5	7,2	
	Asia	HSI	22398	1,0	-5,2	12,5	
	Crédito (cambios en pbs)	Ind.	Itraxx Main	106	-9	3	-22
Itraxx Xover			395	-35	23	-174	
CDS Alemania			43	-2	5	0	
Riesgo soberano		CDS Portugal	745	-97	55	450	
		CDS España	270	-28	17	28	
		CDS EE.UU	50	-3	2	---	
		CDS Emergentes	212	-22	-5	-64	
		CDS Argentina	589	-56	-36	-405	
		CDS Brasil	110	-8	4	-30	
		CDS Colombia	108	-7	8	-45	
		CDS Chile	76	-3	7	-32	
		CDS México	107	-8	3	-31	
		CDS Perú	131	-18	-15	-6	

Fuente: Bloomberg y Datastream

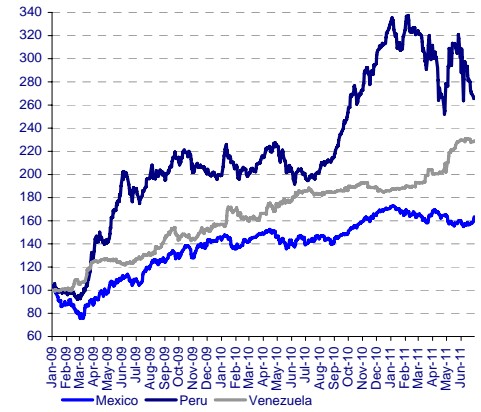
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Chart 4
Stock markets (base index Jan09 = 100)



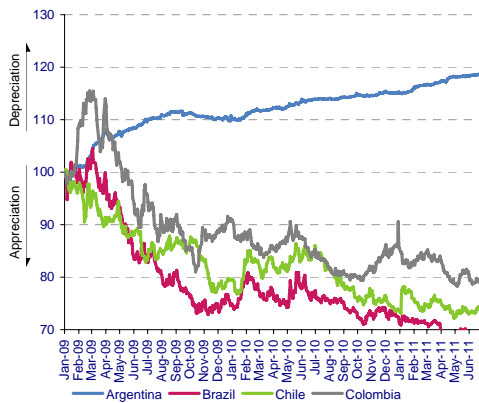
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



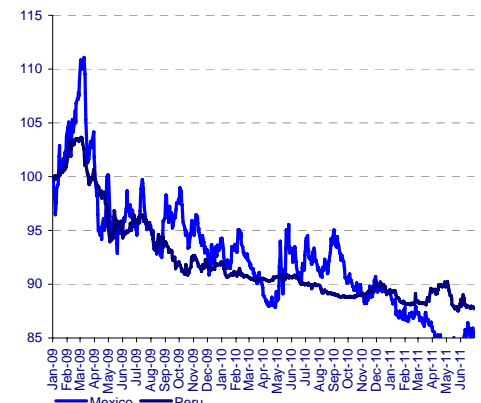
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



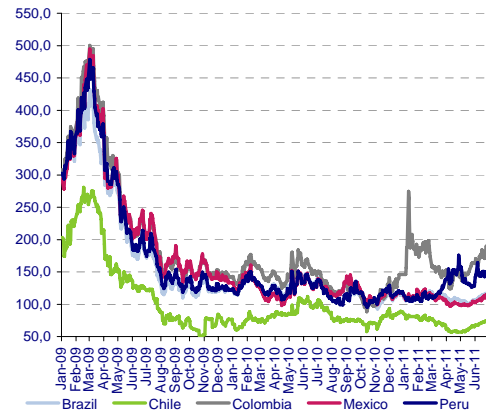
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



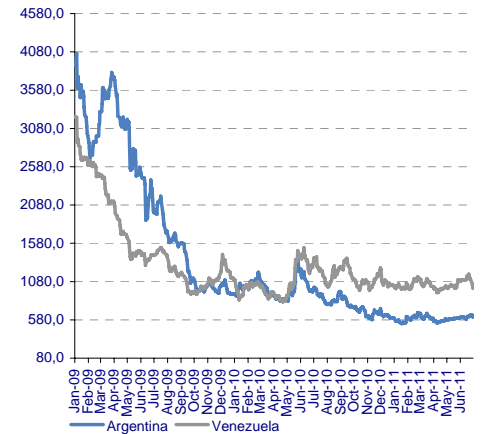
Source: Datastream and BBVA Research

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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