

Weekly Watch

Latin

August 1, 2011
Economic Analysis

South America

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Inflation to dominate the local agenda

At the local level the most important event will be the inflation figures released during the week. The most relevant are those of Brazil, where an upward surprise could lead to a renewed rise in the SELIC rate.

Markets show more volatility due to greater sovereign risk in the U.S. and Europe. Less room for reaction to local factors and corporate reports

The discussion about the debt ceiling in the U.S., worse than expected economic figures and uncertainty regarding the agreements reached at the European summit have led to a feeling of risk aversion. In addition, local factors are adding pressure to the foreign-exchange markets, while positive corporate reports have not managed to offset the negative effects of the foreign context on share prices.

Chart 1
Relative performance of Latin American currencies



Source: BBVA Research

Highlights

Credit growth slows and the current account deficit falls in Brazil

Surprises in economic activity

The foreign-exchange market in Peru and Argentina

New bond issue in Venezuela will relax pressures on the foreign-exchange market

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Markets

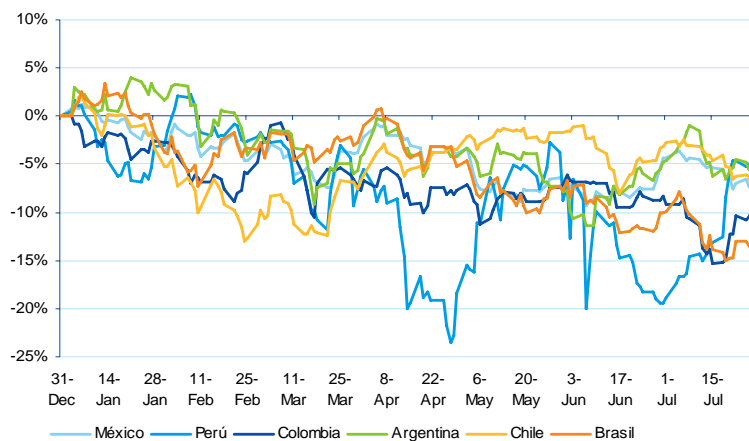
A combination of elements in the U.S. and local factors results in varied movements and volatility in Latin American countries

Last week, the global FX market's performance was determined by a variety of factors, mainly in the U.S.: the debate around the debt ceiling in Congress and the flow of economic news, which on the whole continued to suggest moderate growth. Although the fiscal situation in the European peripheral nations receded into the background due to the agreements announced the previous week, some uncertainty remained, which led to higher risk aversion. In this context, the USD was volatile against G10 and emerging currencies, with the DXY index registering a slight appreciation over the week of 0.1% to Thursday. Latin American currencies also responded to local factors. The case of the BRL is particularly notable. It depreciated by 0.7% on the announcement of new foreign-exchange intervention. This occurred after the currency hit a low of under 1.53. In Chile, concerns about the copper supply due to a strike in a major mine have led to a rise in metal prices that in turn favored the CLP. Meanwhile, the COP depreciated by nearly 1% on cross-border M&A flows. The PEN remained relatively stable in the face of the Central Bank of Peru's interventions, while the MXN displayed some volatility and only reacted to elements linked to the U.S.

Less attention paid to corporate reports in the face of sovereign risks in the U.S. and Europe; in general, results provide a slight positive surprise

Immersed in the turmoil of sovereign risk developments in the U.S. and Europe, global stock markets appear to give little importance to a reporting season that has so far been positive. In Latin America (except for Mexico) the sample of companies reporting is too limited to extract any significant conclusions. However, results in Mexico have been slightly better than expected, with sales 2.1% above estimates and net profit 1.5% above. In the U.S., 60% of the companies have posted surprisingly positive results. Sales have been 3.8% above consensus estimates, and net profit 6% above. As we mentioned above, we consider that far from being a catalyst, the reports could rather be a support element that so far has prevented a breakthrough in the year's lows. Mexico provided a special case of circumstances, with a change in the investment rules for Afores fund managers that increased the investment limit in equity from a weighted asset average of 24.7% to 29.7%. However, although the impact could be favorable in the long term and make the Mexican pension system converge with those in the more developed market, its short-term effects may be limited, given that before the change, the Afores used only 70% of their permitted level of investment in equity. In Peru, the risk premium associated with the transition of political power continues to return to normal. As a result, the country stood out positively from among others in the region.

Chart 2
LatAm Stock Market Monitor



Source: BBVA Research

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Highlights

Credit growth slows and the current account deficit falls in Brazil

Credit grew by 20.0% y/y in June, the lowest rate since August 2010. However, growth over the month continued strong (1.6% m/m). The current-account deficit fell to 2.18% of GDP in June, as exports continue to grow, favored by high prices.

Surprises in economic activity

In Argentina, industrial production was up 8.5% y/y in June (Consensus: 7.5% y/y), while in Mexico the Indicator of Economic Activity rose by 1% m/m, also above expectations. In contrast, growth in industrial output in Chile in June was under expectations, at only 4% y/y, with a monthly fall of 1.8%.

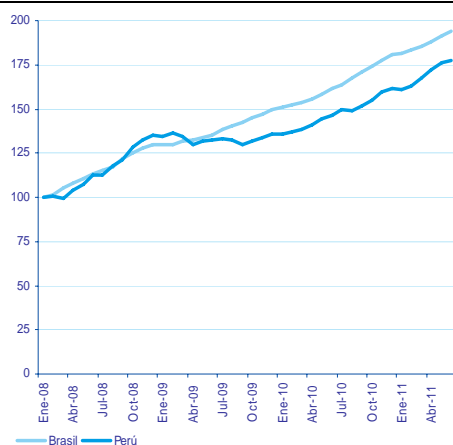
The foreign-exchange market in Peru and Argentina

The Central Bank of Peru continued to intervene, buying USD 212 million over the week. The move was in a context in which the markets have reacted positively to the announcement of the officials who are to occupy key positions in the Humala administration. In Argentina, the trade surplus continued to fall, by slightly more than expected. This helped weaken the ARS.

New bond issue in Venezuela will relax pressures on the foreign-exchange market

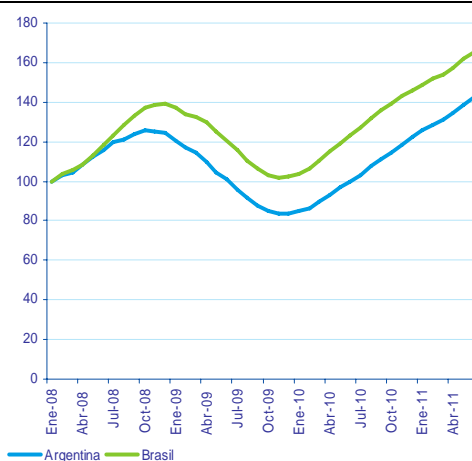
Although it was anticipated by the market, the size of the issue (USD 4.2 billion) was greater than expected. The high coupon rate (11.95%) and the volume helped relax inflationary pressures and stabilized the unofficial exchange rate (40% will be allocated to health companies and food) and provided the SITME with liquidity in a period of seasonal import growth. We estimate that the implicit exchange rate will be close to the SITME trading price.

Chart 3
**Stock of credit:
Brazil and Peru (Jan08 index = 100)**



Source: BBVA Research

Chart 4
**Imports: Brazil and Argentina
(12-month accumulated total; Jan08 index = 100)**



Source: BBVA Research

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Calendar: indicators

Next Week: 1 - 8 August 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Wages Index	5-Ago	Jun 2011	2.2% m/m	2.5% m/m	2.9% m/m	Wages will keep on increasing above the inflation rate because of the late signed of the collective agreement
Brazil						
Trade Balance	1-Aug	Jul 2011		\$5200M	\$4430M	Trade balance to remain robust. This should temporarily reduce the concerns with Brazil's external accounts.
Industrial Production	2-Aug	Jun 2011		-0.30% m/m	1.30% m/m	
Inflation (IPCA)	5-Aug	Jul 2011	0.20% m/m	0.13% m/m	0.15% m/m	Inflation to slow down in monthly terms but to trend up and near 7.0% y/y in yearly terms. In this environment, the CB would face significant reputational problems to keep the SELIC rate unchanged in the end of August. We, therefore, expecte the monetary authority to adjust the interst rate up by 25bps at its next meeting.
Colombia						
Inflation	4-Aug	Jul 2011	0.15% m/m, 3.43% y/y	0.15% m/m, 3.40% y/y	0.32% m/m, 3.23% y/y	Despite the expected moderation in food inflation, closing the output gap and the lower stat base in 2010 keep the behavior of the total inflation to rise.
Automobiles sale	9-Aug	Jul 2011	26.500		27.030	Sales are reducing their growth rates in recent months, but remain at high levels of monthly transactions.
Mexico						
Consumer Confidence	4-Aug	Jul 2011	2% m/m 93.7	NA	1.7% m/m 91.9	The improvement in employment will boost the dynamics of consumer confidence. Relevant variable will be the possibility to purchase durable good.
Peru						
Inflation	1-Aug	Jul 2011	0.70% m/m, 3.26% y/y	0.30% m/m, 2.80% y/y	0.10% m/m, 2.91% y/y	The relatively high monthly figure reflects the price increase in some foodstuff (especially poultry) and the seasonal effect due to the National Holiday.
Venezuela						
Inflation	5-Aug	Jul 2011	2.2% m/m, 25.8% y/y		2.2% m/m, 25.1% y/y	The holiday season and increased on school enrollment (22%) will keep inflationary pressures this July.

Source: BBVA Research

Calendar of events

Chile: Monthly Indicator of Economic Activity (IMACEC, August 5)

Forecast: 5.8%

Consensus: 6.0%

Previous: 7.3%

Calendar of holidays

There are no holidays this week in the region.

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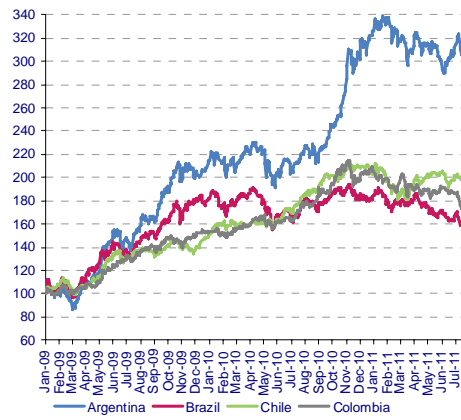
Market Data

			Close	Weekly change	Monthly change	Annual change		
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	1	-20		
		2-yr yield	0.40	2	-6	-14		
		10-yr yield	2.92	-4	-19	1		
	EMU	3-month Euribor rate	1.61	0	7	71		
		2-yr yield	1.21	-18	-34	43		
		10-yr yield	2.60	-23	-39	-7		
Exchange rates (changes in %)	Europe	Dollar-Euro	1.428	-0.6	-1.0	9.4		
		Pound-Euro	0.88	-0.4	-2.3	5.6		
		Swiss Franc-Euro	1.14	-2.5	-5.2	-15.8		
	America	Argentina (peso-dollar)	4.14	0.1	0.9	5.2		
		Brazil (real-dollar)	1.57	1.0	-0.2	-11.0		
		Colombia (peso-dollar)	1773	0.8	-0.4	-3.8		
		Chile (peso-dollar)	455	-1.3	-3.2	-12.6		
		Mexico (peso-dollar)	11.75	1.0	-0.2	-7.2		
		Peru (Nuevo sol-dollar)	2.74	0.1	-0.5	-2.9		
		Asia	Japan (Yen-Dollar)	77.63	-1.1	-4.0	-10.2	
			Korea (KRW-Dollar)	1054.80	0.3	-1.8	-10.8	
			Australia (AUD-Dollar)	1.094	0.8	2.6	21.1	
		Comm. (chg %)	Brent oil (\$/b)	117.2	-1.3	4.2	49.9	
			Gold (\$/ounce)	1613.7	0.8	6.7	36.6	
Base metals	596.6		0.4	-0.4	22.5			
Stock markets (changes in %)	Euro	Ibex 35	9616	-4.4	-5.2	-8.4		
		EuroStoxx 50	2665	-3.9	-4.9	-2.8		
		USA (S&P 500)	1301	-3.3	-0.5	18.1		
	América	Argentina (Merval)	3271	-2.5	-2.5	36.6		
		Brazil (Bovespa)	58708	-2.6	-5.8	-13.0		
		Colombia (IGBC)	14069	1.8	-1.0	5.9		
		Chile (IGPA)	21207	-3.7	-5.9	4.5		
		Mexico (CPI)	35918	0.5	-1.8	11.2		
		Peru (General Lima)	21963	-0.4	17.3	53.9		
		Venezuela (IBC)	89251	2.3	11.0	39.3		
		Asia	Nikkei225	9833	-3.0	0.4	3.1	
			HSI	22440	0.0	1.7	6.7	
		Credit (changes in bps)	Ind.	Itraxx Main	114	3	4	9
				Itraxx Xover	430	17	21	-50
Sovereign risk	CDS Germany		63	5	19	25		
	CDS Portugal		913	-3	146	688		
	CDS Spain		346	37	65	170		
	CDS USA		65	11	14	---		
	CDS Emerging		212	0	-6	-2		
	CDS Argentina		596	-7	-25	-198		
	CDS Brazil		114	2	-1	-3		
	CDS Colombia		111	1	-1	-13		
	CDS Chile		70	-4	-7	-8		
	CDS Mexico		111	1	-1	-6		
	CDS Peru		123	2	-19	13		

Source: Bloomberg and Datastream

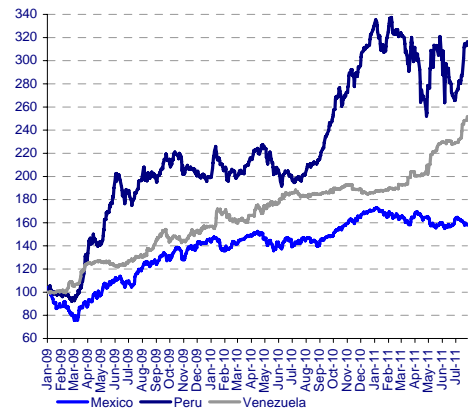
Charts

Chart 4
Stock markets (base index Jan09 = 100)



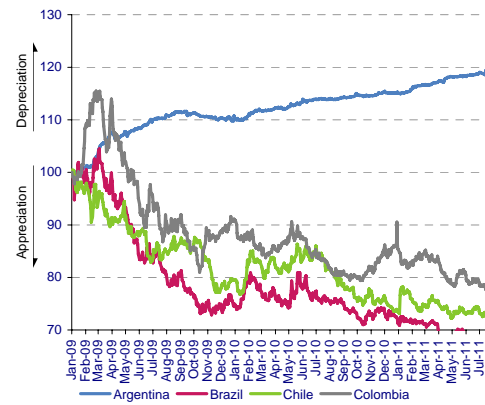
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



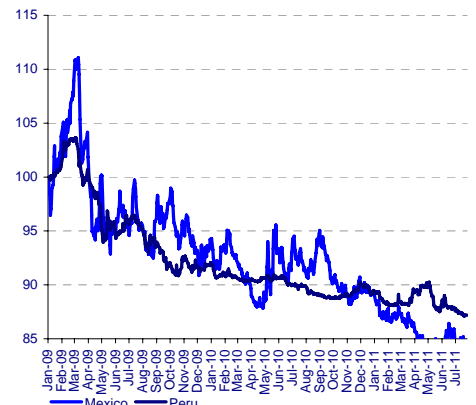
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



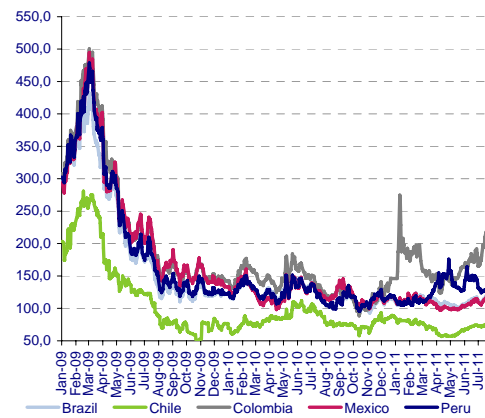
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



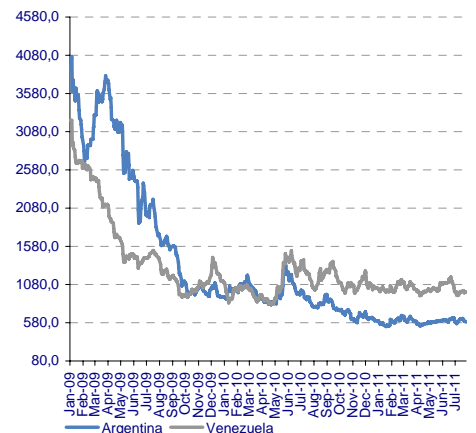
Source: Datastream and BBVA Research

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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