

Weekly Observatory

December 3, 2010

Economic Analysis

South America

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Markets

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Growth in demand raises expectations of renewed rises in official interest rates

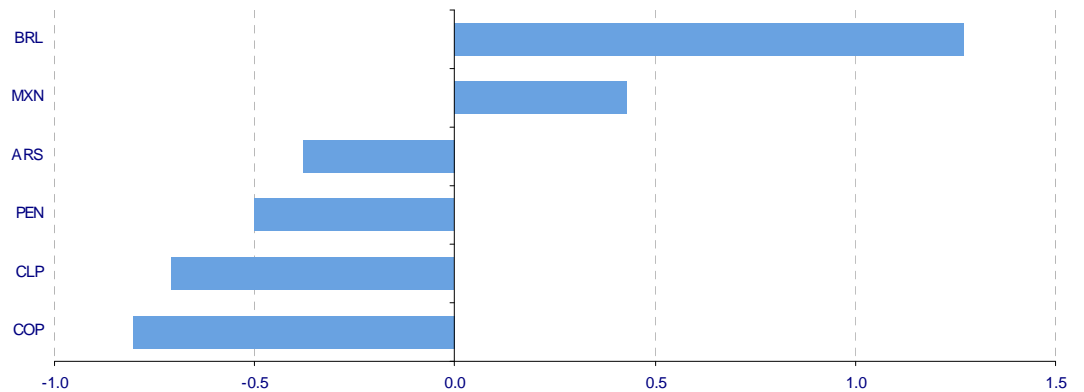
Economic activity continues strong in the region, due to buoyant domestic demand. This can be seen in Argentina, Brazil and Chile, where the indicators of sales and imports are still growing at very high rates. It is also reflected in the expansion of credit in October in both Brazil and Colombia. At the same time, unemployment continues to fall in Chile and Colombia. This has led to some analysts (though still a minority) to suggest there will be rises in official interest rates in Brazil and Peru.

Latin American markets erratic, but finally responding favourably to global impulses in Europe, the U.S. and China.

Although the main determinant is still the risk premium in the Euro zone, better than expected figures from the U.S. (employment and manufacturing) and China (PMI) had a favourable impact on markets in the region. The scenario suggests falls in global risk premiums, but with sensitivity to any news, so we expect broad ranges of fluctuation in the currencies.

Chart 1

Variations in LatAm currencies (% , 7 days)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



Highlights

Domestic demand continues to drive activity in the region

Credit still supporting expansion in domestic demand in Brazil and Colombia

Unemployment down in Chile and Colombia

Symptoms of a slight moderation in public spending

Internal issue of corporate bonds by Ecopetrol for COP 1 trillion (USD 517m)

Economic Analysis

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Markets

Currencies in the region erratic, but end up responding favourably to global impulses: ECB comments and favourable cyclical data in the U.S. and China

Currencies in the region once more moved erratically last week. So far the main determinant of their behaviour is still the risk premium in the Euro zone, which led to a weekly increase of 2.7% in the CDS in the region and in a general depreciation in the first days of the week.

However, the comments by the President of the ECB at the end of the week, combined with the publication of better than expected figures from the U.S., led to a recovery in currencies in the region, particularly in the BRL and MXN (with net weekly appreciations, compared with the falls registered in the rest of the crosses in the region). At the same time, the COP and PEN continue to react to factors related to the foreign exchange positions of local banks, while the CLP was affected by the more dovish tone of the latest monetary policy minutes of the Central Bank and the increase in copper prices.

Although the scenario suggests a drop in global risk premiums, we consider that any additional element of risk could result in high levels of depreciation, so we expect that the broad trading ranges will remain in the near future. However, positioning factors such as implied volatility continue to show an appetite for local currencies. This suggests an appreciation in the coming weeks (e.g. the implied 1M volatility of the BRL fell by 0.85 vegas over the week).

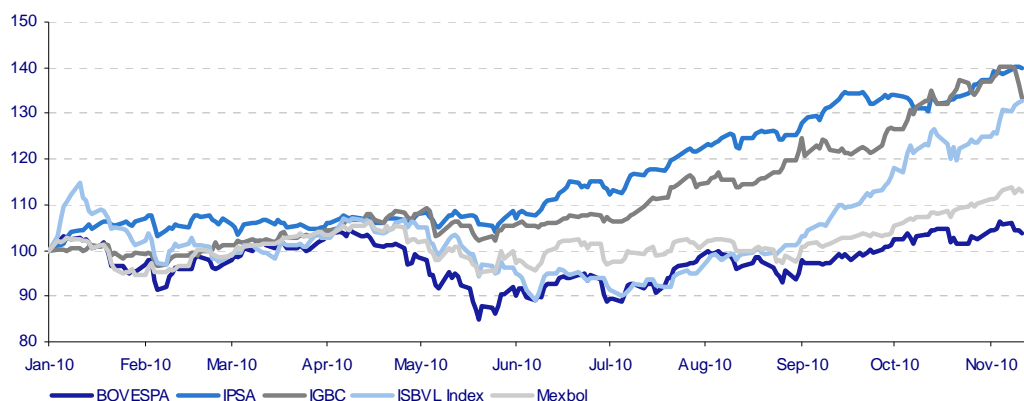
Highlights →

Calendar →

Markets Data →

Charts →

Chart 2
Latin American stock market indices (Index Jan10=100)



Source: BBVA Research

Economic Analysis

Highlights

Domestic demand continues to drive activity in the region

The real growth of demand (supermarkets and shopping malls) continues in Argentina due to the real negative interest rates and changes in income. In Brazil, industrial output grew in October, spurred on by the growth in domestic demand. In Chile, on the other hand, industrial output slowed in October and mining production fell by 6.3% y/y, but the rate of growth in retail trade remained high. In Peru, there was zero inflation in November.

Credit still supporting expansion in domestic demand in Brazil and Colombia

Credit stocks grew strongly in October in both Brazil and Colombia (20.3% y/y and 14.0%, respectively). Most notable in both countries was the expansion in mortgage lending, at 51.1% y/y in Brazil and 19.7% in Colombia.

Unemployment down in Chile and Colombia

The unemployment rate in Chile was 7.6% in the rolling August-October quarter, 0.4 pp below the figure for the previous quarter, while in Colombia in October the rate was 11.1%, 1.2 pp below the figure for October 2009. There was an increase in salaried employment in Chile, while Colombia is still behind in its process of increasing the rate of formal employment.

Symptoms of a slight moderation in public spending

In Brazil, the primary accumulated surplus in October over the last twelve months was 2.9% of GDP, so the new target of 3.1% (previously 3.3%) will probably be met. In Colombia and Peru, public investment grew less than in previous months.

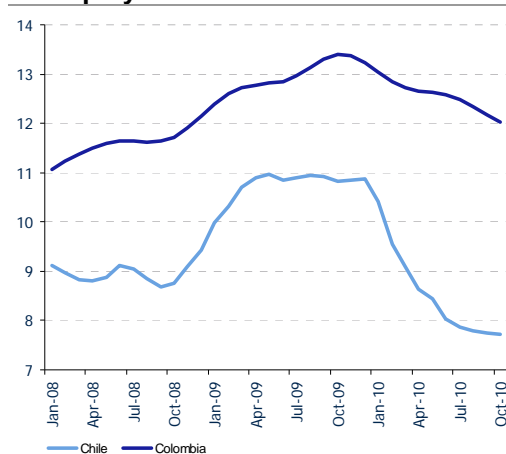
The trade balance in Brazil falls due to fast growth of imports

In another sign of the effects of fast-growing domestic demand, in Brazil the trade balance for November (USD 312m) was far below that in previous months, and has accumulated a y/y fall of 35% so far this year.

Internal issue of corporate bonds by Ecopetrol for COP 1 trillion (USD 517m)

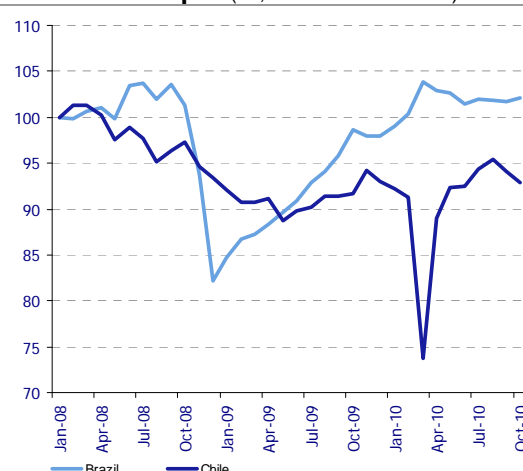
Issues with inflation-linked coupons hit an all-time high in the corporate sector, with demand of COP 3 trillion. The 5, 7, 10 and 30 year bonds had margins of 3.1%, 3.5%, 4.1% and 5.1% respectively; very similar to the TES-UVR and between 20 and 30 bps below the fixed-rate TES, thus showing the low credit risk of the issuer. The market does not expect the rates of the TES fixed-rate to be sustained.

Chart 3
Unemployment rate %



Source: DANE, INE Chile and BBVA Research

Chart 4
Industrial output (sa, base index 08=100)



Source: BBVA Research

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- Calendar →
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Calendar: Indicators

Next Week: 29 November - 3 December 2010

Country	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Tax Collection	6-Dec	Nov 2010	\$M 36.000	\$M 35.676	\$M 36.077	Export duties continue to lead the growth in tax collection.
Brazil						
Inflation	8-Dec	Nov 2010	0.80% m/m	0.87% m/m	0.75% m/m	Domestic prices, especially food prices, remained trending up in November. Yearly inflation is set to reach 5.6% in November and around 6% in December, much more than previously expected.
Quarterly GDP	9-Dec	3Q 2010	0.3% q/q	0.3% q/q	1.2% q/q	Economic growth moderated in the third quarter, although domestic demand remained strong given the support given by labor and credit markets.
Chile						
Monthly index of economic activity	6-Dec	Oct 2010	5.5%		6.7%	We expect moderation for discharge for base of comparison, minor growth of the industry and contraction of the mining industry.
Consumer prices index	7-Dec	Nov 2010	0.3%	0.2%	0.1%	
Survey of financial operators	9-Dec	Nov 2010				
Survey of economic expectations	10-Dec	Nov 2010				
Colombia						
Commerce confidence	10-Dec	Oct 2010	34.0		29.1	Positive perception of domestic demand will continue.
Industrial confidence	10-Dec	Oct 2010	2.5		2.8	Lower the valuation of external demand
Consumer confidence	10-Dec	Nov 2010	35.0		30.3	Sharp reduction in the unemployment rate will determine an increase in confidence
Energy demand	6 - 10 Dec 2010	Nov 2010	6.3		1.7	One more working day in November generated positive effect
Car sales	6 - 10 Dec 2010	Nov 2010	33025		23462	Fair prices could boost sales upward
Mexico						
Monthly Inflation	9-Dec	Nov 2010	0.86% m/m (4.38% y/y)	0.81% m/m	0.62% m/m (3.58% y/y)	General inflation will keep rising through year end due to non-core components, mainly electric fees and the prices of agricultural products. This increment isn't big enough to surprise neither Banxico or the market
Empleo Formal Privado	6 - 10 Dec 2010	Nov 2010	0.46 m/m (5.4 y/y)		0.37 m/m (5.4 y/y)	The private formal employment could have been growing in November which is a positive sign in the activity for the year end. It should be noted that this indicator will be released the same week as the indicator IMEF emulating the U.S. ISM and will have had a favorable outcome. The relatively good performance of manufacturing influence the generation of employment.
Venezuela						
Inflation	9-Dec	Nov 2010	2.2% m/m (28.1% y/y)		1.5% m/m (27.6% y/y)	We expect an inflationary peak driven by the growth of liquidity and a seasonally lower food supply in November

Source: BBVA Research

Calendar: Events

Brazil and Peru: Monetary Policy Meeting (December 8 and 9, respectively)

Forecast: Brazil 10.75%; Peru 3% Consensus: Brazil 10.75%; Peru 3% Previous: Brazil 10.75%; Peru 3%
Recent inflationary pressures and high levels of credit in Brazil increased significantly the chance of a new upward cycle in the SELIC. The most probable scenario appears to be for this new cycle to begin in January, but a rise of 25 bps in December cannot be ruled out. In Peru, the greater uncertainty linked to the external environment and the lack of inflationary pressures suggest that the Central Bank will for the time being maintain the pause in the cycle of monetary restriction, despite the strength of economic activity.

Calendar: holidays

Venezuela and Spain: Monday, December 6.

Argentina, Chile, Colombia, Peru and Spain: Wednesday, December 8.

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Market data

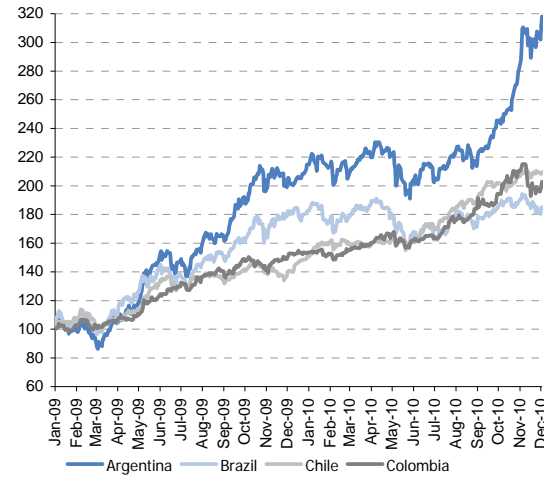
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.30	1	2	5
		2-yr yield	0.47	-4	14	-36
		10-yr yield	2.95	8	46	-52
	EMU	3-month Euribor rate	1.03	0	-2	31
		2-yr yield	0.86	-6	-6	-48
		10-yr yield	2.87	13	47	-37
Exchange rates (changes in %)	Europe	Dollar-Euro	1.335	0.8	-5.9	-10.3
		Pound-Euro	0.85	0.4	-2.5	-5.6
		Swiss Franc-Euro	1.31	-1.4	-3.8	-13.3
	America	Argentina (peso-dollar)	3.98	0.1	0.5	4.6
		Brazil (real-dollar)	1.69	-2.1	0.9	-1.9
		Colombia (peso-dollar)	1905	-0.2	4.8	-5.1
		Chile (peso-dollar)	482	-0.3	0.3	-4.1
		Mexico (peso-dollar)	12.38	-0.9	1.0	-2.0
		Peru (Nuevo sol-dollar)	2.83	0.3	1.2	-1.5
	Asia	Japan (Yen-Dollar)	82.83	-1.4	2.7	-8.0
		Korea (KRW-Dollar)	1132.05	-2.8	2.1	-2.1
		Australia (AUD-Dollar)	0.987	2.4	-2.6	7.8
Comm. (changes in %)	Brent oil (\$/b)	90.7	6.0	3.1	17.1	
	Gold (\$/ounce)	1402.3	2.8	0.7	20.7	
	Base metals	559.1	1.9	0.1	17.8	
Stock markets (changes in %)	Euro	Ibex 35	9954	4.3	-6.1	-17.3
		EuroStoxx 50	2778	1.5	-3.7	-4.5
		USA (S&P 500)	1219	2.5	-0.2	10.2
	America	Argentina (Merval)	3423	3.7	2.5	57.4
		Brazil (Bovespa)	69376	1.7	-5.0	2.6
		Colombia (IGBC)	15393	3.2	-5.3	33.1
		Chile (IGPA)	22958	-0.2	-0.4	46.1
		Mexico (CPI)	37340	1.2	3.2	16.3
		Peru (General Lima)	21529	4.0	6.4	52.4
	Asia	Venezuela (IBC)	67064	1.4	-0.8	26.6
		Nikkei225	10178	1.4	8.8	1.6
		HSI	23321	1.9	-5.0	3.7
Credit (changes in bps)	Ind.	Itraxx Main	107	-4	11	26
		Itraxx Xover	476	-17	41	-23
	Sovereign risk	CDS Germany	49	4	13	27
		CDS Portugal	443	-63	6	375
		CDS Spain	296	-27	61	213
		CDS USA	40	-2	-1	---
		CDS Emerging	220	-3	36	-64
		CDS Argentina	679	15	77	-369
		CDS Brazil	109	-6	18	-14
		CDS Colombia	111	-5	18	-34
		CDS Chile	77	2	-6	1
		CDS Mexico	111	-7	14	-28
		CDS Peru	116	-7	17	-9

Source: Bloomberg and Datastream

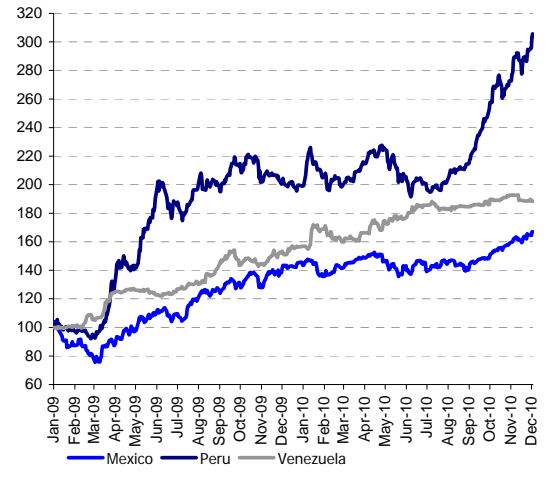
Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)



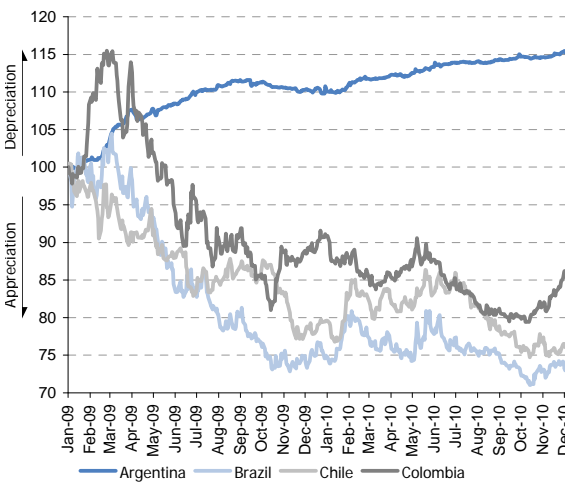
Source: Bloomberg



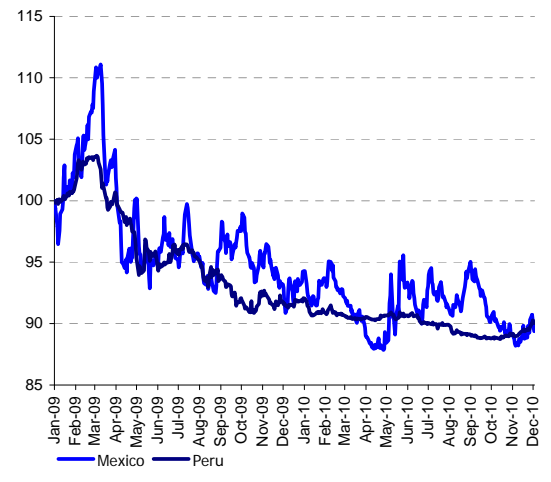
Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)



Source: Bloomberg



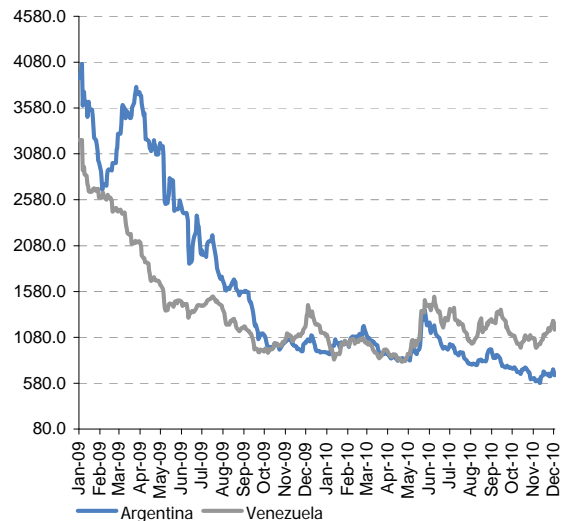
Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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