

Latin Weekly Watch

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Economics Analysis

South America

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Markets

Highlights

Calendar

Markets Data

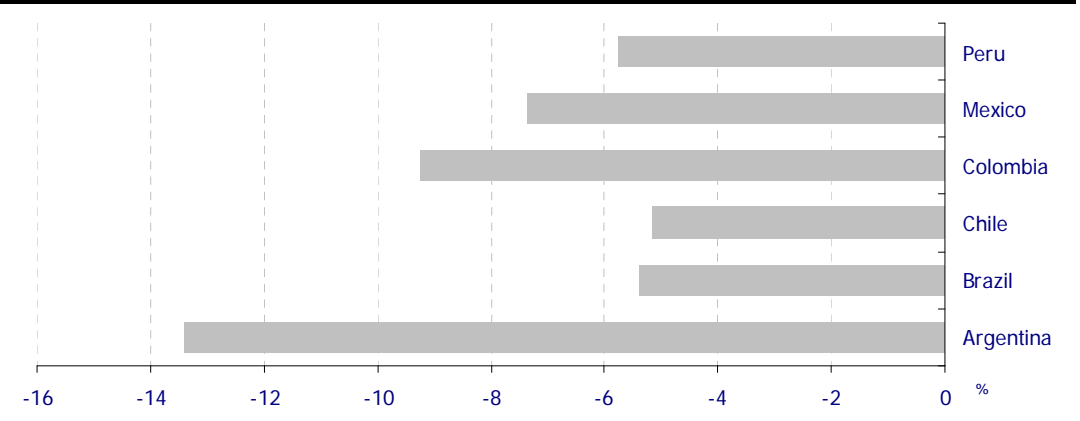
Latin America: New indicators hint at strong domestic demand

Signs of recovery in Latin America continue, despite the slowdown in Brazil following the withdrawal of fiscal stimuli. Economic activity in Peru continues to accelerate, while confidence, consumer and producer indicators in Mexico show limited signs of recovery. Another sign of strength in the region was expanding bank lending in April in Chile and Colombia.

Uncertainty is causing greater volatility in the region's markets

Somewhat greater volatility influenced by greater international uncertainty that affected fixed-income and equity markets, and to a lesser extent foreign currency.

Chart 1
Latin America: Weekly changes in 5-year CDS



Source: Bloomberg and BBVA Research

Highlights

Presidential elections: Colombia votes for continuity

Lending strengthens in Chile and Colombia

Is Brazil slowing down?

The Peruvian economy steams ahead

Mexico: improvement in confidence indicators

Venezuela: foreign currency bond swap expected to reopen at the end of this week

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Equity hoping for economic dynamism to continue in China

In the previous week, the markets gave great importance to the evolution of manufacturing in China. Latin American markets showed better performance than emerging countries as a whole and MSCI World. However, the data arriving from China are cause for concern in the region owing to the significance of this country as regards demand for commodities (particularly metals).

Limited volatility in equity, weighting local factors

The volatility in global markets generates certain caution among investors (e.g., low participation in recent fixed-rate, long-term bond auctions in Brazil). Local factors will continue to dominate in market rate changes and country differentiation. In Chile, we believe that market adjustments, which discount a higher MPR over the next 12 months, are based on the Central Bank's roadmap.

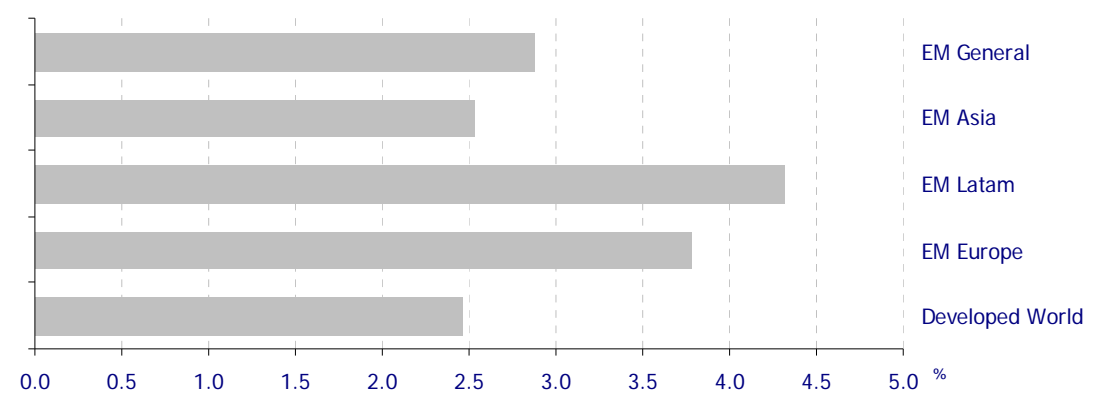
In Argentina, debt swap closing was postponed until 22 June (scheduled initially for June 7), in order to boost retail investor participation and achieve a 60% acceptance by holders of default debt. The Global 17 bond also began to be quoted in dollars with yields close to 13% and aligned with the current curve.

For the third time, the authorities in Brazil declared the new 10-year benchmark auction void, which reflects the greater uncertainty prevailing in the country. We are thus holding on to our short-term outlook of volatility in both money rates and debt in the region.

Foreign exchange shows greater differentiation in the region

BRL, MXN and CLP (to a lesser extent) will continue to display the greatest sensitivity to risk premium factors on the global markets, while COP shows relative strength deriving from local factors and the results of the elections. Peru shows a positive change following Fitch's upgrading of Peruvian debt from Stable to Positive, while confirming Peru's long-term debt ratings, BBB- for debt in foreign currency and BBB for debt in local currency.

Chart 2
Weekly changes in MSCI indices



Source: Bloomberg and BBVA Research

Economic Analysis

Highlights

Presidential elections: Colombia votes for continuity

Juan Manuel Santos, the candidate of the ruling party, obtained 46.6% of the votes against the 21.5% of the independent candidate, Antanas Mockus. These two candidates will face each other in a second round on June 20. The percentage of votes obtained by Juan Manuel Santos reflects strong citizen support for continuity.

Lending strengthens in Chile and Colombia

In April, bank lending continued to expand in Chile and Colombia. In Colombia, the total portfolio grew by 4.1% y/y in April, compared to 3.3% y/y in the previous month. In Chile, lending grew by 2.34% y/y, compared to 1.74% y/y in March. Portfolio quality indicators continued to show positive performance, with default falling in both Chile and Colombia.

Is Brazil slowing down?

Industrial output fell by 0.7% m/m in April, in line with market expectations, and reflects the moderation expected as a result of the withdrawing of fiscal incentives and the monetary adjustment initiated recently. Trade surplus rose in May as a result of a strong increase in exports (17% m/m) and moderation in imports (4% m/m).

The Peruvian economy steams ahead

Economic activity continued to gather speed in April. Thus, for example, electricity production expanded by 8.4% y/y, sales of cement rose by 19.2% y/y, and new car sales grew by 63.8% y/y. This took place in an environment marked by high business expectations.

Mexico: improvement in confidence indicators

Slight recovery of confidence indicators in May, stronger in consumer than in producer. Both hint at a slow pace of recovery of economic activity in the second quarter of the year.

Venezuela: foreign currency bond swap expected to reopen at the end of this week

Two weeks after the suspension of swap operations, the prohibition banning purchase and sale of bonds in foreign currency is expected to be lifted on Friday 04/06. However, the actions to be taken by the BCV to guarantee that the implicit FX does not exceed the top limit of the band are not yet known.

Chart 3
Chile and Colombia: Evolution of credit (y/y % change)

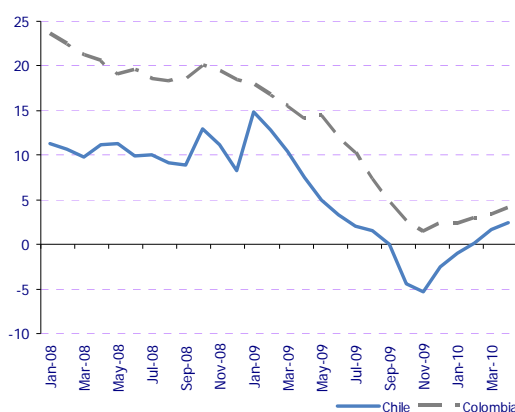
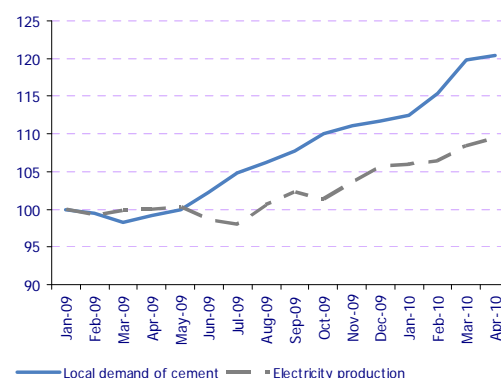


Chart 4
Peru: Economic activity leading indicators (seasonally adjusted index, Jan09 = 100)



Source: Superintendencia Financiera, SBIF and BBVA Research Source: BBVA Research

Calendar: indicators

Brazil: 1Q2010 GDP (June 8)

Forecast: 2.6% q/q **Consensus: 2.9% q/q** **Previous: 2.0% q/q**

GDP data should show that growth accelerated instead of slowing down, as expected a few months ago. Impact on the markets: Growth stronger than consensus, increased possibility of a 100 bps adjustment in SELIC at the next Central Bank meeting, and vice versa.

Chile: monthly inflation (May, June 10)

Forecast: 0.4% **Consensus: 0.3%** **Previous: 0.5%**

Our forecast, slightly above the market's (0.3%), is a 0.4% increase in prices, driven by fuel prices and the Transantiago rates.

Colombia: monthly inflation (May, June 5)

Forecast: 0.22% **Consensus: 0.28%** **Previous: 0.46%**

This result would reflect a lower impact of the El Niño on food prices, in line with our scenario. The statistical effect for 2009 should generate sustained increases in annual inflation until the end of the year, although it would remain within BanRep's target inflation range (3%+/-1%).

Mexico: monthly inflation (May, June 9)

Forecast: -0.31% **Consensus: -0.41%** **Previous: -0,32%**

Fall driven by a sudden downturn in non-core inflation and the strong drop in agricultural prices and electricity rates. For core inflation we expect a 0.3 increase, higher than its historical trend in May (0.1).

Venezuela: monthly inflation (May, June 8)

Forecast: 2.6% **Previous: 5.4%**

We expect lower price hikes, once the current lack of vegetables is overcome, and due to lower adjustments in regulated prices.

Calendar: events

Brazil: SELIC (June 9)

Forecast: 10.25% **Consensus: 10.25%** **Previous: 9.50%**

There is substantial consensus, and a surprise thus seems unlikely, unless GDP shows a greater than expected increase in domestic demand.

Peru: policy interest rate (June, June 10)

Forecast: 1.75% **Consensus: 1.75%** **Previous: 1.5%**

Because activity is accelerating and inflation expectations are rising, the Central Bank's Board will rise its policy rate by 25 bp.

Calendar: holidays

Colombia and Venezuela: Monday, June 7

Table 1

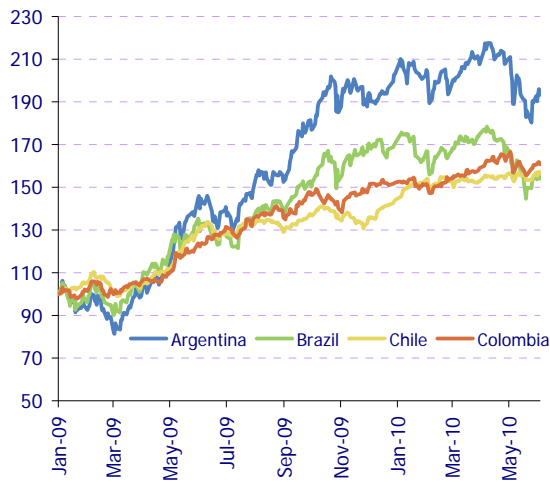
Market movements

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.54	0	16	-10
		2-yr yield	0.72	-5	-7	-57
		10-yr yield	3.21	-8	-18	-62
	EMU	3-month Euribor rate	0.71	1	3	-56
		2-yr yield	0.47	-5	-5	-121
		10-yr yield	2.57	-12	-23	-116
Exchange rates (changes in %)	Europe	Dollar-Euro	1.201	-2.6	-5.7	-14.3
		Pound-Euro	0.83	-2.7	-2.9	-5.4
		Swiss Franc-Euro	1.39	-2.2	-1.2	-8.2
	America	Argentina (peso-dollar)	3.92	0.2	0.6	4.5
		Brazil (real-dollar)	1.85	1.4	0.5	-5.5
		Colombia (peso-dollar)	1968	-0.3	-2.0	-4.3
		Chile (peso-dollar)	541	1.9	2.5	-4.4
		Mexico (peso-dollar)	12.88	-0.1	0.3	-2.8
		Peru (Nuevo sol-dollar)	2.85	0.0	-0.1	-3.9
	Asia	Japan (Yen-Dollar)	91.72	1.0	-0.6	-6.6
		Korea (KRW-Dollar)	1219	0.0	5.6	-2.5
		Australia (AUD-Dollar)	0.827	-2.3	-7.5	3.1
Comm. (changes in %)	Brent oil (\$/b)	73.7	-0.4	-7.7	7.9	
	Gold (\$/ounce)	1204	-0.9	-0.4	26.0	
	Base metals	474.2	-1.5	-4.6	18.7	
Stock markets (changes in %)	Euro.	Ibex 35	8889	-5.7	-5.0	-6.6
		EuroStoxx 50	2555	-2.3	-2.2	2.1
	America	USA (S&P 500)	1079	-0.9	-4.3	14.8
		Argentina (Merval)	2212	2.0	2.3	35.0
		Brazil (Bovespa)	62054	0.2	-2.1	16.3
		Colombia (IGBC)	12281	0.4	2.6	30.0
		Chile (IGPA)	18068	0.8	1.9	18.5
		Mexico (CPI)	31144	-1.3	-0.8	25.0
		Peru (General Lima)	14166	-2.3	-5.4	0.5
		Venezuela (IBC)	63268	2.5	3.2	47.9
	Asia	Nikkei225	9901	1.4	-7.4	1.4
HSI		19780	0.1	-1.8	5.9	
Credit (changes in bps)	Ind.	Itraxx Main	120	2	-3	17
		Itraxx Xover	560	3	11	-102
	Sovereign risk	CDS Germany	43	2	-14	8
		CDS Portugal	331	22	-119	258
		CDS Spain	253	37	-14	166
		CDS USA	39	2	-2	---
		CDS Emerging	272	-6	-13	-104
		CDS Argentina	1125	-80	83	-1297
		CDS Brazil	134	-2	-20	-40
		CDS Colombia	159	-4	-24	-46
		CDS Chile	100	-5	12	-30
		CDS Mexico	131	-5	-21	-72
		CDS Peru	133	-1	-20	-50

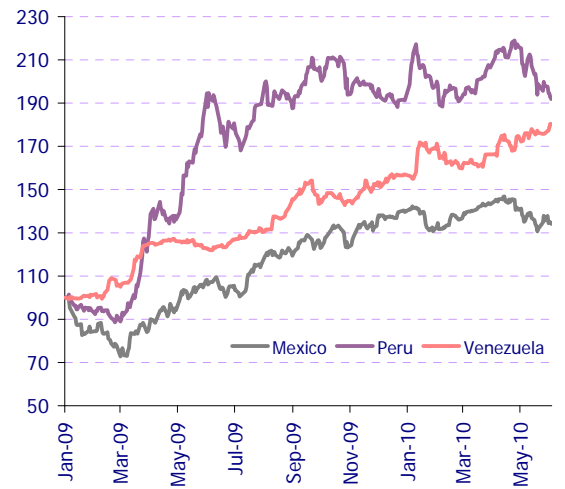
Sources: Bloomberg, Datastream and JP Morgan

Charts 5 & 6

Stock exchanges (base index Jan09=100)



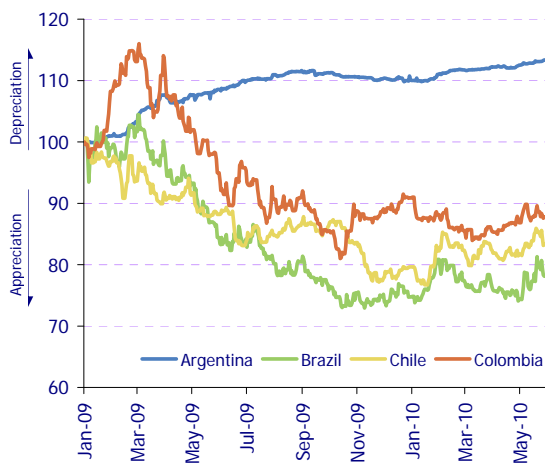
Source: Bloomberg



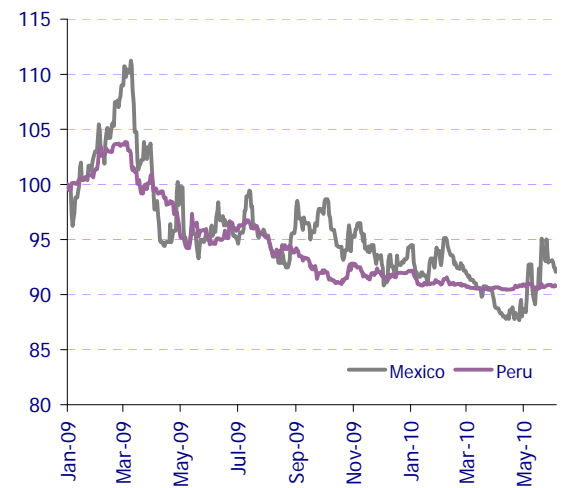
Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)



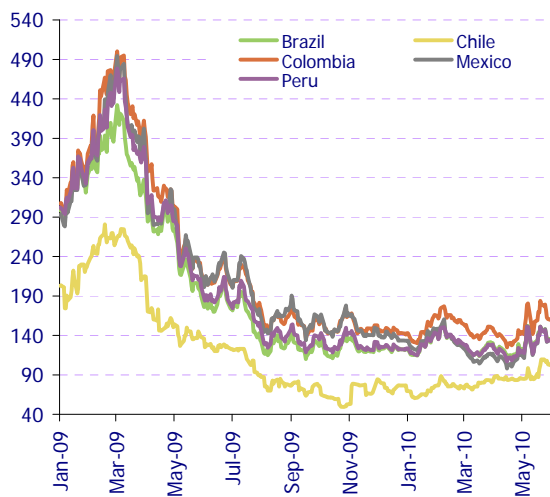
Source: Bloomberg



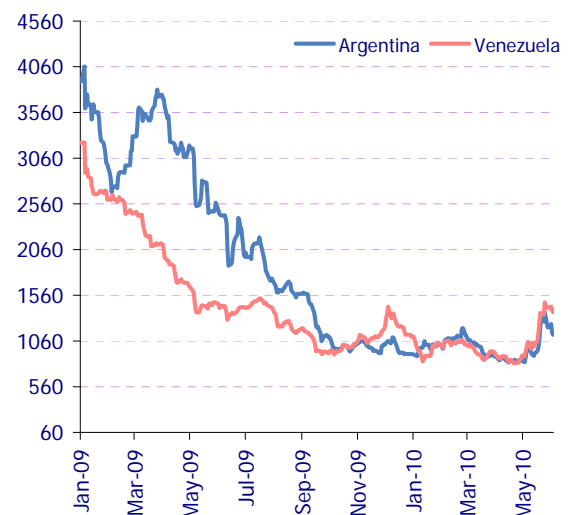
Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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