

# Weekly Observatory

November 12, 2010

## Economic Analysis

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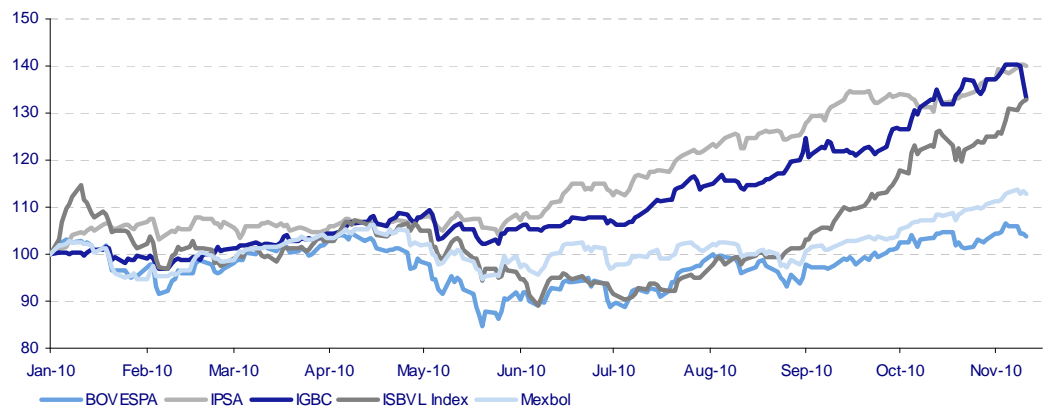
## Inflation varies within the region

While in Brazil and Mexico inflation rose surprisingly due to agricultural prices and electricity tariffs, in Chile the surprise was in the opposite direction. Retail sales were up in Brazil and vehicle sales increased in Venezuela, although at a lower rate than previously. The recovery of domestic demand and the appreciation of the peso in Colombia has led to imports hitting to all-time highs and promoted the growth of credit. At its monetary policy meeting this week the Central Bank of Peru maintained its reference rate at 3%, while the government has issued global bonds for USD 1.0 billion and sovereign bonds for USD 1.5 billion.

### Risk factors related to the G20 summit: peripheral EU countries and China counter the optimism over QE2.

These elements are passed on to the currencies in the region, where local factors lead to different results; they also affect local stock market indices, with only those markets most closely linked to commodity prices - particularly metals - remaining untouched. Overall, short-term prospects continue with a general positive bias for the region.

Chart 1  
**Latin American stock market indices Jan 12/09=100**



Source: Bloomberg and BBVA Research

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## Highlights

- Inflation varies within the region**
- Domestic demand boosts credit and reduces the trade surplus in Colombia**
- Vehicle sales in Venezuela and retail sales in Brazil**
- The Central Bank of Peru maintains its pause in the monetary restriction cycle**
- The Peruvian government issues 40-year bonds**

**Economic Analysis**

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**Markets**

**Competing forces on the foreign front determined currency trading in the area, and resulted in moves in different directions.**

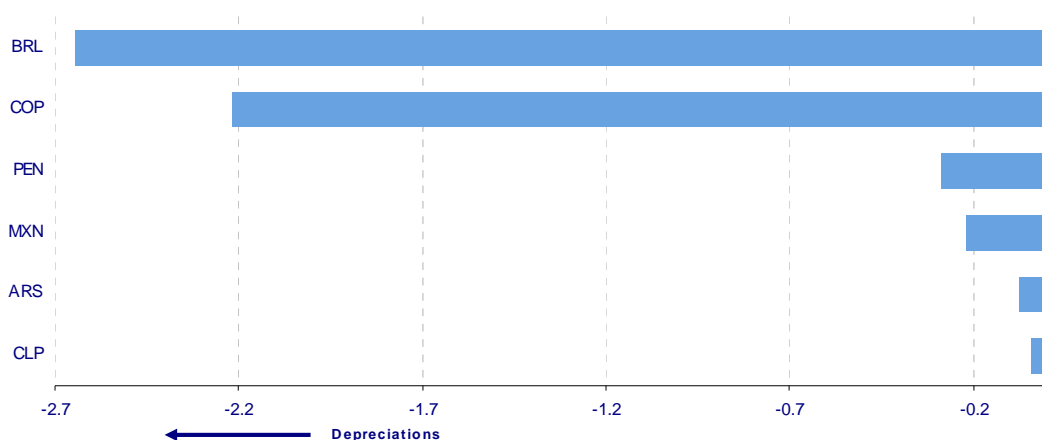
Last week various elements determined global currency movements: 1) the weakness/strength of the euro against the dollar in the face of risks in peripheral European countries; 2) foreign currency restrictions announced in China; and 3) expectations related to the G20. Thus less attention to announcements in the week prior to QE2 resulted in divergent movements among the Latin American currencies, with high volatility (although the implied volatilities were notably more contained than those of underlying currencies). Thus the BRL and COP were more affected by the risk factors (falling an average of 2.4%), with speculations linked to interventions by local authorities in the foreign-exchange markets contributing to greater falls. Meanwhile, the CLP remained unchanged, with weekly rises in the copper prices, while the MXN was affected only marginally by foreign uncertainty (the currency remained under the resistance level of 12.30). In our opinion, this trend will continue over coming sessions, so we recommend range strategies before the currencies return to their upward trend towards the end of the year and the start of 2011.

**The transfer of global factors of uncertainty to the region is reflected in the volatility of the equity markets.**

Global stock markets have been passing through a new period of volatility. They have put a positive play on the most recent announcements on the initial implementation of QE2 (purchases of USD 105 billion between now and December 9, out of the initial program of USD 600 billion); on the other hand, there was a negative influence from the upturn in European sovereign risk, with increased questioning of Ireland, and the inflation data from China, after rumours that the requirements for bank reserves would be increased for the fourth time this year. Overall, Latin America performed weakly compared with emerging countries, although better than the global aggregate. Only China and Peru emerged unscathed from the strength of commodity prices, while Brazil suffered a buffeting in its financial sector after Banco Panamericano was rescued with a capital injection of USD 1.5 billion and fears arose about the accounting policies of other banks, as well as some slightly disappointing results. In all, at the regional level the highlight was the launch of MILA (the Integrated Latin American Market), where the integration agreement was reached for the stock markets of Chile, Colombia and Peru. Its test phase will begin on November 22.

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Chart 2  
**Variation in regional currencies.**



Source: BBVA Research

# Highlights

## Inflation varies within the region

In Brazil and Mexico there was a surprising rise in inflation in October, boosted by agricultural prices and electricity tariffs. On the other hand, in Chile, Venezuela and to a lesser extent in Colombia, inflation in the region fell back surprisingly. Year-on-year inflation was 27.6% in Venezuela, 2.3% in Colombia, 4.0% in Mexico, 5.2% in Brazil and 2.0% in Chile.

## Domestic demand boosts credit and reduces the trade surplus in Colombia

The good performance of credit continued in September (12.6% y/y), led by buoyant mortgage lending (22.6%) and the recovery of consumer (13.2%) and corporate (11.2%) finance. The recovery in domestic demand and the appreciation of the peso boosted import growth to all-time highs (43% y/y in September), led by oil and mining sales, while non-traditional exports fell due to reduced market diversification.

## Vehicle sales in Venezuela and retail sales in Brazil

In Brazil, retail sales in September rose by 0.4% m/m in terms of volume of sales and 0.9% in nominal income. This makes a total of five consecutive months of positive rates, although it is under the monthly average so far this year (1.1% m/m). In Venezuela, vehicles sales increased by 5.3% y/y in October, boosted by increased government sales of imported vehicles, although they fell compared with the figures for August (38.0% y/y) and September (47.7% y/y).

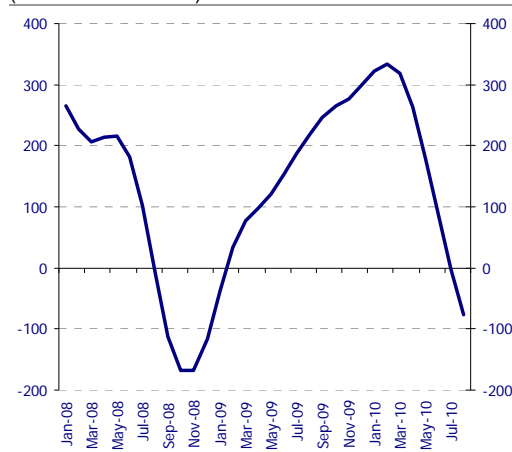
## The Central Bank of Peru maintains its pause in the monetary restriction cycle

This is the second consecutive month in which the reference interest rate has remained at 3%. The lack of inflationary pressures (in year-on-year terms, total and core inflation were 2.1%) is giving the Central Bank the room it needs and allowing the upward pressure on the PEN to be restricted.

## The Peruvian government issues 40-year bonds

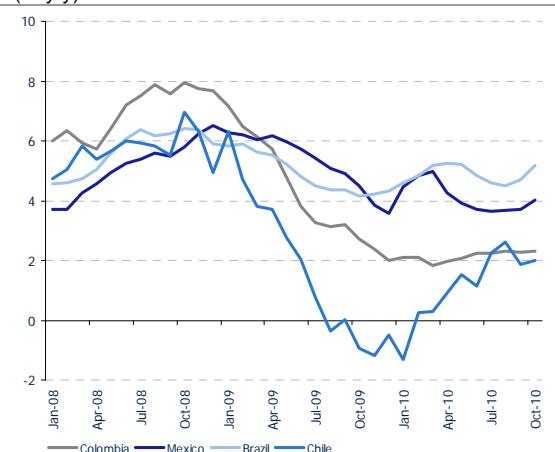
The global bond issue was USD 1.0 billion, with maturity in 2050. Demand was USD 2.5 billion, with a yield of 5.87%. The government also issued the equivalent of USD 1.5 billion in sovereign bonds with a maturity in 2020 and a yield of 5.75% (demand was USD 2.6 billion). This issue will be settled in dollars, thus limiting upward pressure on the PEN. The funds obtained will be used for the prepayment of foreign debt and as a early payment of foreign financing for 2011, within a context of a substantial appetite by investors for emerging economies.

Chart 3  
Colombia: Trade Balance  
(million dollars FOB)



Source: DANE and BBVA Research

Chart 4  
Inflation  
(% y/y)



Source: BBVA Research

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## Calendar: Indicators

Next Week: 15 - 19 November 2010

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Monthly Estimate	19-Nov	October 2010	9,6% y/y	8,0% y/y	10,1% y/y	
Economic Activity Monthly Estimator	19-Nov	September 2010	8,4% y/y	8,1% y/y	8,5% y/y	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
CAGED Formal Job Creation	16-19 Nov	October 2010			246,875	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
GDP / BOP 3T	18-Nov	3Q 2010	GDP 7.1% y/y	GDP 7.1% y/y	6.5% y/y	Monthly data of economic activity suggest quarterly GDP growth of 7.1%, above the 6.5% in the second quarter.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	18-Nov	September 2010	0.4%		4.4%	Heterogeneity in the recovery of industries more dependent on foreign trade.
Retail Sales	18-Nov	September 2010	12.9%		12.7%	Continued strength of consumption in the second half of the year.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
GDP	15-Nov	3Q 2010	9.2% y/y		10.1% y/y	With this result, GDP would have grown 9,2%yoy in 3Q10. This shows a moderation with respect to the previous quarter (10,1%), in a context of a gradual decline of the fiscal impulse
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
GDP	19-Nov	3Q 2010	-1.5% y/y		-1.9% y/y	Public spending growth, private consumption lower falling (estimate) and foreign exchange increased flow in Q3 should slow down GDP falling.

Source: BBVA Research

## Calendar: Events

### Chile and Colombia: Monetary Policy Meeting (November 16 and 19, respectively)

**Forecast: Chile, 3%; Colombia, 3% Consensus: Chile, 3%; Colombia, 3% Previous: Chile, 2.75; Colombia, 3%**  
 A rise of 25 bps is expected in Chile, while in Colombia, the Central bank will study the Fed measures and their effect on the appreciation of the peso.

## Calendar: holidays

### Brazil, Colombia and Mexico: Monday, November 15

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## Market data

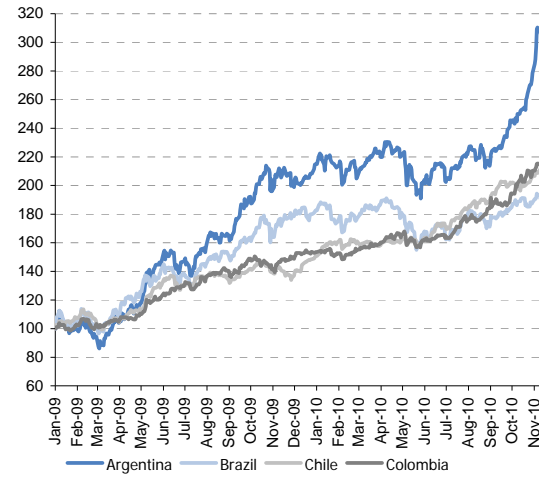
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.29	0	0	1
		2-yr yield	0.45	8	7	-36
		10-yr yield	2.65	12	14	-77
	EMU	3-month Euribor rate	1.05	0	6	34
		2-yr yield	0.95	3	15	-25
		10-yr yield	2.45	3	15	-94
Exchange rates (changes in %)	Europe	Dollar-Euro	1.365	-3.0	-2.9	-8.6
		Pound-Euro	0.85	-1.8	-3.0	-4.6
		Swiss Franc-Euro	1.33	-1.4	-0.6	-11.9
	America	Argentina (peso-dollar)	3.96	0.3	0.2	3.8
		Brazil (real-dollar)	1.72	2.3	3.3	-0.3
		Colombia (peso-dollar)	1858	2.0	3.0	-5.6
		Chile (peso-dollar)	480	0.6	0.4	-4.2
		Mexico (peso-dollar)	12.29	0.7	-1.1	-5.8
		Peru (Nuevo sol-dollar)	2.80	0.3	0.4	-2.6
	Asia	Japan (Yen-Dollar)	82.11	0.9	0.8	-8.3
		Korea (KRW-Dollar)	1127.72	1.9	1.4	-2.5
		Australia (AUD-Dollar)	0.988	-2.7	-0.5	5.9
Comm. (changes in %)	Brent oil (\$/b)	87.0	-1.3	2.9	15.1	
	Gold (\$/ounce)	1382.2	-0.8	0.1	23.6	
	Base metals	568.4	1.8	4.6	25.7	
Stock markets (changes in %)	Euro.	Ibex 35	10063	-3.5	-7.2	-15.2
		EuroStoxx 50	2794	-2.9	-1.5	-3.1
	America	USA (S&P 500)	1214	-1.0	3.4	11.0
		Argentina (Merval)	3341	-0.3	22.3	49.6
		Brazil (Bovespa)	71195	-1.9	-0.7	9.0
		Colombia (IGBC)	15460	-5.0	0.0	37.8
		Chile (IGPA)	23192	0.9	4.2	47.7
		Mexico (CPI)	36305	0.0	4.2	17.1
		Peru (General Lima)	20595	0.9	5.6	41.5
	Asia	Venezuela (IBC)	67665	0.1	2.2	29.5
		Nikkei225	9725	1.0	1.5	-0.5
		HSI	24223	-2.6	1.6	7.4
Credit (changes in bps)	Ind.	Itraxx Main	106	9	5	21
		Itraxx Xover	462	32	0	-56
	Sovereign risk	CDS Germany	38	2	6	17
		CDS Portugal	479	36	106	416
		CDS Spain	277	29	77	201
		CDS USA	41	0	0	---
		CDS Emerging	204	14	10	-59
		CDS Argentina	634	33	-60	-356
		CDS Brazil	101	8	9	-22
		CDS Colombia	102	7	8	-47
		CDS Chile	77	2	-6	1
		CDS Mexico	109	10	9	-39
CDS Peru	116	13	19	-12		

Source: Bloomberg and Datastream

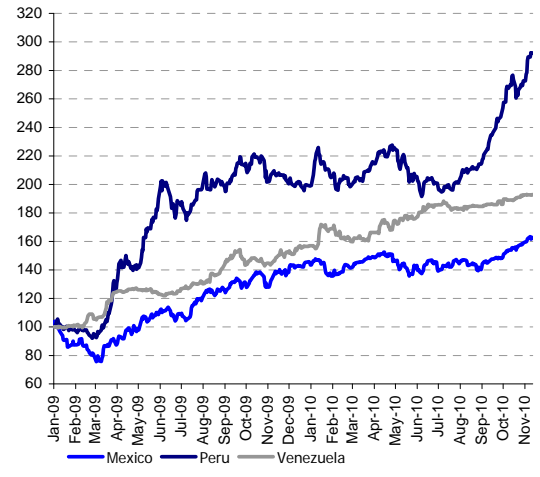
# Charts

Charts 5 & 6

## Stock exchanges (base index Jan09=100)



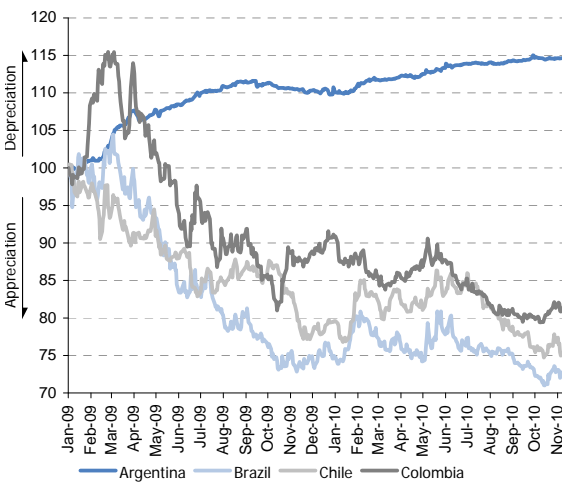
Source: Bloomberg



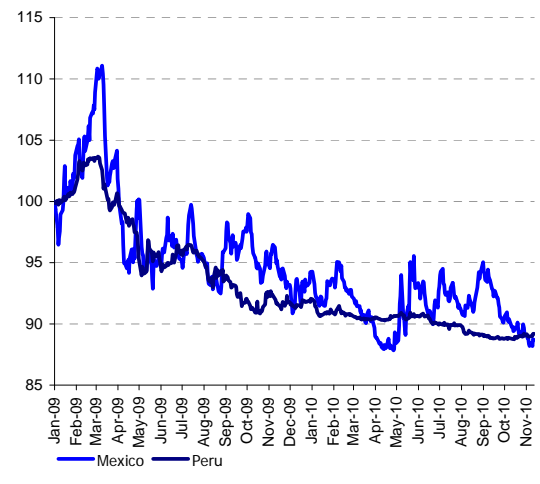
Source: Bloomberg

Charts 7 & 8

## Exchange rates (base index Jan09=100)



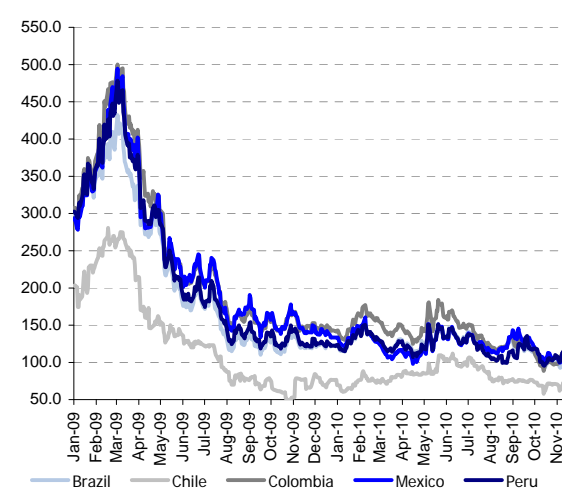
Source: Bloomberg



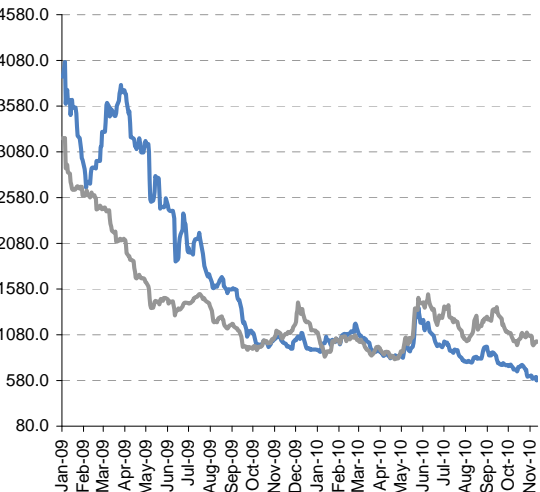
Source: Bloomberg

Charts 9 & 10

## Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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