

Weekly Watch

Latin

June 24, 2011
Economic Analysis

South America

Joaquín Vial
 jvial@bbvaprovida.cl

Enestor Dos Santos
 enestor.dossantos@grupobbva.com

Cristián Ashwell
 cashwell@bbva.com

Argentina
Gloria Sorensen
 gsorensen@bancofrances.com.ar

Chile
Alejandro Puente
 apuente@grupobbva.cl

Colombia
Juana Téllez
 juana.tellez@bbva.com.co

México
Julián Cubero
 juan.cubero@bbva.bancomer.com

Perú
Hugo Perea
 hperea@grupobbva.com.pe

Venezuela
Oswaldo López
 apuente@grupobbva.cl

Markets
Octavio Gutiérrez Engelmann
 o.gutierrez3@bbva.bancomer.com

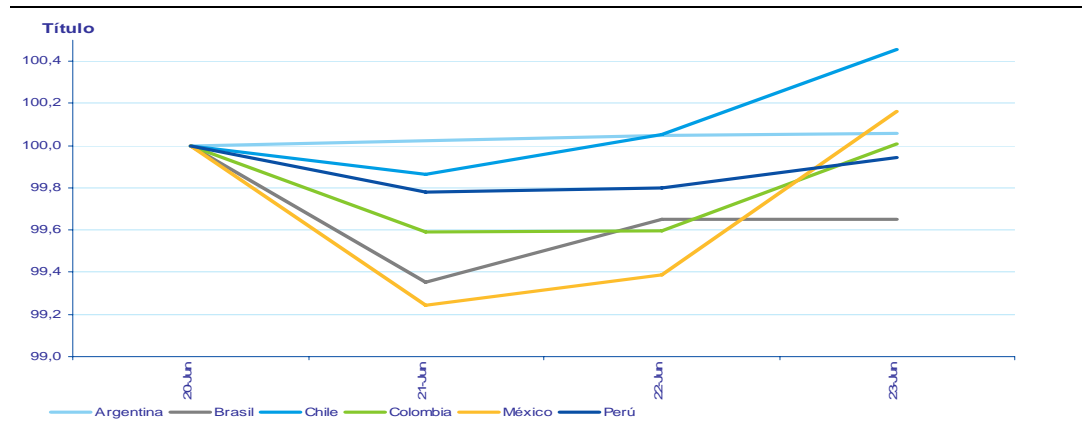
Growth and inflation stable

A number of indicators suggest that domestic demand continues to grow strongly and is boosting growth in Argentina, Colombia, Mexico and Peru. Paradoxically, inflation is either not rising or surprisingly even falling (Chile and Mexico this week), although there are worrying signs in the Brazilian labor market. In Argentina, President Cristina Kirchner has announced her decision to seek re-election.

Risk asset sales impact Latin American currencies following the Fed statements

Although chances of a QE3 is limited in the current circumstances, the Fed has revised down U.S. growth, thus injecting greater cyclical risk premiums in the region. This led to currency falls at the end of last week, with the exception of the COP following Colombia's upgrade.

Chart 1
Latam: Weekly exchange rate performance (20-Jun=100)



Source: BBVA Research

Highlights

- Indicators reveal the strength of domestic demand
- Inflation stable in Mexico and Chile, upward pressure in Brazil and Venezuela
- Bank credit remains buoyant in Peru
- Slight current account deficit in Argentina in 1Q11
- Cristina Kirchner announces she is standing for president

- Markets →
- Highlights →
- Calendar →
- Market data →
- Charts →

Economic Analysis

Octavio Gutiérrez Engelmán
o.gutierrez3@bbva.bancomer.com

Claudia Ceja
claudia.ceja@bbva.bancomer.com

Rodrigo Ortega
r.ortega@bbva.bancomer.com

Markets

The Fed reduces prospects of a new liquidity cycle (QE3), but appetite for risk falls in response to cyclical messages

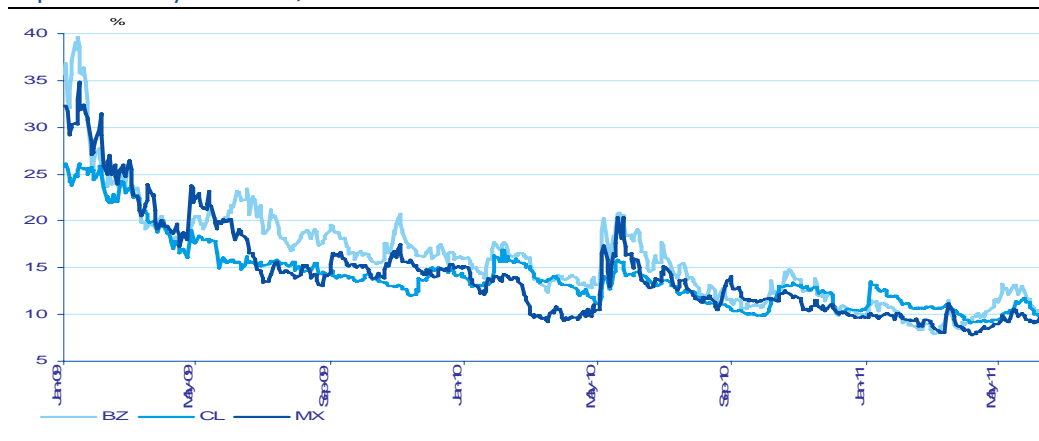
Financial markets continued to await news of the resolution of the Greek crisis, and this time in particular to the monetary message from the Federal Reserve. The Fed's message was slightly milder this time. It revised down its range of growth projections for 2011 and 2012, and slightly raised its forecast of core inflation. It stressed that it is closer to its dual objective (growth-inflation), thus reducing the possibility of an additional quantitative easing (QE3). In contrast, it did not alter its language in terms of maintaining Fed fund rates for an extended period of time, and kept open the possibility of reacting to any economic changes. The global markets reacted with a gradual increase in volatility and increased sales of risk assets.

Limited fluctuation in Latin America at the start of the week, and with a bias towards depreciation following the Fed message

Foreign-currency movements between Latin American countries showed a bias towards appreciation within limited ranges at the start of the week as markets awaited the Fed announcement, and subsequent corrections in reaction to the sale of risk assets. The corrections were most clearly noted in Mexico and Chile, given their exposure to the cyclical weakness mentioned by the Fed. In Brazil, despite the holiday, we expect the BRL to consolidate at 1.59. It should be pointed out that at the start of the week Moody's upgraded Brazil's debt to Baa2, but this had no significant effects on the currency.

In Colombia, the exchange-rate adjustments were affected by the country's upgrade by Fitch Ratings (the third agency to do so) and by the increase in the government's discretionary US dollar purchases.

Chart 2
Implied volatility of the BRL, MXN and CLP



Source: Bloomberg and BBVA Research

Home →

Highlights →

Calendar →

Market data →

Charts →

Highlights

Indicators reveal the strength of domestic demand

GDP grew in Argentina and Colombia by 9.9% and 5.1% y/y respectively in 1Q11. As in the case in Colombia, in Mexico the main components of growth were expansion in consumption and private investment, which offset the fall in public investment. At the start of 2Q11, the automotive and construction material industries continued to lead the way in manufacturing output in Argentina (May) and Colombia (April). As a result, industrial output rose by 9.1% y/y in Argentina and 2.0% in Colombia.

Inflation stable in Mexico and Chile, upward pressure in Brazil and Venezuela

In Mexico there was a surprising fall in inflation in the first half of June (-0.05%), while in Chile the Central Bank reduced its forecast rate for 2011 from 4.3% to 4%. In Brazil a tight labor market is pushing wages up (1.1% m/m in May) and making it more difficult for inflation to fall soon, while the authorization of a 29% rise in the prices of meat will add 0.7% to July inflation in Venezuela.

Bank credit remains buoyant in Peru

In May, loans to the private sector increased by 21.9% year-on-year, a similar rate to previous months (Apr-11: 22%; Mar-11: 21%). Lending in the mortgage and business sector continues strong.

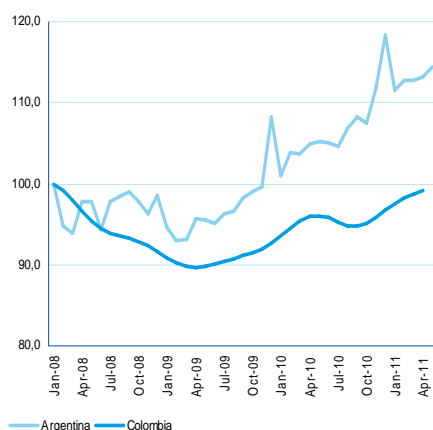
Slight current account deficit in Argentina in 1Q11

The current account in Argentina was slightly in the red by USD 673 million in 1Q11, mainly due to an increased deficit in services. Seasonal factors suggest that there will be surpluses in the coming months, and the year should end with a surplus of 0.5% of GDP.

Cristina Kirchner announces she is standing for president

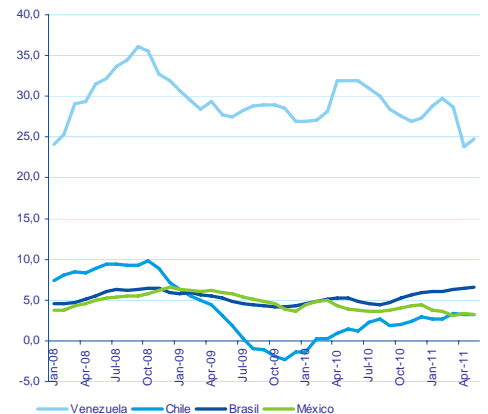
Cristina Kirchner has finally announced that she will run for election in October 2011. Given her highly positive image, this increases the chances of renewed success for the governing FPV party. The markets are discounting the lack of any change in economic policy and there was a minimal increase in 5-year CDS spreads.

Chart 3
Indices of Industrial Production (seasonally-adjusted index Jan08=100)



Source: BBVA Research

Chart 4
Consumer Price Index (% y/y change)



Source: BBVA Research

- Home →
- Markets →
- Calendar →
- Market data →
- Charts →

Calendar: indicators

Next Week: 27 June - 1 July 2011

	Data	Period	Forecast	Consensus	Previous	Comment
Argentina						
Shopping Center 's Sales	27-Jun	May 2011			31.5% y/y	
Supermarket Sales	30-Jun	May 2011			31.7% y/y	
Public Service's Statistics	30-Jun	May 2011			11.4% y/y	
Synthetic Estimator of Construction Activity	30-Jun	May 2011			9.9% y/y	
Wage Index	1-Jul	May 2011				
Brazil						
Current Account	27-Jun	May 2011			-\$ 3.488 M	
Credit Data	28-Jun	May 2011				Markets will focus on deceleration signs.
Fiscal Data	30-Jun	May 2011				Main indicator: public sector's primary surplus.
Industrial Production	1-Jul	May 2011			-2.1% M/M	
Chile						
Sectoral activity indicators	29-Jun	May 2011				
Unemployment rate	30-Jun	May 2011	7.2%		7.0%	We expect a slight rise in the unemployment rate for May
Colombia						
Urban Unemployment	30-Jun	May 2011	11.8%	11.6%	11.8%	Slow reduction in unemployment rate compared to 2010 levels.
Mexico						
IGAE	28-Jun	Apr 2011	0.9% mom 3.9% yoy	NA	-0.2% mom 3.0% yoy	Economic activity have been moderate in April due to negative effect related to Japan's tsunami and less external demand. Services sector on the other hand maintained its growth however forecast is downwards biased
Venezuela						
Unemployment rate	1-Jul	May 2011	8.0%		8.1%	

Source: BBVA Research

Calendar of events

Peru: Inflation of June

Forecast: 0% (m/m)

Consensus:-

Previous: 0% (m/m)

A downward correction on the prices of some foodstuffs (poultry, vegetables) will offset the rise in domestic fuel prices

Calendar of holidays

Chile, Colombia and Venezuela: June 27.

Peru: June 29.

[Home](#) →

[Markets](#) →

[Highlights](#) →

[Market data](#) →

[Charts](#) →

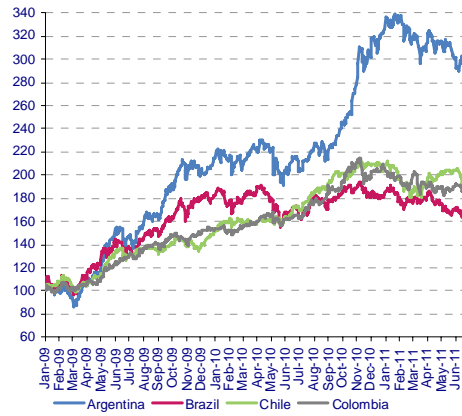
Market Data

			Close	Weekly change	Monthly change	Annual change	
Interest rates (changes in bps)	US	3-month Libor rate	0.25	0	-1	-29	
		2-yr yield	0.35	-3	-19	-30	
		10-yr yield	2.93	-2	-20	-18	
	EMU	3-month Euribor rate	1.53	2	9	78	
		2-yr yield	1.39	-12	-27	83	
		10-yr yield	2.88	-8	-17	27	
Exchange rates (changes in %)	Europe	Dollar-Euro	1.420	-0.6	0.7	15.0	
		Pound-Euro	0.89	0.6	2.7	8.0	
		Swiss Franc-Euro	1.19	-1.6	-3.1	-11.8	
	America	Argentina (peso-dollar)	4.10	0.0	0.3	4.2	
		Brazil (real-dollar)	1.59	-0.4	-2.2	-10.4	
		Colombia (peso-dollar)	1787	0.0	-2.3	-5.9	
		Chile (peso-dollar)	474	0.6	0.6	-11.7	
		Mexico (peso-dollar)	11.88	-0.4	1.6	-6.4	
		Peru (Nuevo sol-dollar)	2.76	-0.1	0.4	-2.4	
		Asia	Japan (Yen-Dollar)	80.60	0.5	-1.7	-9.8
			Korea (KRW-Dollar)	1082.50	-0.5	-1.7	-10.5
			Australia (AUD-Dollar)	1.051	-0.9	-0.2	20.7
		Comm. (chg %)		Brent oil (\$/b)	107.0	-5.5	-6.9
	Gold (\$/ounce)		1517.9	-1.4	-0.5	20.9	
	Base metals		595.6	-1.0	-1.8	23.4	
Stock markets (changes in %)	Euro	Ibex 35	10033	-1.0	-1.8	5.2	
		EuroStoxx 50	2767	-0.1	-1.8	5.3	
		USA (S&P 500)	1284	0.9	-2.8	19.2	
	América	Argentina (Merval)	3314	1.4	1.0	43.0	
		Brazil (Bovespa)	61194	0.2	-3.5	-5.6	
		Colombia (IGBC)	14215	1.3	0.2	13.5	
		Chile (IGPA)	22202	1.1	-2.4	16.4	
		Mexico (CPI)	35327	0.9	-0.5	8.3	
		Peru (General Lima)	19014	-4.4	-13.6	33.9	
		Venezuela (IBC)	80159	-0.9	0.1	23.1	
		Asia	Nikkei225	9679	3.5	2.7	-0.6
			HSI	22140	2.1	-2.7	7.0
		Credit (changes in bps)	Ind.	Itraxx Main	116	5	13
Itraxx Xover	426			17	55	-123	
Sovereign risk	CDS Germany		45	5	5	0	
	CDS Portugal		827	36	159	503	
	CDS Spain		294	5	38	43	
	CDS USA		53	2	4	---	
	CDS Emerging		233	2	20	-23	
	CDS Argentina		641	11	36	-326	
	CDS Brazil		118	2	13	-13	
	CDS Colombia		114	3	12	-35	
	CDS Chile		78	3	9	-21	
	CDS Mexico		115	3	12	-13	
	CDS Peru		150	0	22	22	

Source: Bloomberg and Datastream

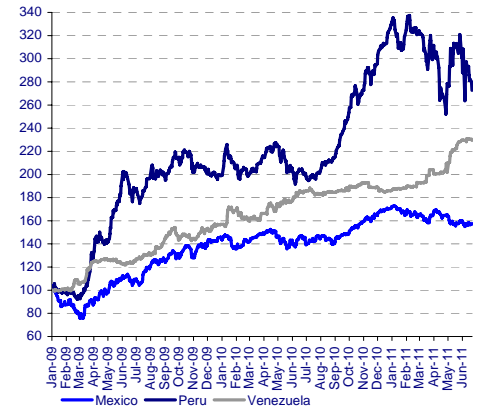
Charts

Chart 4
Stock markets (base index Jan09 = 100)



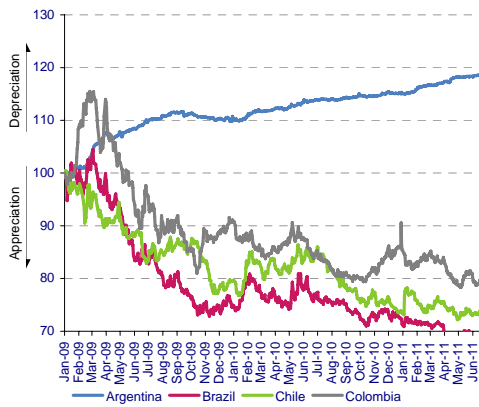
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



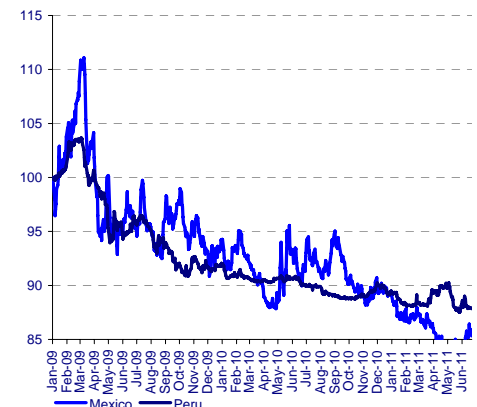
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



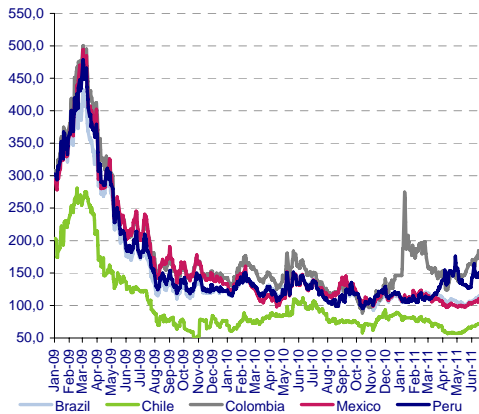
Source: Datastream and BBVA Research

Chart 7
Exchange rates (base index Jan09 = 100)



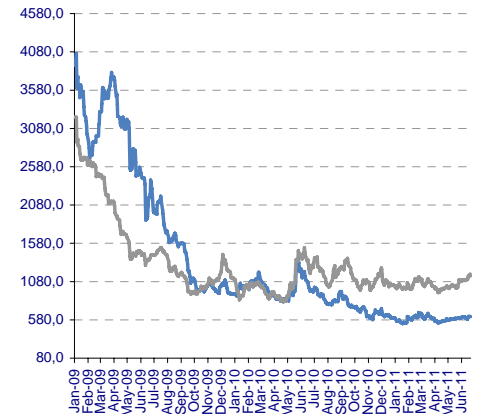
Source: Datastream and BBVA Research

Chart 8
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

Chart 9
Credit Default Swaps (levels)



Source: Datastream and BBVA Research

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.