

Latin

# Weekly Observatory

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**Economic Analysis**

*South America*  
**Joaquín Vial**  
 jovial@bbvaprovida.cl

**Enestor Dos Santos**  
 enestor.dossantos@grupobbva.com

**Myriam Montañez**  
 miriam.montanez@grupobbva.com

**Argentina: Gloria Sorensen**  
 gsorensen@bancofrances.com.ar

**Chile: Alejandro Puente**  
 apuente@grupobbva.cl

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

**Mexico: Julián Cubero**  
 juan.cubero@bbva.bancomer.com

**Peru: Hugo Perea**  
 hperea@grupobbva.com.pe

**Venezuela: Oswaldo López**  
 oswaldo.lopez@pronvincial.com

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

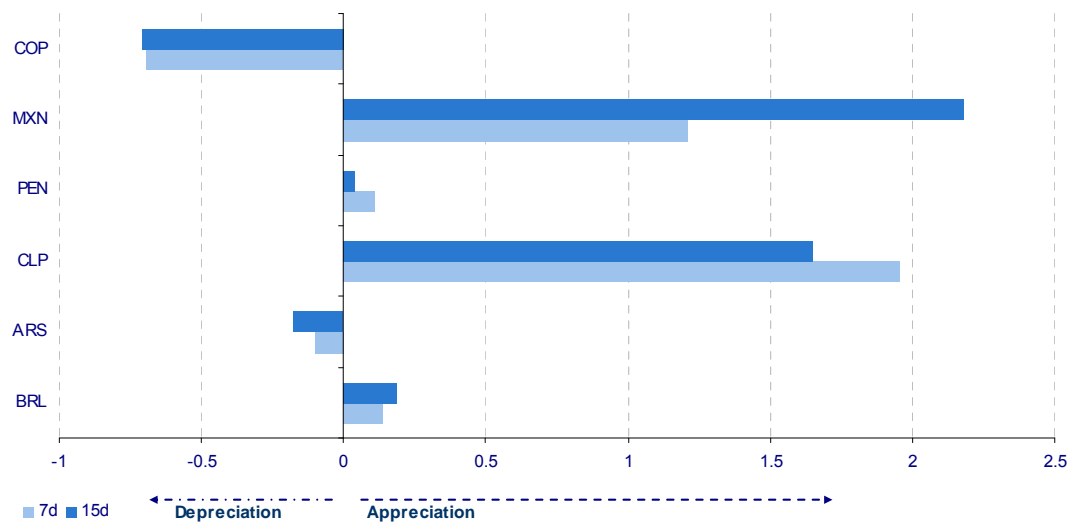
## Latin America: trends continue

The strong economic performance of the region continues. One sign of this is the latest figure for GDP growth in Colombia (2Q10) of 4.5% y/y, following 4.4% in the previous quarter. In addition, the Central Bank of Peru confirmed this week its forecast of 8% y/y growth for this year and 6% for the next two years. Credit continues to grow in Brazil (19.2% y/y) and Peru (13.4% y/y). Finally, the Central Banks of Mexico and Colombia maintained their policy rates at 4.5% and 3% respectively, with inflationary expectations in check in both cases.

### Appreciation of many LatAm currencies. Possible interventions by central banks qualify the strength of Brazil, Peru and Colombia

As in other regions, the Latin American currencies tended to strengthen against the dollar on increased possibilities of quantitative easing by the Federal Reserve and concerns about the fiscal situation of some European economies. The market could remain cautious with these crosses in the near future.

Chart 1  
**Exchange rates in Latin America (%)**



Source: Bloomberg and BBVA Research

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- Highlights →
- Calendar →
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## Highlights

- 2Q10 growth: private demand a driving force in Colombia, much less so in Mexico
- Central banks in Mexico and Colombia maintain rates and FX intervention
- Progress in bank credit and slight fall in default rates in Brazil and Peru
- Imports grow, boosted by appreciation and strong domestic demand
- The Central Bank of Peru reaffirms its forecast of high growth rates

Economic Analysis

Markets

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

LatAm FX  
Chief Analyst  
Moisés Junca, CFA, CMT  
moises.junca@bbva.bancomer.com

Claudia Ceja  
claudia.ceja@bbva.bancomer.com

**Currencies appreciate in Chile and Mexico on expectations of greater quantitative easing by the Federal Reserve; Possible additional interventions by central banks in Brazil, Peru and Colombia mitigate the effect of global news**

Last week the movements on global currency markets were determined by two factors: first, expectations of a slower recovery in the U.S. cycle following the meeting of the Federal Reserve, and economic data below expectations, which affected most risk assets; and second, the fiscal situation of some countries in the European Union, which continued to generate noise among investors, even though the contagion effect is lower than that observed in previous months.

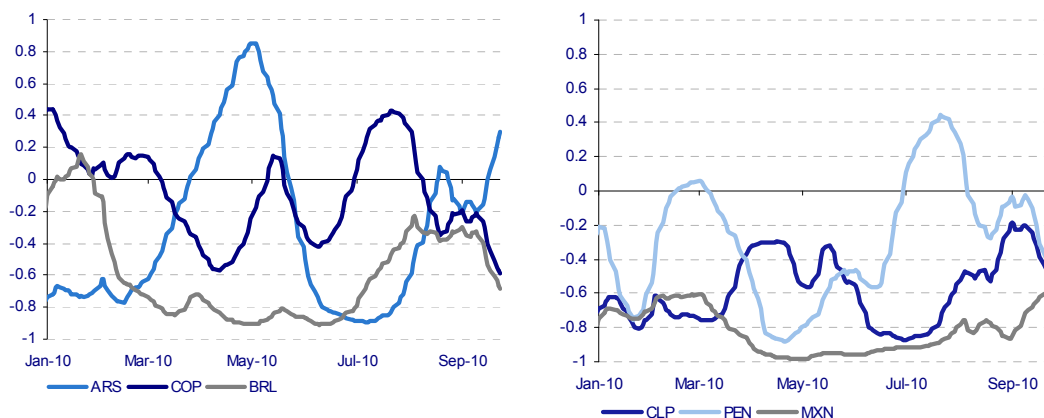
In this context, the dollar fell against all currencies (e.g. the DXY index rose 1.7%), and most of the Latin American currencies appreciated. The MXN and the CLP benefited particularly in this situation. In the case of the MXN cross, there was a loss in correlation with the stock markets, so there could be a short-term support in the 12.6 zone. In the case of the CLP, the positive differentiation remained, above all considering the reduced expectations of intervention by the authorities (our short-term target is 485). Meanwhile, the BRL, PEN and COP are in another group that depends on intervention by Central Banks on the foreign exchange markets (or on a possible increase where they have already intervened). This group ended the week either without changes (as in the case of the BRL) or with depreciations. In our opinion, the market could remain cautious with these crosses in the near future.

**The aggregate of the stock markets in the region beat those of other regions and global indexes over the week...**

However, performance has varied. In the case of Mexico, the situation could be attributed to the delayed movement caused by fewer trading days last week. Brazil is beginning to stand out slightly. We consider that once the restrictive monetary cycle is over, and following the elections (1st round on October 3) and the Petrobras issue (September 28), many of the specific risks in the Brazilian market will dissipate, and as a result, it may stand out positively in the coming months.

Charts 2 and 3

**S&P's correlation with Latam currencies (3M)**



Source: BBVA Research with Bloomberg data

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# Highlights

## 2Q10 growth: private demand as a driving force in Colombia, much less so in Mexico

In Colombia GDP grew 4.5% y/y in 2Q10, below market expectations. Private demand slowed on the first quarter, with a surprising fall in residential investment and a slower rate of growth in final consumption. In Mexico the GDP performance in 2Q10 can be explained by acceleration in final consumption and improved performance of exports and public investment, while private investment remained sluggish in the quarter.

## Central banks in Mexico and Colombia maintain rates and FX intervention

In line with expectations, both Banxico in Mexico and BanRep in Colombia maintained their policy rates at 4.5% and 3%. Mexico still shows signs of a weak demand, as can be seen in sluggish retail sales in July. Demand is stronger in Colombia, but the strength of the currency is a major cause for concern. In Mexico the Central Bank is maintaining its auctions to buy up to 600 million dollars per month, and although in Colombia there are rumors that capital controls will be put in place to moderate short-term flows, BanRep did not act further but reassured that it continues analyzing measures to strengthen the intervention and sterilization instruments.

## Progress in bank credit and a slight fall in default rates in Brazil and Peru

Credit continued to grow in August, both in Brazil (19.2% y/y) and in Peru (13.4% y/y). In Brazil expansion stabilized after the strong growth at the start of the year, while in Peru it continues to speed up. In both countries the default rate fell in August from 3.6% in July to 3.5% in Brazil, and from 1.81% to 1.75% in Peru.

## Imports grow, boosted by currency appreciation and strong demand

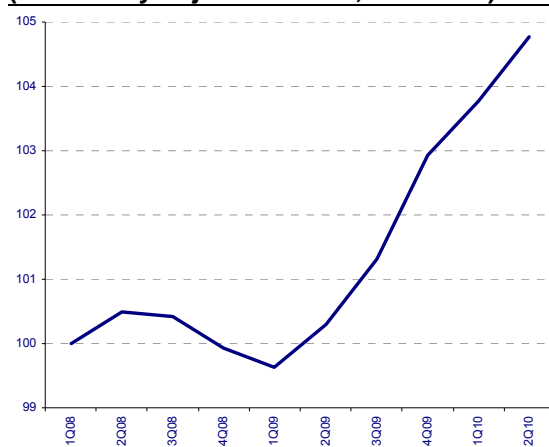
Brazil's current account deficit in August was USD 2,861m, below the monthly average for January to July of USD 4,037m. Argentina's current account in 2Q10 posted a surplus of USD 3,097m, slightly under expectations, while increased export prices and growth of imports improved tax revenues above our forecasts. In Venezuela alternative import indicators, such as customs duties, show a recovery in real terms of 9.5% year-on-year.

## The Central Bank of Peru reaffirms its forecast of high growth rates

In its September Inflation Report, the Central Bank of Peru confirmed the increase in its forecast of GDP growth for this year from 6.6% to 8% and 6% for the next two years.

Chart 4

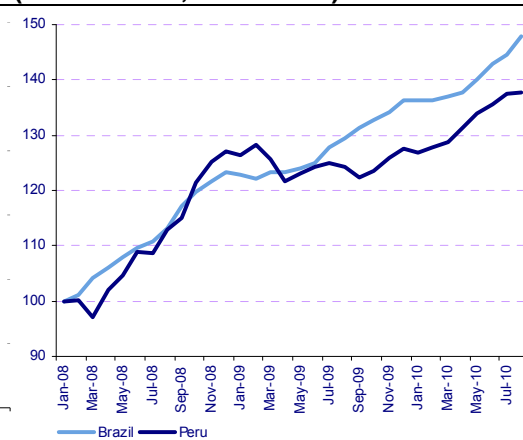
**Colombia: Gross Domestic Product (seasonally adjusted series, IQ08=100)**



Source: BBVA Research

Chart 5

**Brazil and Peru: Credit stock (in real terms, Jan08=100)**



Source: Central Bank of Brazil and SBS-Peru

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## Calendar: Indicators

Next Week: 27 September - 1 October 2010

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Shopping Center Sales	29-Sep	August 2010			52.5% y/y	
Supermarket Sales	29-Sep	August 2010			29.7% y/y	
Public Services-Statistics	30-Sep	August 2010			12.8% y/y	
Synthetic Indicator of Construction Activity	30-Sep	August 2010			6.3% y/y	
Wages Index	1-Oct	August 2010		2.05% m/m	2.9% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Fiscal Accounts	29-Sep	August 2010				Release of primary and nominal results as well as fiscal debt.
Industrial Production	1-Oct	August 2010	0.5% m/m	0.4% m/m	0.4% m/m	Industrial production should display a moderate growth.
Trade Balance	1-Oct	September 2010			USD 2240M	
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Economic Sectors	28-Sep	August 2010				
Employment Survey	30-Sep	Jun-Jul-Aug 2010			8.3%	Unemployment Rate
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	30-Sep	August 2010	13.1%	13.0%	13.3%	Labor market recovery will moderate due to higher participation and slowing industrial production
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IGAE	27-Sep	July 2010	-0.2% m/m 4.6% y/y		-0.40 m/m 6.6% y/y	We expect a moderate improvement on monthly growth rate of economic activity. However negative monthly variations will continue in line with our forecast of moderation for 3Q10
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Consumer Price Index (MoM)	1-Oct	September 2010	0.1%		0.3%	After persistent increases in previous months, some food prices are adjusting downwards. Fuel prices have also shown a slight decrease
Electricity Production (YoY)	1-Oct	September 2010			9.2%	Pace of growth moderates (reflecting in part a weaker yoy comparison base effect), but expansion is still important and anticipates a similar behavior for GDP
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	29-Sep	August 2010	8,7%		8,7%	Seasonality and improving bussines indicators support our forecast
Electric Power Generation	40452	August 2010	10110 GWh		9767 GWh	Although problems of generation and transmission are persistent, unofficial reports indicate increases of the supply of Electricity

Source: BBVA Research

## Calendar: holidays

**No holidays in the region**

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## Market data

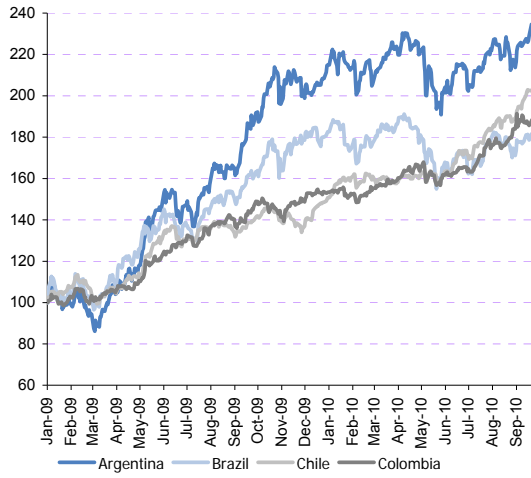
			Close	Weekly change	Monthly change	Annual change
<b>Interest rates</b> (changes in bps)	<b>US</b>	3-month Libor rate	0.29	0	-1	1
		2-yr yield	0.43	-3	-8	-55
		10-yr yield	2.59	-14	12	-72
	<b>EMU</b>	3-month Euribor rate	0.88	0	-1	14
		2-yr yield	0.72	-6	11	-50
		10-yr yield	2.32	-10	17	-93
<b>Exchange rates</b> (changes in %)	<b>Europe</b>	Dollar-Euro	1.346	3.2	6.0	-8.3
		Pound-Euro	0.85	2.1	4.3	-7.3
		Swiss Franc-Euro	1.32	0.1	1.3	-12.6
	<b>America</b>	Argentina (peso-dollar)	3.95	0.2	0.2	2.9
		Brazil (real-dollar)	1.71	-0.1	-2.6	-5.1
		Colombia (peso-dollar)	1814	0.6	0.1	-5.8
		Chile (peso-dollar)	486	-2.5	-3.6	-10.9
		Mexico (peso-dollar)	12.54	-1.8	-3.5	-7.5
		Peru (Nuevo sol-dollar)	2.79	-0.1	-0.3	-3.3
	<b>Asia</b>	Japan (Yen-Dollar)	84.25	-1.8	-0.5	-6.2
		Korea (KRW-Dollar)	1150.30	-0.9	-3.6	-3.4
		Australia (AUD-Dollar)	0.960	2.3	8.1	10.9
<b>Comm.</b> (changes in %)		Brent oil (\$/b)	78.7	0.6	4.9	20.8
		Gold (\$/ounce)	1297.1	1.8	4.8	30.9
		Base metals	522.6	0.4	4.3	21.6
<b>Stock markets</b> (changes in %)	<b>Euro.</b>	Ibex 35	10703	1.1	7.0	-8.1
		EuroStoxx 50	2783	0.9	6.8	-1.7
	<b>America</b>	USA (S&P 500)	1142	1.5	9.1	9.4
		Argentina (Merval)	2523	2.0	8.7	25.1
		Brazil (Bovespa)	69259	3.2	8.4	14.8
		Colombia (IGBC)	14064	0.1	2.7	26.9
		Chile (IGPA)	22258	-1.1	6.4	42.5
		Mexico (CPI)	33369	1.0	6.9	16.0
		Peru (General Lima)	17202	2.9	14.9	13.9
		Venezuela (IBC)	65932	1.1	1.8	27.2
	<b>Asia</b>	Nikkei225	9472	-1.6	6.3	-7.7
		HSI	22119	0.7	7.3	5.2
<b>Credit</b> (changes in bps)	<b>Ind.</b>	Itraxx Main	117	10	-1	30
		Itraxx Xover	529	58	6	-48
	<b>Sovereign risk</b>	CDS Germany	40	-1	-4	18
		CDS Portugal	396	32	67	345
		CDS Spain	229	-6	-15	163
		CDS USA	49	2	2	---
		CDS Emerging	236	-5	-21	-39
		CDS Argentina	770	1	-167	-352
		CDS Brazil	120	3	-8	-13
		CDS Colombia	127	1	-7	-33
		CDS Chile	77	2	-6	1
		CDS Mexico	134	6	0	-30
		CDS Peru	122	-9	7	-19

Source: Bloomberg and Datastream

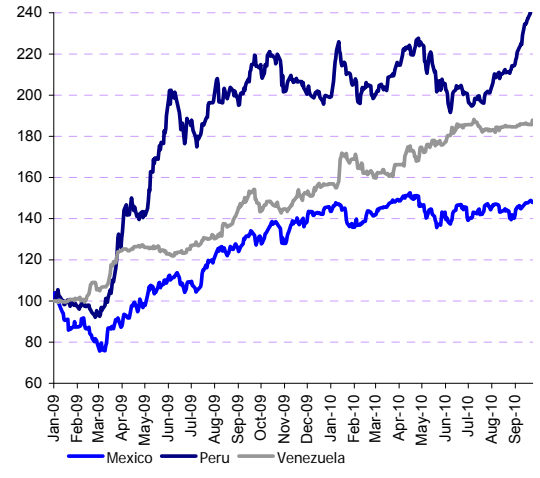
# Graphs

Graphs 6 & 7

## Stock exchanges (base index Jan09=100)



Source: Bloomberg



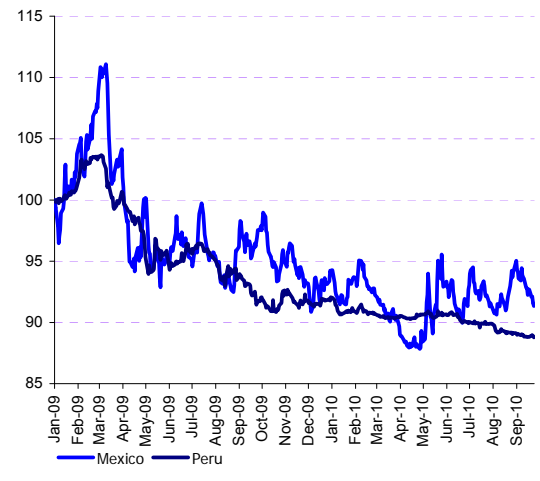
Source: Bloomberg

Graphs 8 & 9

## Exchange rates (base index Jan09=100)



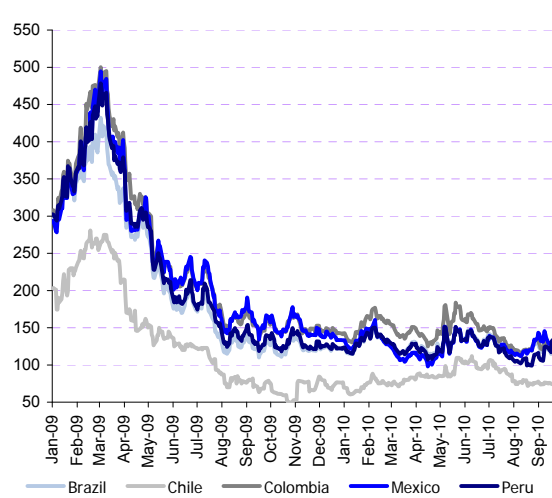
Source: Bloomberg



Source: Bloomberg

Graphs 10 & 11

## Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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