

Latin Weekly ~~Y~~ ~~&~~ ~~c~~ ~~@~~

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Economic Analysis

South America

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Markets

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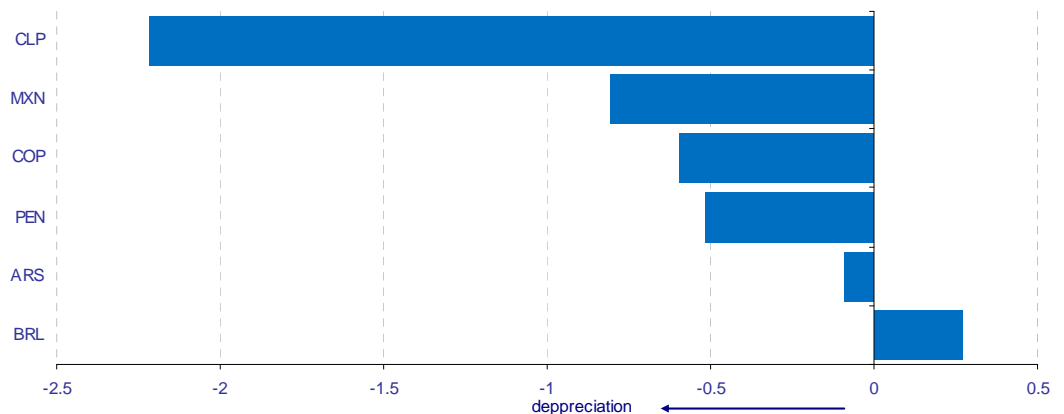
Hit by the violence in Libya

Although the upheavals of recent weeks in North Africa are still not affecting the region's economy, uncertainty about the future of the conflict and its effect on the price of Brent crude are focusing the region's attention. The weakening of the currencies and the spectre of rises in energy prices has fuelled concerns about higher inflation. From the economic point of view, the most important data in the week were higher than expected growth from Mexico and the surprising hike of the reference interest rate in Colombia to 3.25%.

Geopolitical risk (the MENA region) dominates the lower appetite for risk and affects assets in the region: markets accumulate inflationary fears

Despite relatively favorable cyclical indicators in the U.S. and Europe, tensions in the MENA region increased risk aversion in Latin American assets. However, the size of the impact on currency crosses, interest rates and stock markets depended on each country's exposure to the shock in commodity expectations (both inflation and external and fiscal accounts) and its monetary stance.

Chart 1
Weekly changes in LatAm currencies (7d)



Source: Bloomberg and BBVA Research

- Markets →
- Highlights →
- Calendar →
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Highlights

- Results of economic activity mixed in Latin America
- Trade balances worsen as imports rise
- In Colombia, the Central Bank hikes the benchmark rate, taking markets by surprise
- In Peru, the sales tax (IGV) was cut from 19% to 18%
- Bank lending continues to grow fast in Brazil and Peru in January

Economic Analysis

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Markets

The increase in risk aversion due to geopolitical risk (the MENA region) and the partial interruption of oil production in Libya (the country accounts for less than 2% of global production) led to a sharp increase in Brent oil futures last week (close to USD 113 dpb, compared with USD 103 dpb at the start of the week) and rises in implied inflation in the markets in the region.

International volatility, with different effects on the performance curves in different monetary cycles, and the assessment that inflationary shocks will persist

The volatility of international markets has had a relatively greater impact on domestic interest rates in Mexico than in Brazil. The reason is that unlike Mexico, where the monetary posture is still lax and will remain so for a few more months, in Brazil inflationary risks have already been accumulating and thus the restrictive monetary cycle continues. It cannot be ruled out that the curves in Brazil will be adjusted to incorporate further increases in monetary rates. In Colombia, the TES incorporated an increase in the monetary rates of 50 bps, while in Chile there were highs in implied inflation at the short end of the swaps curve.

USD gains against Latin American currencies, but the relative strength of the USD/BRL is partly explained by higher real interest rates in Brazil

The MXN and CLP currency crosses were the worst hit by the global environment last week. This can be explained in the case of MXN by relatively low real interest rates, and in the CLP by the deterioration in the terms of trade with the fall in copper prices and rising oil prices. Over the next few days major correlation of implied MXN volatility with the VIX cannot be ruled out, with technical levels to monitor being the moving 30, 50 and 100-day averages (12.0620, 12.1516 and 12.2629 respectively). In the USD/CLP the resistance level to monitor is 480.26 (50d ma).

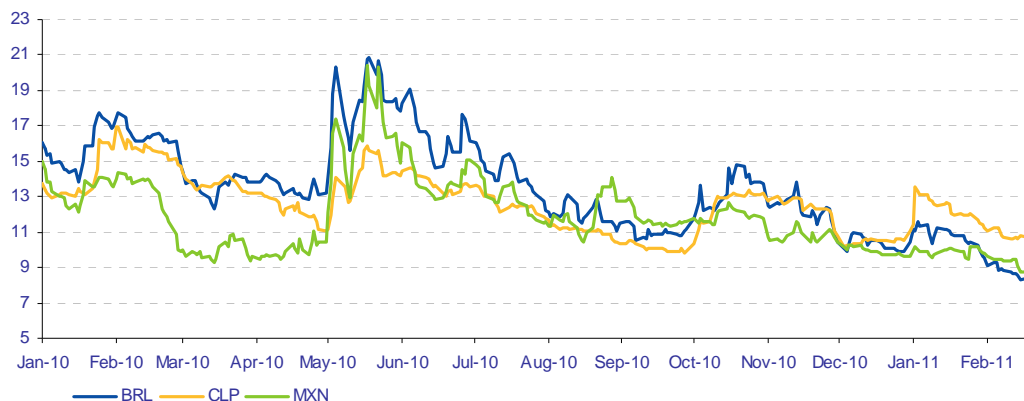
The BRL was relatively unaffected by the international turbulence. It was benefited by higher real interest rates and a current account deficit financed mainly by foreign investment. The BRL ranges could remain at 1.67-1.69

Corporate lending market affected, with higher premiums

Credit default swaps (CDS) for Latin American corporate issues have been affected by the current situation. Over the week the 5-year Petrobras CDS were up by over 23 bps, and those of Pemex by around 7 bp. This situation also led to there being no significant Latin American corporate issues on the primary market for international debt this week.

Chart 2

Implied volatilities of reference LatAm currencies (%)



Source: BBVA Research with data from Bloomberg

- Highlights →
- Calendar →
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Economic Analysis

Highlights

Results of economic activity mixed in Latin America

Industrial output in January was up 10.3% y/y in Argentina, while in Colombia it rose by 4.7% in 2010. In December, retail sales in Colombia were up 12.4% y/y, led by durable goods. In 4Q10 retail sales fell 28.4% y/y in Venezuela, affected by the limited availability of currencies for imports. Meanwhile, economic growth in Mexico experienced an upturn in the fourth quarter of 4.4% y/y (1.3% q/q, compared with the expected 0.6%). It closed the year up 5.5%.

Trade balances worsen as imports rise

In Argentina, the trade balance in January was USD 513m, less than half that 12 months earlier, due to strong imports (up 52% y/y). In Brazil, the current account deficit was USD 5,409m in January, far higher than in December. In Venezuela, the trade balance ended the year with a surplus of USD 27,173m and the capital and financial account posted a deficit of USD 18,799m.

In Colombia, the Central Bank hikes rates, taking markets by surprise

The Central Bank started earlier than expected the normalization of monetary policy hiking the reference rate by 25bps to 3.25%, due to the increase in inflation expectations over the medium term over the past two months.

In Peru, the sales tax (IGV) was cut from 19% to 18%

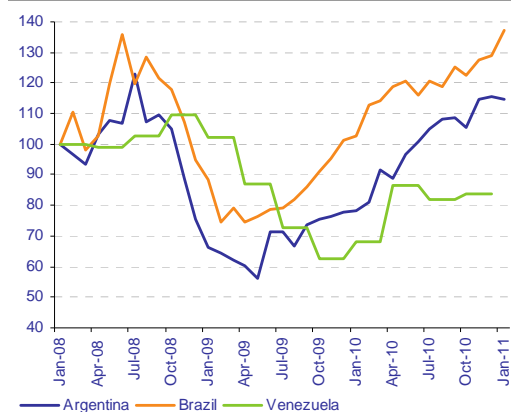
The measure caused surprise, as it has a pro-cyclical effect in an environment in which demand continues to rise at high rates, and has a permanent negative impact on tax revenues. In Brazil the primary surplus of the public sector remained practically unchanged in January at 2.8% of GDP, but the nominal deficit increased slightly and came up at 2.6% due to higher interest payments.

Bank lending continues to grow fast in Brazil and Peru in January

In January lending in the Peruvian banking system went up by 18.9% y/y. The rate of non-performing loans was 1.55% (1.49% in December 2010). Lending in Brazil also remained buoyant, with a rise of 20.3% y/y (0.5% m/m).

Chart 3

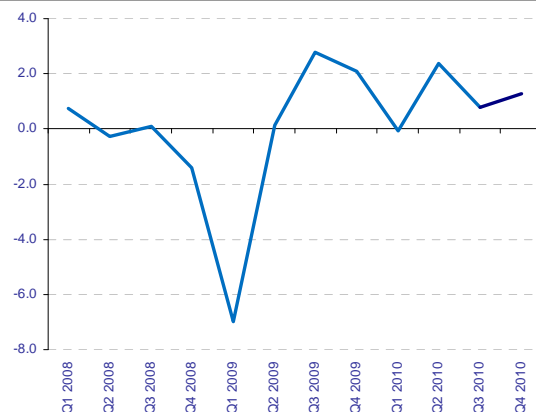
Monthly Imports (seasonally adjusted, Jan 08 = 100)



Source: BBVA Research.

Chart 4

GDP Mexico (% q/q)



Source: BBVA Research.

Markets →

Calendar →

Markets Data →

Charts →

Calendar: Indicators

Next Week: 28 February - 4 March 2011

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Public Services Statistic	28-Feb	Jan 2011			12.4% y/y	Strong demand pushes the consume of services
Synthetic Indicator of Construction Activity	28-Feb	Jan 2011			19.6% y/y	The construction sector keeps good performance
Wage Index	1-Mar	Jan 2011		26.3% y/y	26.3% y/y	Inertial effect due to increase of last months
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Trade balance	1-Mar	Feb 2011	\$2000M		\$424M	
Industrial production	2-Mar	Jan 2011		-0.2% m/m	-0.7% m/m	
GDP	3-Mar	4Q 2010	0.8% q/q	0.8% q/q	0.5% q/q	Activity moderation in December caused a downward revision of Q4 GDP forecasts which should, however, expand more than in Q3.
Inflation	4-Mar	Feb 2011	0.7% m/m	0.8% m/m	0.83% m/m	Inflation will remain high and pressuring monetary policy and inflation expectations.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Sectores Económicos	28-Feb	Jan 2011				Expected growth rates of 4.1% in industrial production, and 4.7% in industrial sales.
Empleo	28-Feb	Jan 2011	7.2%		7.1%	Expect a slight increase in unemployment due to the seasonality of January.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Urban unemployment	28-Feb	Jan 2011	14.5%		11.3%	Low occupation rates historically observed during January
Building permits	3-Mar	Dec 2011	16.0% y/y		91.9% y/y	New regulation for 2011 anticipates housing licenses by the end of 2010
Exports	4-Mar	Jan 2011	25.0% y/y		17.1% y/y	Mining exports lead the aggregate performance
Inflation	5-Mar	Feb 2011	1.04% m/m, 3.62% y/y		0.9% m/m, 3.4% y/y	Expect continued effects of local supply shock on food prices and adjustments in indexed prices
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Producer Confidence	3-Mar	Feb 2011	3.4% m/m, 23% y/y		-2.1 m/m, 24.7% y/y	The producer will confidence picked up slightly in February, but continue the trend of moderation in the first quarter.
Consumer Confidence	4-Mar	Feb 2011	1.5% m/m, 13.8% y/y		1.1% m/m, 12.3% y/y	Consumer confidence will continue to improve driven by sustained growth in formal and total employment, and less negative contribution to real wage developments.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	1-Mar	Feb 2011	0.28% m/m	0.35% m/m	0.39% m/m	Monthly inflation mainly reflects the increase in some food prices, partially offset by the reduction of electricity tariffs.
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	3-Mar	Feb 2011	2.0% m/m		2.7% m/m	

Source: BBVA Research

Calendar: Events

Brazil and Mexico: monetary policy meetings (March 2 and 4, respectively)

Forecast: Bra 11.75%; Mex 4.5% **Consensus: Bra 11.75%; Mex 4.5%** **Previous: Bra 11.25%; Mex 4.5%**

Broad consensus in Brazil on an additional rise of 50 bps. The communication of the rise may give an important signal as to the total size of the adjustment cycle. We do not expect a change in the lending rate in Mexico, as there is no clear pressure on demand so far and medium-term inflationary expectations are anchored.

Calendar: holidays

No holidays in the region.

Markets



Highlights



Market Data



Charts



Market data

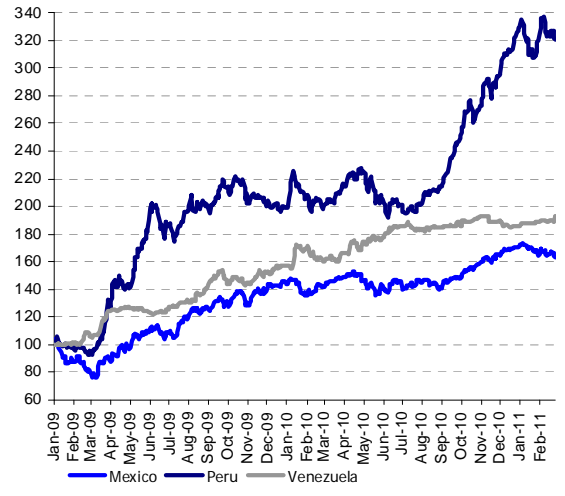
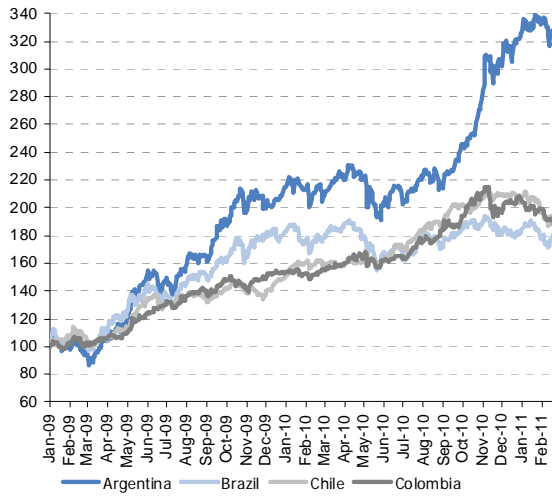
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.31	0	1	6
		2-yr yield	0.74	-1	11	-8
		10-yr yield	3.45	-13	3	-16
	EMU	3-month Euribor rate	1.09	1	4	44
		2-yr yield	1.55	15	23	59
		10-yr yield	3.16	-10	-3	6
Exchange rates (changes in %)	Europe	Dollar-Euro	1.375	0.6	0.5	1.1
		Pound-Euro	0.86	1.5	-0.8	-4.2
		Swiss Franc-Euro	1.28	-1.1	-0.8	-12.5
	America	Argentina (peso-dollar)	4.03	0.1	1.0	4.4
		Brazil (real-dollar)	1.66	-0.1	-0.5	-7.9
		Colombia (peso-dollar)	1893	0.9	1.6	-1.7
		Chile (peso-dollar)	476	1.6	-2.6	-9.3
		Mexico (peso-dollar)	12.12	0.8	0.6	-5.1
		Peru (Nuevo sol-dollar)	2.78	0.3	0.1	-2.6
	Asia	Japan (Yen-Dollar)	81.76	-1.7	-0.8	-8.0
		Korea (KRW-Dollar)	1126.38	1.4	0.9	-2.5
		Australia (AUD-Dollar)	1.014	0.0	2.0	13.5
	Comm. (changes in %)	Brent oil (\$/b)	111.9	9.1	14.2	44.2
		Gold (\$/ounce)	1405.7	1.2	4.4	25.8
		Base metals	612.2	-0.5	1.4	25.9
Stock markets (changes in %)	Euro.	Ibex 35	10824	-2.2	1.4	4.7
		EuroStoxx 50	2983	-2.8	0.5	9.3
	America	USA (S&P 500)	1314	-2.1	1.4	19.0
		Argentina (Merval)	3424	-3.2	-6.0	54.1
		Brazil (Bovespa)	67386	-1.0	-1.9	1.3
		Colombia (IGBC)	14579	3.2	-3.4	24.3
		Chile (IGPA)	20966	-1.6	-8.5	17.9
		Mexico (CPI)	36447	-2.9	-3.0	15.2
		Peru (General Lima)	22608	-1.9	2.7	61.5
		Venezuela (IBC)	67722	1.8	2.5	20.6
	Asia	Nikkei225	10527	-2.9	1.2	4.0
		HSI	23012	-2.5	-3.5	11.7
	Credit (changes in bps)	Ind.	Itraxx Main	102	6	3
Itraxx Xover			405	23	-1	-59
Sovereign risk		CDS Germany	54	1	-5	12
		CDS Portugal	477	22	27	312
		CDS Spain	272	23	2	136
		CDS USA	47	0	-1	---
		CDS Emerging	233	15	31	-35
		CDS Argentina	681	66	138	-469
		CDS Brazil	121	6	11	-9
		CDS Colombia	123	5	12	-34
		CDS Chile	82	4	3	8
		CDS Mexico	118	3	5	-9
		CDS Peru	117	6	10	-15

Source: Bloomberg and Datastream

Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)

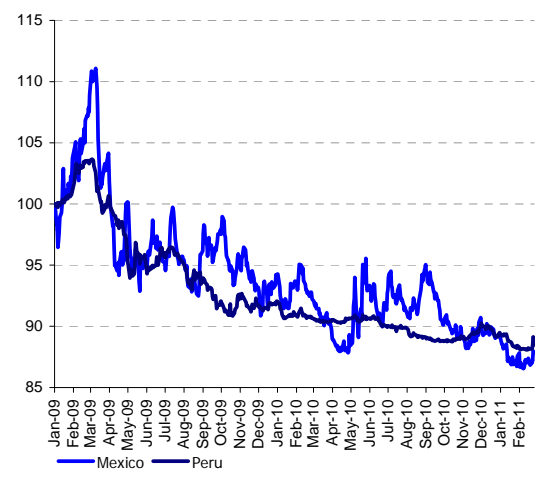
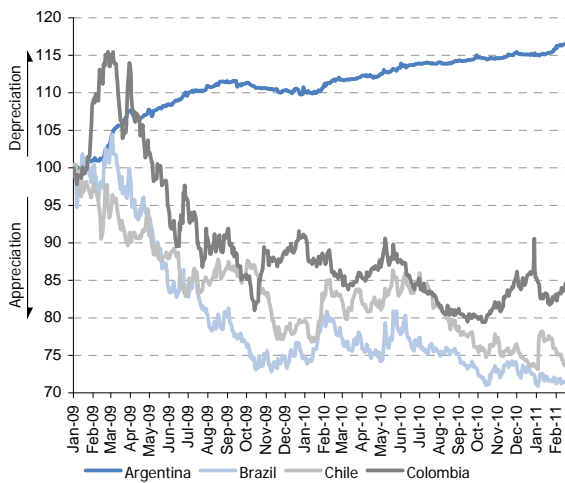


Source: Bloomberg

Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)

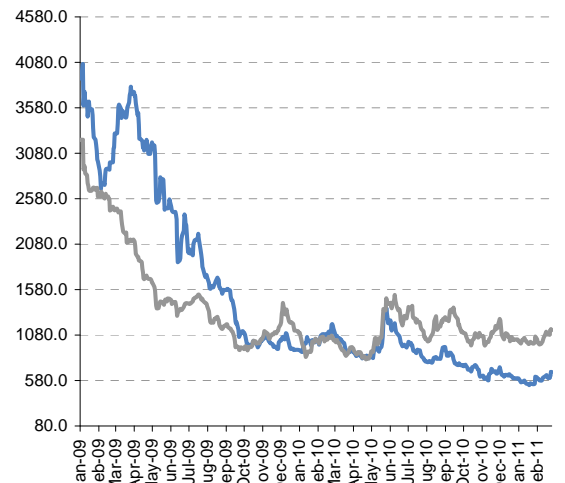
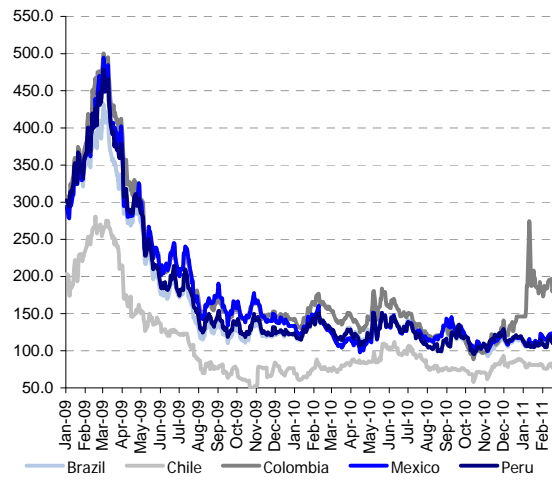


Source: Bloomberg

Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg

Source: Bloomberg

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