

Latin Weekly Observatory

June 25th, 2010

Economic Analysis

South America

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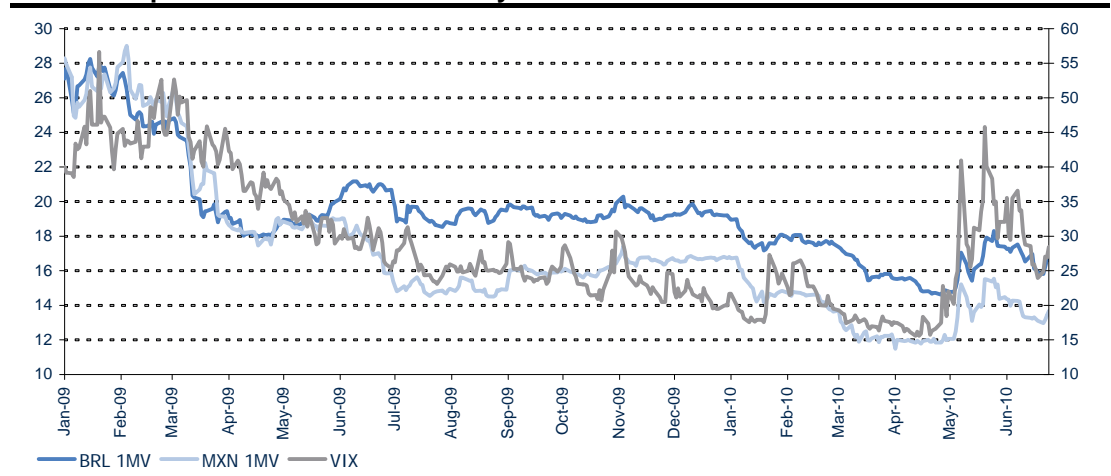
LatAm pushes forward on the back of domestic demand

Imports data from Argentina, Brazil and Chile confirm strong growth of domestic demand in the region. Lending continued to grow in Brazil in May (19% y/y). Also Colombian GDP (4.4% y/y, 1.3% q/q) beat expectations due to robust expansion of domestic demand. Argentina completed with a 66% acceptance rate the debt swaps with holdouts, beating expectations, while en Venezuela Cadivi increased access to formal exchange rate market in May by 59.2% y/y. Mexico's GDP fell -0.3% q/q (4.4% y/y), as a result of a drop in private consumption and public sector investment. Chile announced new local issue of sovereign long-term debt for value equivalent to 3 billion dollars.

Positive outlook for Latin American currencies, despite the uncertain international environment.

Uncertainty about European economies added to jitters about U.S. recovery, and fears surrounding appreciation of the Chinese Yuan; however, domestic factors in each economy prevailed and contributed to strengthening the region's currencies.

Chart 1
VIX vs. Implied MXN and BRL volatility



Source: Bloomberg and BBVA Research

Markets

Highlights

Calendar

Market data

Highlights

Imports in the region remain highly dynamic

Brazil: Credit gathers pace in spite of higher interest rates

Argentina: Successful debt swap

Venezuela: Cadivi increases daily allocations in May

Peru: Increase in Reserve requirements

Diverging growth rates in Colombia and Mexico.

Market analysis

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Positive bias for Latin American currencies, despite uncertainty in the U.S. and Europe.

Over the past week, the market focused not only on the fiscal situation of European Union countries but also on global cycle factors (strength of the U.S. recovery, and the announcement of the Federal Open Market Committee), as well as China's exchange rate policy amid expectations that an appreciation of the Yuan will fortify the competitive position of Latin American economies.

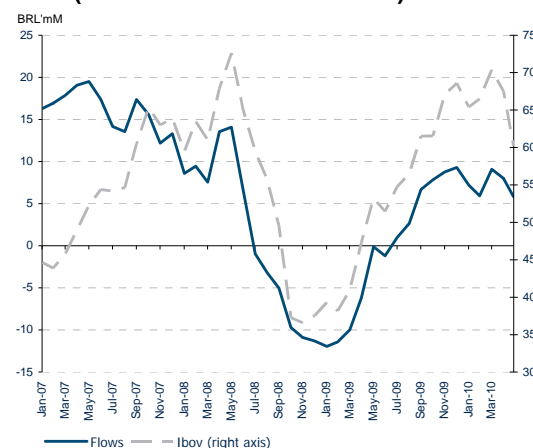
Locally, we expect the COP to continue with a positive bias resulting from potentially greater Government monetizations versus an increase in external debt issue, given the favorable outlook for economic growth and that the Bank of the Republic is not extending its dollar purchases (range between 1880 and 1922). As for the PEN, we expect stability at around 2.83 due to dollar purchases and reserves measures adopted by the Central Bank, in addition to caps on foreign investment for pension funds.

As for the Chilean currency (CLP), we expect a correction of last week's fall and consolidation at around 530 levels. The latter in response to the prospect of a more stable external environment, and positive domestic cycle forecasts. The market expects industrial output growth of 5%, which would add to retail sales growth figures of 18% in May released by the Chamber of Commerce.

Petrobras placement delay may slow capital inflows into the region

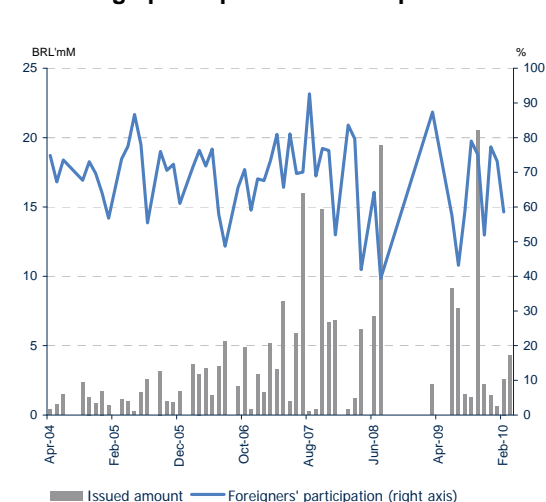
The highlight in equity markets was Petrobras's unexpected announcement to defer its stock offering to September, because it requires a second appraisal by an independent institution. This placement delay may weigh on Brazil's market, given excess shares generated by offer and the fact that some funds will keep liquidity back to take part in the issue, thus detracting resources not only from Brazil, but also other markets in the region. Given the above, the margin for appreciation of the Brazilian real is limited to the region of around 1.75 in the short term.

Chart 2
Net foreign transactions at the Bovespa vs. IBOV (accrued balance since 1994)



Source: Bovespa and BBVA Research

Chart 3
Net foreign participation in Bovespa vs. Issued amount



Source: Bovespa and BBVA Research

Economic Analysis

Highlights

Imports in the region remain highly dynamic

Annualized imports growth figures of 72%, 52.3% and 70.6% registered in Argentina, Brazil and Chile, respectively, are proof that expenditure is recovering rapidly in these countries.

Brazil: Credit gathers pace in spite of higher interest rates

The credit stock grew 19.0% y/y in May, and reached 45.3% of GDP. While the credit expansion was widespread, public sector (31% y/y) and real estate sector figures (50.6% y/y) were the highlights. This happened in spite of a recent increase in interest rates and spreads.

Argentina: Successful debt swap

Debt swap offer ended with a 66% acceptance rate, exceeding the 60% floor expected by the Ministry of Economy, although this was lower than initial expectations. Debt restructuring with the Paris Club for approximately USD 6.5 billion is still pending, and approximately USD 3 billion still remains in the hands of investors that are pursuing legal action through the courts of New York, and they block immediate access to international credit markets at reasonable rates.

Venezuela: Cadivi increases daily allocations in May

Daily total Cadivi authorizations to access the formal exchange market totaled USD 150m (59.2% y/y), an amount significantly higher than daily allocations in the first quarter of the year (USD 101m). This has been supplemented by progressive increases in amounts traded under the band-based system, which is about USD 40 million daily.

Peru: Reserves are on the rise

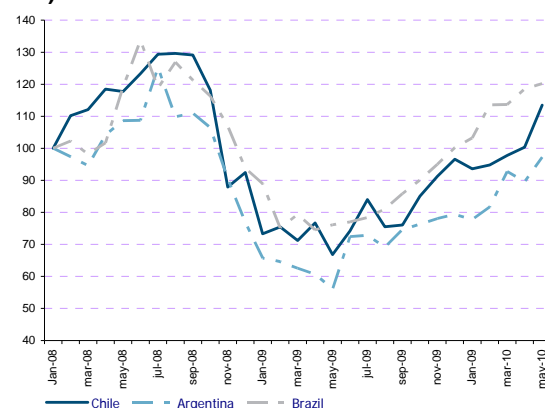
The Central Bank raised reserve requirements for domestic and foreign currency, in a context where strengthening pressures on the PEN are increasing. It is noteworthy that this institution resumed dollar purchases last week, after staying away from the currency markets since April.

Diverging growth in Colombia and Mexico.

Colombia's GDP grew by 1.3% q/q (4.4% y/y) in 1Q10, exceeding expectations, as a result of a stronger final consumption (1.2% q/q) and good investment performance due to a sharp increase in public investment. Though the Mexican economy grew at the same annual rate, GDP fell -0,3 % q/q, as a result of drops in both private consumption (-0.1% q/q) and public sector investment (-0.2% q/q).

Chart 4

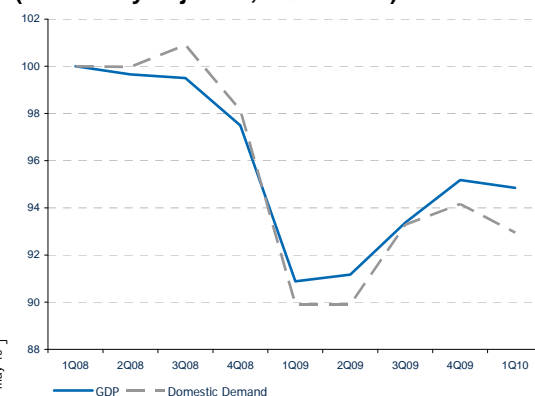
Import Index (seasonally adjusted, Jan 08 = 100)



Source: BCCH and BBVA Research

Chart 5

Mexico: GDP and domestic demand (seasonally adjusted, 1Q08 = 100)



Source: BBVA Research

Calendar: indicators

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Shopping center sales	28-Jun	May 2010			41,9% y/y	
Supermarket sales	29-Jun	May 2010			23,7% y/y	
Synthetic Indicator of Construction Activity	29-Jun	May 2010			12,6% y/y	
Public Service 's Statistics	30-Jun	May 2010			10,0% y/y	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Fiscal Accounts	30-Jun	May 2010				Stronger revenues could drive an improvement in public accounts.
Industrial Production	1-Jul	May 2010			-0.7% m/m	Monthly recovery is expected after last month's correction.
Trade Balance	1-Jul	June 2010			R\$ 3443 millions	Both exports and imports to remain strong, but trade balance will hardly be as positive as in May
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Industrial Production	30-Jun	May 2010	5% y/y		-1.3% y/y	
Unemployment rate	30-Jun	March-May10	8.8%		8.6%	
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	30-Jun	May 2010	0.12	N.A.	0.124	Lower labor market participation would drive fall in unemployment rate
Monthly inflation	3-Jul	June 2010	0.17% m/m	0.12% m/m	0.10% m/m	Food prices could show upward correction after low figure in May
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
IGAE	28-Jun	Abril 2010	4.5	N.A.	6.9	-1.42 m/m
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Monthly Inflation	1-Jul	June 2010	0.2%		0.2%	The result is explained mainly by an increase in the food prices (vegetables)
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment rate	30-Jun	40308	8.6%	N.A.	8.2%	We forecast an increase at the unemployment rate, mainly due to the bad automotive industry figures and the extension of the electricity crisis.

Source: BBVA Research

Calendar: holidays

Chile and Venezuela: June 28.

Peru: June 29.

Table 1

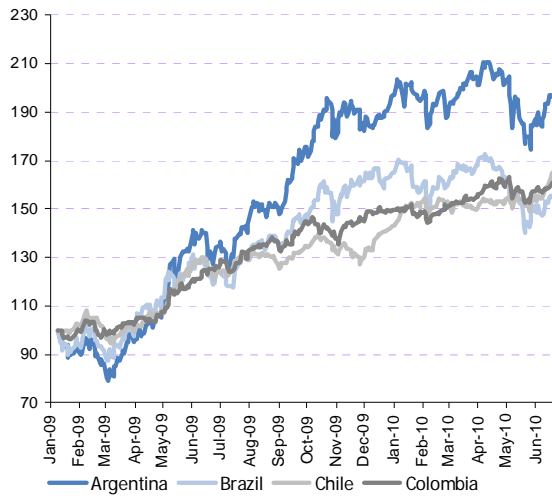
Market movements

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.53	0	0	-6
		2-yr yield	0.66	-5	-22	-45
		10-yr yield	3.11	-11	-25	-42
	EMU	3-month Euribor rate	0.75	2	5	-37
		2-yr yield	0.56	-2	2	-76
		10-yr yield	2.61	-12	-10	-79
Exchange rates (changes in %)	Europe	Dollar-Euro	1.230	-0.5	-0.4	-12.7
		Pound-Euro	0.82	-1.5	-3.1	-3.5
		Swiss Franc-Euro	1.35	-1.7	-5.3	-11.5
	America	Argentina (peso-dollar)	3.93	0.2	0.5	3.5
		Brazil (real-dollar)	1.78	0.7	-2.3	-8.3
		Colombia (peso-dollar)	1900	-0.5	-3.5	-11.8
		Chile (peso-dollar)	537	0.5	1.4	1.4
		Mexico (peso-dollar)	12.71	1.4	-1.3	-3.8
		Peru (Nuevo sol-dollar)	2.83	-0.1	-0.8	-6.1
		Asia	Japan (Yen-Dollar)	89.27	-1.6	-1.6
	Korea (KRW-Dollar)		1210	0.6	0.3	-5.6
	Australia (AUD-Dollar)		0.866	-0.4	2.2	7.2
Comm. (changes in %)	Brent oil (\$/b)	76.9	-1.6	3.0	11.6	
	Gold (\$/ounce)	1253	-0.3	3.3	33.4	
	Base metals	480.5	0.8	-0.1	19.5	
Stock markets (changes in %)	Euro.	Ibex 35	9632	-3.4	3.2	-0.6
		EuroStoxx 50	2645	-3.4	1.0	10.7
	America	USA (S&P 500)	1073	-4.0	-2.8	16.7
		Argentina (Merval)	2301	-0.8	5.7	45.6
		Brazil (Bovespa)	64111	-0.5	3.3	24.5
		Colombia (IGBC)	12483	-0.1	3.1	27.4
		Chile (IGPA)	18923	-0.6	6.1	27.7
		Mexico (CPI)	32321	-1.5	0.8	32.1
		Peru (General Lima)	14118	-1.6	-3.6	7.0
		Venezuela (IBC)	64578	-0.8	4.6	47.1
	Asia	Nikkei225	9737	-2.6	1.0	-1.4
		HSI	20691	2.0	6.5	11.2
Credit (changes in bps)	Ind.	Itraxx Main	129	12	12	9
		Itraxx Xover	558	38	-2	-186
	Sovereign risk	CDS Germany	43	5	1	8
		CDS Portugal	323	34	4	246
		CDS Spain	266	55	31	173
		CDS USA	37	1	-2	---
		CDS Emerging	263	11	-11	-147
		CDS Argentina	974	-21	-248	-1349
		CDS Brazil	135	7	0	-48
		CDS Colombia	153	5	-10	-61
		CDS Chile	99	5	-3	-29
		CDS Mexico	132	8	-1	-86
		CDS Peru	133	9	1	-52

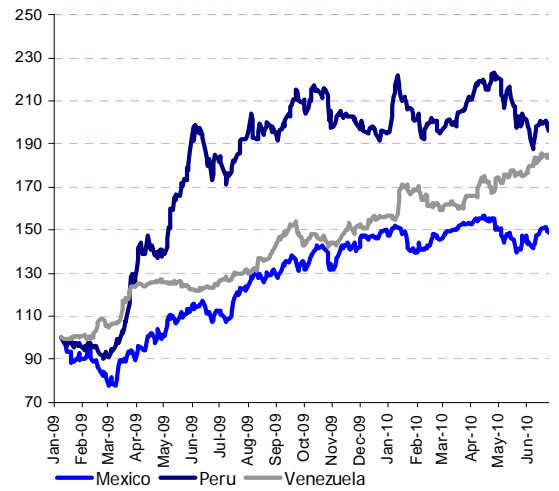
Source: Bloomberg, Datastream and JP Morgan

Charts 6 & 7

Stock exchanges (base index Jan09=100)



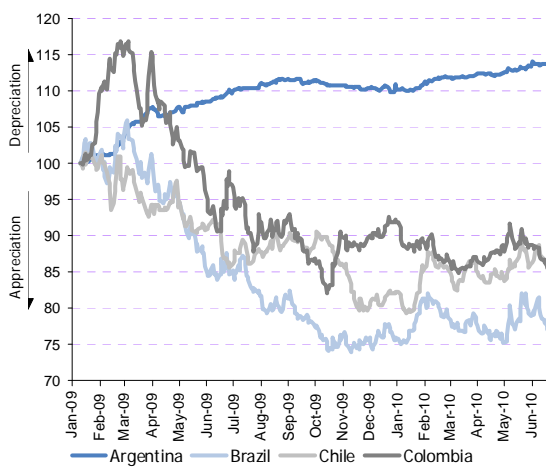
Source: Bloomberg



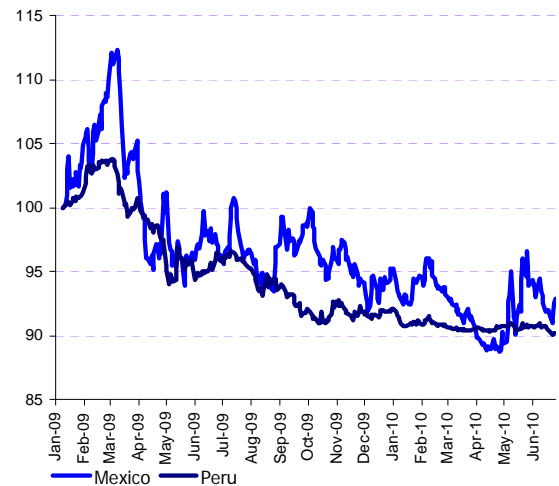
Source: Bloomberg

Charts 8 & 9

Exchange rates (base index Jan09=100)



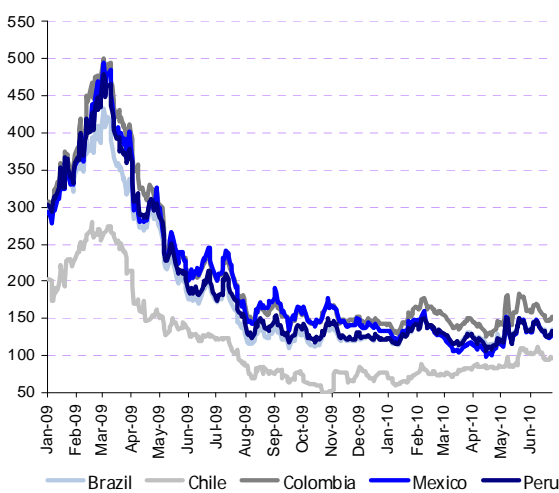
Source: Bloomberg



Source: Bloomberg

Charts 10 & 11

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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