

Weekly Watch

Latin

September 26, 2011
Economic Analysis

South America

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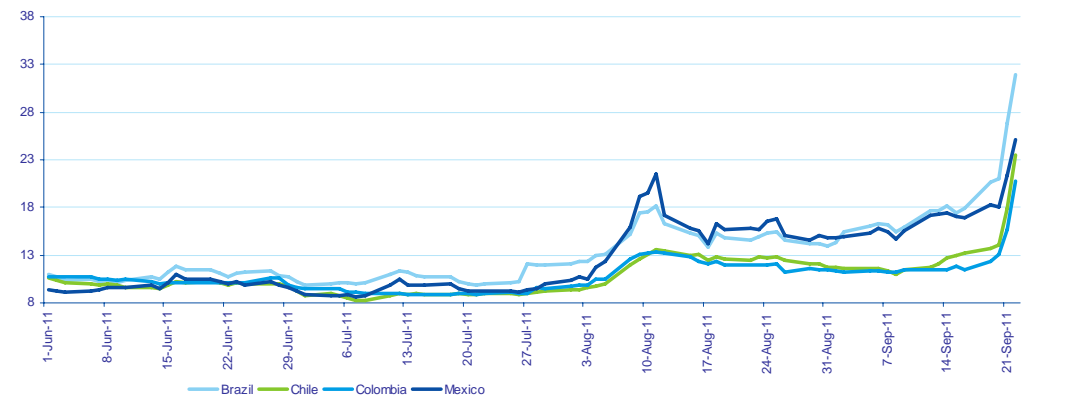
A changing scenario?

Although employment and credit data have not shown the slowdown in domestic demand we expected, the regional macroeconomic scenario is changing quickly in response to international economic turmoil. Falling share prices and depreciating currencies should hit confidence, and if the situation continues, they will end up affecting consumption and investment. In this context, attention will be focused on the foreign-exchange markets and any actions by central banks to increase dollar liquidity.

The Fed suggestion of "significant risks" could lead to flows from emerging and equity markets

Both currencies and stock markets in the region showed strong downturns in response to a pessimistic monetary policy statement in the U.S. on the global situation and the lack of a resolution to fiscal problems. Negative data from China and major falls in commodity prices also had an impact. The BRL and CLP suffered the biggest corrections, followed by the MXN and COP. In this environment, the Brazilian, Peruvian and Argentinean central banks intervened in local currency markets, helping to limit losses (we do not rule out that other central banks join these interventions).

Chart 1
LatAm: Implied 1-month exchange-rate volatility



Source: BBVA Research

Highlights

- Central banks intervene to limit currency depreciations
- Indicators of demand and economic activity continue strong
- Labor market indicators strong too
- Meanwhile, bank credit continues to grow fast
- Foot-and-mouth disease in Paraguay hits exports and prospects for 2012
- Argentina will use reserves to finance its fiscal deficit in 2012

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Economic Analysis

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Markets

The Fed emphasized the "significant risks" in growth and "strains in financial markets," heightening risk aversion...

The announcement by the Fed that it would extend the maturities in its portfolio (sale of USD 400 billion of short-term Treasury notes maturing in under 3 years and purchase of securities with maturities of more than 6 years) and reinvest in agency MBS was expected, and the market was mainly concerned by its pointing to "significant risks" to growth and "strains in financial markets." This news, combined with indicators that suggest weakness in manufacturing industry in the euro zone and China, have led to a strong upturn in risk aversion, falling commodity prices and capital flight from emerging markets and equities. Fears were far from appeased by the downgrades in banks in the U.S. (Bank of America, Wells Fargo and Citi) and Italy, as well as adverse comments on the capitalization needs of European banks by the IMF and the ECB's Systemic Risk Board. There is growing speculation that measures by the EFSF and ECB on the Greek bailout are imminent in Europe.

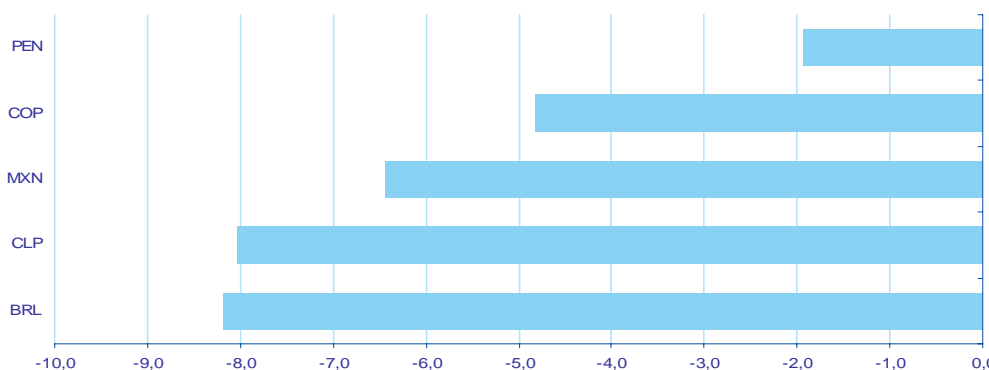
... generating major falls in currencies in the region, despite interventions by some central banks

In response to the above fears, Latin American currencies fell strongly last week, with the BRL and CLP performing worst in relative terms (with falls of the order of 7% to Friday). The MXN fell by nearly 6% and the COP by around 5%. In response to these movements, the central banks of Brazil, Peru and Argentina intervened on the foreign-exchange markets, which helped recover losses for the BRL and stabilize the PEN and ARS. We do not rule out that other central banks will carry out similar interventions. In any event, no catalysts are in sight that could lead to a recovery in the short term in most of the crosses.

Major falls in stock markets will continue to be linked to the balance of sovereign risks

Stock markets around the world fell over the week in response to renewed risk aversion. Mexico was one of the worst hit markets due to its links with the U.S. The performance of the stock markets will continue to be closely linked to the balance of sovereign risks. Although a new reporting season is approaching, we believe that even figures that reflect a similar level of positive surprise to what we saw in the first half of the year will do little to calm the markets.

Chart 2
Weekly changes in LatAm currencies



Source: BBVA Research

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Highlights

Central banks intervene to limit depreciation

The Central Bank of Argentina applied a new strategy consisting of selling large amounts (USD 700 million on 9/20) of dollar futures (end of September and October), but at the current spot rate. The Central Bank of Brazil auctioned dollar-denominated deposits and intervened on the spot market. We do not believe that the Central Bank of Colombia will renew the dollar purchase program when it ends on 9/30.

Indicators of demand and economic activity continue strong

In Colombia GDP in 2Q11 grew by 5.2% y/y, a similar rate to previous quarters. Industrial output was up 3.9% y/y in July, while in Mexico retail sales were up 0.4% m/m and the indicator of service-sector revenues by 1.6% m/m.

Labor market indicators strong too

In Brazil the unemployment rate remained stable at 6.0%, close to its all-time low, and real wages were up 3.2% y/y in August. In Peru, employment in Lima was up 1.8% y/y in the rolling quarter June-August 2011. In Venezuela the unemployment rate was 8.3%, under the average monthly figure so far this year (8.7%).

Meanwhile, bank credit continues to grow fast

Bank credit in Peru grew 20.2% y/y in August and in Colombia by 25.2% y/y in July. In Venezuela, credit grew by 11.8% in real terms, the highest rate so far this year.

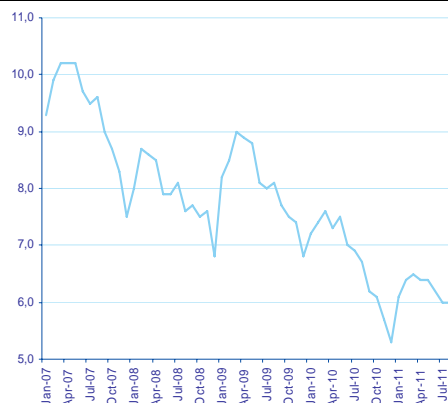
Foot-and-mouth disease in Paraguay hits exports and prospects for 2012

The halt to meat exports will mean lower foreign-currency income amounting to USD 300 million over the year (over 10% of total exports). This will reduce growth and inflation and put pressure on the exchange rate.

Argentina will use reserves to finance its fiscal deficit in 2012

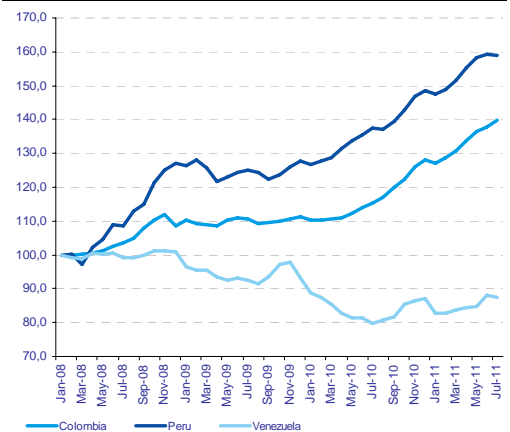
Latest - unofficial - news indicates that the Budget Law may use USD 5,674 million of reserves to service the debt, with increases of 18.3% in primary expenditure and 23% in revenues.

Chart 3
Unemployment rate in Brazil (%)



Source: BBVA Research

Chart 4
Real bank credit granted (Jan 2008=100)



Source: BBVA Research

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Calendar: indicators

Next Week: 26 - 30 September 2011

Country	Data	Period	Forecast	Consensus	Previous	Comment	
Argentina							
	Supermarket Sales	28-Sep	Aug 2011		29.1% y/y		
	Shopping Centers Sales	28-Sep	Aug 2011		30.1% y/y		
	Public Services' Statistics	30-Sep	Aug 2011		10.7% y/y		
	Synthetic Indicator of Construction Activity	30-Sep	Aug 2011		8.3% y/y		
Brazil							
	Credit Data	27-Sep	Aug 2011				
	Fiscal Data	30-Sep	Aug 2011				
Chile							
	Biweekly financial operators Survey	28-Sep	First half of September				
	Industrial production	29-Sep	Aug 2011	4.5%	0.7%	We expect a recovery in specific sectors toward trend growth rates, an additional drop in mining sector and a slowdown in retail sales.	
	Employment	30-Sep	Aug 2011	7.7%	7.5%	Our estimates for unemployment rate by June - August moving quarter is 7.7%, due to an increase in labor force and no job creation.	
Colombia							
	Unemployment rate	30-Sep	Aug 2011	11.0%	11.1%	11.3%	The unemployment rate would continue to decline in August, while improving the quality of employment, as shown by the indicators of formal job creation in industry and commerce.
Mexico							
	IGAE	28-Sep	Jul 2011	0.4% m/m (3.8% y/y)	NA	-0.2% m/m (4% y/y)	With good industrial production data in July (+0.5%, -0.5% previously), along with the positive survey results in retail sales (0.4% m / m, 0.9% previously) and the service indicator (1.6 %, 0.2% previously), we expect the IGAE has rebounded slightly in July (0.4%, -0.2% prev). Conserving however, the profile of moderation in annual terms.
Peru							
	Public sector capital expenditure	28-Sep	Aug 2011	-	-	-4.2%	

Source: BBVA Research

Calendar of events

Colombia: BanRep Intervention Rate (September 30)

Forecast: 4.5%	Consensus: 4.5%	Previous: 4.5%
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The Central Bank should maintain its pause in the cycle of interest-rate increases, given the risks in the foreign environment and the limited pressure on core inflation. We expect a signs of an end to the program of dollar support.

Calendar of holidays

No holidays in the region

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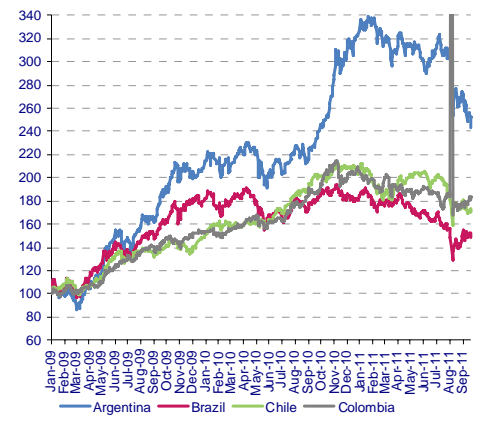
Market Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.36	1	4	7
		2-yr yield	0.20	3	-3	-24
		10-yr yield	1.77	-28	-53	-83
	EMU	3-month Euribor rate	1.54	0	0	66
		2-yr yield	0.40	-11	-31	-33
		10-yr yield	1.70	-16	-51	-64
Exchange rates (changes in %)	Europe	Dollar-Euro	1.355	-1.8	-6.0	0.5
		Pound-Euro	0.88	0.2	-0.5	2.8
		Swiss Franc-Euro	1.22	1.0	6.6	-8.1
	America	Argentina (peso-dollar)	4.20	-0.2	0.2	6.1
		Brazil (real-dollar)	1.90	11.3	18.6	11.4
		Colombia (peso-dollar)	1915	5.1	6.9	6.0
		Chile (peso-dollar)	522	8.7	11.8	7.3
		Mexico (peso-dollar)	13.86	7.0	11.6	10.4
		Peru (Nuevo sol-dollar)	2.77	1.4	1.4	-0.6
		Japan (Yen-Dollar)	76.26	-0.8	-0.7	-9.6
		Korea (KRW-Dollar)	1169.30	5.2	7.9	1.7
		Australia (AUD-Dollar)	0.985	-5.1	-5.9	2.8
		Comm. (chg %)	Brent oil (\$/b)	106.7	-5.0	-3.2
Gold (\$/ounce)	1741.2		-3.9	-1.0	34.4	
Base metals	547.9		-3.6	-3.1	4.2	
Stock markets (changes in %)	Euro	Ibex 35	7912	-5.7	-5.5	-26.2
		EuroStoxx 50	2015	-6.7	-10.0	-27.8
		USA (S&P 500)	1130	-7.1	-4.1	-1.7
	América	Argentina (Merval)	2481	-9.8	-14.7	-3.8
		Brazil (Bovespa)	53280	-6.9	-1.0	-21.9
		Colombia (IGBC)	13187	-5.0	-1.2	-6.6
		Chile (IGPA)	18588	-4.7	-6.9	-16.1
		Mexico (CPI)	32381	-8.0	-6.5	-2.7
		Peru (General Lima)	19012	-7.6	-2.5	9.8
		Venezuela (IBC)	100714	0.3	1.0	52.4
		Asia	Nikkei225	8560	-3.4	-0.9
	HSI	17669	-9.2	-9.2	-20.1	
	Credit (changes in bps)	Ind.	Itraxx Main	199	23	27
Itraxx Xover			845	131	128	329
Sovereign risk		CDS Germany	106	23	21	66
		CDS Portugal	1179	124	141	777
		CDS Spain	437	66	61	212
		CDS USA	56	6	8	--
		CDS Emerging	369	78	66	138
		CDS Argentina	1044	181	214	280
		CDS Brazil	218	58	56	101
		CDS Colombia	213	53	53	90
		CDS Chile	151	37	45	74
		CDS Mexico	214	55	53	82
		CDS Peru	219	54	51	100

Source: Bloomberg and Datastream

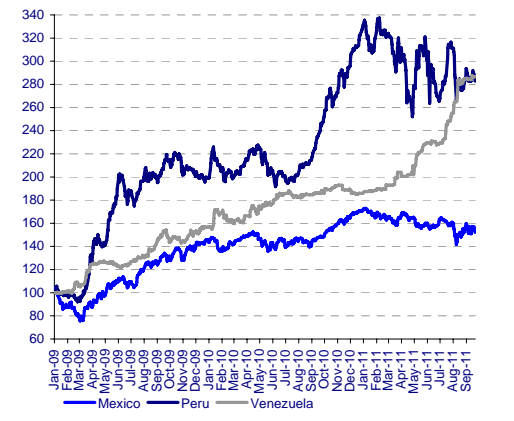
Charts

Chart 4
Stock markets (base index Jan09 = 100)



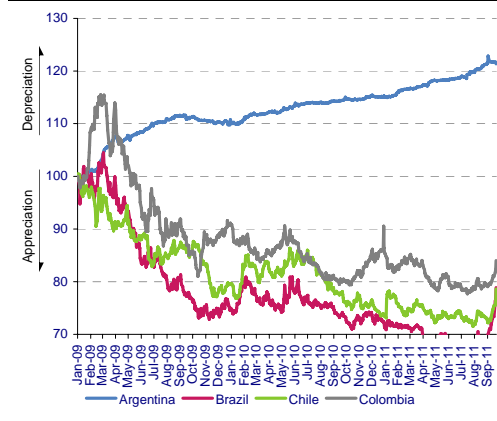
Source: Datastream and BBVA Research

Chart 5
Stock markets (base index Jan09 = 100)



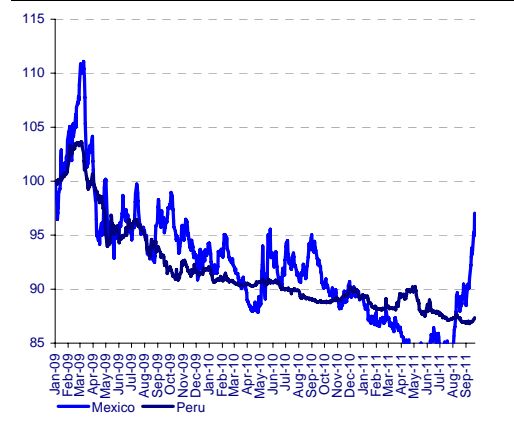
Source: Datastream and BBVA Research

Chart 6
Exchange rates (base index Jan09 = 100)



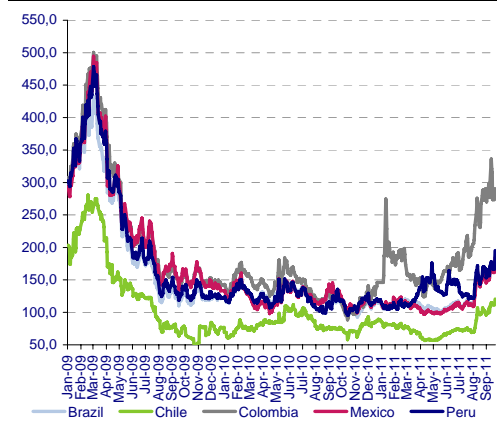
Source: Datastream and BBVA Research

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

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