

Latin

Weekly Observatory

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Economic Analysis

South America

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Assistance of IMF to create a national CPI in Argentina

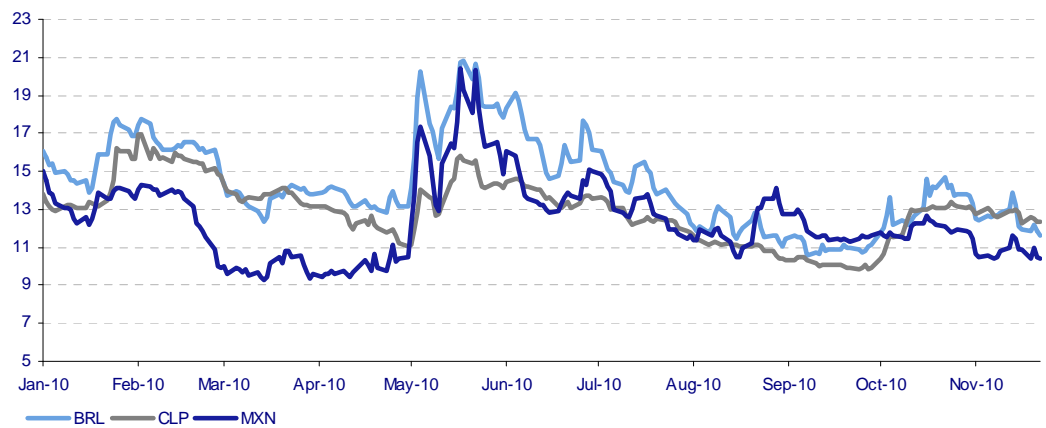
Data released this week on economic activity show economic growth moderating in 3Q10 in Argentina and Mexico, while the most recent data for October reveal growth in credit and confidence in Peru. This strength has also been reflected in falling unemployment in Argentina and Brazil. In addition, the markets have welcomed Argentina's request to the IMF to construct a new general CPI, although they are still waiting for what will actually occur. This week saw the unveiling of Rousseff's new economic team in Brazil, while the Central Bank of Mexico announced it would maintain the lending rate at 4.5%, thus consolidating the prolonged monetary pause, which we expect will be in place until 2012.

European risk premium impacts the markets in the region

Last week the behavior of most Latin American assets was once more determined by risk premiums in Europe and economic data from the U.S. The markets registered high levels of volatility but closed the week without significant changes on last Friday. In our opinion the broad operating ranges could be repeated over the coming sessions, but we maintain our favorable perspective for the zone.

Chart 1

Implied volatilities of reference LatAm currencies (%)



Source: Bloomberg and BBVA Research

Markets



Highlights



Calendar



Markets Data



Charts



Highlights

Indicators of economic activity moderate in Mexico and Argentina and gain strength in Peru.

Unemployment down in Argentina and Brazil, but it increases in Mexico

Mixed results for foreign accounts in October

Argentina asks the IMF for technical assistance to construct a national CPI

New economic team in Brazil

Venezuela: stock exchanges must sell government securities in USD

Economic Analysis

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Markets

Another week of volatility on the foreign-exchange markets

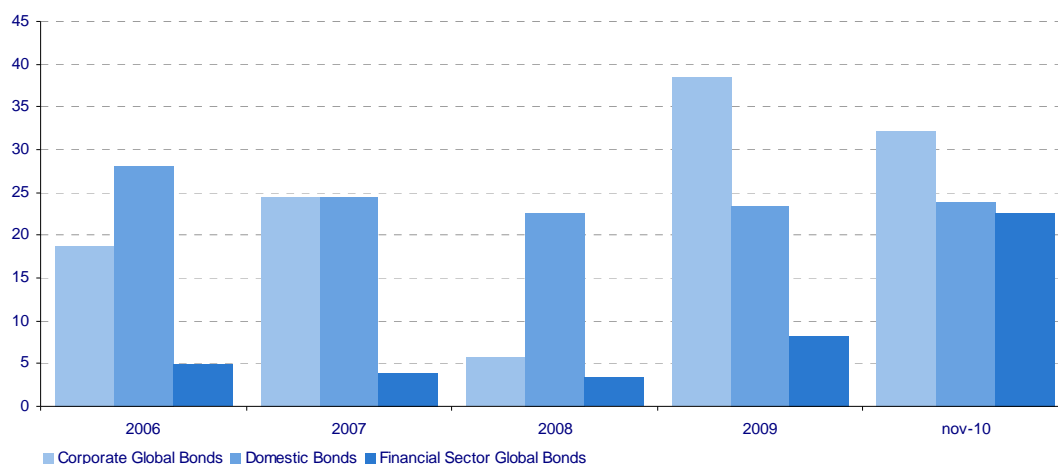
Last week the global foreign exchange markets were once more characterized by a high level of volatility. The combination of factors derived from the European risk premiums and geopolitical conflicts in Asia led to a major depreciation of most of the crosses. This was corrected starting on Wednesday on news of the favorable employment data from the U.S. and reduced uncertainty with respect to the restructuring of the Irish budget. It is important to note that despite the movements in recent days, implied volatilities remained without significant changes and even registered weekly falls of the order of 0.3 vegas at the close. Although the operating ranges will continue to be determined by risk premiums, we maintain our forecast of appreciation towards the end of the year.

Stock markets in the area are being affected by the European risk premium, while the corporate lending market is being squeezed in Brazil.

During the week stock markets in the region were affected by the resurgence of fears about European sovereign risk, but most managed to close on a positive note following data from the U.S. that were better than expected by the consensus (particularly the University of Michigan data on confidence and unemployment benefit claims). The exceptions were Brazil and Peru, with the result that on aggregate the MSCI index for the region did worse than the U.S., but outperformed Asia and Europe. The threat of a more restrictive monetary policy has reared its head in Brazil as a result of a number of factors: the replacement of Meirelles by Tombini at the Central Bank; inflation figures that were worse than expected in recent reviews; and the risks affecting the financial sector with the case of Banco Panamericano and fears that it will not be the only bank that could be subject to scrutiny by the authorities. The dynamics between the regional cycle and European sovereign risk will continue to be a significant issue, with the positive cycle of Latin America continuing to prevail in the long term.

The global credit market for some Brazilian issuing banks was restricted in recent weeks on negative news from an issuer. This had an impact on the increase in risk premiums of certain corporate bonds in this sector and the postponement of some issues on the domestic market. Despite this situation, Itau Unibanco (BBB / Baa2) managed to place BRL 500m at 5 years on international markets, the first such issue in BRL in 3 years. International issues by the Latin American banking sector have increased by more than 3 times year-on-year and in 2010 represented more than 40% of corporate issues.

Chart 2
Corporate issues in Latin America. (USD billion)



Source: BBVA Research

Highlights →

Calendar →

Markets Data →

Charts →

Highlights

Indicators of economic activity moderate in Mexico and Argentina and gain strength in Peru.

In 3Q10, Mexican GDP increased by 0.7% q/q (5.3% y/y), while it remained stable in Argentina (8.1% y/y). In contrast, in Peru credit growth continued to gain pace in October and business confidence remained at maximum levels, suggesting that economic activity will remain strong in the fourth quarter. However, in Chile Industrial production fell by 0.4% y/y, while industrial sales fell by 0.6%. Nevertheless, real retail sales increased by 19.0%.

Unemployment down in Argentina and Brazil, but it increases in Mexico

The unemployment rate stood at 7.5% in 3Q10, better than expected (BBVA: 7.8%), as a result of strong demand for labor. There were also positive signs in the Brazilian labor market, where in October the unemployment rate stood at 6.1%. This confirms the strength of the labor market, which is a key determinant of demand, while in Mexico it rose up to 5.5% related to the concentration of the intensive recovery in the capital and less in workforce.

Mixed results for foreign accounts in October

Mexico increased its trade balance, supported by the positive performance of imports of intermediate and consumer goods. In Argentina there was a surprising increase, with a balance of USD 931m as a result of the high prices of cereals and strong exports in the automotive industry. Meanwhile in Chile the surplus amounted to USD 3,749m, due to the high price of copper and a quantum leap in imports. In Brazil the trade balance stood at USD 1,853m, although this was offset by deficits in services and income (USD 5,553m) and the current account (USD 3,700m).

Argentina asks the IMF for technical assistance to develop a national CPI

The request is a new sign of the more moderate tone in the current administration and was received positively by the markets as a step towards cleaning up the official statistics. However, the move should be seen with caution. First, there are doubts about whether the delivery will actually take place and improve the government's capacity to issue new debt at reasonable rates. And second, if it does happen, it will not be before 2012.

New economic team in Brazil

The current Economic Minister Guido Mantega is to continue in Dilma Rousseff's new government, which will take office on 1 January (though this has not lessened doubts regarding a stricter fiscal policy); while the Central Bank President Henrique Meirelles will be replaced by the Central Bank's current Regulation Director, Alexandre Tombini.

Venezuela: stock exchanges must sell government securities in USD

The National Securities Superintendency issued a resolution calling on stock exchanges to deregister sovereign bonds in their balance sheets and sell them to the banking system or through the Sitme market.

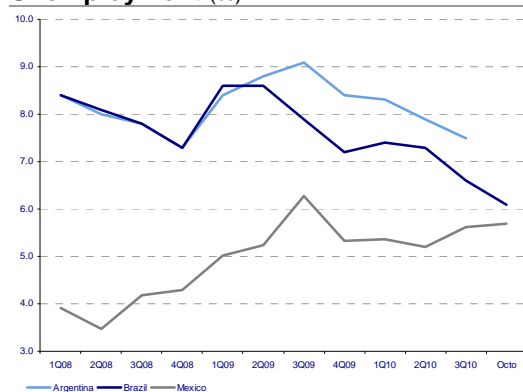
Markets →

Calendar →

Markets Data →

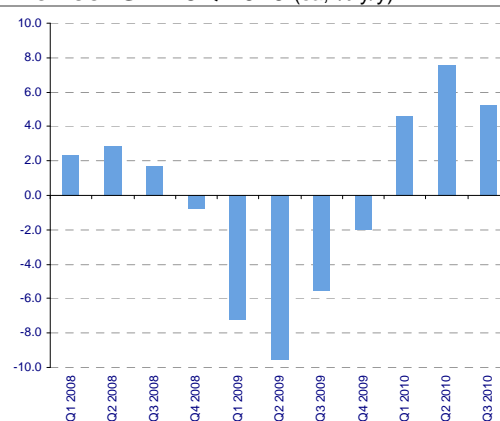
Charts →

Chart 3
Unemployment (%)



Source: BBVA Research

Chart 4
Mexico: GDP 3Q 2010 (sa, % y/y)



Source: BBVA Research

Calendar: Indicators

Next Week: 29 November - 3 December 2010

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Public Services Statistic	30-Nov	October 2010			11,9% y/y	
Synthetic Indicator of Construction Activity	30-Nov	October 2010			8,3% y/y	
Wage Index	1-Dec	October 2010		1,9% m/m	2,2% m/m	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Credit Data	29-Nov	October 2010				Credit stock as well as credit conditions (NPL, interest rates, spreads...) will be among the main figures released.
Fiscal Data	30-Nov	October 2010				Focus on public sector's primary surplus.
Trade Balance (FOB) - Monthly	1-Dec	November 2010			\$1854M	
Industrial Production	2-Dec	October 2010			-0.2% m/m	Industrial production could react after some months contracting, following the dynamism of domestic demand.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Sectoral indicators	29-Nov	October 2010				
Employment	30-Nov	October 2010	7.8%		8.0%	Expect to continue the trend of employment growth above the workforce, supported by positive seasonal this time of year in the Commerce sector.
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Unemployment	30-Nov	October 2010	11.5%		11.5%	Low growth in laboral participation rate and strong employment creation in retail.
Exports	3-Dec	October 2010	9.0%		15.0%	Stability in mining exports and diversification of industrial markets slow
Banco de la República Minutes	3-Dec	November 2010				It will present details on the inflation forecast for 2011
Inflation	4-Dec	November 2010	2.44% y/y, 0.05% m/m		2.33% y/y, -0.09% m/m	-It is expected upward pressure on food prices due to weather problems
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Producer Confidence	2-Dec	November 2010	51.8 pts (30.9 y/y) (1.0 m/m)		51.2 pts (28.2 y/y) (1.3 m/m)	Producer confidence points to stabilization on growth rates related to stable manufactures in USA.
Consumer Confidence	3-Dec	November 2010	92.7 pts (16.0 y/y) (1.3 m/m)		91.5 pts (15.9 y/y) (1.8 m/m)	Consumer confidence improvement will continue although at a smaller extent than in the previous months. The key will be behaviour of real wages & employment levels.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Inflation (mom)	1-Dec	November 2010	0.3%		-0.1%	The month's result was mainly explained by the increase in fuel and rice prices (seasonal factors).
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Cars Production	3-Dec	November 2010	26,0% m/m; - 2,7% y/y		-29,9% m/m; - 29,6% y/y	

Source: BBVA Research

Calendar: holidays

There are no holidays this week in the region.

Markets →

Highlights →

Market Data →

Charts →

Market data

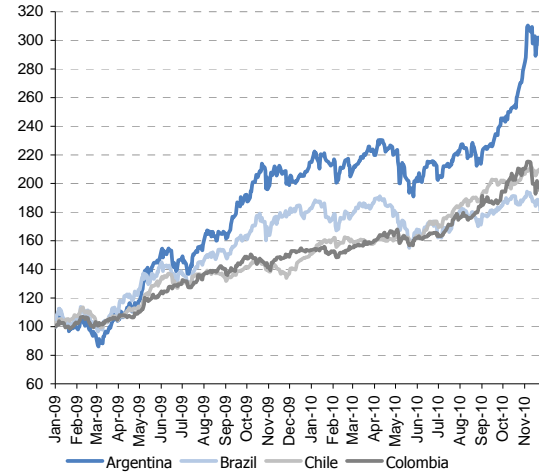
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.29	1	1	4
		2-yr yield	0.53	3	17	-15
		10-yr yield	2.89	2	23	-32
	EMU	3-month Euribor rate	1.03	-1	-2	31
		2-yr yield	0.93	-18	-10	-32
		10-yr yield	2.73	3	17	-44
Exchange rates (changes in %)	Europe	Dollar-Euro	1.325	-2.9	-4.8	-11.4
		Pound-Euro	0.85	-0.9	-3.0	-6.6
		Swiss Franc-Euro	1.33	-2.5	-2.9	-11.8
	America	Argentina (peso-dollar)	3.98	0.0	0.5	4.4
		Brazil (real-dollar)	1.73	0.6	0.9	-0.9
		Colombia (peso-dollar)	1904	1.5	3.7	-4.4
		Chile (peso-dollar)	482	0.4	-1.5	-2.3
		Mexico (peso-dollar)	12.46	1.5	0.5	-3.6
		Peru (Nuevo sol-dollar)	2.82	0.3	0.7	-2.4
	Asia	Japan (Yen-Dollar)	83.97	0.5	3.6	-3.2
		Korea (KRW-Dollar)	1164.05	2.8	3.6	-0.5
		Australia (AUD-Dollar)	0.967	-1.9	-1.1	6.7
	Comm. (changes in %)	Brent oil (\$/b)	85.5	1.4	2.3	10.8
Gold (\$/ounce)		1356.5	0.3	0.9	15.2	
Base metals		550.7	-1.1	1.1	18.0	
Stock markets (changes in %)	Euro.	Ibex 35	9518	-7.3	-11.5	-19.2
		EuroStoxx 50	2728	-4.1	-4.1	-3.6
		USA (S&P 500)	1192	-0.6	0.7	9.2
	America	Argentina (Merval)	3282	0.7	11.1	50.0
		Brazil (Bovespa)	68842	-2.9	-2.1	2.6
		Colombia (IGBC)	14737	-1.5	-5.9	29.9
		Chile (IGPA)	23006	0.0	1.1	50.9
		Mexico (CPI)	36812	0.6	4.1	19.6
		Peru (General Lima)	20662	1.4	8.8	44.6
	Asia	Venezuela (IBC)	66196	0.0	-1.7	23.6
		Nikkei225	10040	0.2	7.2	10.5
		HSI	22877	-3.1	-1.4	8.2
Credit (changes in bps)	Ind.	Itraxx Main	108	8	10	19
		Itraxx Xover	484	29	25	-60
	Sovereign risk	CDS Germany	42	4	8	18
		CDS Portugal	474	60	114	402
		CDS Spain	302	40	91	216
		CDS USA	41	1	3	---
		CDS Emerging	224	5	21	-55
		CDS Argentina	661	-20	44	-334
		CDS Brazil	113	6	14	-17
		CDS Colombia	115	6	14	-38
		CDS Chile	77	2	-6	1
		CDS Mexico	117	3	12	-34
		CDS Peru	120	4	16	-12

Source: Bloomberg and Datastream

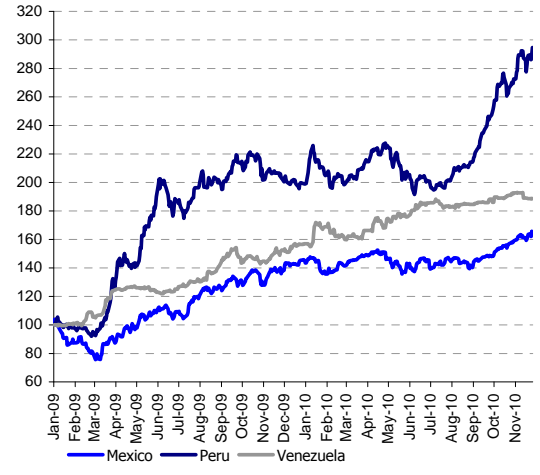
Charts

Charts 5 & 6

Stock exchanges (base index Jan09=100)



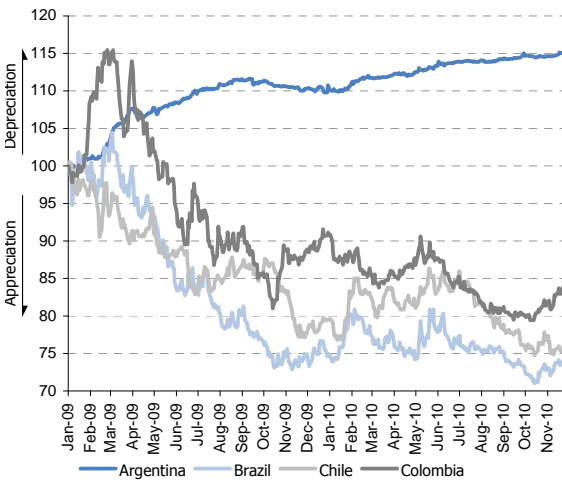
Source: Bloomberg



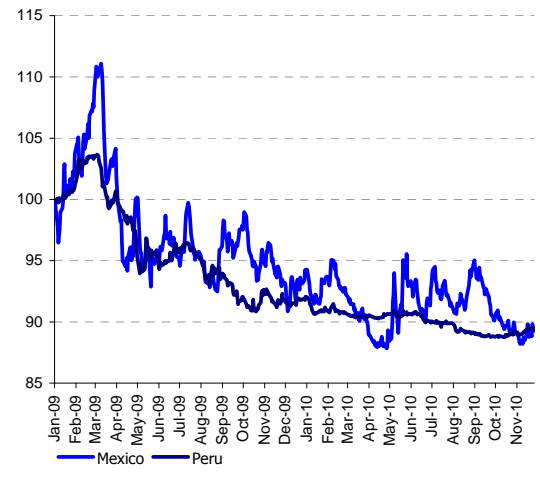
Source: Bloomberg

Charts 7 & 8

Exchange rates (base index Jan09=100)



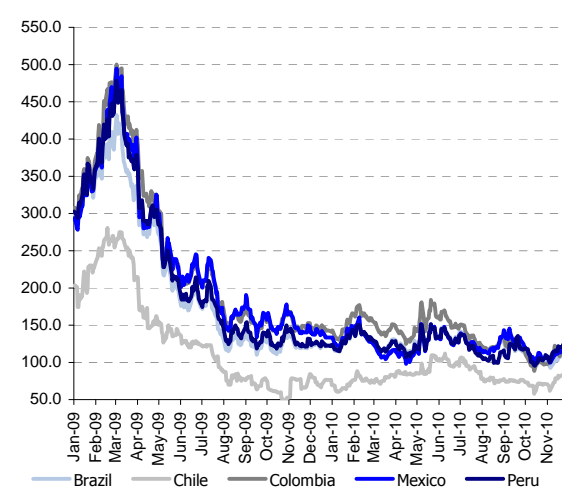
Source: Bloomberg



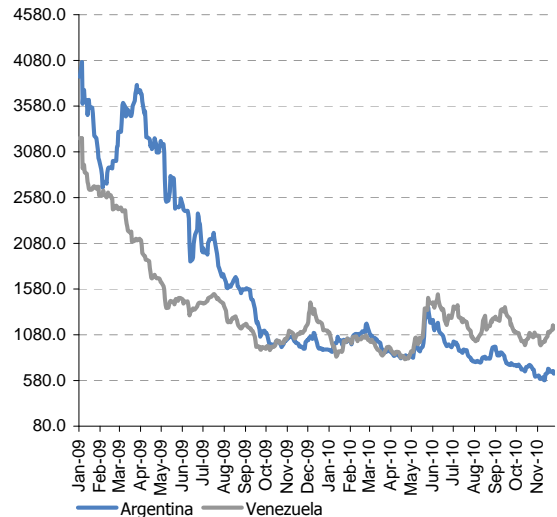
Source: Bloomberg

Charts 9 & 10

Credit Default Swaps (levels)



Source: Bloomberg



Source: Bloomberg

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