

Latin

Weekly Observatory

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Economic Analysis

South America

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Markets

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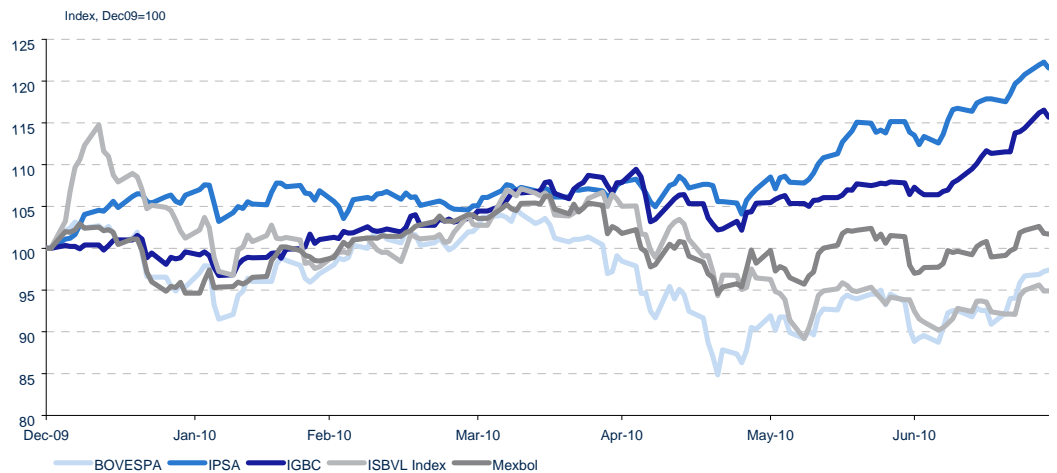
Signs of slowdown in Latin America?

Recent data from Peru show that the strong growth of recent months has been influenced by a major accumulation of inventories and extraordinary growth in public investment. In Chile and Mexico the indicators of economic activity show slightly weaker growth than expected, and in Venezuela revenues from VAT have fallen strongly. However, imports gathered pace in Argentina and Brazil, leading to a moderate deterioration in their respective current accounts. On the other hand, Chile issued one billion sovereign bonds and another USD 520 million peso-denominated, with highly favorable conditions.

Fall in financial risk premiums and an increase in fears about the cycle, with impact varying across the region

The publication of the stress tests in Europe helped reduce financial risk premiums. This increased appetite for assets in the region, but only selectively, depending on local factors such as the link to the U.S. cycle and the outlook on monetary policy and exchange-rate intervention.

Chart 1
Latin American stock market indices



Source: Bloomberg and BBVA Research

Highlights

- Markets →
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- Calendar →
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- Graphs →

- Worsening trade balances in Argentina and Brazil**
- Data on economic activity in Mexico and Chile reflect some slowdown in quarterly terms**
- Inventories and public investment drive domestic demand in Peru**
- Argentina: no renewal of extraordinary powers**
- Venezuela: tax revenue and real estate sale figures confirm the prolonged recession**
- Favorable issue of debt of the Chilean State**

Economic Analysis

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Markets

The risk premium associated with the economic cycle continues to exert pressure on global markets, although more moderately

Last week, the movements in global markets once more depended on the financial risk premium. The results of the stress tests the previous week, combined with the success of debt auctions on European markets and the positive quarterly results in the banking sector supported a fall in risk premiums. But pressure remains on risk assets, due to the uncertainty about the global economic cycle, particularly with respect to the U.S. economy.

For the Latin American markets, these factors resulted in a consolidation in most currency crosses, although there is still some differentiation based on local elements. The COP continues to perform relatively better as expectations of foreign flows combine with the non-intervention of the Bank of the Republic in foreign-exchange markets. Nevertheless, we cannot rule out a more interventionist language by the Bank once the currency reaches the support levels in the 1.812-1.820 area. For the BRL, although the minutes of the monetary policy committee (COPOM) meeting reflect a more dovish language, we maintain our outlook of sideways swings within a range of 1.75-1.78. This is also the case for the MXN, where the elements related to a deterioration of the U.S. cycle could continue to prevent gains of beyond the 100-day moving average of 12.61 (resistance at 12.77). Finally, the ARS and PEN will continue with reduced movements, in the case of the ARS following the trend of gradual depreciation, while the PEN has support at 2.82, but with an increasingly more positive bias.

Stock-market indices in Latin America also influenced by lower global risk premiums and corporate earnings reports in the region

The weekly increases in stock-market indices in Argentina (1%), Brazil (0.9%), Chile (0.3%) and Peru (0.2%) were linked to the reduction in the financial risk premiums following the publication of the stress tests. In contrast, there was a weekly fall in the stock-market indexes in Mexico (-0.9%) and Colombia (-0.6%), which may be linked to concerns about the strength of the U.S. economy and geopolitical reasons. These news took some of the limelight away from the corporate reporting season in Brazil and Chile, which so far have been weaker than expected by the market consensus (in Mexico it ended with favorable results and few surprises). From now on, the reduction in the risk premium associated with sovereign and financial issues in Europe could continue to differentiate the performance of EU assets favorably compared with those in Latin America, although this difference will be increasingly less marked.

Chart 2

Weekly exchange rates of Latin American currencies (% change)

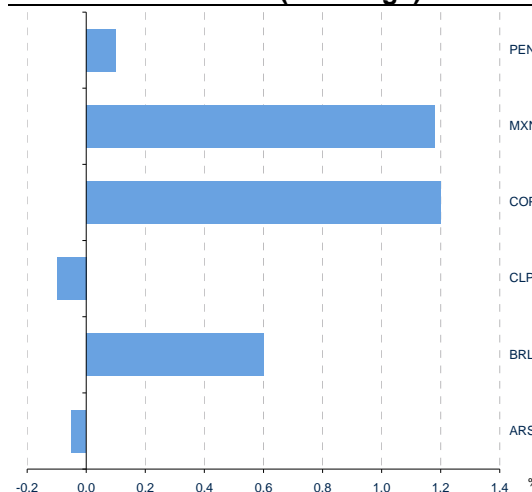


Chart 3

5-year CDS



Source: Bloomberg and BBVA Research

Source: Bloomberg and BBVA Research

Highlights →

Calendar →

Market Data →

Graphs →

Economic Analysis

Highlights

Worsening trade balances in Argentina and Brazil

The year-on-year trade balances continued to deteriorate in June in Argentina (-17%) and Brazil (-30%), due to strong domestic demand and an appreciation of their currencies in real terms. In the case of Argentina, farmers are expected to begin to sell their oilseed as prices increase, and imports will moderate for the rest of the year, thus preventing a more marked deterioration of the trade balance, while in Brazil the increase in imports will continue to put a negative pressure on the external accounts.

Data on economic activity in Mexico and Chile reflect some slowdown in quarterly terms

The seasonally-adjusted economic activity index (IGAE) in Mexico increased 0.2% m/m in May. This contrast with an average of 0.6% in the four previous months. Growth continued to be boosted mainly by the industrial sector, fuelled by foreign demand. Industrial production in Chile increased 0.8% m/m in June in the seasonally-adjusted series. This is somewhat less than the extraordinary 1.7% increase m/m registered in May. The data also reflect signs of recovery in mining and a slight slowdown in trade. As a result, we project a growth of 5.1% y/y in the IMACEC for June.

Inventories and public investment drive domestic demand in Peru

The trend for accumulation of inventories continues in Peru, and government investment also continues to grow at high rates (57.2% y/y) June. Both variables should reduce their contribution to increased demand in the coming months and thus calm fears over overheating. However, it is also worth noting that there has been a new increase in the index of business confidence, which registered an all-time high, and this could work in the opposite direction.

Argentina: no renewal of extraordinary powers

The Chamber of Deputies will have reached a consensus on relinquishing the legislative powers delegated to the Executive at their expiry next month; among these powers was that of levying taxes on foreign trade. Meanwhile, the markets remain optimistic and the risk as measured by the EMBI fell to 698 bps.

Venezuela: tax revenue and real estate sale figures confirm the prolonged recession

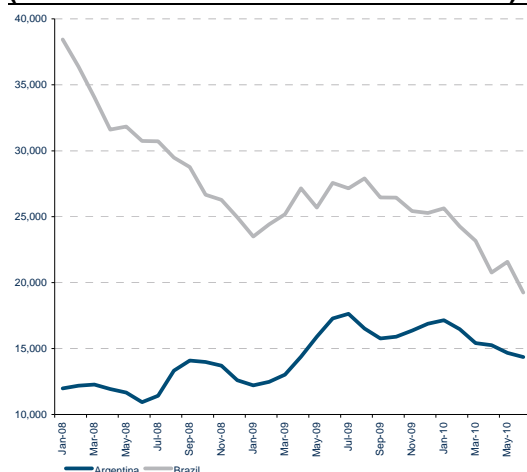
At the close of the first half of 2010, revenues from value added tax fell by 19.4% year-on-year, slightly under our estimates. The real-estate sector reported annual falls of 20% in the number of transactions in the residential sector and 19.4% in the non-residential.

Favorable issue of debt of the Chilean State

Chile issued one billion sovereign bonds and another USD 520 million peso-denominated. The operation conditions were highly favorable, as the interest rate on 10-year dollar debt reached 3.89% (with a premium of 90 basis points to issues from the U.S. Treasury). The peso-denominated bond had a rate of 5.5%, 60 points below the Central Bank's bonds of equal maturity (10 years).

Chart 4

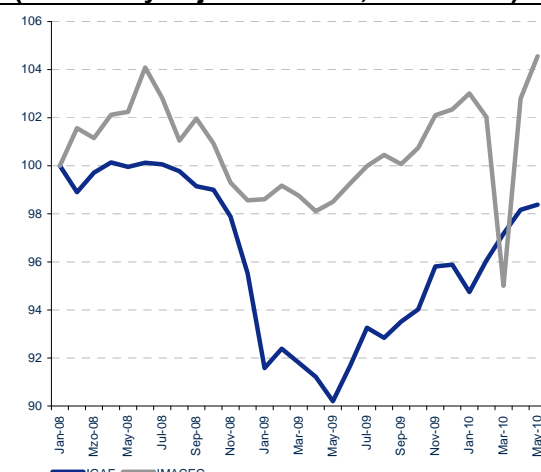
Argentina and Brazil: trade balance (accumulated 12 months in million USD)



Source: National Sources

Chart 5

Indices of economic activity (seasonally adjusted series, Jan08=100)



Source: BBVA Research

- Markets →
- Calendar →
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Calendar: indicators

Next Week: 2-6 August 2010

Argentina	Data	Period	Forecast	Consensus	Previous	Comment
Wage Index	2-Aug	June 2010		2,0% mom	2,0% mom	
Brazil	Data	Period	Forecast	Consensus	Previous	Comment
Trade Balance	2-Aug	July 2010			USD 2.278 M	
Industrial Production	3-Aug	June 2010		-0.8% m/m	0.0% m/m	One more month of adjustment after a very robust growth in the first quarter.
Inflation	6-Aug	July 2010	0.0% m/m	0.0% m/m	0.0% m/m	Inflation is expected to continue weak in July.
Chile	Data	Period	Forecast	Consensus	Previous	Comment
Minute of Monetary Policy Meeting	2-Aug	July 2010				
Monthly index of economic activity	5-Aug	June 2010	5.1%		7.1%	y/y
Consumer Price Index	6-Aug	July 2010	0.8%		0.0%	marginal
Colombia	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	5-Aug	July 2010	0.05%	0.09%	0.10%	Seasonal trend of food prices explains low figure in July.
Exports	5-Aug	June 2010			0.28	Positive trend led by oil and other commodity exports.
Monetary Policy Minutes	6-Aug	July 2010				Details on upward revision of growth forecast to 3.5%-5.5%.
Mexico	Data	Period	Forecast	Consensus	Previous	Comment
Job Creation in the Formal Private Sector, IMSS		July 2010	0,3% m/m		0,3% m/m	
Consumer Confidence	4-Aug	July 2010	91,4		87,5	Recovery trend, but level still quite below historical average.
Peru	Data	Period	Forecast	Consensus	Previous	Comment
Consumer Price Index (MoM)	2-Aug	July 2010	0.35%	0.35%	0.25%	The monthly inflation forecast is related to some particular food price increases.
Venezuela	Data	Period	Forecast	Consensus	Previous	Comment
Inflation	6-Aug	July 2010	2.30		2.00	Seasonal factor associated with holiday season will keep inflation pressures.

Source: BBVA Research

Calendar: events

Peru: Monetary Policy Rate (August, 5 August)

Forecast: 2.25%

Consensus: 2.25%

Previous: 2.0%

As economic growth speeds up, the Central Bank can be expected to continue with adjustments to the monetary policy rate.

Calendar: holidays

There are no holidays this week in the region

Markets →

Highlights →

Market Data →

Graphs →

Market Data

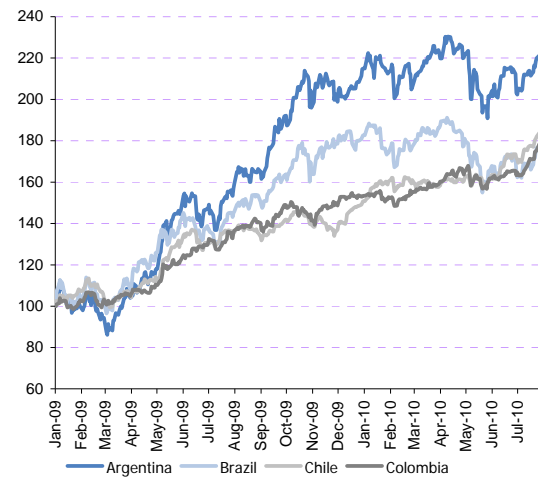
			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.45	-4	-8	-3
		2-yr yield	0.57	-1	-6	-54
		10-yr yield	2.93	-6	-1	-55
	EMU	3-month Euribor rate	0.90	1	11	0
		2-yr yield	0.80	5	12	-47
		10-yr yield	2.68	-3	11	-63
Exchange rates (changes in %)	Europe	Dollar-Euro	1.303	1.4	4.8	-8.5
		Pound-Euro	0.83	-0.2	1.1	-2.4
		Swiss Franc-Euro	1.36	0.3	2.3	-10.8
	America	Argentina (peso-dollar)	3.94	0.2	0.2	2.8
		Brazil (real-dollar)	1.76	-0.3	-2.3	-5.8
		Colombia (peso-dollar)	1842	-1.4	-3.4	-9.6
		Chile (peso-dollar)	523	0.2	-3.5	-3.3
		Mexico (peso-dollar)	12.65	-0.8	-3.1	-4.3
		Peru (Nuevo sol-dollar)	2.82	0.0	-0.2	-5.4
	Asia	Japan (Yen-Dollar)	86.59	-0.8	-1.1	-8.5
		Korea (KRW-Dollar)	1181.75	-1.4	-3.7	-3.3
		Australia (AUD-Dollar)	0.905	1.2	7.8	8.8
Comm. (changes in %)	Brent oil (\$/b)	76.7	-0.9	6.1	7.0	
	Gold (\$/ounce)	1172.2	-1.4	-2.2	22.9	
	Base metals	484.9	1.9	2.3	13.7	
Stock markets (changes in %)	Euro	Ibex 35	10552	1.6	15.0	-2.8
		EuroStoxx 50	2748	1.1	9.1	4.2
	America	USA (S&P 500)	1100	-0.2	7.1	11.4
		Argentina (Merval)	2398	1.0	8.5	39.4
		Brazil (Bovespa)	67135	1.2	9.6	22.6
		Colombia (IGBC)	13201	-0.5	6.6	27.8
		Chile (IGPA)	20263	1.2	8.4	32.5
		Mexico (CPI)	32366	-1.3	3.7	19.7
		Peru (General Lima)	14191	0.3	2.6	0.7
		Venezuela (IBC)	64273	-0.2	-1.4	40.6
	Asia	Nikkei225	9537	1.1	3.8	-7.9
HSI		21030	1.0	4.5	2.2	
Credit (changes in bps)	Ind.	Itraxx Main	105	-7	-26	17
		Itraxx Xover	478	-28	-107	-135
	Sovereign risk	CDS Germany	38	-3	-6	13
		CDS Portugal	216	-52	-90	170
		CDS Spain	179	-23	-84	120
		CDS USA	34	-2	-3	---
		CDS Emerging	214	-17	-61	-114
		CDS Argentina	792	-54	-209	-910
		CDS Brazil	117	-3	-25	-17
		CDS Colombia	124	-4	-29	-48
		CDS Chile	83	-7	-22	-8
		CDS Mexico	116	-4	-23	-46
		CDS Peru	109	-4	-29	-38

Source: Bloomberg, Datastream and JP Morgan

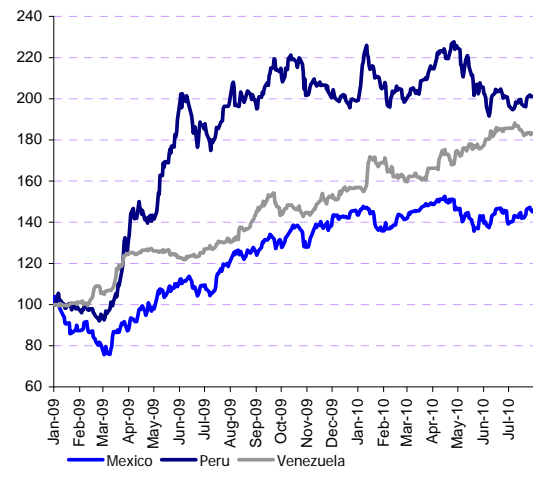
Graphs

Graphs 6 & 7

Stock exchanges (base index Jan09=100)



Source: Bloomberg



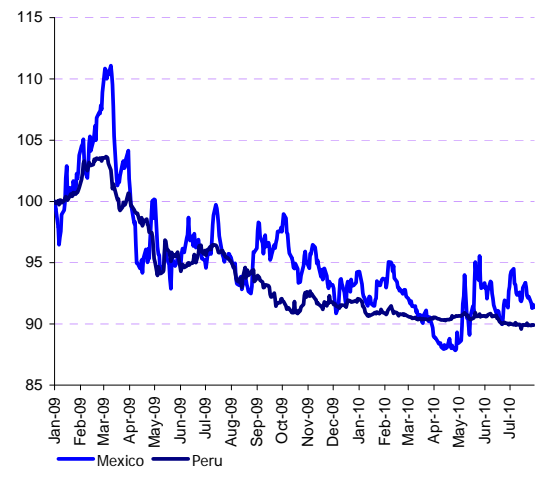
Source: Bloomberg

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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