

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 2, 2010

Strategic Outlook

PAGE 2 →

Week marked by high US economic activity

US GDP figure confirms our expectation of a downturn in 2H.

Brazil

PAGE 3 →

Exchange Rates: Brazilian real

We believe the real will continue trading within a 1.75-1.78 range.

Chile

PAGE 4 →

Exchange Rates: Chilean peso

Peso maintains positive bias.

Colombia

PAGE 5 →

Exchange Rates: Colombian peso

The peso again closes the week relatively strong.

PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 10 OF THIS REPORT

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Strategic Outlook

Brazil



Chile



Colombia



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Week marked by high US economic activity

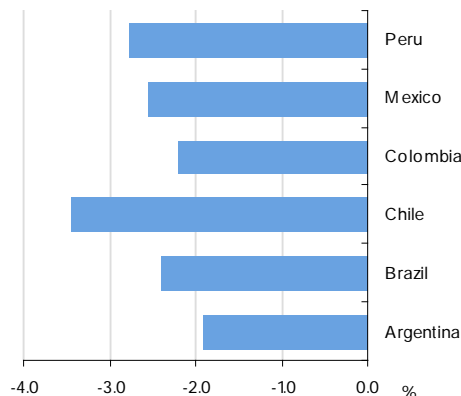
US GDP figure confirms our expectation of a downturn in 2H.

Week begins with Chinese PMI and US ISM

The US GDP figure had a neutral to negative impact on markets. The 1Q data was well received, generating a more complicated base of comparison that led to annualized QoQ growth being only 2.4% in 2Q, slightly below consensus expectations (2.6%). However, it should be emphasized that, given the revised 1Q figures and with the 2Q data thus far available, our US economic growth scenario remains unchanged --3.0% for 2010 and 2.5% for 2011-- if the expected slowdown of expansion that we estimate will continue in 2H materializes. The first reactions to the Chinese PMI data will be seen today and an intensive week in US economic figures is expected, starting today with the ISM and then home sales and employment data. Following the GDP figure, a considerable advance in corporate results (60% of the SPX) and with the first reactions of markets to EU stress tests known, we believe that investors will continue focusing their attention on these economic data. In Mexico, IMEF manufacturing data and consumer confidence figures will be released.

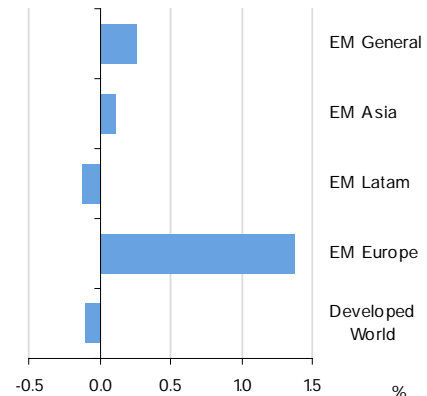
US corporate reports will continue to be published, with thus far slightly more than 60% of index constituents having filed, with almost 2/3 in line with or above expectations. Net earnings and sales are 8% and 1.4% higher than the estimates, respectively. With the end of reporting season in Mexico, the event of the week could be the BMV's announcement of the companies comprising the index as of September 1. It should be recalled that with data through June, the companies leaving the index would be Autlán and Gruma, while the incoming companies would be Lab, Arca, Ich, and Chdraui, with the latter two most benefitting from indexed fund flows in the event that their entry materializes.

Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

APPENDIX

Macro Calendar



Brazil

Strategic Outlook



Chile



Colombia



Exchange Rates

Brazilian real

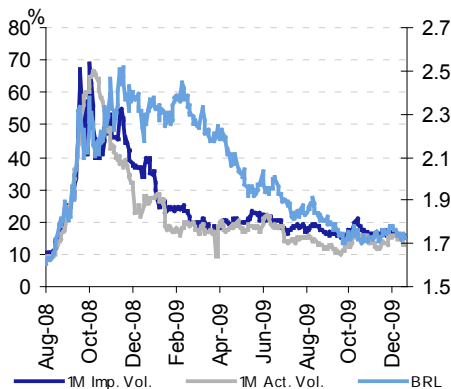
We believe the real will continue trading within a 1.75-1.78 range.

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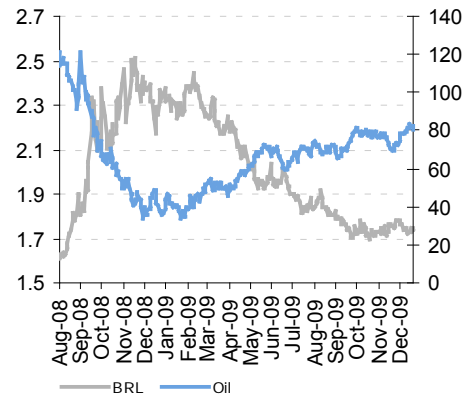
In response to mixed global market cycle factors, the real closed mostly flat Friday above 1.75. Abroad, US economic data were not up to expectations, while news from the domestic front was also weak. In Brazil, external account data, Copom minutes, and fiscal figures revealed a less favorable economic outlook than the market had priced in. As a result, most fixed-income instruments saw yields fall as a result of less aggressive expectations with regard to the monetary policy restrictive cycle. These factors, however, had no significant effect on the real, which strengthened more than 1% WoW, even as the positioning in the BM&F dropped by US\$536mn. In fact, 1M implied volatility contracted by 0.50 vegas, revealing less appetite for short positions. As such, we expect the currency to trade sideways within a range of 1.75-1.78.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook



Brazil



Colombia



Exchange Rates

Chilean peso

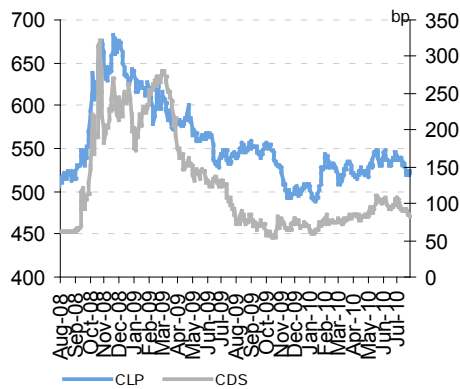
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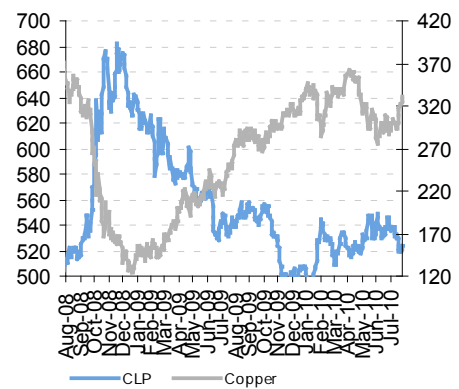
Despite weak external data, such as the US GDP, the peso closed Friday 0.44% stronger. This appreciation occurred despite the Finance Ministry ruling out any impact from Thursday's global bond issuance on the peso as monetizations would take place gradually. As such, the currency maintains its positive bias on the back of expected foreign currency inflows and higher copper prices, which increased 3.4% WoW. Meanwhile, shorter maturities on the NDF curve are still reflecting implied yields below those of fixed-equity instruments –with the 1M instrument on negative terrain– and, therefore, lower bets on a depreciation of the peso. As such, we do not rule out a new movement to the vicinity of 515.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

Strategic Outlook



Brazil



Chile



Exchange Rates

Colombian peso

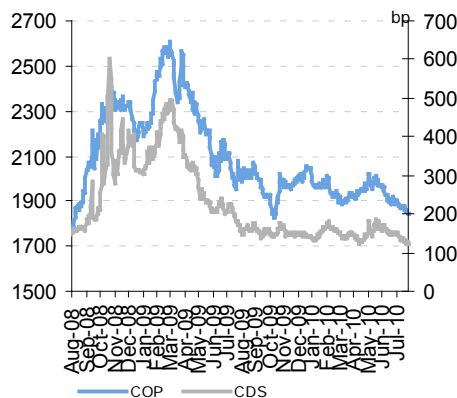
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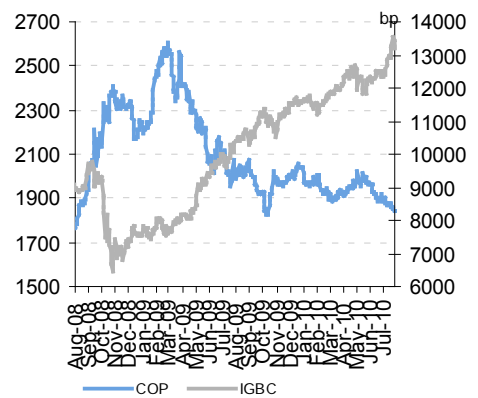
In a session marked by mixed behavior by risk assets, the peso closed relatively stable at above 1,840. However, in the course of the week the currency appreciated 1.3%, thus outperforming again other atam currencies. As in recent months, the strength of the peso came on the back of domestic flow factors; however, we continue to see a somewhat limited room for expansion in the short term. In fact, daily trading volume again decreased at the close of the week from an average of US\$1bn to US\$715mn, reflecting certain caution by domestic investors. Meanwhile, although the unemployment rate was in line with market expectations (12.80%), it reflects a still weak labor outlook.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Appendix 1

Summary of the LatAm Market

	Close	Change %		
		1D	1W	YTD
Currencies				
Argentinian peso	3.94	-0.10	-0.27	-3.73
Brazilian real	1.76	0.13	1.01	-0.65
Chilean peso	521.25	0.44	-0.19	-2.72
Colombian peso	1,843.50	-0.01	1.32	9.80
Mexican peso	12.65	0.55	0.65	3.38
Peruvian nuevo sol	2.82	0.09	0.12	2.35

5 year CDS				
Argentina	792.47	0.00	-6.39	-13.32
Brazil	116.81	0.00	-2.66	-4.66
Chile	83.03	0.00	-7.44	21.53
Colombia	123.69	0.00	-2.86	-13.47
Mexico	116.45	0.00	-3.53	-12.96
Peru	109.46	0.00	-3.12	-11.38

Equity indexes				
Argentina Merval	2,394.16	-0.47	0.80	3.16
Brazil IBOV	67,515.40	0.84	1.80	-1.56
Chile IPSA	4,364.15	0.16	0.88	21.86
Colombia IGBC	13,283.28	0.66	0.10	14.49
Mexico IPyC	32,308.74	-0.48	-1.52	0.59
Peru ISBVL	21,452.78	0.78	0.68	-4.37
VIX Index	23.50	24.13	23.47	21.68

Commodities				
CRB Industrial	484.93	0.00	1.87	0.30
COMEX Copper	330.35	0.55	3.72	-0.72
WTI	78.92	0.71	-0.08	-0.55
Gold	1,181.60	1.14	-0.64	-7.72
Sugar	19.57	0.36	7.17	-10.43
Soy	1,005.00	1.72	2.39	-0.91

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.60	7.85	11.09	16.80
Brazilian real	13.14	14.38	15.05	16.20
Chilean peso	12.02	12.64	13.06	13.59
Colombian peso	12.18	12.75	13.54	14.20
Mexican peso	11.67	12.52	13.04	13.36

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.15	4.42
Brazilian real	1.77	1.79	1.83	1.91
Chilean peso	520.95	521.45	523.63	530.30
Colombian peso	1,845.50	1,846.00	1,855.50	1,889.50
Peruvian nuevo sol	2.82	2.82	2.83	2.85

Foward points				
Argentinian peso	0.02	0.08	0.21	0.48
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.30	0.20	2.38	9.05
Colombian peso	2.00	2.50	12.00	46.00
Peruvian nuevo sol	0.00	0.00	0.01	0.03

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.76	-1	-15	40
LTN Jan-11	11.01	-13	-32	37
NTN-F Jan-13	12.11	5	-10	-54
NTN-F Jan-17	12.08	8	-18	-126
NTN-B Aug-14	3.56	0	-14	-124

Chile				
TPM	1.50	0	0	120
TAB 90d UF	0.16	0	1	-704
Swap CLPxCAM 2Y	3.97	0	-12	92
Swap CLPxCAM 5Y	4.90	-7	-13	-33
Swap CLPxCAM 10Y	5.58	-6	-14	-49
Swap UFXCAM 2Y	0.34	2	-4	-91
Swap UFXCAM 5Y	1.55	0	0	-63
Swap UFXCAM 10Y	2.16	0	0	-42
Swap basis 2Y	57.00	-4	-11	-11
Swap basis 5Y	46.00	-6	-10	-9
Swap basis 10Y	75.00	-5	-14	-11
BCP Jan-2012	4.71	-28	-26	78
BCP Aug-2014	5.71	0	-10	54
BCU 5Y	2.18	2	-13	-66
BCU 10Y	2.80	1	-8	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.54	0	0	-57
TES Aug-2012	4.86	0	-2	-445
TES May-2014	6.39	0	-12	638
TES Jul-2020	7.48	0	-16	-100
UVR Mar-2013	2.52	0	-25	-239

Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.69	0	-16	-413
Sovereign bond Aug-2017	5.33	0	-20	-171
Sovereign bond Aug-2037	6.39	0	-19	69

Global bonds				
BRL 2040	3.22	-1	10	-114
CLP 2013	1.83	19	-10	-11
COP 2033	5.89	-24	-45	-108
PE 2033	5.55	-5	-8	-89

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Friday, July 30					
Chile	Unemployment Rate	JUN		8.80%	8.50%
Colombia	Unemployment Rate	JUN	12.80%	12.80%	12.80%
Argentina	Construction Activity (YoY)	JUN		11.80%	
Monday, August 2					
Brazil	FGV CPI IPC-S	02-Aug		-0.14%	
	PMI Manufacturing	JUL		52.7	
	Trade Balance (FOB) - Monthly	JUL		\$2278M	
	EXPORTS - US\$ million	JUL		\$17095M	
	IMPORTS - US\$ million	JUL		\$14817M	
Chile	Central Bank Meeting Minutes	02-Aug			
Peru	Consumer Price Index (MoM)	JUL	0.30%	0.25%	
	Consumer Price Index (YoY)	JUL	1.81%	1.64%	
	Wholesale Prices (MoM)	JUL		0.11%	
Tuesday, August 3					
Brazil	FIPE CPI - Monthly	JUL	0.16%	0.04%	
	Industrial Production YoY	JUN	11.70%	14.80%	
	Industrial Production sa (MoM)	JUN	-0.80%	0.00%	
Wednesday, August 4					
Brazil	CNI Capacity Utilization	JUN		82.30%	
Colombia	Producer Price Index (MoM)	JUL		-0.08%	
	Producer Price Index (YoY)	JUL		2.13%	
Thursday, August 5					
Brazil	FGV Inflation IGP-DI	JUL		0.34%	
	Vehicle Exports (Anfavea)	JUL		63737	
	Vehicle Production (Anfavea)	JUL		306350	
	Vehicle Sales (Anfavea)	JUL		262758	
Chile	Economic Activity YoY	JUN	6.00%	7.10%	
Colombia	Consumer Price Index (MoM)	JUL	0.10%	0.11%	
	Consumer Price Index (YoY)	JUL	2.37%	2.25%	
Peru	Reference Rate	AUG	2.25%	2.00%	
Friday, August 6					
Brazil	IBGE Inflation IPCA (MoM)	JUL	0.0001	0	
	IBGE Inflation IPCA (YoY)	JUL	0.0461	0.0484	
Chile	CPI (MoM)	JUL	0.007	0	
	CPI (YoY)	JUL	0.024	0.012	
	CPI Ex Perishables & Fuel MoM	JUL	0.006	0.003	
Colombia	Colombia Monetary Policy Minutes	12-Aug			

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