

Latam

Daily Latam

Market Analysis Markets

Mexico City, September 2, 2010

Strategic Outlook

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Chinese and US manufacturing data positively surprise, driving appetite for risk

Brazil

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Exchange Rates: Brazilian real

The Selic rate is kept unchanged, with no expected impact on the real.

Chile

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Exchange Rates: Chilean peso

Peso recoups in tandem with copper prices.

Colombia

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Exchange Rates: Colombian peso

The peso appreciates on low volume. We expect the currency to be range-bound if Banco de la República hints no intervention.

Peru

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Exchange Rates: Peruvian Nuevo Sol

The nuevo sol remained unchanged, with implied yields in the NDF curve in negative terrain.

PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 11 OF THIS REPORT

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Strategic Outlook

- Brazil →
- Chile →
- Colombia →
- Peru →

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Chinese and US manufacturing data positively surprise, driving appetite for risk

US Treasury yields rise, putting pressure on emerging fixed-income instruments

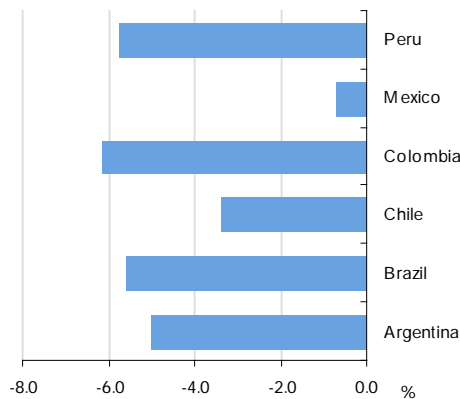
Following unfavorable economic data releases in recent weeks, financial markets faced a more upbeat environment following better-than-expected US manufacturing activity indicators: the August ISM revealed greater expansion (56.3 points vs. 52.8e and 55.5 in July). Nevertheless, the US economy remains weak. Similarly, China's August manufacturing PMI (51.9 vs. 49.4 previously) signaled a slight expansion in this sector, easing fears of a greater stalling of the Chinese economy. However, the outlook is still a modest slowdown in response to public policies aimed at preventing an overheating of the Chinese economy. This kindled risk appetite, with the market beginning to price in better-than-expected economic data. Thus US equities rose by almost 3% while US Treasury bond yields rose by 10bp.

Within this context, emerging market currencies and the euro also gained against the dollar and the yen, which had benefitted from a rising risk premium. Today the market will be seeking confirmation of optimism over US employment and housing data, and as analysts have already priced in overly pessimistic scenarios we do not rule out favorable surprises again.

APPENDIX

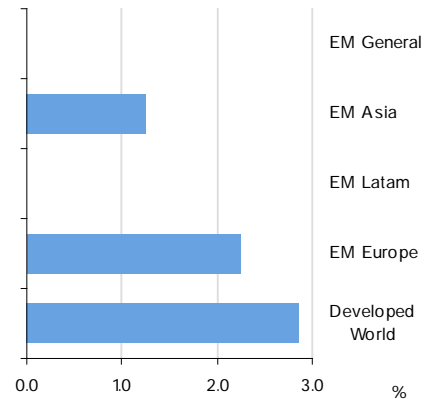
Macro Calendar ▶

Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

Brazil

Strategic Outlook



Chile



Colombia



Peru



Exchange Rates

Brazilian real

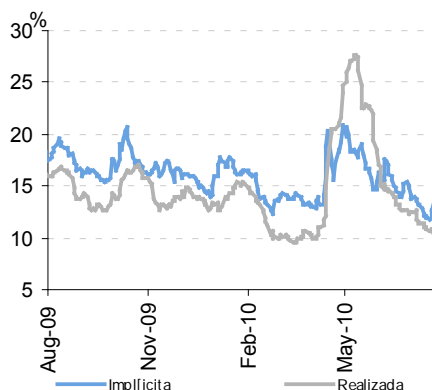
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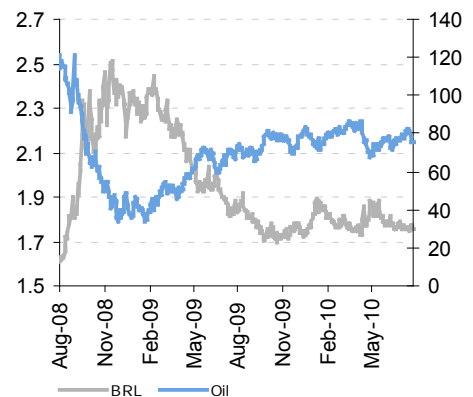
Several local events were significant yesterday: 1) Firstly, Banco Central do Brasil released the weekly forex transactions report which revealed a negative balance of -US\$1.3bn in trade and financial operations in the last week of August, that is, a total balance of US\$602mn as at August 27 (in contrast to the US\$2.02bn balance for the first two weeks of the same month). As a result, BACEN reduced again the amount of its daily interventions to an average of US\$18mn as compared with US\$216mn over the first half of the month. 2) Secondly, the trade balance and manufacturing PMI came in below market expectations, which added to factors justifying the monetary policy decision to be taken later in the afternoon. 3) Finally, in line with the market expectations, the COPOM kept the Selic rate unchanged at 10.75%. We do not think the decision will have any meaningful effects on the real. However, the performance of the real was determined by the risk premium in global markets, which declined on the back of US manufacturing numbers. As such, the currency appreciated by 0.65% and closed below 1.75. We believe that the aforementioned factors should limit an extension of the appreciation.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook



Brazil



Colombia



Peru



Exchange Rates

Chilean peso

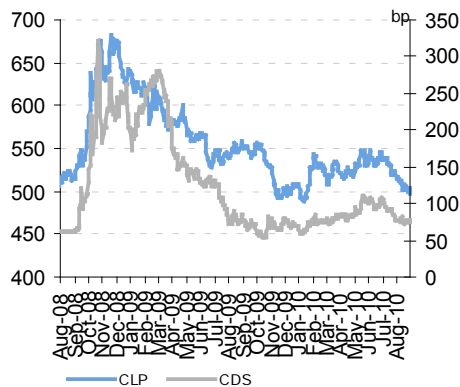
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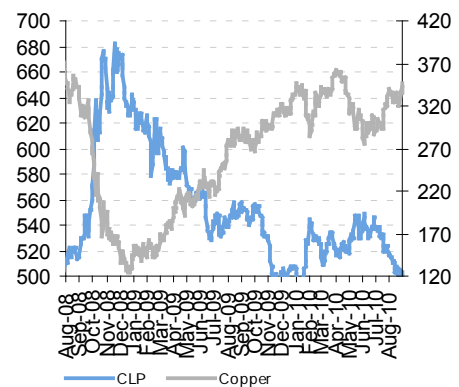
After the correction on Tuesday, the peso advanced 1.17% yesterday to 496.8, its strongest level in seven months. This performance was underpinned by upbeat manufacturing numbers from the US and China, which drove appetite for risky assets in global markets. Meanwhile, the price of copper—with which the currency holds a high correlation—hiked 3.20%, accumulating gains of 8.02% last week. This comes in addition to positive factors in the domestic cycle, which we have mentioned before, including the favorable outlook for economic activity, expectations of a hike in the benchmark rate and the low likelihood of interventions in the forex market by monetary authorities, as according to the Banco Central de Chile, the exchange rate is currently in line with long term fundamentals. This view should be confirmed with the publication of the IPoM next week. Thus, even as technical indicators favor a correction in the short term, with oscillators showing high oversold levels, our outlook for coming sessions remains upbeat.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

Strategic Outlook



Brazil



Chile



Peru



Exchange Rates

Colombian peso

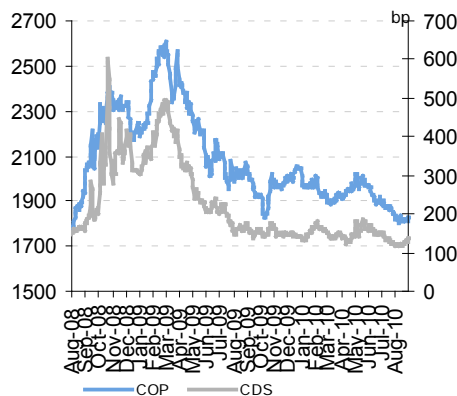
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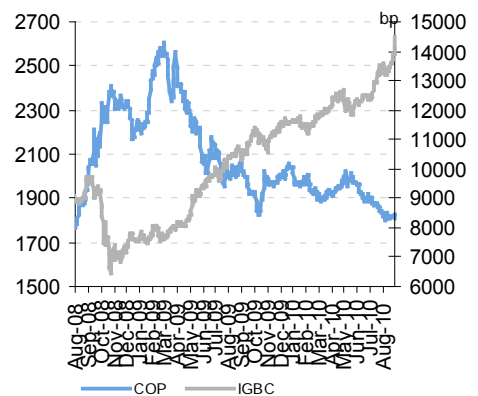
In line with the performance of most Latam currencies, the peso closed 0.80% higher yesterday on light volume of US\$892mn. This amount is a US\$110 decline vs. the previous session and below the YTD average of US\$1.09bn. The currency evidences more sensitivity to the global risk premium, with the 3M correlation against the DXY index and the VIX at 0.90 and 0.71, respectively, but investor caution in the face of Banco de la República intervening in the forex market in coming sessions is still limiting direction of position taking. As such, we think the peso will maintain its lateral dynamics within a 1,800-1,830 range as long as BanRep keeps interventions on hold.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Peru

Strategic Outlook



Brazil



Chile



Colombia



Exchange Rates

Peruvian nuevo sol

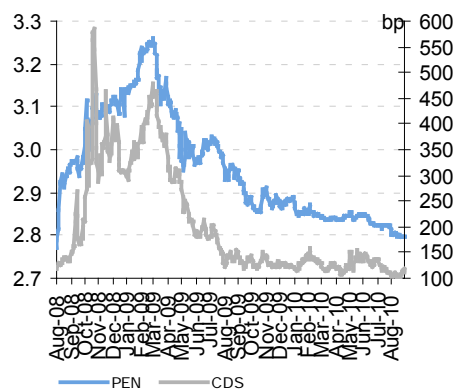
The nuevo sol remained unchanged, with implied yields in the NDF curve in negative terrain.

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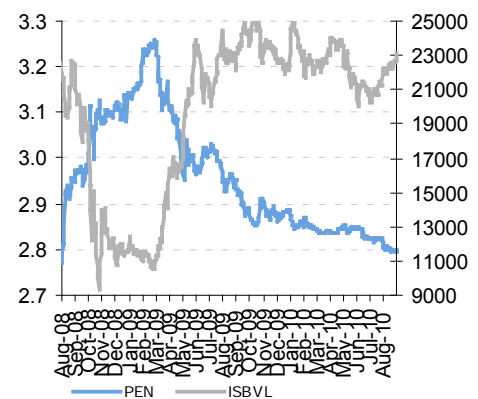
In line with its performance in recent weeks and despite positive expectations for local assets – especially the ISBVL and rising copper prices–, the nuevo sol closed flat around 2.80 in response to ongoing daily USD purchases by the Banco Central de Reserva del Perú, which were on the order of US\$171.2mn yesterday. Meanwhile, the August price index came in as per market expectations at 2.31%. Although this figure points to growth without inflation pressures, a tighter benchmark rate is still expected. This is still not reflected in implied yields on the NDF curve, where 1M-6M maturities are still in negative terrain, and thus we continue to expect an upward adjustment in forward points all along the curve. Regarding the spot, we stand by our outlook of relative stability.

PEN vs. 5y CDS



Source: Bloomberg and BBVA Research

PEN vs. ISBVL



Source: Bloomberg and BBVA Research

Appendix 1

Summary of the LatAm Market

	Close	Change %		
		1D	1W	YTD
Currencies				
Argentinian peso	3.95	0.05	-0.16	-3.96
Brazilian real	1.75	0.56	0.99	-0.09
Chilean peso	496.85	1.17	1.90	2.09
Colombian peso	1,811.91	0.80	0.33	11.35
Mexican peso	13.07	1.03	-0.66	0.18
Peruvian nuevo sol	2.80	0.05	0.07	3.20

5 year CDS				
Argentina	898.21	-5.02	0.60	-1.76
Brazil	124.10	-5.60	-0.75	1.29
Chile	75.26	-3.38	-1.97	10.15
Colombia	129.32	-6.17	0.84	-9.53
Mexico	142.82	-0.70	13.23	6.76
Peru	109.56	-5.77	3.74	-11.30

Equity indexes				
Argentina Merval	2,394.76	2.48	2.73	3.19
Brazil IBOV	67,072.53	2.96	3.50	-2.21
Chile IPSA	4,582.79	1.28	2.91	27.96
Colombia IGBC	14,474.52	2.62	6.52	24.76
Mexico IPyC	32,339.23	2.08	2.82	0.68
Peru ISBVL	23,104.90	1.30	3.04	2.99
VIX Index	23.89	26.05	26.70	21.68

Commodities				
CRB Industrial	503.74	0.00	0.83	4.19
COMEX Copper	346.85	3.20	8.02	4.24
WTI	73.91	2.77	1.92	-6.87
Gold	1,244.30	-0.25	0.34	13.43
Sugar	20.49	3.75	2.30	-6.22
Soy	1,005.50	-0.45	0.65	-0.86

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.04	7.38	10.91	16.06
Brazilian real	11.31	12.78	14.09	15.91
Chilean peso	10.44	11.52	12.14	12.90
Colombian peso	11.51	12.38	13.02	14.11
Mexican peso	13.34	13.73	14.00	14.07

NDF currency/US\$				
Argentinian peso	3.97	4.03	4.14	4.38
Brazilian real	1.76	1.78	1.82	1.90
Chilean peso	497.05	497.98	500.46	506.94
Colombian peso	1,812.19	1,815.41	1,821.36	1,853.41
Peruvian nuevo sol	2.79	2.79	2.79	2.80

Foward points				
Argentinian peso	0.02	0.08	0.19	0.44
Brazilian real	0.01	0.03	0.07	0.15
Chilean peso	0.20	1.13	3.61	10.09
Colombian peso	0.28	3.50	9.45	41.50
Peruvian nuevo sol	-0.01	-0.01	-0.01	0.01

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.69	0	1	27
LTN Jan-11	10.97	11	24	37
NTN-F Jan-13	11.66	-9	34	-54
NTN-F Jan-17	11.51	-8	34	-126
NTN-B Aug-14	6.26	-5	11	-124

Chile				
TPM	1.91	-9	-7	143
TAB 90d UF	1.16	12	94	-617
Swap CLPxCAM 2Y	4.10	1	1	107
Swap CLPxCAM 5Y	4.92	5	12	-35
Swap CLPxCAM 10Y	5.40	3	4	-70
Swap UFXCAM 2Y	0.72	0	18	-58
Swap UFXCAM 5Y	1.44	-1	1	-72
Swap UFXCAM 10Y	1.98	-5	-10	-55
Swap basis 2Y	77.00	0	1	10
Swap basis 5Y	64.00	0	1	9
Swap basis 10Y	99.00	0	0	13
BCP Jan-2012	4.56	-25	-32	78
BCP Aug-2014	5.49	0	-20	54
BCU 5Y	2.36	1	3	-45
BCU 10Y	2.63	4	-1	-52

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	3	3	-66
TES Aug-2012	4.45	-1	-22	-471
TES May-2014	6.01	0	-7	606
TES Jul-2020	7.11	0	-2	-135
UVR Mar-2013	2.30	0	-26	-243

Peru				
Reference rate	2.50	0	0	-400
Sovereign bond Aug-2011	2.67	-5	-15	-413
Sovereign bond Aug-2017	5.10	-10	-5	-171
Sovereign bond Aug-2037	6.23	-2	-3	69

Global bonds				
BRL 2040	2.90	-1	17	-144
CLP 2013	1.25	-29	-5	-57
COP 2033	5.76	0	52	-121
PE 2033	5.13	-5	14	-125

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, September 1					
Brazil	FGV CPI IPC-S	31-Aug	-0.12%	-0.17%	-0.08%
	PMI Manufacturing	AUG		51.8	49.5
	Trade Balance (FOB) - Monthly	AUG	\$3000M	\$1358M	\$2440M
	EXPORTS - US\$ million	AUG	\$19100M	\$17674M	\$19236M
	IMPORTS - US\$ million	AUG	\$16100M	\$16316M	\$16796M
Peru	SELIC Target - Central Bank	01-Sep	10.75%	10.75%	
	Consumer Price Index (MoM)	AUG	0.28%	0.36%	0.27%
	Consumer Price Index (YoY)	AUG	2.30%	1.82%	2.31%
	Wholesale Prices (MoM)	AUG	- -	0.01%	0.37%
Thursday, September 2					
Brazil	FIPE CPI - Monthly	AUG	0.23%	0.17%	
Friday, September 3					
Brazil	GDP (IBGE) YoY	2Q	8.00%	9.00%	
	GDP (IBGE) QoQ	2Q	0.70%	2.70%	
	GDP (IBGE) 4Qtrs Accumulated	2Q	5.20%	2.40%	
Colombia	Producer Price Index (MoM)	AUG		-0.61%	
	Producer Price Index (YoY)	AUG		1.81%	
	Colombia Monetary Policy Minutes	02-Sep			
Saturday, September 4					
Colombia	Consumer Price Index (MoM)	AUG	0.03%	-0.04%	
	Consumer Price Index (YoY)	AUG	2.23%	2.24%	

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