

Latam

# Daily Latam

## Market Analysis Markets

Mexico City, August 4, 2010

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# Strategic Outlook

- Brazil →
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- Colombia →
- Peru →

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Negative tone in markets eases as economic data remains mixed  
[Awaiting validation of recent technical break by equity markets...](#)

**...closely following economic data**

US personal income and spending fell short of the market's expectation: 0.0% in both cases (vs. 0.2%e and 0.1%e, respectively); however, real income grew 0.2% and spending 0.1%. Growth in durable goods was noteworthy (0.4% in real terms) along with less financial spending by individuals. Furthermore, growth in factory orders (-1.2% MoM) and pending home sales (-2.6% MoM) fell short (-0.5% and +4.0%, in that order). Numbers continue to point to a US slowdown in the second half of the year, but not a recession. In Mexico the July IMEF Manufacturing indicator was released which was close to the previous month's (53.5 points vs. 53.6 previously), and implies sector growth. This indicator's recent dynamic confirms the recovery is on track, albeit slightly slow. This is consistent with the US counterpart index, the Manufacturing ISM, which decreased to 55.5 points in July from 56.2 points in June, its third straight decline.

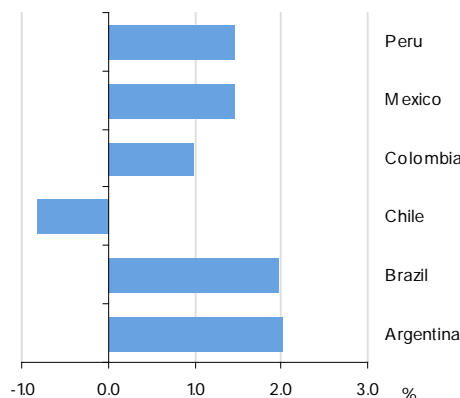
Financial pressure and risk aversion indicators continue to reflect a gradual easing. Such is the case, for example, of Greek sovereign CDSs, below 700bp for the first time since the end of May. As mentioned, the reduction in the risk premium associated with sovereign CDSs and the European financial sector could continue to result in a positive differentiation in said market in the coming weeks, albeit increasingly less so. Investors will continue to focus on the trend in economic data, especially ahead of unemployment numbers due out towards the end of the week, as on several occasions, members of the Fed OMC have hinted at the possibility of taking monetary action to support the economy if labor market conditions worsen. Corporate reports remain positive and today it is the turn of companies like Time Warner, Qwest and Prudential Financial.

**APPENDIX**

Macro Calendar

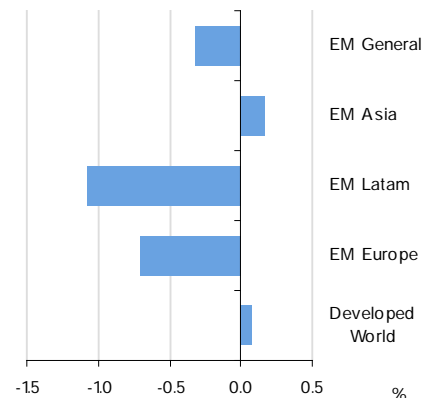


**Daily change on LatAm CDS 5 years**



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

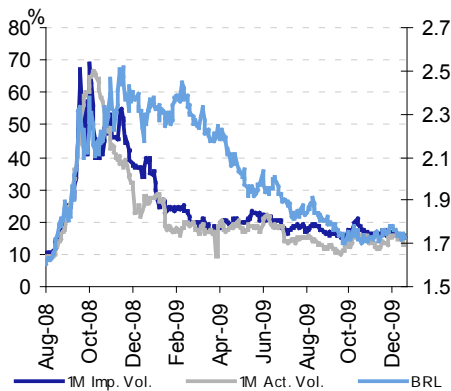
**The real depreciates on both external and local factors. We stand by our outlook for the currency to trade within a 1.75-1.78 range.**

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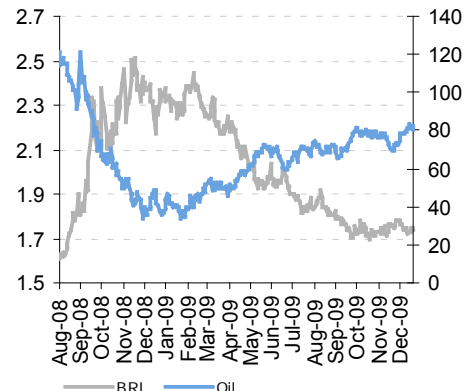
Despite gains in most regional currencies, the real depreciated 0.31% yesterday. This performance was driven by declines in global markets (e.g., the IBOV closed down 0.78%) and ongoing expectations of an easing monetary policy cycle. As such, lower-than-expected industrial output numbers (11.1% vs. 11.9%e) and FIPE inflation data (0.17% vs. 0.20%e) reinforce the recent downward revision in growth expectations, while favoring the likelihood of a narrower spread against US yields. This comes in addition to the increase in global risk premiums, with which 5Y Brazilian CDSs scored the largest gains in the region of 1.98% vs. gains on the order of 1% for the rest of Latam. Nonetheless, 1M implied volatility declined by 0.55 vegas. All told, we do not foresee a reversal of this trend in the medium term, but rather a continuation of trading in the range of recent weeks of 1.75 to 1.78.

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

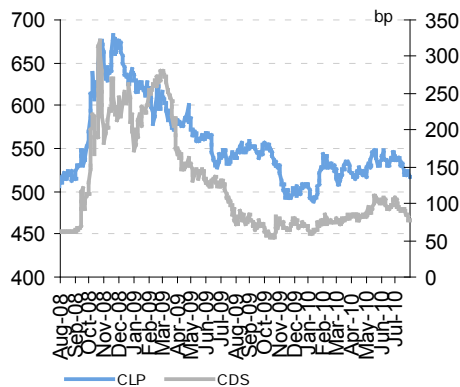
The peso approaches 515 thanks to favorable local expectations, although we cannot rule out a technical correction in the short term.

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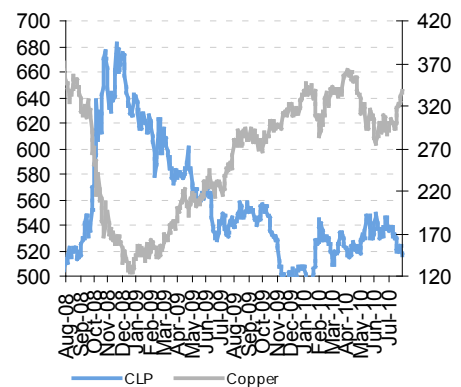
Despite US economic activity below expectations and the fall of 0.89% in copper prices, the peso appreciated 0.18% on the back of both external and local factors. On the local front, expectations continue to point toward recovery of economic activity, which were enhanced by the release of the minutes of Monday's central bank meeting and favorable external account numbers released yesterday. In fact, the market will be alert to tomorrow's IMACEC numbers, where a 6% hike is expected. Our estimate, however, stands at 5.1%. On the external front, two factors contributed to the short-term positive bias: 1) 5Y CDSs declined 0.83% yesterday vs. increases on the order of 1% for the region. As such, these instruments have accumulated a decline of 10.5%, in contrast to declines of 3% for other Latam CDSs. 2) The decline of the dollar against six major currencies, with the peso holding a 3M correlation of 0.74 with the DXY index. Thus, these factors point to a shift to the vicinity of 515, from which we cannot rule out a technical correction to around 521 as oversold levels begin to materialize.

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

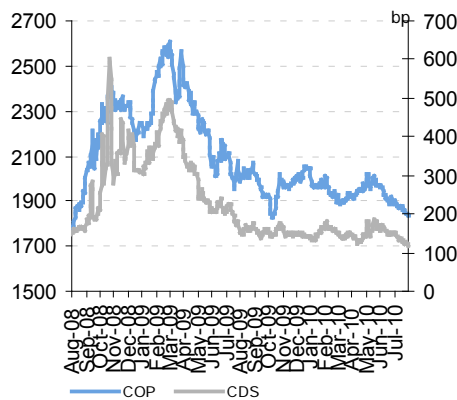
**Peso continues to trade around 1,830; ongoing positive trend in local markets.**

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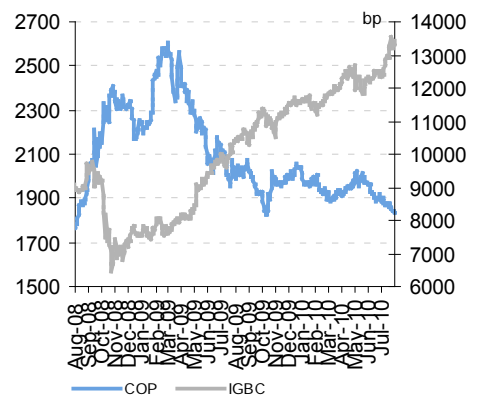
In line with most Latam currencies, the peso closed mostly flat yesterday above 1,830, a movement which was accompanied by an increase in turnover of US\$388mn. This performance can be attributed to a series of mixed factors on the external and domestic fronts. On the one hand, there was some renewed uncertainty in international markets regarding economic growth, with equity indexes posting widespread declines. Nevertheless, the IGBC was driven by a rally in ECOPETROL on an announcement it will buy some BP assets (a transaction worth US\$1.9bn, 51% of which corresponds to the stake the Colombian company will acquire). Thus the currency maintains a positive trend on flow factors; however, we still believe that as the monetary policy meeting approaches, expectations of intervention in the foreign exchange market by Banco de la República will stem any further move beyond 1812.

**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

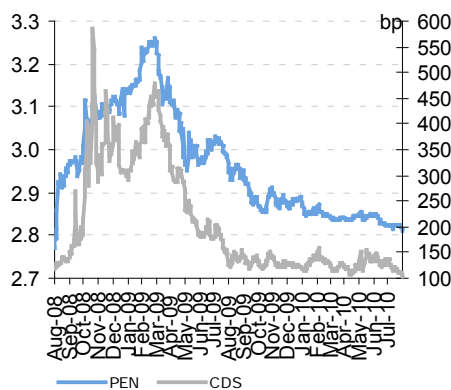
**Strong appreciation of the nuevo sol amid flow dynamics locally.**

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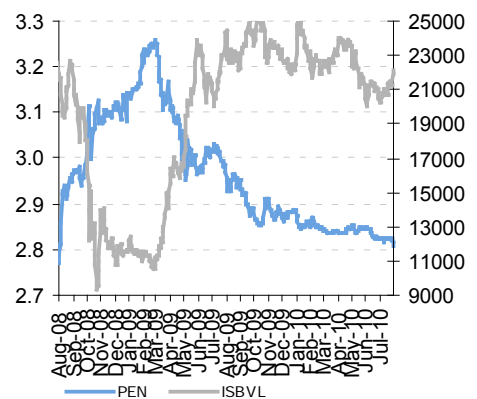
Despite declines in most risky assets (e.g. a 0.89% decrease in the price of copper), the nuevo sol appreciated 0.25% yesterday (the strongest of Latam currencies) despite a US\$149.5mn intervention by the central bank. Diverse factors favor a positive trend in the currency: 1) domestic institutional and corporate flow factors (in fact turnover in the foreign exchange market increased to US\$536mn), 2) an upbeat outlook for domestic instruments (the Selectivo de Lima rose 1.14%); and 3) a positive trend in fixed-income instruments especially following the local debt swap. All in all we estimate a support level of around 2.81.

**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
<b>Currencies</b>				
Argentinian peso	3.93	0.11	-0.03	-3.54
Brazilian real	1.76	-0.31	0.55	-0.74
Chilean peso	516.63	0.18	0.55	-1.81
Colombian peso	1,831.60	0.04	0.99	10.38
Mexican peso	12.58	0.01	0.82	3.90
Peruvian nuevo sol	2.81	0.25	0.50	2.75

<b>5 year CDS</b>				
Argentina	795.02	2.02	-1.34	-13.05
Brazil	115.23	1.98	-1.60	-5.95
Chile	76.00	-0.83	-10.57	11.24
Colombia	120.02	0.98	-3.52	-16.04
Mexico	115.16	1.48	-1.56	-13.92
Peru	106.17	1.46	-3.44	-14.05

<b>Equity indexes</b>				
Argentina Merval	2,440.97	-0.56	2.25	5.18
Brazil IBOV	67,997.36	-0.76	1.98	-0.86
Chile IPSA	4,399.58	-0.43	0.47	22.84
Colombia IGBC	13,428.40	0.66	-0.66	15.74
Mexico IPyC	32,768.08	-0.15	0.22	2.02
Peru ISBVL	22,182.47	1.14	4.20	-1.12
VIX Index	22.63	22.01	23.19	21.68

<b>Commodities</b>				
CRB Industrial	489.07	0.00	2.09	1.15
COMEX Copper	335.50	-0.89	4.68	0.83
WTI	82.55	1.49	6.52	4.02
Gold	1,186.15	0.28	2.11	8.13
Sugar	18.59	-4.18	0.92	-14.92
Soy	1,018.00	0.79	5.44	0.37

<b>Volatilities %</b>				
	1M	3M	6M	1A
Argentinian peso	4.47	7.72	11.16	16.64
Brazilian real	12.24	13.57	14.27	15.58
Chilean peso	11.80	12.52	12.93	13.48
Colombian peso	11.97	12.57	13.38	14.08
Mexican peso	11.59	12.41	12.90	13.32

<b>NDF currency/US\$</b>				
Argentinian peso	3.96	4.02	4.15	4.40
Brazilian real	1.77	1.79	1.83	1.92
Chilean peso	516.08	516.38	518.65	525.64
Colombian peso	1,831.05	1,834.48	1,843.60	1,876.90
Peruvian nuevo sol	2.81	2.80	2.81	2.83

<b>Foward points</b>				
Argentinian peso	0.03	0.09	0.21	0.47
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.55	-0.25	2.02	9.01
Colombian peso	-0.55	2.88	12.00	45.30
Peruvian nuevo sol	0.00	0.00	0.01	0.02

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
<b>Brazil</b>				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.81	1	-8	39
LTN Jan-11	10.94	-15	-32	37
NTN-F Jan-13	11.97	-43	-10	-54
NTN-F Jan-17	11.91	-14	-18	-126
NTN-B Aug-14	6.53	552	-14	-124

<b>Chile</b>				
TPM	1.59	5	9	110
TAB 90d UF	0.16	0	1	-665
Swap CLPxCAM 2Y	4.08	0	2	103
Swap CLPxCAM 5Y	4.96	0	-5	-27
Swap CLPxCAM 10Y	5.61	-2	-10	-46
Swap UFXCAM 2Y	0.49	7	14	-76
Swap UFXCAM 5Y	1.66	6	12	-52
Swap UFXCAM 10Y	2.25	7	10	-33
Swap basis 2Y	57.00	1	-8	-11
Swap basis 5Y	47.00	1	-9	-8
Swap basis 10Y	78.50	4	-11	-8
BCP Jan-2012	4.89	9	-10	78
BCP Aug-2014	5.74	0	-8	54
BCU 5Y	2.28	8	5	-66
BCU 10Y	2.88	10	2	-41

<b>Colombia</b>				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	0	-6	-63
TES Aug-2012	4.84	2	-7	-447
TES May-2014	6.31	1	-26	631
TES Jul-2020	7.45	2	-24	-104
UVR Mar-2013	2.45	-1	-29	-245

<b>Peru</b>				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.83	-4	-16	-413
Sovereign bond Aug-2017	5.32	-3	-7	-171
Sovereign bond Aug-2037	6.32	-4	-12	69

<b>Global bonds</b>				
BRL 2040	3.00	-4	-18	-137
CLP 2013	1.56	-14	-21	-38
COP 2033	5.95	6	-7	-102
PE 2033	5.46	0	-8	-98

Strategies →

# Appendix 2

## Calendar of Economic Indicators

			Survey	Prior	Actual
<b>Tuesday, August 3</b>					
Brazil	FIPE CPI - Monthly	JUL	0.20%	0.04%	0.17%
	Industrial Production YoY	JUN	11.90%	14.80%	11.10%
	Industrial Production sa (MoM)	JUN	-0.80%	0.00%	-1.00%
Argentina	Government tax revenue	JUL	\$35.8B	\$37.3B	\$37.4B
<b>Wednesday, August 4</b>					
Brazil	CNI Capacity Utilization	JUN		82.30%	
Colombia	Producer Price Index (MoM)	JUL		-0.08%	
	Producer Price Index (YoY)	JUL		2.13%	
<b>Thursday, August 5</b>					
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%	
<b>Friday, August 6</b>					
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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