

Latam

Daily Latam

Market Analysis
Markets

Mexico City, August 6, 2010

Strategic Outlook

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US unemployment numbers are the focus of market attention

Asymmetries remain between financial and economic risks.

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Exchange Rates: Brazilian real

The real remains relatively unchanged.

Chile

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Local economic data still underpin the peso.

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Exchange Rates: Colombian peso

The peso continues to rally on the domestic flow dynamic; we still expect a short- term technical correction.

Peru

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The central bank hikes benchmark rate 50bp to 2.5% in a surprise move; we do not rule out appreciation pressures.

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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US unemployment numbers are the focus of market attention

Asymmetries remain between financial and economic risks.

UK and EU central banks maintain eased monetary policies

The EU central bank held its benchmark at 1% on contained inflation and a better-than-expected economy with moderate growth. German factory orders for July were better than expected, while Spain posted slower industrial growth, as it was already expected. Unemployment claims in the US were higher than expected, evidencing weakness in the job market and other factors, as temporary census jobs are winding down. Jitters with regard to a rebound in employment have been fueled as unemployment claims did not decline in line with market expectations. In this context, July non-agriculture sector jobs numbers will be especially important. We expect private sector jobs, largely in the service sector, to move up by 113k vs. 90k foreseen by the consensus of analysts. Nonetheless, total payroll may well contract as temporary public sector jobs run their course. A marked decline in the job market affecting consumer confidence could spur fiscal and monetary measures to underpin growth. Despite evident economic deceleration for the second half of 2010, we believe the Fed will gauge this deceleration before implementing any monetary policy actions.

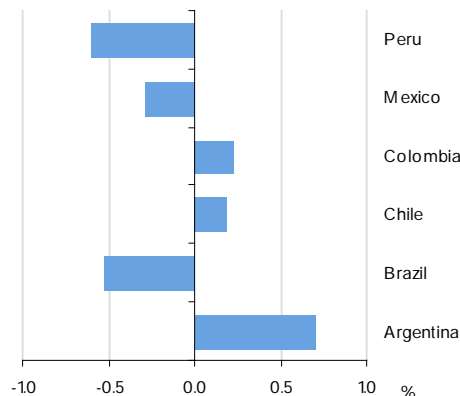
The global risk map still evidences stark regional asymmetries. European financial risks have declined and investors are focusing on difficulties in the US cycle and Chinese real estate market. Moreover, Chinese banks are undergoing stress tests in order to assess the impact of the fall in housing prices of as much as 60%. Because of this, we believe developed markets will hold the upper hand over emerging markets, though the spread is somewhat narrowed. The balance between Asian and Latam markets shows the latter enjoying a positive spread, especially in those markets such as Mexico that are less exposed to Asian commodities.

APPENDIX

Macro Calendar

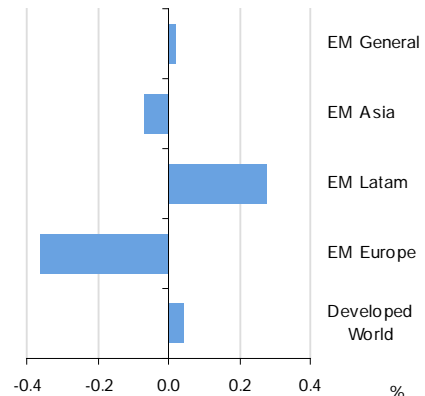


Daily change on LatAm CDS 5 years



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

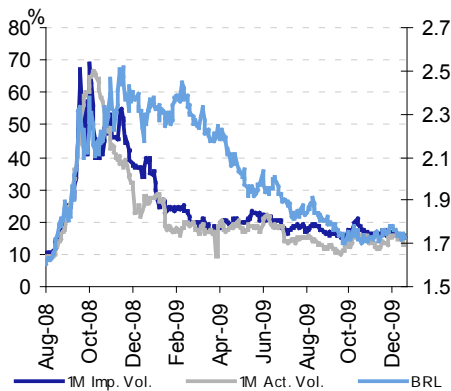
The real remains relatively unchanged.

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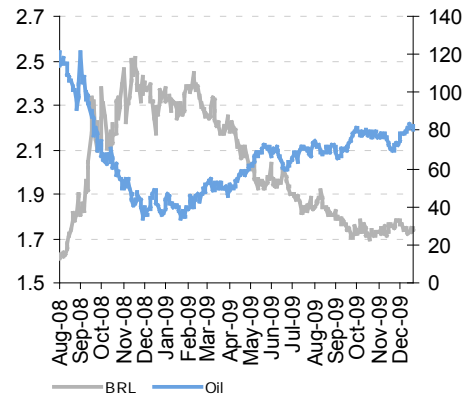
As in recent sessions, the real closed mostly flat at 1.75 yesterday. Factors determining the performance of the real include on the external front ongoing risk aversion due to jitters about the global economic cycle (clearly reflected in revaluations of US Treasuries and the Japanese yen). Furthermore, although expectations for the domestic economy remain bright, recent indicators are beginning to show signs of a slowdown (although production data and vehicle sales data released yesterday topped expectations). This is evident in the performance of fixed-income instruments which continue to factor in expectations of less monetary restriction. Finally, the possibility of interventions in the forex market by the authorities remains. All in all, we still believe the real will continue lateral in a 1.75-1.78 range in the short term.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

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Brazil



Colombia



Peru



Exchange Rates

Chilean peso

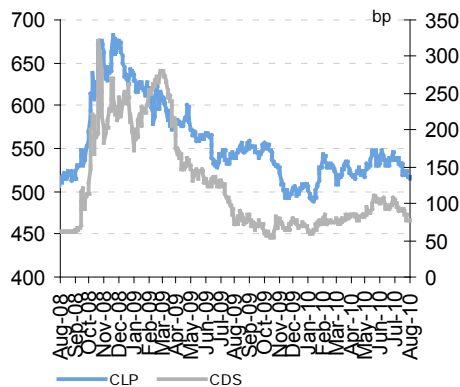
Local economic data still underpin the peso.

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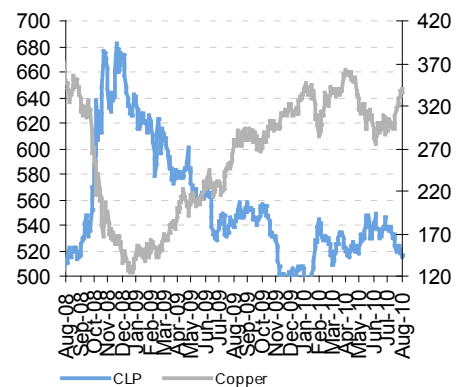
Despite the negative trend in global markets in response to US jobless claims and the resulting drop in copper prices, the peso closed 0.30% stronger yesterday. Two factors underpinned this movement: 1) the currency's favorable reaction to the release of better-than-expected economic activity data (6.8% vs. 6.0%e), especially expectations of greater monetary policy tightening by the central bank (e.g. swap curve yields rose by 5bp on average). 2) Furthermore, the currency was favored by the performance of the dollar against the main currencies (as mentioned in recent sessions, the peso has shown a high degree of sensitivity to the performance of the euro). All in all, as diverse technical factors indicate the currency is already oversold, we do not rule out a correction to the recent short-term appreciation trend.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

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Brazil



Chile



Peru



Exchange Rates

Colombian peso

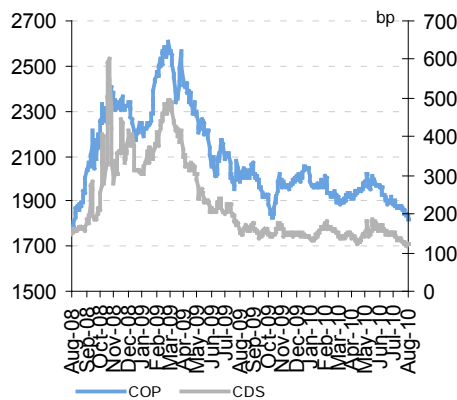
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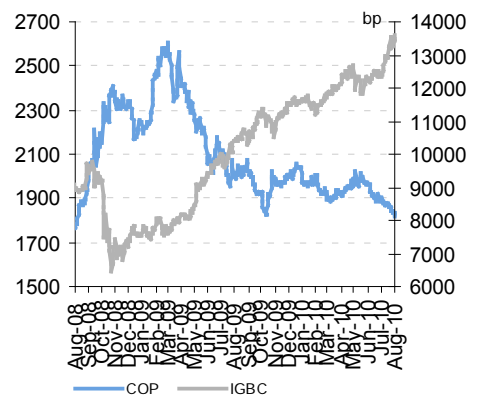
The peso closed stronger for a ninth straight session yesterday, again breaking important support levels still on domestic factors. Thus while global markets continue to show risk aversion signals in response to US economic data, foreign currency inflow expectations continue to exert appreciation pressure. Such expectations are due to the domestic tax payment period, investments in the energy and mining sectors, and trade flows (e.g. exports grew 11.7% in June YoY). However, we continue to think that based on oversold technical signals and the possibility of further interventions by Banco de la República in the foreign exchange market, the currency's trend is about to become exhausted.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Peru

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Brazil



Chile



Colombia



Exchange Rates

Peruvian nuevo sol

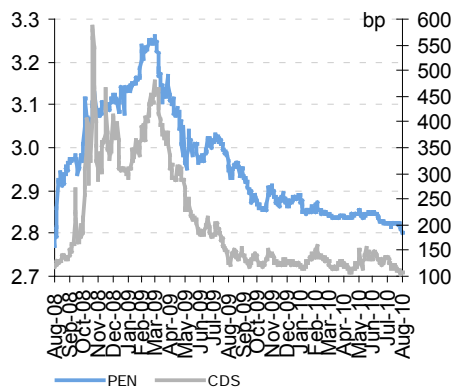
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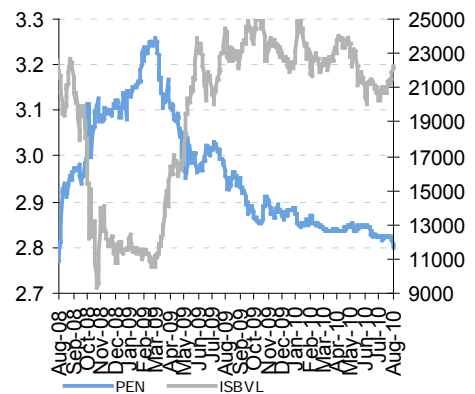
Following an appreciation of more than 0.6% during the first three days of the week, the nuevo sol closed basically flat yesterday at around 2.80. On the one hand, the Banco Central de Reserva del Perú intervened in the forex market with a bigger amount than has previously been the case (US\$200mn) to offset the dollar supply flow related to the Milpo transaction. On the other, the market was awaiting the monetary policy decision in which the BCRP raised the benchmark rate by 50bp (above the market's 25bp expectation). While the statement describes the action as a preemptive measure, expectations will continue to point to a bigger gap vs. US rates. Thus, barring a considerable increase in the central bank's dollar purchases, we do not rule out a break of 2.80.

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	3.93	-0.04	0.07	-3.56
Brazilian real	1.75	0.02	0.35	-0.42
Chilean peso	515.30	0.30	1.58	-1.55
Colombian peso	1,818.35	0.25	1.35	11.03
Mexican peso	12.56	-0.33	1.21	4.03
Peruvian nuevo sol	2.80	0.07	0.78	3.03

5 year CDS				
Argentina	796.04	0.70	0.45	-12.93
Brazil	115.07	-0.53	-1.49	-6.08
Chile	76.14	0.19	-8.29	11.45
Colombia	120.22	0.23	-2.81	-15.90
Mexico	115.31	-0.28	-0.98	-13.81
Peru	105.85	-0.60	-3.30	-14.31

Equity indexes				
Argentina Merval	2,432.85	-0.93	1.14	4.83
Brazil IBOV	68,411.72	0.20	2.18	-0.26
Chile IPSA	4,441.34	0.43	1.93	24.01
Colombia IGBC	13,574.55	0.65	2.87	17.00
Mexico IPyC	32,907.19	0.02	1.37	2.45
Peru ISBVL	22,132.41	-0.59	3.97	-1.34
VIX Index	22.10	22.21	24.13	21.68

Commodities				
CRB Industrial	491.97	0.00	1.27	1.75
COMEX Copper	335.05	-1.47	1.98	0.69
WTI	82.01	-0.56	4.66	3.34
Gold	1,194.95	0.00	2.29	8.93
Sugar	18.29	-3.13	-6.21	-16.29
Soy	1,029.00	0.46	4.15	1.45

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.24	7.53	11.12	16.28
Brazilian real	11.89	13.58	14.25	15.57
Chilean peso	11.36	12.25	12.77	13.44
Colombian peso	11.39	12.39	13.19	13.96
Mexican peso	11.35	12.35	12.86	13.25

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.14	4.40
Brazilian real	1.76	1.79	1.83	1.90
Chilean peso	514.93	515.05	517.85	525.49
Colombian peso	1,817.85	1,820.85	1,830.35	1,863.85
Peruvian nuevo sol	2.80	2.80	2.81	2.83

Foward points				
Argentinian peso	0.03	0.09	0.20	0.46
Brazilian real	0.01	0.04	0.08	0.15
Chilean peso	-0.37	-0.25	2.55	10.19
Colombian peso	-0.50	2.50	12.00	45.50
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	10.80	-2	-3	39
LTN Jan-11	10.93	-20	-7	37
NTN-F Jan-13	12.08	4	-5	-54
NTN-F Jan-17	12.01	6	-36	-126
NTN-B Aug-14	6.45	-9	-14	-124

Chile				
TPM	1.60	2	10	110
TAB 90d UF	0.17	1	1	-665
Swap CLPxCAM 2Y	4.19	5	22	103
Swap CLPxCAM 5Y	5.05	7	8	-27
Swap CLPxCAM 10Y	5.65	2	1	-46
Swap UFXCAM 2Y	0.54	-1	22	-76
Swap UFXCAM 5Y	1.70	0	15	-52
Swap UFXCAM 10Y	2.32	3	16	-33
Swap basis 2Y	63.00	2	2	-11
Swap basis 5Y	50.00	1	-2	-8
Swap basis 10Y	80.00	0	0	-8
BCP Jan-2012	4.94	-6	18	78
BCP Aug-2014	5.88	0	17	54
BCU 5Y	2.28	-3	12	-66
BCU 10Y	2.88	-1	9	-41

Colombia				
Reference rate	3.50	0	50	-50
DTF 90d	3.55	7	7	-63
TES Aug-2012	4.84	3	-2	-447
TES May-2014	6.29	2	-10	631
TES Jul-2020	7.33	0	-16	-104
UVR Mar-2013	2.42	1	-10	-245

Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.55	-38	-15	-413
Sovereign bond Aug-2017	5.24	-13	-9	-171
Sovereign bond Aug-2037	6.25	-7	-14	69

Global bonds				
BRL 2040	2.97	-2	-26	-137
CLP 2013	1.51	-13	-13	-38
COP 2033	5.89	0	-24	-102
PE 2033	5.38	1	-22	-98

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Thursday, August 5					
Brazil	FGV Inflation IGP-DI	JUL		0.34%	0.22%
	Vehicle Exports (Anfavea)	JUL		63737	64864
	Vehicle Production (Anfavea)	JUL		306350	315879
	Vehicle Sales (Anfavea)	JUL		262758	302332
Chile	Economic Activity YoY	JUN	6.00%	7.10%	6.80%
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%	2.50%
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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