

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 9, 2010

Strategic Outlook

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Weak US unemployment data...

...put pressure on markets amid modest economic growth.

Brazil

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Exchange Rates: Brazilian real

The real closes down in response to global and local factors.

Chile

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Exchange Rates: Chilean peso

The peso decouples from other assets with which it is typically correlated.

Colombia

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Exchange Rates: Colombian peso

The peso remains on positive bias despite uncertainty in foreign markets.

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Strategic Outlook

- Brazil →
- Chile →
- Colombia →

**Weak US unemployment data...
...put pressure on markets amid modest economic growth.**

Given an environment of greater risk aversion, global investors are being cautious and reducing appetite for risky assets

Once again, mixed dynamics predominated last week: on the one hand economic indicators continue to show positive trends for the EU, an outlook underscored by a relatively upbeat message from the ECB about the state of the region's economy. On the other, US economic indicators were no so encouraging continuing to point to a very weak labor market. In particular, 125k jobs were lost in the non-farming sector in July (vs. 221k in June) due to a reduction in temporary jobs following the completion of the US census. The non-farm private payroll expanded by 71k vs. the market's 90k expectation.

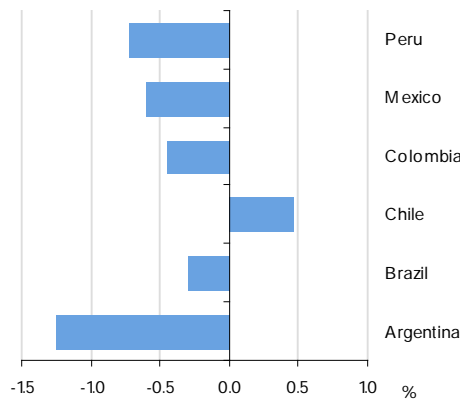
In this context, safe assets continued to revalue (of note was the shift in the 10Y Treasury yield to 2.82%, resulting in 5bp curve flattening measured by the 10Y-2Y slope) while the dollar continued to lose ground to other main currencies (the EUR above 1.32 and the JPY with a weekly appreciation of 1.1%). Furthermore, most equity markets posted broad-based losses Friday with the S&P 500 losing 0.37%, while Latam bourses had mixed closes. We expect the performance of global markets to be linked to economic data going forward, given that 80% of US companies have now reported.

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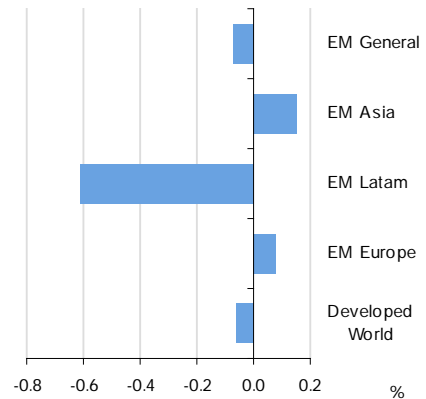
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Daily change on LatAm CDS 5 years



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

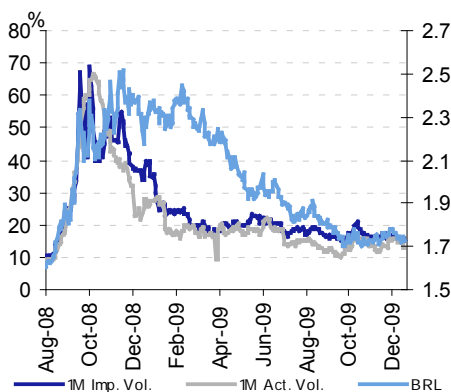
The real closes down in response to global and local factors.

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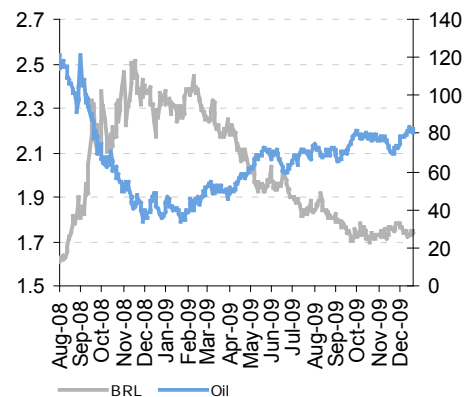
In line with the performance of most global risky assets, the real depreciated 0.48% Friday, accumulating losses of 0.30% for the week. Local and global economic cycles can explain these movements. On the external front, the currency was buffeted by risk aversion fueled by US unemployment numbers. On the local scene, economic news flows are once again pointing to a slower-than-expected recovery. Industrial production numbers earlier in the week came in addition to IPCA inflation of 4.60%, slightly below market expectations. Thus, the DI futures curve evidences expectations of an eased monetary policy cycle, which in turn puts the brakes on the currency's appreciation. This situation comes in tandem with statements by the Finance Minister regarding the real's movements. As such, positioning factors have less appeal now than in recent weeks (e.g., foreign positions long on reals in the BM&F declined by US\$751mn and 1M implied volatility wound up the week above 12%). All told, we do not see any factors to justify a break out from the range of 1.75-1.78 where the real has traded in recent sessions.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook



Exchange Rates

Brazil



Colombia



Chilean peso

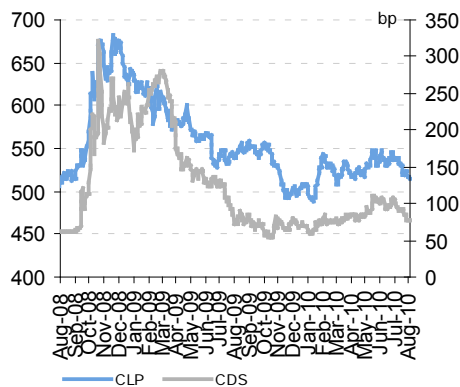
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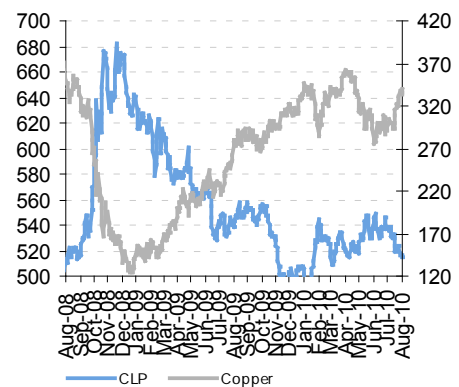
The peso closed up 0.21% Friday, breaking away from assets with which it is typically correlated. As such, the following dynamics are relevant: 1) copper prices —with which the peso holds a 3M correlation of 0.80— declined 0.33%, while risk-free assets were generally up riding US economic numbers; 2) CLP-CAM swap yields declined on the order of 2bp all along the curve on inflation projections somewhat below market expectations (i.e., 0.6% vs. 0.7%e). Although the correlation of the currency with these instruments is typically positive, significantly this trend has reversed to -0.93 since the beginning of July thanks to the market pricing in a more restrictive monetary policy cycle. As such, traders will be alert to Thursday's decision, which is expected to bring an increase of 50bp. All told, we believe that the peso could continue on a positive bias, with the target in coming sessions standing at 510.

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

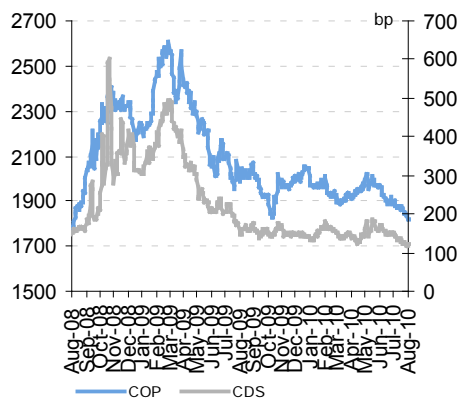
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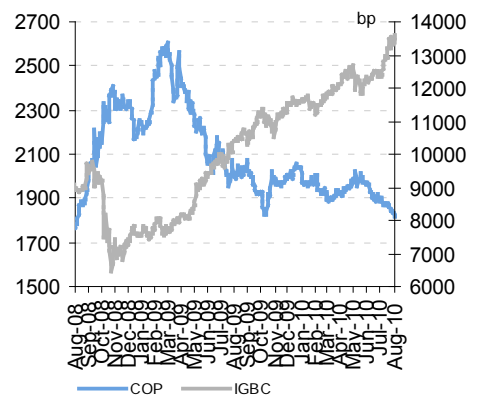
In line with its performance over much of the year, the peso appreciated 0.12% Friday, even as the tenor of global markets was one of flight to safety. As such, the currency closed up by 1.49% last week, breaching the support level of 1,820, while revaluating by 11.1% for the year, while on average Latam currencies appreciated by a mere 0.88%. This situation, in addition to coming on trade and financial flow factors that were already priced in, was driven by seasonal factors such as tax and dividends payments. Additionally, the upbeat tone of Friday's monetary policy minutes contemplate growth of 4.9% with contained inflation. In this regard, signs of imminent intervention are not in evidence, though the currency's ongoing appreciation was in fact a topic of discussion. All told, in our view, room for additional appreciation is now limited because of technical factors and expectations of the Banco de la República intervening in the forex market.

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	3.93	0.11	0.27	-3.45
Brazilian real	1.76	-0.52	-0.34	-0.94
Chilean peso	514.23	0.21	1.35	-1.34
Colombian peso	1,816.10	0.12	1.49	11.14
Mexican peso	12.69	-1.02	-0.37	3.05
Peruvian nuevo sol	2.80	-0.04	0.66	3.00

5 year CDS				
Argentina	786.09	-1.25	-0.94	-14.02
Brazil	114.73	-0.29	-1.86	-6.36
Chile	76.50	0.47	-1.79	11.97
Colombia	119.67	-0.45	-3.30	-16.28
Mexico	114.62	-0.60	-1.91	-14.32
Peru	105.08	-0.72	-3.86	-14.93

Equity indexes				
Argentina Merval	2,425.33	-0.31	1.30	4.51
Brazil IBOV	68,094.76	-0.46	0.86	-0.72
Chile IPSA	4,462.82	0.48	2.26	24.61
Colombia IGBC	13,397.41	-1.30	0.86	15.47
Mexico IPyC	32,917.92	0.03	1.89	2.48
Peru ISBVL	21,977.93	-0.70	2.45	-2.03
VIX Index	21.74	22.10	23.50	21.68

Commodities				
CRB Industrial	493.09	0.00	1.26	1.99
COMEX Copper	333.95	-0.33	0.98	0.36
WTI	80.70	-1.60	2.22	1.69
Gold	1,205.40	0.87	2.07	9.89
Sugar	18.24	-0.27	-6.80	-16.52
Soy	1,033.50	0.44	2.84	1.90

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.19	7.49	11.13	16.31
Brazilian real	12.06	13.55	14.37	15.67
Chilean peso	11.40	12.30	12.81	13.43
Colombian peso	11.43	12.48	13.28	14.06
Mexican peso	11.93	12.69	13.16	13.48

NDF currency/US\$				
Argentinian peso	3.96	4.01	4.13	4.38
Brazilian real	1.77	1.80	1.84	1.92
Chilean peso	514.09	514.47	516.76	524.61
Colombian peso	1,815.54	1,818.85	1,827.60	1,860.10
Peruvian nuevo sol	2.80	2.80	2.81	2.83

Foward points				
Argentinian peso	0.03	0.08	0.20	0.45
Brazilian real	0.01	0.04	0.08	0.15
Chilean peso	-0.14	0.24	2.53	10.38
Colombian peso	-0.56	2.75	11.50	44.00
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	10.78	-2	-4	39
LTN Jan-11	10.92	-3	-11	37
NTN-F Jan-13	11.98	-15	-22	-54
NTN-F Jan-17	11.93	-16	-26	-126
NTN-B Aug-14	1.00	-549	-551	-124

Chile				
TPM	1.51	-9	-3	110
TAB 90d UF	0.16	-1	0	-665
Swap CLPxCAM 2Y	4.18	-1	21	103
Swap CLPxCAM 5Y	5.06	1	16	-27
Swap CLPxCAM 10Y	5.64	-1	6	-46
Swap UFXCAM 2Y	0.58	4	24	-76
Swap UFXCAM 5Y	1.74	4	19	-52
Swap UFXCAM 10Y	2.31	-1	15	-33
Swap basis 2Y	64.00	1	7	-11
Swap basis 5Y	50.00	0	4	-8
Swap basis 10Y	80.00	0	5	-8
BCP Jan-2012	4.96	-4	14	78
BCP Aug-2014	5.88	0	12	54
BCU 5Y	2.25	-3	7	-66
BCU 10Y	2.89	1	9	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.55	0	7	-63
TES Aug-2012	4.79	-5	-2	-447
TES May-2014	6.18	-11	-17	631
TES Jul-2020	7.24	-9	-19	-104
UVR Mar-2013	2.57	15	5	-245

Peru				
Reference rate	2.50	0	50	-450
Sovereign bond Aug-2011	2.50	-15	-49	-413
Sovereign bond Aug-2017	5.24	-5	-21	-171
Sovereign bond Aug-2037	6.24	-6	-66	69

Global bonds				
BRL 2040	2.84	-13	-39	-137
CLP 2013	1.46	-5	-49	-38
COP 2033	5.89	0	-6	-102
PE 2033	5.29	-9	-28	-98

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Friday, August 6					
Brazil	IBGE Inflation IPCA (MoM)	JUL	0.01%	0.00%	0.01%
	IBGE Inflation IPCA (YoY)	JUL	4.61%	4.84%	4.60%
Chile	CPI (MoM)	JUL	0.70%	0.00%	0.60%
	CPI (YoY)	JUL	2.40%	1.20%	2.30%
	CPI Ex Perishables & Fuel MoM	JUL	0.60%	0.30%	0.60%
Colombia	Colombia Monetary Policy Minutes	12-Aug			
Monday, August 9					
Brazil	FGV CPI IPC-S	08-Aug		-0.21%	
	FGV Preview Inflation IGP-M	08-Aug			
	Trade Balance (FOB) - Weekly	08-Aug		\$148M	
Chile	Trade Balance in US\$ Million	JUL	\$1,113.50	\$1,158.40	
	Total Exports in US\$ Million	JUL		\$5,292.70	
	Total Imports in US\$ Million	JUL		\$4,134.30	
Tuesday, August 10					
Brazil	FIPE CPI - Weekly	07-Aug	0.15%	0.19%	
Peru	Trade Balance	JUL		\$287.0M	
Wednesday, August 11					
Brazil	Retail Sales (YoY)	JUN	9.50%	10.20%	
	Retail Sales (MoM)	JUN	0.30%	1.40%	
Thursday, August 12					
Colombia	Trade Balance	JUN		\$507.70	
Chile	Nominal Overnight Rate Target	12-Aug	2.00%	1.50%	
Friday, August 13					
Argentina	Consumer Price Index (MoM)	JUL	0.80%	0.70%	
	Consumer Price Index (YoY)	JUL	11.20%	11.00%	
	Wholesale Price Index (MoM)	JUL		0.90%	
	Wholesale Price Index (YoY)	JUL		15.20%	

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