

MARKETS
LATAM

DailyLatam

Mexico City, March 10, 2010

Strategic Outlook

PAGE 2 →

Already priced in expectations slow pace of gains

Key assets display some exhaustion as the market appears to have priced in relatively bullish expectations.

Brazil

PAGE 3 →

Interest Rates: Trend continues

Yields continue to trend downward.

Exchange Rates: Brazilian real

Flow and positioning factors underpin our upbeat outlook for the real.

Chile

PAGE 5 →

Interest Rates: Moderation of expectations continues

Greater risk scenario evidenced by pressure on yields.

Exchange Rates: Chilean peso

Decline in copper prices coupled with technical correction undermine peso.

Colombia

PAGE 7 →

Interest Rates: Yields remain static

In the absence of local data, external factors limit yield losses.

Exchange Rates: Colombian peso

The peso continues upward swing.

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PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 12 OF THIS REPORT

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Strategic Outlook

Mexico City, March 10, 2010

- Brazil →
- Chile →
- Colombia →

Already priced in expectations slow pace of gains

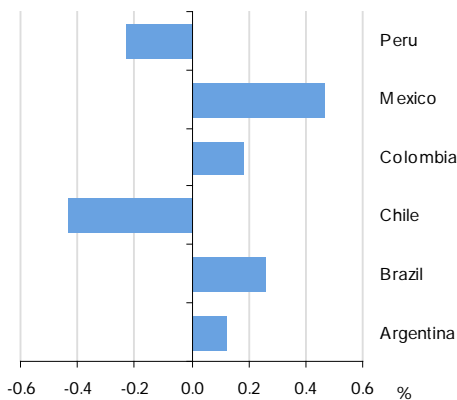
Key assets display some exhaustion as the market appears to have priced in relatively bullish expectations.

Emerging markets remain relative outperformers as local factors come more to the fore (e.g. rate expectations)

In this context of positive expectations mostly priced into valuations, the market appears to be more clearly entering a consolidation phase with apparently more limited room for additional gains. This would explain opposite behavior, such as further gains in relatively safer assets (including a strong bid-to-cover ratio in yesterday's 3Y Treasury auction of 3.13x) or consolidation movements in commodity markets (e.g. gold corrected to levels of USD1,120/oz due to news from China pointing to lower demand from the monetary authorities for this metal as a reserve asset —currently 1.5% of the central bank's total reserves) as well as tepid gains in US equities (still below reference levels, e.g. the S&P at about 1,150pts). In this context, emerging markets remain relatively more appealing, especially in light of more bullish prospects, which is even to some extent priced in. In this regard the upward shift in market benchmark rate expectations is worth mentioning (China or even Brazil), which continues to reflect investors' search for relative returns.

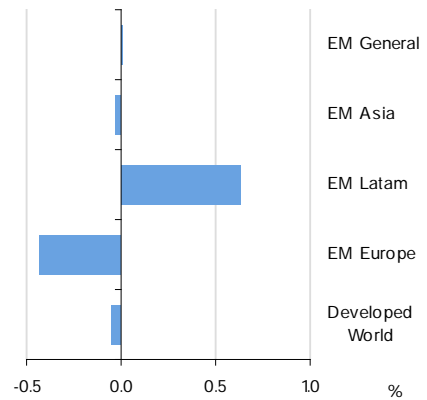
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Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Global Markets Research, S.A.

Daily change on MSCI Index



Source: Bloomberg and BBVA Global Markets Research, S.A.

APPENDIX

Macro Calendar

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Brazil

Mexico City, March 10, 2010

Strategic Outlook →

Chile →

Colombia →

Interest Rates

Trend continues

Yields continue to trend downward.

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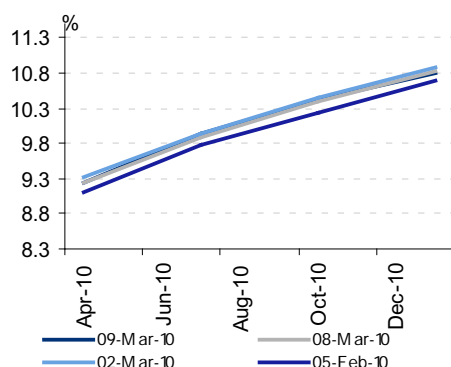
DI Futures curve continues flattening seen in February

In fact, implied yields of 1M and 12M contracts declined to levels last seen in February, before the central bank even began exit strategies through an increase in bank reserve requirements. Thus expectations for a hike in the Selic rate once again have moderated and bets on the year-end Selic now stand at about 11.75%. This flattening in the 12M curve reflects moderating cycle expectations and is pricing in lower-than-expected data for 4Q09. We do not expect significant corrections, as the market has shown more consensus in outlook. This situation should persist at least until the next monetary authority meeting on March 18.

Dipping to YTD lows, debt curve maintains downtrend

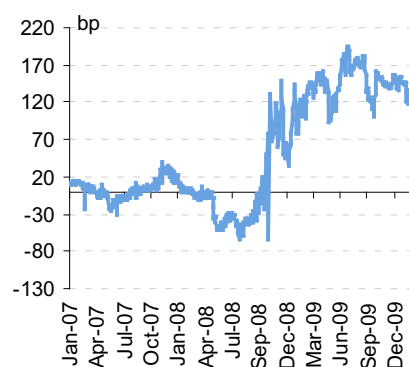
Yields in the middle and long segments of the curve continue to hover around June 2009 lows, with risk premiums significantly depressed (e.g., the 8Y-3Y NTN-F bond slope closed at 88bp, which is a low not seen since January 2009 when monetary easing began). In fact, yields on the nominal curve (e.g., the 2017 NTN-F bond yield closed at 12.47%) have decoupled from external factors, which suggests: 1) greater liquidity from 2010 NTN-F and LTN expirations to the tune of BRL100bn which are being reinvested at the long end of the curve; and 2) expectations regarding the exchange rate trend have affected expected medium-term inflation. At these levels, however, we could well expect profit taking and our forecast calls for levels slightly higher than current ones.

DI Futures



Source: Bloomberg and BBVA Global Markets Research, S.A.

Slope NTN-F Bonds 8Y-3Y



Source: Bloomberg and BBVA Global Markets Research, S.A.

DailyLatam

Brazil

Mexico City, March 10, 2010

Strategic Outlook →

Chile →

Colombia →

Exchange Rates

Brazilian real

Flow and positioning factors underpin our upbeat outlook for the real.

Despite a retreat in commodity prices and the dollar's gains against major currencies (the DXY index grew 0.2%), the real appreciated 0.72% yesterday. This performance was in line with gains of 1.3% seen in the IBOV (the highest seen in regional indices), which continues to price in upbeat expectations for foreign inflows, especially in light of issuances slated for mid February. As such, our upbeat outlook for the real in the short term is underpinned by favorable projections of direct foreign investment and positioning factors (foreign short positions in reals on the BM&F retreated by US\$191mn at the bell Monday vs. Friday).

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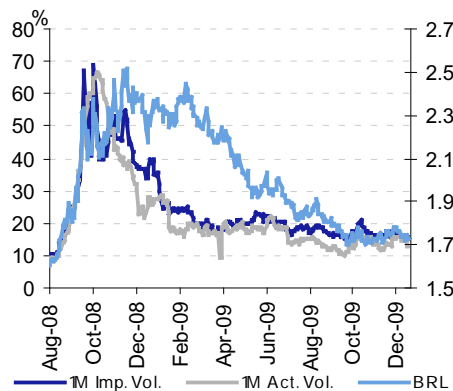
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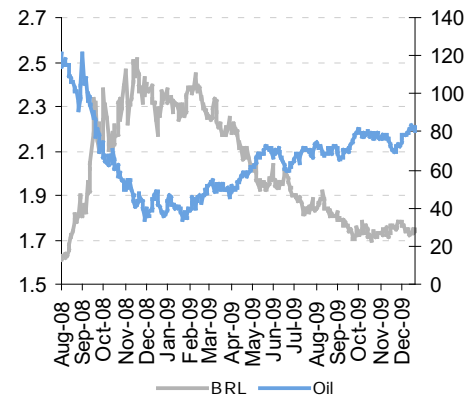
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Implied vs. Historic Volatility



Source: Bloomberg and BBVA Global Markets Research, S.A.

BRL vs. WTI



Source: Bloomberg and BBVA Global Markets Research, S.A.

DailyLatam

Chile

Mexico City, March 10, 2010

Strategic Outlook →

Brazil →

Colombia →

Interest Rates

Moderation of expectations continues Greater risk scenario evidenced by pressure on yields.

In fact, the decline in the 12M CLPxCam swap again evidences an increase in the cycle risk premium in the short-term

The outlook for continuity in the monetary stimulus (the CLPxCam swap closed at 1.19%, off 32bp over the last month) still reflects that the cycle risk premium, which had eased after the earthquake, remains latent. Similarly, the results of the 2Y BCP bond auction (coming to term Jan-12 and closing at 3.27%) evidences caution from investors (e.g., the bid-to-cover ratio remained below the historic average of 2x at 2.24x, but exhibited greater appetite than 1.68x last week). As such, a slight correction was seen in the 5Y-2Y slope to levels of 248bp. Thus, the market once again presents a panorama of inflation pressures and a stable MRP for a longer period. Finally, paper issuance risk premium expectations remain latent, thereby setting a floor for UF yields.

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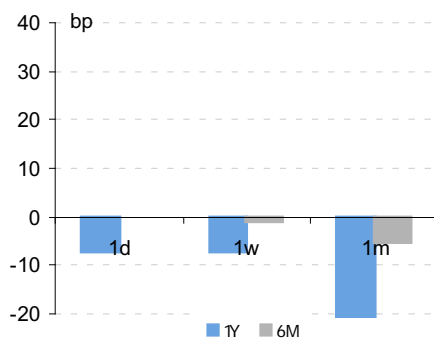
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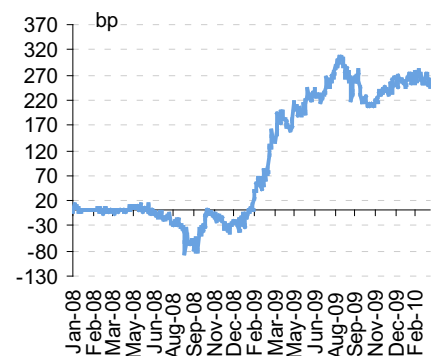
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Swap CLPxCAM



Source: Bloomberg and BBVA Global Markets Research, S.A.

Slope Bonds BCP 5Y-2Y



Source: Bloomberg and BBVA Global Markets Research, S.A.

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Chile

Mexico City, March 10, 2010

Strategic Outlook →

Brazil →

Colombia →

Exchange Rates

Chilean peso

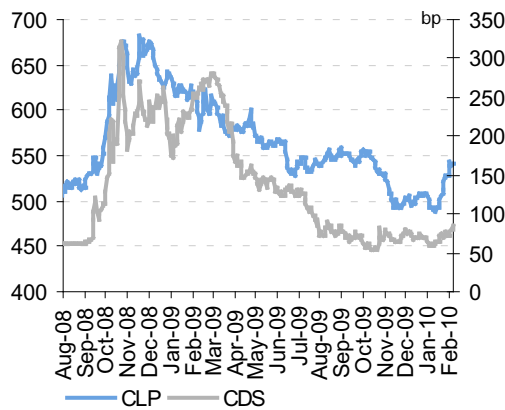
Decline in copper prices coupled with technical correction undermine peso.

Despite appreciation seen in most regional currencies, the peso depreciated yesterday 0.68%. This performance was in response to a decline in commodity prices (copper retreated 0.40%) and a technical correction to last week's appreciation of 3%. On the other hand, while SOFOFA (Association for Manufacturing Development) reported yesterday a decline of 8.8% in industrial production compared to levels seen in the same month last year, it also raised its year-end estimate, which complements the advance seen in recent economic activity numbers. As such, though this should not exert a significant effect in coming days, it does contribute to a stable scenario for the peso in the medium term. All told, we still believe that the peso's performance will depend on opposing forces and thus we stand by our forecast for lateral movement within a broad range of CLP/USD495-CLP/USD530.

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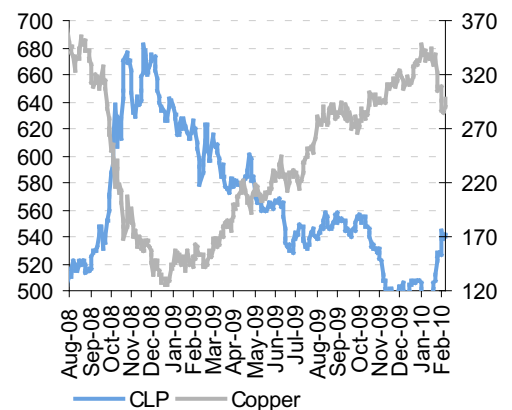
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CLP vs. 5y CDS



Source: Bloomberg and BBVA Global Markets Research, S.A.

CLP vs. Copper



Source: Bloomberg and BBVA Global Markets Research, S.A.

DailyLatam

Colombia

Mexico City, March 10, 2010

Strategic Outlook →

Brazil →

Chile →

Interest Rates

Yields remain static

In the absence of local data, external factors limit yield losses.

Despite lower-than-expected February inflation numbers, yields so far fail to react

In fact, yields have only changed marginally this week, even as some medium-term TES bond yields advanced. Although local factors have been preponderant over external factors, a downturn in some risky assets put the brakes on further yield corrections. Meanwhile, in order to neutralize the entry of dollars, Banco de la República announced the sale of COP400bn in the secondary market thereby limiting further corrections. However, we do not see this causing a change in medium-term expectations. An outlook of greater neutralization through this means may very well set a higher floor in TES bond yields (currently Banco de la República's TES bond balance stands at COP3.1tn).

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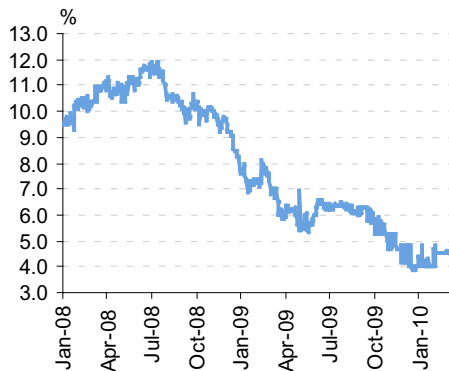
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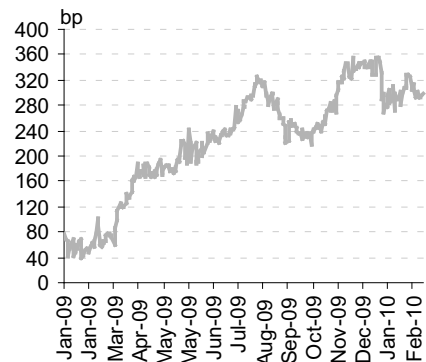
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Cross Currency Swaps 1Y



Source: Bloomberg and BBVA Global Markets Research, S.A.

Slope Bonds TES 10Y-3Y



Source: Bloomberg and BBVA Global Markets Research, S.A.

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Colombia

Mexico City, March 10, 2010

Strategic Outlook



Brazil



Chile



Exchange Rates

Colombian peso

The peso continues upward swing.

In line with most regional currencies, the peso appreciated yesterday 0.5%. This performance moved in tandem with an increase in volume of US\$440mn over yesterday's session (the peso corrected slightly), reflecting persisting appetite for the local currency. Meanwhile, the release Monday of tax revenue numbers and recent upbeat newsflow continue to work in the peso's favor. Additionally, the risk premium in recent days, as gauged by the CDS spread, has trended downward, accumulating losses of 1.05% this year. While this decline is the lowest seen in the region, the recent trend has contributed to easing the negative correlation seen recently. In this way, despite our outlook for a correction in the positive trend that began earlier in the year, we believe the peso will remain relatively strong in coming days.

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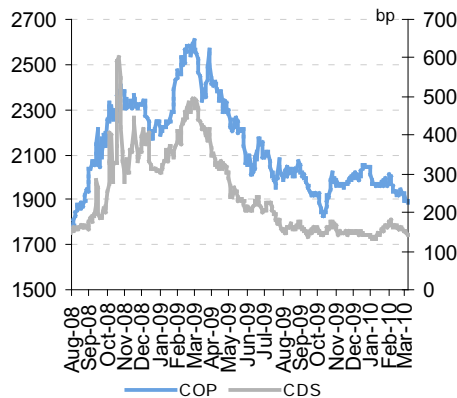
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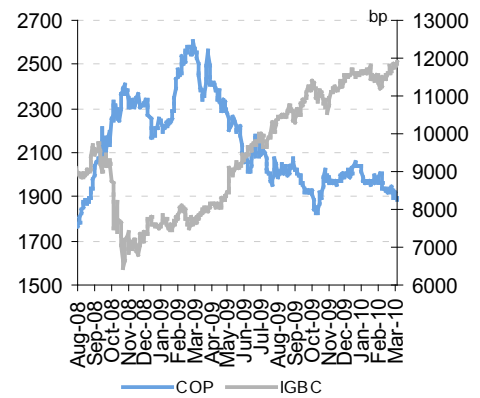
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COP vs. 5y CDS



Source: Bloomberg and BBVA Global Markets Research, S.A.

COP vs. IGBC



Source: Bloomberg and BBVA Global Markets Research, S.A.

DailyLatam Appendix 1

Mexico City, March 10, 2010

Summary of the LatAm Market

	Close	Change %		
		1D	1W	YTD
Currencies				
Argentinian peso	3.86	-0.13	-0.12	-1.61
Brazilian real	1.78	0.72	0.95	-1.79
Chilean peso	512.23	-0.68	1.31	-0.94
Colombian peso	1,887.35	0.52	0.48	7.65
Mexican peso	12.62	0.47	0.88	3.59
Peruvian nuevo sol	2.84	0.00	0.13	1.66

	Close	Change %		
		1D	1W	YTD
5 year CDS				
Argentina	1,044.09	0.12	-3.00	14.20
Brazil	116.99	0.26	-7.86	-4.51
Chile	73.22	-0.43	-3.60	7.17
Colombia	141.44	0.18	-7.40	-1.05
Mexico	110.81	0.47	-9.94	-17.17
Peru	117.28	-0.23	-8.70	-5.05

	Close	Change %		
		1D	1W	YTD
Equity indexes				
Argentina Merval	2,319.14	0.46	1.46	-0.07
Brazil IBOV	69,576.38	1.46	2.65	1.44
Chile IPSA	3,792.35	-0.17	0.85	5.89
Colombia IGBC	11,852.19	-0.40	0.98	2.16
Mexico IPyC	32,514.17	-0.02	1.43	1.23
Peru ISBVL	22,542.22	-0.70	1.01	0.48
VIX Index	17.92	17.79	19.06	21.68

	Close	Change %		
		1D	1W	YTD
Commodities				
CRB Industrial	499.04	0.00	2.40	3.22
COMEX Copper	339.80	0.04	0.07	2.12
WTI	81.49	-0.46	2.27	2.68
Gold	1,121.85	-0.15	-1.13	2.27
Sugar	16.81	0.00	0.00	0.00
Soy	947.50	-0.05	-1.66	-10.08

	Volatilities %			
	1M	3M	6M	1A
Argentinian peso	3.00	9.00	12.50	18.00
Brazilian real	13.90	14.50	15.45	15.45
Chilean peso	13.85	13.85	14.50	14.50
Colombian peso	15.50	17.00	17.40	17.40
Mexican peso	13.85	13.85	14.50	14.50

	Close	Change %		
		1D	1W	YTD
NDF currency/US\$				
Argentinian peso	3.88	3.92	4.03	4.38
Brazilian real	1.79	1.81	1.85	1.93
Chilean peso	511.99	511.33	509.81	508.43
Colombian peso	1,888.85	1,897.35	1,915.85	1,959.85
Peruvian nuevo sol	2.84	2.84	2.85	2.86

	Close	Change %		
		1D	1W	YTD
Foward points				
Argentinian peso	0.02	0.06	0.17	0.52
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.24	-0.91	-2.42	-3.80
Colombian peso	1.50	10.00	28.50	72.50
Peruvian nuevo sol	0.00	0.00	0.01	0.02

Source: Bloomberg and BBVA Global Markets Research, S:A.

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	8.65	0	0	0
DI Jan-11 Future	10.42	1	-2	-8
LTN Jan-11	10.46	3	-2	-7
NTN-F Jan-13	12.01	3	-3	-54
NTN-F Jan-17	12.57	1	-14	-75
NTN-B Aug-14	6.87	0	21	-88

	Close %	Change bp		
		1D	1W	YTD
Chile				
TPM	0.41	1	-6	11
TAB 90d UF	0.10	0	0	-710
Swap CLPxCAM 2Y	2.71	-2	0	-34
Swap CLPxCAM 5Y	4.87	3	19	-36
Swap CLPxCAM 10Y	5.87	1	17	-20
Swap UFXCAM 2Y	-0.45	3	-22	-170
Swap UFXCAM 5Y	1.56	-3	-5	-62
Swap UFXCAM 10Y	2.25	0	4	-33
Swap basis 2Y	70.00	-5	-9	3
Swap basis 5Y	53.00	0	1	-2
Swap basis 10Y	85.00	-1	0	-1
BCP Jan-2012	3.82	1	-27	4
BCP Aug-2014	5.33	0	0	11
BCU 5Y	2.08	2	5	-74
BCU 10Y	3.13	9	20	-7

	Close %	Change bp		
		1D	1W	YTD
Colombia				
Reference rate	3.50	-10	0	0
DTF 90d	3.98	-4	-4	-13
TES Aug-2012	6.21	0	-5	-310
TES May-2014	7.70	0	3	770
TES Jul-2020	8.90	0	1	42
UVR Mar-2013	2.17	0	-7	-273

	Close %	Change bp		
		1D	1W	YTD
Peru				
Reference rate	1.25	0	0	-525
Sovereign bond Aug-2011	2.08	-2	-2	-483
Sovereign bond Aug-2017	4.99	0	-13	-249
Sovereign bond Aug-2037	6.66	0	-4	70

	Close %	Change bp		
		1D	1W	YTD
Global bonds				
BRL 2040	3.92	5	1	-37
CLP 2013	2.44	3	11	56
COP 2033	6.79	1	-11	-6
PE 2033	6.14	-2	-5	-25

DailyLatam

Strategies →

Appendix 2

Mexico City, March 10, 2010

Calendar of Economic Indicators

			Survey	Prior	Actual
Tuesday, Mar 9					
Brazil	FIPE CPI - Weekly	07-Mar	0.65%	0.85%	0.61%
Wednesday, Mar 10					
Brazil	FGV Preview Inflation IGP-M	09-Mar	--	0.98%	
Peru	Trade Balance	JAN	--	\$969.0M	
Colombia	Vehicle Sales	FEB			
Thursday, Mar 11					
Brazil	Retail Sales (YoY)	JAN	8.90%	9.10%	
	Retail Sales (MoM)	JAN	1.50%	-0.40%	
	GDP (IBGE) YoY	4Q	4.60%	-1.20%	
	GDP (IBGE) QoQ	4Q	2.30%	1.30%	
	GDP (IBGE) 4Qtrs Accumulated	4Q	-0.20%	-1.00%	
Peru	Reference Rate	MAR	1.25%	1.25%	
Colombia	Colombia Monetary Policy Minutes	11-Mar			
Friday, Mar 12					
Argentina	Consumer Price Index (MoM)	FEB	--	1.00%	
	Consumer Price Index (YoY)	FEB	--	8.20%	
	Wholesale Price Index (MoM)	FEB	--	1.00%	
	Wholesale Price Index (YoY)	FEB	--	11.50%	

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Analyst Certification

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