

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 10, 2010

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Markets will be following possible announcements about greater monetary stimuli based on economic signals.

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The peso continues to appreciate, we still see signs of exhaustion.

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Demand for nuevos soles remains high; the BCRP once again increases effective reserve ratio.

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

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Strategic Outlook

- Brazil →
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- Colombia →
- Peru →

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Awaiting the FOMC's statement

Markets will be following possible announcements about greater monetary stimuli based on economic signals.

BMV announces IPC lineup as of September 1

For a fourth straight month, Mexican headline inflation (0.22%) and core inflation (0.20%) came in below expectations (vs. consensus estimates of 0.24% and 0.26%) with lower increases in farm products. The biggest increases were in tourism services due to seasonality. YoY inflation was 3.64% (vs. 3.69% the previous month), and so the Q3 average will likely be below Banxico's projected range (from 4.75% to 5.25%) and we do not rule out a downward revision.

Despite this, a rebound in inflation is foreseeable towards the end of the year (November and December) towards Banxico estimated ranges on low comps (the end of some energy subsidies and pressures on farm prices). There have recently been some increases in commodity prices (wheat and food, metal and energy) which could increase year-end pressures.

EU economic data continues to surprise on the upside (e.g. German exports), even though regional growth levels will be below those of the US (0.7% vs. 3.0% in the US).

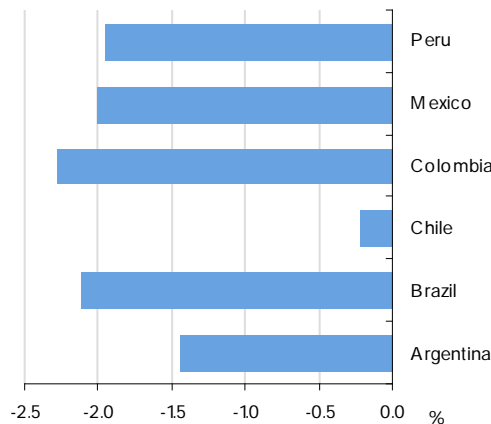
Latam markets did slightly better than developed country markets. The effects derived from the BMV's announcement regarding the IPC lineup as of September 1 stood out. Arca, Chedraui, Ich and Lab will enter the mix while Autlán and Gfamsa will leave it. This latter stock was a surprise as preliminary data indicated that Gruma would leave the IPC.

Global markets will be following the US monetary policy announcement today which could reflect greater pessimism than the previous statement. While the FOMC could opt for no measure this time, a monetary boost through its balance sheet cannot be ruled out (reinvestment of financial assets through profits generated in its GSE portfolio).

APPENDIX

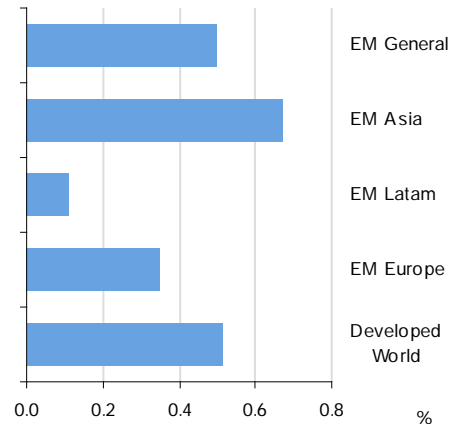
Macro Calendar

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

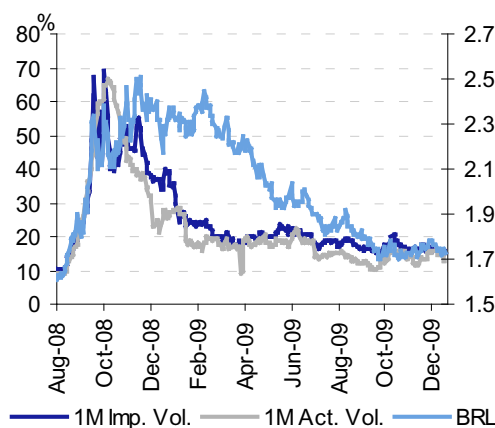
Inflation, growth and benchmark expectations continue to decline.

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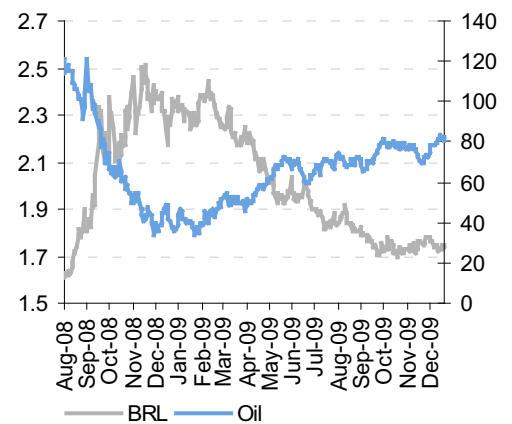
According to a weekly Banco Central do Brasil survey of analysts, inflation, growth and benchmark expectations continue to move down from 5.19% to 5.27%, from 7.20% to 7.12% and from 11.50% to 11.0%, respectively. This comes on the latest downward shift in local fixed-income instruments of about 2bp to 4bp all along the DI futures curve. Nonetheless, the real appreciated by 0.59% on the improved scenario in global markets and, especially, expectations surrounding today's Fed decision. As such, we believe the currency's performance will be determined by the degree of risk aversion vs. appetite in the market, which is expecting increased monetary stimulus. If the later fails to materialize, however, we could see a pull-back to the vicinity of 1.76. All told, we expect the real to remain range-bound between 1.75 and 1.78, where it has been trading in recent weeks.

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

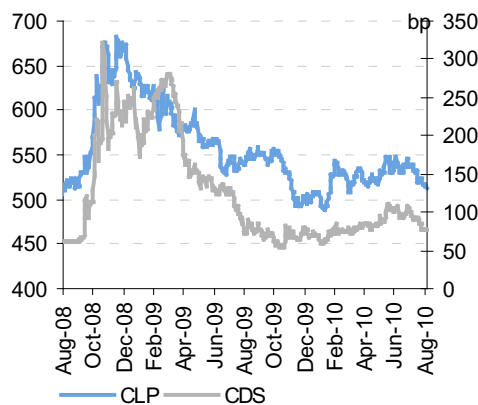
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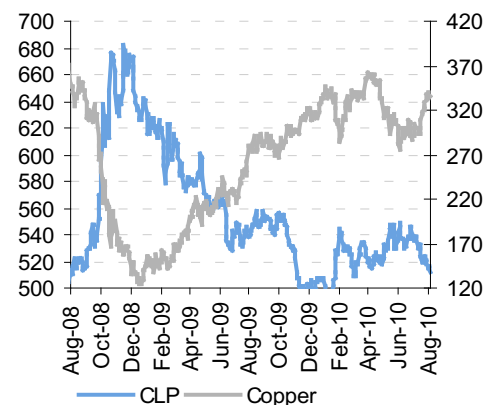
In line with most Latam currencies, the peso closed 0.46% stronger yesterday registering a gap at the start and reaching an intraday support of 510. This performance was due to a more favorable external environment ahead of the Fed's meeting today. Likewise, announcements from China regarding favorable growth expectations underpinned a positive trend in commodity prices (e.g., the copper price rose 0.33%). Finally, on the local front trade balance data was released which surpassed the market's expectations (US\$1,015bn vs. US\$963mne), and so trade flow expectations remain positive. For now we expect the peso to remain very sensitive to the dollar, as the 3M correlation it maintains with the DXY index is at 0.80, and so if the dollar strengthens we expect the currency to correct.

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

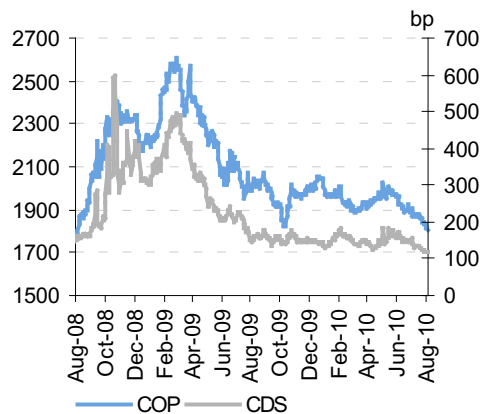
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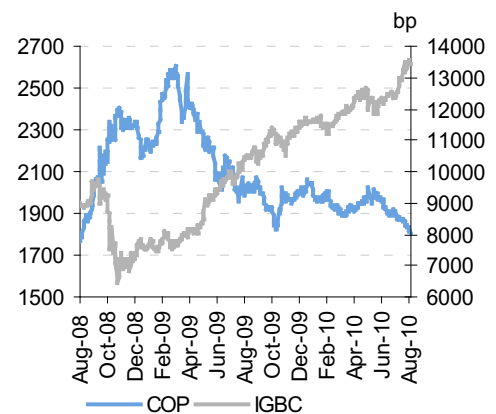
Yesterday's session saw the peso continue on a positive bias, appreciating 0.42% on volume of US\$852mn. Three factors underpin this performance: 1) a global context of corrections in risky assets as the US Fed decision is due out today; 2) ongoing dollar supply flow during this tax payment season which ends tomorrow; and 3) favorable expectations with regard to President Santos' upcoming meeting with the president of Venezuela. Nonetheless, we still believe the recent upsurge in the peso will soon be showing signs of exhaustion, in light of likely interventions in the forex market by the Banco de la República, the likelihood of less government monetization and the adjustment to the revaluation in risk-free assets in global markets (e.g., the JPY, with which the peso is typically negatively correlated).

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

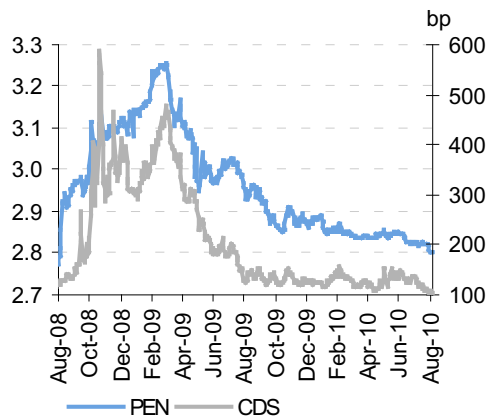
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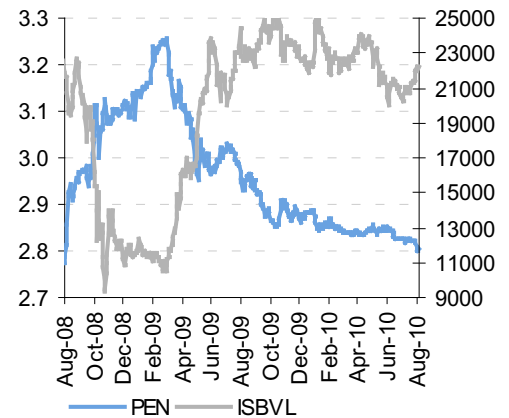
According to Banco Central de Reserva del Perú's weekly summary, the balance of net forward banking system purchases from the investor public increased during the month of July by US\$143mn. The report also shows an increase of 15.2% in credit to the middle of July and a revision of growth expectations from 6% up to 6.8%. Thus, the domestic front continues to signal appetite for soles. As such, the currency's positive bias will continue in the short term. In this context, the central bank once again increased the effective reserve ratio both in pesos and nuevos soles, which in tandem with daily interventions in the forex market (of US\$217mn yesterday), aims to relieve appreciation pressures on the currency. In this light, we expect to see the currency consolidate in the vicinity of 2.80 in the short term.

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	-0.06	0.13	-3.51
Brazilian real	1.75	0.68	0.18	-0.25
Chilean peso	511.85	0.46	1.10	-0.87
Colombian peso	1,808.45	0.42	1.31	11.51
Mexican peso	12.62	0.54	-0.33	3.57
Peruvian nuevo sol	2.80	-0.04	0.46	2.96

5 year CDS				
Argentina	774.73	-1.44	-0.58	-15.26
Brazil	112.30	-2.12	-0.61	-8.34
Chile	76.33	-0.22	-0.41	11.72
Colombia	116.95	-2.28	-1.60	-18.19
Mexico	112.32	-2.01	-1.03	-16.04
Peru	103.04	-1.94	-1.53	-16.58

Equity indexes				
Argentina Merval	2,427.68	0.10	-1.10	4.61
Brazil IBOV	67,862.28	-0.34	-0.96	-1.06
Chile IPSA	4,495.91	0.74	1.75	25.53
Colombia IGBC	13,409.80	0.09	0.52	15.58
Mexico IPyC	32,837.57	-0.24	0.06	2.23
Peru ISBVL	22,269.70	1.33	1.54	-0.73
VIX Index	22.14	21.74	22.01	21.68

Commodities				
CRB Industrial	479.74	0.00	-1.91	-0.78
COMEX Copper	335.05	0.33	-1.02	0.69
WTI	81.48	0.97	0.17	2.67
Gold	1,201.35	-0.34	1.56	9.52
Sugar	17.73	-2.80	-8.61	-18.86
Soy	1,035.00	0.15	2.48	2.05

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.17	7.47	11.13	16.35
Brazilian real	11.82	13.45	14.48	15.79
Chilean peso	11.17	12.03	12.56	13.38
Colombian peso	11.33	12.38	13.18	14.00
Mexican peso	11.71	12.68	13.09	13.49

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.13	4.38
Brazilian real	1.76	1.79	1.82	1.90
Chilean peso	511.73	512.30	514.77	522.40
Colombian peso	1,808.00	1,811.15	1,819.90	1,850.95
Peruvian nuevo sol	2.80	2.80	2.81	2.83

Foward points				
Argentinian peso	0.03	0.09	0.20	0.45
Brazilian real	0.01	0.04	0.08	0.15
Chilean peso	-0.12	0.45	2.92	10.55
Colombian peso	-0.45	2.70	11.45	42.50
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	10.76	-2	-4	39
LTN Jan-11	11.06	12	-3	37
NTN-F Jan-13	12.04	3	-36	-54
NTN-F Jan-17	11.98	-2	-8	-126
NTN-B Aug-14	6.51	551	551	-124

Chile				
TPM	1.56	5	1	110
TAB 90d UF	0.16	0	0	-665
Swap CLPxCAM 2Y	4.22	4	14	103
Swap CLPxCAM 5Y	5.08	2	12	-27
Swap CLPxCAM 10Y	5.65	1	2	-46
Swap UFXCAM 2Y	0.51	-7	9	-76
Swap UFXCAM 5Y	1.67	-7	7	-52
Swap UFXCAM 10Y	2.29	-2	11	-33
Swap basis 2Y	64.00	0	8	-11
Swap basis 5Y	51.00	1	5	-8
Swap basis 10Y	82.00	2	7	-8
BCP Jan-2012	5.00	-2	19	78
BCP Aug-2014	5.77	-11	3	54
BCU 5Y	2.21	-4	1	-66
BCU 10Y	2.87	-2	9	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.55	0	0	-63
TES Aug-2012	4.79	0	-4	-447
TES May-2014	6.18	0	-12	631
TES Jul-2020	7.22	-1	-21	-104
UVR Mar-2013	2.58	1	11	-245

Peru				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.55	-5	-32	-413
Sovereign bond Aug-2017	5.20	-9	-15	-171
Sovereign bond Aug-2037	6.25	-4	-11	69

Global bonds				
BRL 2040	2.70	-15	-34	-137
CLP 2013	1.48	1	-22	-38
COP 2033	5.57	-31	-32	-102
PE 2033	5.19	-11	-27	-98

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Monday, August 9					
Brazil	FGV CPI IPC-S	08-Aug	0.42%	-0.21%	0.42%
	FGV Preview Inflation IGP-M	08-Aug	-0.19%		-0.18%
	Trade Balance (FOB) - Weekly	08-Aug		\$148M	\$943M
Chile	Trade Balance in US\$ Million	JUL	\$963.50	\$1,158.40	\$1,015.90
	Total Exports in US\$ Million	JUL		\$5,292.70	\$5,792.00
	Total Imports in US\$ Million	JUL		\$4,134.30	\$4,776.10
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					
Brazil	FGV Inflation IGP-DI	MAY	1.32%	0.72%	
	IBGE Inflation IPCA (MoM)	MAY	0.44%	0.57%	
	IBGE Inflation IPCA (YoY)	MAY	5.21%	5.26%	
	SELIC Target - Central Bank	09-Jun	10.25%	9.50%	
Thursday, June 10					
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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