

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 12, 2010

Strategic Outlook

PAGE 2 →

Turbulence in global markets on modest growth prospects

[Lower-than-expected data from China to the UK.](#)

Brazil

PAGE 3 →

Exchange Rates: Brazilian real

[Recovery in real flows does not impact real's performance.](#)

Chile

PAGE 4 →

Exchange Rates: Chilean peso

[The peso closed stable, but we do not rule out pressures in the short term.](#)

Colombia

PAGE 5 →

Exchange Rates: Colombian peso

[The peso continues to strengthen on foreign inflow expectations.](#)

Peru

PAGE 6 →

Exchange Rates: Peruvian Nuevo Sol

[The nuevo sol regains stability.](#)

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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Turbulence in global markets on modest growth prospects

Lower-than-expected data from China to the UK.

While we do not rule out ongoing pressure on Latam assets, we expect it to be temporary

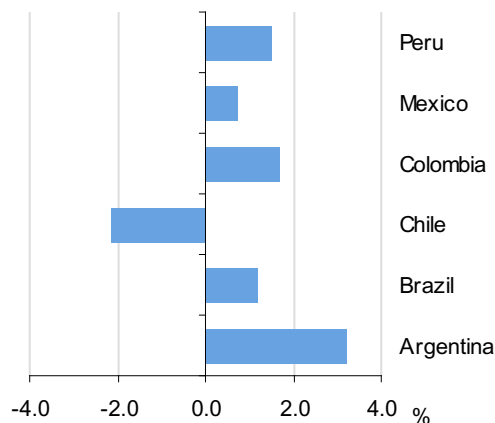
On top of the Fed's monetary policy statement Wednesday came a downward revision of UK growth expectations and less vigorous industrial output growth in China, translating into lower global economic growth which continues to weigh on investor sentiment. Thus, global markets were again characterized by overall risk aversion (10Y Treasury yields declined by 8bp and equity markets by around 2%), revisiting across-the-board movements registered only a few days ago (e.g. markets saw equity gains and increases in commodity prices along with revaluations of safe assets). In fact, the USD is again being seen as a safe currency (e.g. the DXY index rose 2%), a perception that was lost following a differentiation between Euro and Asian economic data and US data (in fact the euro finally weakened by 2.3% to the USD).

For now, the market will remain alert to newsflow related to the economic cycle (July retail sales, US consumer confidence and EU industrial output data are due out) and so we do not rule out ongoing pressures. However, we should stress that Latam assets continue to outperform other emerging assets, and so we expect any further weakness to be temporary.

APPENDIX

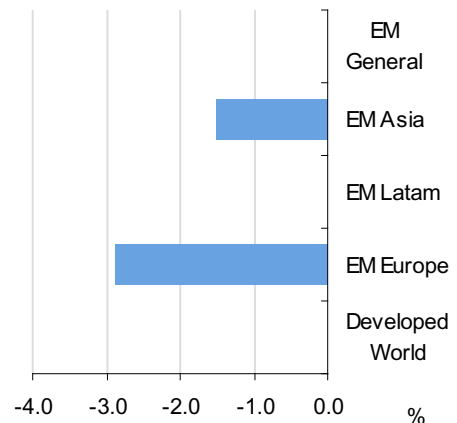
Macro Calendar >

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

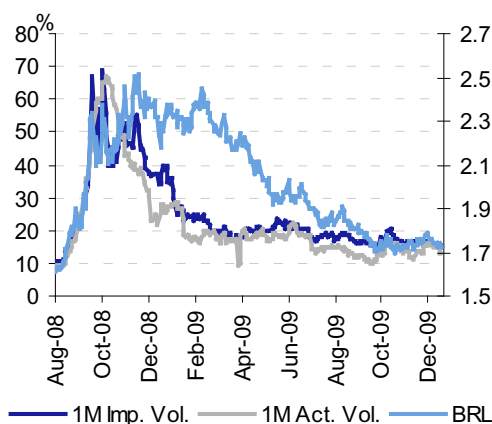
Recovery in real flows does not impact real's performance.

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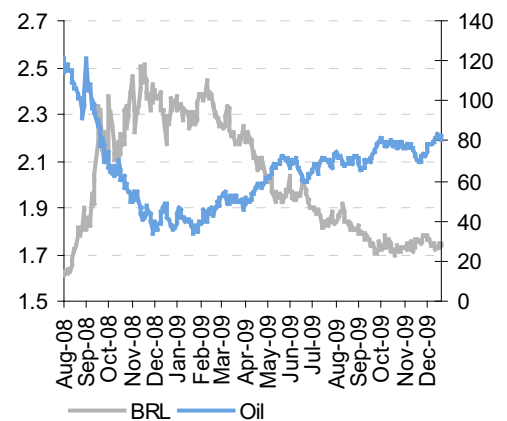
Two factors were relevant yesterday on the local front: 1) According to the Banco Central do Brasil's weekly forex report, the balance of financial and exchange operations in the first week of August was US\$1.7bn, even as the currency depreciated by 0.34% in the same period (worthy of note is the financial operations figure that came in at US\$2.4bn). The same week saw foreigners' positions long on reals in the BM&F decline by US\$637mn, which evidences the speculative driver behind the real's performance. The report also shows an increase in BACEN's daily interventions in the forex market (US\$287mn in daily purchases), which absorbed a large part of the aforementioned real flow. 2) Retail sales numbers came in above market expectations at 11.30% vs. 10.20% and served to counter some of the recent jitters surrounding the local cycle. All in all, the real depreciated 1.2% on lower appetite for risk in global markets, which were buffeted by Chinese economic numbers and the Fed's decision Tuesday not to provide additional stimulus for returns reinvestment. As such, we see the real continuing to be influenced by external factors. For the moment, we reiterate the resistance level in the vicinity of 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

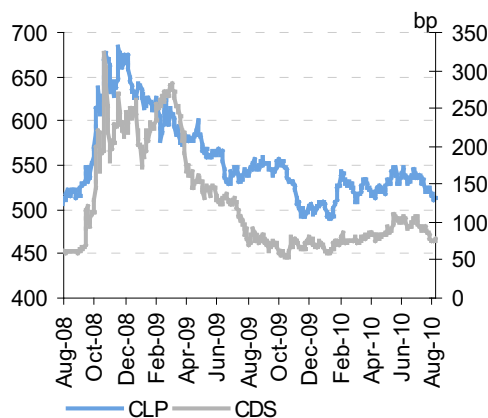
The peso closed stable, but we do not rule out pressures in the short term.

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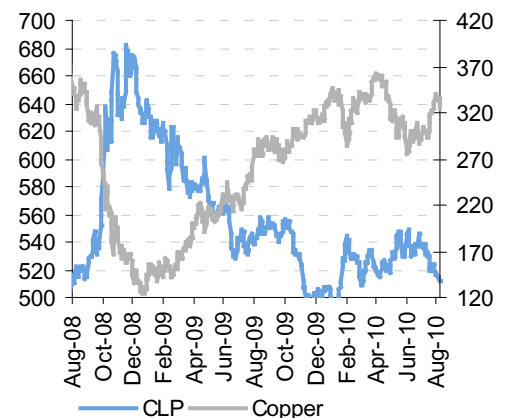
Although most currencies slipped against the USD (the DXY index rose 2.2%), the peso ended relatively stable yesterday at around 512. This was within a local environment where expectations continue to point to an upbeat scenario for growth. However, unlike the analyst survey, the biweekly survey of traders showed an upward revision of both monthly and annual inflation estimates as a result of which 6M inflation is currently factoring in a benchmark rate of 3.75%. This was reflected in fixed-income instruments declining by around 5bp all along the swap and nominal BCP curves. So far, this correction has not impacted the currency (the implied rate on the NDF curve rose in the case of 3M and 6M maturities). Nevertheless, we do not rule out a combination of more moderate expectations regarding the domestic tightening cycle and an external scenario of commodity price decreases putting some short-term pressure on the currency. All in all, the outlook for the peso is still a 510-520 range.

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

The peso continues to strengthen on foreign inflow expectations.

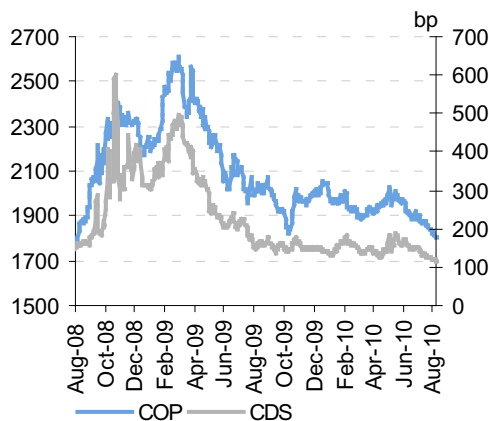
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In line with its behavior during the week, the peso closed Wednesday stronger despite a negative trend in global markets. Once again this was due to upbeat expectations for trade flows --especially given bullishness following the meeting of the Venezuelan and Colombian presidents-- and direct foreign investment inflows. In fact, in Banco de la República's August survey, the year-end estimate for the currency was revised up to 1878 from 1910 in the July survey. Even so, this level is still far off 1801, which is consistent with oversold technical indicators. Thus, we continue to expect a short-term correction in the peso's appreciation trend.

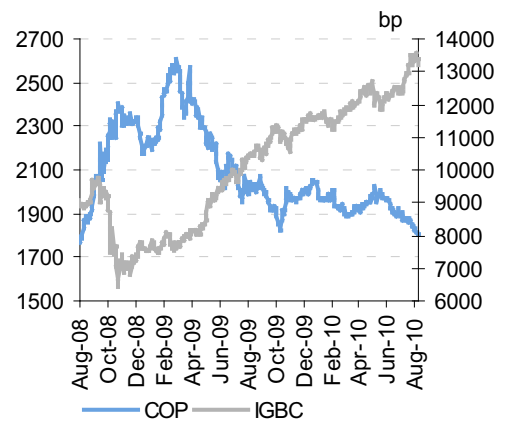
All in all, we should mention that the risk premium gap measured by the 5Y CDS spread with Mexico has narrowed again in recent sessions to 10-month lows (currently 3bp vs. 30bp at the beginning of the year), reflecting an ongoing positive perception of Colombian assets. Consequently, we expect a trading range of 1800-1820.

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

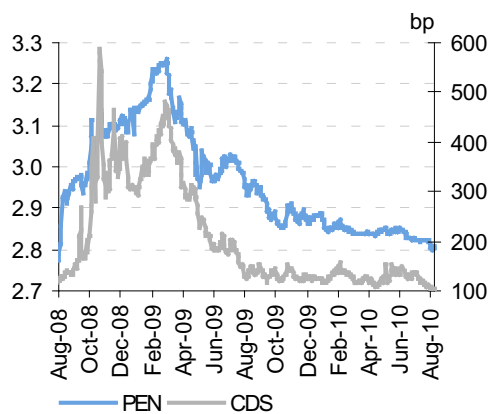
Peruvian nuevo sol **The nuevo sol regains stability.**

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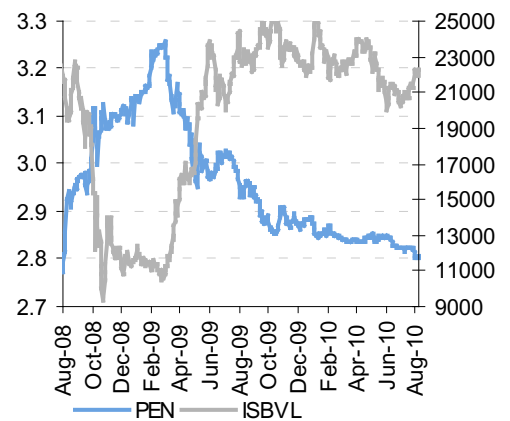
Despite turbulence in global markets, the nuevo sol remained largely unchanged in the vicinity of 2.81. This performance came in the absence of any intervention by the Banco Central de Reserva del Perú in the forex market. In our view, the recent actions taken (daily USD purchases and the increase in reserves) to put the brakes on the sol's appreciation have achieved a new support level at 2.80. As such, we expect to see considerable movements 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	-0.04	-0.03	-3.55
Brazilian real	1.77	-1.22	-1.29	-1.74
Chilean peso	512.35	-0.02	0.87	-0.97
Colombian peso	1,801.20	0.41	1.19	11.87
Mexican peso	12.75	-1.18	-1.82	2.60
Peruvian nuevo sol	2.81	0.02	-0.11	2.86

5 year CDS				
Argentina	807.10	3.24	2.10	-11.72
Brazil	114.46	1.18	-1.06	-6.58
Chile	75.74	-2.14	-0.33	10.87
Colombia	118.45	1.68	-1.25	-17.13
Mexico	114.34	0.76	-1.12	-14.54
Peru	105.65	1.54	-0.79	-14.47

Equity indexes				
Argentina Merval	2,349.33	-2.21	-4.33	1.23
Brazil IBOV	65,790.29	-2.13	-3.64	-4.08
Chile IPSA	4,388.52	-2.10	-0.77	22.54
Colombia IGBC	13,224.02	-1.17	-1.95	13.98
Mexico IPyC	32,058.57	-1.92	-2.56	-0.19
Peru ISBVL	21,947.99	-1.46	-1.42	-2.17
VIX Index	25.39	22.37	22.21	21.68

Commodities				
CRB Industrial	498.98	0.00	1.38	3.20
COMEX Copper	325.25	-1.77	-4.35	-2.25
WTI	78.02	-2.78	-5.40	-1.69
Gold	1,198.10	-0.51	0.26	9.22
Sugar	18.26	-1.62	-3.28	-16.43
Soy	1,015.50	-0.64	-0.85	0.12

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.11	7.45	11.15	16.34
Brazilian real	12.74	14.04	14.87	16.02
Chilean peso	11.27	12.12	12.65	13.38
Colombian peso	11.36	12.41	13.21	14.02
Mexican peso	11.98	12.87	13.22	13.55

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.13	4.39
Brazilian real	1.79	1.81	1.85	1.92
Chilean peso	512.32	513.50	516.29	523.25
Colombian peso	1,801.11	1,804.58	1,813.08	1,842.08
Peruvian nuevo sol	2.80	2.80	2.81	2.82

Foward points				
Argentinian peso	0.02	0.08	0.20	0.45
Brazilian real	0.01	0.04	0.08	0.15
Chilean peso	-0.03	1.15	3.94	10.90
Colombian peso	-0.09	3.38	11.88	40.88
Peruvian nuevo sol	0.00	-0.01	0.01	0.02

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.79	2	-2	39
LTN Jan-11	10.93	2	-20	37
NTN-F Jan-13	11.97	-14	-6	-54
NTN-F Jan-17	11.84	-21	-11	-126
NTN-B Aug-14	6.38	-17	-17	-124

Chile				
TPM	1.61	1	3	110
TAB 90d UF	0.11	-5	-5	-665
Swap CLPxCAM 2Y	4.19	-3	5	103
Swap CLPxCAM 5Y	5.03	-7	5	-27
Swap CLPxCAM 10Y	5.60	-5	-3	-46
Swap UFXCAM 2Y	0.43	-8	-12	-76
Swap UFXCAM 5Y	1.61	-3	-9	-52
Swap UFXCAM 10Y	2.28	-1	-1	-33
Swap basis 2Y	65.00	0	4	-11
Swap basis 5Y	51.00	0	2	-8
Swap basis 10Y	83.00	0	3	-8
BCP Jan-2012	4.95	-6	-6	78
BCP Aug-2014	5.81	0	-7	54
BCU 5Y	2.17	-2	-14	-66
BCU 10Y	2.77	8	-12	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	-7	-7	-63
TES Aug-2012	4.79	0	-1	-447
TES May-2014	6.17	0	-10	631
TES Jul-2020	7.21	0	-12	-104
UVR Mar-2013	2.58	0	17	-245

Peru				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.63	-10	-30	-413
Sovereign bond Aug-2017	5.18	-1	-19	-171
Sovereign bond Aug-2037	6.24	-6	-8	69

Global bonds				
BRL 2040	2.67	1	-32	-137
CLP 2013	1.41	-10	-23	-38
COP 2033	5.56	-13	-33	-102
PE 2033	5.16	-4	-22	-98

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, August 11					
Brazil	Retail Sales (YoY)	JUN	10.20%	10.20%	11.30%
	Retail Sales (MoM)	JUN	0.50%	1.40%	1.00%
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%	
Peru	Trade Balance	JUL		\$287.0M	

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