

Latam

# Daily Latam

## Market Analysis Markets

Mexico City, August 13, 2010

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But uncertainty about the global cycle will continue to add pressure in the short term.

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In the absence of local news, the real holds high correlation to major risky assets.

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Expectations of intervention begin to weigh on the forex market.

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Finance Minister joins BCRP intervention in the foreign exchange market.

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

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# Strategic Outlook

- Brazil →
- Chile →
- Colombia →
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Equity LatAm

Chief Analyst  
**RODRIGO ORTEGA**  
r.ortega@bbva.bancomer.com  
+52 55 5621 9701

FX LatAm  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

## Slight profit-taking in global markets

**But uncertainty about the global cycle will continue to add pressure in the short term.**

### For now, markets will continue to focus on economic news

The US labor market continues to show signs of weakness, with new jobless claims coming in above the market consensus and showing deterioration: the number of claims reported for the first week of August (484k vs. a 465k estimate) is the fourth highest of the year. Meanwhile, European industrial activity declined MoM (-0.1% in June), triggering concerns about the strength of the recovery going forward (today's GDP data is expected to be stronger than Q1's figures and will strongly weigh on market dynamics). Nevertheless, while global markets began the session lower, there was a slight correction in risk aversion towards the end (e.g. 10Y Treasury bonds rose 4bp while global equity indexes pared some of their losses). It is worth mentioning that the price of oil declined 2.95% and the DXY index rose 0.4%, which we attribute to technical profit-taking rather than an improvement in the global outlook.

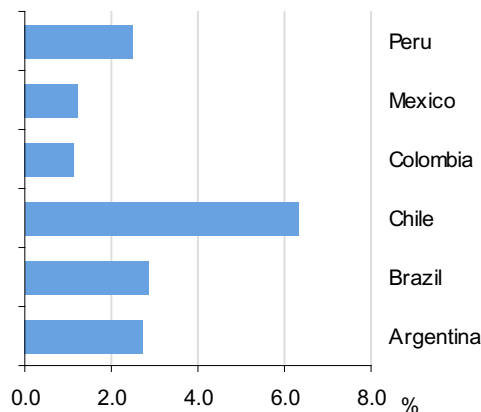
Thus, markets will remain attentive to economic news, especially US retail sales data, consumer confidence and business inventories for which we do not rule out ongoing signs of moderation. Going forward, the fiscal situation of some US states should be watched, as it could be a source of noise for markets.

## APPENDIX

Macro Calendar

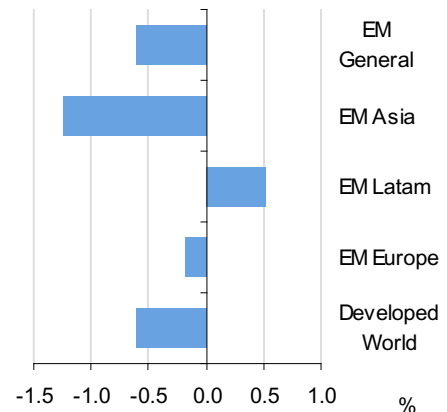


Daily change on LatAm CDS 5 years



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

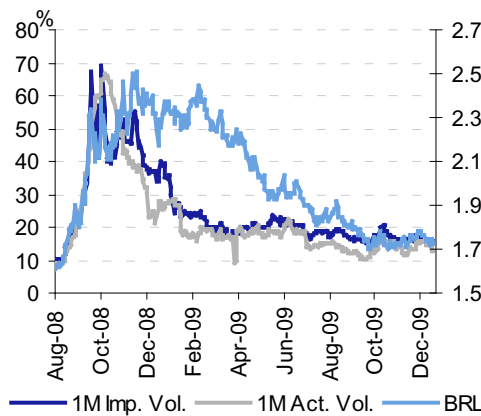
**In the absence of local news, the real holds high correlation to major risky assets.**

*FX LatAm*  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

**Claudia Ceja**  
claudia.ceja@bbva.bancomer.com  
+5255 5621 9715

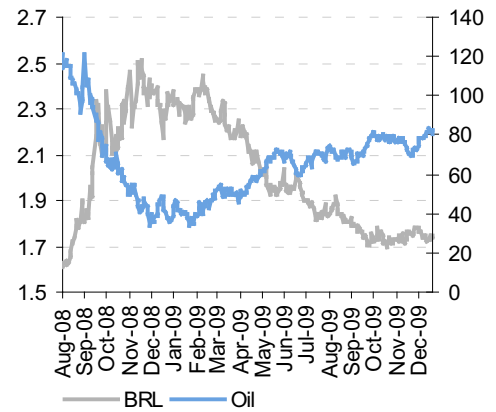
With little local news to go on, the real's performance was driven by external factors. Thus, even as the currency opened on a negative bias on EU and US economic activity and employment numbers, it bounced back to close up by 0.29% in line with gains in risky assets (the IBOV moved forward 0.27%). Since the scant local news flow is expected to continue for several days, we foresee the real maintaining a close correlation to stocks and commodities. As such, despite the real's rebound in today's session, it is important to note that investors continue to seek safe bets. In fact, 1M implied volatility in the currency rose by 40 vegas, which is in line with the 1.3% hike in the VIX index. Similarly, crude —with which the real maintains a 3M correlation of -0.78— declined 2.95%. Thus, in the short term we expect the real to trade near the upper end of the range seen in recent weeks of 1.75-1.78.

**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

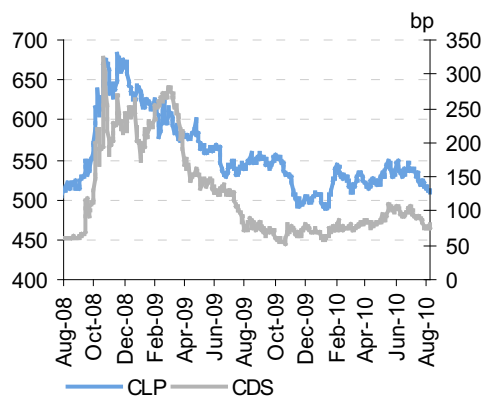
The peso appreciated on monetary policy decision expectations. Possible interventions in the foreign exchange market will be the next focal point.

FX LatAm  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

**Claudia Ceja**  
claudia.ceja@bbva.bancomer.com  
+5255 5621 9715

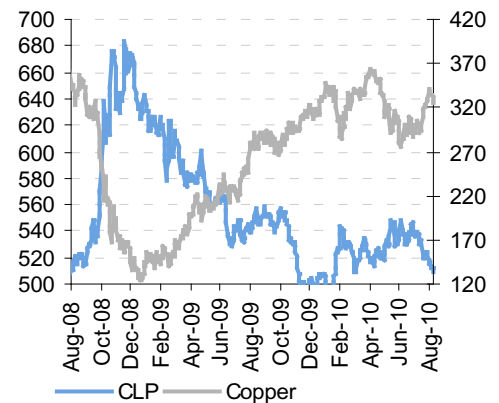
The peso ended yesterday's session 0.5% stronger on expectations regarding the Banco Central de Chile's afternoon monetary policy decision. Thus, while the 50bp hike in the benchmark rate was priced in, the statement continues to refer to local economic growth amid an external scenario of volatility, and so the market expects further tightening. While this could underpin an ongoing positive trend in the currency, the next focal point on the local front will be possible interventions by the BCCH in the foreign exchange market (both Piñera and Gregorio have voiced their concerns about the currency's recent strength). Thus we believe that further gains could be limited in the short term and so we expect consolidation around 510.

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

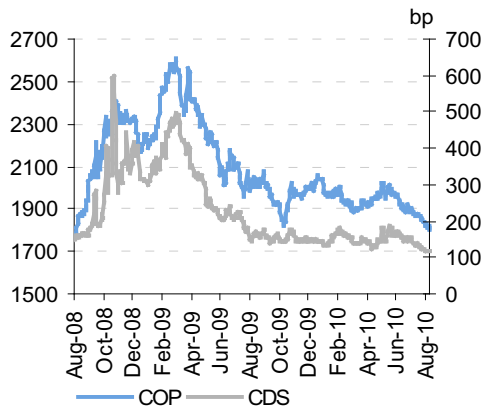
**Expectations of intervention begin to weigh on the forex market.**

FX LatAm  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

**Claudia Ceja**  
claudia.ceja@bbva.bancomer.com  
+5255 5621 9715

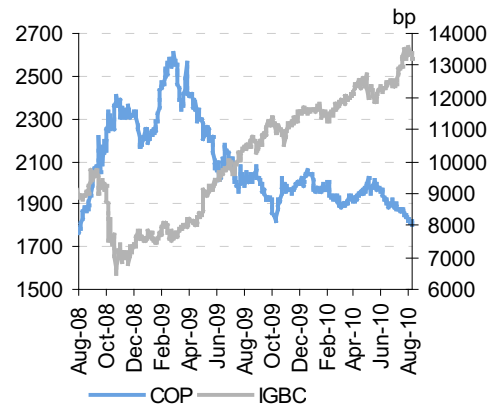
Two factors drove corrections in the peso yesterday: 1) First and most important, President Juan Manuel Santos' statements exhorting "more creativity" from the Banco de la República to rein in the peso's positive bias. In this regard, the market will be alert to next week's monetary policy decision communiqué. 2) Secondly, investors revealed a cautious approach by taking long positions in the face of disturbances on the local front. In our view, these factors provide an excuse for profit taking from the robust appreciation of recent sessions. As we mentioned before, technical factors clearly revealed high oversold levels. In light of a close above the 10-day moving average of 1820, we cannot rule out corrections toward the vicinity of 1840. All told, these factors do not imply a reversal of the medium-term appreciation bias.

**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

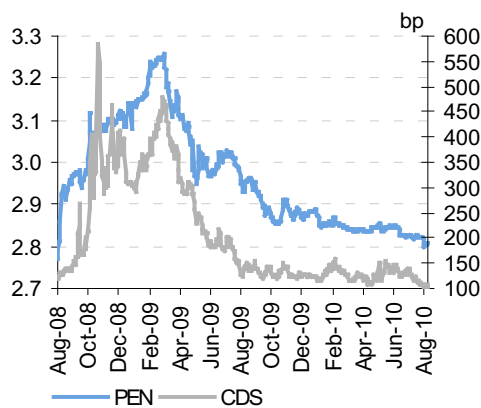
**Finance Minister joins BCRP intervention in the foreign exchange market.**

*FX Latam*  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

**Claudia Ceja**  
claudia.ceja@bbva.bancomer.com  
+5255 5621 9715

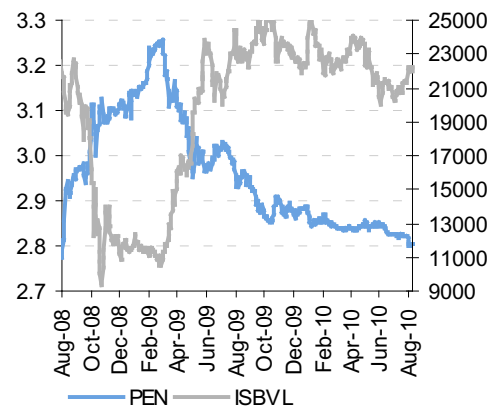
Despite volatile global markets, the nuevo sol remained relatively stable yesterday at around 2.81. While the outlook for domestic assets remains upbeat, the currency is basically flat in response to the Banco Central de Reserva del Perú's interventions in the forex market. Thus, on top of daily USD purchases by the central bank in the foreign exchange market is the Finance Minister's announcement of a purchase of up to US\$500mn during the rest of the year to mitigate the nuevo sol's appreciation --actions which will take place if necessary. Consequently, although we expect ongoing appreciation pressure, the currency should remain stable above 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
<b>Currencies</b>				
Argentinian peso	3.93	0.02	0.03	-3.54
Brazilian real	1.77	0.29	-1.02	-1.44
Chilean peso	509.75	0.51	1.08	-0.45
Colombian peso	1,825.15	-1.33	-0.37	10.70
Mexican peso	12.74	0.12	-1.36	2.72
Peruvian nuevo sol	2.81	0.00	-0.18	2.86

<b>5 year CDS</b>				
Argentina	829.19	2.74	4.17	-9.31
Brazil	117.73	2.86	2.31	-3.91
Chile	80.52	6.31	5.75	17.86
Colombia	119.78	1.12	-0.36	-16.20
Mexico	115.72	1.21	0.36	-13.50
Peru	108.29	2.51	2.31	-12.33

<b>Equity indexes</b>				
Argentina Merval	2,366.49	0.73	-2.73	1.97
Brazil IBOV	65,966.17	0.27	-3.57	-3.82
Chile IPSA	4,384.46	-0.09	-1.28	22.42
Colombia IGBC	13,199.73	-0.18	-2.76	13.77
Mexico IPyC	32,041.13	-0.05	-2.63	-0.25
Peru ISBVL	22,175.26	1.04	0.19	-1.15
VIX Index	25.73	25.39	22.10	21.68

<b>Commodities</b>				
CRB Industrial	496.54	0.00	-0.06	2.70
COMEX Copper	328.25	0.92	-2.03	-1.35
WTI	75.74	-2.92	-7.65	-4.56
Gold	1,213.85	1.31	1.58	10.66
Sugar	18.97	3.89	3.72	-13.18
Soy	1,028.50	1.28	-0.05	1.40

<b>Volatilities %</b>				
	1M	3M	6M	1A
Argentinian peso	4.12	7.44	11.15	16.35
Brazilian real	13.14	14.34	15.04	16.21
Chilean peso	11.24	12.05	12.65	13.24
Colombian peso	12.00	13.01	13.79	14.60
Mexican peso	12.02	12.90	13.24	13.52

<b>NDF currency/US\$</b>				
Argentinian peso	3.96	4.01	4.13	4.37
Brazilian real	1.78	1.81	1.85	1.92
Chilean peso	509.65	510.73	513.24	519.68
Colombian peso	1,825.63	1,830.15	1,837.65	1,867.90
Peruvian nuevo sol	2.80	2.80	2.81	2.82

<b>Foward points</b>				
Argentinian peso	0.02	0.08	0.20	0.44
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.10	0.98	3.49	9.93
Colombian peso	0.48	5.00	12.50	42.75
Peruvian nuevo sol	0.00	-0.01	0.01	0.02

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
<b>Brazil</b>				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.78	-1	-4	39
LTN Jan-11	10.92	-2	-3	37
NTN-F Jan-13	12.00	-2	-12	-54
NTN-F Jan-17	11.85	-5	-23	-126
NTN-B Aug-14	6.37	-8	-11	-124

<b>Chile</b>				
TPM	1.67	6	7	110
TAB 90d UF	0.11	0	-6	-665
Swap CLPxCAM 2Y	4.16	-3	-3	103
Swap CLPxCAM 5Y	5.01	-2	-4	-27
Swap CLPxCAM 10Y	5.60	0	-5	-46
Swap UFXCAM 2Y	0.44	1	-10	-76
Swap UFXCAM 5Y	1.61	0	-9	-52
Swap UFXCAM 10Y	2.28	0	-4	-33
Swap basis 2Y	66.00	1	3	-11
Swap basis 5Y	54.00	3	4	-8
Swap basis 10Y	88.00	5	8	-8
BCP Jan-2012	4.94	-5	-6	78
BCP Aug-2014	5.80	0	-8	54
BCU 5Y	2.26	9	-2	-66
BCU 10Y	2.71	-6	-17	-41

<b>Colombia</b>				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	-7	-7	-63
TES Aug-2012	4.85	2	0	-447
TES May-2014	6.25	4	-4	631
TES Jul-2020	7.30	2	-3	-104
UVR Mar-2013	2.61	4	19	-245

<b>Peru</b>				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.55	-13	-10	-413
Sovereign bond Aug-2017	5.15	-7	-14	-171
Sovereign bond Aug-2037	6.26	-1	-4	69

<b>Global bonds</b>				
BRL 2040	2.70	3	-28	-137
CLP 2013	1.48	7	-3	-38
COP 2033	5.66	10	-23	-102
PE 2033	5.17	1	-22	-98

Strategies →

# Appendix 2

## Calendar of Economic Indicators

			Survey	Prior	Actual
<b>Thursday, August 12</b>					
Colombia	Trade Balance	JUN	\$400.00	\$507.70	\$133.00
Peru	Trade Balance	JUL	\$297.50	\$287.0M	\$826.20
Chile	Nominal Overnight Rate Target	12-Aug	2.00%	1.50%	2.00%
<b>Friday, August 13</b>					
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%	

**Markets & Clients Strategy**

*Director*  
**ANTONIO PULIDO**  
ant.pulido@grupobbva.com  
+34 91 374 31 81

**Global Equity and Credit**

*Director*  
**ANA MUNERA**  
ana.munera@grupobbva.com  
+34 91 374 36 72

**Equity LatAm**

*Chief Analyst*  
**RODRIGO ORTEGA**  
r.ortega@bbva.bancomer.com  
+52 55 5621 9701

*Mexico*  
*Construction/ Housing*  
**Francisco Chavez**  
f.chavez@bbva.bancomer.com  
+52 55 5621 9703

*Industrials/Mining*  
**Pablo Abraham**  
pablo.abraham@bbva.bancomer.com  
+52 55 5621 9975

*TMTs*  
**Andrés Coello**  
a.coello@bbva.bancomer.com  
+52 55 5621 9870

*Technical Analysis*  
**Alejandro Fuentes**  
a.fuentes@bbva.bancomer.com  
+52 55 5621 9975

*Data Mining*  
**Juan Carlos García**  
juan.garci.4@bbva.bancomer.com  
+52 55 5621 9704

*Financials*  
**Ernesto Gabilondo**  
ernesto.gabilondo@bbva.bancomer.com  
+52 55 5621 9702

*Beverages, Consumption, Food and Retail*  
**Fernando Olvera**  
fernando.olvera@bbva.bancomer.com  
+52 55 5621 9804

**Credit LatAm**

*Chief Analyst*  
*Mexico*  
**EDGAR CRUZ**  
edgar.cruz@bbva.bancomer.com  
+52 55 5621 9774

*Chile*  
*Forests, Mining and Banks*  
*Chief Analyst*  
**HERNAN GUERRERO**  
hguerrero@bbva.cl  
+56 2 679 1127

*Food & Retail*  
**Cristián Araya**  
carayab@bbva.cl  
+56 2 679 1126

*Peru*  
*Chief Analyst*  
*Mining/Steel*  
**MIGUEL LEIVA**  
mleiva@grupobbva.com.pe

*Construction/ Industry*  
**Diana Paredes**  
dparedes@grupobbva.com.pe

**Global Fixed Income**

*Director*  
**LUIS ENRIQUE RODRIGUEZ, CFA**  
luisen.rodriguez@grupobbva.com  
+34 91 537 35 87

**Global FX**

*Chief Strategist*  
**PABLO ZARAGOZA**  
pzaragoza@grupobbva.com  
+34 91 374 38 64

*FX LatAm*  
*Chief Strategist*  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

**Claudia Ceja**  
claudia.ceja@bbva.bancomer.com  
+5255 5621 9715

**Global Interest Rates**

*Interest Rates LatAm*  
**Liliana Solís**  
liliana.solis@bbva.bancomer.com  
+5255 5621 9877

**Global Markets Sales**

---

*Responsible*

**Oscar Alvarez de la Reguera**  
o.alvarez@bbva.bancomer.com  
+52 55 5621 9994

**Equity Sales**

---

*Responsible*

**Juan Carlos Rodríguez**  
juancarlos.rodriguez@bbva.bancomer.com  
+52 55 5621 9940

**Network Sales**

**José Miguel Fonseca**  
jm.fonseca@bbva.bancomer.com  
+52 55 5621 9490

**Héctor García**  
hector.garcía@bbva.bancomer.com  
+52 55 5621 9173

**Jesús García Luna**  
j.luna2@bbva.bancomer.com  
+52 55 5621 9175

**Gisela Flores**  
gisela.flores@bbva.bancomer.com  
+52 55 5621 9742

**Itzel Pichardo**  
i.pichardo@bbva.bancomer.com  
+52 55 5621 9674

**Ana María Rivera**  
a.rivera@bbva.bancomer.com  
+52 55 5621 9176

**Elsa Cadena**  
e.cadena@bbva.bancomer.com  
+52 55 5621 9443

**Institutional Sales**

**José María de la Torre**  
jm.delatorre@bbva.bancomer.com  
+52 55 5621 1937

**Isaac Martínez**  
isaac.martinez.1@bbva.bancomer.com  
+52 55 5621 9289

**Alejandro Lavín**  
alejandrolavin@bbva.bancomer.com  
+52 55 5621 9116

**Sales Trading**

**Federico Alvarez**  
f.alvarezmorph@bbva.bancomer.com  
+52 55 5621 9170

**Julio García**  
julio.garcia1@bbva.bancomer.com  
+52 55 5621 9171

**Stock Market Information Systems**

---

*Director*

**Elba Padilla**  
em.padilla@bbva.bancomer.com  
+52 55 5621 9408

**Josefina Godínez**  
j.godinez@bbva.bancomer.com  
+52 55 5621 9581

**Roberto González**  
r.gonzalez17@bbva.bancomer.com  
+52 55 5621 9641

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We, **Moises Junca Acebedo, Rodrigo Ortega Salazar, Claudia Ceja Gonzalez:**

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