

Latam

Daily Latam

Market Analysis Markets

Mexico City, 15 July, 2010

Strategic Outlook

PAGE 2 →

Markets, attentive to financial sector reports

Economic data still point to moderate growth rates.

Brazil

PAGE 3 →

Exchange Rates: Brazilian real

Negative forex balance for the second week of July, but appetite for reals is mirrored in investors' positions on the BM&F.

Chile

PAGE 4 →

Exchange Rates: Chilean peso

The peso continues to diverge from other regional currencies and, in our view, will remain range-bound in the short term.

Colombia

PAGE 5 →

Exchange Rates: Colombian peso

The peso closes stable after mixed session for risky assets.

Peru

PAGE 6 →

Exchange Rates: Peruvian Nuevo Sol

The central bank intervenes again in the forex market with an amount exceeding the daily operation average.

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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Markets, attentive to financial sector reports

Economic data still point to moderate growth rates.

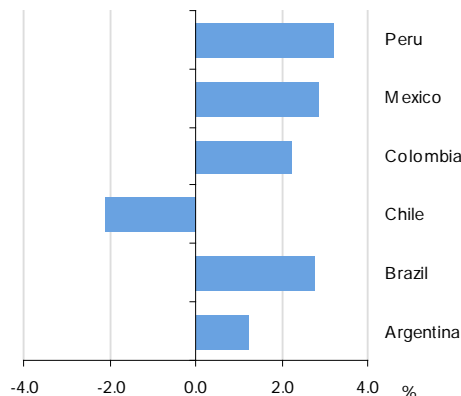
More tech sector reports are released; reports from financials to follow

US markets await the technology sector reports to be released today, now that chipmaker Intel results and guidance triggered positive sentiment. AMD will follow suit, with Google releasing its report after the bell. JP Morgan results, expected before the opening bell, are worth a closer look as the banking giant is the first financial sector firm to issue its financial report. Substantial growth of 150% is expected in EPS, though the increase is rather meager when extraordinary events are left off the table. For this and other financial sector reports, we should keep track of growth in credit and default debt, and especially if results are grounded on temporary accounting rules, such as those allowing for declines in bond value to be accounted for in the earnings balance. In any case, the reports have been well received by investors, which points to a more positive economic cycle than that being priced in by the markets. Sovereign debt placements have also added to the bullish sentiment. This time Portugal auctioned about US\$2.2bn, with a 20bp yield increase and a bid-to-cover ratio of 1.5x after Moody's two-notch downgrade on Tuesday. Moreover, drops in the risk premium are favoring developed markets over their emerging counterparts. Mexico is second only to Colombia as the top-performing equity market in Latam, while regional currencies gave back most of this week's gains.

June retail sales in the USA were lower than expected, with a drop of -0.5% vs. -0.3%e. Slumping motor vehicle sales, as well as weak sales of gasoline and building materials (the latter because of lower real estate sales) were the main culprits behind this decline. However, if cars and gasoline are excluded from the equation, retail sales increased 0.1%. In other words, the second quarter of the year saw an expansion in private consumption, suggesting that it will continue to be a positive driver of the US economy. Weakness is still evident in consumer spending and employment numbers, which evidence private demand will remain in low gear until year-end.

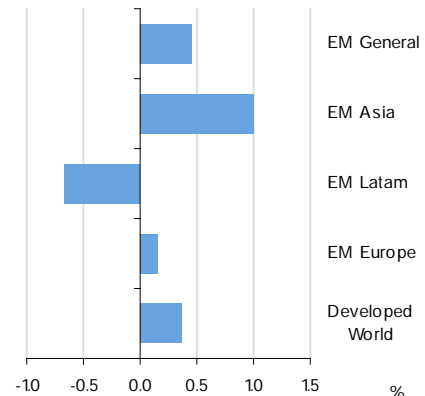
On the Eurozone front, meanwhile, industrial production grew 0.9% MoM in May in line with our expectations of 0.8% but below the consensus of 1.2%. If producer confidence is taken into account, we do not rule out production continuing to expand in June, albeit more slowly in the second half of the year on slack private consumption in the EU and lower growth perspectives. Meanwhile, inflation slowed in June, moving from 1.6% to 1.4% YoY on feeble local demand. We expect inflation in Europe to remain at levels under 2% until the close of the year.

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



Peru



Exchange Rates

Brazilian real

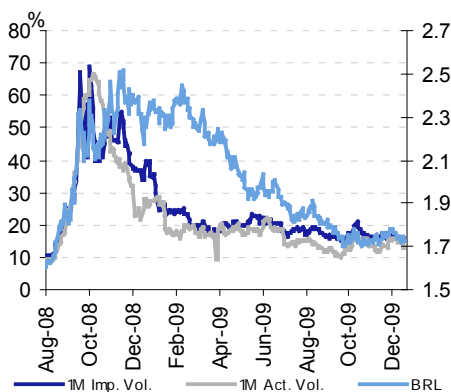
Negative forex balance for the second week of July, but appetite for reals is mirrored in investors' positions on the BM&F.

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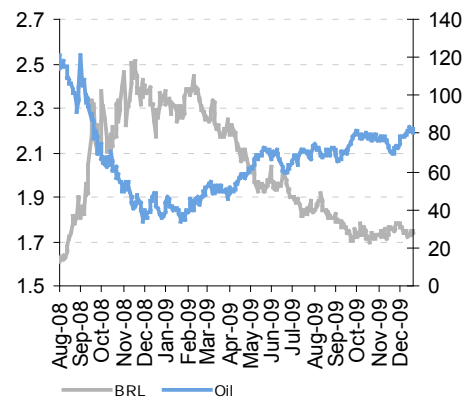
According to Banco Central do Brasil's weekly forex transactions report, the balance of financial and foreign currency trading remained in negative terrain (-US\$502mn) last week, even as the real advanced 0.94% over the same period. This is in line with numbers released in recent weeks (e.g., so far July, forex trading stands at -US\$1.2bn) and reflects the currency's performance being driven largely not by real flows but by speculative ones, especially into the local derivatives market. In fact, the real holds a high correlation of 0.83 to foreigners' positions in the BM&F, which advanced by US\$1.4bn at Tuesday's close to stand at US\$3.8bn long on reals, a level not seen since early May. The report also shows relatively low levels of central bank intervention in the forex market, at a daily average of US\$90mn, even as the real has enjoyed a positive bias. In light of these factors and despite yesterday's depreciation of 0.31% which came on local factors, we stand by our outlook for greater stability in the vicinity of USDBRL1.75.

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

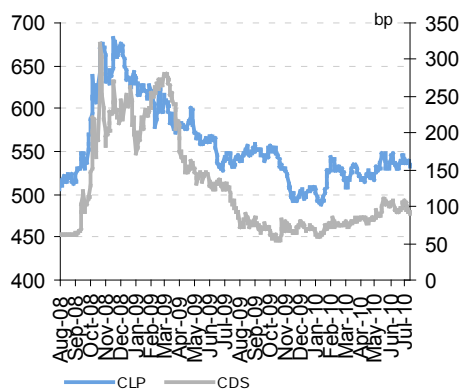
The peso continues to diverge from other regional currencies and, in our view, will remain range-bound in the short term.

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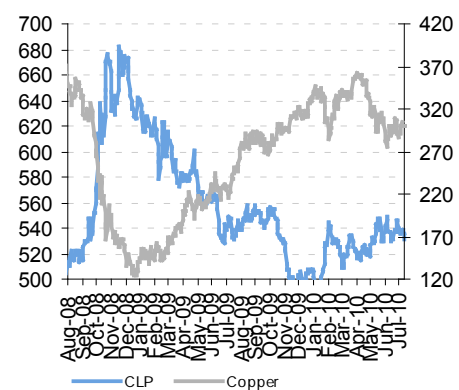
The peso appreciated 0.67% yesterday despite renewed fears about the global cycle on the external front resulting in across-the-board depreciation of emerging currencies and a decline in copper prices of 0.48%. Thus, the CLP is maintaining its divergence vis-a-vis other Latam currencies in recent sessions --its correlation to the BRL stands at -0.64-- based on the following three factors. 1) Growth expectations continue to be revised upward and, as such, the peso is once again taking on the tenor of a risk-free currency. 2) Higher expectations regarding the monetary policy cycle. In this regard, the central bank's biweekly survey of traders shows a 12M benchmark estimate of 4.5% vs. the 4.25% being priced in. Additionally, the shortest-term instruments on the CLP-CAM swap curve continue to move up, rising 3bp yesterday. 3) The IPSA index continues to outperform other regional equity indices. All in all and in light of the prevailing preference for currencies offering higher short-term returns, the peso will continue to trade between 525 and 540 in the short term.

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

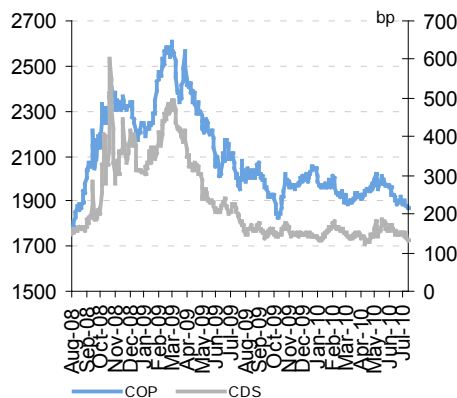
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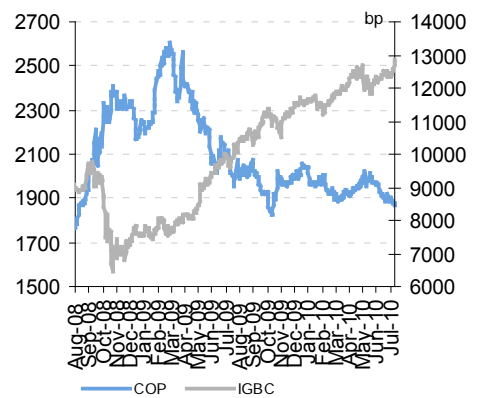
The peso closed relatively stable in a mixed session for risky assets that saw equity indexes moving up around 0.3%, commodity prices dropping about 0.5% and currencies without defined direction. This performance reveals a market that is moving with caution in light of three factors: 1) rekindled uncertainty abroad regarding the global cycle after the release of US retail sales numbers; 2) jitters derived from new Banco de la República interventions in the forex market, which could be announced in the next monetary policy meeting, as Monday's intervention report reveals there were no TES sterilization sales in June and, therefore, there is more room for BanRep's USD purchases; and 3) technical factors, such as the peso's inability to pull back from a level of 1,870. Nevertheless, we still think that factors are aligned that could carry the peso to the vicinity of 1,860 in the short term.

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

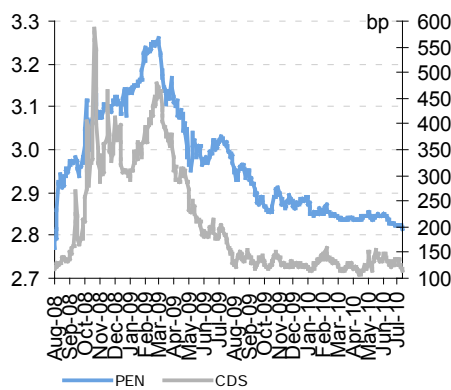
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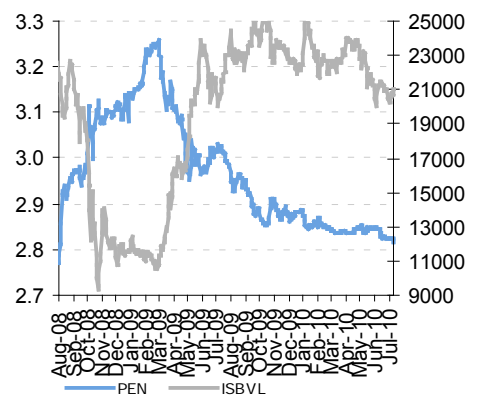
The nuevo sol closed 0.18% weaker yesterday, thus erasing most of the previous session's gains. This performance is the result of risk aversion factors on the external front, but also due to interventions by Banco Central de Reserva del Perú in the forex market totaling US\$493mn, an amount that exceeded the local forex market's daily average. In contrast with our outlook yesterday, the BCRP set a floor for the currency again and, therefore, we do not foresee the nuevo sol surpassing 2.82 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	-0.02	0.00	-3.54
Brazilian real	1.76	-0.31	0.28	-1.03
Chilean peso	531.65	0.67	0.80	-4.77
Colombian peso	1,871.65	0.05	1.81	8.42
Mexican peso	12.72	-0.34	0.95	2.87
Peruvian nuevo sol	2.82	-0.18	0.12	2.32

5 year CDS				
Argentina	897.73	1.21	-5.42	-1.81
Brazil	124.94	2.75	-8.04	1.98
Chile	89.85	-2.09	-10.40	31.51
Colombia	134.22	2.24	-7.30	-6.10
Mexico	124.46	2.85	-6.89	-6.97
Peru	120.05	3.19	-8.92	-2.81

Equity indexes				
Argentina Merval	2,309.87	0.21	1.98	-0.47
Brazil IBOV	63,479.46	-0.32	0.31	-7.45
Chile IPSA	4,213.19	0.23	2.03	17.64
Colombia IGBC	12,870.89	0.74	3.72	10.94
Mexico IPyC	32,305.71	0.37	0.84	0.58
Peru ISBVL	21,019.04	0.02	2.98	-6.31
VIX Index	24.89	24.56	26.84	21.68

Commodities				
CRB Industrial	472.33	0.06	0.07	-2.31
COMEX Copper	300.10	-0.28	-0.15	-9.81
WTI	77.04	-0.14	4.01	-2.92
Gold	1,208.30	-0.33	0.46	10.15
Sugar	16.97	-1.16	-0.53	-22.33
Soy	962.00	0.79	3.16	-5.15

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.70	8.62	12.46	18.18
Brazilian real	13.91	14.90	15.65	16.49
Chilean peso	12.40	13.08	13.28	13.90
Colombian peso	12.63	13.31	13.96	14.66
Mexican peso	12.62	13.09	13.46	13.83

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.15	4.42
Brazilian real	1.77	1.80	1.84	1.92
Chilean peso	531.48	532.05	533.38	538.75
Colombian peso	1,871.20	1,874.65	1,886.40	1,917.65
Peruvian nuevo sol	2.82	2.82	2.83	2.85

Foward points				
Argentinian peso	0.03	0.09	0.21	0.49
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.17	0.40	1.73	7.10
Colombian peso	-0.45	3.00	14.75	46.00
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	10.16	0	0	151
DI Jan-11 Future	11.21	-5	-10	79
LTN Jan-11	11.27	-6	-3	74
NTN-F Jan-13	12.10	3	-3	-44
NTN-F Jan-17	12.17	3	0	-115
NTN-B Aug-14	6.72	-2	4	-103

Chile				
TPM	1.00	-2	-2	70
TAB 90d UF	0.13	4	3	-707
Swap CLPxCAM 2Y	3.89	3	15	84
Swap CLPxCAM 5Y	4.99	1	-1	-24
Swap CLPxCAM 10Y	5.71	1	-1	-36
Swap UFXCAM 2Y	0.31	8	-2	-94
Swap UFXCAM 5Y	1.53	2	-11	-65
Swap UFXCAM 10Y	2.15	1	-8	-43
Swap basis 2Y	61.00	0	3	-7
Swap basis 5Y	53.00	-1	7	-2
Swap basis 10Y	85.00	2	2	-1
BCP Jan-2012	4.38	-4	15	78
BCP Aug-2014	5.71	5	10	54
BCU 5Y	2.34	1	-11	-49
BCU 10Y	2.86	-2	-3	-32

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.52	0	10	-59
TES Aug-2012	4.80	0	0	-451
TES May-2014	6.37	-4	-12	637
TES Jul-2020	7.53	-6	-19	-96
UVR Mar-2013	2.52	-15	-21	-239

Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.85	-5	65	-413
Sovereign bond Aug-2017	5.43	-10	-39	-171
Sovereign bond Aug-2037	6.55	-9	-17	69

Global bonds				
BRL 2040	3.40	3	-10	-96
CLP 2013	1.86	-8	-19	-8
COP 2033	6.38	-3	-16	-59
PE 2033	5.79	-1	-6	-65

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, July 14					
Argentina	Consumer Price Index (MoM)	JUN	0.80%	0.70%	0.70%
	Consumer Price Index (YoY)	JUN	10.90%	10.70%	11.00%
	Wholesale Price Index (MoM)	JUN		1.00%	0.90%
	Wholesale Price Index (YoY)	JUN		15.20%	15.20%
Colombia	Trade Balance	MAY	\$484.00	\$484.80	\$507.70
Thursday, July 15					
Brazil	Tax Collections	JUN	64120M	61114M	
Chile	Copper Exports	JUN		\$2,757.00	
	Nominal Overnight Rate Target	15-Jul	1.50%	1.00%	
Argentina	Industrial Production YoY NSA	JUN	10.50%	10.20%	
	Industrial Prod. s.a. (MoM)	JUN		0.20%	
Peru	GDP YoY NSA	MAY	8.90%	9.30%	
	Unemployment	JUN	7.50%	7.70%	
Friday, July 16					
Brazil	FGV Inflation IGP-10 (MoM)	JUL	0.31%	1.30%	
	FGV CPI IPC-S	15-Jul		-0.08%	
Argentina	Economic Activity Indx MoM SA	MAY		1.30%	
	Economic Activity Indx YoY NSA	MAY	9.90%	9.70%	

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