

Latam

Daily Latam

Market Analysis Markets

Mexico City, 16 July, 2010

Strategic Outlook

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Corporate reports and mixed economic figures drive a volatile session

Weak manufacturing numbers stand in contrast to generally upbeat corporate reports.

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Exchange Rates: Brazilian real

Diverse factors hold real at current levels.

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The peso closes down on uncertainty regarding the global cycle and closure of positions ahead of the holiday.

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The peso remains stable amid high volatility abroad.

Peru

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The central bank increases PFMs' foreign investment ceiling.

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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- Peru →

Corporate reports and mixed economic figures drive a volatile session

Weak manufacturing numbers stand in contrast to generally upbeat corporate reports.

Meanwhile, Spain's successful bonds placement drive euro to test 1.29

Earnings reports continued to surprise on the upside yesterday, as JP Morgan reported a jump in earnings for the first half of 2010 of more than 67% vs. the same period last year. The bank saw improved results in all of its business units (with the notable exception of investment banking) which presages a good season for US financial institutions. Google, in contrast, reported earnings slightly below expectations, largely because of its aggressive acquisitions program, implemented in order to compete with rivals such as Facebook. Its report, nevertheless, shows strong fundamentals and a favorable outlook for the sector. Today, Citigroup, Bank of America, and GE will release their reports. Any upbeat surprise may well counteract the effects of yesterday's weak economic numbers and provide a boost to risky assets, which slumped in today's session even as stock markets rallied late in the day to reverse early losses. In terms of risk premiums, Spain's bonds placement --with its 15Y paper at a yield below expectation (5.16% vs. 5.20%e) contributing to the upbeat tenor in sovereign and corporate credit spreads, carried the euro beyond its 10d MA standing at 1.2919.

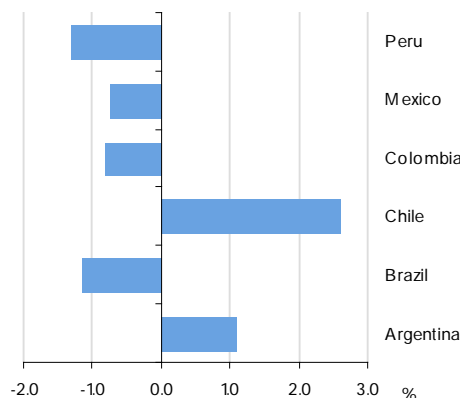
Meanwhile, US, Chinese and EU economic indicators point toward cooling in the second half of the year. June industrial production in the US grew 0.1% MoM, which was higher than expected, but vs. May's level of 1.2% shows slowdown nonetheless. As such, annual industrial expansion stands at 8.2%, its highest level since January 1998. Significantly, manufacturing production exhibited a contraction of -0.4% MoM. Federal Reserve surveys (Philadelphia and New York) suggest the manufacturing sector may continue to weaken in the second half of the year. The University of Michigan's confidence index to be released today will be key for determining whether economic numbers will dampen the optimism kindled by upbeat corporate reports.

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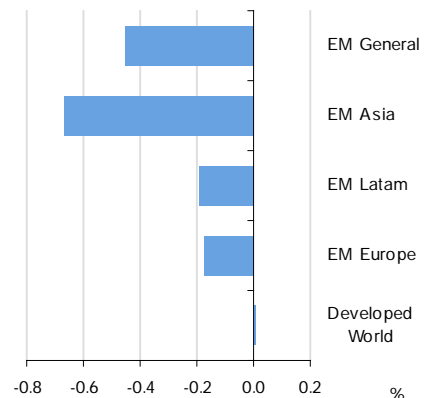
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Daily change on LatAm CDS 5 years



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

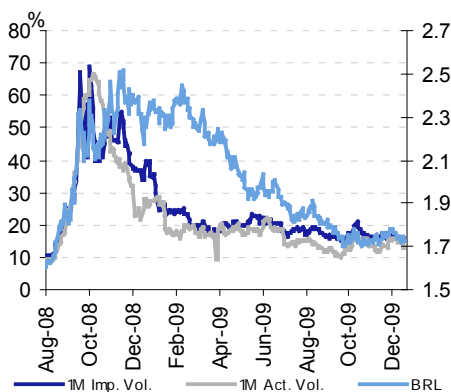
Diverse factors hold real at current levels.

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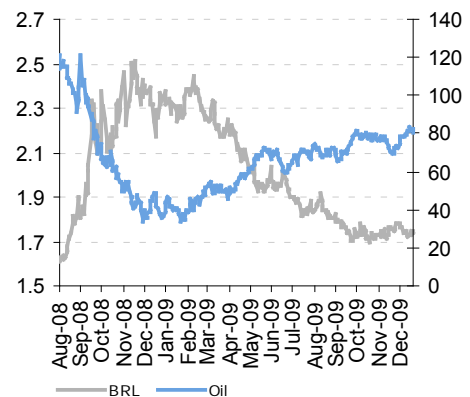
Despite a volatile context, the real closed largely unchanged above 1.76 yesterday. This performance was underpinned by mixed results in risky assets. As such, even as US economic numbers came in below estimates, with buoyant industrial production numbers, while Philly Fed and Empire Manufacturing indices came in well below consensus estimates, US earnings reports continued to show upbeat results, as JP Morgan, for example, reported quarterly earnings well above expectations. This comes in addition to Spain's issuance of a 15Y bond, against which global CDSs saw narrowing spreads. In Brazil's case, the decline was 1.15%. Thus, the IBOV advanced slightly and fixed-income instruments continued the rally of recent sessions. Significantly, 1M implied volatility recorded an increase of 0.60 vegas, which was higher than that seen in the VIX index, i.e., 4% vs. 1%. Thus, even as we stand by our positive outlook in the short term --with a target of 1.75-- we cannot rule out pressures in coming days.

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

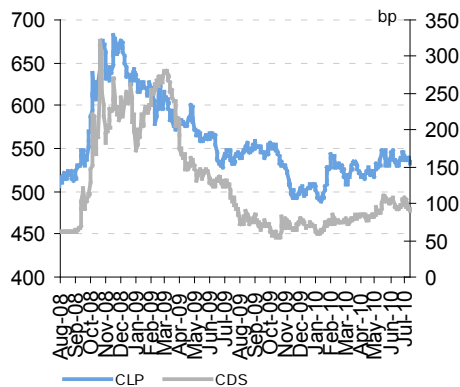
The peso closes down on uncertainty regarding the global cycle and closure of positions ahead of the holiday.

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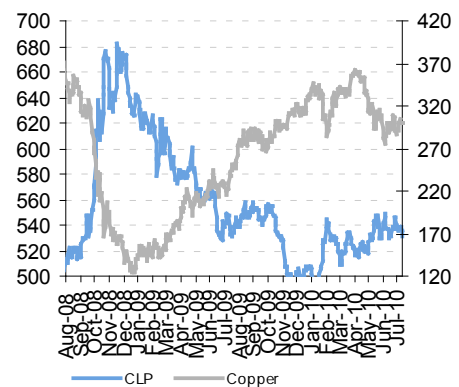
In line with the performance of main Latam currencies, the peso closed 0.23% weaker yesterday. The decline reflects uncertainty factors abroad regarding the global cycle –which in Chile’s case revolve around numbers suggesting a cooling Chinese economy– and local position-taking ahead of the long weekend. Additionally, participants were alert to the monetary policy decision in the afternoon. In this regard, the benchmark was hiked 50bp, as priced in by the market. Furthermore, the background information released on Wednesday and the statement were in line with expectations and reveal a favorable local environment, where inflation has remained at bay despite volatility in financial markets abroad. Lastly, commodity prices remained stable, with copper fractionally increasing 0.13% yesterday. This environment as well as copper export numbers should favor the CLP in the short term. As such, we expect the currency to trade sideways within a range of 525-540.

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

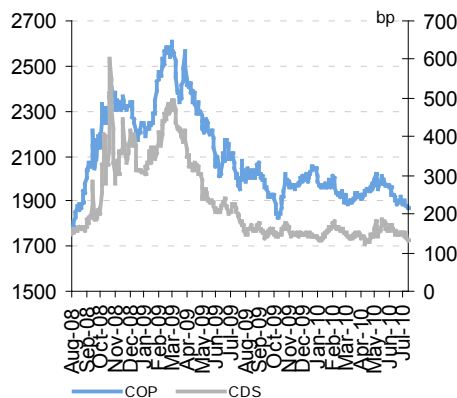
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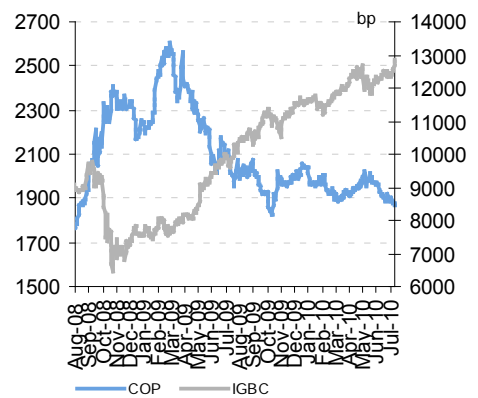
Despite most Latam currencies closing weaker, the peso ended the session yesterday 0.07% stronger on volume of US\$1.2bn, somewhat above the average of the last two weeks. This appreciation took place in an external context of mixed performances by risky assets, where lower sovereign risk premiums were offset by weaker global growth factors. As trade, capital and portfolio flows expectations are still positive, we think the currency will maintain its bullish trend. Additionally, with the market expecting a statement regarding the appreciation of the currency, the peso will continue to trade sideways as next week's monetary policy meeting approaches. As a result, we reiterate our outlook of consolidation at around 1870.

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

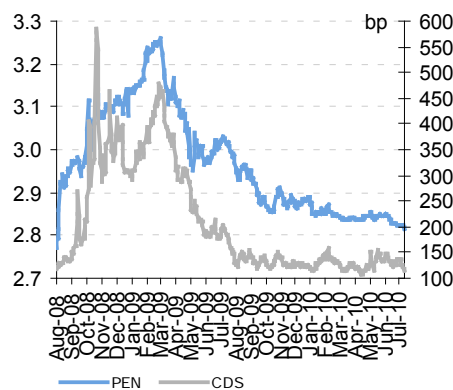
The central bank increases PFMs' foreign investment ceiling.

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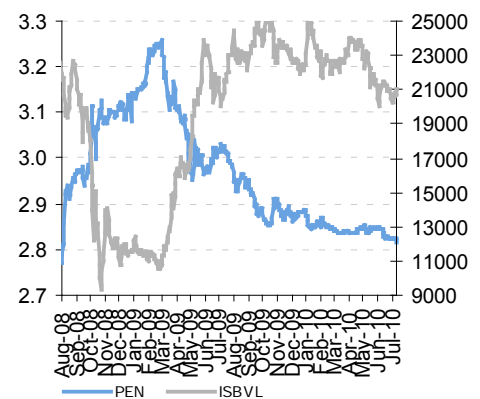
In line with its performance year to date, the nuevo sol closed largely unchanged yesterday despite high volatility seen in global markets. Since mid-June, this performance is the result of Banco Central de Reserva del Perú's daily interventions in the forex market, which yesterday, amounted to US\$151mn. Additionally, the BCRP again increased the maximum limit for investments abroad by PFMs from 26% to 28%. This percentage, according to the central bank's communiqué, represents US\$500mn in institutional outflows. The measure is an additional tool to release appreciation pressures endured by the nuevo sol recently. All in all, we do not expect the currency to go beyond 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	3.94	-0.09	-0.04	-3.63
Brazilian real	1.76	-0.02	-0.14	-1.05
Chilean peso	532.85	-0.23	0.82	-5.01
Colombian peso	1,870.40	0.07	0.77	8.48
Mexican peso	12.77	-0.45	-0.06	2.44
Peruvian nuevo sol	2.82	-0.05	0.07	2.27

	Close	Change %		
		1D	1W	YTD
5 year CDS				
Argentina	907.59	1.10	-2.35	-0.73
Brazil	123.51	-1.15	-5.72	0.81
Chile	92.19	2.60	-3.65	34.94
Colombia	133.11	-0.82	-5.86	-6.88
Mexico	123.53	-0.75	-4.26	-7.66
Peru	118.47	-1.31	-7.08	-4.09

	Close	Change %		
		1D	1W	YTD
Equity indexes				
Argentina Merval	2,306.95	-0.13	0.76	-0.59
Brazil IBOV	63,489.37	0.02	0.02	-7.43
Chile IPSA	4,221.61	0.20	1.09	17.88
Colombia IGBC	12,957.59	0.67	3.57	11.68
Mexico IPyC	32,381.06	0.23	1.32	0.81
Peru ISBVL	20,986.72	-0.15	2.15	-6.45
VIX Index	25.14	24.89	25.71	21.68

	Close	Change %		
		1D	1W	YTD
Commodities				
CRB Industrial	472.43	0.00	0.05	-2.29
COMEX Copper	300.50	0.13	-0.07	-9.69
WTI	76.62	-0.55	1.56	-3.45
Gold	1,208.25	0.00	0.85	10.15
Sugar	17.39	2.47	1.76	-20.41
Soy	988.00	2.70	4.44	-2.59

	1M	3M	6M	1A
Argentinian peso	4.67	8.56	12.42	18.14
Brazilian real	14.48	15.22	15.84	16.72
Chilean peso	12.16	12.92	13.11	13.72
Colombian peso	12.62	13.30	13.96	14.64
Mexican peso	12.99	13.28	13.64	14.01

	Close	1D	1W	YTD
Argentinian peso	3.96	4.02	4.15	4.43
Brazilian real	1.78	1.80	1.84	1.92
Chilean peso	532.70	533.20	534.77	540.35
Colombian peso	1,871.15	1,875.10	1,884.90	1,918.90
Peruvian nuevo sol	2.82	2.82	2.83	2.85

	Close	1D	1W	YTD
Argentinian peso	0.03	0.09	0.21	0.49
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.15	0.35	1.92	7.50
Colombian peso	0.75	4.70	14.50	48.50
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	10.16	0	0	151
DI Jan-11 Future	11.15	-6	-14	73
LTN Jan-11	11.21	-6	-11	68
NTN-F Jan-13	12.11	0	-7	-44
NTN-F Jan-17	12.23	7	3	-108
NTN-B Aug-14	6.65	0	-5	-109

	Close %	Change bp		
		1D	1W	YTD
Chile				
TPM	1.03	3	3	73
TAB 90d UF	0.13	0	2	-707
Swap CLPxCAM 2Y	3.90	1	13	85
Swap CLPxCAM 5Y	4.99	0	2	-24
Swap CLPxCAM 10Y	5.71	0	2	-36
Swap UFXCAM 2Y	0.32	2	-6	-93
Swap UFXCAM 5Y	1.56	3	-8	-62
Swap UFXCAM 10Y	2.16	1	-6	-42
Swap basis 2Y	61.00	0	3	-7
Swap basis 5Y	53.00	0	7	-2
Swap basis 10Y	85.00	0	2	-1
BCP Jan-2012	4.36	-6	14	78
BCP Aug-2014	5.71	-5	12	54
BCU 5Y	2.35	1	-13	-47
BCU 10Y	2.86	0	0	-34

	Close %	Change bp		
		1D	1W	YTD
Colombia				
Reference rate	3.30	30	30	-20
DTF 90d	3.52	0	10	-59
TES Aug-2012	4.80	0	2	-451
TES May-2014	6.41	4	-5	641
TES Jul-2020	7.55	3	-13	-94
UVR Mar-2013	2.57	5	-12	-234

	Close %	Change bp		
		1D	1W	YTD
Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.82	-13	-13	-413
Sovereign bond Aug-2017	5.45	1	-20	-171
Sovereign bond Aug-2037	6.58	-2	-12	69

	Close %	Change bp		
		1D	1W	YTD
Global bonds				
BRL 2040	3.35	-6	-13	-102
CLP 2013	1.82	-11	-4	-11
COP 2033	6.38	0	-16	-59
PE 2033	5.71	-11	-12	-73

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Thursday, July 15					
Brazil	Tax Collections	JUN	64000M	61114M	61488M
	CAGED Formal Job Creation	JUN	279000	298041	212952
Chile	Copper Exports	JUN		\$2,757.00	\$2,761.10
	Nominal Overnight Rate Target	15-Jul	1.50%	1.00%	1.50%
Argentina	Industrial Production YoY NSA	JUN	10.50%	10.20%	9.80%
	Industrial Prod. s.a. (MoM)	JUN		0.20%	-0.40%
Peru	GDP YoY NSA	MAY	8.90%	9.30%	9.20%
	Unemployment	JUN	7.50%	7.70%	7.60%
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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