

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 16, 2010

Strategic Outlook

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US markets extend losses despite economic data in line with the consensus

However, uncertainty regarding the global cycle will continue to add pressure in the short term.

Brazil

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Exchange Rates: Brazilian real

The real remains under pressure amid uncertainty abroad.

Chile

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Exchange Rates: Chilean peso

Despite the increase in 50bp in the benchmark, the peso closed largely unchanged as BCCH interventions in the forex market loom.

Colombia

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Exchange Rates: Colombian peso

The market will be paying close attention to Friday's monetary policy decision, in particular the possible announcement of a USD purchase plan.

Peru

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Exchange Rates: Peruvian Nuevo Sol

Both financial and trade flows aligned to favor the nuevo sol; however, the currency will stay anchored at 2.80 in the short term.

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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US markets extend losses despite economic data in line with the consensus
However, uncertainty regarding the global cycle will continue to add pressure in the short term.

US production and housing data will be the center of attention this week.

“The following figures were released Friday: 1) US July inflation data which was slightly above expectations due to energy prices (core in line), mitigating short-term deflation fears; 2) retail sales which showed signs of weakness; and 3) an increase in consumer confidence albeit still at depressed levels.

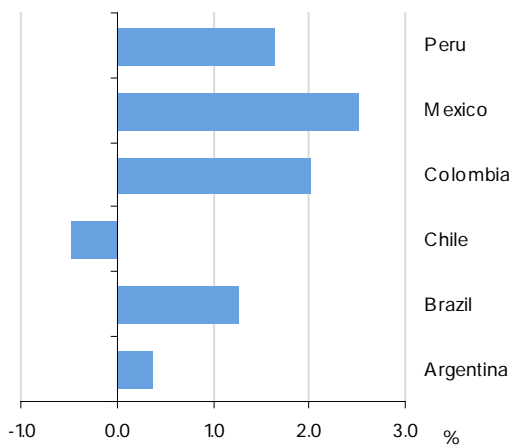
The outlook for Europe is uneven. While the region as a whole grew more than expected (1.0% QoQ vs. 0.7% consensus), Germany was the main driver with GDP growth of 2.2% QoQ (vs. 1.3%e) while countries like Austria, Holland, Poland, Greece and Spain are growing at a slower rate. Uneven in growth within the European Union implies tough monetary policy management going forward, as any measures will impact countries differently (either growth or inflation).

Markets had mixed reactions to this situation: on the one hand US markets and commodities extended the previous sessions’ declines, albeit at a slower pace. On the other, emerging currencies were stable in response to external weakness. We expect economic data due out this week to continue to be a pace setter for risky assets, with the additional guideline of a positive differentiation between economies and emerging markets.

APPENDIX

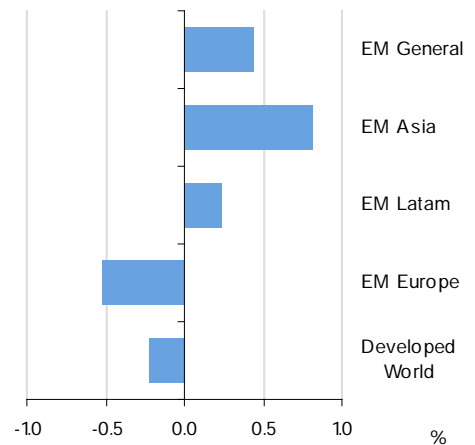
Macro Calendar

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



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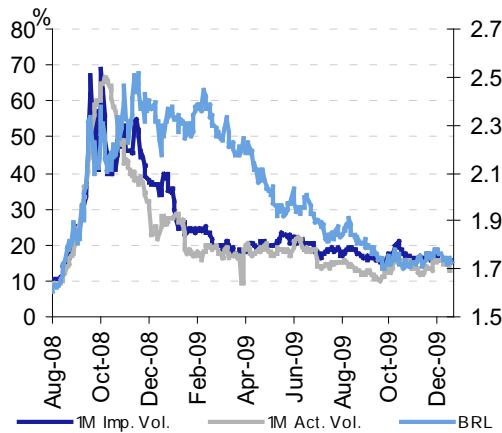
Exchange Rates

Brazilian real

The real remains under pressure amid uncertainty abroad.

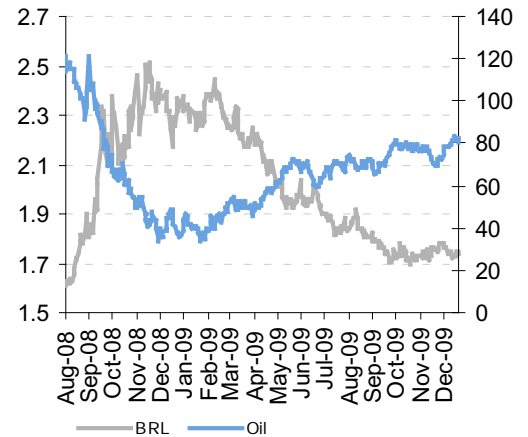
While regional stock markets showed a positive bias on Friday, with the IBOV gaining 0.44% on the back of local corporate earnings reports, the real declined 0.18%, thereby accumulating losses of 0.62% last week. This performance came in a context of ongoing jitters with regard to the global cycle derived from US economic numbers, which in turn drove down most assets with which the real is highly correlated (crude, with which the real holds a 3M correlation of -0.78, lost 0.24%). In fact, it is important to take into account the WoW increase in the VIX index and the rise of 7.7% in 1M implied volatility of the currency. As such, the outlook for the real remains gloomy. This comes in addition to foreigners' closing of positions on the BM&F, with long positions on the real declining by US\$1.6bn. In this light, we believe the currency could continue to trade near the high end of the range of 1.75 to 1.78. in coming sessions.

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

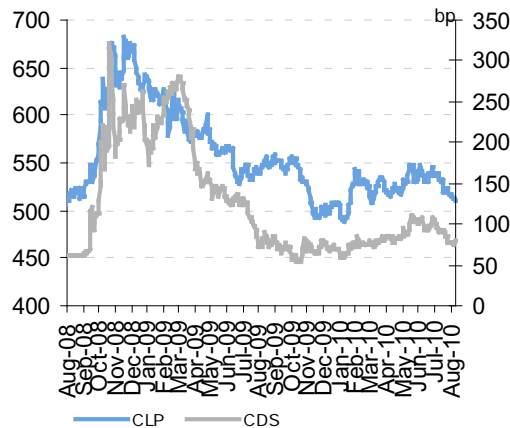
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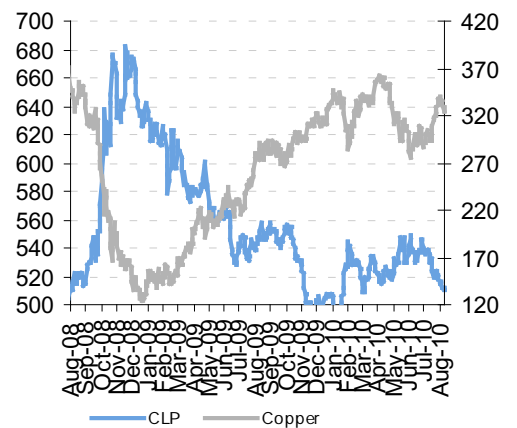
After Thursday's gains driven by market expectations of a 50bp hike in the benchmark rate, the peso remained largely unchanged around 509 on Friday. As such, even as the Banco Central de Chile's decision reveals a positive outlook in terms of local economic activity and by extension a widening spread against US yields, for the time being the market will be alert to signs of new interventions in the forex market by the central bank. This situation comes amid declining commodity prices abroad as investors close positions in risky assets, with copper falling 2.5% WoW). In this light and in the short term, we continue to expect a tenor of consolidation, with the peso trading 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

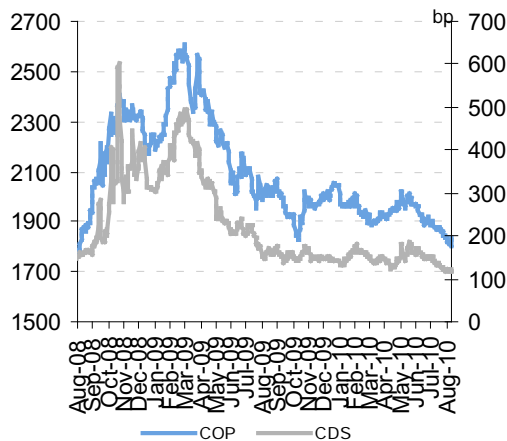
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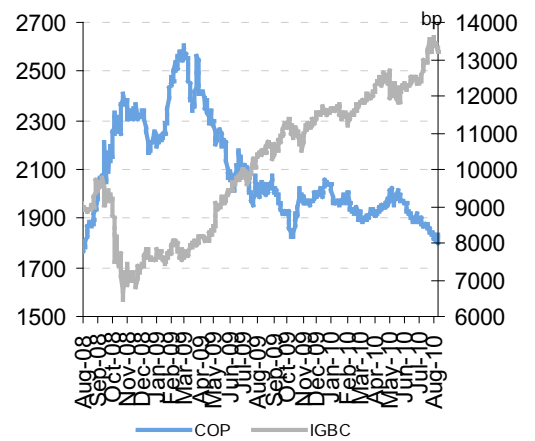
After reaching levels below 1800 mid week, the peso closed above 1835 Friday, depreciating 1.15% for the week on volume of US\$1.09bn. This was due to Thursday's remarks from Juan Manuel Santos regarding the currency's strength and the need for tools to contain greater appreciation. Thus the market will remain attentive to Banco de la República's monetary policy decision this week and the possible announcement of a new dollar purchase plan. On top of this is the close of local market positions ahead of today's holiday. Thus we do not rule out an extension of the decline towards 1850, where the currency could remain relatively stable ahead of Friday's meeting.

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

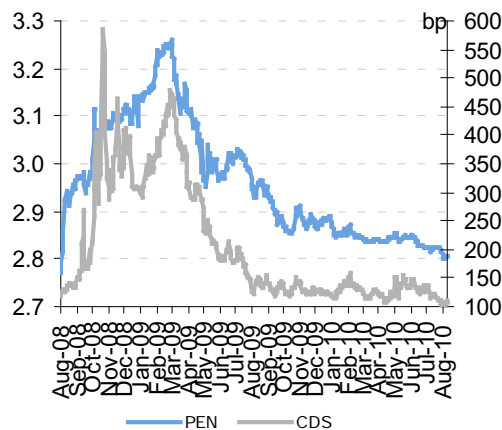
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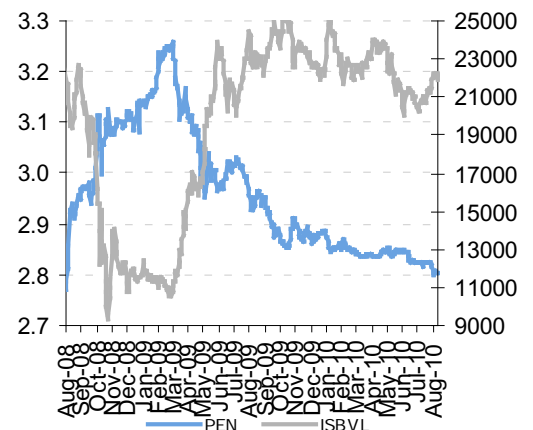
According to the Banco Central de Reserva del Perú's weekly summary, the balance of net forward purchases from the investor public increased by US\$113mn in the first 10 days of August, reflecting the ongoing and growing appetite for soles (the cumulative position stood near the January highs). Meanwhile, the June balance of trade report shows an increase of 40.7% in exports, with the balance of trade reaching US\$804mn vs. the market estimate of US\$297mn. In this light, both financial and trade flow factors continue to work in favor of the currency's positive bias. Nonetheless, with intervention by the BCRP and the Finance Ministry a growing likelihood, we do not expect a breakthrough of the 2.80 level 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	0.01	-0.07	-3.52
Brazilian real	1.77	-0.13	-0.63	-1.58
Chilean peso	509.63	0.02	0.89	-0.43
Colombian peso	1,836.95	-0.65	-1.15	10.12
Mexican peso	12.73	0.06	-0.28	2.78
Peruvian nuevo sol	2.80	0.04	-0.11	2.89

5 year CDS				
Argentina	832.28	0.37	5.88	-8.97
Brazil	119.24	1.28	3.93	-2.68
Chile	80.14	-0.48	4.75	17.29
Colombia	122.20	2.02	2.11	-14.51
Mexico	118.65	2.53	3.52	-11.31
Peru	110.07	1.64	4.75	-10.89

Equity indexes				
Argentina Merval	2,367.98	0.06	-2.36	2.04
Brazil IBOV	66,264.43	0.45	-2.69	-3.39
Chile IPSA	4,462.25	1.77	-0.01	24.59
Colombia IGBC	13,301.28	0.77	-0.72	14.65
Mexico IPyC	32,099.75	0.18	-2.49	-0.06
Peru ISBVL	22,226.13	0.23	1.13	-0.93
VIX Index	26.24	25.73	21.74	21.68

Commodities				
CRB Industrial	496.87	0.00	3.57	2.77
COMEX Copper	325.15	-0.94	-2.64	-2.28
WTI	75.39	-0.46	-6.58	-5.00
Gold	1,215.50	0.14	0.84	10.81
Sugar	19.42	2.37	6.47	-11.12
Soy	1,044.00	1.51	1.02	2.93

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.10	7.45	11.15	16.34
Brazilian real	13.00	14.13	14.93	16.14
Chilean peso	11.17	12.02	12.68	13.24
Colombian peso	12.36	13.12	13.79	14.54
Mexican peso	11.60	12.63	12.95	13.35

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.13	4.37
Brazilian real	1.79	1.81	1.85	1.93
Chilean peso	509.60	510.62	513.17	519.38
Colombian peso	1,838.14	1,842.73	1,851.45	1,881.95
Peruvian nuevo sol	2.80	2.80	2.80	2.81

Foward points				
Argentinian peso	0.03	0.08	0.20	0.44
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.03	0.99	3.54	9.75
Colombian peso	1.19	5.78	14.50	45.00
Peruvian nuevo sol	-0.01	-0.01	0.00	0.01

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.78	0	-2	39
LTN Jan-11	10.92	-1	-2	37
NTN-F Jan-13	12.02	-2	1	-54
NTN-F Jan-17	11.86	-5	-13	-126
NTN-B Aug-14	5.50	-90	450	-124

Chile				
TPM	1.93	26	42	110
TAB 90d UF	0.11	0	-5	-665
Swap CLPxCAM 2Y	4.23	7	5	103
Swap CLPxCAM 5Y	5.03	2	-3	-27
Swap CLPxCAM 10Y	5.60	0	-4	-46
Swap UFXCAM 2Y	0.46	2	-12	-76
Swap UFXCAM 5Y	1.61	0	-13	-52
Swap UFXCAM 10Y	2.27	-1	-4	-33
Swap basis 2Y	66.00	0	2	-11
Swap basis 5Y	54.00	0	4	-8
Swap basis 10Y	88.00	0	8	-8
BCP Jan-2012	4.96	-3	-6	78
BCP Aug-2014	5.80	0	-9	54
BCU 5Y	2.31	5	6	-66
BCU 10Y	2.69	-2	-20	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	0	-7	-63
TES Aug-2012	4.79	-5	0	-452
TES May-2014	6.28	3	10	627
TES Jul-2020	7.33	3	9	-116
UVR Mar-2013	2.59	-1	2	-232

Peru				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.50	-15	-10	-413
Sovereign bond Aug-2017	5.14	-4	-15	-171
Sovereign bond Aug-2037	6.24	-7	-5	69

Global bonds				
BRL 2040	2.68	-7	-16	-168
CLP 2013	1.38	-30	-9	-56
COP 2033	5.63	-6	-26	-135
PE 2033	5.17	-5	-13	-127

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Friday, August 13					
Argentina	Consumer Price Index (MoM)	JUL	0.80%	0.70%	0.80%
	Consumer Price Index (YoY)	JUL	11.20%	11.00%	11.20%
	Wholesale Price Index (MoM)	JUL		0.90%	0.80%
	Wholesale Price Index (YoY)	JUL		15.20%	15.10%
Monday, August 16					
Brazil	FGV CPI IPC-S	15-Aug		-0.18%	
	Trade Balance (FOB) - Weekly	15-Aug		\$943M	
	CAGED Formal Job Creation	JUL	279000	212952	
Chile	Copper Exports	JUL		\$2,761.00	
Peru	GDP YoY NSA	JUN	10.80%	9.20%	
	Unemployment	JUL	7.00%	7.60%	
Tuesday, August 17					
Brazil	FIPE CPI - Weekly	15-Aug	0.22%	0.20%	
	FGV Inflation IGP-10 (MoM)	AUG	0.45%	0.05%	
	Tax Collections	JUL	64120M	61488M	
Wednesday, August 18					
Chile	Current Account	2Q	406.5	1522.9	
	Gross Domestic Product YoY	2Q	6.20%	1.00%	
Colombia	Industrial Production (YoY)	JUN	8.80%	7.50%	
	Retail Sales (YoY)	JUN	12.90%	13.10%	
Thursday, August 19					
Brazil	FGV Preview Inflation IGP-M	18-Aug		0.03%	
Argentina	Consumer Confidence	AUG		48.17	
Friday, August 20					
Brazil	IBGE CPI IPCA-15 (MoM)	AUG	0.07%	-0.09%	
Colombia	Overnight Lending Rate	20-Aug	3.00%	3.00%	
Argentina	Industrial Production YoY NSA	JUL		9.80%	
	Industrial Prod. s.a. (MoM)	JUL		-0.40%	
	Economic Activity Indx MoM SA	JUN		1.70%	
	Economic Activity Indx YoY NSA	JUN		12.40%	

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