BBVA Research

Latam

Daily Latam

Market Analysis
Markets

Mexico City, August 17, 2010

Strategic Outlook

Brazil

Chile

Peru

Rally in tech stocks and commodities halts decline in equities

But disappointing economic data from both the US and Japan contribute to further declines in T-bond yields.

US production and housing data will be the focus of attention today

Markets opened with a surprise decrease in Japanese economic growth for the second quarter of the year resulting in real growth of 0.1% QoQ (vs. 0.6%e). Nominal GDP declined -0.9% (vs. -0.3%e) reviving fears of a longer period of deflation. Along with a downward revision of previous quarters, the result can be attributed to the end of fiscal stimuli, weak domestic consumption and little impetus from the external sector due to a strong yen and soft demand from the world's main economies. US economic data also reflect a less dynamic environment and it cannot be ruled out that data released today on construction (initial home starts and construction permits) and July industrial production will reflect a less positive environment than the market estimates. Similarly, Germany's business climate data will be relevant: we expect a slight decrease.

In light of this there could be some ongoing appetite for safe assets such as Treasury bonds (e.g. the 10Y Treasury yield declined by 11bp yesterday to close at levels of 2.56%). Decreases in US Treasuries should continue to underpin emerging fixed-income instruments and thus the exchange rates of such economies should continue to show a positive trend (limited movements in the event of global market pressure).

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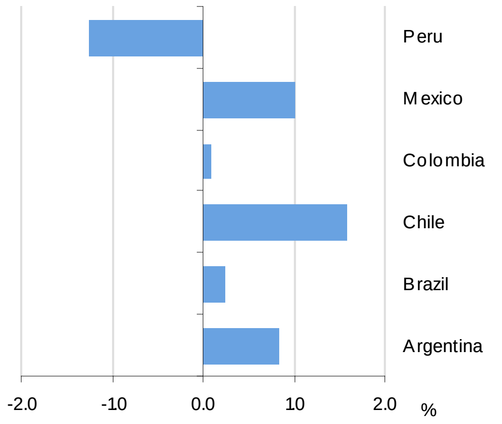
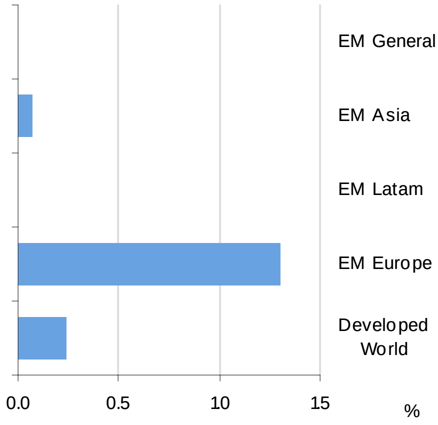
Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

APPENDIX

Macro Calendar

Brazil

Strategic Outlook
Chile
Peru

Exchange Rates

Brazilian real

The real gains terrain in line with fixed-income instruments.

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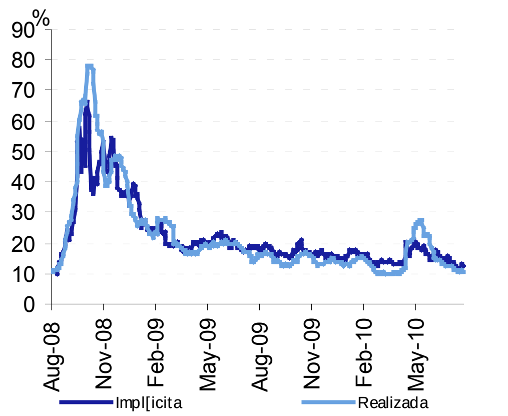
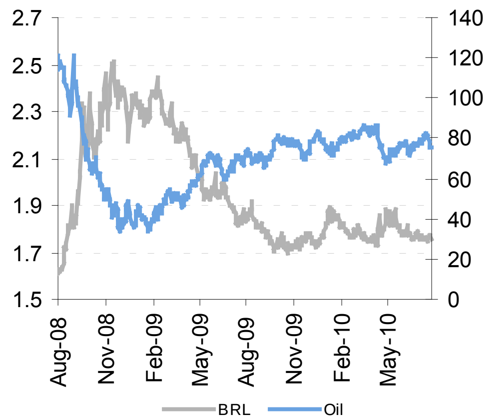
In the weekly survey of expectations released by Banco Central do Brasil, analysts once again revised down their 12M inflation forecast from 5% to 4.98%, while growth estimates for the year contracted from 7.12% to 7.09%. These adjustments came amid global economic data pointing to weakening growth (e.g., GDP in Japan came in below the market's consensus) and do not represent a negative local environment but rather external risks impacting the local economy, where even modest expectations point to solid ground. This situation and a rebound in stock indexes (the IBOV rose 0.66% on the back of favorable commodity numbers) resulted in the real gaining 0.98% while implied volatility dropped 0.40 vegas. Nevertheless, given BACEN's likely intervention and foreign investors looking for safe assets, our outlook continues to point to lateral movements in the real within a 1.75-1.78 range.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook
Brazil
Peru

Exchange Rates

Chilean peso

The peso touches lows not seen since late January.

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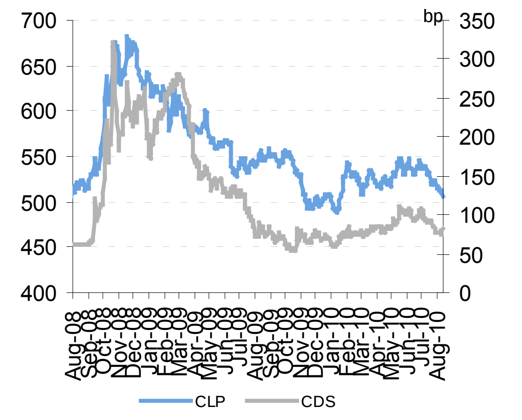
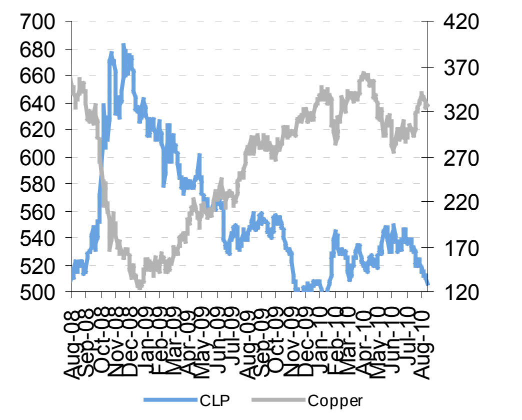
The Banco Central de Chile released July copper export numbers showing a rise of 14%, or US$3.1bn, over the previous month. This increase comes as copper prices are tending to recover abroad (up 0.78%) and the dollar is losing ground against major currencies (the DXY index declined 0.59%), which drove the peso toward 505, a low not seen since late January. Even as the currency's medium-term bias remains positive, we see little room for further appreciation in the short term. We base this view on two factors: 1) the likelihood of more aggressive interventionist language on the part of the BCCH taking into account, however, that the last appreciation movement reached 490 without triggering intervention; 2) technical factors, for example, oscillators showing high oversold levels.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Peru

Strategic Outlook
Brazil
Chile

Exhange Rates

Peruvian nuevo sol

The nuevo sol maintains positive bias ahead of seasonal factors and favorable growth expectations.

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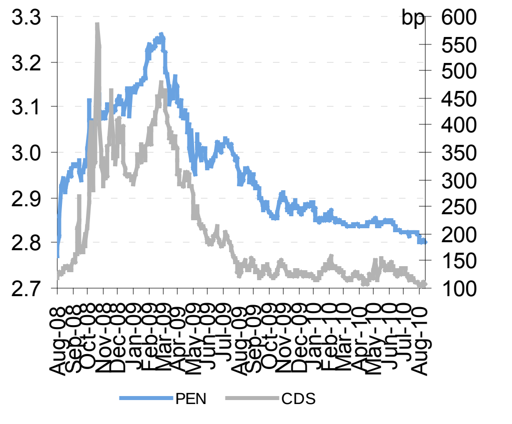
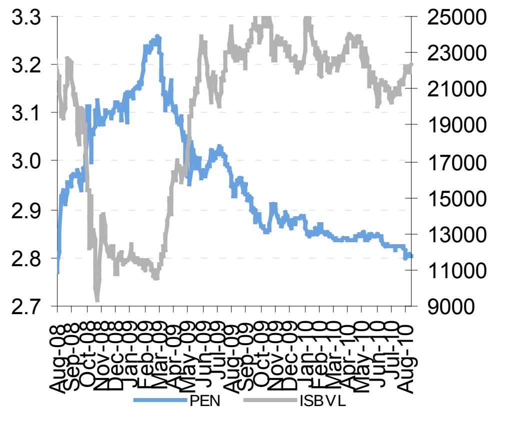
In line with the movements of most Latam currencies, yesterday the nuevo sol inched up 0.07%. This positive trend is underpinned by a rebound in global stock indexes, but also responds to ongoing positive expectations regarding the local economy. In this regard, a better-than-expected GDP figure in July (11.9% vs. 10.8%e) is favoring a wider gap against US yields and, therefore, stronger flows from abroad. Additionally, appetite for soles has increased as a result of local tax payments. Although Banco Central de Reserva del Perú did not intervene in the forex market, we do not rule out interventions in the coming sessions. In conclusion, we still do not expect to see the sol breaking below the vicinity of 2.80 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	Change % 1W	Change % YTD
Currencies				
Argentinian peso	3.93	0.00	-0.01	-3.52
Brazilian real	1.75	0.98	-0.33	-0.58
Chilean peso	505.60	0.79	1.22	0.36
Colombian peso	1,824.50	0.68	-0.89	10.73
Mexican peso	12.66	0.51	-0.31	3.28
Peruvian nuevo sol	2.80	0.07	0.00	2.96
5 year CDS				
Argentina	839.25	0.84	8.33	-8.21
Brazil	119.53	0.24	6.43	-2.44
Chile	81.41	1.59	6.66	19.16
Colombia	122.30	0.09	4.58	-14.44
Mexico	119.85	1.02	6.71	-10.41
Peru	108.68	-1.26	5.48	-12.01
Equity indexes				
Argentina MERVAL	2,367.98	0.00	-2.46	2.04
Brazil IBOV	66,701.89	0.66	-1.71	-2.75
Chile IPSA	4,464.44	0.05	-0.70	24.66
Colombia IGBC	13,301.28	0.00	-0.81	14.65
Mexico IPyC	32,119.88	0.06	-2.19	0.00
Peru ISBVL	22,344.47	0.53	0.34	-0.40
VIX Index	26.10	26.24	22.14	21.68
Commodities				
CRB Industrial	497.53	0.00	-0.46	2.90
COMEX Copper	327.70	0.78	-2.19	-1.52
WTI	75.24	-0.20	-7.66	-5.19
Gold	1,225.15	0.79	1.98	11.69
Sugar	18.94	-2.47	6.82	-13.32
Soy	1,031.50	-1.20	-0.34	1.70
Volatilities %	**1M**	**3M**	**6M**	**1A**
Argentinian peso	4.11	7.37	11.15	16.36
Brazilian real	12.59	13.59	14.63	15.90
Chilean peso	11.23	12.00	12.57	13.31
Colombian peso	12.31	12.79	13.45	14.13
Mexican peso	11.27	12.44	12.92	13.28
NDF currency/US$				
Argentinian peso	3.96	4.01	4.13	4.37
Brazilian real	1.77	1.79	1.83	1.91
Chilean peso	505.58	506.37	508.95	515.85
Colombian peso	1,825.25	1,831.00	1,839.50	1,870.00
Peruvian nuevo sol	2.80	2.79	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	0.77	3.35	10.25
Colombian peso	0.75	6.50	15.00	45.50
Peruvian nuevo sol	-0.01	-0.01	0.00	0.01

	Close %	Change bp 1D	Change bp 1W	Change bp YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.75	-3	-1	39
LTN Jan-11	11.01	19	-8	37
NTN-F Jan-13	12.04	20	-4	-54
NTN-F Jan-17	11.88	2	-16	-126
NTN-B Aug-14	6.52	0	-4	-124
Chile				
TPM	2.00	7	44	110
TAB 90d UF	0.11	0	-5	-665
Swap CLPxCAM 2Y	4.23	0	1	103
Swap CLPxCAM 5Y	4.98	-5	-10	-27
Swap CLPxCAM 10Y	5.59	-1	-6	-46
Swap UFxCAM 2Y	0.51	5	0	-76
Swap UFxCAM 5Y	1.61	0	-6	-52
Swap UFxCAM 10Y	2.27	0	-2	-33
Swap basis 2Y	74.00	8	10	-11
Swap basis 5Y	58.00	4	7	-8
Swap basis 10Y	90.00	2	8	-8
BCP Jan-2012	4.95	-7	-11	78
BCP Aug-2014	5.75	-6	-7	54
BCU 5Y	2.29	-2	8	-66
BCU 10Y	2.78	9	-9	-41
Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	0	0	-63
TES Aug-2012	4.77	-2	-2	-452
TES May-2014	6.27	-1	9	627
TES Jul-2020	7.33	0	11	-116
UVR Mar-2013	2.58	-1	0	-232
Peru				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.63	3	-2	-413
Sovereign bond Aug-2017	5.12	-5	-13	-171
Sovereign bond Aug-2037	6.24	-3	-6	69
Global bonds				
BRL 2040	2.66	-3	-4	-168
CLP 2013	1.38	-6	-20	-56
COP 2033	5.41	-22	-17	-135
PE 2033	5.08	-8	-10	-127

Source: Bloomberg and BBVA Research

Strategies

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Monday, August 16					
Brazil	FGV CPI IPC-S	15-Aug		-0.18%	-0.19%
	Trade Balance (FOB) - Weekly	15-Aug		$943M	$427M
Chile	Copper Exports	JUL		$2,761.00	$3,149.20
Peru	GDP YoY NSA	JUN	10.80%	9.20%	11.90%
	Unemployment	JUL	7.00%	7.60%	7.00%
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	
	CAGED Formal Job Creation	JUL	279000	212952	
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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