

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 19, 2010

Strategic Outlook

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Mixed results in the absence of significant economic numbers

Lateral dynamics prevail in markets, as investors await information on the cycle.

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Exchange Rates: Brazilian real

Financial flows remain on positive bias; however, the real continues largely unchanged in the face of impending central bank intervention.

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The peso reversed early gains in response to possible interventions by the authorities in the foreign exchange market.

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Market awaits news of Banco de la República's intervention.

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The nuevo sol remains relatively stable on dollar purchases by the BCRP.

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

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Strategic Outlook

- Brazil →
- Chile →
- Colombia →
- Peru →

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

Mixed results in the absence of significant economic numbers
Lateral dynamics prevail in markets, as investors await information on the cycle.

Upbeat European numbers continue to surprise

Led by a strong showing in June construction in Spain --up 7.2% MoM-- (on a day with little in the way of economic indicators), a rebound in overall June EU construction numbers from 2.7% MoM vs. -1.0% in May was welcome news. Germany, in turn, retreated 0.9%. Numbers from the Economic and Monetary Union have come in better than expected in recent weeks; however, EU growth levels are still below that of other regions and signs point to a slowdown over the remainder of the year.

The US, in turn, saw the release last week's mortgage application numbers, which grew by 13% (vs. 0.6%) on lower interest rates and falling real estate. Though this is good news, the real estate market is something that still bears watching.

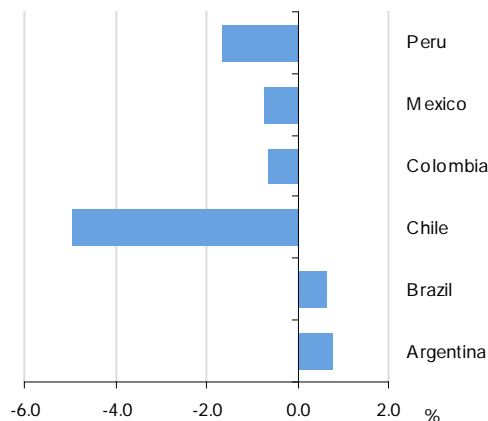
The dearth of economic data has led investors to bide their time, as stock markets, even as they hover near short-term support levels, still are without the drive needed to break through resistance levels. From the regional perspective with Brazil in the lead, Latin America's positive performance remains differentiated largely on the back of commodities. Moreover, regional currencies held onto the week's gains after yesterday's lateral movements.

Today investors will remain alert to new unemployment applications, perhaps as high as 480k, which would underscore ongoing weakness in US hiring. Leading economic indicators for July are due to be released as is the Fed of Philadelphia's August survey of the regional business outlook. While both reports could bring good news, we cannot rule out numbers somewhat below market expectations.

APPENDIX

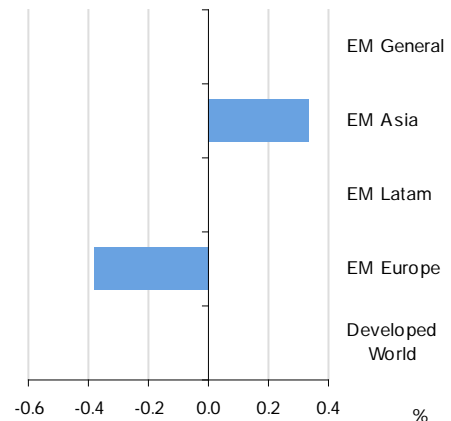
Macro Calendar >

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

Financial flows remain on positive bias; however, the real continues largely unchanged in the face of impending central bank intervention.

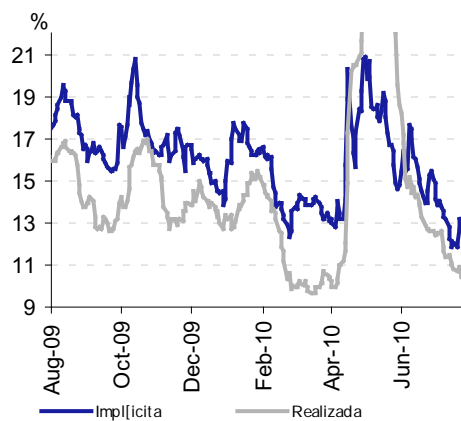
FX LatAm
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

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

According to the Banco Central do Brasil's weekly forex report, the balance of financial and trade operations for the second week of August was US\$571mn. As such, the first 13 days of the month saw inflows amount to US\$2.4bn. This sum reflects a significant recovery in flows against levels seen in June and July of -US\$4.3bn and US\$712mn, respectively, a situation not entirely priced in by the currency. It is important to take into account that this recovery comes on a rebound in financial flows, which stand near US\$2.6bn to August 13.

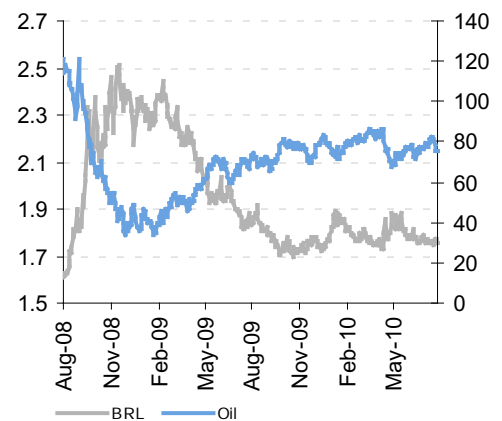
Meanwhile, BACEN's daily intervention has increased to an average of US\$237mn, up from July levels of US\$48.4mn, which further fuels expectations of stronger intervention by monetary authorities, including the Sovereign Fund. This has limited greater appreciation of the currency even as inflows continue to grow. Based on this situation, the real could continue to trade around 1.75 in the short term, a level that prevailed in yesterday's session. Nonetheless, we cannot rule out a break as September approaches, especially in light of expectations of an increase in foreign inflows driven by the Petrobras issuance on the Bovespa.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook



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Peru



Exchange Rates

Chilean peso

The peso reversed early gains in response to possible interventions by the authorities in the foreign exchange market.

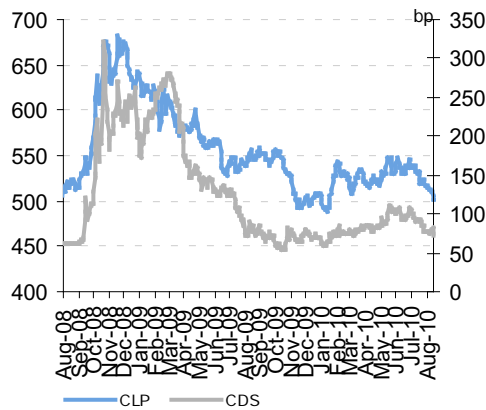
FX LatAm
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

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

Diverse events occurred yesterday on the local front: 1) On the one hand quarterly accounts data was released, including first quarter growth above the market's expectations (6.5% vs. 6.2%e) and domestic demand for the same period (19.4%). On top of this was an upward revision of first quarter GDP (from 1% to 1.5%), resulting in growth of 4% for the first half. This was amid a scenario of solid external accounts (while the current account came in below expectations, it was due to already mentioned domestic demand). It is important to note that foreign portfolio and capital inflows eased, although the reference period did not include expectations of a bigger yield gap vs. the US.

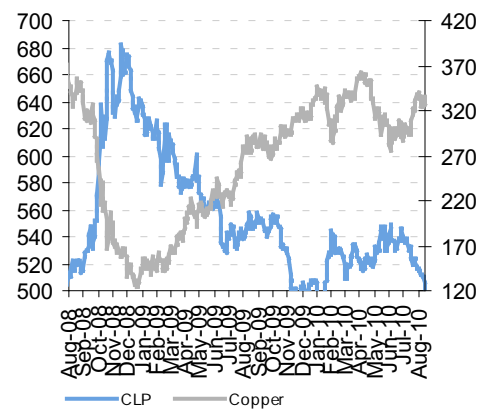
2) On the other, the Finance Ministry joined in with recent statements from the President expressing concern about the currency's recent appreciation and the need to keep the exchange rate competitive. Thus, while economic data continue to favor a widening of the positive trend in the peso, we still do not rule out a short-term correction based on technical factors and expectations of intervention in the foreign exchange market. In fact, yesterday the currency reversed gains recorded at the beginning of the session closing above 500.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

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Exchange Rates

Colombian peso

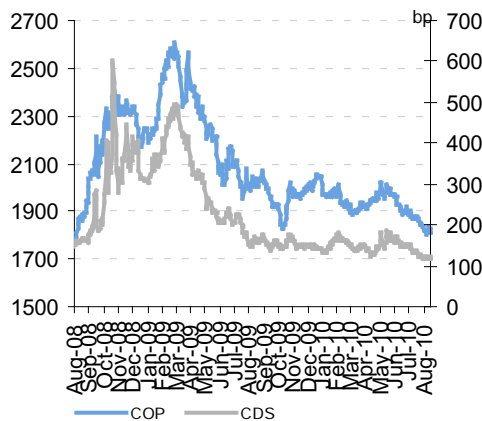
Market awaits news of Banco de la República's intervention.

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

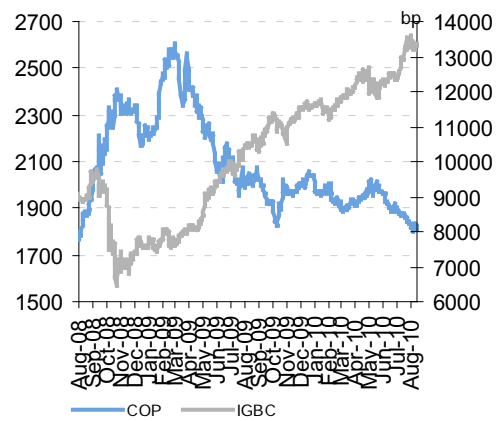
Despite positive closes for most of the region's equity markets (e.g. the IGBC rose 0.42%), the peso weakened 0.26% yesterday. Two factors were the center of attention on the local front: 1) On the one hand –and to a greater extent– the market continues to await news of Banco de la República's intervention in the foreign exchange market tomorrow. 2) On the other, the market continued to await the release of economic data in the afternoon (industrial output and retail sales were mixed: 8.5% vs. 8.9%e and 15.4% vs. 12.5%e, respectively), especially given the effect they could have on expectations ahead of tomorrow's monetary policy meeting. Thus we expect the peso to continue to consolidate around current levels.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Peru

Strategic Outlook



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Chile



Colombia



Exchange Rates

Peruvian nuevo sol

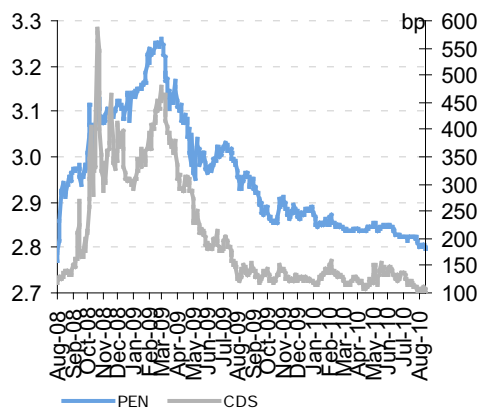
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FX Latam
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

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

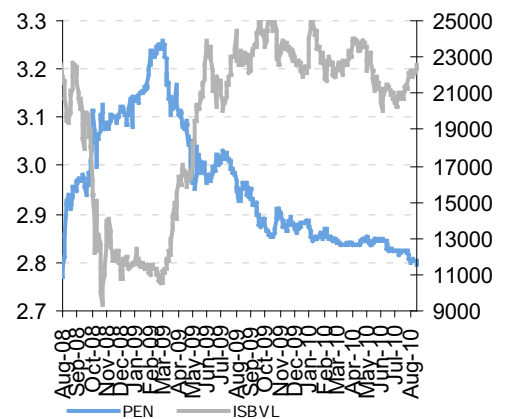
On a day of mixed results for regional currencies, the nuevo sol remained largely stable around 280, as the Banco Central de Reserva del Perú intervened in the forex market to the tune of US\$102.5mn. In this light, most of the region will turn its attention to the likelihood of new interventions in the forex markets by central banks or stronger interventions in those countries, such as Peru, where these are already occurring. As such, in the short term we do not expect significant movements, even as the currency remains on a positive bias.

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	0.11	0.11	-3.44
Brazilian real	1.75	0.07	1.22	-0.49
Chilean peso	501.75	0.10	2.07	1.12
Colombian peso	1,811.75	-0.26	-0.59	11.35
Mexican peso	12.63	-0.28	0.93	3.51
Peruvian nuevo sol	2.80	0.05	0.30	3.15

5 year CDS				
Argentina	826.56	0.79	2.41	-9.60
Brazil	116.99	0.63	2.21	-4.52
Chile	71.76	-4.95	-5.26	5.03
Colombia	118.07	-0.65	-0.32	-17.40
Mexico	116.12	-0.72	1.56	-13.20
Peru	99.99	-1.67	-5.36	-19.05

Equity indexes				
Argentina Merval	2,466.70	1.27	5.00	6.29
Brazil IBOV	67,638.38	0.08	2.81	-1.39
Chile IPSA	4,513.66	0.41	2.85	26.03
Colombia IGBC	13,395.84	0.42	1.30	15.46
Mexico IPyC	32,408.30	0.38	1.09	0.90
Peru ISBVL	22,528.20	0.14	2.64	0.42
VIX Index	24.59	24.33	25.39	21.68

Commodities				
CRB Industrial	502.04	0.00	1.11	3.84
COMEX Copper	334.90	0.34	2.97	0.65
WTI	75.42	-0.46	-3.33	-4.96
Gold	1,229.45	0.38	2.62	12.08
Sugar	19.60	1.14	7.34	-10.30
Soy	1,030.75	-1.08	1.50	1.63

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.09	7.34	11.18	16.36
Brazilian real	11.46	12.88	14.06	15.61
Chilean peso	11.17	11.96	12.61	13.24
Colombian peso	12.29	13.13	13.86	14.59
Mexican peso	10.49	12.05	12.72	13.09

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.13	4.38
Brazilian real	1.77	1.79	1.83	1.91
Chilean peso	501.80	502.45	505.32	512.26
Colombian peso	1,813.10	1,818.25	1,824.75	1,855.25
Peruvian nuevo sol	2.79	2.79	2.79	2.79

Foward points				
Argentinian peso	0.03	0.09	0.20	0.45
Brazilian real	0.01	0.04	0.08	0.15
Chilean peso	0.05	0.70	3.57	10.51
Colombian peso	1.35	6.50	13.00	43.50
Peruvian nuevo sol	-0.01	-0.01	-0.01	0.00

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.73	-1	-4	39
LTN Jan-11	10.89	10	-6	37
NTN-F Jan-13	11.66	-42	-35	-54
NTN-F Jan-17	11.58	-54	-32	-126
NTN-B Aug-14	6.17	-13	-28	-124

Chile				
TPM	1.93	-7	32	110
TAB 90d UF	0.10	-1	-1	-665
Swap CLPxCAM 2Y	4.17	-6	-2	103
Swap CLPxCAM 5Y	4.90	-7	-13	-27
Swap CLPxCAM 10Y	5.50	-9	-10	-46
Swap UFXCAM 2Y	0.54	4	11	-76
Swap UFXCAM 5Y	1.53	-3	-8	-52
Swap UFXCAM 10Y	2.22	-4	-6	-33
Swap basis 2Y	74.00	0	9	-11
Swap basis 5Y	59.00	0	8	-8
Swap basis 10Y	95.00	0	12	-8
BCP Jan-2012	4.95	-4	-4	78
BCP Aug-2014	5.80	0	0	54
BCU 5Y	2.21	-6	4	-66
BCU 10Y	2.70	-6	-7	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	0	0	-63
TES Aug-2012	4.78	-1	-5	-452
TES May-2014	6.23	0	1	627
TES Jul-2020	7.26	0	-3	-116
UVR Mar-2013	2.58	0	1	-232

Peru				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.55	-13	-13	-413
Sovereign bond Aug-2017	5.12	-5	-10	-171
Sovereign bond Aug-2037	6.21	-8	-6	69

Global bonds				
BRL 2040	2.65	-2	-2	-168
CLP 2013	1.45	-22	5	-56
COP 2033	5.27	-25	-29	-135
PE 2033	4.94	-10	-21	-127

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, August 18					
Chile	Current Account	2Q	406.5	1522.9	46.8
	Gross Domestic Product YoY	2Q	6.20%	1.00%	6.50%
Colombia	Industrial Production (YoY)	JUN	8.80%	7.50%	8.50%
	Retail Sales (YoY)	JUN	12.90%	13.10%	15.40%
Thursday, August 19					
Brazil	FGV Preview Inflation IGP-M	18-Aug		0.03%	
	CAGED Formal Job Creation	JUL	279000	212952	
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%	

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.garcia@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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