

Latam

# Daily Latam

## Market Analysis Markets

Mexico City, August 20, 2010

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### US data overshadow good news related to German growth expectations

The Basil FSB and the IMF comment on the benefits of higher capital and liquidity requirements.

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The real remains under pressure from expectations of an intervention as well as global market volatility.

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Peso slips on combination of external and domestic factors.

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Investors await results of today's Banco de la República meeting.

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The nuevo sol slides on volatility in foreign markets and forwards coming to term in the local market.

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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- Colombia →
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**US data overshadow good news related to German growth expectations**  
**The Basil FSB and the IMF comment on the benefits of higher capital and liquidity requirements.**

**The financial sector reflects this in a bigger-than-expected loss**

Amid an uncertain global environment, the unexpected rise in new jobless claims (at their highest for the year: 500k vs. a 478 consensus) and a contraction in Philadelphia manufacturing (Philly Fed Index at -7.7 points vs. 7.0e) renewed fears of a stronger US slowdown than what the market had priced in.

The employment report reflected a weak labor market but is consistent with previous economic cycles and congruent with our scenario of slower growth going forward (3% and 2.5% for 2010 and 2011, respectively).

Furthermore, as part of a global evaluation of banking system regulations, the Basil Financial Stability Board (FSB-BCBS) and IMF report indicates that more tangible capital requirements and liquidity measures will contribute to a more solid system and also have a modest impact on GDP (0.04%) by being implemented gradually over 4 years.

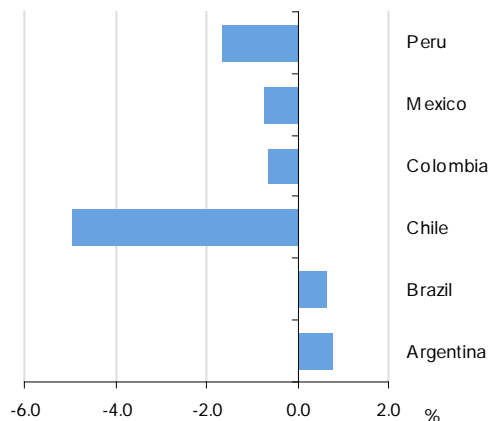
These events combined to make Latam markets weaken. In Europe, markets reversed the gains generated by the Bundesbank's upward revision of estimated growth (from 1.9% to 3.0% for 2010). In this context, the US financial sector declined 50% more than the S&P 500 while Latam fared better than developed markets.

Today, 2Q10 GDP growth is due out in Mexico and could reach 1.5% QoQ and 5.6% YoY. However, stronger numbers are not ruled out, as Banco de México suggested in its Inflation Report (between 2.5% and 3% QoQ). A prolonged monetary pause is expected (fondeo rate at 4.5%), and the phrasing of the monetary policy statement will be relevant. We do not rule out it reflecting a more uncertain environment with the possibility of a long pause and a signal to watch volatile prices and a slight inflationary spike at the end of the year.

**APPENDIX**

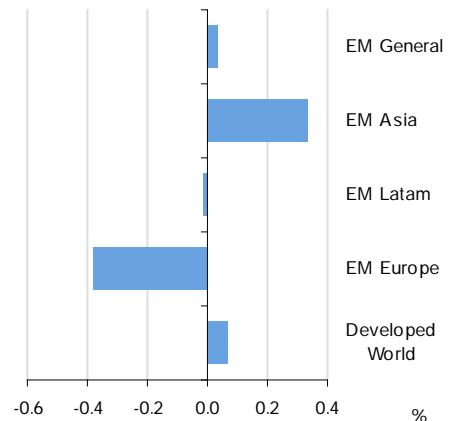
Macro Calendar

**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

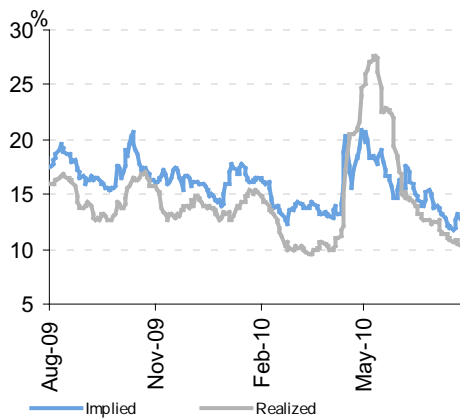
The real remains under pressure from expectations of an intervention as well as global market volatility.

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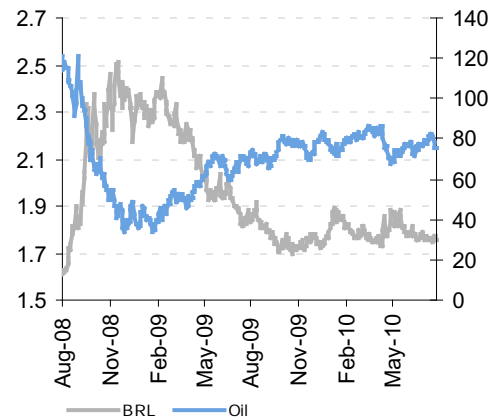
As in recent sessions, the performance of the real was determined by two factors yesterday. On the one hand, the currency remains sensitive to the performance of global markets and so it was impacted by declines in most risky assets on worse-than-expected US economic data. For example, oil and the IBOV, with which the real maintains a 3M correlation of -0.76 and -0.79, respectively, recorded declines of 1.5% and 0.9%. Furthermore, talks of greater intervention in the region's foreign exchange markets persist. While Banco Central do Brasil has been undertaking daily purchases of USD since April last year, in recent weeks the amount has increased again (it had decreased to US\$20mn, but last week was US\$250mn). This in turn is preventing the currency from breaking 1.75 (a movement we expect in mid September), which was reflected in 0.11% depreciation at the end of yesterday's session. Thus we maintain our expectation of a sideways movement within a trading range of 1.75-1.78 in the short term.

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

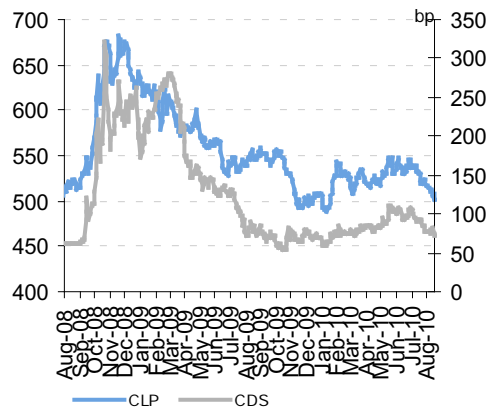
**Peso slips on combination of external and domestic factors.**

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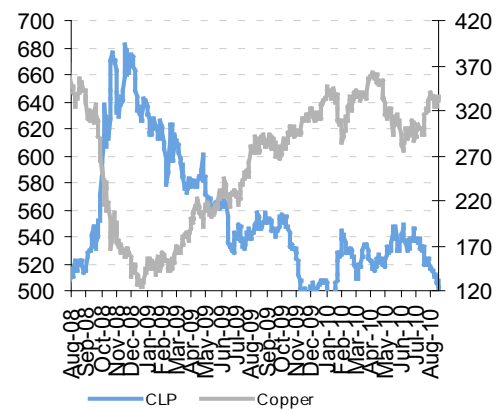
A combination of two factors weakened the peso by 1.1% yesterday: 1) on the external front, the currency was impacted by weakness in most risky assets (mainly the price of copper ,which lost 0.9%) on worse-than-expected US economic data; and 2) the possible intervention by either the Finance Ministry or the Banco Central de Chile in the foreign exchange market which, while not expected at current levels, is becoming more likely given discussions that are taking place. Furthermore, technical factors are beginning to weigh on local investors' positions. While this correction could extend in the short term (especially to the extent uncertainty regarding the global cycle continues to put pressure on copper prices) our medium-term outlook for the currency remains positive.

**CLP vs. 5y CDS**



Source: Bloomberg and BBVA Research

**CLP vs. Copper**



Source: Bloomberg and BBVA Research

# Colombia

Strategic Outlook



Brazil



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## Exchange Rates

### Colombian peso

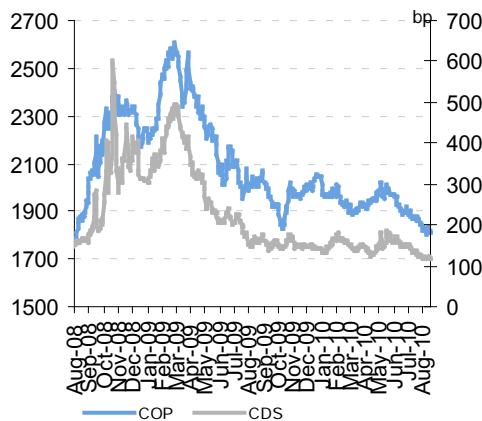
**Investors await results of today's Banco de la República meeting.**

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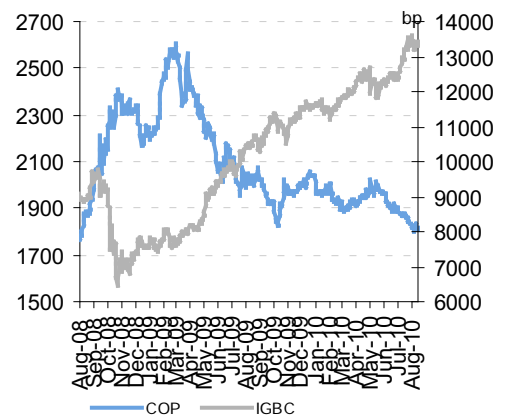
In line with the performance of most Latam currencies, the peso depreciated 0.33%, a loss that was less than that absorbed by major regional currencies, as the average depreciation of the CLP, BRL and MXN was 0.69%. This performance is, in our opinion, a product of the market exercising caution ahead of today's monetary policy decision. Even as risky assets reacted to global cycle factors, the local market remained largely unchanged as investors speculate on the forex intervention mechanisms that Banrep is likely to announce. If dollar purchases are announced, expectations stand above the daily amount of US\$20mn in the first half of 2010. As such, we do not expect significant movements in today's session.

**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

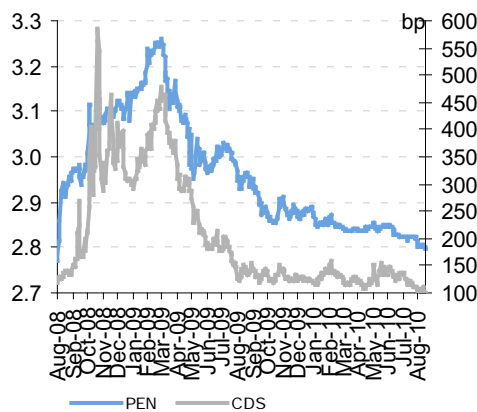
The nuevo sol slides on volatility in foreign markets and forwards coming to term in the local market.

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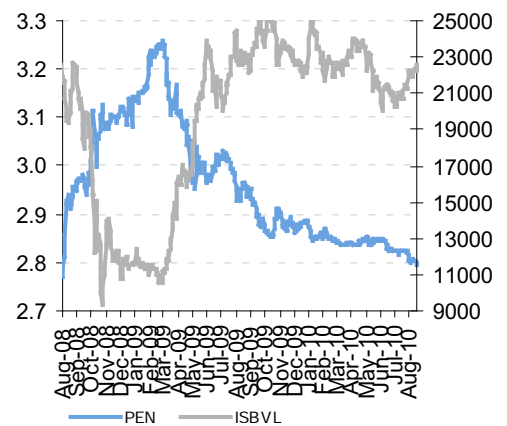
The nuevo sol marginally depreciated by 0.07% yesterday. This movement is underpinned by two factors: 1) on one hand, the currency was dragged down by volatility on the international front; and 2) on the other, it came under pressure from forwards coming to term on the local market. This situation comes in addition to the central bank which has already provided a support level of 2.80, even though it purchased a meager US\$3mn. In this light, we do not expect significant movements 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
<b>Currencies</b>				
Argentinian peso	3.94	-0.21	-0.12	-3.66
Brazilian real	1.76	-0.15	0.79	-0.65
Chilean peso	507.30	-1.11	0.48	0.03
Colombian peso	1,817.75	-0.33	0.41	11.06
Mexican peso	12.71	-0.62	0.20	2.91
Peruvian nuevo sol	2.80	-0.09	0.21	3.06

	Close	Change %		
		1D	1W	YTD
<b>5 year CDS</b>				
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

	Close	Change %		
		1D	1W	YTD
<b>Equity indexes</b>				
Argentina Merval	2,429.28	-1.52	2.65	4.68
Brazil IBOV	66,953.09	-1.01	1.50	-2.38
Chile IPSA	4,519.90	0.14	3.09	26.20
Colombia IGBC	13,438.32	0.32	1.81	15.83
Mexico IPyC	32,140.75	-0.83	0.31	0.06
Peru ISBVL	22,294.79	-1.04	0.54	-0.62
VIX Index	26.27	24.59	25.73	21.68

	Close	Change %		
		1D	1W	YTD
<b>Commodities</b>				
CRB Industrial	502.59	0.00	1.20	3.95
COMEX Copper	331.75	-0.94	1.07	-0.30
WTI	74.44	-1.30	-1.72	-6.20
Gold	1,231.00	0.13	1.41	12.22
Sugar	19.48	-0.61	2.69	-10.85
Soy	1,012.25	-1.79	-1.58	-0.20

	Volatilities %			
	1M	3M	6M	1A
Argentinian peso	4.07	7.33	11.19	16.37
Brazilian real	11.76	13.01	14.13	15.74
Chilean peso	11.06	11.94	12.51	13.18
Colombian peso	11.42	12.16	12.95	14.09
Mexican peso	10.48	11.94	12.67	13.02

	NDF currency/US\$			
	Close	1D	1W	YTD
Argentinian peso	3.97	4.02	4.14	4.40
Brazilian real	1.77	1.79	1.83	1.91
Chilean peso	507.35	508.18	510.78	517.53
Colombian peso	1,818.60	1,823.25	1,831.00	1,858.75
Peruvian nuevo sol	2.79	2.79	2.79	2.80

	Foward points			
	Close	1D	1W	YTD
Argentinian peso	0.03	0.09	0.21	0.46
Brazilian real	0.01	0.03	0.08	0.15
Chilean peso	0.05	0.88	3.48	10.23
Colombian peso	0.85	5.50	13.25	41.00
Peruvian nuevo sol	-0.01	-0.01	-0.01	0.00

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
<b>Brazil</b>				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.70	-3	-9	39
LTN Jan-11	10.84	-7	-10	37
NTN-F Jan-13	11.51	-42	-53	-54
NTN-F Jan-17	11.48	-18	-44	-126
NTN-B Aug-14	6.17	-2	-22	-124

	Close %	Change bp		
		1D	1W	YTD
<b>Chile</b>				
TPM	1.90	-3	23	110
TAB 90d UF	0.10	0	-1	-665
Swap CLPxCAM 2Y	4.16	-1	0	103
Swap CLPxCAM 5Y	4.88	-2	-13	-27
Swap CLPxCAM 10Y	5.50	0	-10	-46
Swap UFXCAM 2Y	0.53	-1	9	-76
Swap UFXCAM 5Y	1.51	-2	-10	-52
Swap UFXCAM 10Y	2.22	0	-6	-33
Swap basis 2Y	76.00	2	10	-11
Swap basis 5Y	63.00	4	9	-8
Swap basis 10Y	95.00	0	7	-8
BCP Jan-2012	4.95	-5	-4	78
BCP Aug-2014	5.81	0	1	54
BCU 5Y	2.22	1	-4	-66
BCU 10Y	2.59	-11	-12	-41

	Close %	Change bp		
		1D	1W	YTD
<b>Colombia</b>				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	0	0	-63
TES Aug-2012	4.75	0	-10	-452
TES May-2014	6.13	0	-12	627
TES Jul-2020	7.15	0	-15	-116
UVR Mar-2013	2.56	0	-5	-232

	Close %	Change bp		
		1D	1W	YTD
<b>Peru</b>				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	3.88	123	123	-413
Sovereign bond Aug-2017	5.10	-7	-8	-171
Sovereign bond Aug-2037	6.21	-5	-10	69

	Close %	Change bp		
		1D	1W	YTD
<b>Global bonds</b>				
BRL 2040	2.59	-6	-16	-168
CLP 2013	1.37	-29	-31	-56
COP 2033	5.58	26	-10	-135
PE 2033	4.92	-6	-30	-127

Strategies →

# Appendix 2

## Calendar of Economic Indicators

			Survey	Prior	Actual
<b>Thursday, August 19</b>					
Brazil	FGV Preview Inflation IGP-M	18-Aug		0.03%	0.55%
	CAGED Formal Job Creation	JUL	279000	212952	181796
Argentina	Consumer Confidence	AUG		48.17	50.37
<b>Friday, August 20</b>					
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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