

Latam

Daily Latam

Market Analysis Markets

Mexico City, 21 July, 2010

Strategic Outlook

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Rumors surrounding new Fed stimulus measures boost markets...

...in a context of mixed earnings reports and cycle numbers.

Brazil

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Exchange Rates: Brazilian real

The real appreciates 1% in tandem with gains on the IBOV.

Chile

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Exchange Rates: Chilean peso

The peso closed up yesterday on the back of higher copper prices and expected foreign currency inflows.

Peru

PAGE 5 →

Exchange Rates: Peruvian Nuevo Sol

Despite no central bank intervention yesterday, the nuevo sol remained largely unchanged thanks to recent measures to prevent short-term capital flight.

PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 10 OF THIS REPORT

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Strategic Outlook

Brazil



Chile



Peru



Rumors surrounding new Fed stimulus measures boost markets...
...in a context of mixed earnings reports and cycle numbers.

Investors remain focused on earnings reports of financials

Risky assets continued to be buffeted by mixed signals yesterday. The EU sovereign risk premiums declined on successful debt auctions, as Spain, Greece and Ireland issued a total of nearly EUR10bn at yields below market expectations, while in the US earnings reports came in below estimates. In this tenor, Goldman Sachs reported a slump in earnings that early in the day battered its shares, which later bounced back by the bell. Moreover, US cycle numbers were mixed, with building permits up, while housing starts came in lower than expected. Nonetheless, stocks, currencies and commodities were able to recoup some of their recent losses on rumors that Ben Bernanke could soon announce new stimulus measures during his monetary policy report before Congress. Rumors centered on the likelihood of the Fed suspending interest payments on reserves, which currently stand at 0.25%.

Under the cloud of negative surprises that have come largely from the financial sector, financial giants Morgan Stanley and Wells Fargo are due to release earnings reports today. Additionally, markets could feel pain from MBA mortgage application numbers which previously came in below market expectations. Brazil's upcoming monetary policy decision is expected to bring an increase of 0.75% in the Selic rate, a move that has been widely priced in. Otherwise the LatAm region has little to offer in terms of economic news.

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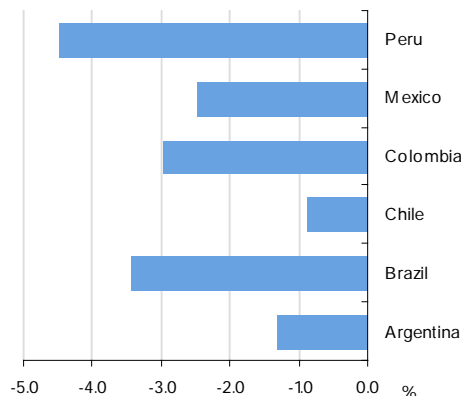
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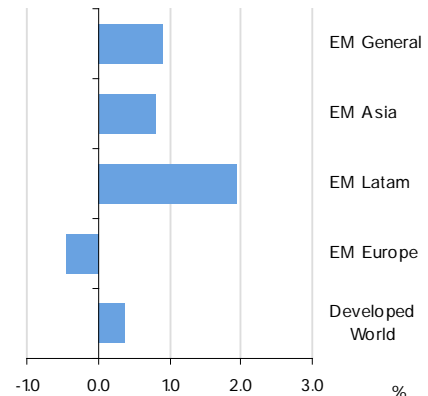
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Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

APPENDIX

Macro Calendar



Brazil

Strategic Outlook



Exchange Rates

Chile



Peru



Brazilian real

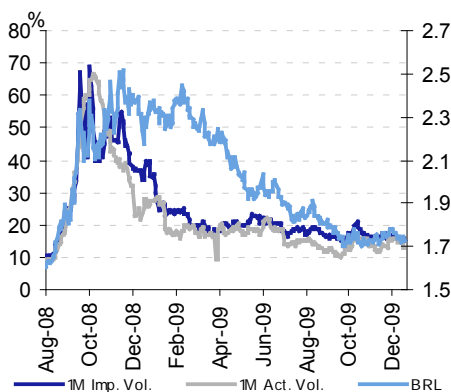
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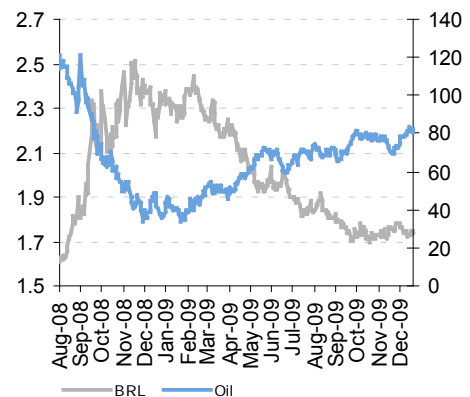
Although risky asset drivers continue to be mixed (lower EU sovereign risk premiums on the back of successful debt issuances, and weak US earnings results and cycle figures), equity indices, exchange rates and commodity prices erased yesterday part of the losses of previous sessions. The IBOV increased 1.8% on the aforementioned factors, but also on local developments. For example, IPCA-15 inflation figures below expectations (-0.09% vs. 0.02%e) resulted in a downward change in expectations from 75bp to 50bp regarding today's monetary policy decision and flows shifting towards equities. As it remains highly correlated with the index (3M at -0.75), the real should benefit from an extension of this movement, especially considering expectations of foreign currency inflows derived from ongoing positive valuation factors. For the time being, the market will await the decision from the central bank, and even if the hike were lower than expected, it would still underpin our positive outlook for the real in the short term with a target at 1.75.

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

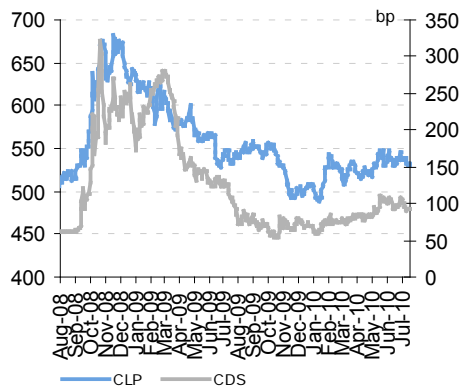
The peso closed up yesterday on the back of higher copper prices and expected foreign currency inflows.

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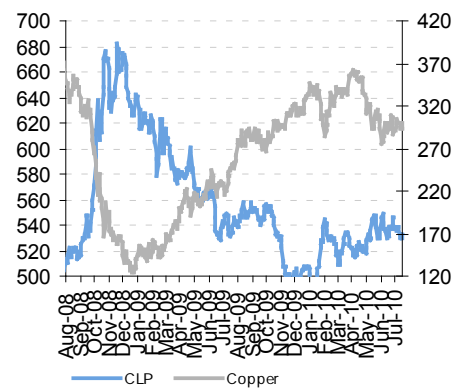
The peso closed 0.66% stronger yesterday in line with copper prices that increased 2% on US building permits above expectations. As a result, the currency stands again on a major support level (529) which, if breached, could extend gains toward the next support zones at 527 and 522. This movement could be justified by an ongoing positive trend in commodity prices and expected foreign currency inflows for the Reconstruction Financing Plan. We do not expect gains to exceed these levels and, as such, we stand by our outlook of lateral dynamics within a 522-537 range.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Peru

Strategic Outlook



Brazil



Chile



Exchange Rates

Peruvian nuevo sol

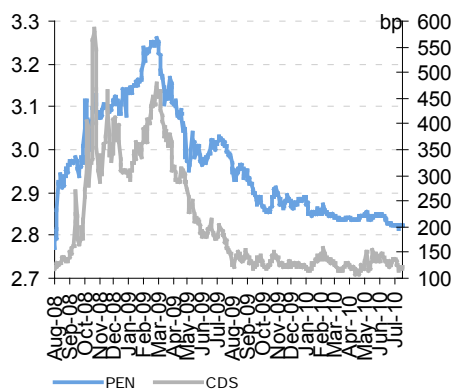
Despite no central bank intervention yesterday, the nuevo sol remained largely unchanged thanks to recent measures to prevent short-term capital flight.

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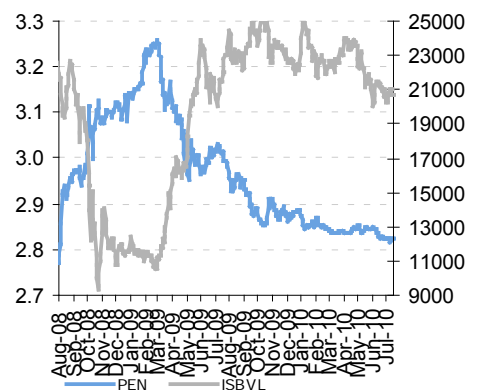
Although Banco Central de Reserva del Perú did not intervene in the forex market yesterday, the nuevo sol closed mostly flat just above 2.82. This performance was the result of measures taken recently to prevent short-term capital flight ahead of risks “related to the global slowdown and EU tax solvency issues,” according to recent statements from bank president Julio Velarde. As the support level is still clear, we think the nuevo sol will maintain its stability in the short and medium 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	-0.05	-3.57
Brazilian real	1.77	1.03	-0.98	-1.70
Chilean peso	529.55	0.66	1.06	-4.36
Colombian peso	1,874.50	0.05	-0.10	8.28
Mexican peso	12.77	0.99	-0.80	2.42
Peruvian nuevo sol	2.82	0.02	-0.29	2.22

5 year CDS				
Argentina	893.60	-1.31	0.75	-2.26
Brazil	123.38	-3.44	1.47	0.70
Chile	92.47	-0.89	0.76	35.34
Colombia	132.36	-2.98	0.82	-7.41
Mexico	123.92	-2.47	2.40	-7.37
Peru	116.79	-4.49	0.39	-5.45

Equity indexes				
Argentina Merval	2,336.42	1.45	1.36	0.68
Brazil IBOV	63,297.04	0.00	-0.61	-7.71
Chile IPSA	4,241.75	0.77	0.91	18.44
Colombia IGBC	12,940.49	0.00	1.28	11.54
Mexico IPyC	32,024.27	0.56	-0.50	-0.30
Peru ISBVL	20,671.86	0.02	-1.63	-7.86
VIX Index	23.93	25.97	24.56	21.68

Commodities				
CRB Industrial	469.69	0.00	-0.56	-2.85
COMEX Copper	299.75	2.22	-0.40	-9.92
WTI	77.44	1.18	0.38	-2.42
Gold	1,192.05	0.77	-1.67	8.67
Sugar	17.28	-1.87	0.64	-20.92
Soy	973.00	0.10	1.94	-4.07

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.82	8.39	12.24	17.99
Brazilian real	15.05	15.77	16.39	17.10
Chilean peso	12.57	13.07	13.31	13.87
Colombian peso	12.89	13.48	14.18	14.81
Mexican peso	13.78	13.82	13.99	14.14

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.15	4.42
Brazilian real	1.79	1.81	1.85	1.93
Chilean peso	529.58	530.29	532.34	538.56
Colombian peso	1,875.35	1,880.00	1,891.00	1,924.50
Peruvian nuevo sol	2.83	2.82	2.83	2.85

Foward points				
Argentinian peso	0.03	0.08	0.22	0.48
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	0.03	0.74	2.79	9.01
Colombian peso	0.85	5.50	16.50	50.00
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	10.97	-8	-35	55
LTN Jan-11	10.98	-8	-35	45
NTN-F Jan-13	12.06	-5	-1	-48
NTN-F Jan-17	12.21	-4	7	-111
NTN-B Aug-14	6.58	0	-20	-117

Chile				
TPM	1.51	0	49	121
TAB 90d UF	0.15	0	6	-705
Swap CLPxCAM 2Y	3.98	2	12	93
Swap CLPxCAM 5Y	5.00	0	2	-23
Swap CLPxCAM 10Y	5.72	0	2	-35
Swap UFXCAM 2Y	0.25	0	2	-100
Swap UFXCAM 5Y	1.49	-6	-2	-69
Swap UFXCAM 10Y	2.14	-2	0	-44
Swap basis 2Y	61.00	0	0	-7
Swap basis 5Y	53.00	0	-1	-2
Swap basis 10Y	85.00	0	2	-1
BCP Jan-2012	4.94	30	52	78
BCP Aug-2014	5.78	0	12	54
BCU 5Y	2.26	-4	-7	-56
BCU 10Y	2.92	7	4	-28

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.54	0	2	-57
TES Aug-2012	4.79	-1	-1	-452
TES May-2014	6.35	0	-5	635
TES Jul-2020	7.46	0	-12	-103
UVR Mar-2013	2.56	0	-11	-235

Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.80	-5	-10	-413
Sovereign bond Aug-2017	5.50	-9	-3	-171
Sovereign bond Aug-2037	6.56	-7	-8	69

Global bonds				
BRL 2040	3.24	-5	-14	-112
CLP 2013	1.63	-15	-30	-31
COP 2033	6.83	0	42	-14
PE 2033	5.62	0	-18	-82

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Tuesday, July 20					
Brazil	FGV Preview Inflation IGP-M	19-Jul	0.15%	1.06%	0.03%
	IBGE CPI IPCA-15 (MoM)	JUL	0.02%	0.19%	-0.09%
Wednesday, July 21					
Brazil	SELIC Target - Central Bank	21-Jul	11.00%	10.25%	
Thursday, July 22					
Brazil	FGV Consumer Confidence	JUL		118.5	
	Unemployment Rate	JUN	7.50%	7.50%	
Colombia	Overnight Lending Rate	23-Jul	3.00%	3.00%	
Friday, July 23					
Brazil	FGV CPI IPC-S	22-Jul		-0.13%	
Argentina	Trade Balance	JUN		\$1905M	

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