BBVA Research

Latam

Daily Latam

Market Analysis

Markets

Mexico City, 22 July, 2010

BBVA Bancomer

Strategic Outlook

Brazil
Chile
Colombia
Peru

Equity LatAm

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Bernanke's testimony worries markets

Intense corporate activity, accompanied by more encouraging earnings reports. Market focuses on the cycle evolution and sovereign risk.

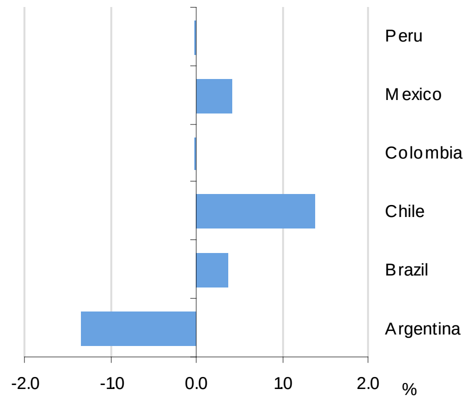
Double dip looks doubly uncertain

In his testimony on Capitol Hill, Ben Bernanke described the outlook for the US economy as complex and "unusually uncertain," with growth slowing down. His statement, which was similar to the Fed's minutes released last week, drove markets down largely because of unfulfilled hopes of an announcement of political measures to face the current economic situation. Instead of elaborating on concrete actions, the Fed's President mentioned the need to remove monetary stimuli in order to contain inflationary pressures further ahead. Both facts seem to indicate that the market has a more bearish outlook of the economic environment than the Fed itself. For the time being, rather than a double-dip scenario, we stand by our forecast of a slow US economy in the second half of 2010. This view is based on inventory reconstitution and a lesser emphasis on the fiscal policy. Investment and private consumption have rebounded, but consumption has seen only a modest expansion in light of a weak labor market and global financial uncertainty. In conclusion, we believe the US economy will grow between 2.5% and 3.0% in 2010 and 2011. In local news, Mexico retail sales for May were released, coming in above market expectations: 5% YoY vs. the BBVA Research estimate of 5% and the market's of 3%. This positive figure was the result of the ongoing recovery on the jobs front, but we still think Mexico will recover gradually in tandem with the US economy. Meanwhile, inflation for the first half of July will be released today –we expect it to be of 0.29% vs. the consensus estimate of 0.25%– because of pressures on agricultural products that were literally buffeted by recent foul weather.

The context mentioned above weighed on positive sentiment resulting from earnings results, with markets shrugging off the advice from the Committee of European Banking Supervisors. In a move that we believe could give the required signal in the stress test, authorities will present Friday a third scenario that prices in a sovereign shock derived from a worsening corporate credit scenario, as an alternative to one evaluating sovereign debt losses, which was widely discussed in the media in recent weeks.

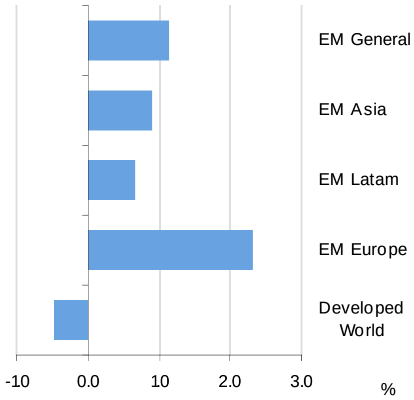
US earnings reports continued to come in favorably, with average EPSs of 13.2% for S&P and sales topping expectations by 7.5%. Worth of mentioning is reactions yesterday to Apple's report and good results from Wells Fargo, Morgan Stanley and Free-Port. Overall, the seven companies comprising the IPC which have released results (30% of sales as at 2Q09) so far have reported earnings slightly above our estimates. Thus, we stand by our growth estimates of 8.5%-9.0% in sales and 11%-12% in EBITDA. Among the approximately fifty earnings reports due out today in the US, those from 3M, Amazon, American Express, AT&T, Caterpillar and Microsoft will be especially significant. Markets will keep an eye on those of Amx, Gfnorte, Kimber and Ara in Mexico, and mining companies SCCO and Volcán in other Latin American countries.

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
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Peru

Exchange Rates

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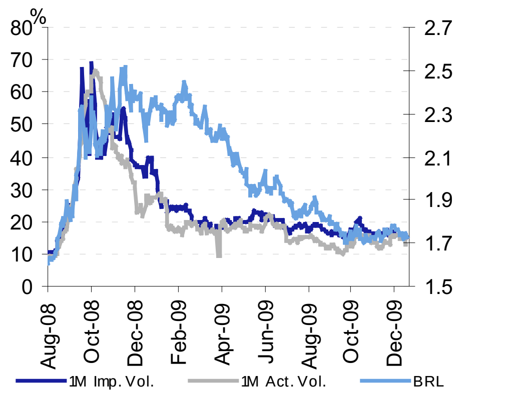
Brazilian real

The Central Bank increases the SELIC rate by 50bps

In line with the performance of most risky assets, the real depreciated by 0.37% yesterday. This movement, however, smaller than that seen in most emerging currencies (e.g., the MXN depreciated 0.77%, while eastern European currencies were down on the order of 0.98%). The real's slide was attenuated as markets await the central bank's monetary policy decision due out in this afternoon.

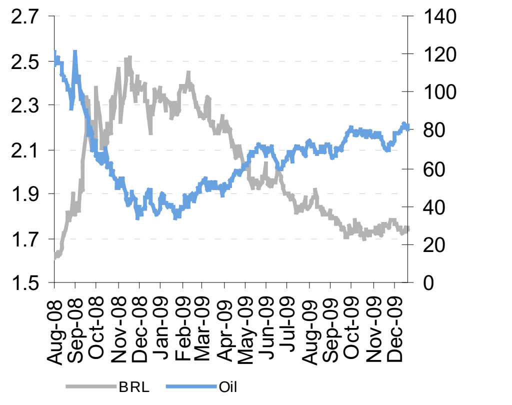
Meanwhile, according the central bank's weekly forex report, both trade and financial flows remained in negative terrain last week at -US$794mn, which is congruent with the real's depreciation of 1.5% over the same period. It is worthy of note, however, that Banco Central do Brasil intervened this to the tune of US$116mn, which is considerably less than that the average of US$350 seen in previous weeks.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Exchange Rates

Chilean peso

The peso appreciates on expected flows, but we do not rule out pressures resulting from Bernanke's speech before Congress.

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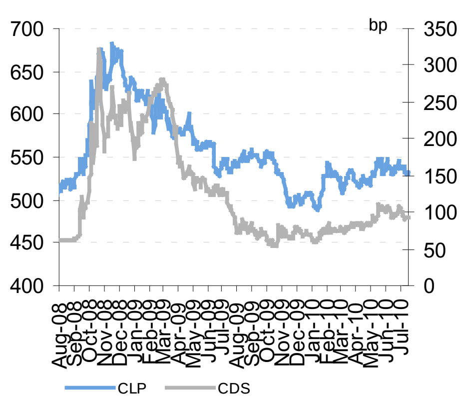
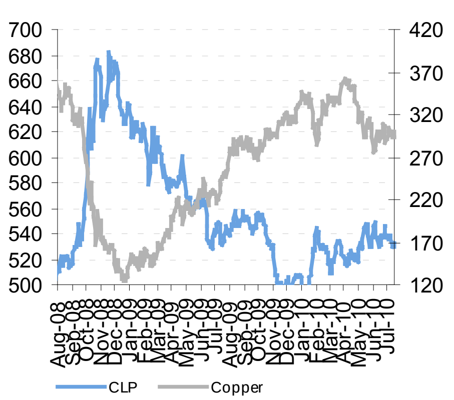
Despite loses in most risky assets, yesterday saw the peso appreciate 1.2% underpinned by two factors: 1) copper prices advancing 2.3%; and 2) the expectation of government monetizations in coming days, which –according to local newspapers– could total as much as US$6bn by the end of 2010. This comes in addition to the local fixed-income market's revised inflation expectations and monetary policy estimates. It is important to consider, however, that Bernanke's speech before Congress, occurring after the local market's close, caused widespread retreats in regional currencies. As such, we cannot rule out pressure on the currency in coming sessions, which could take the peso to the vicinity of 530.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

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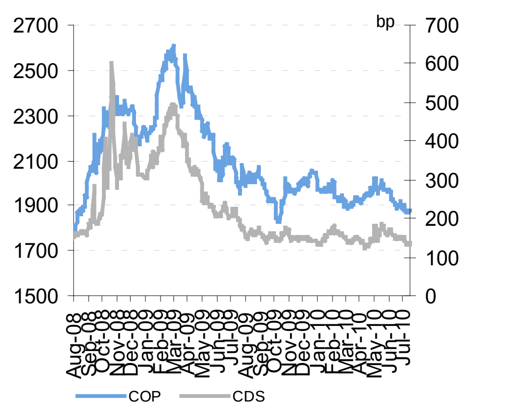
Colombian peso

The peso shifts up 0.38% after Tuesday's holiday, but we see imminent pressure on the currency.

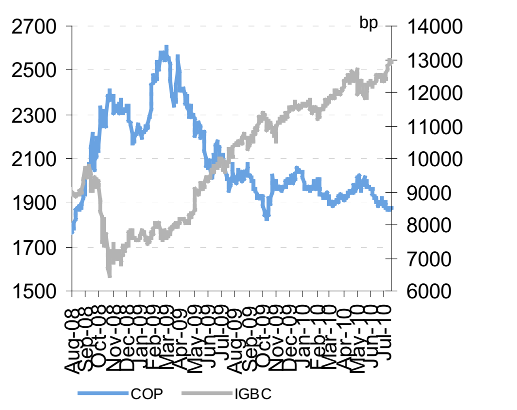
The peso closed 0.38% stronger as, on the one hand, it endured a technical adjustment resulting from local instruments not pricing in the more bullish external environment seen on Tuesday, when the IGBC index increased 3.02%. On the other hand, the currency was also underpinned by industrial production and retail sales data released Monday afternoon reflecting a favorable growth scenario. Nevertheless, we see two factors limiting the uptrend: 1) the local market closed before the onset of turbulence in risky assets in the aftermath of Bernanke's testimony before the US Congress; and 2) another decline in the traded volume, which amounted to only US$851mn yesterday. As such, we could see the peso returning to levels above 1,870 in coming sessions.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Peru

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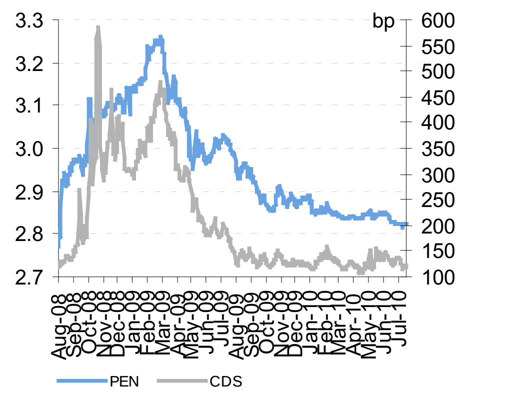
Exhange Rates

Peruvian nuevo sol

The nuevo sol depreciates in tandem with risky assets, but maintains positive bias.

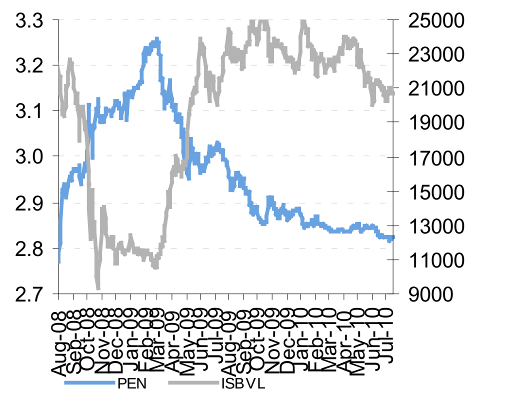
The nuevo sol inched down (0.04%) yesterday in response to risk aversion arising in the afternoon in global markets. The decline occurred in the absence of Banco Central de Reserva del Perú's interventions, which reveals that the central bank's recent measures have managed to solidify support for the sol. Local growth is expected to be favorable –the CEPAL estimates Peruvian economic growth at 7%– and, therefore, could contribute to the sol's ongoing positive bias. As such, we expect the currency to remain unchanged within a 2.82-2.83 range.

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	0.05	0.02	-3.52
Brazilian real	1.78	-0.37	-1.04	-2.08
Chilean peso	523.15	1.21	1.60	-3.09
Colombian peso	1,867.40	0.38	0.23	8.63
Mexican peso	12.87	-0.77	-1.24	1.67
Peruvian nuevo sol	2.83	-0.04	-0.14	2.18
5 year CDS				
Argentina	881.54	-1.35	-1.80	-3.58
Brazil	123.85	0.38	-0.88	1.08
Chile	93.75	1.38	4.34	37.21
Colombia	132.34	-0.02	-1.40	-7.42
Mexico	124.44	0.42	-0.01	-6.98
Peru	116.76	-0.03	-2.74	-5.47
Equity indexes				
Argentina MERVAL	2,327.35	-0.39	0.76	0.29
Brazil IBOV	64,476.84	0.02	1.57	-5.99
Chile IPSA	4,286.14	1.05	1.73	19.68
Colombia IGBC	13,203.77	2.03	2.59	13.80
Mexico IPyC	32,108.99	0.26	-0.61	-0.04
Peru ISBVL	20,659.08	-0.06	-1.71	-7.91
VIX Index	25.64	23.93	24.89	21.68
Commodities				
CRB Industrial	469.38	0.00	-0.68	-2.92
COMEX Copper	308.70	2.99	2.87	-7.23
WTI	76.56	-1.14	-0.62	-3.53
Gold	1,185.05	-0.59	-1.92	8.03
Sugar	17.47	1.10	2.95	-20.05
Soy	978.50	0.57	1.72	-3.52
Volatilities %	**1M**	**3M**	**6M**	**1A**
Argentinian peso	4.77	8.10	11.75	17.48
Brazilian real	14.90	15.42	16.16	17.15
Chilean peso	12.44	12.94	13.29	13.81
Colombian peso	13.00	13.51	14.11	14.73
Mexican peso	13.31	13.61	13.79	13.99
NDF currency/US$				
Argentinian peso	3.96	4.02	4.15	4.42
Brazilian real	1.79	1.82	1.86	1.94
Chilean peso	523.05	523.71	526.06	532.30
Colombian peso	1,873.90	1,872.40	1,882.40	1,918.90
Peruvian nuevo sol	2.83	2.82	2.84	2.86
Foward points				
Argentinian peso	0.03	0.09	0.21	0.49
Brazilian real	0.01	0.04	0.07	0.15
Chilean peso	-0.10	0.56	2.91	9.15
Colombian peso	6.50	5.00	15.00	51.50
Peruvian nuevo sol	0.00	0.00	0.01	0.03

	Close %	Change bp 1D	Change bp 1W	Change bp YTD
Brazil				
Selic O/N	10.16	0	0	151
DI Jan-11 Future	10.97	0	-29	55
LTN Jan-11	11.02	4	-25	49
NTN-F Jan-13	11.95	-11	-15	-59
NTN-F Jan-17	11.97	-24	-19	-135
NTN-B Aug-14	6.61	0	-11	-113
Chile				
TPM	1.50	0	50	120
TAB 90d UF	0.15	0	2	-705
Swap CLPxCAM 2Y	4.12	14	23	107
Swap CLPxCAM 5Y	5.07	7	8	-16
Swap CLPxCAM 10Y	5.73	1	2	-34
Swap UFxCAM 2Y	0.32	7	2	-93
Swap UFxCAM 5Y	1.53	4	0	-65
Swap UFxCAM 10Y	2.14	0	-1	-44
Swap basis 2Y	62.00	1	1	-6
Swap basis 5Y	53.00	0	0	-2
Swap basis 10Y	85.00	0	0	-1
BCP Jan-2012	4.92	-7	50	78
BCP Aug-2014	5.77	0	1	54
BCU 5Y	2.27	1	-7	-56
BCU 10Y	2.88	-4	2	-28
Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.54	0	2	-57
TES Aug-2012	4.82	2	2	-449
TES May-2014	6.36	0	-2	635
TES Jul-2020	7.46	-1	-7	-103
UVR Mar-2013	2.56	0	5	-234
Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.80	-5	-15	-413
Sovereign bond Aug-2017	5.50	-5	6	-171
Sovereign bond Aug-2037	6.54	-7	-6	69
Global bonds				
BRL 2040	3.20	-4	-20	-116
CLP 2013	1.80	2	-14	-14
COP 2033	6.19	-64	-19	-78
PE 2033	5.66	4	-16	-78

Source: Bloomberg and BBVA Research

Strategies

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, July 21					
Brazil	SELIC Target - Central Bank	21-Jul	11.00%	10.25%	10.75%
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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