

Latam

# Daily Latam

## Market Analysis Markets

Mexico City, 22 July, 2010

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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.

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The Central Bank increases the SELIC rate by 50bps

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

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

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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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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

## 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

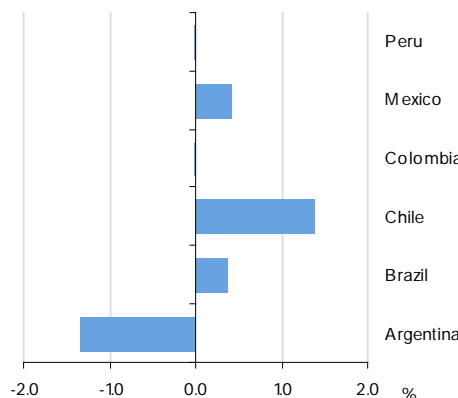
In his testimony on Capitol Hill, Ben Bernanke described the outlook for the US economy as complex and "unusually uncertain," with growth slowing down. His statement, which was similar to the Fed's minutes released last week, drove markets down largely because of unfulfilled hopes of an announcement 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.

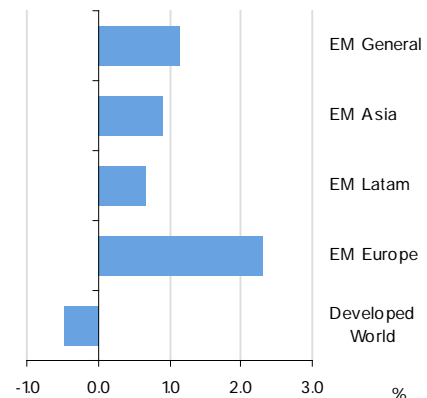
Among the approximately fifty earnings reports due out today in the US, those from 3M, Amazon, American Express, AT&T, Caterpillar and Microsoft will be especially significant. Markets will keep an eye on those of Amx, Gf Norte, Kimber and Ara in Mexico, and mining companies SCCO and Volcán in other 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



Colombia



Peru



## Exchange Rates

### Brazilian real

The Central Bank increases the SELIC rate by 50bps

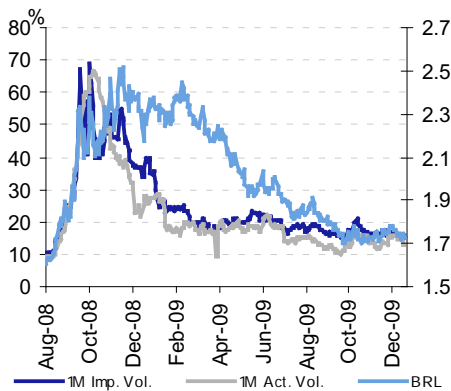
*FX LatAm*  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

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

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.

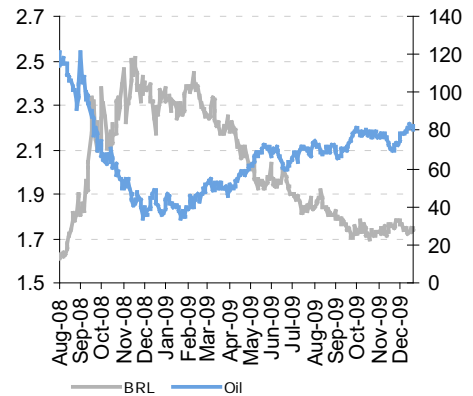
Meanwhile, according the central bank's weekly forex report, both trade and financial flows remained in negative terrain last week at -US\$794mn, which is congruent with the real's depreciation of 1.5% over the same period. It is worthy of note, however, that Banco Central do Brasil intervened this to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

Strategic Outlook



Brazil



Colombia



Peru



## Exchange Rates

### Chilean peso

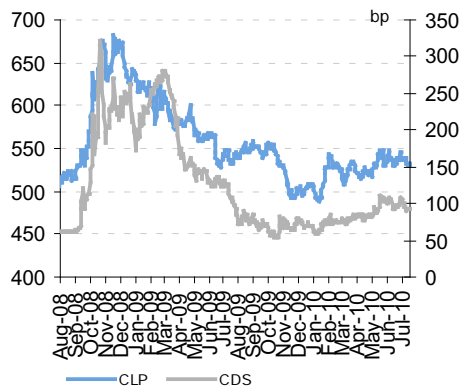
The peso appreciates on expected flows, but we do not rule out pressures resulting from Bernanke's speech before Congress.

*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

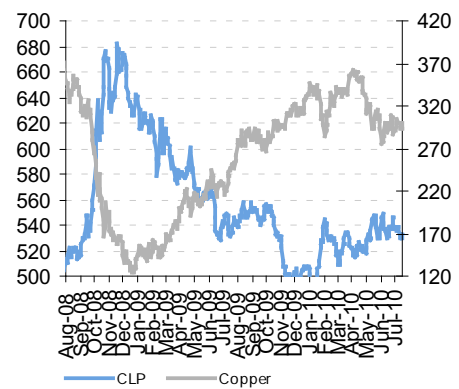
Despite losses in most risky assets, yesterday saw the peso appreciate 1.2% underpinned by two factors: 1) copper prices advancing 2.3%; and 2) the expectation of government monetizations in coming days, which –according to local newspapers– could total as much as US\$6bn by the end of 2010. This comes 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

Strategic Outlook



Brazil



Chile



Peru



## Exchange Rates

### Colombian peso

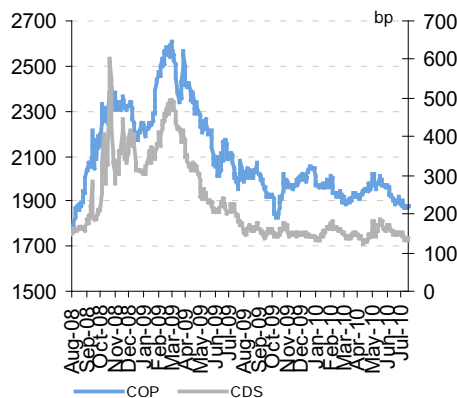
The peso shifts up 0.38% after Tuesday's holiday, but we see imminent pressure on the currency.

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

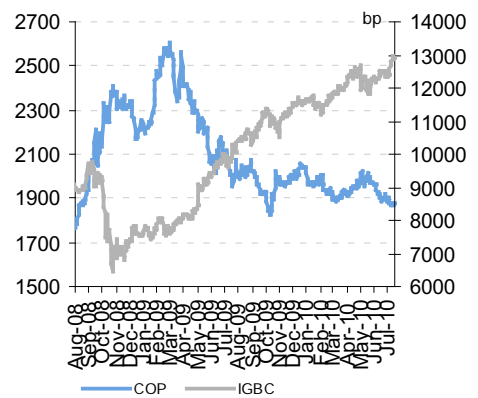
The peso closed 0.38% stronger as, on the one hand, it endured a technical adjustment resulting from local instruments not pricing in the more bullish external environment seen on Tuesday, when the IGBC index increased 3.02%. On the other hand, the currency was also underpinned by industrial production 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

Strategic Outlook



Brazil



Chile



Colombia



## Exchange Rates

### Peruvian nuevo sol

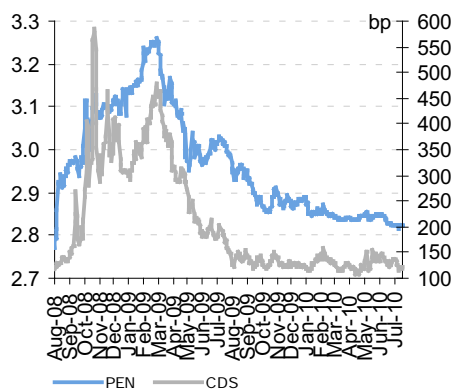
The nuevo sol depreciates in tandem with risky assets, but maintains positive bias.

*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

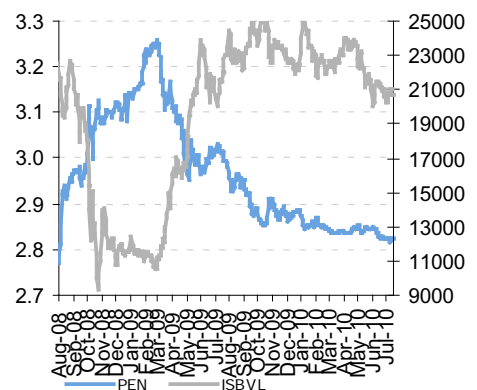
The nuevo sol inched down (0.04%) yesterday in response to risk aversion arising in the afternoon in global markets. The decline occurred in the absence of Banco Central de Reserva del Perú's interventions, which reveals that the central bank's recent measures have managed to solidify support for the 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	1W	YTD
<b>Currencies</b>				
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

<b>5 year CDS</b>				
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

<b>Equity indexes</b>				
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

<b>Commodities</b>				
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

<b>Volatilities %</b>				
	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

<b>NDF currency/US\$</b>				
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

<b>Foward points</b>				
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

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
<b>Brazil</b>				
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

<b>Chile</b>				
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

<b>Colombia</b>				
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

<b>Peru</b>				
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

<b>Global bonds</b>				
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

Strategies →

# Appendix 2

## Calendar of Economic Indicators

			Survey	Prior	Actual
<b>Wednesday, July 21</b>					
Brazil	SELIC Target - Central Bank	21-Jul	11.00%	10.25%	10.75%
<b>Thursday, July 22</b>					
Brazil	FGV Consumer Confidence	JUL		118.5	
	Unemployment Rate	JUN	7.50%	7.50%	
Colombia	Overnight Lending Rate	23-Jul	3.00%	3.00%	
<b>Friday, July 23</b>					
Brazil	FGV CPI IPC-S	22-Jul		-0.13%	
Argentina	Trade Balance	JUN		\$1905M	

**Markets & Clients Strategy**

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*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

**IMPORTANT DISCLOSURES****Analyst Certification**

We, **Moises Junca Acebedo, Rodrigo Ortega Salazar, Claudia Ceja Gonzalez:**

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