

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 23, 2010

Strategic Outlook

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Positive differentiation on cyclical fears

Equity markets and currencies surpass the performance of their developed market peers.

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Exchange Rates: Brazilian real

The real remains range-bound.

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Peso closes the week stronger again.

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Exchange Rates: Colombian peso

Banco de la República does not release details of forex intervention plan; however, it will purchase dollars as it sees fit.

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

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Strategic Outlook

- Brazil →
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Positive differentiation on cyclical fears

Equity markets and currencies surpass the performance of their developed market peers.

Another heavy week ahead in terms of economic data, especially in the US

Investors placed greater emphasis on weekly indicators suggesting a lower rate of growth for the US than expected several months back. NY and Philadelphia region manufacturing activity, construction and employment data came in below the market's expectation. In particular, jobless claims rose again, reaching their highest level of the year. Thus the US unemployment rate could remain high but gradually decrease going forward.

Meanwhile, in Mexico 2Q GDP growth of 3.22% QoQ was much higher than expected, even by Banco de México (from 2.5% to 3%). As a result, YoY GDP rose 7.6%. Worth noting is that strong growth is the result of a statistical correction which will not be present going forward. In fact, the international environment points to a slowdown in Mexico in the coming quarters. The tone of the monetary policy statement was notably more accommodative, with a better balance in terms of inflationary risks, and less positive in terms of growth. Banxico clearly signaled a prolonged pause which we expect to last through 2Q11 or even 3Q11.

Latam bourses outperformed their developed market peers (almost all of them posted positive returns), which was not surprising considering that Latin America was the only region with a positive balance in terms of economic data for the week and that most of the financial risk perception effect which resulted in the positive differentiation of developed markets in prior weeks has diluted. This confirms our expectation that the region will remain one of the main activity poles as economies come out of the global crisis. Meanwhile, Latam currencies also did well, although the end of the week saw a negative correction.

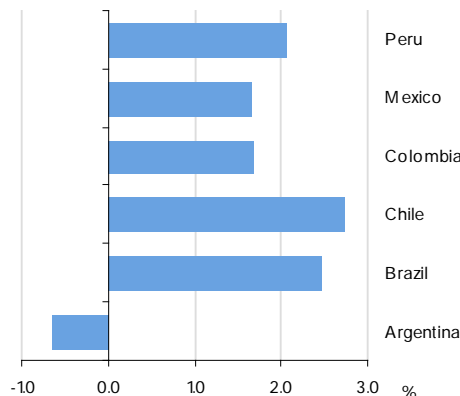
The market will remain focused on global cyclical indicators, in particular a heavy flow of US data this week. Independently of ongoing signs of weakness, the market could price in a bigger slowdown close to our scenario (growth of 3% and 2.5% for 2010 and 2011, respectively).

Equity LatAm

Chief Analyst
RODRIGO ORTEGA
r.ortega@bbva.bancomer.com
+52 55 5621 9701

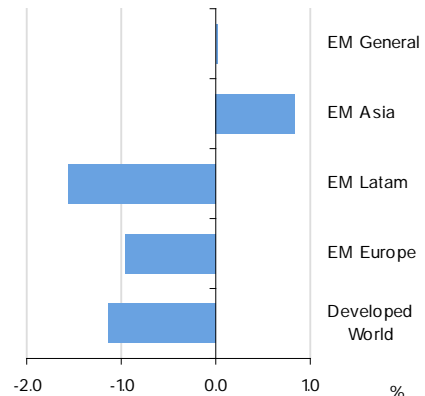
FX LatAm
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

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



Exchange Rates

Brazilian real

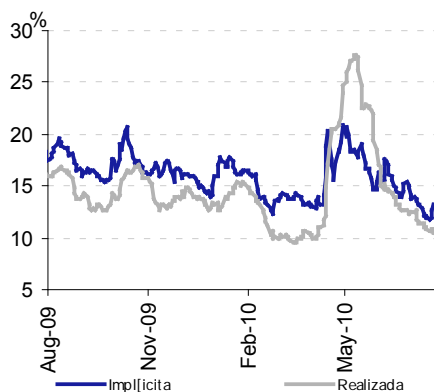
The real remains range-bound.

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

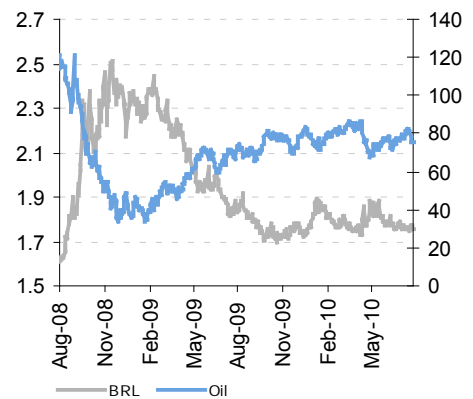
On a day of scant economic news at home and abroad, the real closed 0.94% stronger despite ongoing risk aversion in global markets last week. For example, the US T-bond declined 6bp and the JPY appreciated 0.7%. Moreover, this performance reflects that Latam currencies continue to enjoy a positive bias on the positive performance differentiation of the region's economies. In this context, local markets have focused once again on monetary authorities' efforts to rein in appreciation of currencies, which in Brazil's case is already priced in. The most recent information available shows an increase in daily central bank USD purchases. Meanwhile, speculations with regard to postponement of the Petrobras issuance have arisen, limiting room for further appreciation to around 1.75. In this light, we continue to see the real remaining range-bound between 1.75 and 1.78.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook



Brazil



Colombia



Exchange Rates

Chilean peso

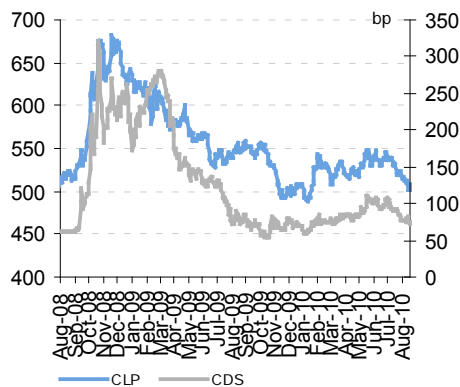
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FX LatAm
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

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

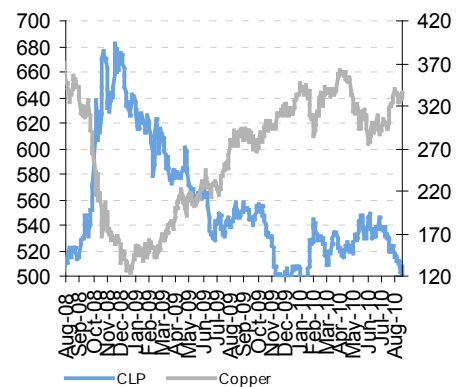
Following Thursday's depreciation, the peso closed Friday stronger again. The currency appreciated 1% for the week even though the global environment remained uncertain and talks about a possible intervention by the authorities in the financial market persist on the domestic front. This stemmed from a local scenario in which cyclical expectations are becoming increasingly positive and the copper price is rising (despite decreases in commodity prices, copper rose 1.2% for the week). Thus we expect the peso to maintain a positive trend ahead.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

Strategic Outlook



Brazil



Chile



Exchange Rates

Colombian peso

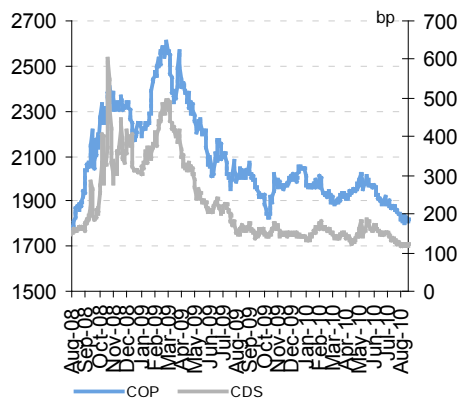
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FX LatAm
Chief Strategist
MOISES JUNCA, CFA, CMT
moises.junca@bbva.bancomer.com
+5255 5621 9380

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

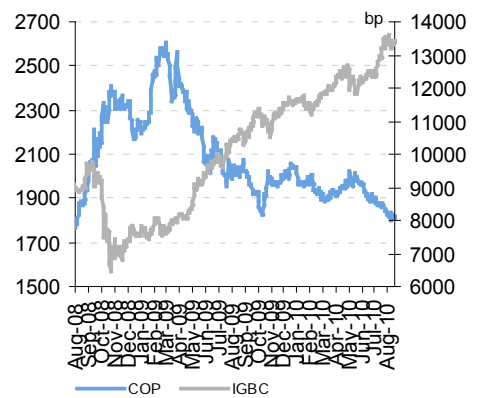
On a day of mixed results for regional currencies, the peso depreciated Friday by 0.12%. This performance came on low volume of US\$632mn (vs. last week's average of more than US\$1bn), reflecting caution ahead of the monetary policy decision due out in Friday afternoon. Banrep's communiqué reveals the following factors: 1) within a context of greater local economic growth, inflation expectations for 2010 and 2011 continue to stand within targets; 2) global growth is expected to slow down, accompanied by solid performance of Latam economies and ongoing expectations of investment inflows; and 3) the exchange rate was discussed in terms of the instruments to be used for sterilization; however, an announcement of a detailed plan of dollar purchases (such as that employed in 1H2010) was not forthcoming. In this regard, it is important to stress that the government has told the monetary authority of its plans to stimulate imports (and, as a result, the demand for currencies) and reduce the overhead of the productive sector. This comes in addition to the central bank president's announcement of discretionary dollar purchases. In this light, speculations with regard to interventions in the forex market continue even as, in our view, the currency will open the week on a positive bias.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Appendix 1

Summary of the LatAm Market

	Close	Change %		
		1D	1W	YTD
Currencies				
Argentinian peso	3.94	0.03	-0.10	-3.63
Brazilian real	1.76	-0.04	0.89	-0.67
Chilean peso	504.50	0.55	1.01	0.58
Colombian peso	1,820.00	-0.12	0.92	10.95
Mexican peso	12.77	-0.47	-0.29	2.49
Peruvian nuevo sol	2.80	-0.04	0.14	3.03

5 year CDS				
Argentina	823.47	0.29	-1.06	-9.93
Brazil	121.18	1.08	1.63	-1.09
Chile	74.96	1.67	-6.46	9.72
Colombia	122.49	2.03	0.24	-14.31
Mexico	120.68	2.22	1.71	-9.80
Peru	100.38	-1.64	-8.80	-18.73

Equity indexes				
Argentina Merval	2,438.97	0.40	3.00	5.09
Brazil IBOV	66,677.16	-0.31	0.62	-2.79
Chile IPSA	4,513.31	-0.20	1.14	26.02
Colombia IGBC	13,453.25	0.11	1.14	15.95
Mexico IPyC	32,291.67	0.43	0.60	0.53
Peru ISBVL	22,278.38	-0.07	0.24	-0.69
VIX Index	25.49	26.44	26.24	21.68

Commodities				
CRB Industrial	502.02	0.00	0.82	3.83
COMEX Copper	329.10	-0.80	1.21	-1.10
WTI	73.46	-1.30	-2.56	-7.43
Gold	1,227.80	-0.35	1.01	11.93
Sugar	19.95	2.41	2.73	-8.70
Soy	1,004.00	-0.82	-3.83	-1.01

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.05	7.31	11.19	16.37
Brazilian real	11.98	13.14	14.30	15.83
Chilean peso	11.02	11.93	12.48	13.17
Colombian peso	11.80	12.60	13.35	14.43
Mexican peso	10.98	12.06	12.75	13.07

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.14	4.40
Brazilian real	1.77	1.79	1.83	1.90
Chilean peso	504.55	505.25	508.40	514.80
Colombian peso	1,820.28	1,824.50	1,832.50	1,861.00
Peruvian nuevo sol	2.79	2.79	2.79	2.80

Foward points				
Argentinian peso	0.03	0.09	0.21	0.46
Brazilian real	0.01	0.03	0.07	0.15
Chilean peso	0.05	0.75	3.90	10.30
Colombian peso	0.28	4.50	12.50	41.00
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	10.68	-2	-10	39
LTN Jan-11	10.82	-4	1	37
NTN-F Jan-13	11.40	-15	-44	-54
NTN-F Jan-17	11.37	-17	-49	-126
NTN-B Aug-14	6.15	-6	-37	-124

Chile				
TPM	1.90	0	-3	110
TAB 90d UF	0.10	0	-1	-665
Swap CLPxCAM 2Y	4.13	-1	-10	103
Swap CLPxCAM 5Y	4.75	-6	-28	-27
Swap CLPxCAM 10Y	5.35	-5	-25	-46
Swap UFXCAM 2Y	0.56	3	10	-76
Swap UFXCAM 5Y	1.47	-2	-14	-52
Swap UFXCAM 10Y	2.17	-1	-10	-33
Swap basis 2Y	76.00	0	10	-11
Swap basis 5Y	64.00	1	10	-8
Swap basis 10Y	98.00	2	10	-8
BCP Jan-2012	4.96	-4	-6	78
BCP Aug-2014	5.81	0	-1	54
BCU 5Y	2.29	7	-2	-66
BCU 10Y	2.65	6	-4	-41

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.48	0	0	-63
TES Aug-2012	4.73	-2	-7	-452
TES May-2014	6.12	-3	-16	627
TES Jul-2020	7.12	-3	-21	-116
UVR Mar-2013	2.60	1	0	-232

Peru				
Reference rate	2.50	0	0	-450
Sovereign bond Aug-2011	2.68	-125	8	-413
Sovereign bond Aug-2017	5.10	-5	-7	-171
Sovereign bond Aug-2037	6.21	-5	-6	69

Global bonds				
BRL 2040	2.66	4	-3	-168
CLP 2013	1.45	8	1	-56
COP 2033	5.35	-16	-28	-135
PE 2033	4.95	3	-22	-127

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Friday, August 20					
Brazil	IBGE CPI IPCA-15 (MoM)	AUG	0.07%	-0.09%	-0.05%
Colombia	Overnight Lending Rate	20-Aug	3.00%	3.00%	3.00%
Argentina	Industrial Production YoY NSA	JUL		9.80%	7.60%
	Industrial Prod. s.a. (MoM)	JUL		-0.40%	-0.60%
	Economic Activity Indx MoM SA	JUN		1.70%	-0.60%
	Economic Activity Indx YoY NSA	JUN		12.40%	11.10%
Monday, August 23					
Brazil	FGV CPI IPC-S	22-Aug	-0.18%	-0.19%	
	Current Account - Monthly	JUL	-\$4350M	-\$5180M	
	Foreign Investment	JUL	\$2000M	\$708M	
	Trade Balance (FOB) - Weekly	22-Aug		\$427M	
Argentina	Unemployment Rate Total	2Q	8.10%	8.30%	
Tuesday, August 24					
Brazil	FGV Consumer Confidence	AUG		120	
	Total Outstanding Loans	JUL		1529	
	Private Banks Lending	JUL		879	
	Outstanding Loans MoM%	JUL		2.00%	
	Central Govt Budget	JUL	\$1270M	\$1291M	
Argentina	Trade Balance	JUL	\$3.50B	\$0.63B	
Wednesday, August 25					
Brazil	FIPE CPI - Weekly	23-Aug	0.24%	0.20%	
	Nominal Budget Balance	JUL	-	-13.6B	
	Primary Budget Balance	JUL	5.0B	2.1B	
	Net Debt % GDP	JUL	41.70%	41.40%	
Thursday, August 26					
Brazil	FGV Construction Costs (MoM)	AUG	0.66%	0.62%	
	Unemployment Rate	JUL	7.00%	7.00%	
Friday, August 27					
Chile	Central Bank Meeting Minutes	27-Aug			
Argentina	Shop Center Sales (YoY)	JUL		23.80%	
Peru	GDP YoY	2Q	10.10%	6.00%	

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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