

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 24, 2010

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The nuevo sol remains on a positive bias even as global markets reveal weakness.

PLEASE SEE ANALYST CERTIFICATION AND OTHER IMPORTANT DISCLOSURES ON PAGE 11 OF THIS REPORT

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Strategic Outlook

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- Chile →
- Colombia →
- Peru →

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Macro-economic expectations undermine positive drive derived from earnings reports
[Retail sales number in Mexico disappoint.](#)

US home sales numbers and Mexican August 1Q inflation numbers to be released today

The August EU Purchasing Managers Index (PMI) points toward lower-than-expected economic expansion of 56.1 (vs. BBVA Research's outlook of 56.5 and market estimates of 56.4), in which manufacturing PMI will wane against lower export growth expectations for the region. Mexican retail sales unexpectedly contracted in June by -0.8% MoM (vs. BBVA Research's outlook of 1.4% and market estimates of 0.9%). As such, growth came in at 1.5% YoY vs. market estimates of 4.3%. This constitutes the worst performance since August 2009 and points toward a slowdown in the second half of the year. Private consumption will not improve until hiring picks up. In addition to this news, the expanding services indicator came in a 0.9% MoM, led by transportation, hotels and education. Nonetheless, these sectors were the exceptions to the rule.

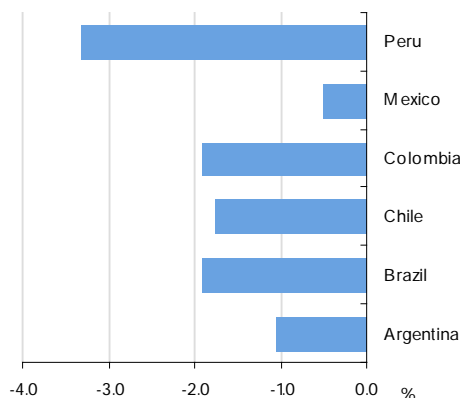
These matters cast a gloom over the good start of US markets yesterday, which advanced on news involving several mergers and acquisitions, among which BHP's buy-out of Potash (Vale said it is not preparing a bid for Potash), HSBC's acquisition of Nedbank and Dell/HP's takeover of 3Par are the most significant.

The debate about the degree of slowdown in the US will continue this week. Markets will turn their attention to July housing sales figures to be released. In this regard, we expect to see a monthly deceleration of 13.9% MoM after the expiration of the fiscal stimulus program. Similarly, the Richmond Fed Manufacturing Index for August could confirm this deceleration trend.

Even as market pressure may intensify and move the Federal Reserve to take further measures to drive growth, we believe the committee will refrain from doing so in the current climate, as it awaits additional information. In any case, the most likely monetary bias is for an extension of the pause in federal funding rates. We project the first hike for 3Q11.

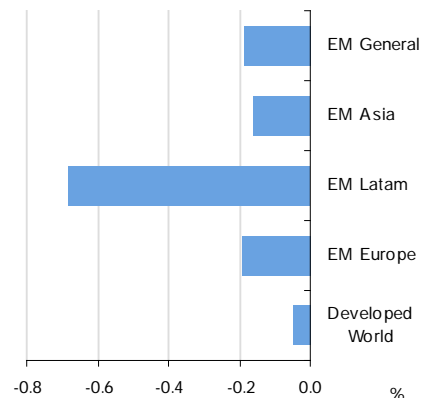
Inflation in Mexico in the first half of August could reach 0.2% vs. the market estimate of 0.22%, in which the favorable performance of volatile prices as well as declining services continue to be conspicuous. Nonetheless, we foresee inflation rebounding in 4Q10.

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

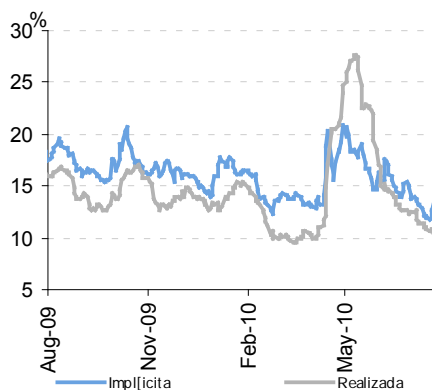
The real depreciates on weakness in global markets.

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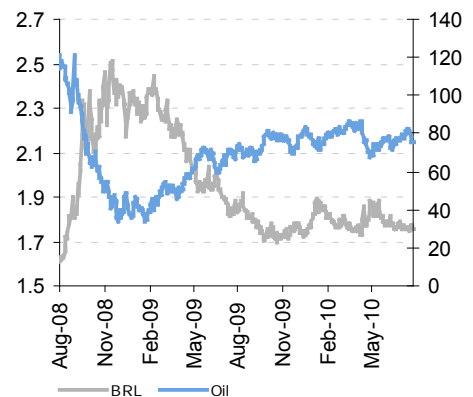
The real finished second to last in terms of performance of regional currencies, only outpacing the MXN, as it came under pressure from low growth expectations in global markets. Thus, the currency closed at 1.77, near the intraday high. On the local front, inflation and current account numbers were in line with market expectations, while foreign investment data continued to provide a bright spot. In light of expectations of weaker US economic numbers, we expect the real to trade toward the high end of the range of 1.75 to 1.78.

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

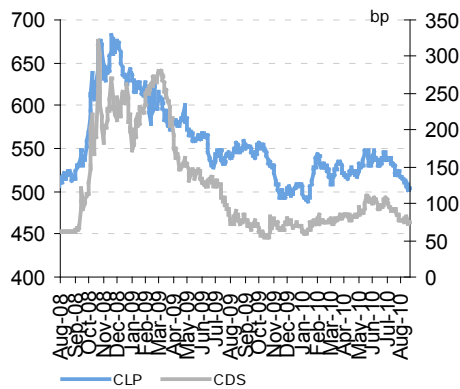
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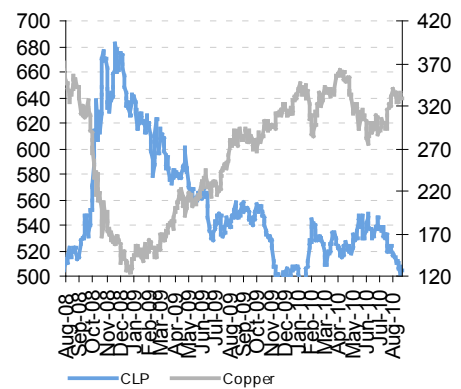
The Chilean peso continues to find support at 500 due to increased skepticism about the economic recovery which has been reflected in the performance of most risky assets. Thus, most currencies closed lower yesterday while copper remained unfazed by greater risk aversion closing virtually flat vs. Friday's level, which contributed to currency stability. After the Colombian peso, the Chilean peso was the best performing currency of the region. However, speculation about possible interventions by the Banco Central de Chile continues to prevent a break of the important 500 technical level, which along with external weakness could impact the currency via copper prices.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

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Brazil



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Peru



Exchange Rates

Colombian peso

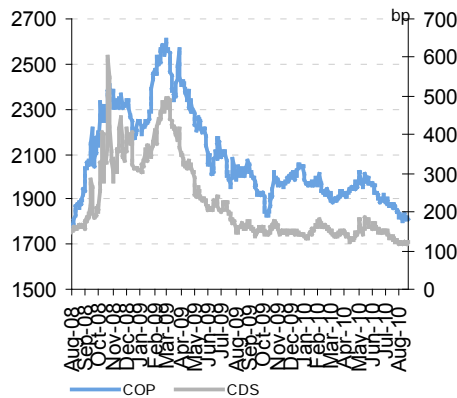
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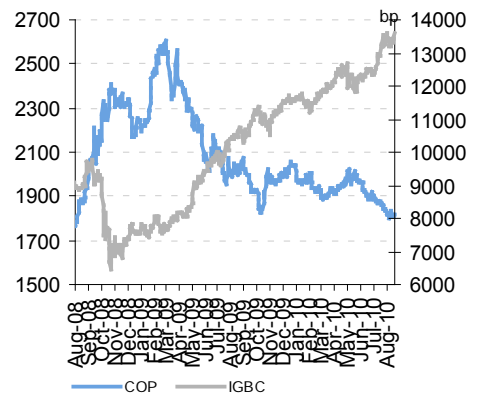
The Colombian peso was the best performing Latam currency --despite weakness in global markets caused by growing skepticism about the economic recovery-- due to Banco de la República comments about a possible intervention in the foreign exchange market, which it called imminent. Thus the peso hit an intraday low of 1,796 but finally closed at 1,812 on weakness in external markets. We expect the currency to display a positive trend barring details of any possible intervention by Banrep, albeit slightly volatile due to the external environment.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Peru

Strategic Outlook



Brazil



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Colombia



Exchange Rates

Peruvian nuevo sol

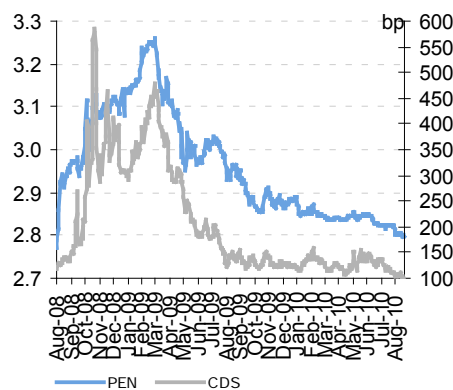
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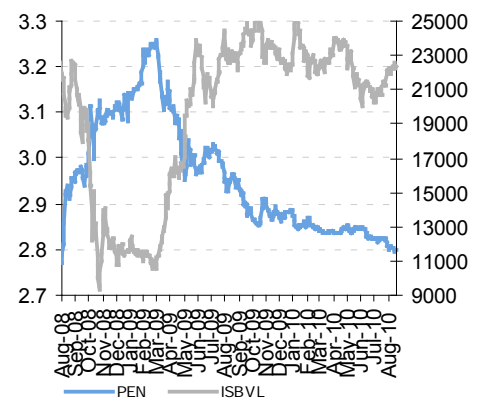
The nuevo sol continued to gain on the USD, despite Banco Central de Reserva del Perú purchases yesterday to the tune of US\$70mn at 2.7980 and signs of weakness on global markets. In addition to this, reserve requirements measures do not appear to be enough to contain the appreciation of the currency, which is now trading near yearly lows. As such, we continue to see marked appetite of local institutionals in the context of the encouraging local growth outlook. Nonetheless, we believe the weakness in global markets will limit any appreciation below the 2.795 bar this week and may well drive the currency to vicinity of 1.8020.

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	3.94	-0.01	-0.11	-3.64
Brazilian real	1.77	-0.79	-0.88	-1.46
Chilean peso	504.69	-0.04	0.18	0.54
Colombian peso	1,812.93	0.39	0.63	11.30
Mexican peso	12.91	-1.12	-1.94	1.40
Peruvian nuevo sol	2.80	0.07	0.14	3.10

5 year CDS				
Argentina	814.72	-1.06	-2.92	-10.89
Brazil	118.87	-1.90	-0.55	-2.98
Chile	73.64	-1.76	-9.54	7.79
Colombia	120.15	-1.91	-1.76	-15.94
Mexico	120.08	-0.50	0.19	-10.25
Peru	97.04	-3.33	-10.71	-21.44

Equity indexes				
Argentina Merval	2,368.63	-2.88	0.03	2.06
Brazil IBOV	65,981.86	-1.04	-1.08	-3.80
Chile IPSA	4,523.51	0.23	1.32	26.30
Colombia IGBC	13,602.04	1.11	2.26	17.24
Mexico IPyC	32,142.67	-0.46	0.07	0.07
Peru ISBVL	22,300.58	0.10	-0.20	-0.60
VIX Index	25.66	25.49	26.10	21.68

Commodities				
CRB Industrial	500.16	0.00	0.23	3.45
COMEX Copper	329.15	0.02	0.44	-1.08
WTI	73.10	-0.49	-2.84	-7.89
Gold	1,226.15	-0.13	0.08	11.78
Sugar	20.07	0.60	5.97	-8.15
Soy	1,005.50	0.15	-2.52	-0.86

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.05	7.28	11.15	16.36
Brazilian real	12.42	13.52	14.54	16.14
Chilean peso	11.07	12.00	12.53	13.23
Colombian peso	11.98	13.01	13.61	14.63
Mexican peso	11.26	12.26	12.85	13.15

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.14	4.39
Brazilian real	1.78	1.81	1.84	1.92
Chilean peso	504.93	505.97	508.66	515.24
Colombian peso	1,813.43	1,816.18	1,823.93	1,851.43
Peruvian nuevo sol	2.79	2.79	2.79	2.80

Foward points				
Argentinian peso	0.03	0.08	0.20	0.45
Brazilian real	0.01	0.04	0.07	0.15
Chilean peso	0.24	1.28	3.97	10.55
Colombian peso	0.50	3.25	11.00	38.50
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	0	-10	26
LTN Jan-11	10.71	-13	-21	37
NTN-F Jan-13	11.45	-6	-63	-54
NTN-F Jan-17	11.43	-2	-51	-126
NTN-B Aug-14	6.15	-5	-37	-124

Chile				
TPM	2.00	10	0	151
TAB 90d UF	0.12	2	1	-669
Swap CLPxCAM 2Y	4.12	-1	-11	107
Swap CLPxCAM 5Y	4.77	2	-21	-46
Swap CLPxCAM 10Y	5.35	0	-24	-72
Swap UFXCAM 2Y	0.53	-3	2	-72
Swap UFXCAM 5Y	1.44	-3	-17	-74
Swap UFXCAM 10Y	2.16	-1	-11	-42
Swap basis 2Y	76.00	0	2	9
Swap basis 5Y	63.00	-1	5	8
Swap basis 10Y	97.00	-1	7	11
BCP Jan-2012	4.94	-8	-5	78
BCP Aug-2014	5.81	0	-1	54
BCU 5Y	2.34	5	5	-48
BCU 10Y	2.78	13	0	-42

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.58	10	0	-53
TES Aug-2012	4.75	2	-7	-456
TES May-2014	6.12	0	-16	611
TES Jul-2020	7.16	4	-21	-133
UVR Mar-2013	2.63	3	0	-228

Peru				
Reference rate	2.50	0	0	-400
Sovereign bond Aug-2011	2.73	-7	5	-413
Sovereign bond Aug-2017	5.10	0	-5	-171
Sovereign bond Aug-2037	6.21	0	-6	69

Global bonds				
BRL 2040	2.67	0	-2	-169
CLP 2013	1.44	-19	-7	-50
COP 2033	5.24	-13	-19	-173
PE 2033	4.93	-3	-20	-151

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Monday, August 23					
Brazil	FGV CPI IPC-S	22-Aug	-0.17%	-0.19%	-0.17%
	Current Account - Monthly	JUL	-\$4500M	-\$5180M	-\$4499M
	Foreign Investment	JUL	\$2000M	\$708M	\$2643M
	Trade Balance (FOB) - Weekly	22-Aug		\$427M	\$864M
Argentina	Unemployment Rate Total	2Q	8.10%	8.30%	7.90%
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%	

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