

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 25, 2010

Strategic Outlook

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Existing home sales numbers below expectations fuels risk aversion

Economic figures continue to suggest weakness in economic cycle and batter performance of risky assets.

Brazil

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Exchange Rates: Brazilian real

Real recovers ground against the dollar on expectations of a Petrobrás stock issuance.

Chile

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Exchange Rates: Chilean peso

Chilean peso stable, but does not manage to price in equity markets' negative close.

Colombia

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Exchange Rates: Colombian peso

The peso tests 10- and 20-day moving averages.

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

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Strategic Outlook

- Brazil →
- Chile →
- Colombia →

Existing home sales numbers below expectations fuels risk aversion
Economic figures continue to suggest weakness in economic cycle and batter performance of risky assets.

Investors will be alert to new home sales and durable goods orders due out today

A severe contraction of 27.2% in existing home sales (vs. consensus estimate of -13.4%) fueled fears of a double dip in the US economy and the consequences this could have on the global economy, especially with regard to EMU recovery.

Even as mortgages stand at historical lows in the US and home prices are stable, the real estate sector mirrors weakness in the jobs market. It appears likely that demand for houses will remain flat for the rest of the year. This number, in addition to the spike in new jobless claims and sagging manufacturing numbers (as per the Empire State Index and Philadelphia Fed Index), is contributing to a climate that could spur the Federal Reserve to implement additional measures. Thus, the market will be alert to Bernanke's statements on Thursday in Kansas City, where he is expected to address the condition of the economy and provide some indication of the direction of monetary policy.

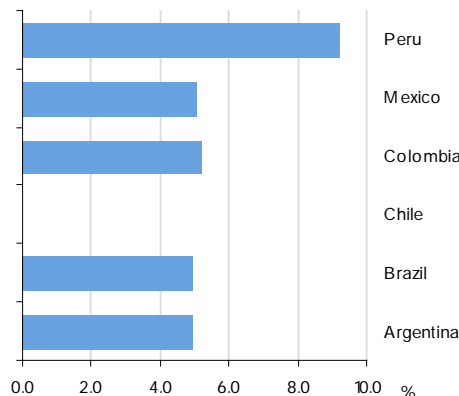
In the EMU, rumors surrounding the risk of a new recession in the region that is faced with fiscal adjustments and sagging exports intensified the cycle risk, which was mirrored in low long-term bonds yields and a widening spread against countries with weaker cycle positions, such as Ireland (which saw its rating downgraded by a notch yesterday) vs. Germany. Uncertainty with regard to the US cycle will continue this week, as data on new home sales and durable goods orders are due to be released. Moreover, risky asset prices could continue on their recent slide.

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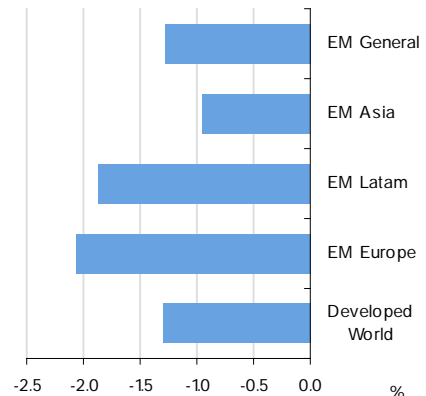
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Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

APPENDIX

Macro Calendar



Brazil

Strategic Outlook



Chile



Colombia



Exchange Rates

Brazilian real

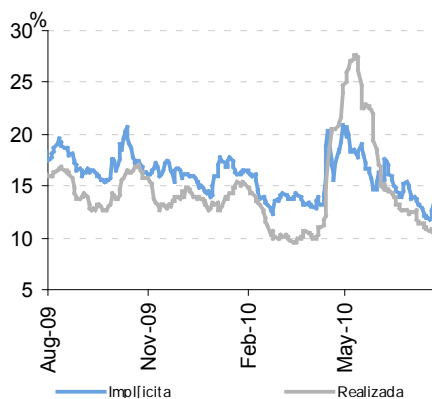
Real recovers ground against the dollar on expectations of a Petrobrás stock issuance.

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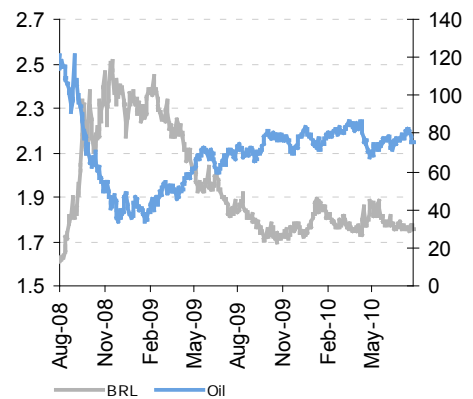
The real was the best performing currency of the region gaining 0.30% against the USD despite weakness in global markets. The currency was favored by the Energy Minister's remarks that he remains optimistic that the sale of around US\$25bn in stock will finally take place at the end of next month. Despite the spot's good performance, the implied volatility of the cross (the 1M maturity rose by almost half a vega) reflected greater external jitters following the release of weak US economic data. In view of this, we will continue to bet on a short-term trading range of 1.75-1.78 with a bias towards the upper part of it in line with our expectation of negative US data surprises.

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

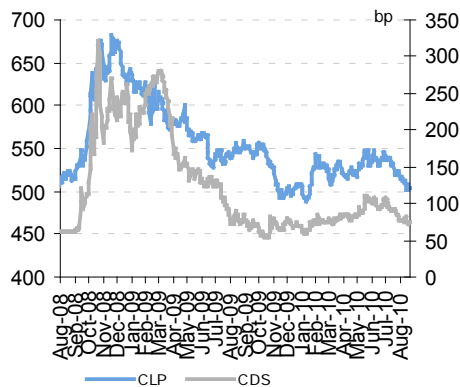
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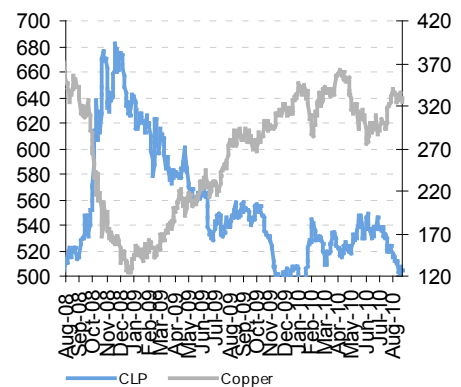
The Chilean peso closed relatively stable at 504.45, without managing to price in drops in equity markets after the Chilean forex market closed. Implied volatility in the cross did not factor in a higher global risk premium scenario either, remaining at attractive levels betting on a rebound in the underlying asset given possible central bank interventions and a weaker external scenario. Today we expect the currency to respect a 504-510 trading range, with a bias towards the upper part of it.

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

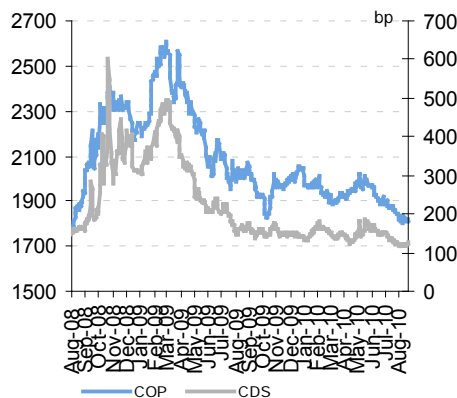
The peso tests 10- and 20-day moving averages.

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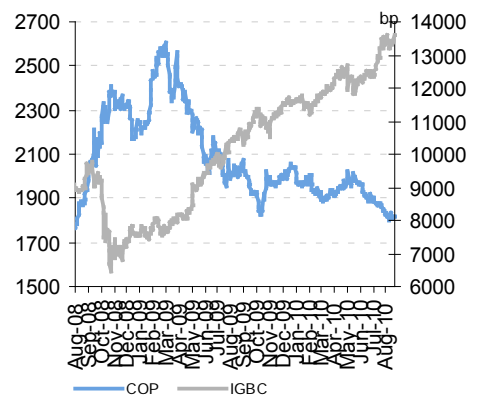
The Colombian peso reacted negatively to events abroad and growing speculation regarding interventions by Banco de la República in the forex market. The currency tested resistance levels standing at 10-day (1,817.10) and 20-day (1,822.21) moving averages, ultimately respecting the former as foreign and institutional investors moved to close long positions on the COP. In our view, both the external climate (including US economic data showing signs of weakness) and growing jitters surrounding the likelihood of Banrep's interventions will drive the currency's ongoing negative bias, perhaps moving it again toward a test of 1,822. If it breaches this level, the next resistance stands at around 1,837.

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	-0.11	-0.19	-3.75
Brazilian real	1.77	-0.01	-0.89	-1.47
Chilean peso	504.45	0.05	-0.44	0.59
Colombian peso	1,817.10	-0.23	-0.56	11.09
Mexican peso	12.97	-0.51	-3.00	0.90
Peruvian nuevo sol	2.80	0.00	0.00	3.10

5 year CDS				
Argentina	855.18	4.97	4.28	-6.47
Brazil	124.78	4.97	7.33	1.85
Chile	73.67	0.04	-2.41	7.83
Colombia	126.44	5.23	6.39	-11.55
Mexico	126.13	5.04	7.83	-5.72
Peru	106.02	9.26	4.27	-14.17

Equity indexes				
Argentina Merval	2,293.29	-3.18	-5.84	-1.18
Brazil IBOV	65,156.36	-1.25	-3.59	-5.00
Chile IPSA	4,506.38	-0.38	0.25	25.83
Colombia IGBC	13,600.74	-0.01	1.96	17.23
Mexico IPyC	31,364.89	-2.42	-2.85	-2.35
Peru ISBVL	22,234.85	-0.29	-1.16	-0.89
VIX Index	27.46	25.66	24.33	21.68

Commodities				
CRB Industrial	499.35	0.00	-0.54	3.28
COMEX Copper	323.95	-1.58	-2.94	-2.64
WTI	71.63	-2.01	-5.46	-9.74
Gold	1,230.65	0.37	0.47	12.19
Sugar	20.16	0.45	4.02	-7.73
Soy	999.00	-0.65	-4.13	-1.50

Volatilities %				
	1M	3M	6M	1Y
Argentinian peso	3.75	7.32	10.73	15.74
Brazilian real	12.85	13.78	14.92	16.36
Chilean peso	11.10	11.99	12.49	13.06
Colombian peso	11.86	12.90	13.46	14.48
Mexican peso	12.38	12.98	13.10	13.41

NDF currency/US\$				
Argentinian peso	3.97	4.03	4.15	4.39
Brazilian real	1.78	1.80	1.84	1.92
Chilean peso	504.65	505.88	508.44	515.00
Colombian peso	1,817.60	1,820.60	1,828.10	1,856.60
Peruvian nuevo sol	2.79	2.79	2.79	2.80

Foward points				
Argentinian peso	0.03	0.09	0.21	0.45
Brazilian real	0.01	0.03	0.07	0.15
Chilean peso	0.20	1.43	3.99	10.55
Colombian peso	0.50	3.50	11.00	39.50
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	-7	26
LTN Jan-11	10.84	12	5	37
NTN-F Jan-13	11.39	-12	-70	-54
NTN-F Jan-17	11.29	-19	-83	-126
NTN-B Aug-14	6.16	-3	-14	-124

Chile				
TPM	2.00	0	0	151
TAB 90d UF	0.07	-5	-4	-674
Swap CLPxCAM 2Y	4.10	-2	-13	105
Swap CLPxCAM 5Y	4.76	-1	-21	-47
Swap CLPxCAM 10Y	5.35	0	-24	-72
Swap UFXCAM 2Y	0.51	-2	1	-74
Swap UFXCAM 5Y	1.42	-2	-14	-76
Swap UFXCAM 10Y	2.09	-7	-17	-49
Swap basis 2Y	76.00	0	2	9
Swap basis 5Y	63.00	0	4	8
Swap basis 10Y	98.00	1	3	12
BCP Jan-2012	4.94	-5	-5	78
BCP Aug-2014	5.80	0	0	54
BCU 5Y	2.33	-1	6	-49
BCU 10Y	2.69	-9	-7	-51

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.45	-13	-13	-66
TES Aug-2012	4.71	-4	-7	-456
TES May-2014	6.09	0	-16	608
TES Jul-2020	7.13	-3	-21	-133
UVR Mar-2013	2.63	0	0	-228

Peru				
Reference rate	2.50	0	0	-400
Sovereign bond Aug-2011	2.78	-5	11	-413
Sovereign bond Aug-2017	5.09	-5	-8	-171
Sovereign bond Aug-2037	6.20	-6	-9	69

Global bonds				
BRL 2040	2.71	5	4	-165
CLP 2013	1.42	-2	-25	-52
COP 2033	5.24	0	-27	-173
PE 2033	4.95	2	-10	-149

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Tuesday, August 24					
Brazil	FGV Confianza del consumidor	AUG		120	120.8
	Préstamos en circulación, total	JUL		1529	1548
	Financiamiento de bancos privados	JUL		879	891
	Préstamos en circulación, %mom	JUL		2.00%	1.20%
	Presupuesto del Gobierno central	JUL	\$1270M	\$1291M	\$883M
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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