

Latam

Daily Latam

Market Analysis Markets

Mexico City, July 26, 2010

Strategic Outlook

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Stress test results & US earnings news propel risky assets

A more detailed reading of the test results could raise doubts.

Brazil

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Exchange Rates: Brazilian real

Long positioning on the BRL in the BM&F increases to levels not seen since July 2008.

Chile

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Exchange Rates: Chilean peso

The peso corrects part of previous sessions gains, but the short-term bias remains positive.

Colombia

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Exchange Rates: Colombian peso

As expected, Banco de la República did not modify the benchmark rate nor were forex market interventions announced.

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

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Strategic Outlook

Brazil → **Stress test results & US earnings news propel risky assets**
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Chile →

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The S&P 500 closes near major technical levels and will serve as bellwether of other risk assets
 Of the 91 institutions that were subjected to the test, 7 flunked (1 German out of 14; 1 Greek and 5 from Spain). The tests assumed mark downs of 23.1% on Greek debt, 14% on Portuguese, 12.3% on Spanish, 4.7% on German, 5.9% on French and 10% on that of the United Kingdom.

There is some concern as to just how rigorous the test was as it ignored most sovereign debt holdings. More specifically, the test reviewed only the trading books of financial institutions (on which banks are estimated to register only about 10% of their sovereign debt holdings), while banking books --which contain 90% of that exposure-- were not subjected to any stress test.

The entire exercise was designed to revive investor confidence and may fail to achieve that goal, but a more detailed assessment will be conducted on Monday. In that sense we need to point out that following an initially skeptical response stock markets and the EUR closed higher Friday.

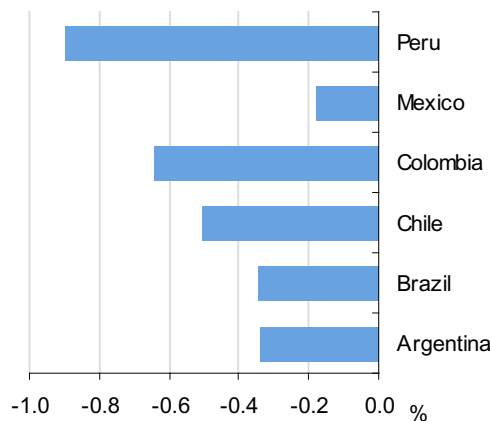
Today the market will be watching for home sales numbers and the final response to the stress tests once they are more thoroughly analyzed. Ultimately, the results of US indexes will be a determining factor in the direction of other risk assets. The S&P 500 is trading just below its 200 day moving average; if it were to break above that level it could whet investor appetite for risk assets.

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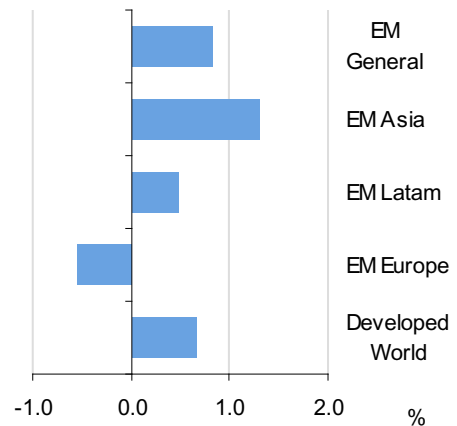
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Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

APPENDIX

Macro Calendar ▶

Brazil

Strategic Outlook



Exchange Rates

Chile



Colombia

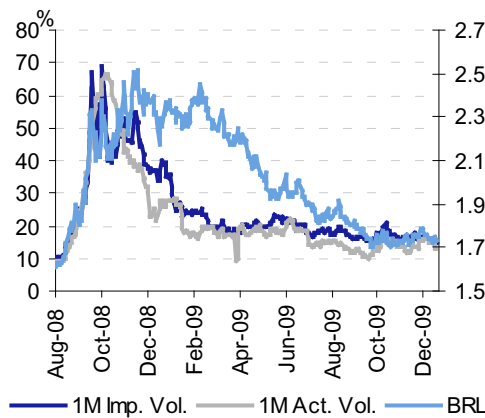


Brazilian real

Long positioning on the BRL in the BM&F increases to levels not seen since July 2008.

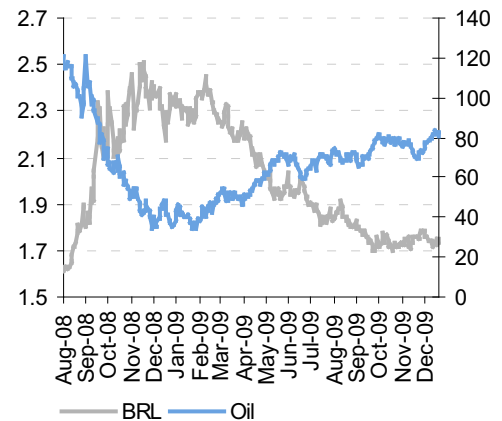
After remaining below 1.76 during most of the session, on Friday the real closed 0.89% weaker, accompanied by low liquidity in the market. In fact, the market continued its gains in response to positive US corporate results (e.g., the IBOV rose 0.87%), with which we feel the real's close is not very representative. Although in the next few days we could see some volatility in response to European interpretations of the results of the banking sector stress tests, we continue to expect a shift to the 1.75 zone in the short term. Three positioning factors justify this outlook: 1) the implied 1M volatility posted a weekly 1.4 vega decline, 2) the 1M risk reversals (implied volatility of call options-put options) declined 1.3% over the previous Friday, and 3) foreigners' positions long on the real in the BM&F rose US\$2.7bn over the previous week to be currently close to the July 2008 high, which has yet to be factored priced in. However, it is important to view this latter element cautiously, since any aggressive profit taking could again pressure the real to 1.78 levels.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Strategic Outlook



Exchange Rates

Brazil



Colombia

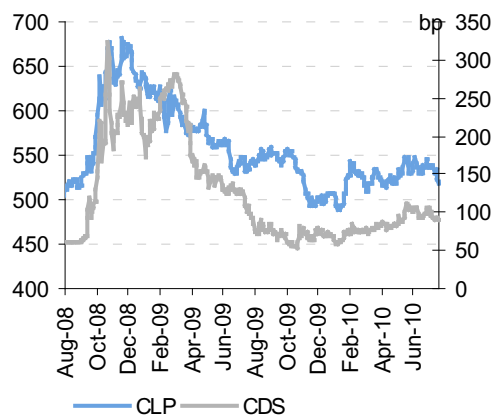


Chilean peso

The peso corrects part of previous sessions gains, but the short-term bias remains positive.

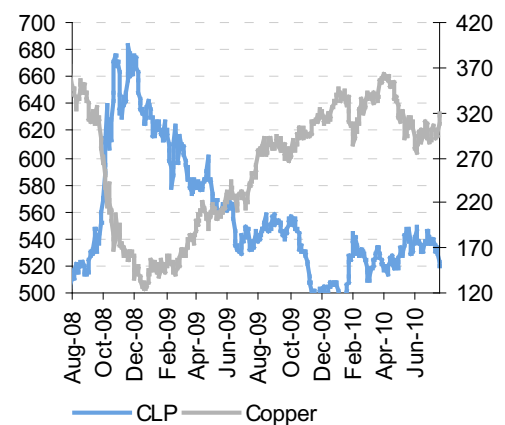
After having sustained a positive bias in previous sessions, last Friday the peso closed 0.21% weaker. That setback came despite a 1.1% strengthening of copper prices and an ongoing positive trend in domestic assets (e.g. the IPSA closed up 0.51% while yields on fixed rate assets fell by an average of 3bp). As a result, we believe that the peso's fall was more a technical correction and the result of an end-of-week closing out of local positions than a reversal of the currency's recent trend. In this sense, we remain convinced that expectations of foreign inflows as part of the Reconstruction Financing Plan will continue to buoy the peso over the near term. We locate the next support in the vicinity of USDCLP515.

CLP vs. 5y CDS



Source: Bloomberg and BBVA Research

CLP vs. Copper



Source: Bloomberg and BBVA Research

Colombia

Strategic Outlook



Brazil



Chile



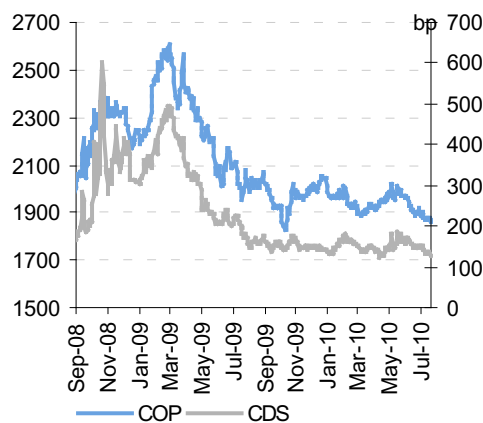
Exchange Rates

Colombian peso

As expected, Banco de la República did not modify the benchmark rate nor were forex market interventions announced.

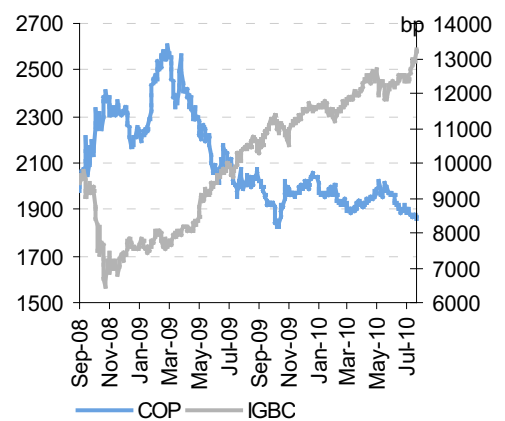
In line with what was expected, on Friday the peso remained relatively stable during most of the session in anticipation of the afternoon's monetary policy decision. Volume, however, was significant at US\$1bn. In this sense, although Banco de la República's decision not to modify the benchmark rate was already factored in by the market, the statement upwardly revises estimated growth within a range of 3.5% to 5.5%. This was done without modifying its inflationary expectation within a long term range goal for 2010 and 2011. Although the statement mentions the peso's appreciation, it shows no concern over its current levels nor announces intervention measures to brake the movement. In this sense, we feel that the peso could continue its appreciation trend, with a target of 1,860 in the next few days.

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	3.93	0.06	0.07	-3.45
Brazilian real	1.77	-0.89	0.47	-1.68
Chilean peso	520.28	-0.21	1.84	-2.53
Colombian peso	1,868.25	-0.31	0.51	8.59
Mexican peso	12.73	0.31	1.57	2.75
Peruvian nuevo sol	2.82	0.00	0.02	2.23

5 year CDS				
Argentina	846.58	-0.34	-8.25	-7.41
Brazil	120.00	-0.34	-5.15	-2.06
Chile	89.70	-0.51	-4.43	31.30
Colombia	127.33	-0.64	-6.36	-10.92
Mexico	120.71	-0.18	-4.82	-9.77
Peru	112.99	-0.90	-6.99	-8.52

Equity indexes				
Argentina Merval	2,375.20	0.66	4.04	2.35
Brazil IBOV	66,322.99	0.87	6.39	-3.30
Chile IPSA	4,326.00	0.51	2.47	20.79
Colombia IGBC	13,269.82	0.37	2.72	14.37
Mexico IPyC	32,806.03	0.26	3.22	2.13
Peru ISBVL	21,308.05	0.72	2.80	-5.02
VIX Index	23.47	24.63	26.25	21.68

Commodities				
CRB Industrial	474.40	0.00	0.95	-1.88
COMEX Copper	318.50	0.78	8.94	-4.28
WTI	78.98	-0.40	3.91	-0.48
Gold	1,189.20	-0.48	-0.32	8.41
Sugar	18.26	-0.22	6.72	-16.43
Soy	981.50	0.20	-0.36	-3.23

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.50	8.00	11.24	16.92
Brazilian real	13.80	14.75	15.63	16.77
Chilean peso	12.48	12.87	13.25	13.79
Colombian peso	12.67	13.11	13.73	14.43
Mexican peso	12.65	13.07	13.41	13.73

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.14	4.42
Brazilian real	1.79	1.81	1.85	1.93
Chilean peso	520.18	520.53	522.92	529.58
Colombian peso	1,867.37	1,870.00	1,878.50	1,913.50
Peruvian nuevo sol	2.83	2.82	2.83	2.85

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	0.25	2.64	9.30
Colombian peso	-0.88	1.75	10.25	45.25
Peruvian nuevo sol	0.00	0.00	0.01	0.03

Source: Bloomberg and BBVA Research

	Close %	Change bp		
		1D	1W	YTD
Brazil				
Selic O/N	10.66	0	50	201
DI Jan-11 Future	10.94	6	-21	52
LTN Jan-11	10.89	-13	-32	37
NTN-F Jan-13	12.01	5	-10	-54
NTN-F Jan-17	12.06	8	-18	-126
NTN-B Aug-14	6.51	0	-14	-124

Chile				
TPM	1.45	0	42	115
TAB 90d UF	0.15	0	2	-705
Swap CLPxCAM 2Y	4.09	-5	20	104
Swap CLPxCAM 5Y	5.03	-3	3	-20
Swap CLPxCAM 10Y	5.72	-1	1	-35
Swap UFXCAM 2Y	0.38	1	6	-87
Swap UFXCAM 5Y	1.55	0	0	-63
Swap UFXCAM 10Y	2.16	0	0	-42
Swap basis 2Y	68.00	5	7	1
Swap basis 5Y	56.00	3	3	1
Swap basis 10Y	89.00	3	7	3
BCP Jan-2012	4.95	-2	50	78
BCP Aug-2014	5.83	0	7	54
BCU 5Y	2.31	-1	-3	-50
BCU 10Y	2.88	-4	6	-28

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.54	0	2	-57
TES Aug-2012	4.88	3	7	-443
TES May-2014	6.51	10	11	650
TES Jul-2020	7.65	12	18	-84
UVR Mar-2013	2.77	6	22	-214

Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.73	-12	-6	-413
Sovereign bond Aug-2017	5.40	-13	-10	-171
Sovereign bond Aug-2037	6.45	-13	-13	69

Global bonds				
BRL 2040	3.12	-2	-19	-122
CLP 2013	1.80	2	3	-16
COP 2033	6.34	0	-4	-63
PE 2033	5.62	0	-7	-81

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Friday, July 23					
Brazil	FGV CPI IPC-S	22-Jul	-0.16%	-0.13%	-0.14%
Argentina	Trade Balance	JUN	\$1397M	\$1905M	\$1291M
Colombia	Overnight Lending Rate	23-Jul	3.00%	3.00%	3.00%
Monday, July 26					
Brazil	Current Account - Monthly	JUN		-\$2020M	
	Foreign Investment	JUN		\$3534M	
	Trade Balance (FOB) - Weekly	25-Jul		\$391M	
Tuesday, July 27					
Brazil	FIPE CPI - Weekly	23-Jul		0.12%	
	FGV Construction Costs (MoM)	JUL		1.77%	
	Total Outstanding Loans	JUN		\$1,500	
	Private Banks Lending	JUN		\$871	
	Central Govt Budget	JUN		-\$0.51B	
Wednesday, July 28					
Brazil	Nominal Budget Balance	JUN		-14.8B	
	Primary Budget Balance	JUN		1.4B	
	Net Debt % GDP	JUN		41.40%	
Chile	Industrial Production (YoY)	JUN		4.20%	
	Industrial Sales YoY	JUN		0.50%	
	Copper Production Total	JUN		37.40%	
Argentina	Shop Center Sales (YoY)	JUN			
Thursday, July 29					
Brazil	FGV Inflation IGP-M (MoM)	JUL	0.23%	0.85%	
	FGV Inflation IGP-M (YoY)	JUL	5.87%	5.17%	
	COPOM Minutes	29-Jul			
Argentina	Supermarket Sales (YoY)	JUN		16.30%	
Friday, July 30					
Chile	Unemployment Rate	JUN		8.80%	
Colombia	Unemployment Rate	JUN	12.80%	12.80%	
Argentina	Construction Activity (YoY)	JUN		11.80%	

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