

Latam

Daily Latam

Market Analysis Markets

Mexico City, August 26, 2010

Strategic Outlook

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US data continue to put pressure on the cyclical risk premium

The market appears to be forming expectations about Bernanke's Friday remarks on the economic situation.

Brazil

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Exchange Rates: Brazilian real

Real remains the best performing currency of the region.

Chile

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Exchange Rates: Chilean peso

Peso loses 0.4% on weakness at the start of the session.

Colombia

PAGE 5 →

Exchange Rates: Colombian peso

The peso tests resistance standing at 1,825, but closes largely unchanged as equities and crude rebound.

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

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Strategic Outlook

- Brazil →
- Chile →
- Colombia →

US data continue to put pressure on the cyclical risk premium
 The market appears to be forming expectations about Bernanke's Friday remarks on the economic situation.

Markets manage to recover respecting technical levels.

Despite ongoing European positive data, US data continue to feed the cyclical risk premium. Germany is still releasing a string of upbeat data which began with last week's revision of growth expectations by the central bank. This time the business sentiment indicator, IFO, rebounded (106.7 vs. 105.7e and 106.2 previously). However, US new home sales data were no better than the previous day's used home sales and combined with a negative surprise from durable goods orders to drive markets lower at the start of the session. Although data continued to point to expansion, the rate of growth appears to be stalling. In Mexico, unemployment data was in line with our estimate (5.3%) and the market's (5.5%), which we believe is consistent with economic recovery and continues to reflect that the improvement in the labor market is being driven by sectors exposed to external demand, as domestic demand remains soft.

Poor economic data fed expectations that the Federal Reserve Chief could comment on an additional measure during his appearance before the Federal Bank of Kansas this Friday. This finally enabled markets to take a breather following several losing sessions in which recoveries were due more to technical factors than a change in sentiment.

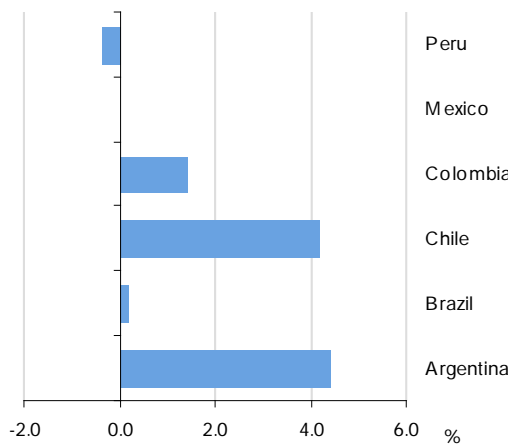
The market will continue to pay close attention to US indicators, especially unemployment claims and the trend in Q2 mortgage delinquency rates.

Equity LatAm

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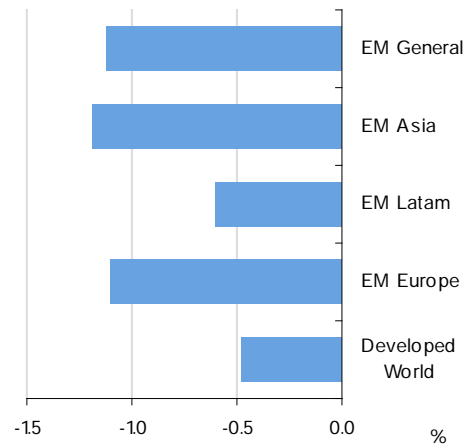
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Daily change on LatAm CDS 5 years



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

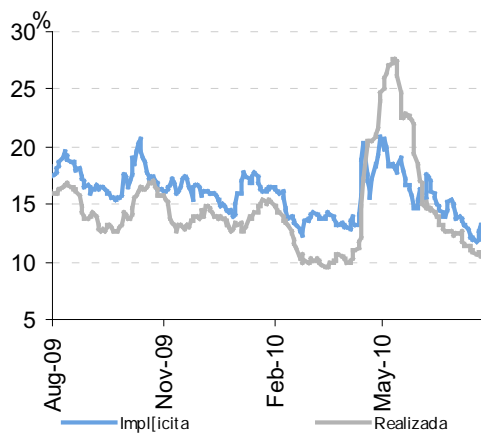
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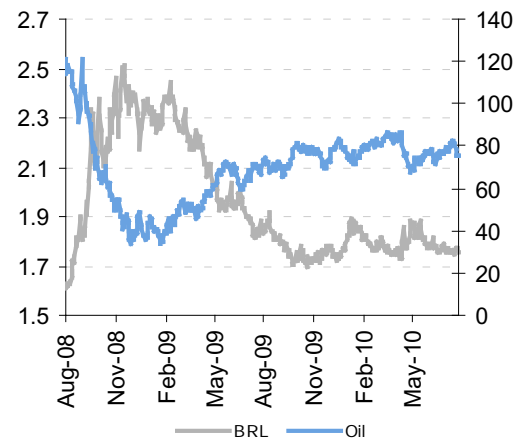
The real continued to trade relatively uninhibited by weak economic data and jitters over a further increase in the risk premium following Ireland's downgrade. Thus, the currency continues to echo official confidence about the Petrobrás stock issuance taking place at the end of next month. On the local front, inflation data released yesterday was in line with the market consensus (FIPE IPC at 0.21% vs. 0.22%e), and the Banco Central do Brasil stated that as at August 20, dollar flows have amounted to US\$715mn, while purchases by BACEN have amounted to US\$2.9bn. We expect the currency to trade sideways in a 1.75-1.78 range, possibly shifting towards the upper part of it if US employment data surprise on the downside.

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

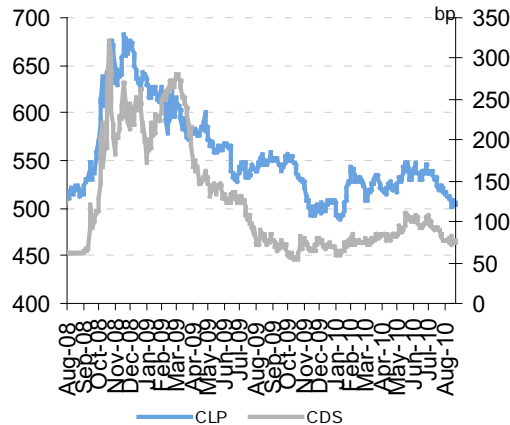
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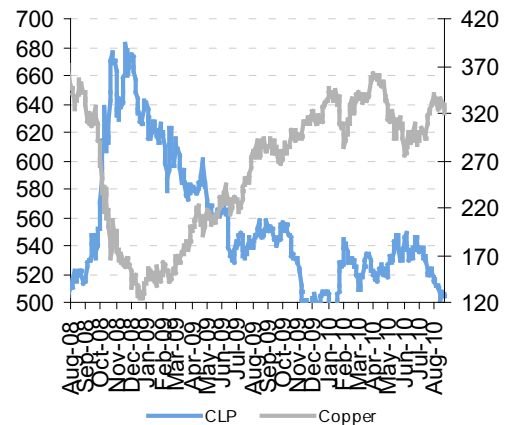
The Chilean peso closed weaker on a deterioration in global market sentiment following the release of disappointing US economic data and a widening of credit spreads in response to Ireland's downgrade. However, the currency did not factor in the recovery in credit assets after the foreign exchange market closed and could therefore (like other currencies) get off to a positive start today. Nevertheless, US unemployment data and an extended decline in copper prices could lead to another test of 510 in today's session.

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

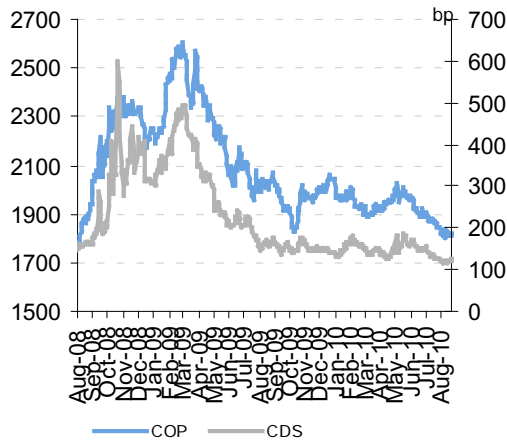
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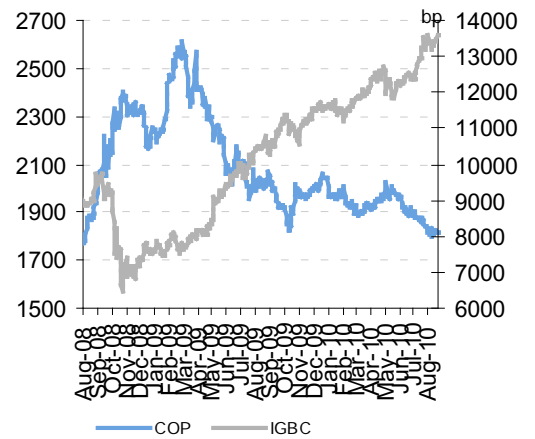
In line with turbulence in global markets, the peso continues to trade on a negative bias. Early in the session the COP lost ground to around 1,823, momentarily touching 1,825, but rode rebounds in US markets and risky assets to recover losses. Thus, the resistance levels standing at 10- and 20-day moving averages (1,819 and 1821, respectively) remain intact for the moment, but the cross could remain weak if US unemployment numbers continue to surprise on the downside. As such, we expect the peso to trade in a range of 1,817 to 1,825. The next resistance level would stand at the 30-day moving average of 1,835.5.

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	-0.04	-0.34	-3.79
Brazilian real	1.76	0.40	-0.59	-1.09
Chilean peso	506.45	-0.40	-0.94	0.20
Colombian peso	1,818.00	-0.05	-0.34	11.05
Mexican peso	12.98	-0.07	-2.78	0.83
Peruvian nuevo sol	2.80	0.04	-0.02	3.13

5 year CDS				
Argentina	892.90	4.41	8.03	-2.34
Brazil	125.05	0.21	6.89	2.06
Chile	76.77	4.21	6.99	12.37
Colombia	128.24	1.42	8.61	-10.29
Mexico	126.13	0.00	8.62	-5.72
Peru	105.61	-0.39	5.62	-14.50

Equity indexes				
Argentina Merval	2,331.13	1.65	-5.50	0.45
Brazil IBOV	64,803.43	-0.54	-4.19	-5.52
Chile IPSA	4,453.20	-1.18	-1.34	24.34
Colombia IGBC	13,588.11	-0.09	1.44	17.12
Mexico IPyC	31,453.72	0.28	-2.95	-2.08
Peru ISBVL	22,422.31	0.84	-0.47	-0.05
VIX Index	26.70	27.46	24.59	21.68

Commodities				
CRB Industrial	501.32	0.00	-0.27	3.69
COMEX Copper	321.10	-0.88	-4.12	-3.50
WTI	72.52	1.24	-3.85	-8.62
Gold	1,240.05	0.76	0.86	13.05
Sugar	20.03	-0.64	2.19	-8.33
Soy	999.00	0.00	-3.08	-1.50

Volatilities %				
	1M	3M	6M	1Y
Argentinian peso	3.77	7.30	10.77	15.79
Brazilian real	12.77	13.86	14.90	16.41
Chilean peso	11.10	12.00	12.50	13.10
Colombian peso	12.03	13.05	13.58	14.59
Mexican peso	13.10	12.99	13.10	13.32

NDF currency/US\$				
Argentinian peso	3.97	4.03	4.15	4.40
Brazilian real	1.77	1.80	1.84	1.91
Chilean peso	506.85	508.15	510.60	517.22
Colombian peso	1,818.28	1,821.50	1,829.00	1,857.50
Peruvian nuevo sol	2.79	2.79	2.79	2.80

Foward points				
Argentinian peso	0.03	0.09	0.20	0.46
Brazilian real	0.01	0.03	0.07	0.15
Chilean peso	0.40	1.70	4.15	10.77
Colombian peso	0.28	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	-6	26
LTN Jan-11	10.72	-13	-19	37
NTN-F Jan-13	11.28	-14	-64	-54
NTN-F Jan-17	11.11	-24	-55	-126
NTN-B Aug-14	6.10	-12	-9	-124

Chile				
TPM	1.98	-2	5	149
TAB 90d UF	0.22	15	12	-659
Swap CLPxCAM 2Y	4.09	-1	-8	104
Swap CLPxCAM 5Y	4.80	4	-10	-43
Swap CLPxCAM 10Y	5.36	1	-14	-71
Swap UFXCAM 2Y	0.54	3	0	-71
Swap UFXCAM 5Y	1.43	1	-10	-75
Swap UFXCAM 10Y	2.08	-1	-14	-50
Swap basis 2Y	76.00	0	2	9
Swap basis 5Y	63.00	0	4	8
Swap basis 10Y	99.00	1	4	13
BCP Jan-2012	4.84	-15	-16	78
BCP Aug-2014	5.70	0	-11	54
BCU 5Y	2.33	0	12	-49
BCU 10Y	2.64	-5	-6	-56

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.45	-13	-13	-66
TES Aug-2012	4.67	-4	-8	-464
TES May-2014	6.08	-1	-6	608
TES Jul-2020	7.13	0	-2	-136
UVR Mar-2013	2.56	-6	0	-235

Peru				
Reference rate	2.50	0	0	-400
Sovereign bond Aug-2011	2.78	-5	13	-413
Sovereign bond Aug-2017	5.10	-3	-7	-171
Sovereign bond Aug-2037	6.21	-2	-5	69

Global bonds				
BRL 2040	2.74	2	9	-162
CLP 2013	1.24	-18	-42	-70
COP 2033	5.24	0	-8	-173
PE 2033	4.99	4	1	-145

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, August 25					
Brazil	FIPE CPI - Weekly	23-Aug	0.24%	0.20%	0.21%
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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