

Latam

# Daily Latam

## Market Analysis Markets

Mexico City, July 27, 2010

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### Higher-than-expected US housing numbers drive the market

Contributing to the upbeat sentiment, Fedex raises its earnings outlook for the remainder of 2010.

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### Exchange Rates: Brazilian real

The real appreciates in line with global risky assets; local economic data is below market expectations.

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### Exchange Rates: Chilean peso

External events favor positive bias in the peso.

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A breakout from 1,860 is underpinned by lower expectations of Banrep's interventions and a more bullish external environment.

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### Exchange Rates: Peruvian Nuevo Sol

Local appetite for soles declines, but currency maintains bullish trend.

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

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# Strategic Outlook

- Brazil →
- Chile →
- Colombia →
- Peru →

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

**Higher-than-expected US housing numbers drive the market**  
Contributing to the upbeat sentiment, Fedex raises its earnings outlook for the remainder of 2010.

**The S&P 500 closes slightly above its 200-day moving average. If it can hold on, this will fuel appetite for risky assets**

Skepticism of some analysts regarding the results of the EU stress tests took a back seat to the positive surprise provided by US new-homes sales numbers, which moved up by 23.6% over the previous month's figure (310k vs. 330k). In any case, this figure is the second worse number in history and still reveals weakness in the real estate market, which has been battered by high levels of unemployment, sagging consumer numbers and a supply glut in the housing market. Meanwhile, Fedex raised its earnings outlook for the remainder of 2010, which sent positive sentiment through the market, drove a contraction of risk premiums and more appetite for risky assets. Thus, US stock market indexes have recouped this year's losses. The performance of risky assets will depend on the S&P 500 continuing to trade above its 200-day moving average of 1,114pts.

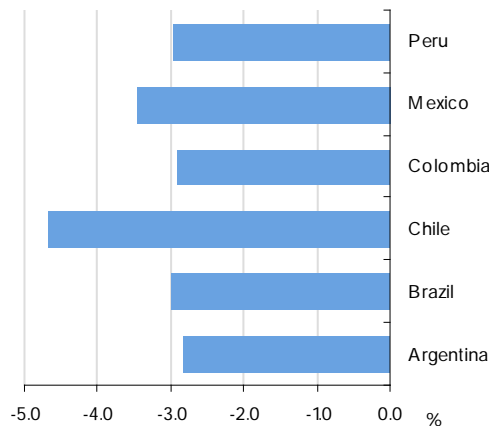
Investors will be interested in US consumer confidence numbers due out today. Spain's placement of 3M and 6M paper also holds interest. In Mexico, investors await the release of the Global Economic Activity Index (IGAE), estimated at 8.5% vs. BBVA Research's estimate of 8.9%

**APPENDIX**

Macro Calendar

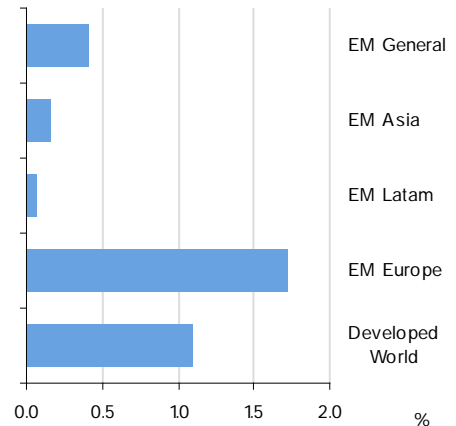


Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

# Brazil

Strategic Outlook



Chile



Colombia



Peru



## Exchange Rates

### Brazilian real

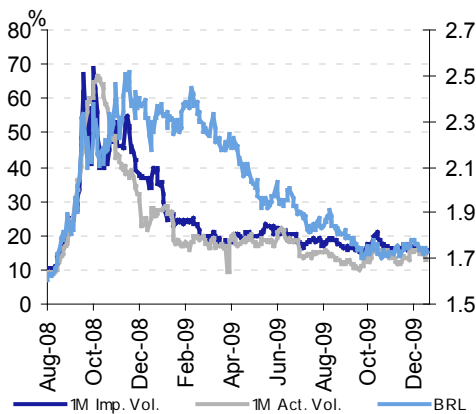
The real appreciates in line with global risky assets; local economic data is below market expectations.

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

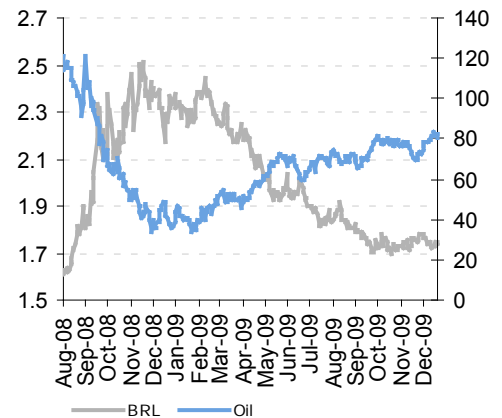
Two local reports were released yesterday: 1) The central bank's weekly expectations survey, which for the third consecutive week shows that year-end inflation and the Selic rate are expected to be lower, with the former moving from 5.42% to 5.35% while the latter dipped from 12.00% to 11.75%. 2) The monthly report of foreign accounts reveals that the deficit in the current account grew 56% vs. May, while foreign direct investment fell 80%. In this regard, it is worth pointing out that portfolio investment soared 65% YoY and, therefore, it is currently the most important source for financing the current account deficit. The latter has maintained its downward trend in recent months and, since the beginning of July, forex transactions have remained in negative terrain. Despite the above, the real closed 0.5% stronger in response to stronger appetite for risk in global markets ahead of better-than-expected US data. Although we stand by our positive outlook for the currency, with a target of 1.75 in coming sessions, we think that the aforementioned local risk data could limit further appreciations.

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

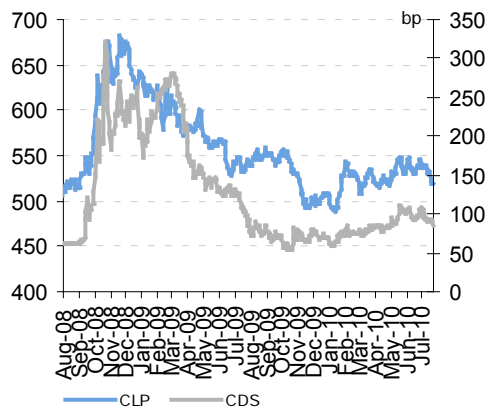
**External events favor positive bias in the peso.**

*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

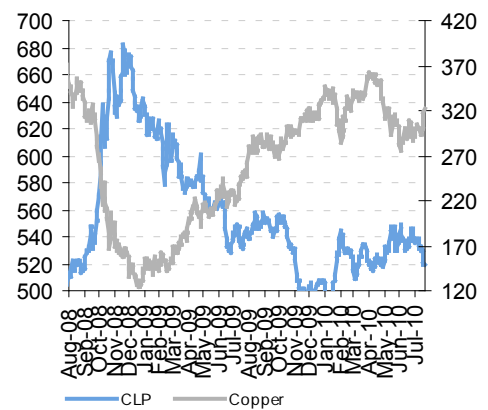
The peso closed 0.23% stronger yesterday on lower cycle and financial risk premiums abroad. The decline in cycle risk premiums was based on better-than-expected new home sales in the US, while an easing of skepticism over EU stress test results helped underpin lower financial risk premiums. Additionally, expected foreign currency inflows to help finance the Reconstruction Plan could continue to buttress the peso in the short term. Last but not least, the most recent Banco Central de Chile economic outlook makes no allusions to concerns about the recent appreciation of the currency and, in fact, refers to relatively contained movements. All in all, in our view the peso could extend its uptrend to the vicinity of 515 in coming sessions.

**CLP vs. 5y CDS**



Source: Bloomberg and BBVA Research

**CLP vs. Copper**



Source: Bloomberg and BBVA Research

# Colombia

Strategic Outlook



Brazil



Chile



Peru



## Exchange Rates

### Colombian peso

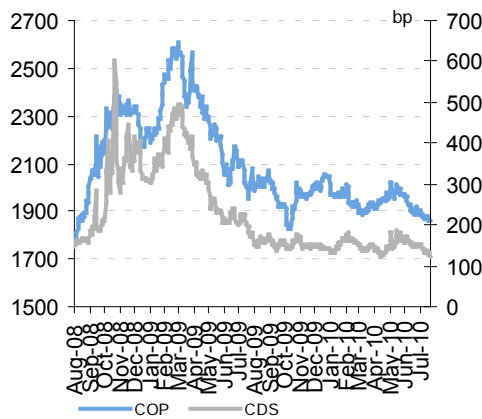
**A breakout from 1,860 is underpinned by lower expectations of Banrep's interventions and a more bullish external environment.**

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

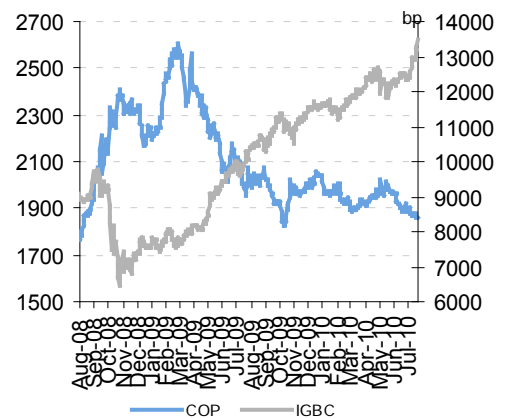
In line with the movements of most Latam currencies, the peso closed 0.5% higher yesterday on volume of US\$1bn. The appreciation was backed by two events: 1) Stronger appetite for risk abroad on a jump in US economic data and more stable financial risk premiums. 2) An upward revision to local growth estimates for 2010 as per Banco de la República's monetary policy statement released Friday, and the fact that less frequent interventions in the forex market are expected from the central bank. As such, the peso closed below the 1,860 support and, therefore, we do not rule out a movement to the vicinity of 1,840 in the short term.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

# Peru

Strategic Outlook



Brazil



Chile



Colombia



## Exchange Rates

### Peruvian nuevo sol

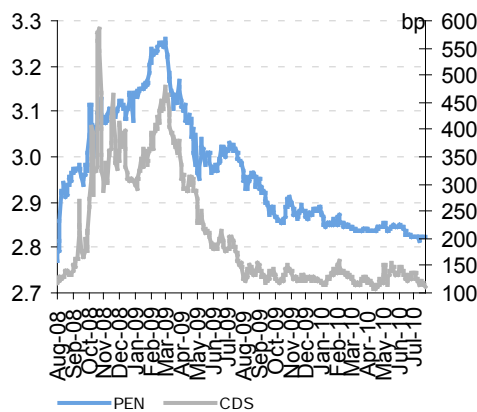
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FX Latam  
Chief Strategist  
**MOISES JUNCA, CFA, CMT**  
moises.junca@bbva.bancomer.com  
+5255 5621 9380

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

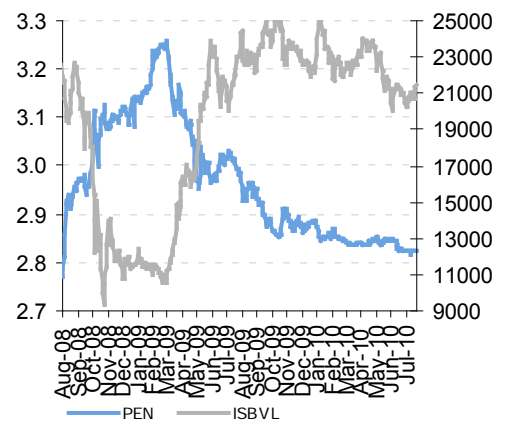
According to the weekly bulletin issued by Banco Central de Reserva del Perú, net forward purchases from the banking system to investors dropped by US\$59mn last week. In our view, this decline points to declining interest in the currency due to several measures taken by the BCRP to rein in the appreciation of the sol. Additionally, the report revealed favorable growth data that could favor the ongoing positive trend seen in the currency, as private sector credits grew 1.3% while the GDP came in at 9.2%. As such, we stand by our expectation of stability in the short term.

**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 %				Close %	Change bp		
		1D	1W	YTD			1D	1W	YTD
<b>Currencies</b>					<b>Brazil</b>				
Argentinian peso	3.93	-0.07	0.06	-3.52	Selic O/N	10.66	0	50	201
Brazilian real	1.76	0.64	1.68	-1.03	DI Jan-11 Future	10.94	6	-21	52
Chilean peso	519.10	0.23	2.62	-2.30	LTN Jan-11	10.89	-13	-32	37
Colombian peso	1,858.90	0.50	0.88	9.05	NTN-F Jan-13	12.01	5	-10	-54
Mexican peso	12.67	0.47	1.79	3.21	NTN-F Jan-17	12.06	8	-18	-126
Peruvian nuevo sol	2.82	0.00	0.03	2.23	NTN-B Aug-14	6.51	0	-14	-124
<b>5 year CDS</b>					<b>Chile</b>				
Argentina	822.58	-2.84	-9.16	-10.03	TPM	1.45	0	42	115
Brazil	116.40	-3.01	-8.91	-5.00	TAB 90d UF	0.15	0	2	-705
Chile	85.52	-4.66	-8.34	25.18	Swap CLPxCAM 2Y	4.04	-5	8	99
Colombia	123.63	-2.91	-9.38	-13.51	Swap CLPxCAM 5Y	5.00	-3	0	-23
Mexico	116.52	-3.47	-8.29	-12.90	Swap CLPxCAM 10Y	5.71	-1	-1	-36
Peru	109.63	-2.97	-10.34	-11.25	Swap UFXCAM 2Y	0.37	-1	12	-88
<b>Equity indexes</b>					<b>Colombia</b>				
Argentina Merval	2,388.34	0.55	3.71	2.91	Swap UFXCAM 5Y	1.55	0	0	-63
Brazil IBOV	66,443.26	0.18	4.97	-3.13	Swap UFXCAM 10Y	2.15	-1	-1	-43
Chile IPSA	4,366.65	0.94	3.74	21.93	Swap basis 2Y	65.00	-3	4	-3
Colombia IGBC	13,480.90	1.59	4.18	16.19	Swap basis 5Y	56.00	0	3	1
Mexico IPyC	32,958.89	0.47	3.49	2.61	Swap basis 10Y	89.00	0	4	3
Peru ISBVL	21,447.50	0.65	3.78	-4.40	BCP Jan-2012	4.95	-2	50	78
VIX Index	22.73	23.47	25.97	21.68	BCP Aug-2014	5.83	0	7	54
<b>Commodities</b>					<b>Peru</b>				
CRB Industrial	476.22	0.00	1.39	-1.50	Reference rate	2.00	0	0	-450
COMEX Copper	322.50	1.26	9.97	-3.08	Sovereign bond Aug-2011	2.78	0	-7	-413
WTI	78.98	0.00	3.19	-0.48	Sovereign bond Aug-2017	5.27	-17	-32	-171
Gold	1,183.55	-0.48	0.05	7.89	Sovereign bond Aug-2037	6.35	-15	-28	69
Sugar	18.62	1.97	5.74	-14.78	<b>Global bonds</b>				
Soy	966.00	-1.58	-0.62	-4.76	BRL 2040	3.10	-2	-20	-122
<b>Volatilities %</b>									
	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>1A</b>	CLP 2013	1.86	-7	7	-16
Argentinian peso	4.33	7.74	11.15	16.72	COP 2033	5.86	-48	-97	-63
Brazilian real	14.03	14.80	15.61	16.62	PE 2033	5.57	-5	-4	-81
Chilean peso	12.46	12.82	13.19	13.71					
Colombian peso	12.56	13.08	13.81	14.55					
Mexican peso	12.50	13.11	13.40	13.67					
<b>NDF currency/US\$</b>									
Argentinian peso	3.96	4.02	4.14	4.41					
Brazilian real	1.78	1.80	1.84	1.92					
Chilean peso	519.00	519.33	521.47	528.27					
Colombian peso	1,858.52	1,862.65	1,871.15	1,906.15					
Peruvian nuevo sol	2.82	2.82	2.83	2.86					
<b>Foward points</b>									
Argentinian peso	0.03	0.09	0.21	0.47					
Brazilian real	0.01	0.04	0.08	0.16					
Chilean peso	-0.10	0.23	2.37	9.17					
Colombian peso	-0.38	3.75	12.25	47.25					
Peruvian nuevo sol	0.00	0.00	0.01	0.03					

Source: Bloomberg and BBVA Research

Strategies →

# Appendix 2

## Calendar of Economic Indicators

			Survey	Prior	Actual
<b>Monday, July 26</b>					
Brazil	Current Account - Monthly	JUN	-\$3200M	-\$2020M	-\$5780M
	Foreign Investment	JUN	\$1600M	\$3534M	\$708M
	Trade Balance (FOB) - Weekly	25-Jul		\$391M	\$148M
<b>Tuesday, July 27</b>					
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	
<b>Wednesday, July 28</b>					
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			
<b>Thursday, July 29</b>					
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%	
<b>Friday, July 30</b>					
Chile	Unemployment Rate	JUN		8.80%	
Colombia	Unemployment Rate	JUN	12.80%	12.80%	
Argentina	Construction Activity (YoY)	JUN		11.80%	

**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**  
alejandro.lavin@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

**IMPORTANT DISCLOSURES****Analyst Certification**

We, **Moises Junca Acebedo, Rodrigo Ortega Salazar, Claudia Ceja Gonzalez:**

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