

Latam

Daily Latam

Market Analysis Markets

Mexico City, July 29, 2010

Strategic Outlook

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Durable goods orders reveal weakness of recovery cycle

And cause a correction in risky assets and a rally in T-bonds.

Brazil

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Exchange Rates: Brazilian real

Although data recently released were not up to expectations, foreign inflows maintain positive bias.

Chile

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Exchange Rates: Chilean peso

The peso weakens in response to lackluster local data.

Colombia

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Exchange Rates: Colombian peso

The peso continues to perform relatively better than other Latam currencies.

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

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Strategic Outlook

Brazil



Durable goods orders reveal weakness of recovery cycle

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Chile



Colombia



The release today of US and EU consumer confidence numbers could place more pressure on global markets

June durable goods orders came in unexpectedly low at -1% (-0.6% excluding transportation), while the market expected growth of 1% (0.4% before transportation). These figures come in addition to the negative consumer confidence numbers released Monday and fuel the market's growing skepticism regarding the sustainability of the US economic recovery. This situation is mirrored in declines in yields of US T-bonds, which saw issuances of 56-day instruments (for US\$25bn at 0.155%) and 5Y (for US\$37bn at 1.796%).

Uncertainty regarding the cycle recovery drove depreciation of the USD against OCDE currencies (e.g., the dollar lost 0.4% against the JPY, 0.19% against the GBP and 0.05% against the EUR), while it appreciated against most emerging currencies (e.g., it gained 0.10% against the BRL and 0.30% against the MXN).

Insofar as the market heeds economic data and earnings reports are behind us, US employment and EU consumer confidence numbers will be high in the investors' mind.

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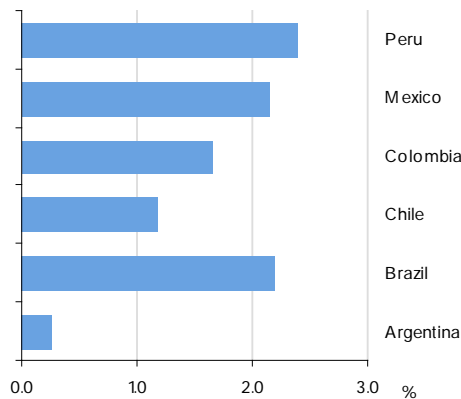
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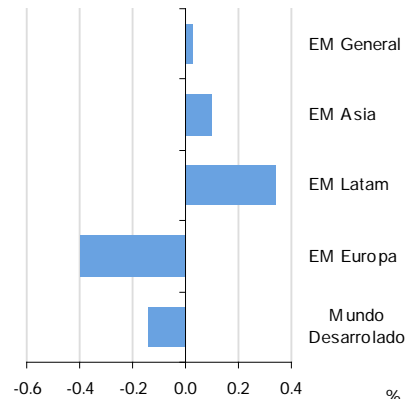
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Daily change on LatAm CDS 5 years



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

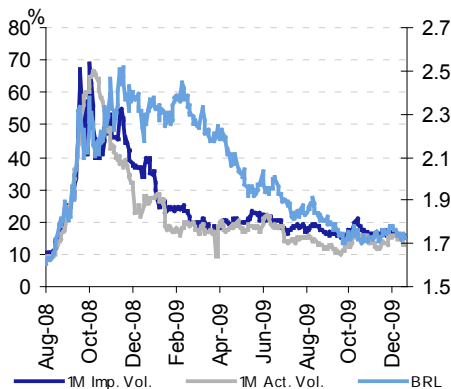
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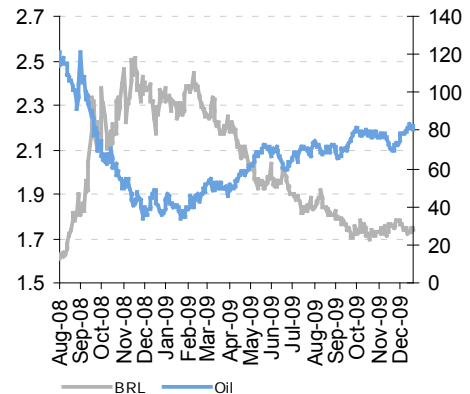
Ongoing uncertainty related to the global economic cycle, the Fed's Beige Book and US durable goods numbers ganged up to drive the real down by 0.10% yesterday. Locally, external accounts were below expectations but the outlook for flows coming from abroad is still favorable, as evidenced by the following factors: 1) In its weekly report on forex operations released yesterday, the central bank showed financial transactions had increased to US\$1.1bn at the end of the third week of July, thus offsetting the negative balance of trade operations. It is worth pointing out, however, that the accrued balance of total operations is still in negative territory and amounts to US\$2.3 month to date. 2) Foreigners' position long on reals in the BM&F is close to two-year highs (US\$6.5 as at Wednesday), which could be a risk in the event of a closure of positions. 3) Finally, the reopening of the 2021 sovereign bond in the last two days evidences a still healthy appetite for Brazilian assets. All in all, we expect lateral dynamics within a 1.75-1.78 range in the short term. Today we will be awaiting the release of Copom's minutes which could include hints of what to be expected in the monetary policy front for the rest of 2010.

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

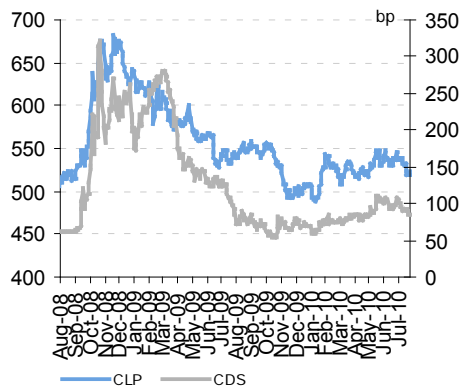
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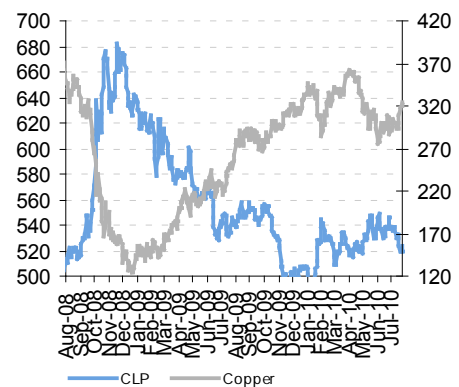
After appreciating more than 2% over the week, the peso began a correction phase yesterday and closed the session 0.8% weaker. This performance responds not only to global cycle factors abroad, but also to local economic figures released yesterday that were below expectations. Industrial production, for example, came in at 2.90% vs. 5.30%e, while industrial sales amounted to 1.40% vs. 2.80%e). Accordingly, yields on Chilean papers declined 2bp-4bp and up to 6bp in the case of the 2010 BCP. This drop came in tandem with another downward revision to bets on the monetary policy, which in recent months had been tightening. As such, although stronger decoupling from US yields had been priced in already, this easing of expectations impacted the currency. On top of all the above are technical factors, such as a new breach of the 200-day moving average to 521, which could take the peso back to levels of 516 seen a couple of days ago, while a break upward to 525 –the 10-day moving average– could signal a target of 529.

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

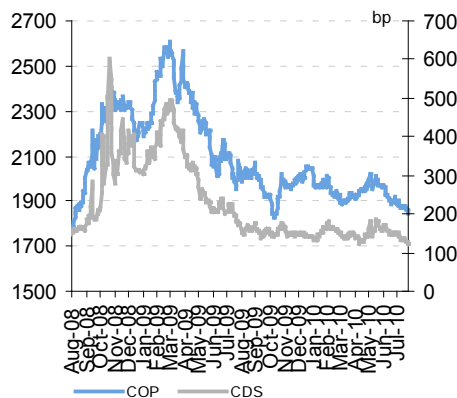
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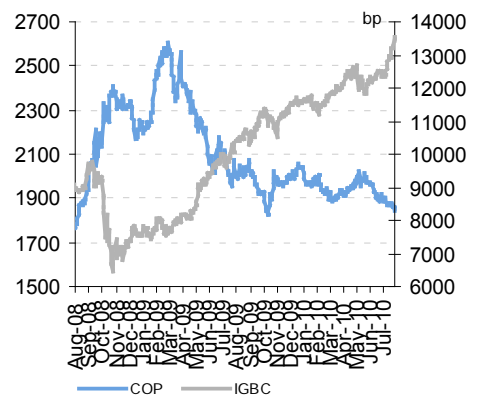
In line with its performance in recent days, the peso closed 0.29% stronger yesterday even amid uncertainty related to the economic cycle in external markets. This movement is a response to foreign direct investment and portfolio inflows expected from abroad: although equities did not perform well, bonds maintained their bonanza and TES demand in yesterday's auction was 3x the initial offering. Additionally, we have already mentioned that bets are that Banco de la República will not frequently intervene in the forex market. All in all, we still believe that an extension of the currency uptrend in the short term is somewhat limited, as we continue to see a major support at around 1,812-1,820.

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	-0.05	-0.04	-3.56
Brazilian real	1.77	-0.10	0.66	-1.40
Chilean peso	523.65	-0.80	-0.10	-3.19
Colombian peso	1,844.51	0.29	1.23	9.75
Mexican peso	12.72	-0.25	1.21	2.87
Peruvian nuevo sol	2.82	0.00	0.09	2.27

5 year CDS				
Argentina	807.91	0.26	-8.35	-11.64
Brazil	119.68	2.20	-3.36	-2.32
Chile	85.99	1.19	-8.27	25.87
Colombia	126.47	1.66	-4.43	-11.52
Mexico	119.51	2.15	-3.97	-10.67
Peru	112.58	2.39	-3.58	-8.86

Equity indexes				
Argentina Merval	2,374.22	-0.55	2.01	2.30
Brazil IBOV	66,808.25	0.20	3.62	-2.60
Chile IPSA	4,354.03	-0.57	1.58	21.57
Colombia IGBC	13,419.84	-0.73	1.64	15.67
Mexico IPyC	32,665.56	-0.09	1.73	1.70
Peru ISBVL	21,287.38	0.00	3.04	-5.11
VIX Index	24.25	23.19	25.64	21.68

Commodities				
CRB Industrial	478.64	0.00	1.16	-1.00
COMEX Copper	324.00	1.09	4.96	-2.63
WTI	76.99	-0.66	0.56	-2.99
Gold	1,163.60	0.17	-1.81	6.08
Sugar	18.87	2.44	8.01	-13.64
Soy	978.00	1.29	-0.05	-3.57

Volatilities %				
	1M	3M	6M	1A
Argentinian peso	4.30	7.70	11.21	16.76
Brazilian real	13.55	14.57	15.37	16.48
Chilean peso	12.46	12.85	13.25	13.79
Colombian peso	12.30	12.83	13.44	14.19
Mexican peso	11.95	12.60	13.20	13.40

NDF currency/US\$				
Argentinian peso	3.96	4.02	4.15	4.41
Brazilian real	1.78	1.80	1.84	1.93
Chilean peso	523.48	523.90	526.10	532.65
Colombian peso	1,845.04	1,847.51	1,856.51	1,892.01
Peruvian nuevo sol	2.82	2.82	2.83	2.86

Foward points				
Argentinian peso	0.03	0.09	0.21	0.48
Brazilian real	0.01	0.04	0.07	0.16
Chilean peso	-0.17	0.25	2.45	9.00
Colombian peso	0.53	3.00	12.00	47.50
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	10.83	-1	-14	41
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	1.50	0	0	120
TAB 90d UF	0.15	0	0	-705
Swap CLPxCAM 2Y	4.02	-4	-10	97
Swap CLPxCAM 5Y	4.98	-3	-9	-25
Swap CLPxCAM 10Y	5.69	-2	-4	-38
Swap UFXCAM 2Y	0.35	0	3	-90
Swap UFXCAM 5Y	1.57	3	4	-61
Swap UFXCAM 10Y	2.18	3	4	-40
Swap basis 2Y	65.00	0	3	-3
Swap basis 5Y	56.00	0	3	1
Swap basis 10Y	89.00	-1	4	3
BCP Jan-2012	4.94	-6	-4	78
BCP Aug-2014	5.83	0	-1	54
BCU 5Y	2.19	-4	-8	-59
BCU 10Y	2.89	3	1	-34

Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.54	0	2	-57
TES Aug-2012	4.90	-1	8	-441
TES May-2014	6.49	-8	14	649
TES Jul-2020	7.55	-14	9	-94
UVR Mar-2013	2.74	-1	17	-217

Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.69	-29	-16	-413
Sovereign bond Aug-2017	5.33	-6	-22	-171
Sovereign bond Aug-2037	6.39	-5	-20	69

Global bonds				
BRL 2040	3.18	0	-5	-118
CLP 2013	1.91	15	-1	-2
COP 2033	6.01	-1	-25	-97
PE 2033	5.56	2	-13	-88

Strategies →

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Wednesday, July 28					
Brazil	Central Govt Budget	JUN	\$1.00B	-\$0.51B	\$0.63B
Chile	Industrial Production (YoY)	JUN		4.20%	2.90%
	Industrial Sales YoY	JUN		0.50%	1.40%
	Copper Production Total	JUN		430736	465033
Argentina	Shop Center Sales (YoY)	JUN		37.40%	23.80%
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			
	Nominal Budget Balance	JUN		-14.8B	
	Primary Budget Balance	JUN		1.4B	
	Net Debt % GDP	JUN		41.40%	
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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