Latam

Daily Latam

Market Analysis
Markets

Mexico City, July 30, 2010

Wall Street closes under pressure from earnings reports...

...despite positive surprises in EU consumer confidence and initial jobless claims in the US.

Exchange Rates: Brazilian real

Local factors point to a not-so-positive domestic outlook; we maintain our expectation of a lateral trend.

Exchange Rates: Chilean peso

The peso closed stable and maintains positive bias.

Exchange Rates: Colombian peso

The peso continues to outperform other Latam currencies; however we see limited room for further appreciation.

Strategic Outlook

Wall Street closes under pressure from earnings reports...

...despite positive surprises in EU consumer confidence and initial jobless claims in the US.

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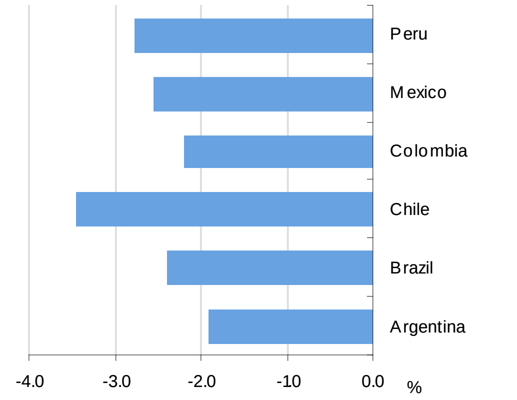
The US GDP report due out today will be key in determining the direction of risk assets

Risky assets began yesterday's session on an upbeat note thanks to positive surprises in EU consumer confidence (101.3 vs. 99.1e) and initial jobless claims in the United States (457k vs. 460k est.). The tone deteriorated in response to earnings reports in the technological and consumer sectors (Colgate-Palmolive reported a 6.8% loss), with the S&P 500 slipping 0.4% to close at 1,101.53. Yesterday's stock losses also anticipate fears of the GDP report due out in the US today (the consensus forecast is for a 2.6% increase), that could exacerbate doubts about the global recovery cycle if the report comes in below the estimate.

As a result of that perception of weakness in the US economy, the USD softened 0.58% against the EUR (1.3073) and closed essentially flat in relation to the JPY (86.72). The MXN lost 0.10% due to its high correlation to the US economy while the BRL, with its greater exposure to Europe, firmed 0.62% on the day.

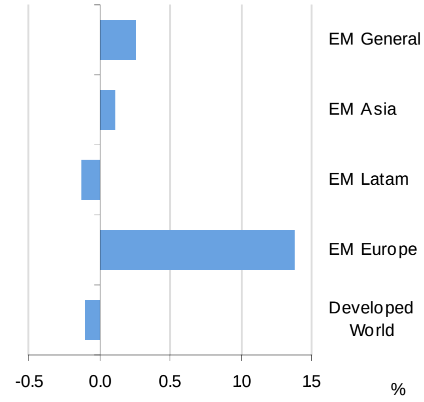
In addition to the GDP report, indicators due out today include the University of Michigan Consumer Confidence Index, but that will clearly exert less pressure on market sentiment than the report on the broad economy.

Daily change on LatAm CDS 5 years



Source: Bloomberg and BBVA Research

Daily change on MSCI Index



Source: Bloomberg and BBVA Research

APPENDIX

Brazil

Strategic Outlook →
Chile →
Colombia →

Exchange Rates

Brazilian real

Local factors point to a not-so-positive domestic outlook; we maintain our expectation of a lateral trend.

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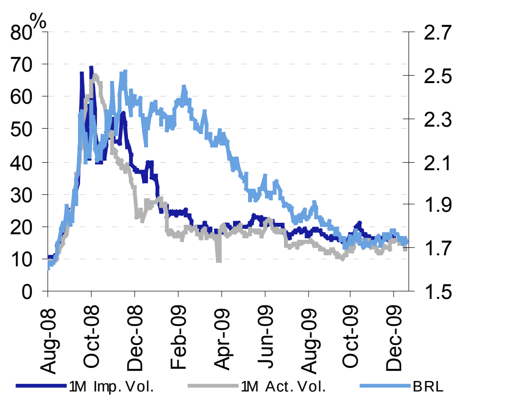
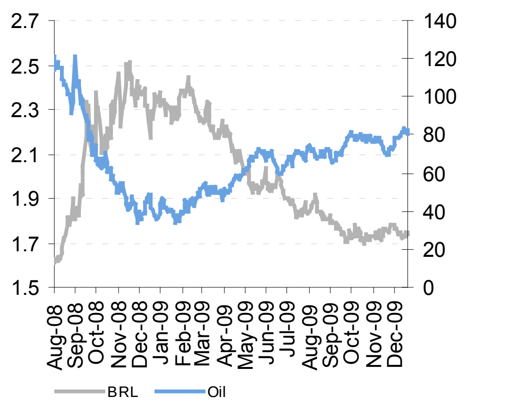
Two factors point to a less positive domestic outlook: 1) on the one hand, the minutes from yesterday's COPOM meeting show expectations of a moderate recovery and emphasize the external risks. As such, the market is factoring in more moderate expectations regarding the restrictive monetary policy cycle (e.g., DI futures posted overall declines). Nevertheless, we still expect increases in upcoming meetings totaling at least 50bp); 2) on the other hand, fiscal account data were below market expectations, with a budget deficit of -US$13.6bn vs. an estimated -US$11.3bn). Nevertheless, the real ended the session with a 0.62% gain in response to a more positive external cyclical scenario, especially in Europe. This resulted in a more than 1% increase in commodity prices (even with the decline in US market indexes, the IBOV rose 0.22%). With this in mind, we stand by our expectation of a lateral trend in the 1.75-1.78 range in the short term.

Implied vs. Historic Volatility



Source: Bloomberg and BBVA Research

BRL vs. WTI



Source: Bloomberg and BBVA Research

Chile

Exchange Rates

Chilean peso

The peso closed stable and maintains positive bias.

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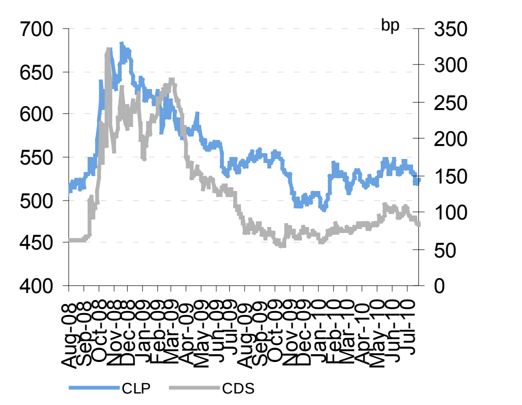
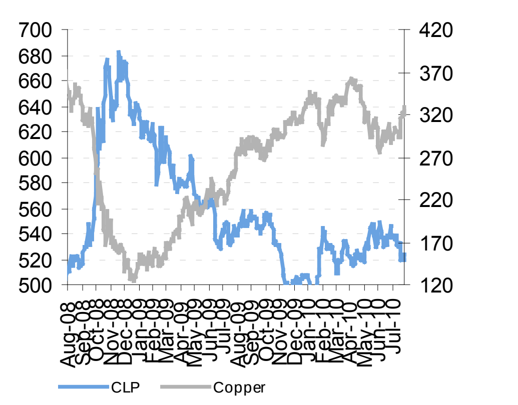
In line with most Latam currencies, yesterday the peso remained relatively stable in response to mixed external market factors: European consumer confidence figures were above market expectations, although US corporate reports were less favorable. Nevertheless, various factors favor a short term positive bias: 1) the auction of US$1.5bn abroad showed favorable results, with the lowest placement rates in history: 3.89% in USD and 5.5% in pesos; 2) expectations of forex inflows, especially with possible money inflows from the previously mentioned issue; and 2) copper maintained its uptrend, with its price rising 1.40%. Thus, we still think that in the event of a break below the 521 support level (200d moving average), we could see a shift toward the 515 zone.

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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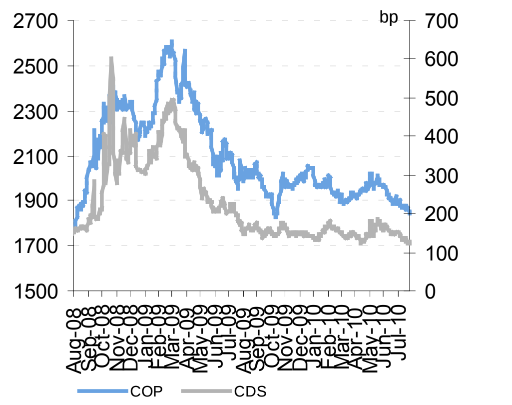
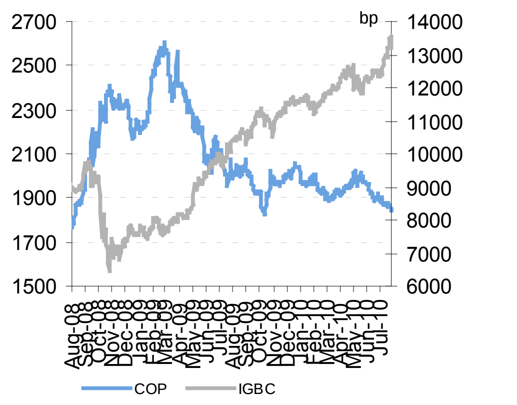
In a session marked by high volume (US$1.2bn), yesterday the peso closed relatively stable above 1,840. With this result, the peso has appreciated 9.8% YTD, the best performance among Latam currencies. Although we feel that this trend could continue in the next few days, room to do so is increasingly limited, based on the following factors: 1) we expect an adjustment in the lag with the other Latam currencies such as the MXN, which limits portfolio inflows; 2) the factors that justify the peso's strength are already priced in; and 3) we do not rule out new Banco de la República forex market interventions. Thus, we continue to see an important support zone at 1820-1815 levels.

COP vs. 5y CDS



Source: Bloomberg and BBVA Research

COP vs. IGBC



Source: Bloomberg and BBVA Research

Appendix 1

Summary of the LatAm Market

		Change %		
	Close	1D	1W	YTD
Currencies				
Argentinian peso	3.94	-0.07	-0.12	-3.63
Brazilian real	1.76	0.62	0.01	-0.77
Chilean peso	523.55	0.02	-0.84	-3.17
Colombian peso	1,843.25	0.07	1.03	9.81
Mexican peso	12.72	-0.02	0.41	2.85
Peruvian nuevo sol	2.82	0.00	0.04	2.27
5 year CDS				
Argentina	792.47	-1.91	-6.71	-13.32
Brazil	116.81	-2.40	-2.99	-4.66
Chile	83.03	-3.45	-7.91	21.53
Colombia	123.69	-2.20	-3.49	-13.47
Mexico	116.45	-2.56	-3.70	-12.96
Peru	109.46	-2.77	-3.99	-11.38
Equity indexes				
Argentina MERVAL	2,405.47	1.32	1.94	3.65
Brazil IBOV	66,953.83	0.22	1.83	-2.38
Chile IPSA	4,357.21	0.07	1.24	21.66
Colombia IGBC	13,195.85	-1.67	-0.19	13.74
Mexico IPyC	32,463.72	-0.62	-0.79	1.07
Peru ISBVL	21,287.38	0.00	0.62	-5.11
VIX Index	24.13	24.25	24.63	21.68
Commodities				
CRB Industrial	478.49	0.00	0.73	-1.03
COMEX Copper	328.55	1.40	3.96	-1.26
WTI	78.36	1.78	-1.19	-1.26
Gold	1,168.25	0.40	-2.23	6.50
Sugar	19.50	3.34	6.56	-10.76
Soy	988.00	1.02	0.87	-2.59
Volatilities %	**1M**	**3M**	**6M**	**1A**
Argentinian peso	4.24	7.69	11.14	16.77
Brazilian real	13.28	14.46	15.16	16.40
Chilean peso	12.38	12.85	13.26	13.78
Colombian peso	12.19	12.75	13.45	14.21
Mexican peso	11.91	12.61	13.14	13.46
NDF currency/US$				
Argentinian peso	3.96	4.02	4.15	4.41
Brazilian real	1.77	1.79	1.83	1.91
Chilean peso	523.35	523.81	526.11	532.66
Colombian peso	1,844.25	1,846.25	1,855.25	1,890.75
Peruvian nuevo sol	2.82	2.82	2.83	2.86
Foward points				
Argentinian peso	0.03	0.09	0.21	0.47
Brazilian real	0.01	0.04	0.08	0.16
Chilean peso	-0.20	0.26	2.56	9.11
Colombian peso	1.00	3.00	12.00	47.50
Peruvian nuevo sol	0.00	0.00	0.01	0.03

		Change bp		
	Close %	1D	1W	YTD
Brazil				
Selic O/N	10.66	0	0	201
DI Jan-11 Future	10.82	-1	-15	40
LTN Jan-11	10.95	-13	-32	37
NTN-F Jan-13	12.05	5	-10	-54
NTN-F Jan-17	11.98	8	-18	-126
NTN-B Aug-14	6.55	0	-14	-124
Chile				
TPM	1.50	0	5	120
TAB 90d UF	0.16	0	1	-704
Swap CLPxCAM 2Y	3.97	-5	-17	92
Swap CLPxCAM 5Y	4.97	-1	-9	-26
Swap CLPxCAM 10Y	5.64	-5	-9	-43
Swap UFxCAM 2Y	0.32	-3	-5	-93
Swap UFxCAM 5Y	1.55	-2	0	-63
Swap UFxCAM 10Y	2.16	-2	0	-42
Swap basis 2Y	61.00	-4	-2	-7
Swap basis 5Y	52.00	-4	-1	-3
Swap basis 10Y	80.00	-9	-6	-6
BCP Jan-2012	4.71	-28	-26	78
BCP Aug-2014	5.83	0	-1	54
BCU 5Y	2.16	-3	-16	-66
BCU 10Y	2.79	-10	-13	-41
Colombia				
Reference rate	3.00	0	0	-50
DTF 90d	3.54	0	0	-57
TES Aug-2012	4.86	-4	1	-445
TES May-2014	6.39	-10	-2	638
TES Jul-2020	7.49	-7	-5	-100
UVR Mar-2013	2.52	-21	-19	-239
Peru				
Reference rate	2.00	0	0	-450
Sovereign bond Aug-2011	2.69	0	-16	-413
Sovereign bond Aug-2017	5.33	0	-20	-171
Sovereign bond Aug-2037	6.39	0	-19	69
Global bonds				
BRL 2040	3.23	0	9	-113
CLP 2013	1.64	-40	-14	-30
COP 2033	6.07	0	-27	-90
PE 2033	5.57	-1	-5	-87

Source: Bloomberg and BBVA Research

Strategies

Appendix 2

Calendar of Economic Indicators

			Survey	Prior	Actual
Thursday, July 29					
Brazil	FGV Inflation IGP-M (MoM)	JUL	0.05%	0.85%	0.15%
	FGV Inflation IGP-M (YoY)	JUL	5.69%	5.17%	5.79%
	COPOM Minutes	29-Jul			
	Nominal Budget Balance	JUN	-11.3B	-14.8B	-13.6B
	Primary Budget Balance	JUN	3.9B	1.4B	2.1B
	Net Debt % GDP	JUN	41.40%	41.40%	41.40%
Argentina	Supermarket Sales (YoY)	JUN		16.30%	19.00%
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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