

Latin America: Back to a Better Normal in 2011

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ECONOMIC EXPANSION CONTINUES, ALBEIT SLOWLY:

→ Is more QE necessary? Don't Think So

→ Credit conditions continue to ease

→ Emerging market assets continue
volatile

→ Leading Indicators positive but less

SO WORRIES...

→ Europe is finally struggling to resolve known unknowns

→ Protectionism

→ Increases in effect of US QE on world currencies, food prices, and rates

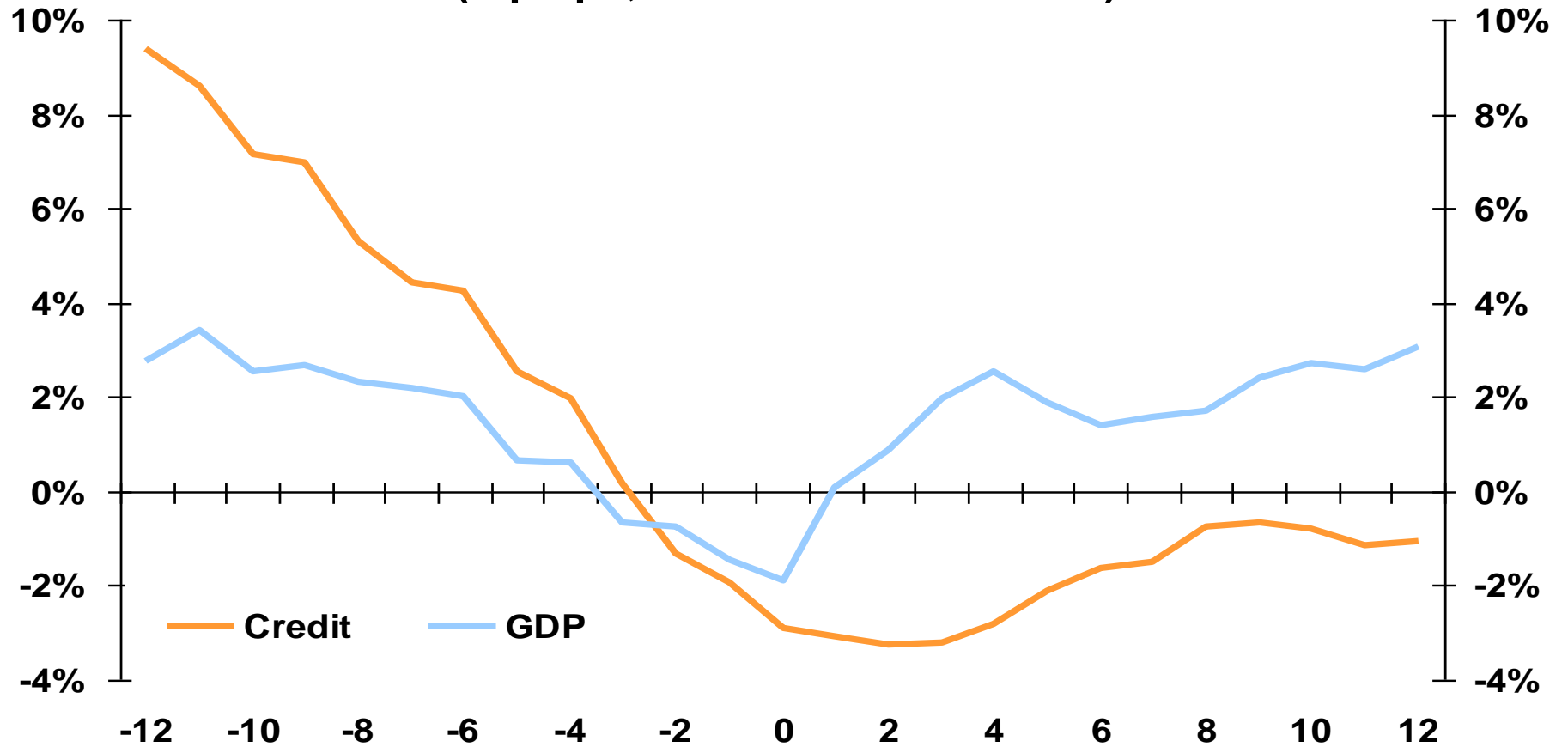
→ Renewed credit and employment worries in US and Europe

U.S. and World Economies Hesitating

SECOND PHASE OF RECOVERY DEPENDS UPON CREDIT

ECONOMIC RECOVERIES WITHOUT CREDIT, SO-CALLED “PHOENIX” RECOVERIES...

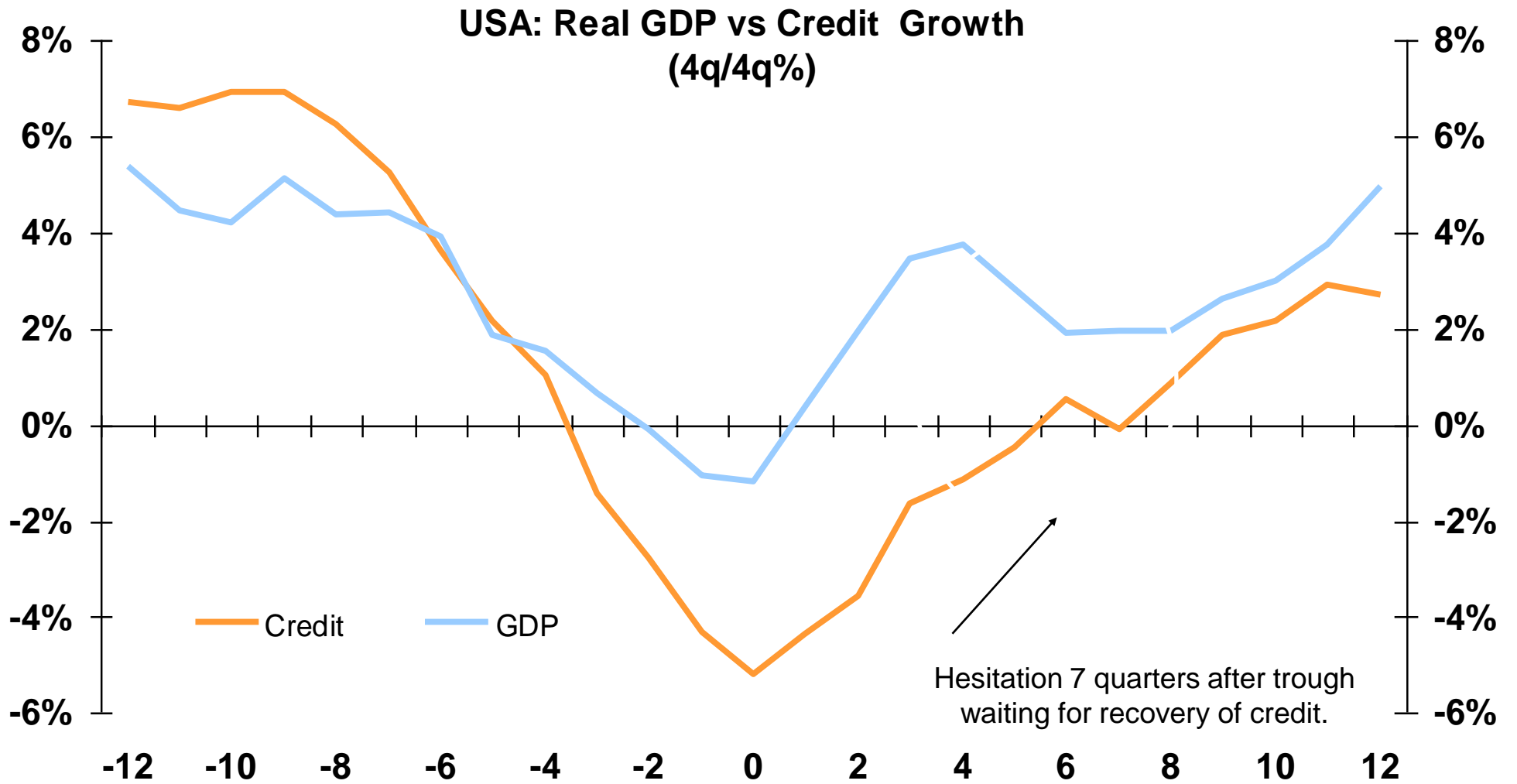
Average Real Growth after Financial Collapses (4q/4q%, t=0 recession bottom)



Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992), Australia (1989), Canada (1983), Italy (1990), New Zealand (1987), United Kingdom (1973, 1991, 1995), and United States (1974, 1980, 1990) Denmark (1987), France (1994), Germany (1977), Greece (1991), Iceland (1985)

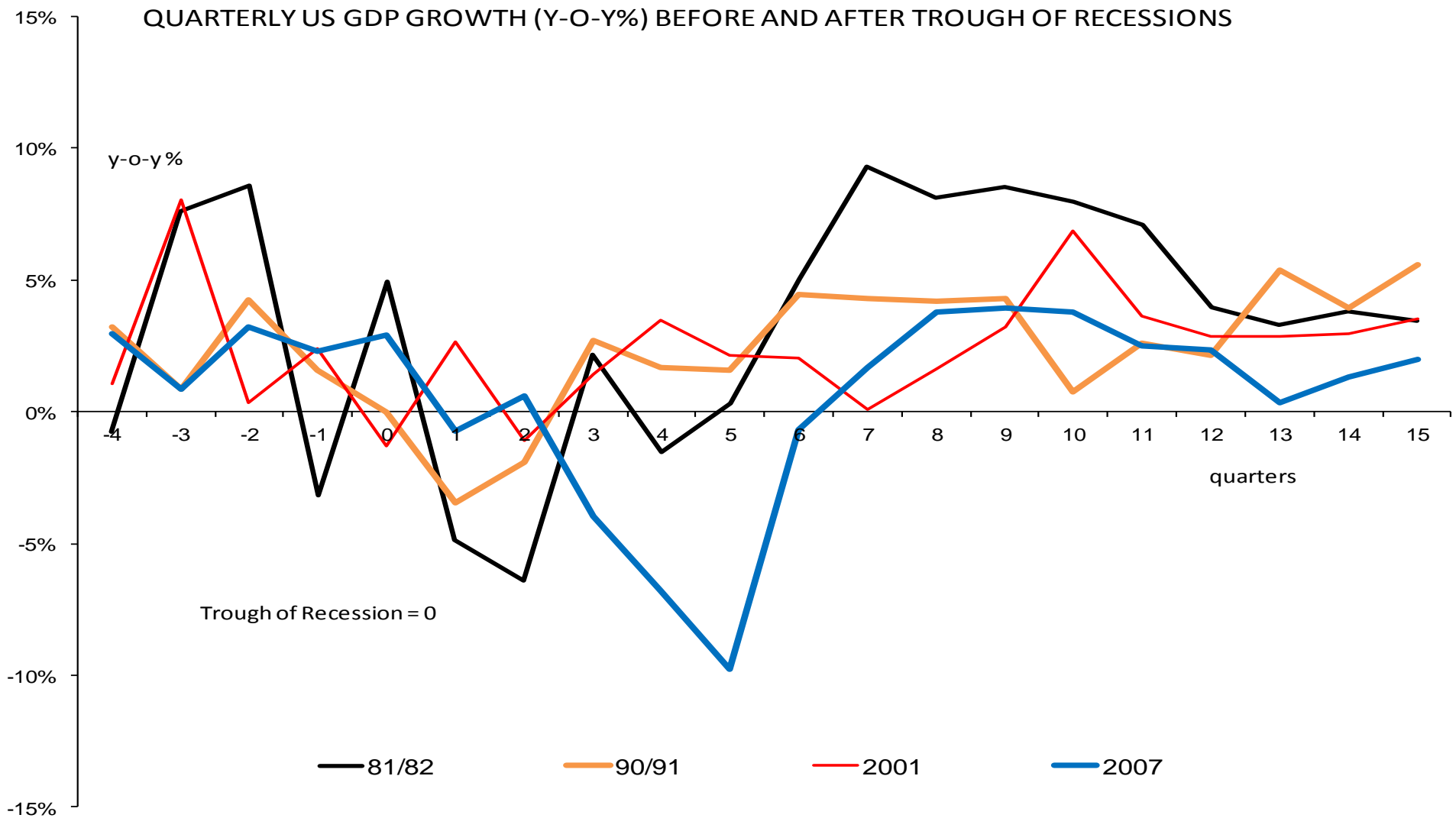
Source: Reinhart and Rogoff (2008)

... ARE THE RULE NOT TH EXCEPTION, EVEN IN THE UNITED STATES.

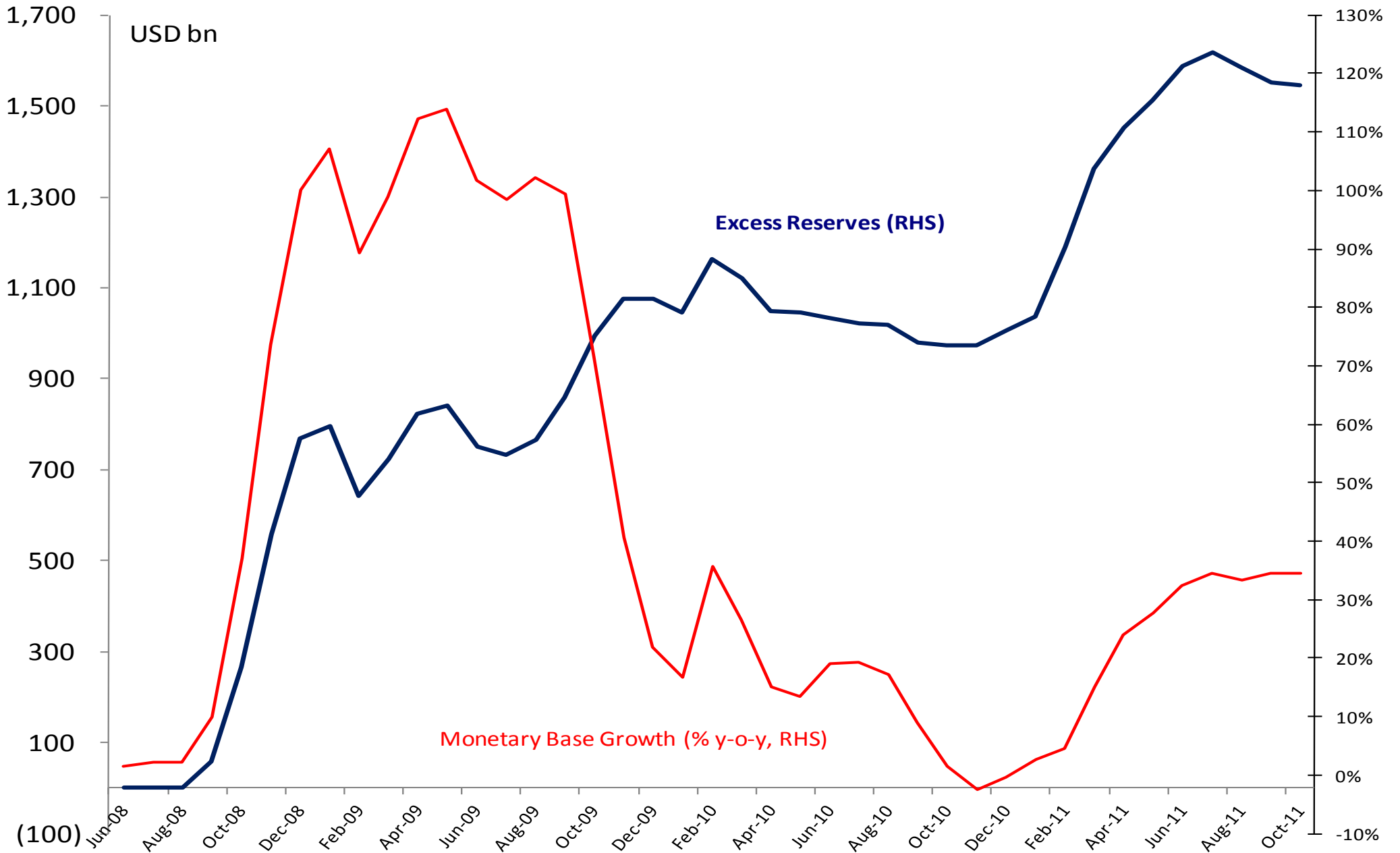


United States (1974, 1980, 1990)

HUGELY COMPROMISED HOUSEHOLD BALANCE SHEETS HAVE LEFT THE RECOVERY AS THE SLOWEST IN THE POST-WORLD WAR II ERA ... BUT THE RECOVERY CONTINUES NONETHELESS.

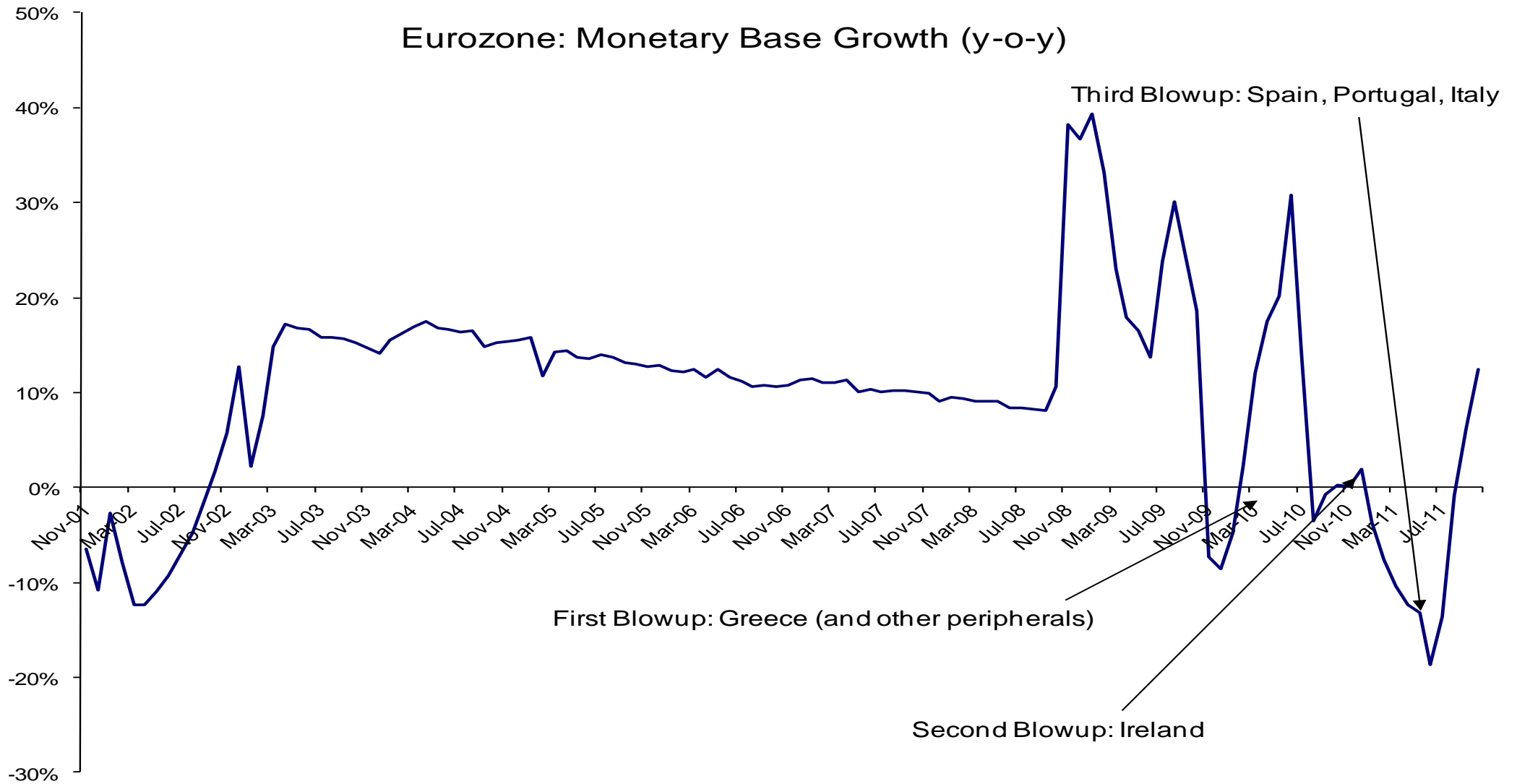


THE US FED KNOWS HOW TO QUANTITATIVELY EASE, BUT IT GOES TO EXCESS RESERVES

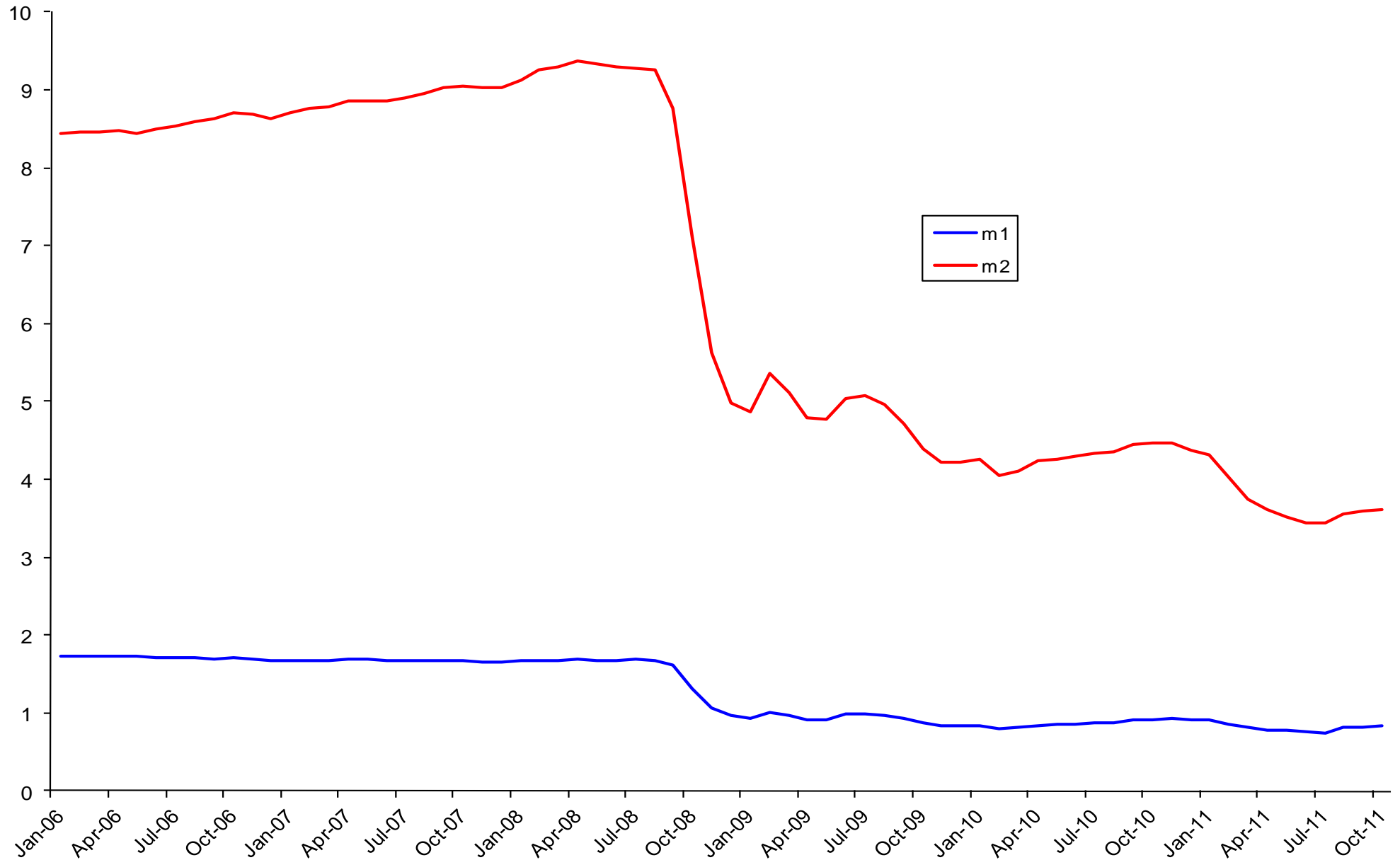


| Source: US Federal Reserve Board of Governors)

WHILE THE ECB CAN'T MAKE UP ITS MIND

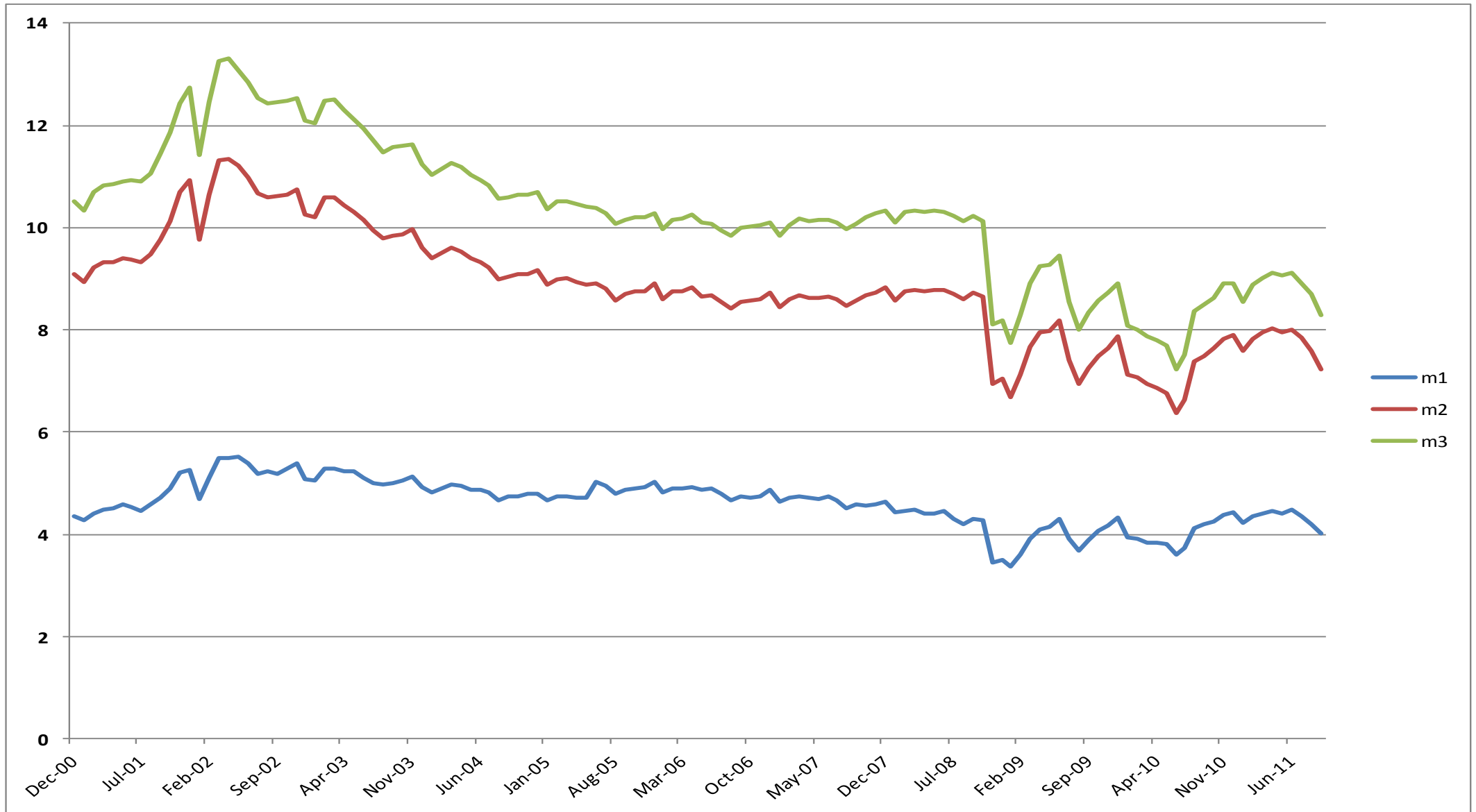


US MONEY MULTIPLIERS SHOW LIGHT GROWTH



| Source: US Federal Reserve Board of Governors)

WITH EUROPE'S MONEY MULTIPLIERS MORE STABLE



Latin America: Continued Recovery, On Its Own

BETTER PERFORMANCE IN REFORMERS

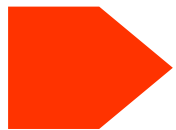
Latin America Rebounds

MS OF TRADE INCREASE WITH THE REBOUND IN COMMODITY PRICES

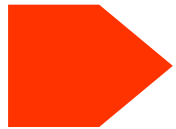
- Strong export growth driven by strong recovery in Asia and gradual recovery in US, Europe, and Japan.
- Strong GDP growth moving to nontradables from tradables.
- Inflation pressure: most central banks are tightening.
- Huge portfolio flows to the region due to relatively higher returns
- Prospects for large FDI flows
- Most countries kept to the fiscal and monetary straight and arrow has kept most of the countries from wasting the windfall.
- Growth moving from tradables to nontradables (domestic consumption and investment).

MA  **CHALLENGE: MANAGE THE ABUNDANCE**

63 POLICY SPILLOVERS ARE AFFECTING LATIN AMERICAN COUNTRIES



ACROSS THE BOARD NOMINAL AND REAL APPRECIATION, ESPECIALLY

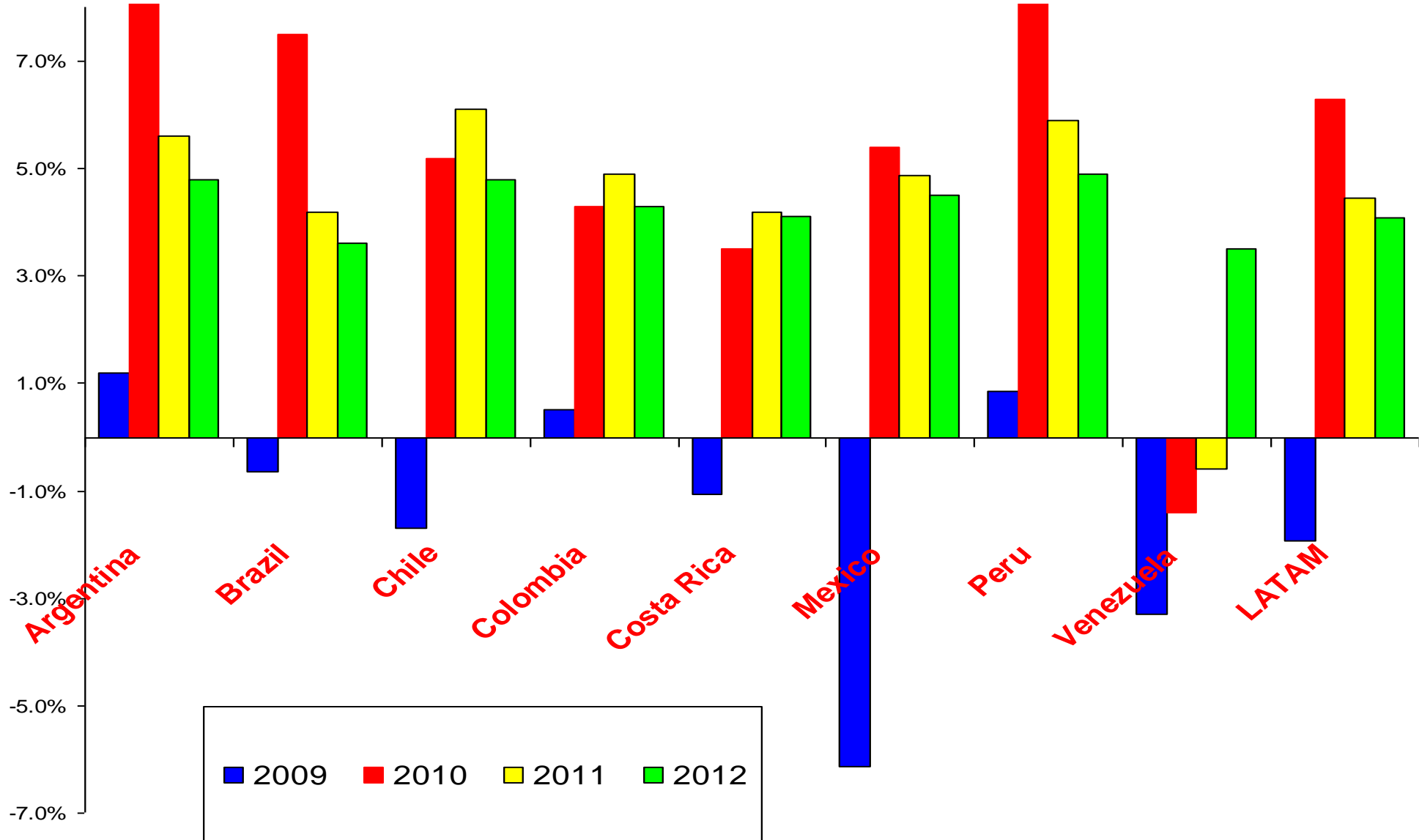


PROTECTIONISM



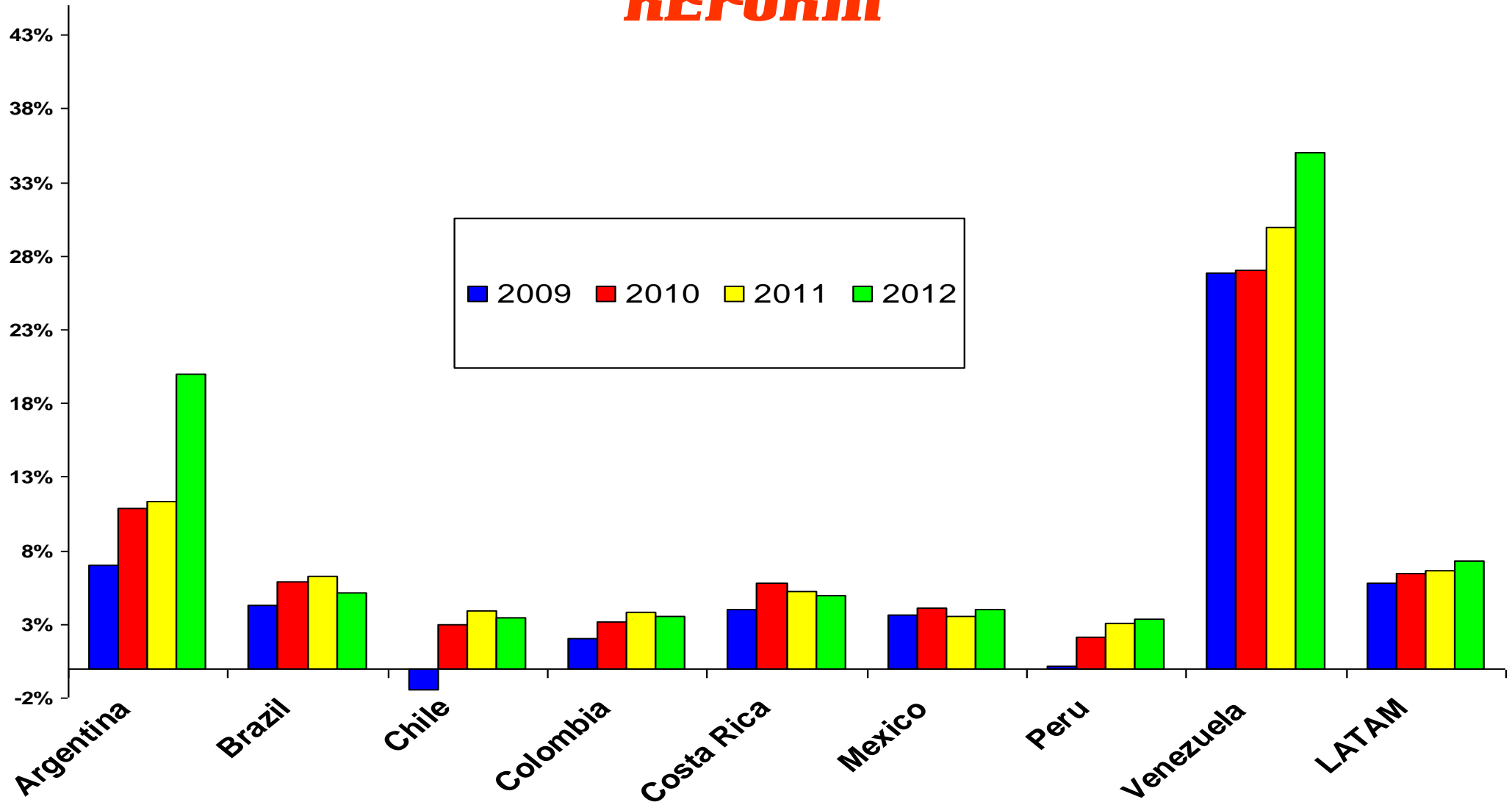
THESE ARE RELATIVELY GOOD PROBLEMS TO HAVE TO DEAL

LATIN AMERICA: WIDESPREAD RECOVERY IN GDP GROWTH (% per annum)

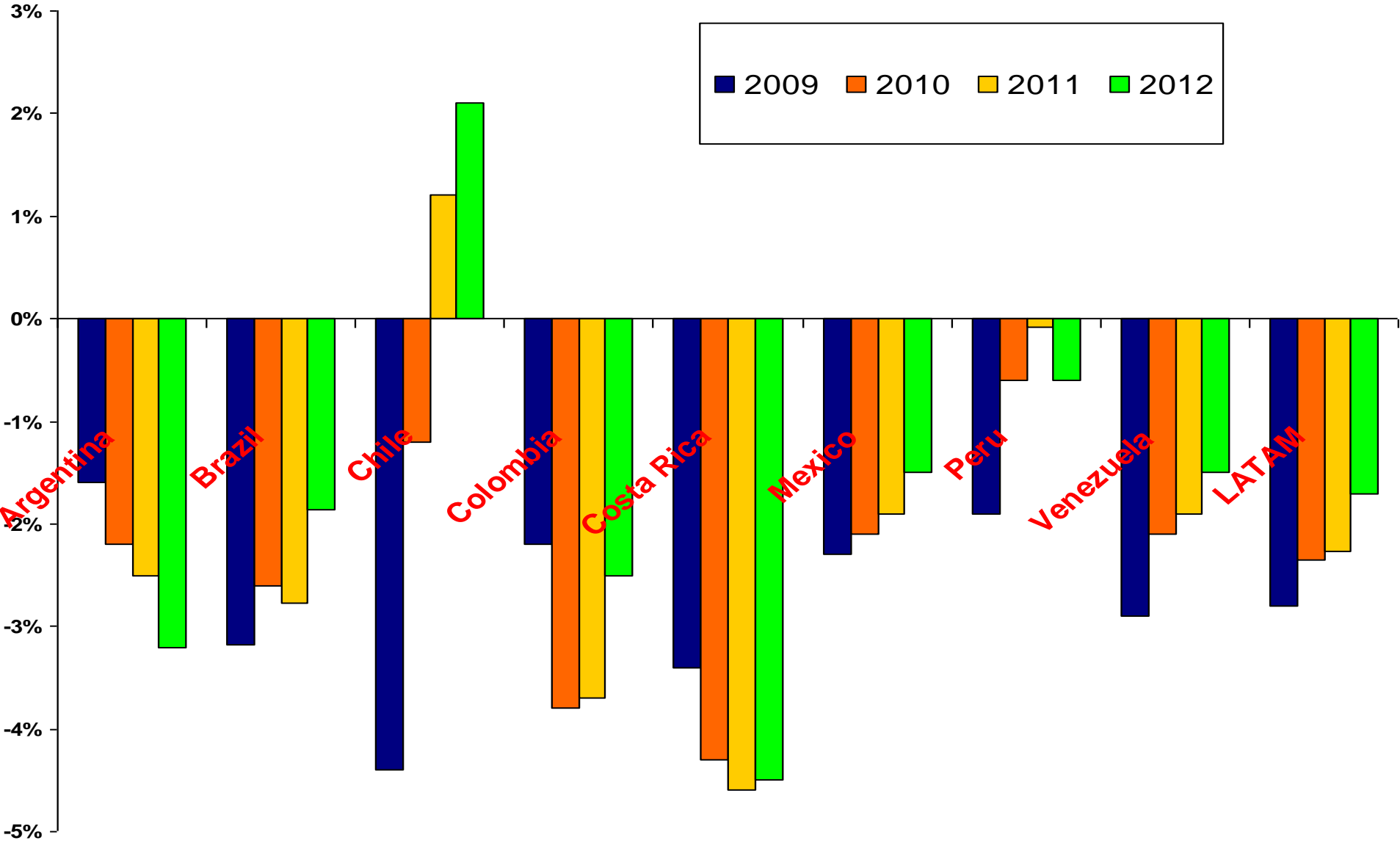


INFLATION STARTS TO PICK UP

INFLATION IS BETTER IN COUNTRIES THAT KEPT TO REFORM

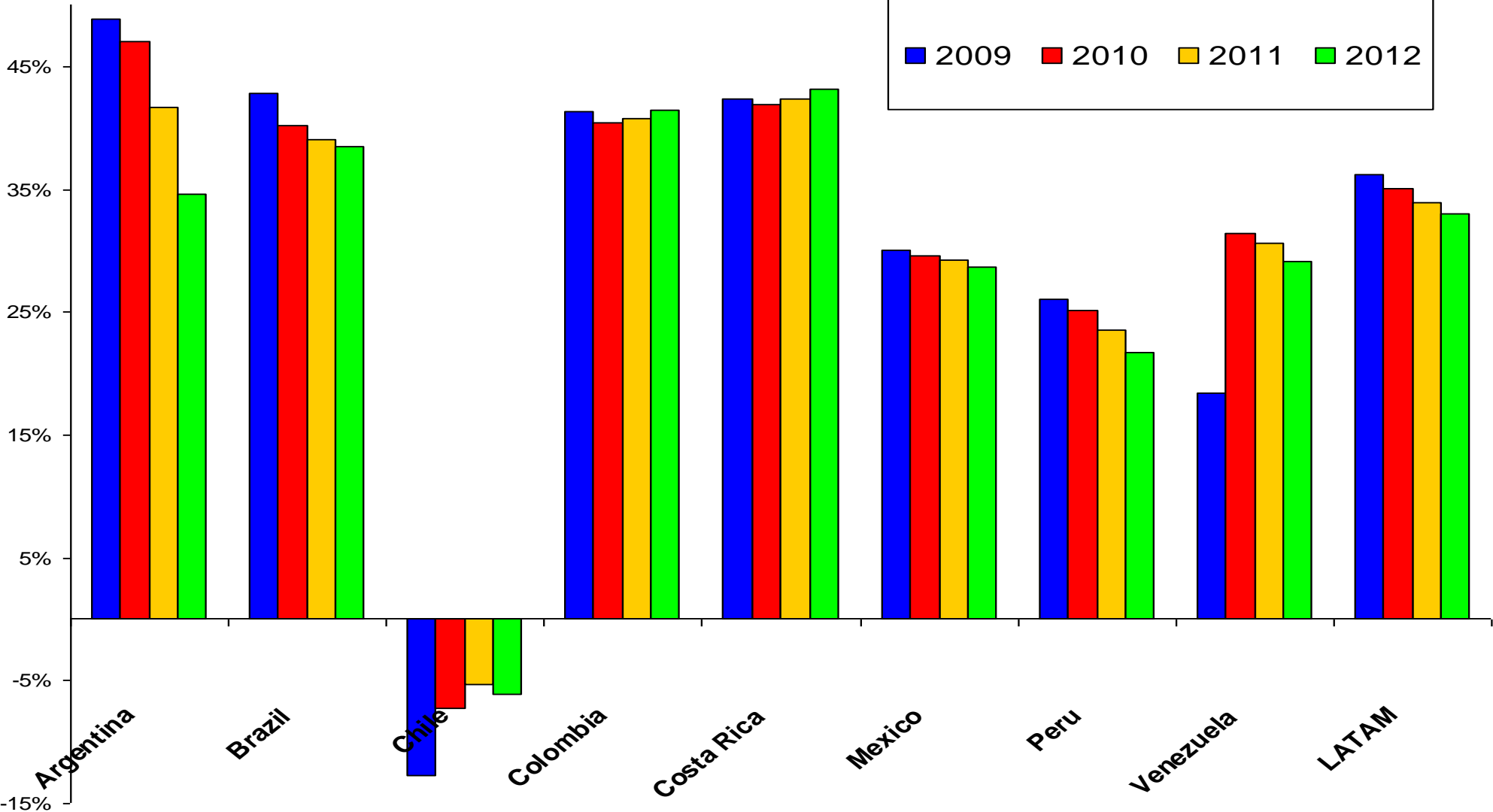


FISCAL DEFICITS ARE LOW AND IMPROVING



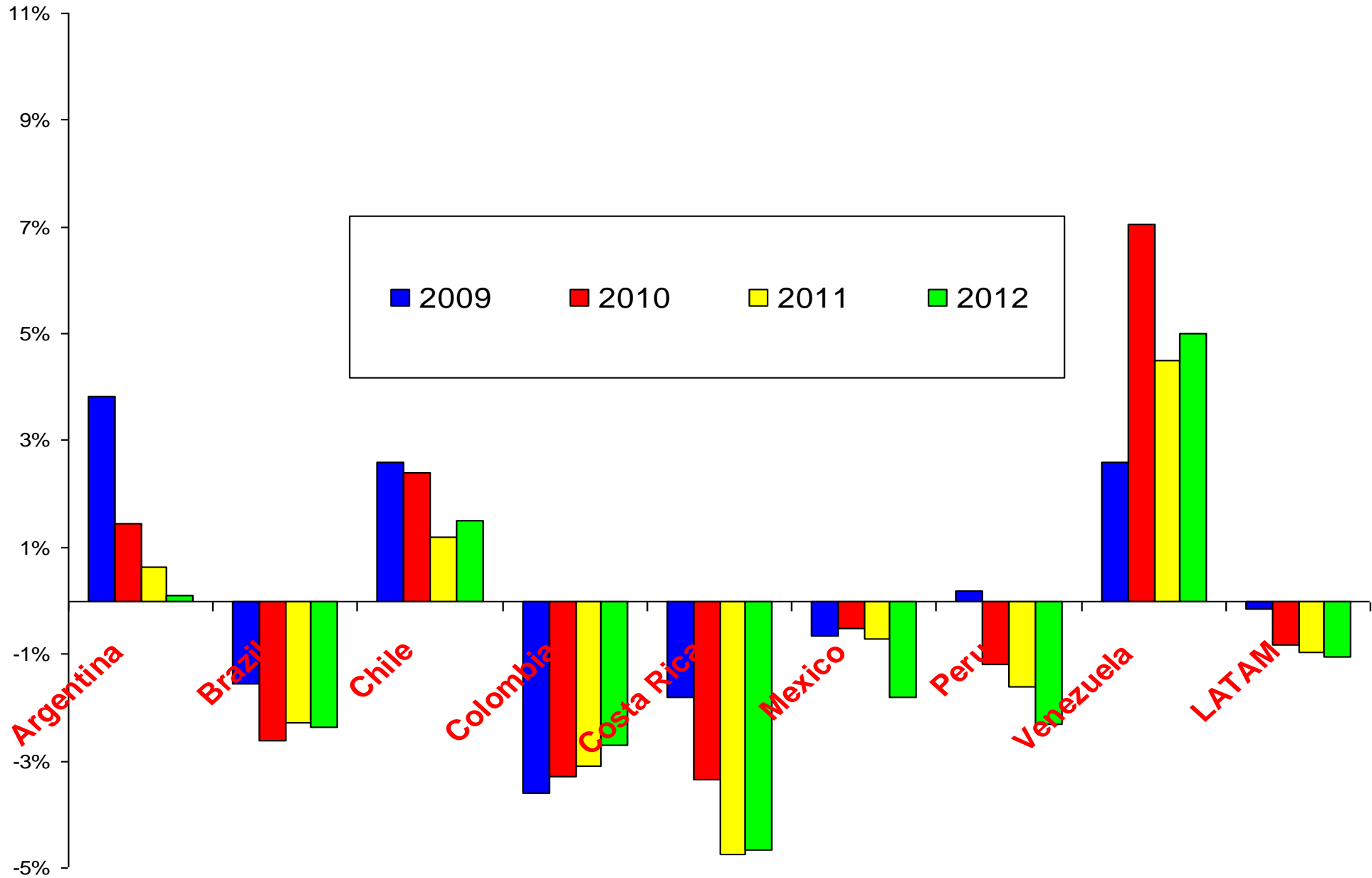
Source: IADB, Bloomberg

AND PUBLIC SECTOR DEBT IS LOW AS A % OF GDP



Source: IADB, Bloomberg

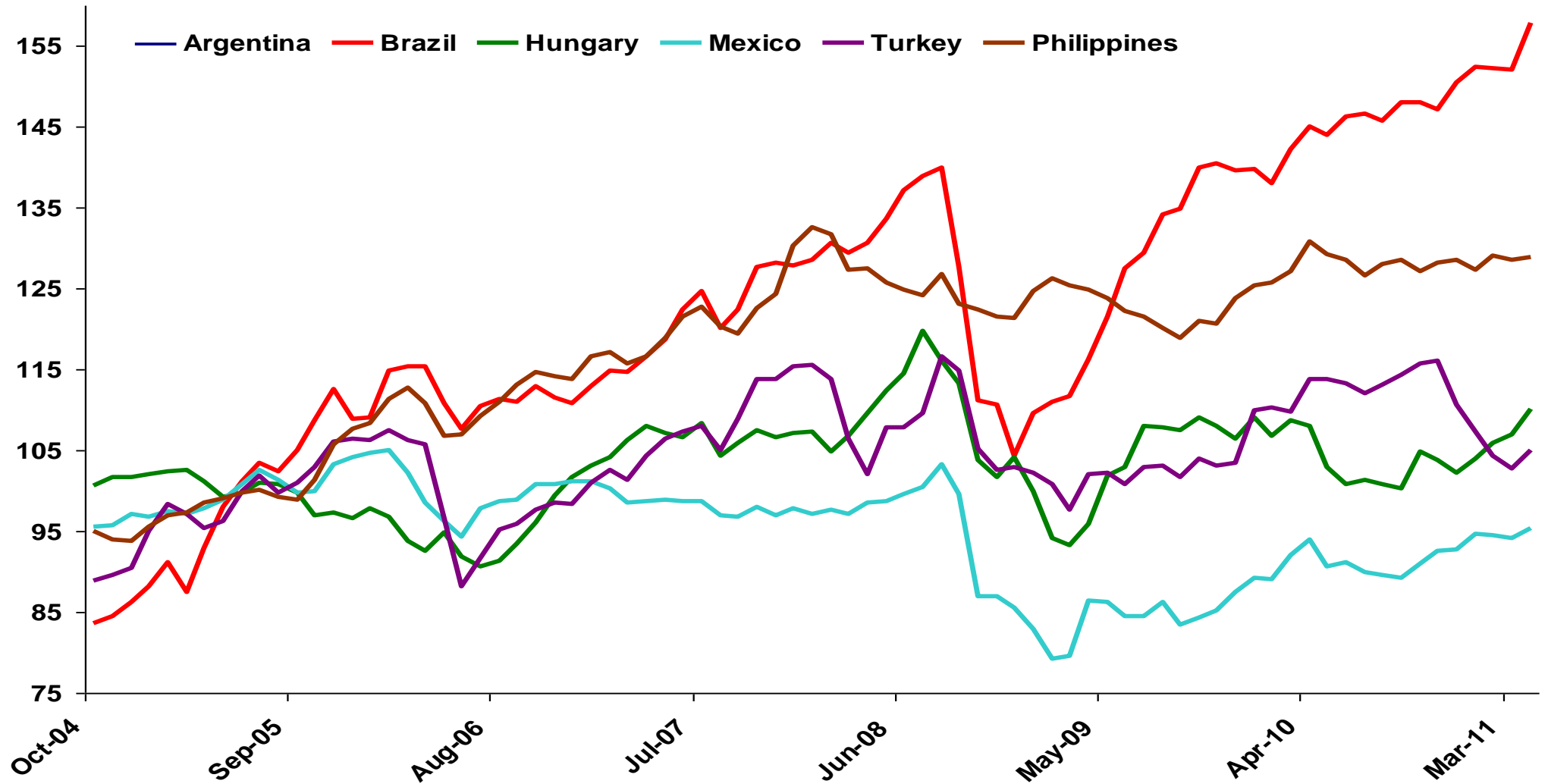
MOST CURRENT ACCOUNTS WILL MOVE INTO DEFICIT (% OF GDP)



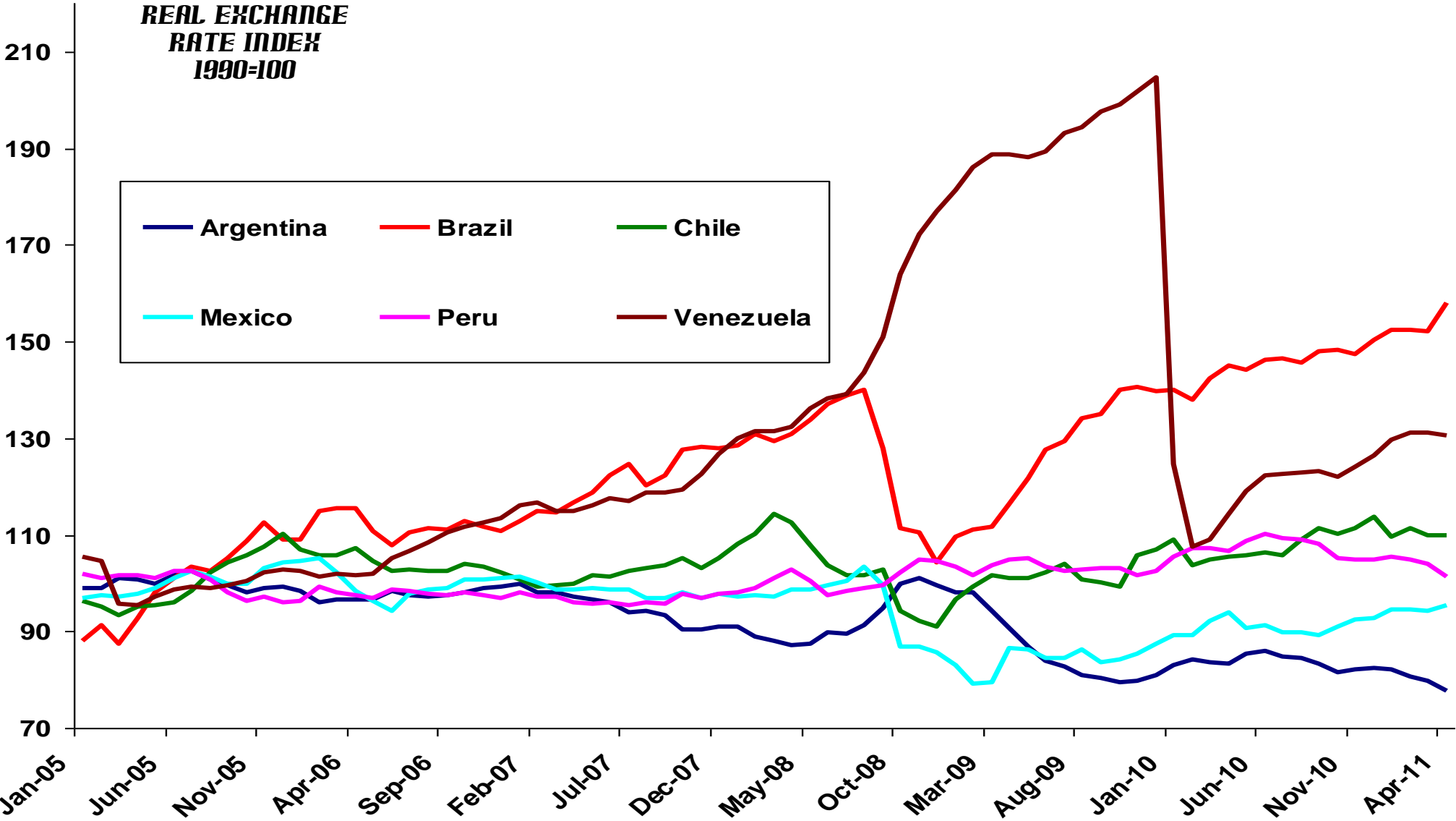
Source: IADB, Bloomberg

HUGE CURRENCY APPRECIATION: BRAZIL STRONGEST, ARGENTINA WEAKEST

**REAL EXCHANGE
RATE INDEX 2005
=100**



HUGE CURRENCY APPRECIATION: ARGENTINA AND MEXICAN ARE CHEAP



Source: BIS, Bloomberg,

WILL LATIN AMERICA STICK TO GOOD POLICIES?

THE LONGER THE BOOM, THE MORE THE TEMPTATION TO SPEND (1970S)



VENEZUELA, BOLIVIA, ECUADOR, AND ARGENTINA NOT DOING



ELECTION RISKS DOMINICAN REPUBLIC AND MEXICO



***BRAZIL DRIFTED OVER THE LAST 4 YEARS, NEW ADMINISTRATION
SOME OF THE DRIFT, ALTHOUGH TIMIDLY.***

Latin America Numbers and Forecasts

Latin America: Data and Forecasts

29-Nov-2011

	USD GDP (bn)				Real GDP Growth (%)				Inflation				Policy Rate			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Argentina	305	353	403	468	0.9%	9.2%	9.7%	4.4%	7.1%	10.9%	9.8%	16.9%	10.2%	9.5%	19.0%	35.0%
Brazil	1,576	1,849	2,108	2,634	-0.6%	7.5%	3.8%	3.5%	4.3%	5.9%	7.0%	5.9%	8.8%	19.0%	11.5%	12.0%
Chile	165	191	215	228	-1.7%	5.2%	6.1%	4.8%	-1.4%	3.0%	3.7%	2.9%	0.5%	3.3%	6.0%	4.5%
Colombia	233	269	308	337	0.5%	4.3%	5.1%	4.0%	2.0%	3.2%	3.5%	3.4%	3.5%	4.0%	5.0%	4.8%
Costa Rica	29	35	38	42	-1.1%	3.5%	4.2%	4.1%	4.0%	5.8%	6.2%	6.5%	9.0%	8.0%	8.5%	10.5%
Mexico	877	1,000	1,146	1,237	-6.1%	5.4%	3.8%	3.7%	3.6%	4.1%	3.4%	3.7%	4.5%	4.5%	4.5%	5.5%
Peru	127	145	165	171	0.9%	8.8%	6.2%	5.3%	0.2%	2.1%	3.1%	3.4%	1.3%	3.0%	4.8%	4.5%
Venezuela	326	166	166	218	-3.3%	-1.5%	2.4%	3.7%	26.9%	27.9%	28.2%	33.8%	12.6%	10.0%	20.0%	35.0%
LATAM	3,690	4,063	4,660	5,383	-2.0%	6.4%	4.5%	3.8%	5.8%	6.3%	6.8%	7.0%	7.2%	7.9%	9.7%	12.2%

Latin America Numbers and Forecasts, cont'd

Latin America: Data and Forecasts

29-Nov-2011

	Nom. Fiscal Bal. (% GDP)				Public Sector Debt (% GDP)				Curr. Acct (% GDP)				Currency (per USD)			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Argentina	-1.6%	-2.2%	-2.5%	-3.2%	48.8%	47.1%	40.5%	34.9%	0.0%	0.0%	0.0%	0.0%	3.80	3.98	4.20	4.41
Brazil	-3.2%	-2.6%	-2.6%	-0.9%	42.8%	40.2%	37.5%	36.6%	-1.5%	-2.6%	-2.2%	-2.1%	1.77	1.80	1.86	1.83
Chile	-4.4%	-1.2%	1.2%	2.1%	-12.7%	-7.3%	-5.4%	-6.2%	2.6%	2.4%	1.2%	1.5%	507	475	463	470
Colombia	-2.2%	-3.8%	-3.7%	-2.5%	41.3%	40.5%	40.9%	41.6%	-3.6%	-3.3%	-3.1%	-2.7%	2044	1907	1810	1780
Costa Rica	-3.4%	-5.2%	-5.4%	-5.6%	42.4%	43.7%	45.4%	46.8%	-1.8%	-3.7%	-5.4%	-5.6%	565	512	520	525
Mexico	-2.3%	-2.1%	-1.9%	-1.5%	30.1%	29.6%	29.6%	29.4%	-0.6%	-0.5%	-0.9%	-1.7%	12.9	11.8	12.3	0.0
Peru	-1.6%	-0.5%	-0.1%	-0.6%	26.0%	28.3%	24.6%	22.6%	0.2%	-1.2%	-1.6%	-2.3%	2.89	2.81	2.70	2.85
Venezuela	-5.1%	-1.8%	-2.2%	-7.6%	18.4%	-18.4%	-11.6%	-9.4%	2.6%	8.7%	11.3%	7.8%	2.15	5.30	5.30	7.91
LATAM	-3.0%	-2.3%	-2.2%	-1.5%	36%	35%	33%	33%	-0.2%	-0.9%	-0.7%	-1.0%				

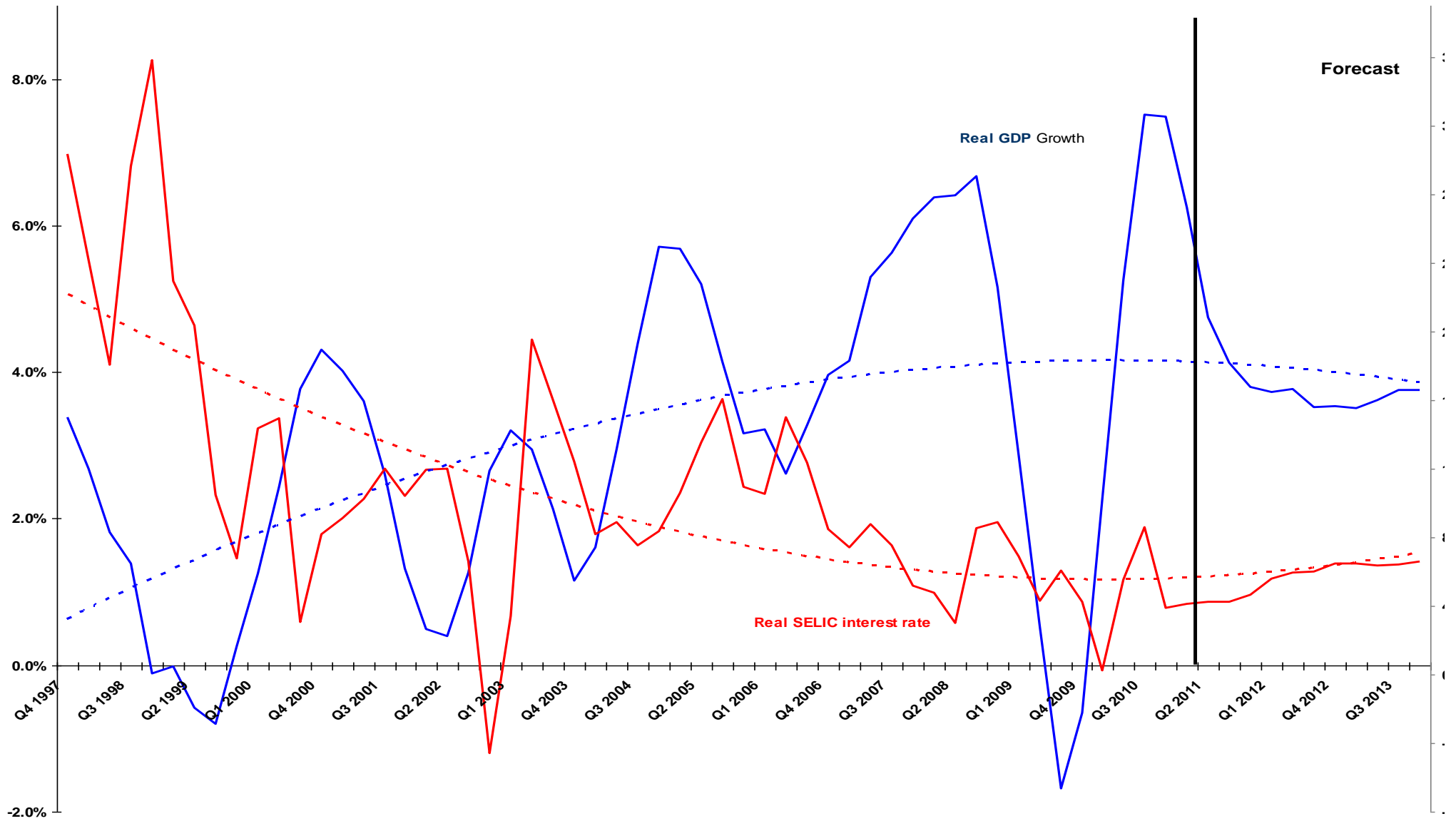
Brazil: The Present Has Arrived

BUT WHAT ABOUT THE FUTURE?

Brazil's Future is bright no matter what mix of policies of the next administration

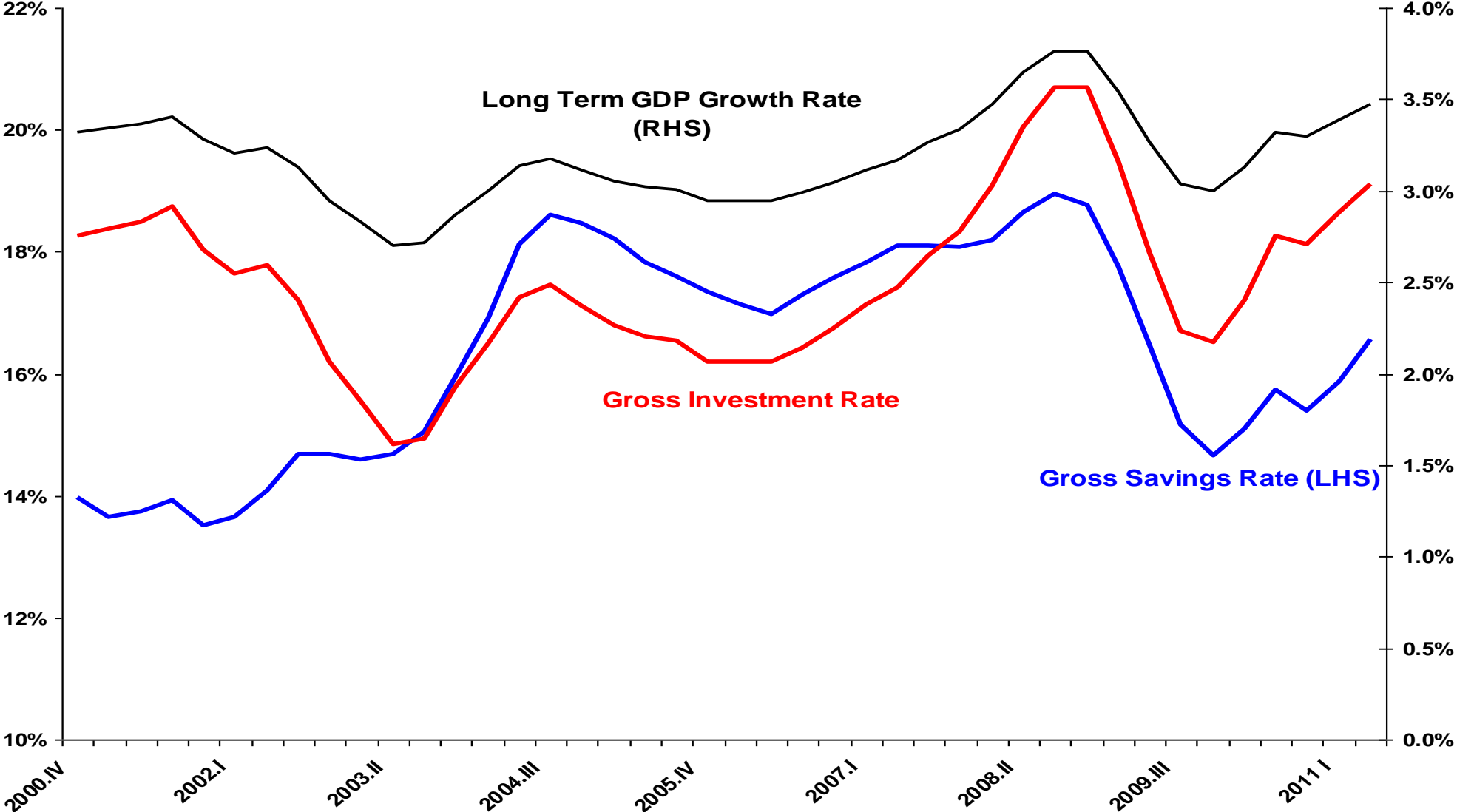
- President Dilma will follow a mix of policies, some good, some not from an economic standpoint.
- The difference is degree of one set over the other
- The Brazilian polity and the political elite have shown good judgment and prudence when making policy choices
- If monetary policy does most of the work, expect continued nominal and real appreciation of the BRL, higher interest rates and slower growth.
- If fiscal policy does more of the work, expect a less strong real, lower interest rates, and higher growth.

BRAZIL: REAL GDP GROWTH VERSUS REAL INTEREST RATES



Source: Banco Central do Brasil, IBGE

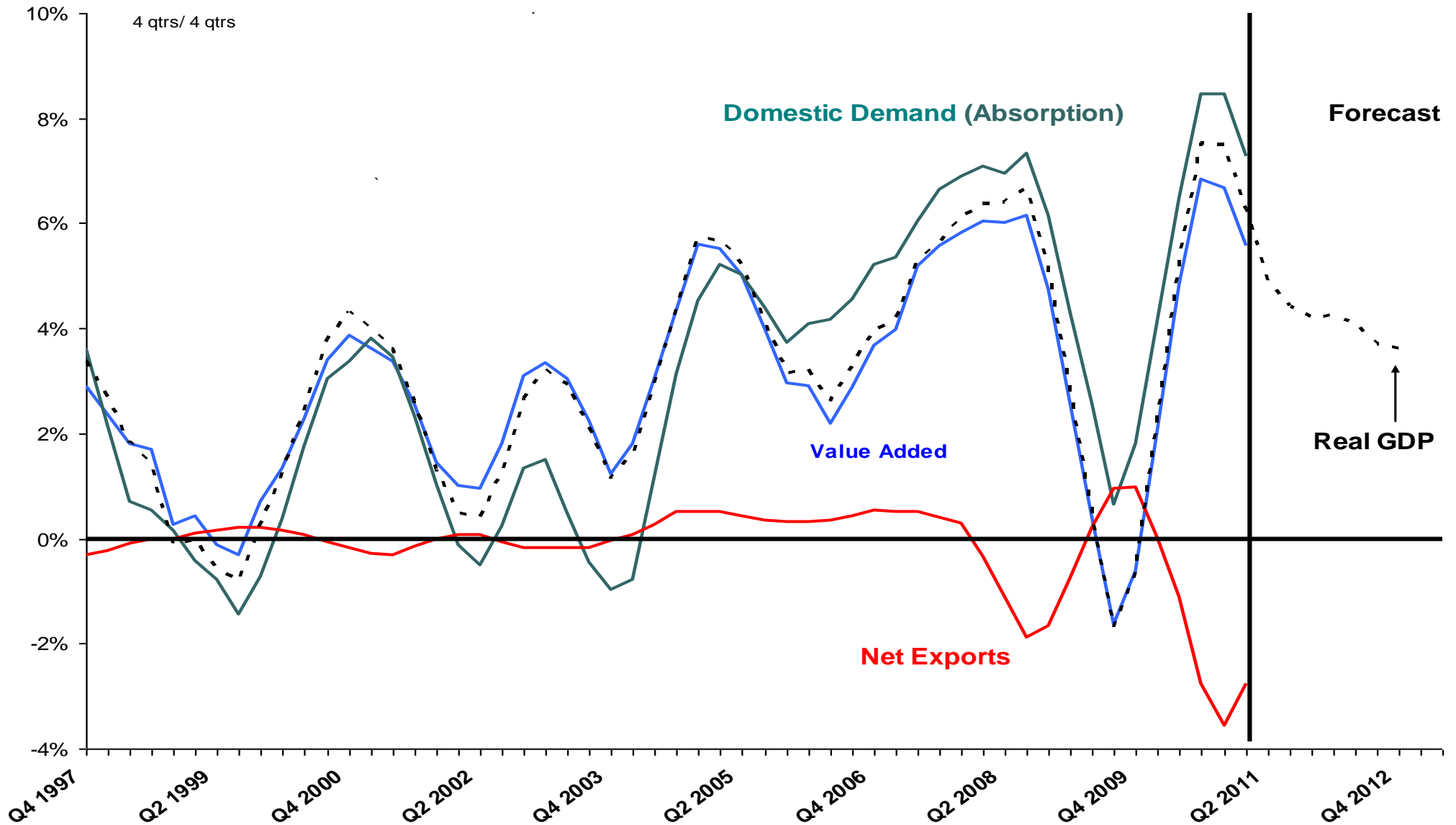
To grow above 4%, Brazil needs investment rates greater than 20%.



Source: Banco Central do Brasil, IBGE

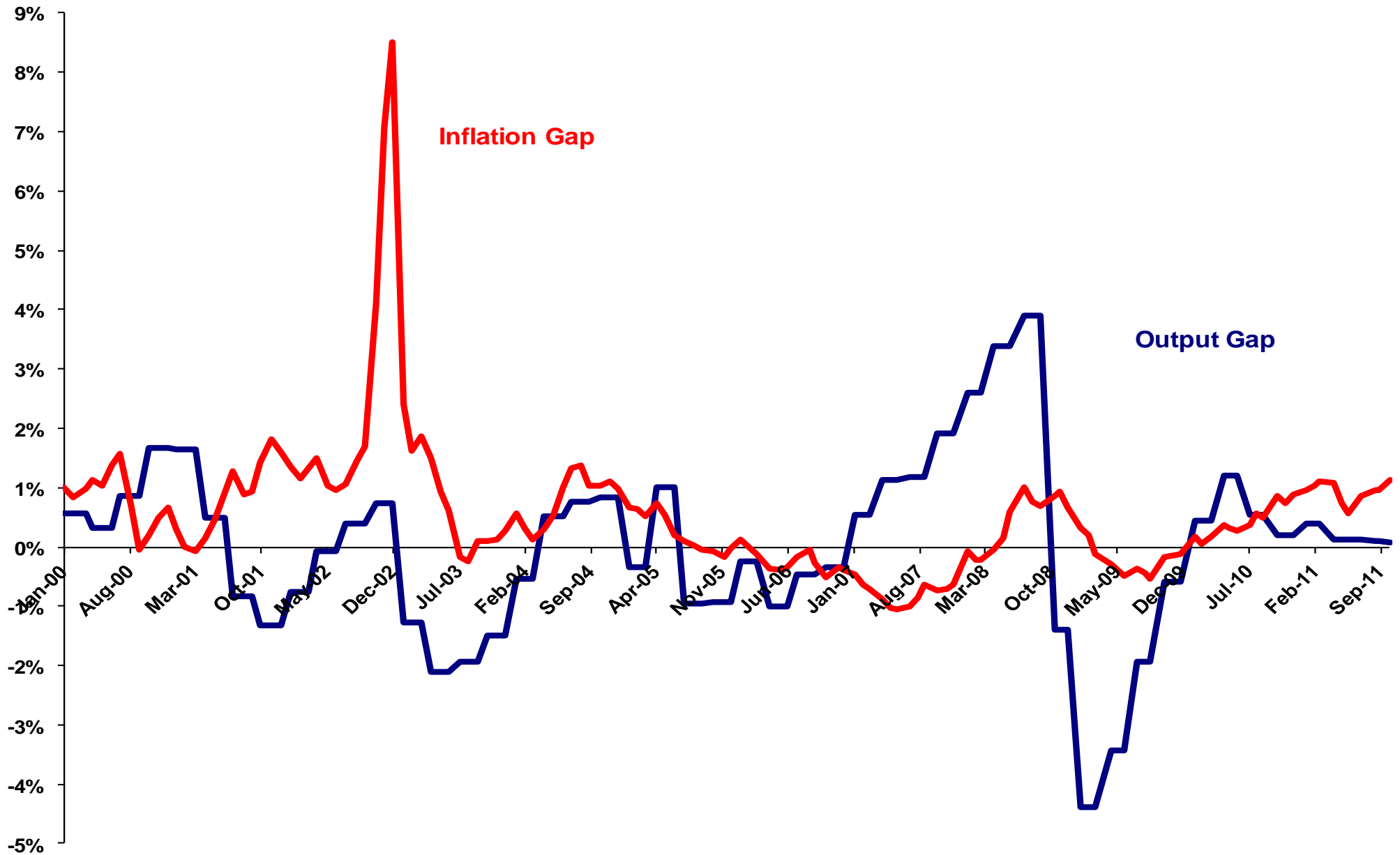
Economic Growth Recovers Rapidly

BUT DEMAND GROWTH IS OUTSTRIPPING SUPPLY BY A WIDE MARGIN

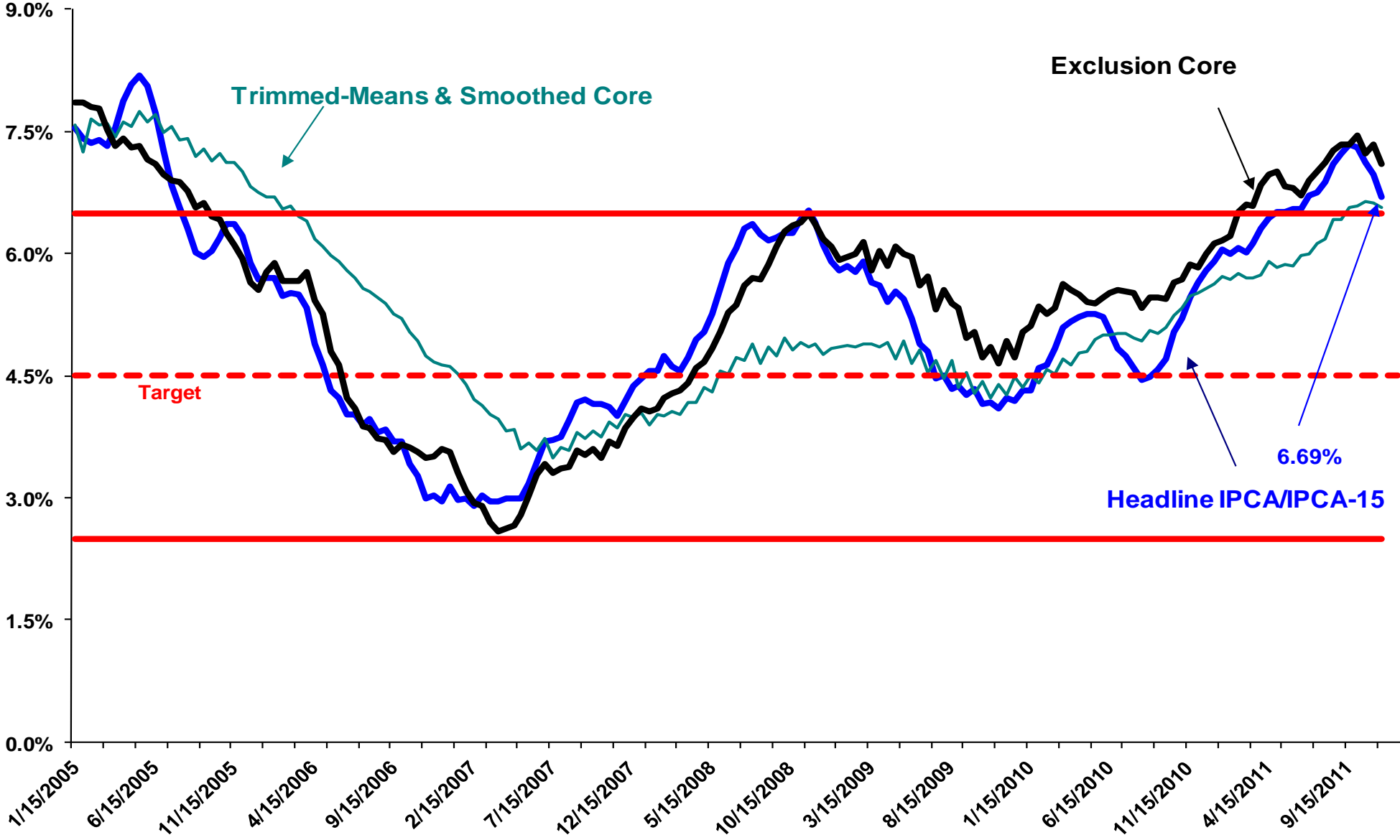


Economic Growth Recovers Rapidly

PUSHING ACTUAL OUTPUT ABOVE POTENTIAL AND INFLATION UP

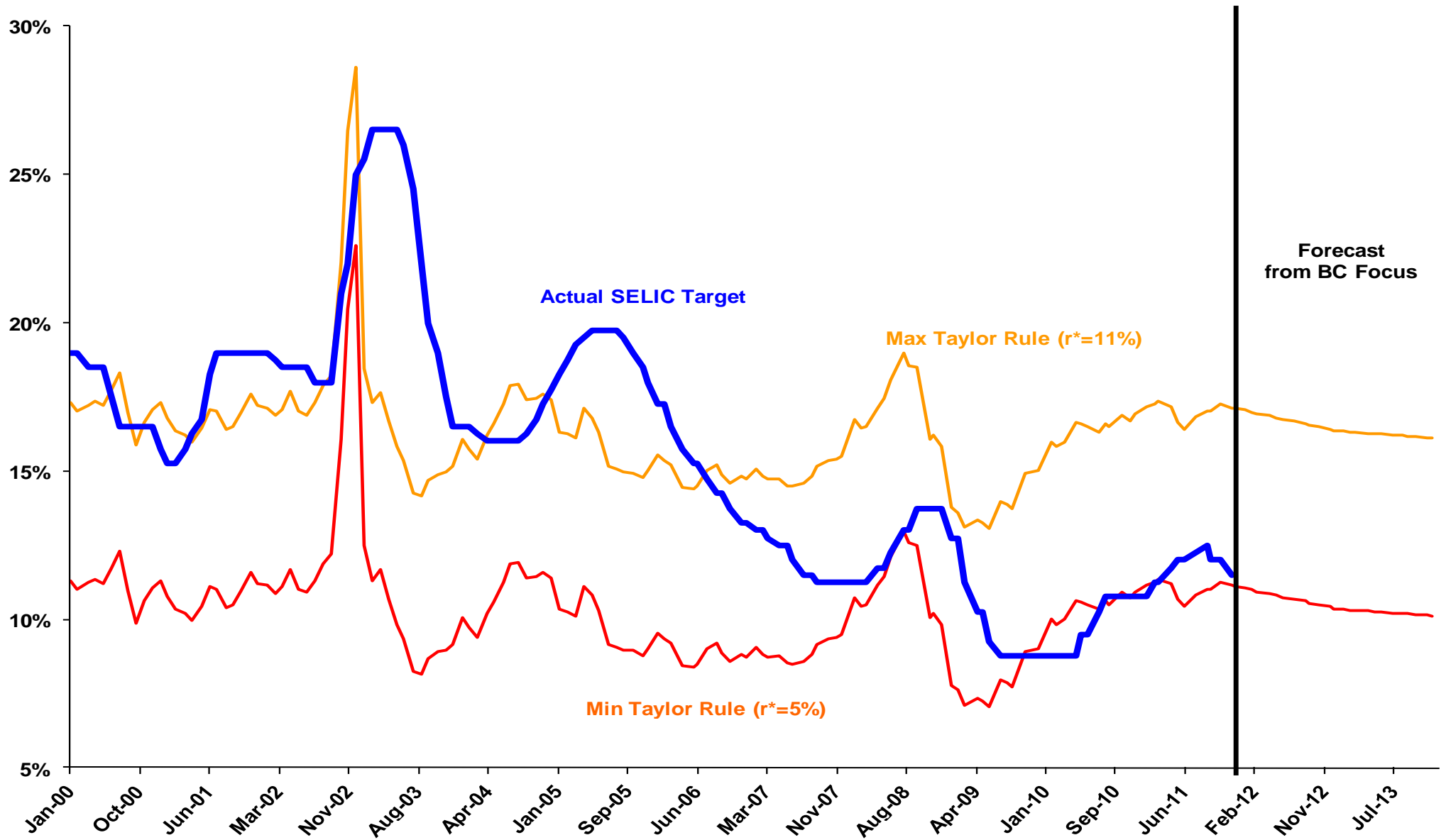


BRAZIL: COMBINED IPCA/IPCA-15 AND CORE INFLATION (% Y-O-Y)

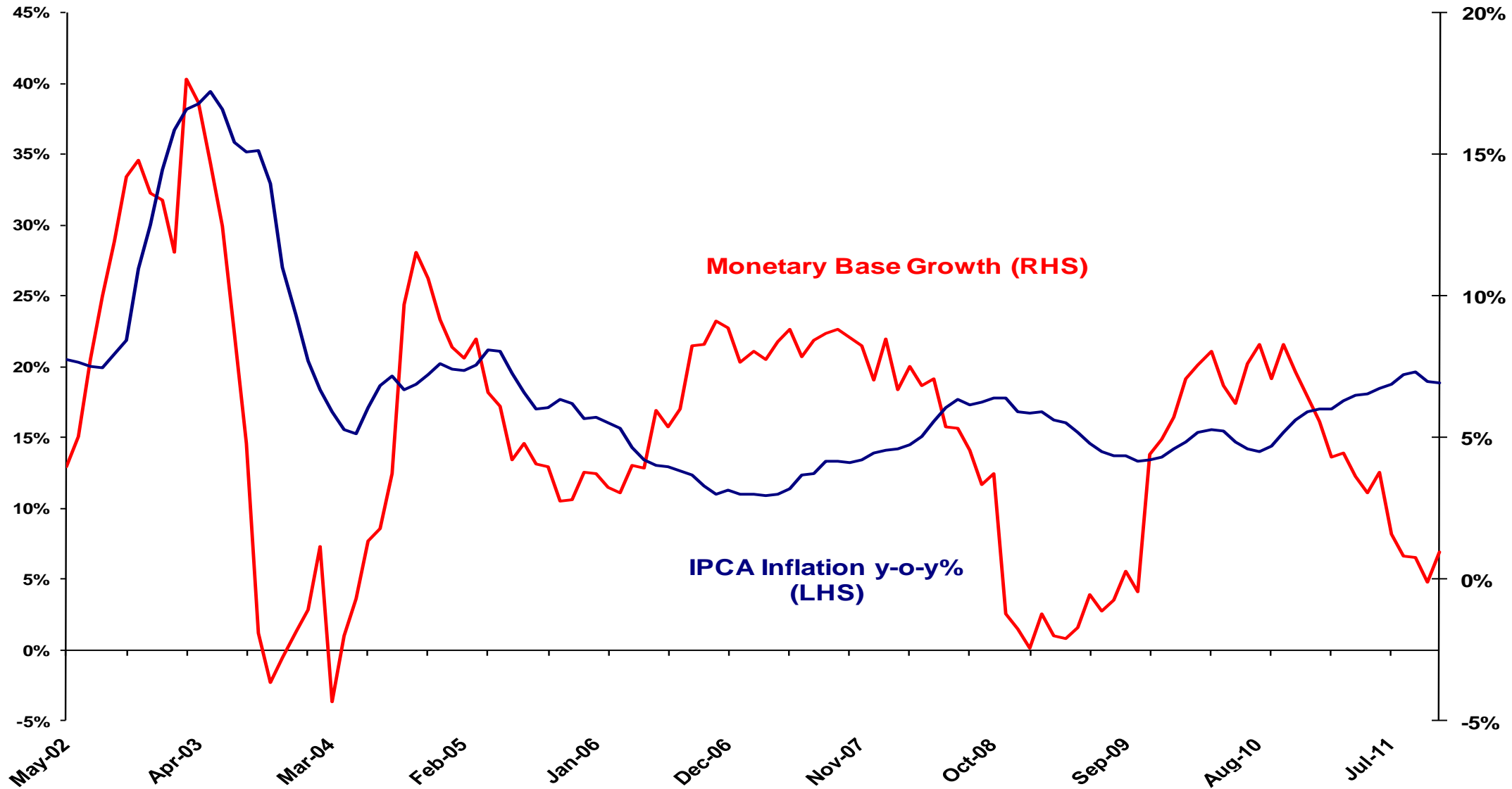


Source: Banco Central do Brasil, IBGE

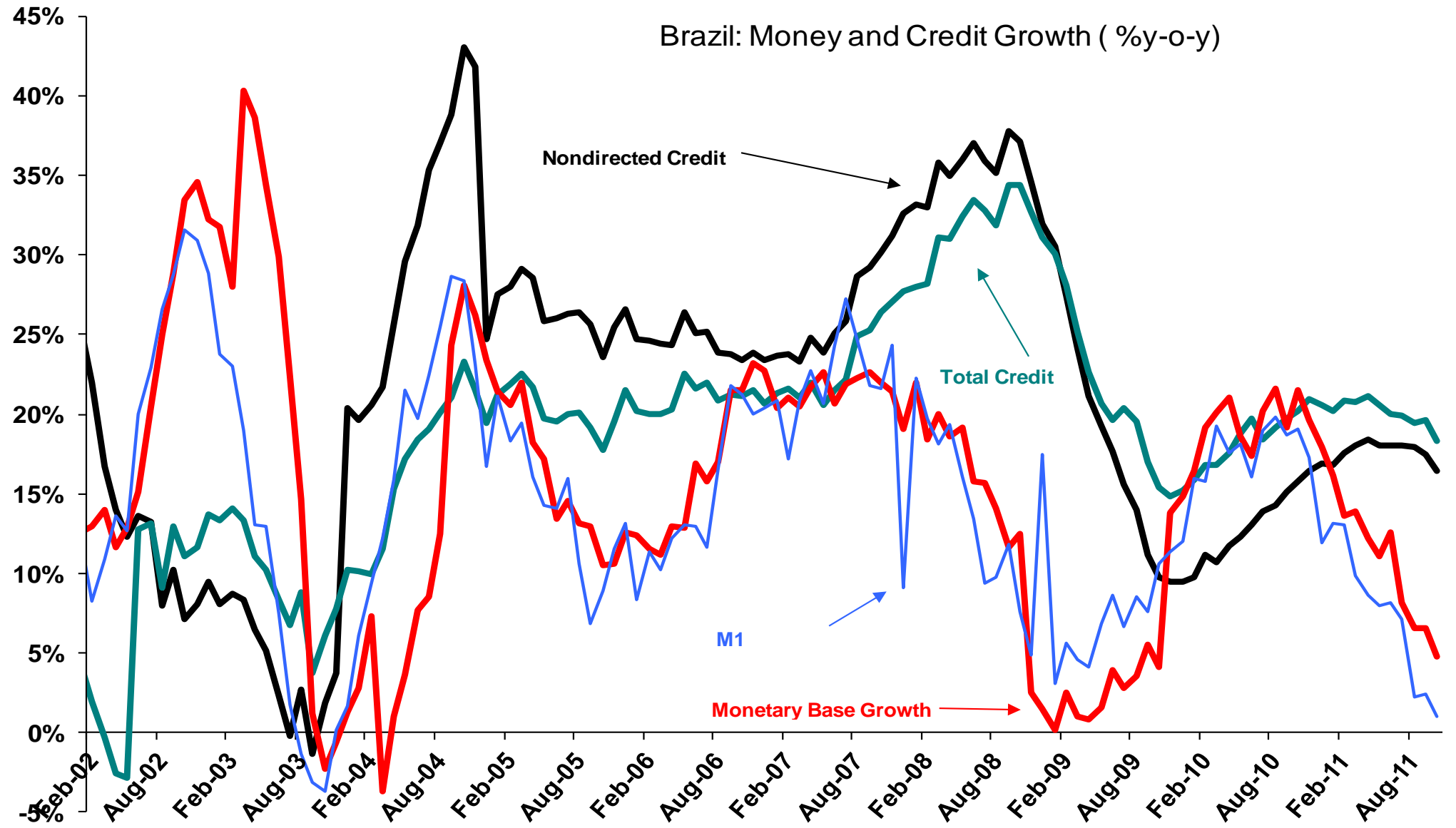
THE SELIC TARGET RATE IS STILL TOO LOW EVEN UNDER OPTIMISTIC TAYLOR RULES, BCB STILL NEEDS TO TIGHTEN



MONEY GROWTH ALWAYS PRECEDES INFLATION

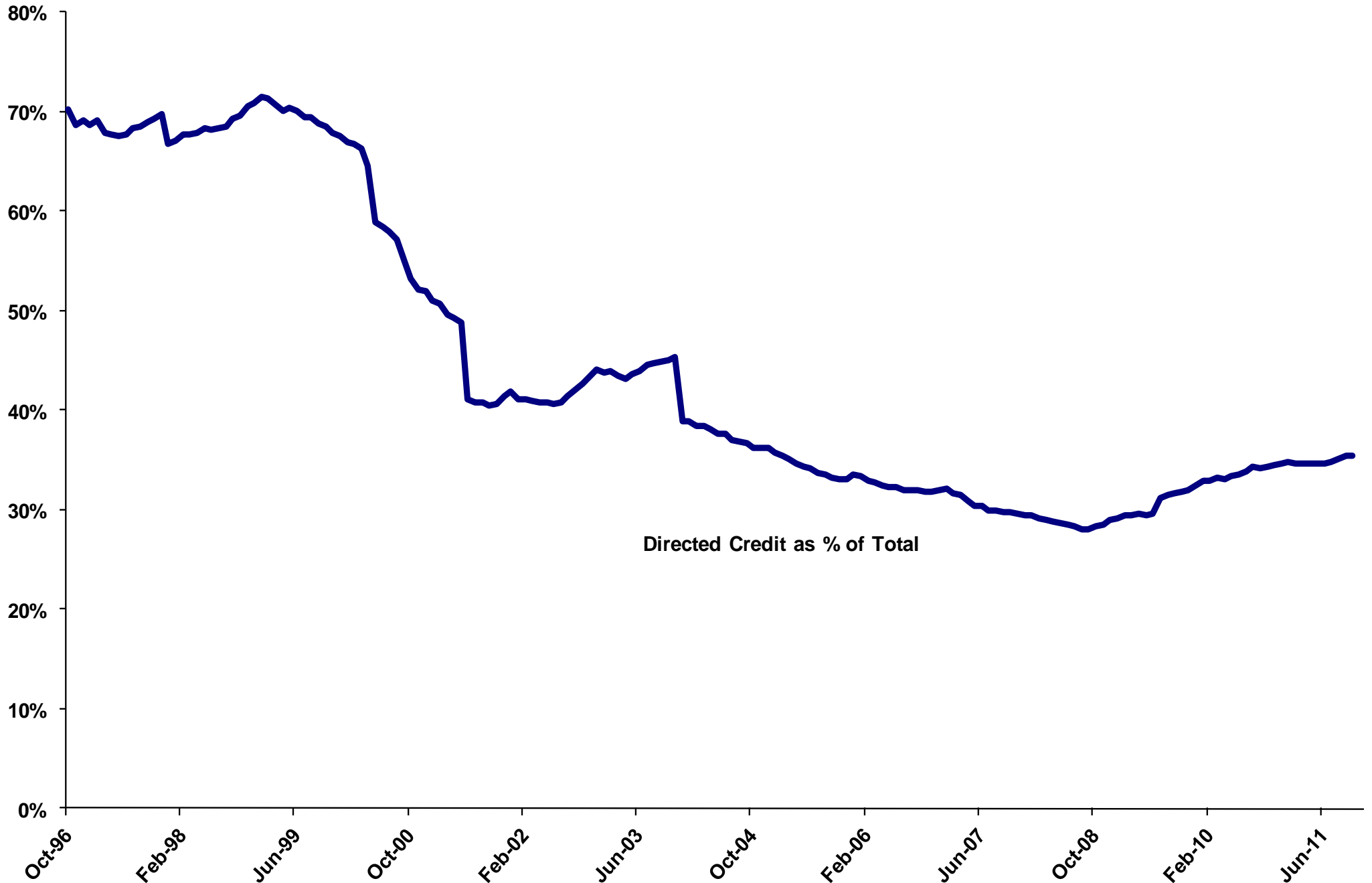


HIGH MONEY GROWTH IN LOCKSTEP WITH CREDIT GROWTH



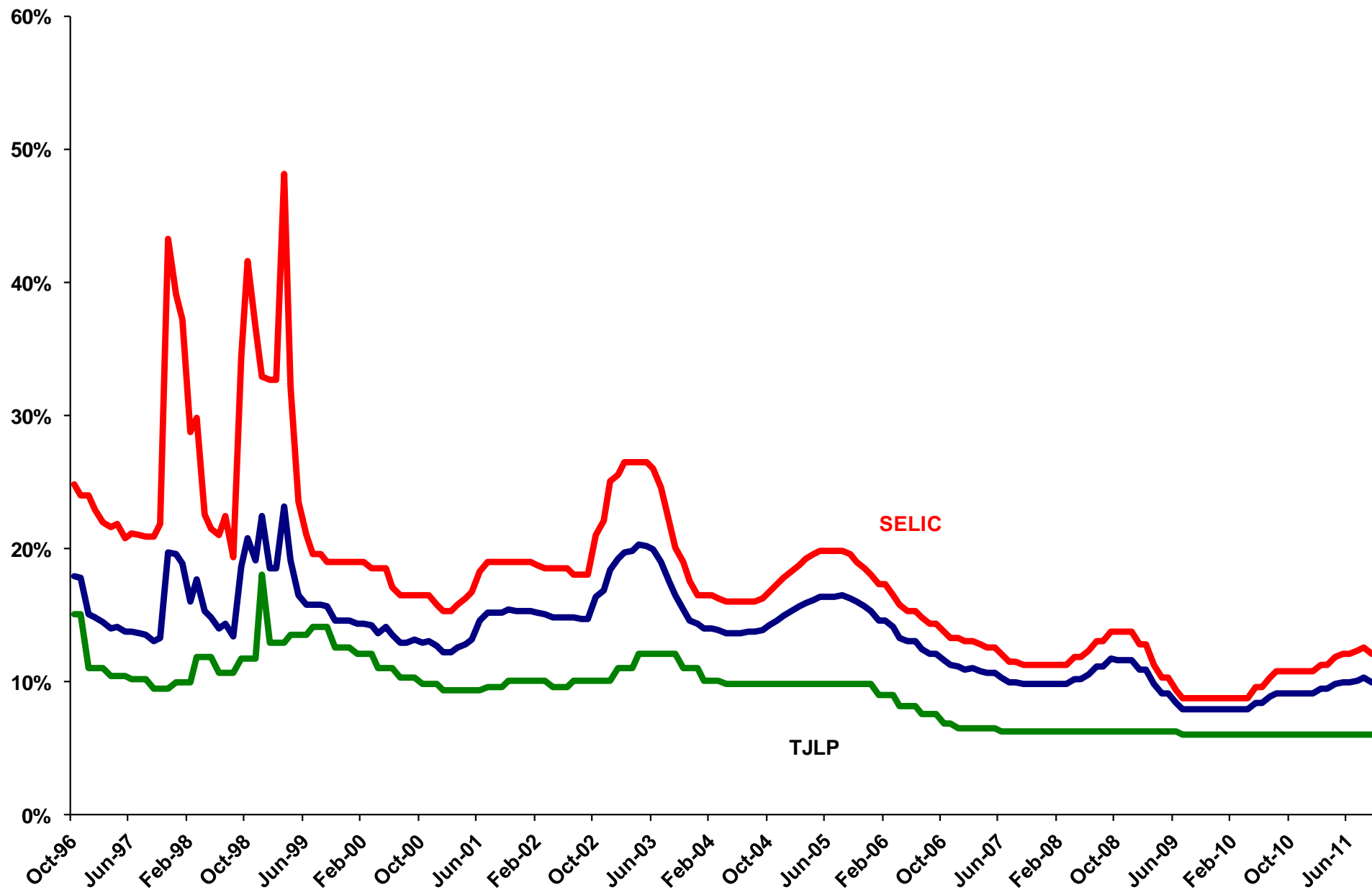
Subsidized Credit Expands

Participation of directed credit reverses its downward trend



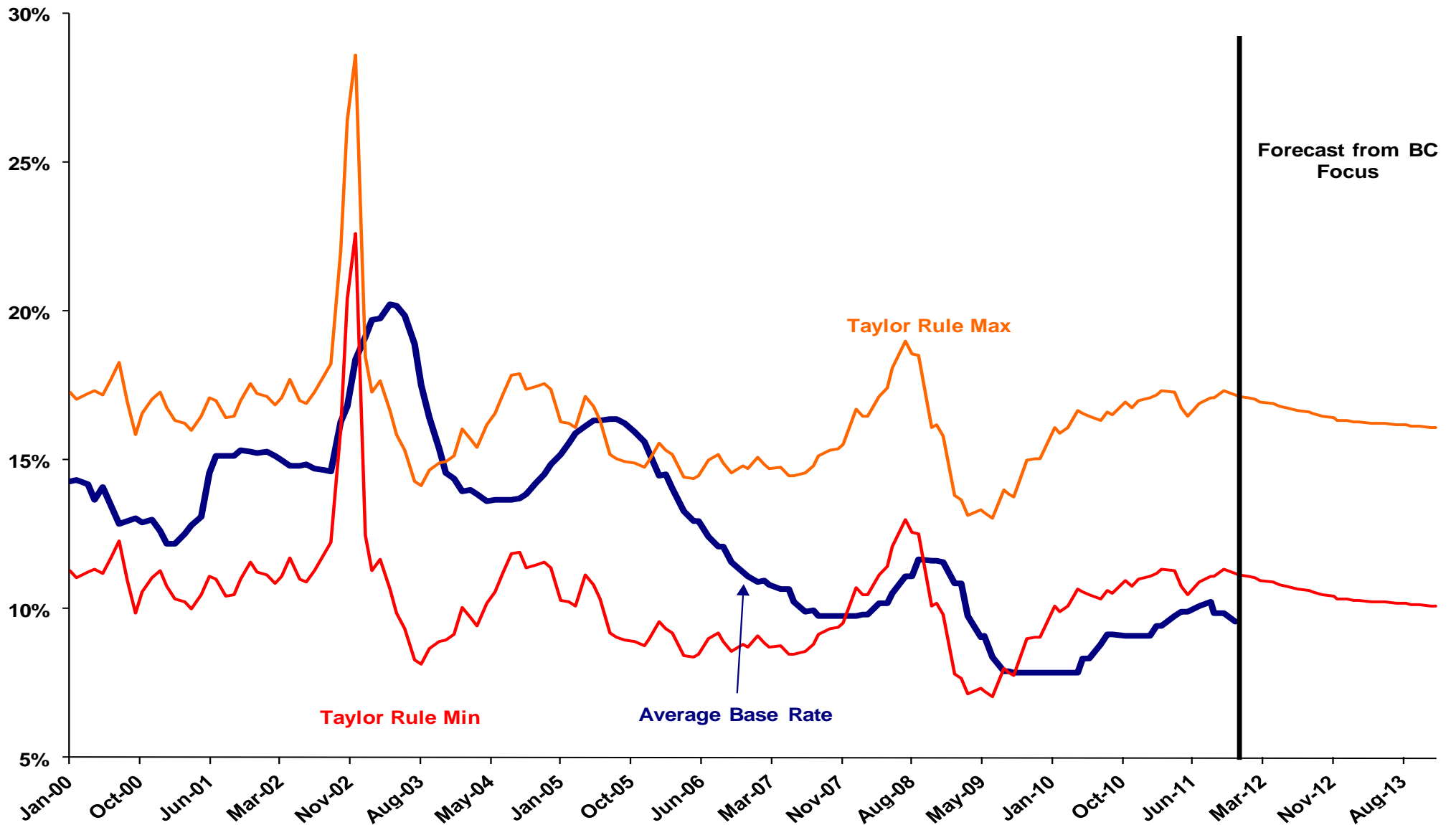
Source: Banco Central do Brasil, IBGE

AVERAGE BASE RATE IS WELL UNDER SELIC RATE, the TJLP HAS STAYED AT 6%



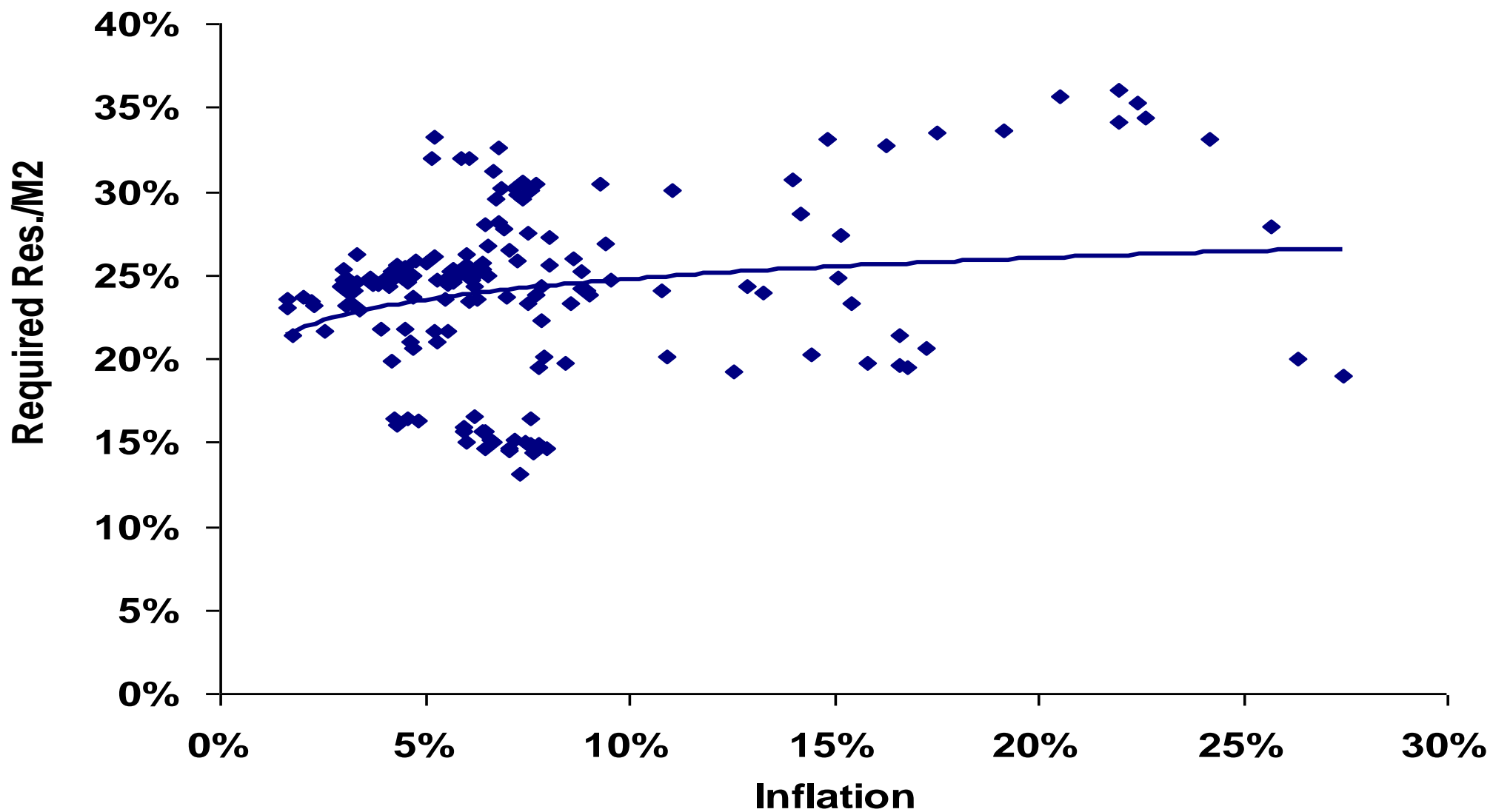
Source: Banco Central do Brasil, IBGE

THE AVERAGE BASE RATE IS TOO LOW: THE BCB OR THE BNDES NEED TO RAISE RATES

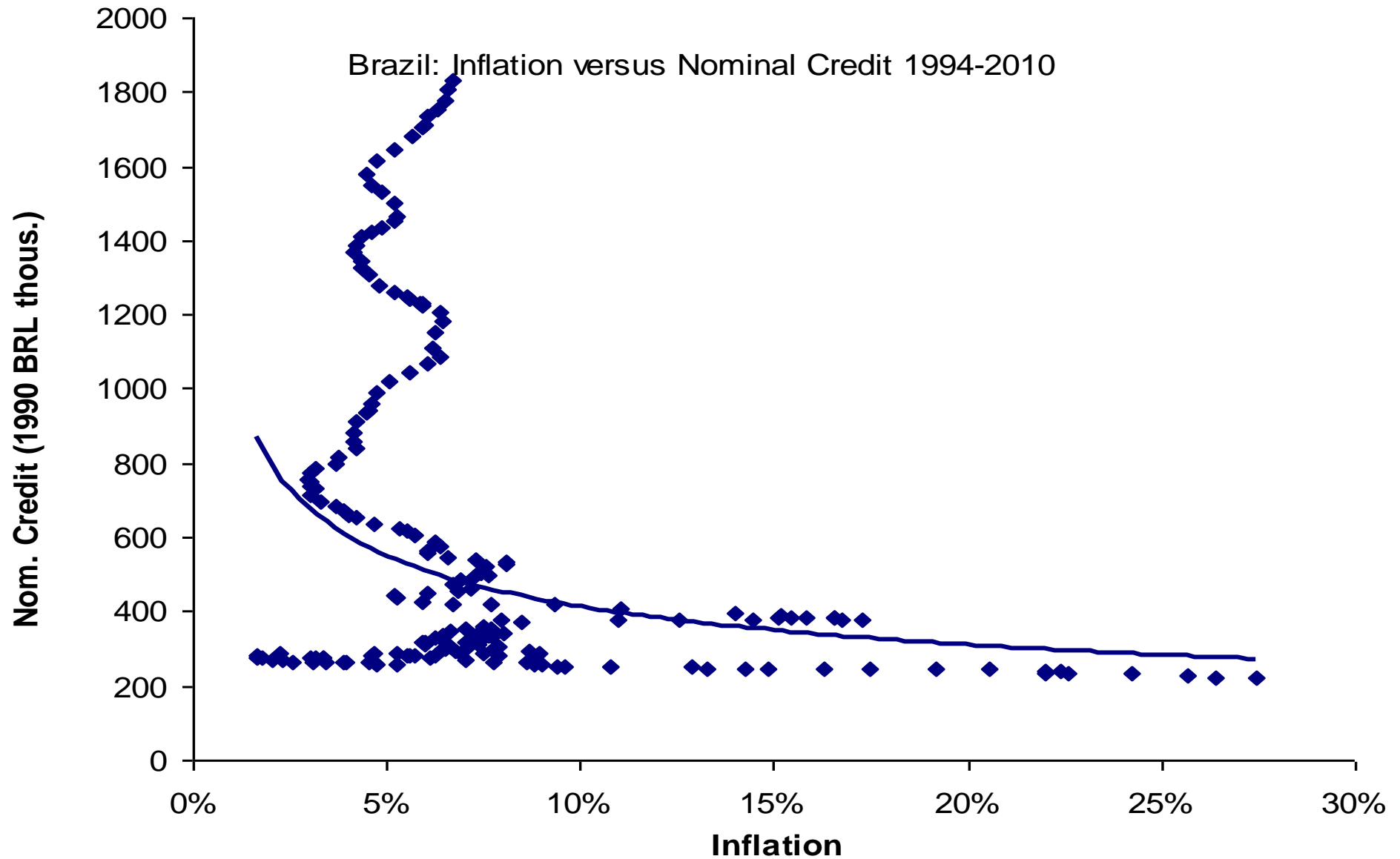


Source: Banco Central do Brasil, IBGE

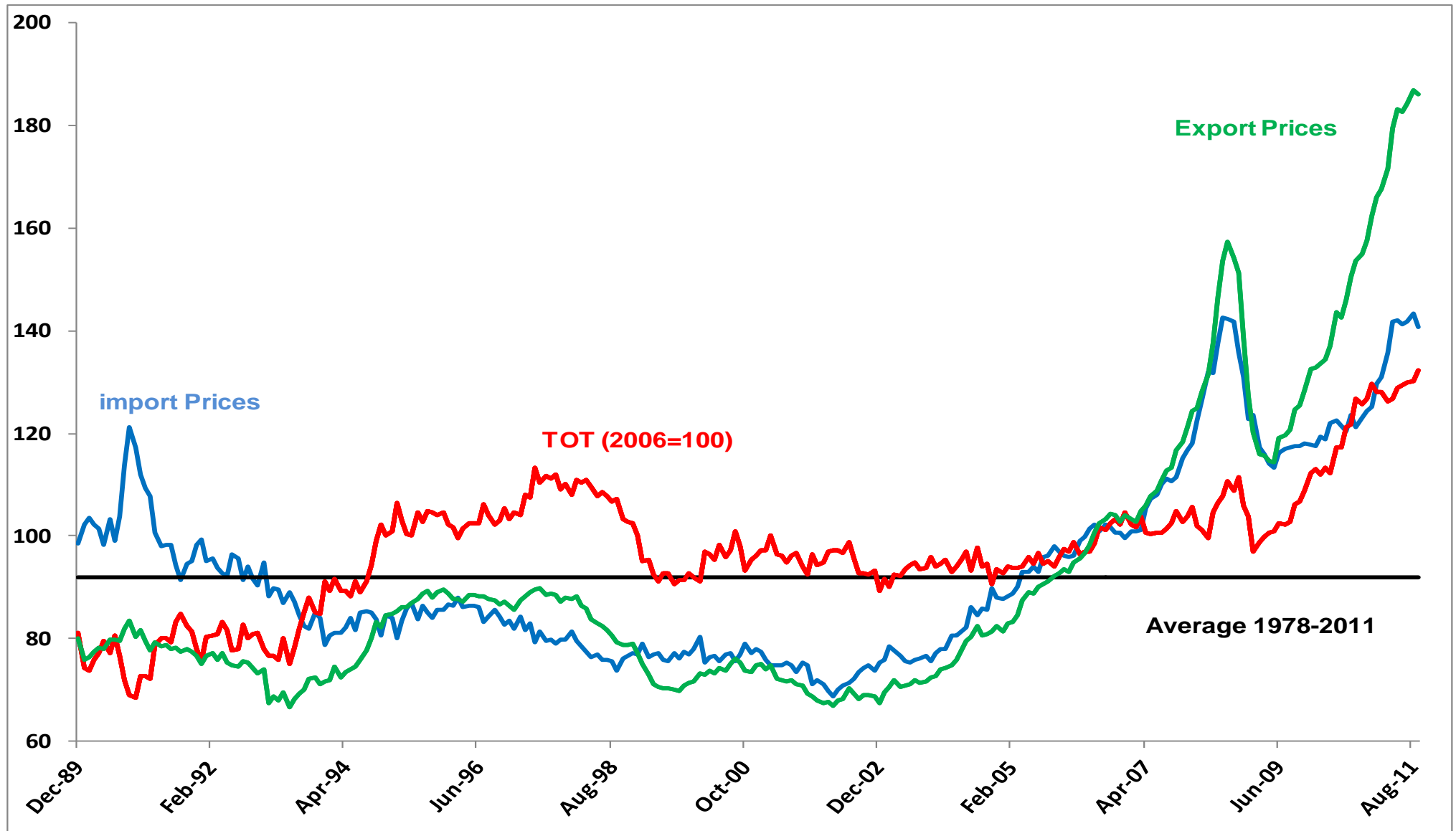
Does Raising Reserve Requirements Lower Inflation?



Does Controlling Credit Growth Control Inflation?

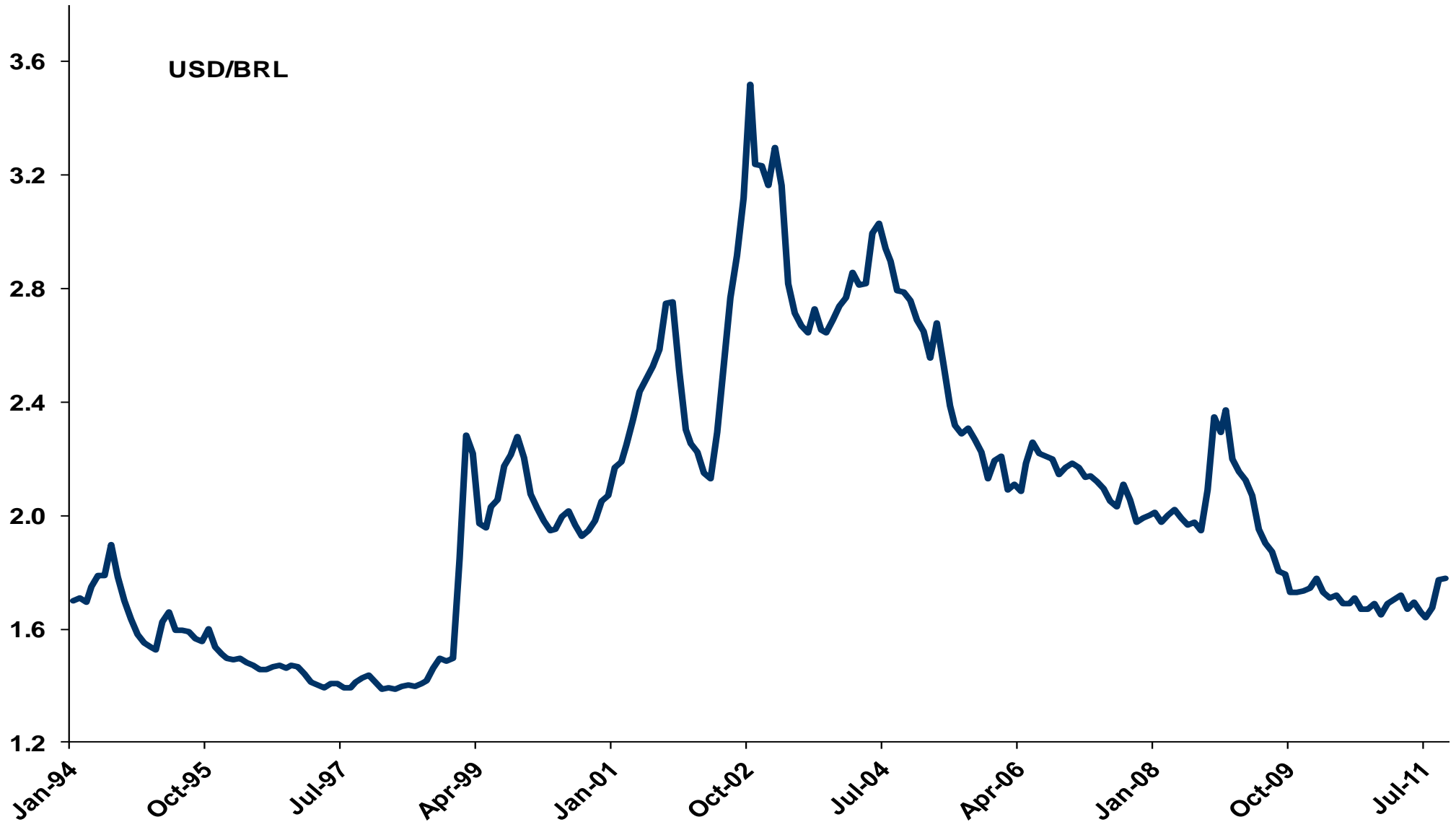


BRAZIL'S TERMS OF TRADE HAS SHOT UPWARD MASSIVELY



Source: Banco Central do Brasil, IBGE

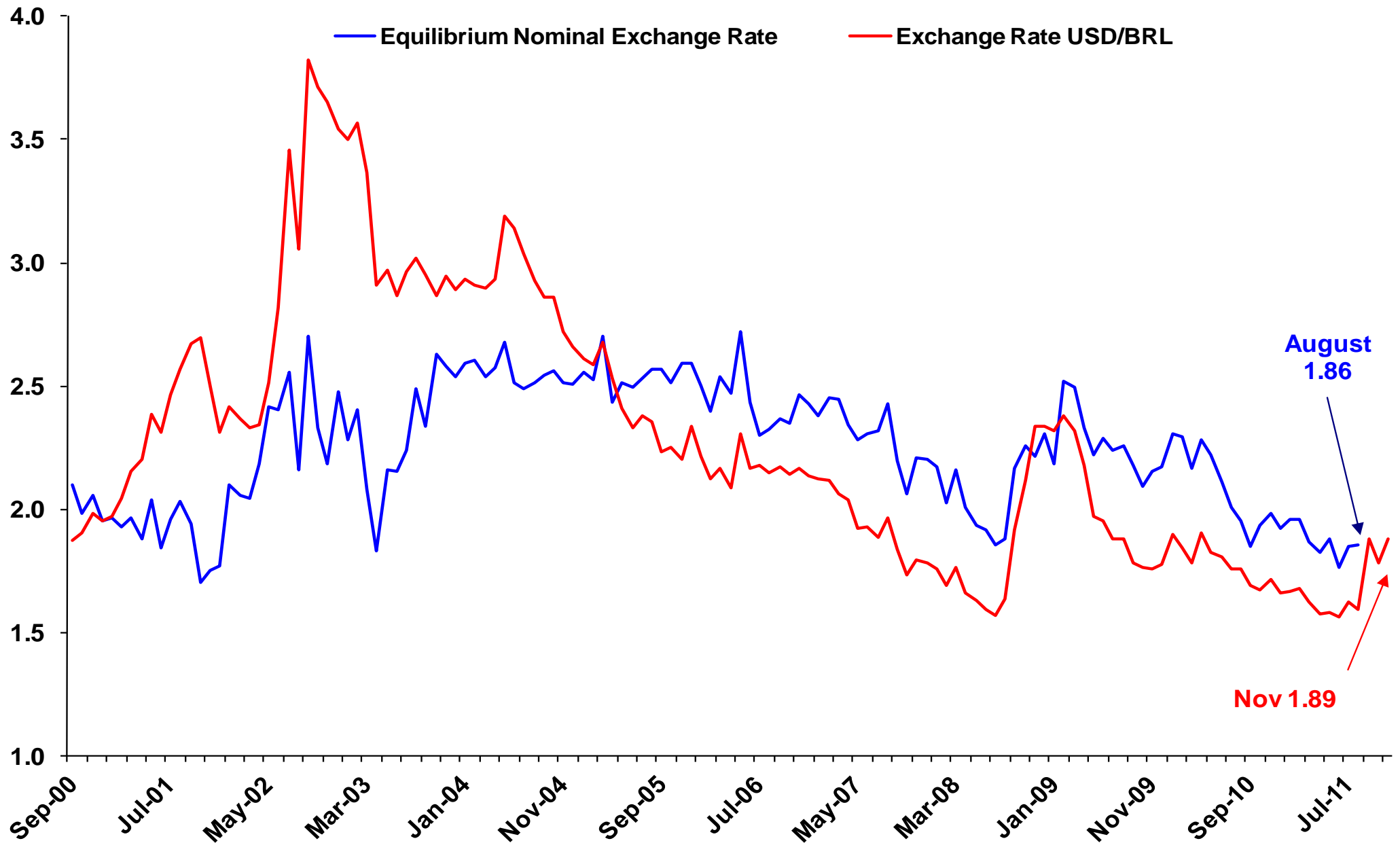
PUSHING THE REAL EXCHANGE RATE STRONGER



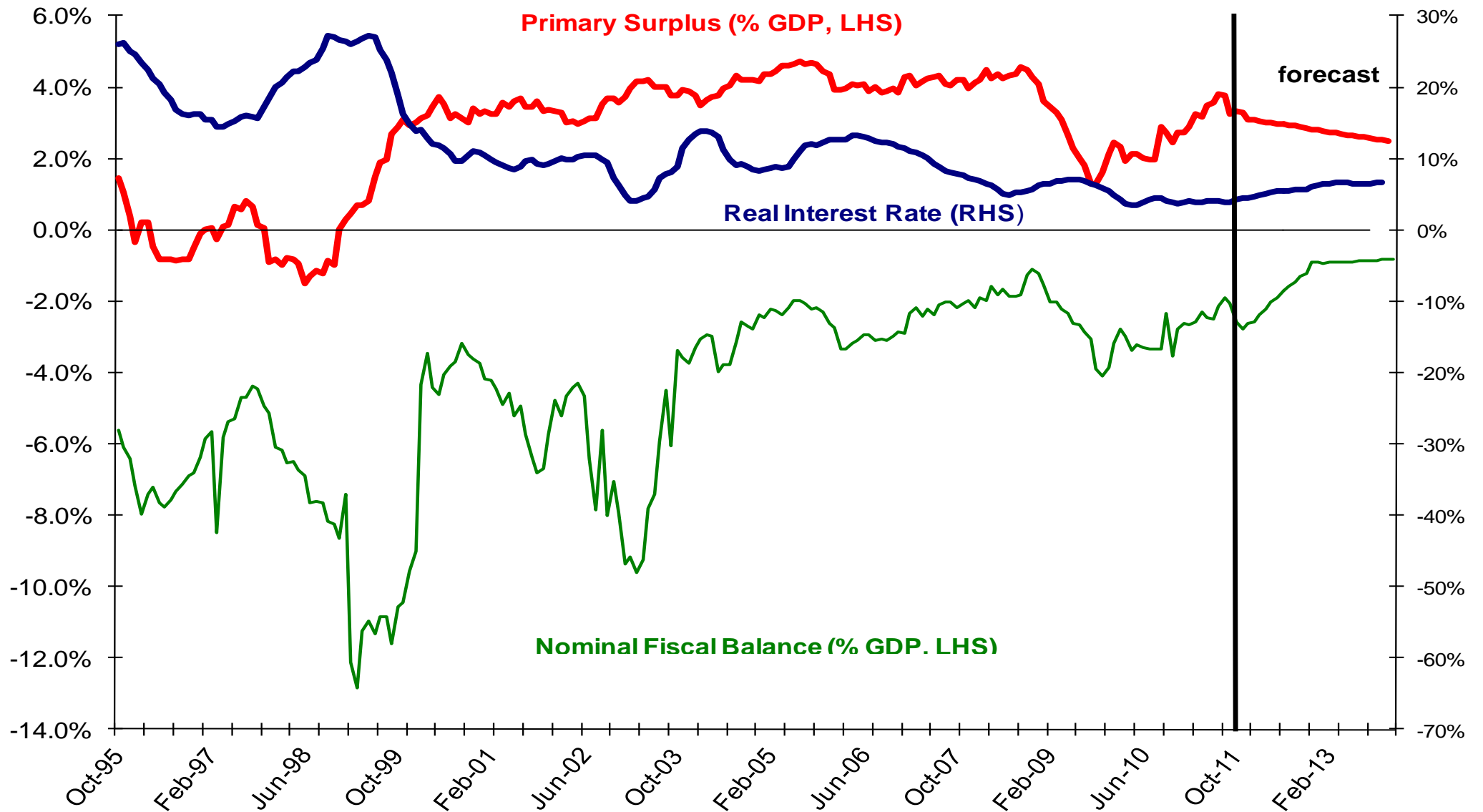
Source: Banco Central do Brasil, IBGE

Strong Appreciation of the BRL Starts to Reverse

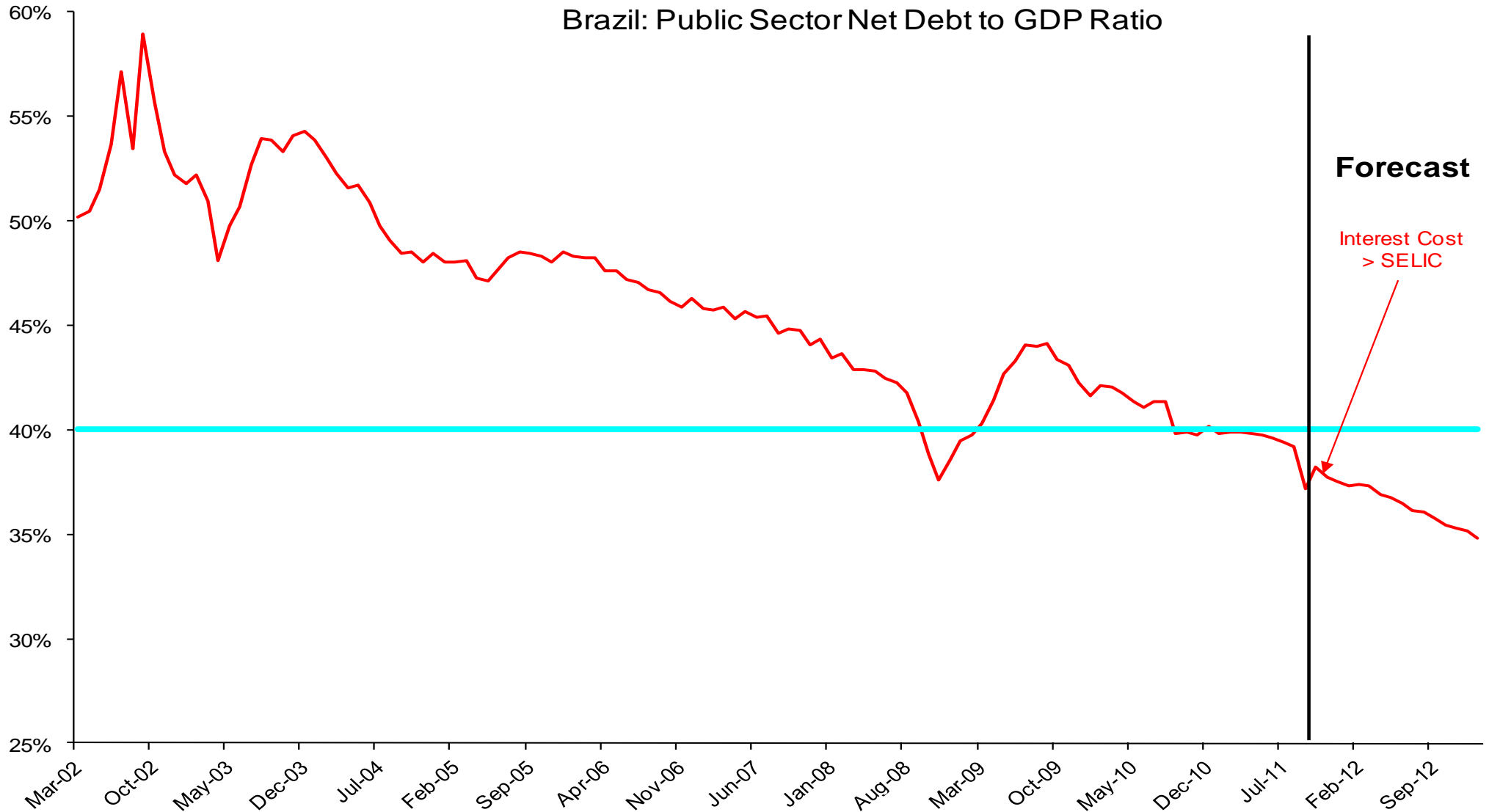
RECENT RISE IN USDBRL TO ABOVE EQUILIBRIUM



FISCAL POLICY HAS EASED...HIGHER PRIMARY SURPLUSES, LOWER REAL INTEREST RATES



STILL, NET PUBLIC SECTOR DEBT HAS RETURNED TO A DECLINING PATH AND IS UNDER THE CRUCIAL 40% LEVEL



Source: Banco Central do Brasil and Macquarie Capital

| Source: Banco Central do Brasil, IBGE

BRAZIL'S POLICYMAKERS FACE SIGNIFICANT CHALLENGES:

- Real appreciation with further monetization by the United States and Japan and perhaps Europe.
- Expanding current account deficits
- Fiscal numbers weaker despite creative accounting and one-off revenue flows
- Improved but still poor social security and other indicators
- Low savings rates
- Low although increasing private investment rates
- Low public investment rates

ONE SET OF POLICY RESPONSES:

- Fiscal adjustment concentrating on current spending which would allow for a reduction of real and nominal interest rates
- Depending on the degree of adjustment, increasing public investment
- Privatization, regulation or deregulation of sectors that the government does not manage well, e.g. roads, ports, etc.
- Implementation of 2003 social security reform and further reform
- Tax reform to reduce inefficiency of tax structure
- Phased reduction of import barriers starting with capital goods
- Increasing the convertibility of the BRL, dismantling of capital controls

ANOTHER SET OF POLICY RESPONSES:

- No or partial only fiscal adjustment based on increasing taxes
- Attempt to increase public investment
- Renationalization through the Finance Ministry, through increasing loans from the BNDES (National Development Bank) and the Caixa Economica (Government Thrift)
- No action on social security
- No action on tax reform
- No opening of the economy
- Increased reliance on administrative controls on capital and trade flows
- Overreliance on monetary policy— and perhaps experimenting with credit policy -- to attack inflation, growth and the balance of payment simultaneously

Brazil: Numbers and Forecasts

Brazil	USD GDP	Real GDP	Real GDP growth	Primary Bal. (%/GDP)	Nom. Bal (%/GDP)	Public Sec Debt (%/GDP)	Cur. Acct. (%/GDP)
2002	516,962	708,477	2.66%	2.30%	-5.30%	52.2%	-1.5%
2003	557,675	716,600	1.15%	3.40%	-5.70%	54.3%	0.7%
2004	664,698	757,535	5.71%	3.80%	2.60%	48.5%	1.8%
2005	888,259	781,470	3.16%	2.98%	0.01%	48.5%	1.6%
2006	1,089,868	812,393	3.96%	3.28%	1.31%	45.9%	1.3%
2007	1,375,093	861,880	6.09%	3.10%	0.88%	44.4%	0.1%
2008	1,662,755	906,146	5.14%	2.94%	0.77%	38.6%	-1.7%
2009	1,575,673	900,305	-0.64%	2.14%	-3.18%	42.8%	-1.5%
2010E	1,849,067	967,734	7.49%	2.73%	-2.60%	40.2%	-2.6%
2011F	2,107,503	1,004,448	3.79%	3.08%	-2.57%	37.5%	-2.2%
2012F	2,633,520	1,039,978	3.54%	2.79%	-0.93%	36.6%	-2.1%
2013F	2,535,303	1,073,257	3.20%	1.50%	-3.10%	34.8%	-2.2%
2014F	2,729,023	1,117,261	4.10%	2.10%	-3.30%	34.5%	-2.1%
2015F	2,899,657	1,159,717	3.80%	1.90%	-3.20%	34.9%	-2.1%

Brazil: Numbers and Forecasts, con't

	Curr. Acct.				FX			Policy Rate
Brazil	(USD mm)	Exports	Imports	Trade Bal.	Reserves	Inflation	USDBRL	SELIC
2002	-7,637	60,439	47,243	13,196	37,824	12.5%	3.54	18.55%
2003	4,177	73,203	48,327	24,876	49,296	9.3%	2.89	16.50%
2004	11,679	96,678	62,834	33,844	52,935	7.6%	2.66	17.75%
2005	13,985	118,530	73,600	44,930	53,799	5.7%	2.34	18.00%
2006	13,643	137,808	91,343	46,465	85,839	3.1%	2.14	13.25%
2007	1,551	160,649	120,621	40,028	180,334	4.5%	1.78	11.25%
2008	-28,192	197,942	173,197	24,746	206,806	5.9%	2.34	13.75%
2009	-24,354	152,995	127,637	25,358	239,054	4.3%	1.77	8.75%
2010E	-47,459	201,918	181,592	20,326	288,575	5.9%	1.66	10.75%
2011F	-46,411	258,558	227,788	30,770	390,764	7.0%	1.86	11.50%
2012F	-55,146	295,737	265,302	30,435	394,518	5.9%	1.83	12.00%
2013F	-55,146	338,263	308,994	29,269	379,373	4.5%	2.05	11.00%
2014F	-57,392	386,904	359,882	27,022	361,980	5.9%	2.10	10.50%
2015F	-61,025	442,539	419,149	23,390	340,955	4.8%	2.15	10.00%

Mexico: Coming Out of the Malaise

Worries from the northern neighbor

Mexico: Beat Up But Better

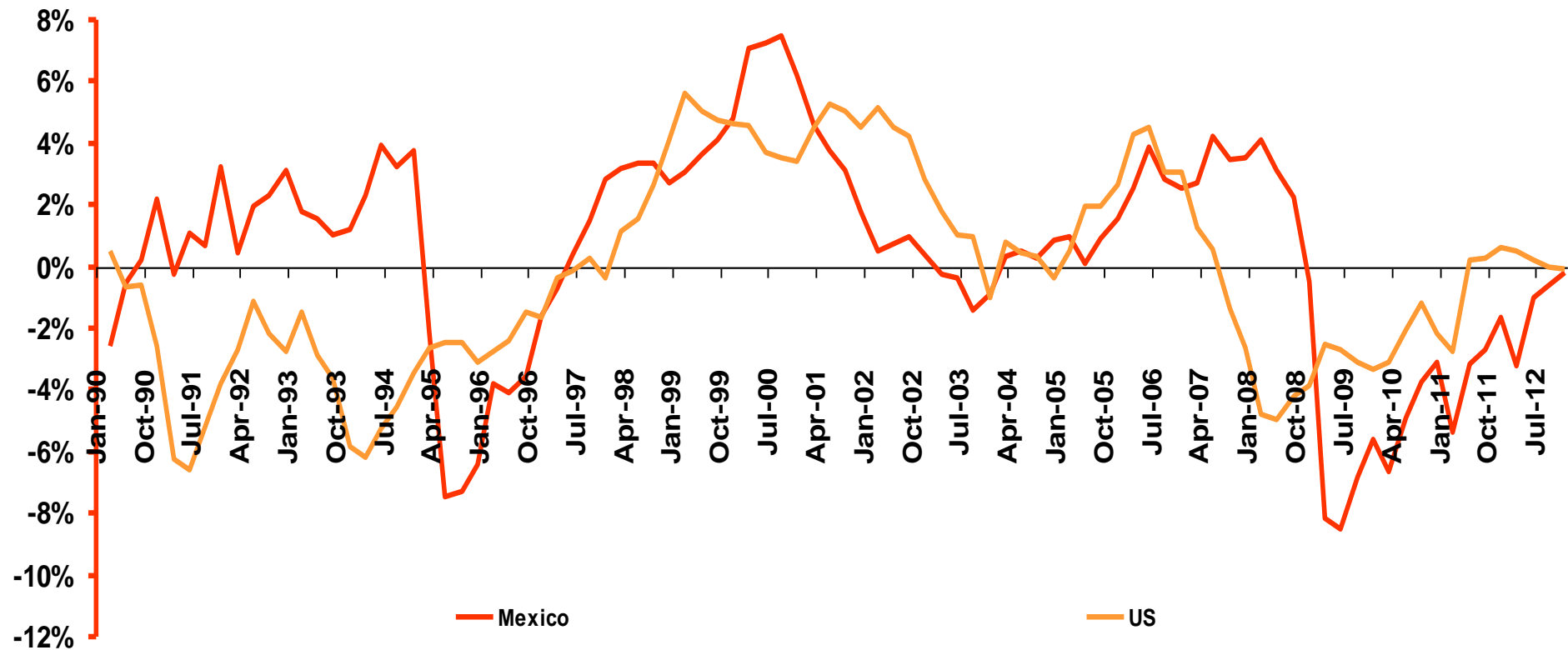
- The Mexican economy was hit very hard by the US into recession falling 6.5% in 2009.
- The recovery is slowly moving from one based upon manufacturing and exports to services and internal demand.
- Mexican GDP is recovering and we expect growth for 2011 at 3.8% and 3.7% in 2012 after growing 5.4% in 2010.
- The well capitalized banking system helped Mexico weather the massive negative shock of the US financial collapse.
- The government allowed the fiscal deficit to widen but should have it back under 1% of GDP by 2012
- Banxico should keep monetary policy on hold until 2Q 2012 and will start despite the US Fed keeping interest rates near 0%.

Mexican industry is recovering with the US

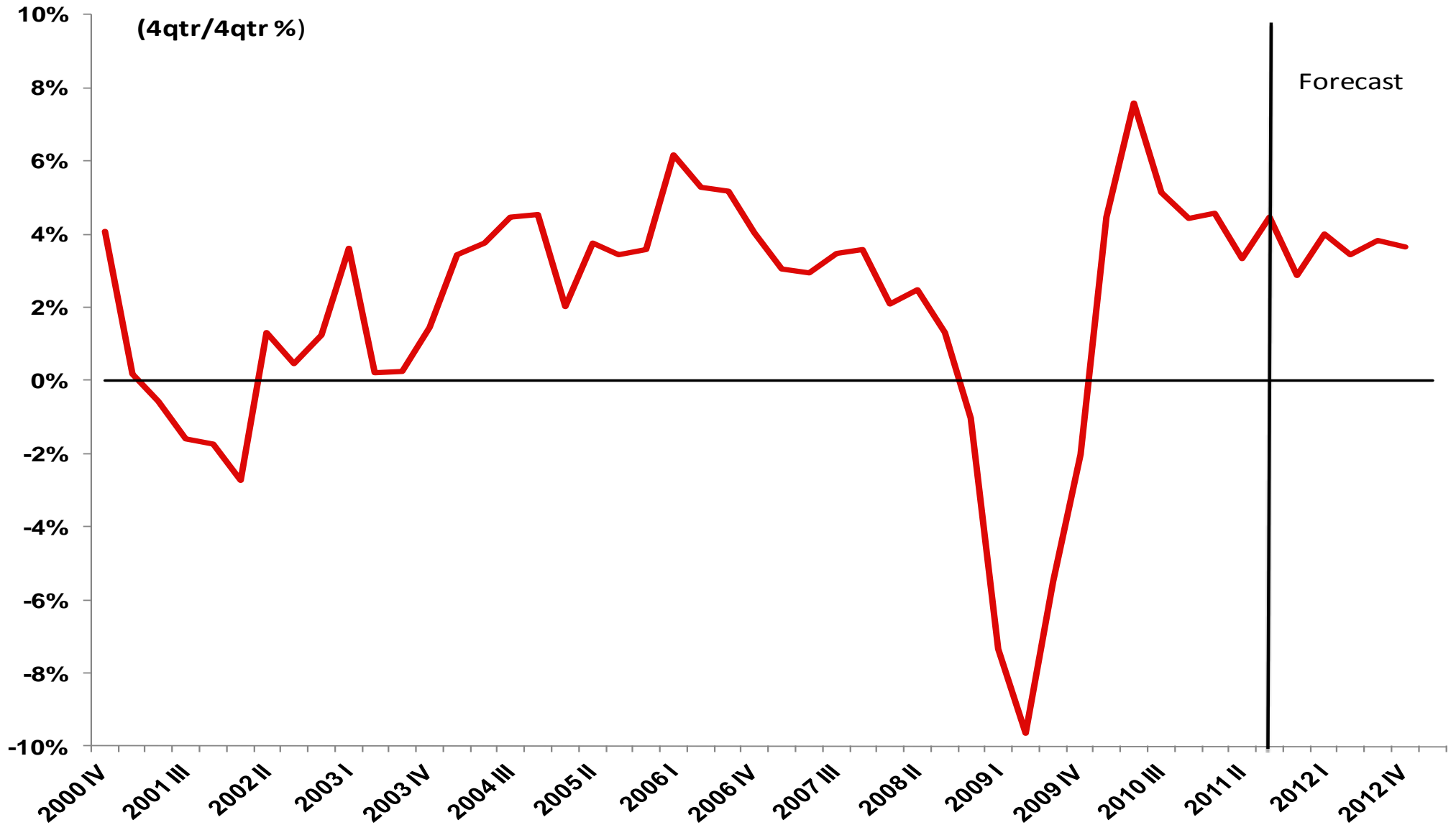


And Mexican GDP has now a correspondant common cycle with US GDP

GDP Cycles Mexico x USA



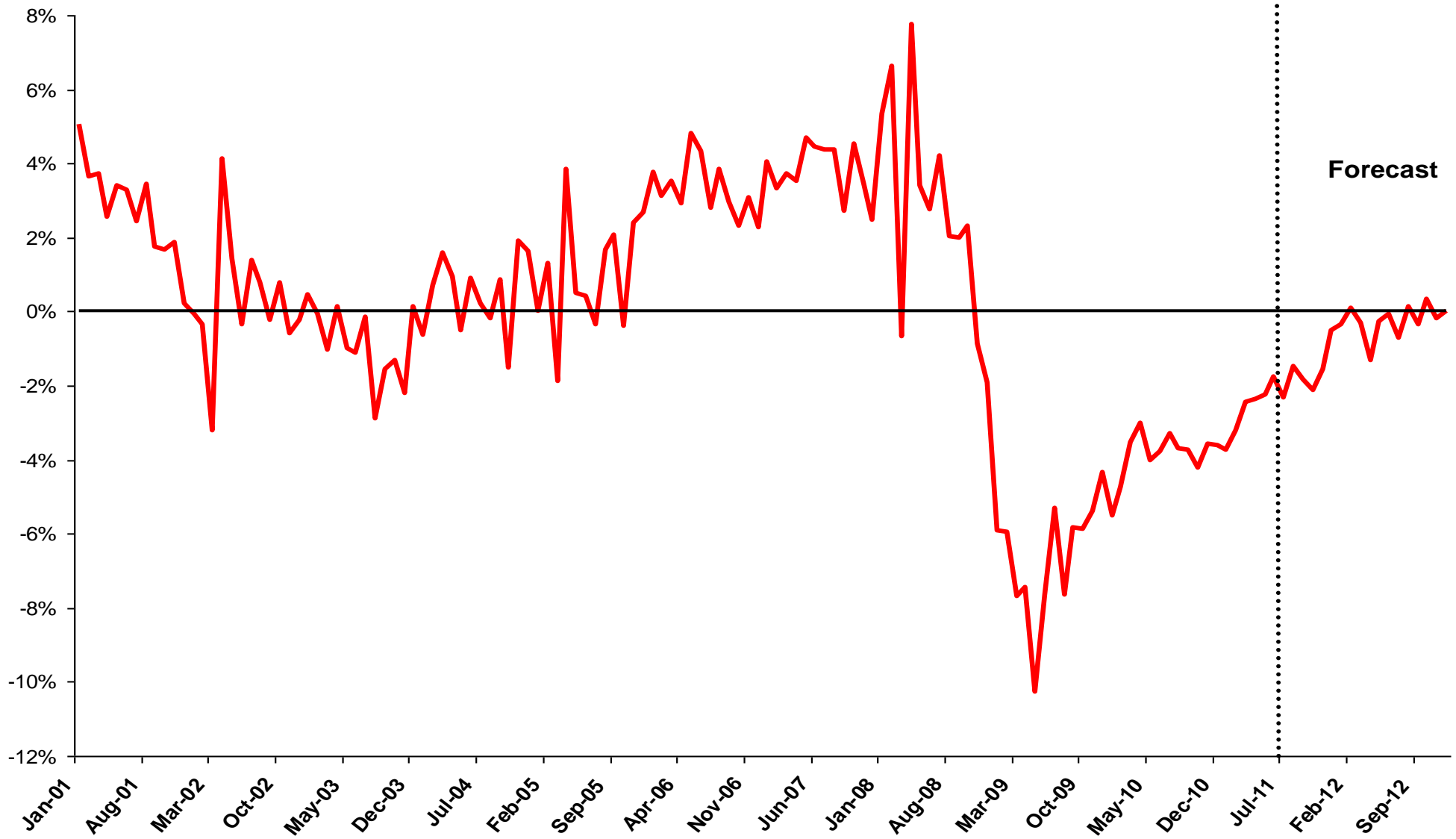
We expect reasonable and steady economic growth for Mexico



The Real MXN has recovered but still above the levels of before the financial crisis.



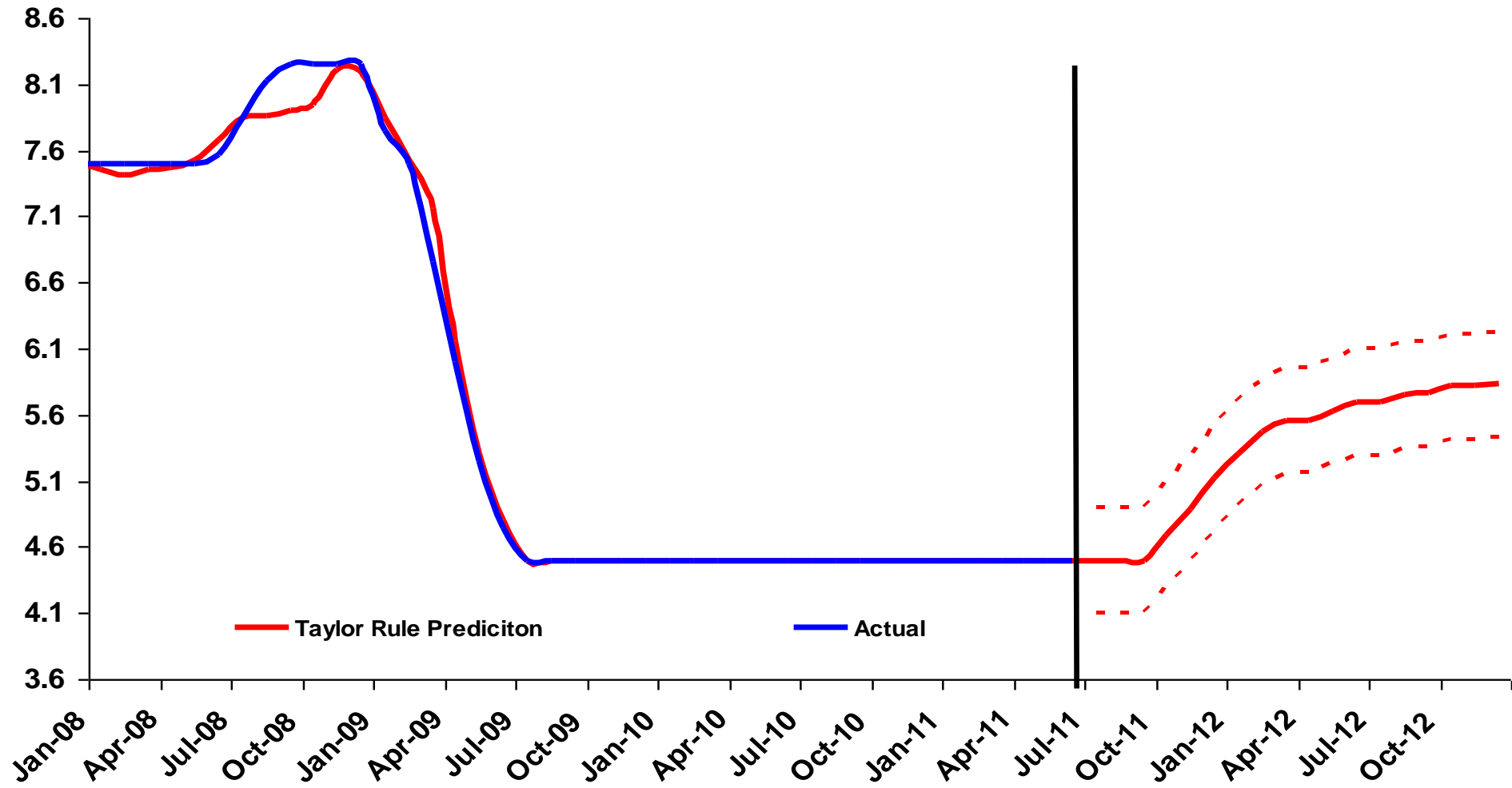
The output gap is closing but more slowly in the last few months



Source: Raul Feliz, Banxico, Bloomberg

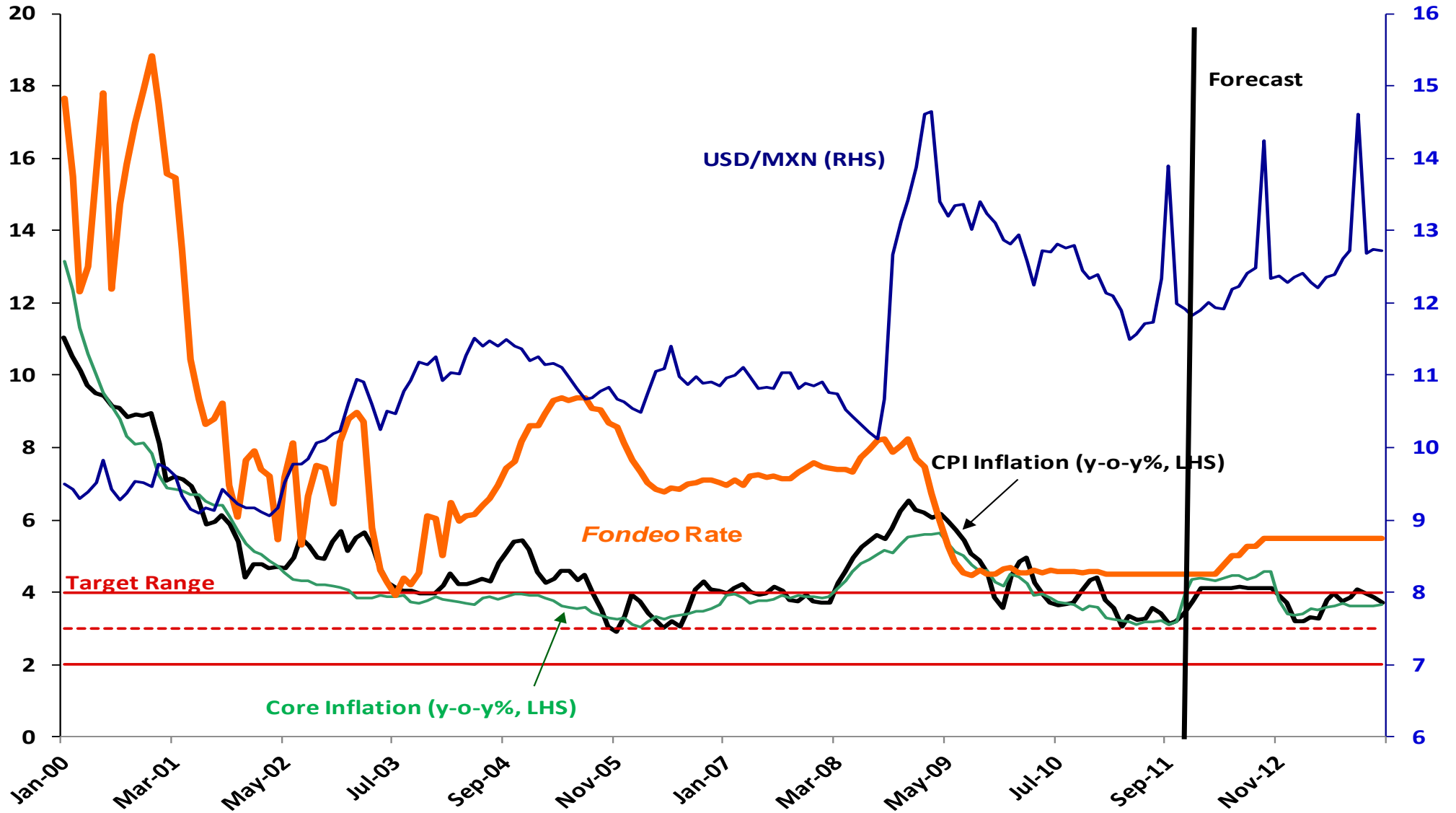
A Taylor rule has Banxico raising the *fondeo* rate now but expect only in 2012

Fondeo Rate and Taylor Rule (% per year)



| Source: Raul Feliz, Banxico, Bloomberg, and Macquarie Capital (USA) Inc.

Inflation remains well behaved and monetary policy on hold until 2012.



Source: Raul Feliz, Banxico, Bloomberg

Mexico Numbers and Forecasts

Mexico	USD GDP	Real GDP	Real GDP growth	Primary Bal. (%/GDP)	Nom. Bal (%/GDP)	Public Sec Debt (%/GDP)	Cur. Acct. (%/GDP)
2002	649,212	7,455,365	0.09%	1.60%	-1.10%	22.1%	-2.0%
2003	700,344	7,555,803	1.35%	1.90%	-0.60%	22.9%	-1.0%
2004	759,596	7,862,072	4.05%	2.20%	-0.20%	21.3%	-0.8%
2005	849,744	8,114,085	3.21%	2.20%	-0.10%	20.2%	-0.7%
2006	952,456	8,531,973	0.00%	2.50%	0.10%	18.5%	-0.6%
2007	1,025,806	8,810,136	3.26%	2.20%	0.00%	17.5%	-1.1%
2008	1,099,729	8,915,030	1.19%	1.80%	-0.10%	21.4%	-2.0%
2009	877,195	8,369,087	-6.12%	-0.10%	-2.30%	30.1%	-0.6%
2010E	999,709	8,820,038	5.39%	0.20%	-2.10%	29.6%	-0.5%
2011F	1,145,627	9,154,293	3.79%	1.10%	-1.90%	29.6%	-0.9%
2012F	1,236,531	9,495,924	3.73%	1.80%	-1.50%	29.2%	-1.7%

Mexico Numbers and Forecasts, con't

Mexico	Curr. Acct. (USD mm)	Exports	Imports	Trade Bal.	FX Reserves	Inflation	USDMXN	Policy Rate Fondeo Rate
2002	-14,155	161,046	168,679	-7,633	47,984	5.7%	10.37	8.25%
2003	-7,259	164,766	170,546	-5,779	57,435	4.0%	11.23	6.12%
2004	-5,236	187,999	196,810	-8,811	61,496	5.2%	11.15	8.75%
2005	-4,871	214,233	221,820	-7,587	68,669	3.3%	10.62	8.25%
2006	-4,776	249,925	256,058	-6,133	67,680	4.1%	10.81	7.00%
2007	-8,660	271,875	281,949	-10,074	77,991	3.8%	10.85	7.50%
2008	-16,174	291,343	308,603	-17,261	85,441	6.5%	13.43	8.25%
2009	-6,289	229,783	234,385	-4,602	90,838	3.6%	12.86	4.50%
2010E	-5,775	298,473	301,482	-3,009	113,597	4.1%	11.82	4.50%
2011F	-11,236	346,210	350,886	-4,676	125,500	3.5%	12.28	4.50%
2012F	-21,985	367,864	386,394	-18,530	121,000	4.0%	0.00	5.50%

Mexico: Getting Better

- Mexico is grew more than 5% in 2010 and will slow down to a reasonable 3.8% in 2011.
- Inflation is well behaved but a closing output gap and maize price shocks will lead Banxico to start raising the fondeo rate in 1Q 2012
- The recovery along with continued loose US monetary will put continuous downward pressure on USDMXN.
- Fiscal policy is slowly tightening from a mild expansion.
- Political jockeying around the 2012 presidential election has already started, with the possibility of strange coalitions forming over the next 12 months.