

Latin America Update

Monthly Commentary

January 2012

Market Overview

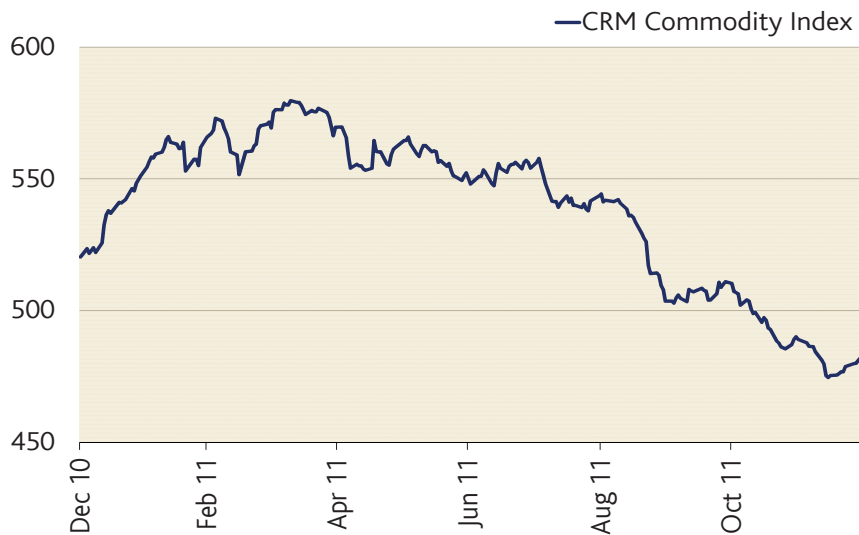
- Latin American equities fell in December and underperformed the broader emerging markets asset class, owing to depreciating currencies and lower commodity prices. Argentina and Brazil were the main laggards.
- Consumer prices for November accelerated from a year earlier in Brazil, Mexico, and Chile.
- In Chile, economic activity decelerated in October because of sluggish growth in industrials and mining. Conversely, Mexico's November purchasing managers' index signalled renewed momentum.
- In politics, Argentine president Christina Kirchner was sworn in for a second four-year term. In Peru, intensifying social conflict resulted in a state of emergency, as well as the fall out between prime minister Lerner and president Humala. Lerner and ten other ministers unexpectedly resigned en masse after only five months in office. Market concerns that Humala might adopt more radical policies were allayed when he left the economic team intact.

Corporate News

Petrobras's total production rose by 2.7% month-on-month in November, albeit below market expectations. The Brazilian oil exploration company also sold €1.85 billion-worth of bonds to finance its investments over the next five years. **Vale** also plans to invest US\$21.4 billion in 2012. **Bradesco's** board announced a bonus dividend payout of 2.3 billion reais. **Femsa's** bottling subsidiary Coca Cola Femsa (KOF) bought Grupo Fomento Queretano's beverage division, its third family-owned bottling business acquisition in six months. KOF also gets a 12% stake in a sugar mill as part of the transaction. Brazilian retailer Iguatemi won the auction for the acquisition of additional stakes in two of its malls, Iguatemi Sao Paulo and Iguatemi Campinas for 142 million reais.

We hold the companies highlighted.

Focus – Commodity prices



Source: Bloomberg, end Dec 11

Slowing worldwide demand and anxieties over the impact of the Eurozone debt crisis caused commodity prices to decline sharply over 2011. The IMF has also downgraded its outlook for commodity prices. Despite this, it must be noted that the supply of commodities remains tight overall. Recent tensions between Iran and the US could further exacerbate supply constraints in oil. While commodities could see heightened price fluctuations, they are unlikely to experience the lows of 2008-2009.

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