

European Central Bank
 Foreign Exchange Contact Group
 Frankfurt, February 2nd, 2011

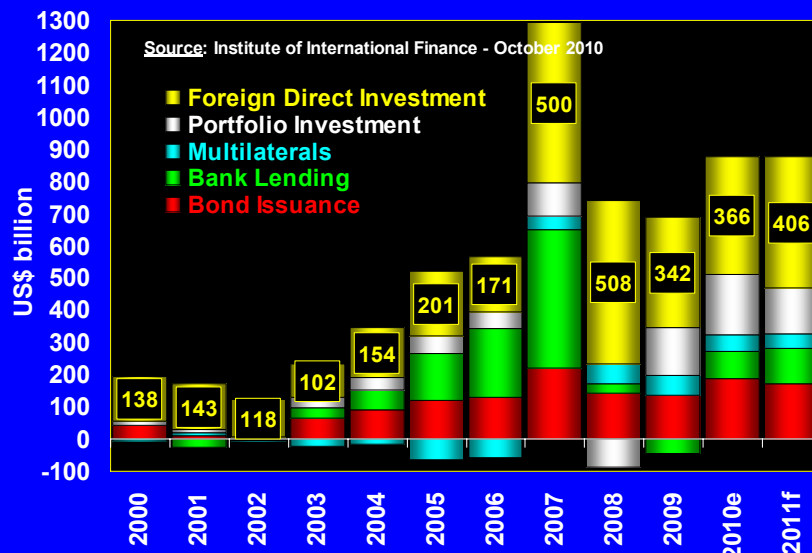
Emerging Market Momentum Latin America in Context

Pablo F.G. Bréard
 Vice-President & Head of International Research

Global Economic Research



Emerging Markets ► Net Foreign Capital Flows

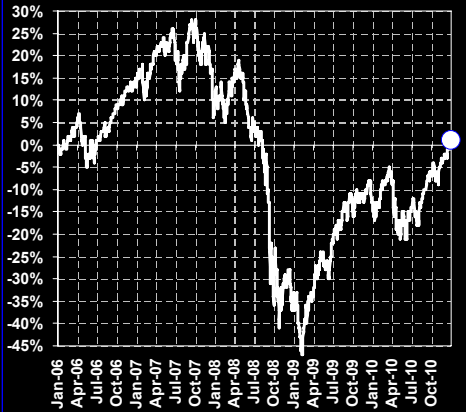


Global Economic Research

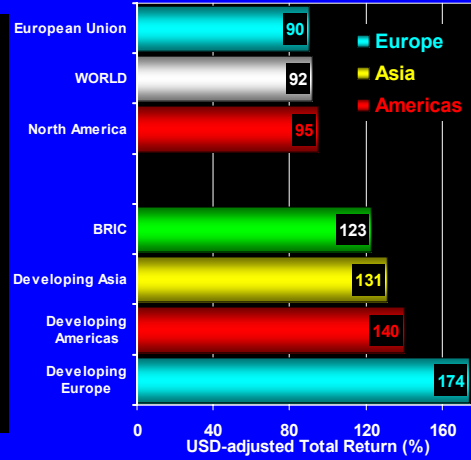


Equity Market Trends ► Emerging Market Boom

Global Equity 5Y % Return



USD % Return since March 2009






Global Economic Research



Scotiabank Group

Global Economic Recovery ► Emerging Markets Lead

Economic Zone	1999-08	2009	2010e	2011f	2012f
North America	2.6	(2.9)	3.0	2.7	3.0
	2.4	(2.6)	2.8	2.7	2.9
Europe	1.9	(4.2)	1.9	1.4	1.6
Japan	1.4	(5.2)	3.4	1.6	2.7
Developing Asia	7.7	5.6	8.8	7.9	8.0
	10.1	9.1	10.0	9.5	9.7
Developing Europe	5.3	(5.2)	4.4	4.0	4.4
Latin America (ex Mex)	3.3	(0.7)	6.1	4.6	4.5
	3.1	(0.2)	7.6	5.5	5.0

Global Economic Research

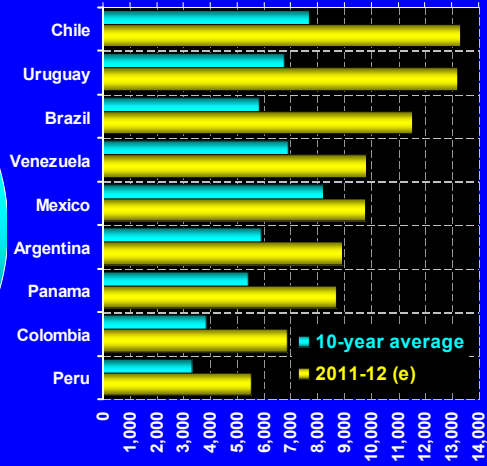
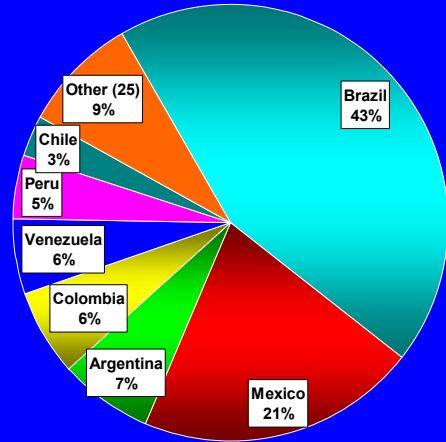


Scotiabank Group

Developing Americas GDP ▶ Dominant Brazil

Regional GDP = US\$5.6 trillion

GDP per Capita (USD)

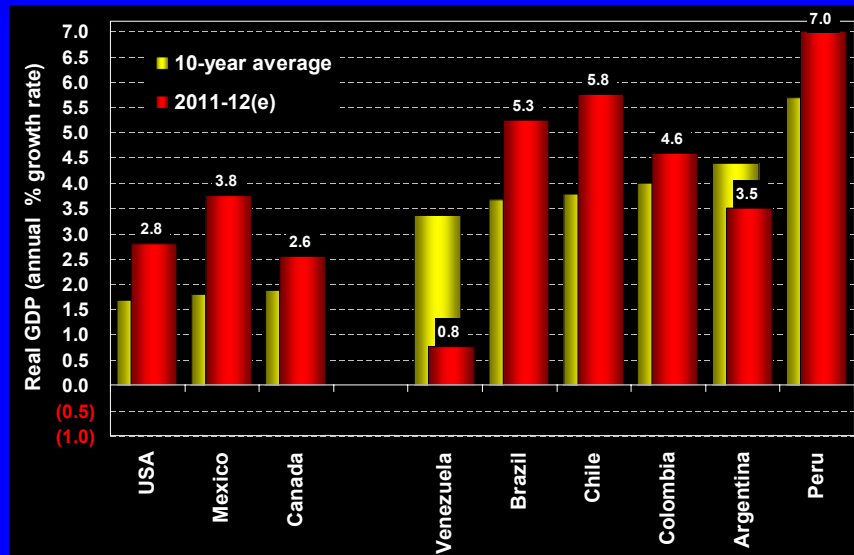


Global Economic Research



Scotiabank Group

Growth Outlook ▶ Mixed North-South Dynamics

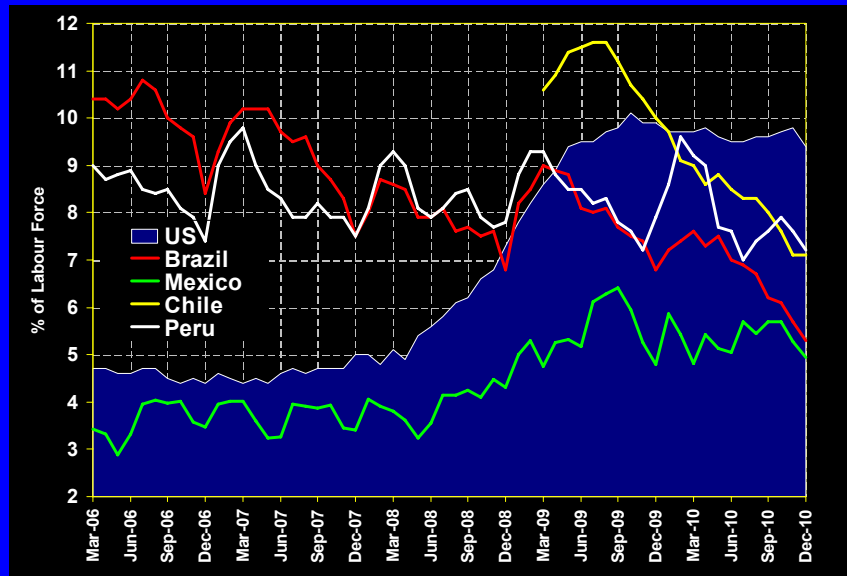


Global Economic Research



Scotiabank Group

Unemployment ► Relative Improvement vs USA

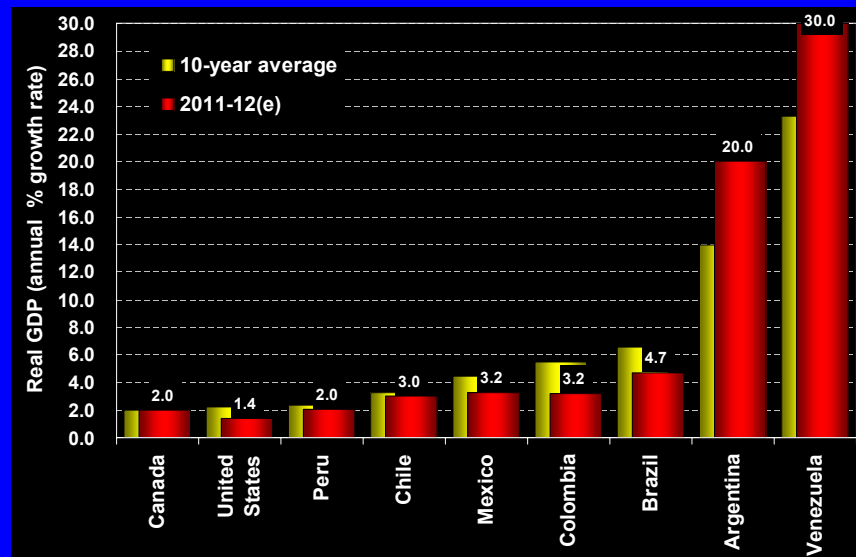


Global Economic Research



Scotiabank Group

Inflation Outlook ► Increasing Convergence ???

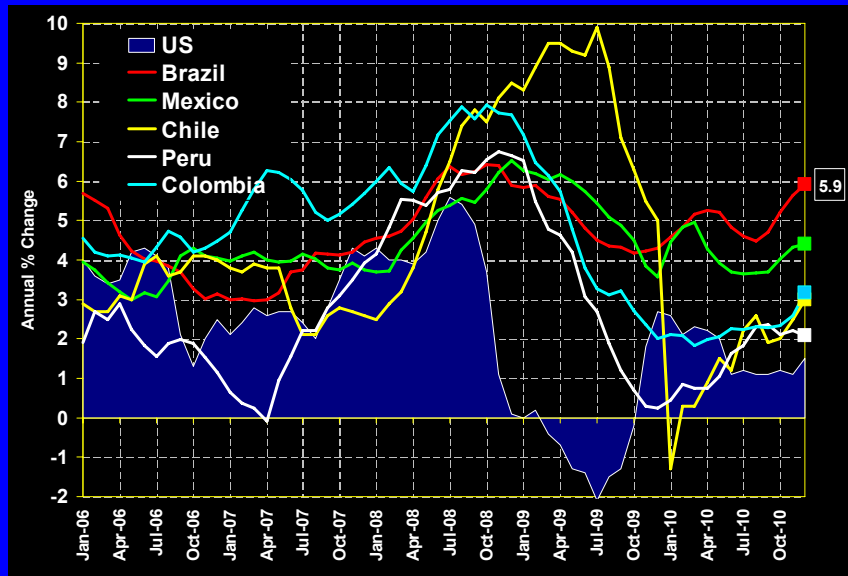


Global Economic Research



Scotiabank Group

Inflation Outlook ► Manageable Price Pressures



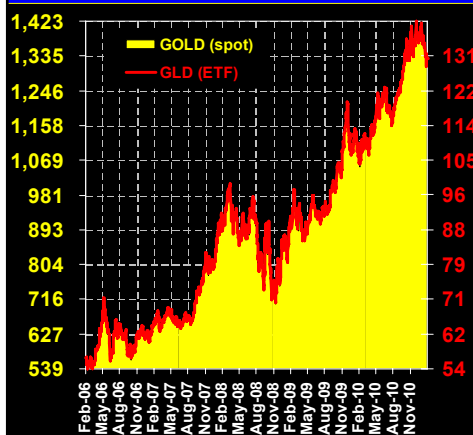
Global Economic Research



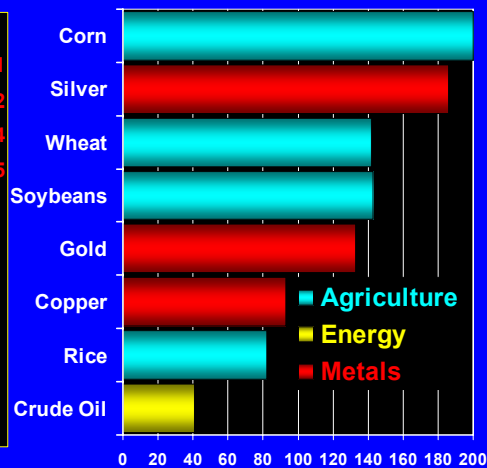
Scotiabank Group

Commodity Shock ► LATAM Trade & FX gains

Gold as a Reserve Asset



Commodity Prices (5Y % gain)



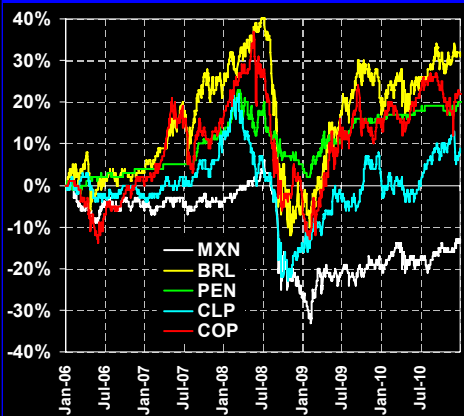
Global Economic Research



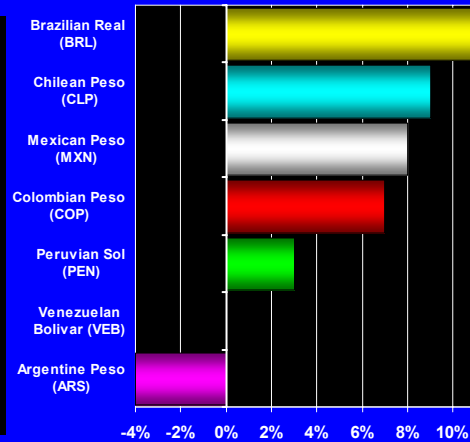
Scotiabank Group

LATAM FX Market ▶ Appreciating Bias

FX % change vs USD (5-yr)



FX % change VS USD (12m)



Global Economic Research



Scotiabank Group

LATAM – Intervention Mechanisms

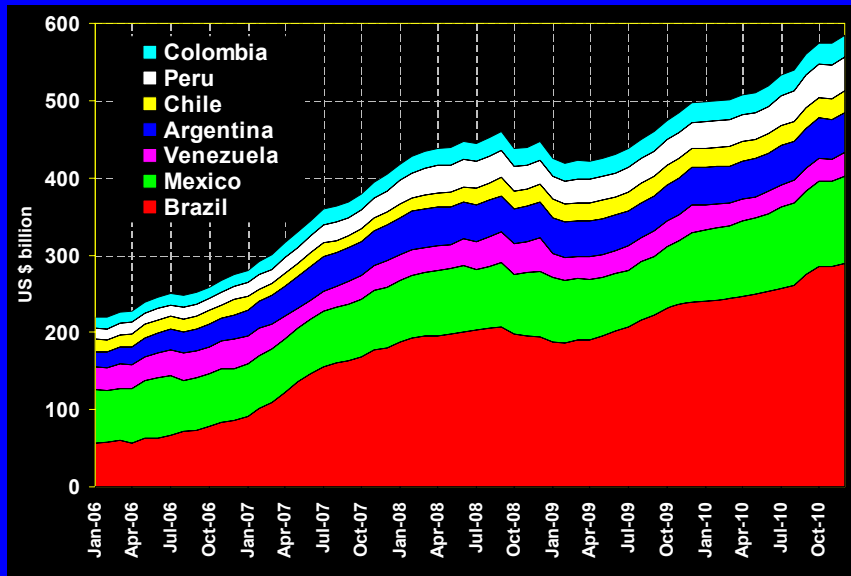
- **Scheduled Auction of FX Swaps (BR, ME)**
- **Financial tax on foreign bond holdings (BR)**
- **Outright purchases of USD (BR, CH, PE)**
- **Fiscal/budget/tariff adjustments (BR, CO, CH)**
- **Reserve Requirements Adjustments (BR, PE, CH)**
- **Regulations of Derivatives Trading (BR, PE)**
- **Verbal Intervention (ME, BR, PE)**
- **Capital Controls (???)**

Global Economic Research



Scotiabank Group

FX Reserves ► Fast & Steady Accumulation

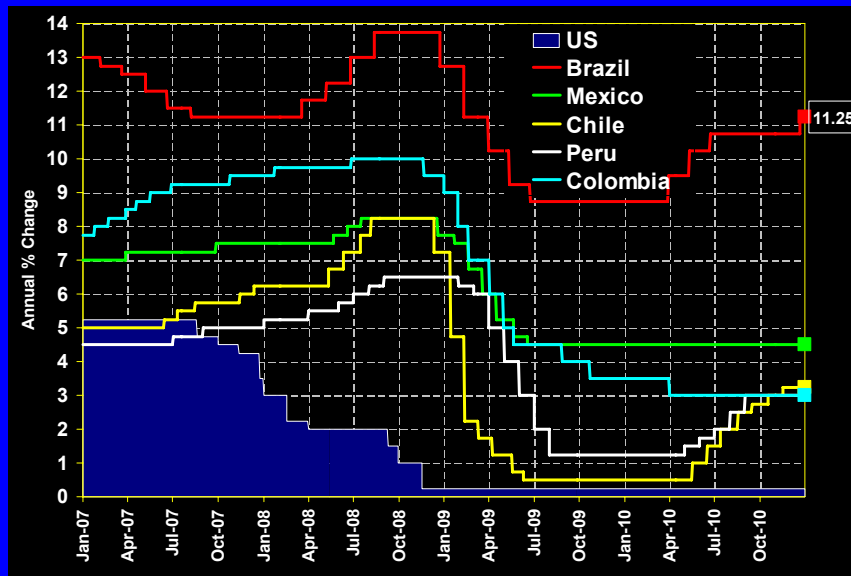


Global Economic Research



Scotiabank Group

Interest Rates ► Monetary Tightening in Sight



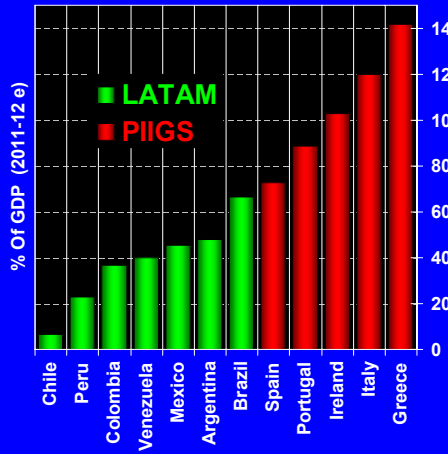
Global Economic Research



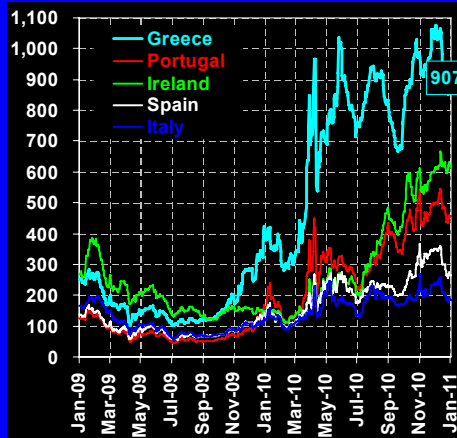
Scotiabank Group

European Fiscal/Debt Shock ► LATAM in Context

Central Government Debt



Sovereign Credit Default Swaps

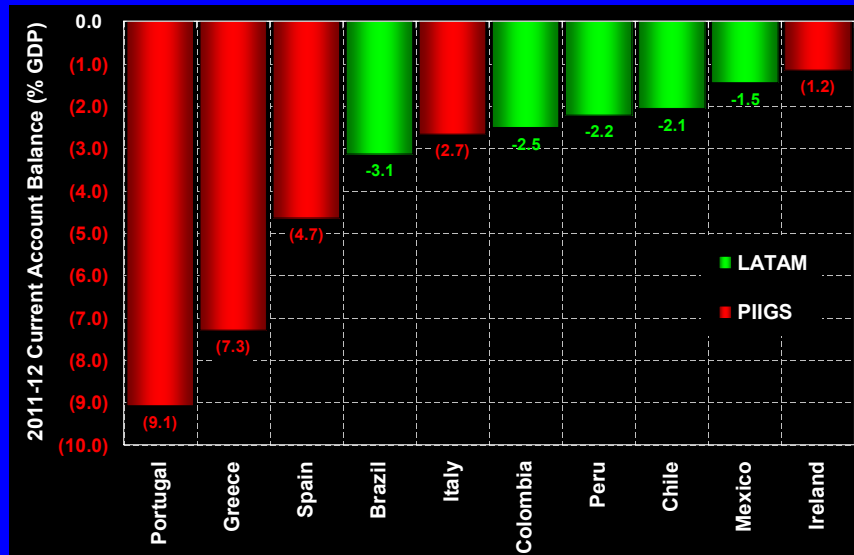


Global Economic Research



Scotiabank Group

Current Account ► Widening Deficits in 2011-12

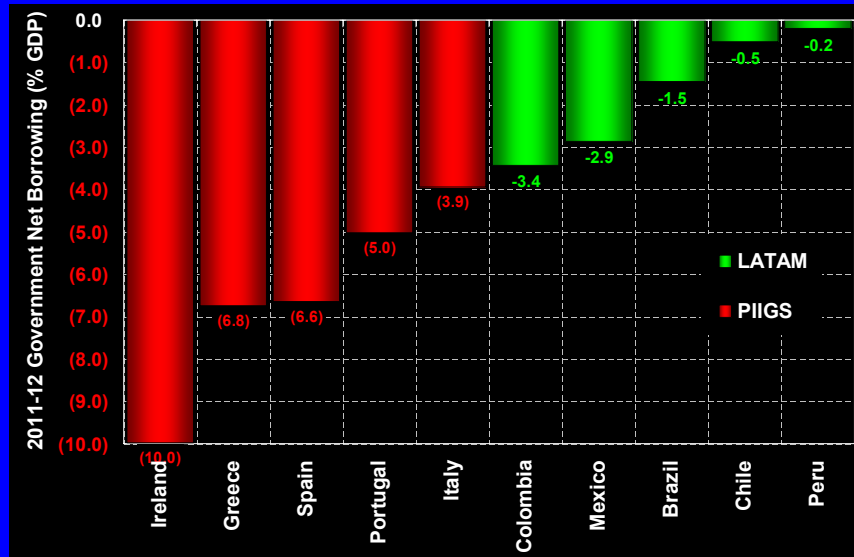


Global Economic Research



Scotiabank Group

Fiscal Outlook ► Modest gap in LATAM 2011-12



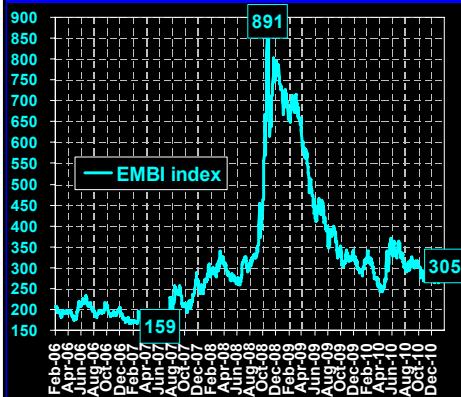
Global Economic Research



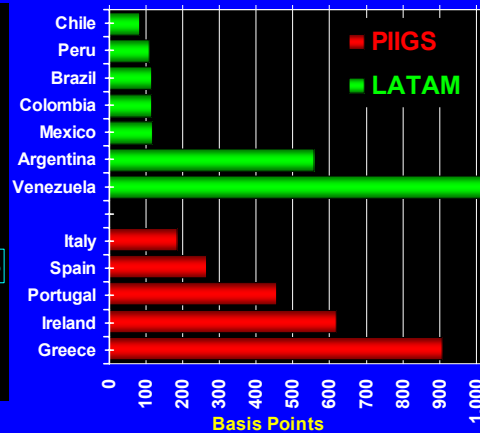
Scotiabank Group

Risk Repricing ► The “Emerging” Emerging Markets

Emerging Market Bond Spread



Credit Default Risk Metrics

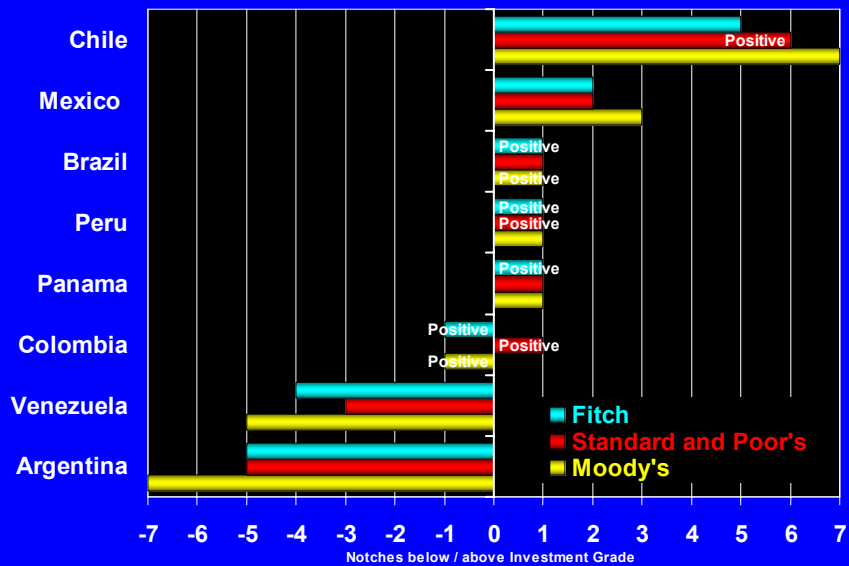


Global Economic Research



Scotiabank Group

LATAM Ratings ► Upgrade Revisions in Sight



Global Economic Research



Scotiabank Group

Latin America ► 2011/12 Outlook

- **Economic Outlook ► Mid-term Sustainable Growth**
- **Political Environment ► Stable / Credible Policies**
- **External Context ► Quest for Yield / Risk Appetite**
- **Commodity Shock ► Impact on FX, Trade & Prices**
- **Inflation ► Price Pressures / Monetary Tightening**
- **FX View ► Appreciating Momentum / Intervention**
- **Capital Flows ► FX Reserve Gain / Overvaluation?**
- **Financial Sector ► Strong & Healthy Credit Growth**
- **Debt Sustainability ► Improved Public Debt Profile**
- **Creditworthiness ► Positive Credit Rating Outlook**

Global Economic Research



Scotiabank Group