Emerging Market Momentum
Latin America in Context

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

Emerging Markets ➤ Net Foreign Capital Flows

Source: Institute of International Finance - October 2010

Global Economic Research  Scotiabank Group
Global Economic Research

Equity Market Trends ► Emerging Market Boom

Global Equity 5Y % Return

Global Equity 5Y % Return

USD % Return since March 2009

Global Economic Recovery ► Emerging Markets Lead

Global Economic Recovery ► Emerging Markets Lead

<table>
<thead>
<tr>
<th>Economic Zone</th>
<th>1999-08</th>
<th>2009</th>
<th>2010e</th>
<th>2011f</th>
<th>2012f</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.6</td>
<td>(2.9)</td>
<td>3.0</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Europe</td>
<td>2.4</td>
<td>(2.6)</td>
<td>2.8</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Japan</td>
<td>1.9</td>
<td>(4.2)</td>
<td>1.9</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>10.1</td>
<td>9.1</td>
<td>10.0</td>
<td>9.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Developing Europe</td>
<td>5.3</td>
<td>(5.2)</td>
<td>4.4</td>
<td>4.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Latin America (ex Mex)</td>
<td>3.3</td>
<td>(0.7)</td>
<td>6.1</td>
<td>4.6</td>
<td>4.5</td>
</tr>
<tr>
<td></td>
<td>3.1</td>
<td>(0.2)</td>
<td>7.6</td>
<td>5.5</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Global Economic Research

Scotiabank Group

Scotiabank Group
Developing Americas GDP ➤ Dominant Brazil

Regional GDP = US$5.6 trillion

GDP per Capita (USD)

Global Economic Research

Growth Outlook ➤ Mixed North-South Dynamics

Global Economic Research
LATAM FX Market ► Appreciating Bias

FX % change vs USD (5-yr)  FX % change VS USD (12m)

-4% -2% 0% 2% 4% 6% 8% 10%

Argentina Peso (ARS)
Venezuelan Bolivar (VEB)
Peruvian Sol (PEN)
Colombian Peso (COP)
Mexican Peso (MXN)
Brazilian Real (BRL)
Chilean Peso (CLP)

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
European Fiscal/Debt Shock ▶ LATAM in Context

Central Government Debt

<table>
<thead>
<tr>
<th>Country</th>
<th>2011-12 % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>140</td>
</tr>
<tr>
<td>Peru</td>
<td>120</td>
</tr>
<tr>
<td>Colombia</td>
<td>100</td>
</tr>
<tr>
<td>Venezuela</td>
<td>80</td>
</tr>
<tr>
<td>Mexico</td>
<td>60</td>
</tr>
<tr>
<td>Argentina</td>
<td>40</td>
</tr>
<tr>
<td>Brazil</td>
<td>20</td>
</tr>
<tr>
<td>Spain</td>
<td>140</td>
</tr>
<tr>
<td>Portugal</td>
<td>120</td>
</tr>
<tr>
<td>Ireland</td>
<td>100</td>
</tr>
<tr>
<td>Italy</td>
<td>80</td>
</tr>
<tr>
<td>Greece</td>
<td>60</td>
</tr>
</tbody>
</table>

Sovereign Credit Default Swaps

LATAM vs PIIGS

Global Economic Research

Current Account ▶ Widening Deficits in 2011-12

2011-12 Current Account Balance (% GDP)

<table>
<thead>
<tr>
<th>Country</th>
<th>2011-12 Current Account Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>(9.1)</td>
</tr>
<tr>
<td>Greece</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Spain</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Brazil</td>
<td>-3.1</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.7</td>
</tr>
<tr>
<td>Colombia</td>
<td>-2.1</td>
</tr>
<tr>
<td>Peru</td>
<td>-3.1</td>
</tr>
<tr>
<td>Chile</td>
<td>-3.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Global Economic Research
Global Economic Research

Fiscal Outlook ➤ Modest gap in LATAM 2011-12

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**

- Chile
- Mexico
- Brazil
- Peru
- Panama
- Colombia
- Venezuela
- Argentina

Notches below / above Investment Grade

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