

Regional Investment Perspectives

Regional Investment Perspectives - November 2011

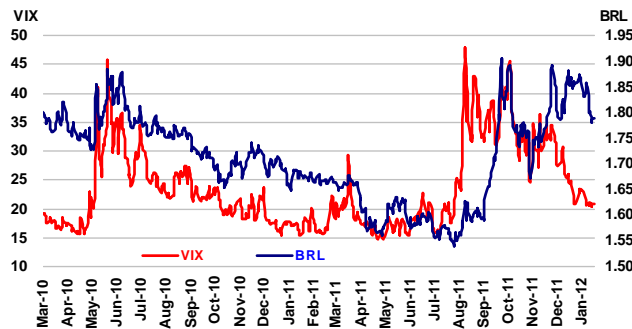
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In Short

The main feature of stock markets in 2011 was the recurring high volatility rounds as a result of both political and economic events in the USA and Europe. We believe that the first semester in 2012 will be quite similar to the last semester in 2011. As the year goes by, we expect the European situation resolutions will have a positive impact upon markets, thanks to an increased risk appetite and, therefore, Latin America will be able to 'decouple'.

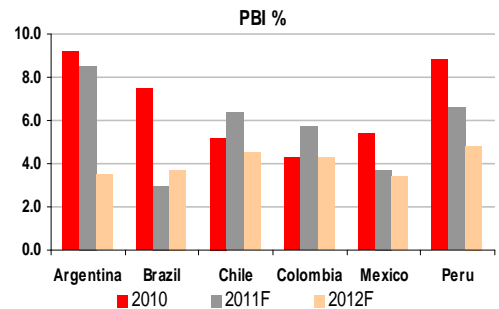
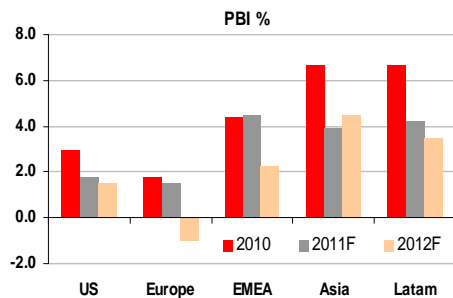
The Brazilian currency and the Risk Aversion Index VIX Levels



Source: HSBC Securities.

Latin America will still lead global growth. Our economist team expects growth rates lower than or very similar to those of 2011 for the different regions; European GDP fall by -1.0% and a 1.5% moderate recovery in USA stand out. In Latin America, Peru will have the highest growth by 4.8%, followed closely by Colombia and Chile, with 4.3% and 4.5% growth expectations respectively.

Gross Domestic Product: The world and Latin America



Source: HSBC Securities.

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Summary of Recommendations for Latin America:

	FX	Renta Fija	Acciones
Argentina	Neutral	Positivo	Neutral
Brazil	Neutral	Positivo	Neutral
Chile	Neutral	Positivo	Neutral
Colombia	Neutral	Neutral	Positivo
Mexico	Neutral	Neutral	Neutral
Peru	Neutral	Positivo	Neutral

Source: HSBC Asset Management.

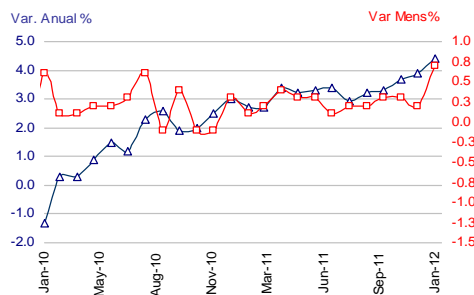
Note: These ratings are based on the information contained in the following pages.

Context

Chile

In 2012, we expect the Chilean economy will slow down towards its potential, with a 3.75%/4.25% GDP, after a 6.2% approximate growth in 2011. As regards inflation, 2011 CPI ended at 4.4%, above market expectations and above the highest limit of the Central Bank target range (-1/+1 3.0%). Since the price increase will decline in 2012 and CPI will moderate towards a 2.5%/2.7% level, in its January meeting the Central Bank decided to cut the rate by 25bps to 5.0%.

Consumer Price Index



Source: Bloomberg.

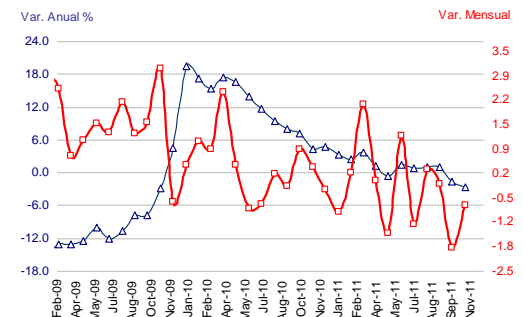
Argentina

The latest economic activity indicators show that growth has slowed down sharply by the end of 2011, and GDP forecast for 2012 stands at 3.0%. The General Activity Index from Ferreres consulting firm grew by 5.2% y-o-y in November, the lowest variation since January 2010. The President announced the extension of the grace period for the Provincial Debt Relief Scheme created in 2010, of which grace period originally terminated by the end of 2011. This scheme would save around ARS13.6 billion to the 17 provinces involved, as a result of the economic slowdown.

Brazil

The economy in Brazil lost momentum during the second semester of 2011 showing no growth whatsoever, in line with global economic slowdown. However, we expect certain recovery in 2012, given the policies applied both at monetary and fiscal level. CPI inflation will remain above Central Bank's target. CPI index would end rising by 6.4% in 2011 and 5.2% in 2012. The Central Bank will maintain its rate reduction policy, and we expect Selic rate cuts by +150bps over the next six months to reach 9.5%.

Industrial production



Source: Bloomberg.

Colombia

In 1Q2011, GDP grew by 7.7%, above market expectations of 6.0%. Growth forecast for 2011 is 5.5% and 5.1% for 2012. In terms of inflation, expectations are within the Central Bank target range of 2.0%/4.0%. In its last Monetary Policy meeting, the entity decided to maintain its rate unchanged at 4.75%. Anyway we expect that the Central Bank will continue its rate increase policy until the reference rate reaches 5.50% over the year.

Stock Markets

Mexico

Mexico's GDP growth forecast for 2012 is 3.5%, after increasing 3.7% in 2011. US Industrial Production will grow moderately and the foreign exchange rate will remain depreciated. In addition, the economy will improve thanks to domestic demand and higher expenses related to this year's elections. Inflation is mild, and strong inflationary pressures are not expected. Therefore, we expect the Central Bank will continue to keep the reference rate unchanged at 4.5% for a longer term.

Peru

In 2012, Peru's growth would decline to 5.0%, as compared to 6.8% in 2011. The latest inflation data beat expectations due to temporary reasons. The CPI was 0.43% in November, reaching 4.64% on an annual basis and 4.46% from January to November. Given the temporary nature of the inflation increase and the lack of evidence of negative impacts from global events, we believe the Central Bank can maintain rates at current levels. Therefore, in our view, the Central Bank would remain on hold during the first months of 2012 to then decide about a potential rate cut.

Last year proved extremely complex for Global stock markets. Performance indicators, as measured by JPMorgan MSCI, show Emerging Markets leading the losses with a 20.4% fall, in relation to Europe, with 13.8% by year end, and the rest of the world, 7.6%. Within Emerging Markets, Emerging Europe was the worst performer with a 25.3% fall and Latin America with a 21.9% decline.

Main Stock Market Indices in USD

Region	Índice	Variación %			
		Enero	Diciembre	YTD	2011
Mundo	MSCI	1.84	(0.2)	1.8	(7.6)
Estados Unidos	S&P500	2.77	0.9	2.8	(0.0)
Europa	MSCI	(0.20)	(1.6)	(0.2)	(13.8)
Mercados Emergentes	MSCI	3.52	(1.3)	3.5	(20.4)
Asia Emergente	MSCI	3.08	0.6	3.1	(19.1)
Europa Emergente	MSCI	3.73	(9.7)	3.7	(25.3)
América Latina	MSCI	5.59	(1.9)	5.6	(21.9)

Source: HSBC Asset Management. Data as at January 11th 2012.

Main Latin American Stock Market Indices in Local Currency

País	Index	Variación %			
		Enero	Diciembre	YTD	2011
Argentina	MERVAL	14.7	(3.9)	16.5	(31.2)
Brasil	IBOV	5.7	(0.2)	6.1	(18.4)
Chile	IPSA	0.8	(3.6)	1.3	(15.7)
Colombia	IGBC	4.8	(2.0)	4.1	(17.7)
Mexico	MEXBOL	0.3	1.0	1.8	(4.2)
Peru	IGBVL	4.6	(2.6)	5.3	(17.1)

Source: HSBC Asset Management. Data as at January 11th 2012.

Argentina

The Merval index fell by 3.9% in December and by 31.2% on an annual basis. We maintain a cautious outlook for Argentina in the short term, expecting improved visibility both at domestic and foreign level. Net earnings per share growth forecast for 2012 would be revised downwards to 32.6%, as compared to 43.2% growth reported in 2011.

Chile

Chile's stock market ended 2011 reporting a 15.7% decline. The aspect that affected performance was mainly international uncertainty. On the domestic front, La Polar events and certain domestic flow movements stood out. We have a constructive view for this market for 2012. We expect it will become stronger as risk aversion moderates, supported by a domestic scenario of growth and consumption, which, though moderate this year, is still strong.

Brazil

The positive mood of the market during December was not enough to offset the year's losses. The Brazilian stock market ended 2011 falling by 18.4%. Throughout the year, the global uncertainty had a stronger impact upon market performance than market fundamentals, thus leading to consecutive downward trend and high volatility rounds. Net earnings per share growth forecast for 2012 would be revised downwards to 10.0%, as compared to 7.0% growth reported in 2011.

Colombia

The Colombian stock market ended 2011 reporting a 17.7% decline. We hold a constructive view of this market for 2012 and expect that it trades on the upside. We find Oil and Gas, Financial, and Utilities sectors valuable. In addition, net earnings per share growth forecast for 2012 would be revised downwards to 22.5%, as compared to the 30.0% growth reported in 2011.

Bond Markets

Mexico

The Mexican stock market ended 2011 reporting a 4.2% decline. The idea of Mexico as a growing economy with moderate inflation and a strong foreign position should keep on supporting this market performance. Net earnings per share growth forecast for 2012 would be revised downwards to 13.9%, as compared to 11.5% growth reported in 2011.

Peru

We hold a very constructive approach towards the Peruvian stock market. High growth expectations for the country will benefit this stock market, mainly private consumption and construction related sectors.

In global terms, domestic markets performed well in 2011. JPMorgan Government Bond Index (GBI) in USD reported falls of 1.9% within Emerging Markets. Nonetheless, Latin America increased by 1.7%, and Asia by 3.7%.

Main Global Domestic Markets

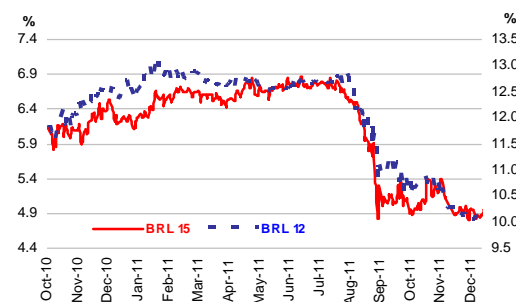
Región	Nivel Actual	Variación %			
		Enero	Diciembre	YTD	2011
GBI-EM Global	335	1.4	(2.3)	1.1	(1.9)
Asia	222	1.1	1.6	0.8	3.7
Europa	265	(0.2)	(3.8)	(0.4)	(9.4)
América Latina	313	3.5	(2.8)	3.4	1.7
Brazil	324	3.2	(2.3)	3.0	4.7
Chile	105	2.9	(0.8)	2.8	(3.6)
Colombia	315	5.0	2.1	4.8	5.6
Mexico	184	2.8	(3.7)	2.6	(3.3)
Peru	181	0.4	(0.3)	0.4	11.7

Source: HSBC Asset Management. Data as at January 11th 2012.

Brazil

After reporting a satisfactory performance during the second semester in 2011, December turned to be a negative month for Brazilian fixed income instruments. They yielded 4.7% in US dollars in 2011, outperforming the Latin American Index. The bond market in Brazil offers appealing returns, as compared to emerging and developed markets. We consider it interesting to hold a conservative position on these instruments in the short term, given global market momentum.

Domestic Bonds in BRL



Source: Bloomberg

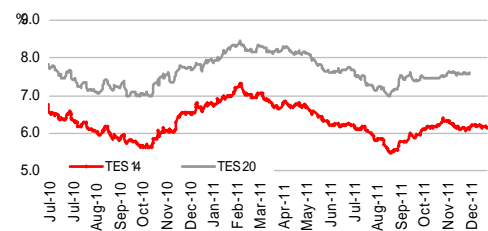
Chile

In the current domestic environment of growth and inflation, we find fixed income instruments valuable. Inflation below expectations throughout the year resulted in a sell-off of inflation-linked bonds. Therefore, we consider that the inflationary premium is attractive and

Colombia

Domestic bonds in Colombia traded upwards in 2011, supported by an improved perception of credit. JPM GBI Index for Colombia reported a 5.6% rise this year. In December short-term instruments traded in relation to expectations of Central Bank rate hikes. Longer-term bonds will remain more resilient to monetary policy fluctuations.

TES Domestic Bonds in COP



Source: Bloomberg.

Peru

In 2011 the domestic market in Peru measured by JPM GBI index reported positive returns of 11.7 in US dollars. Bonds traded at historical lows in early September, when the newly elected president Humala selected a professional cabinet that supported his view of

should match historic levels. The government announced it would issue 20-year BTU in 2012, which are nominal yield bonds in pesos. This issue is a positive aspect, since it would create a point on the yield nominal curve, which trades with poor liquidity.

Mexico

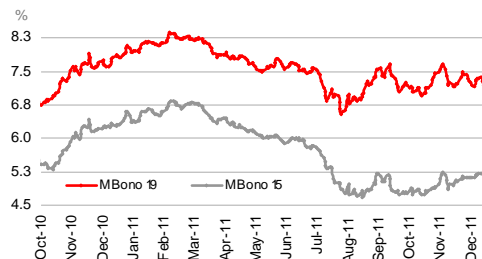
In 2011, the domestic stock market performance measured in US dollar reported a 3.34% fall, mainly explained by the foreign exchange depreciation around 12.8%. In the medium term, the Mexican domestic market will be mainly driven by US rate trend. In addition, the fact that global uncertainty may continue to cause high volatility rounds in domestic rates is not to be disregarded. In line with previous issues, we consider it interesting to hold a neutral position as regards the benchmark, and we consider that the inflation premium will still be attractive, at least until 1Q12.

Argentina

Short-term bonds in Argentina ended the year with a 4.5% yield, whereas medium-term and long-term bonds yielded 10% and 12% respectively. In addition, given the possible domestic rate hike, Badlar-adjusted bonds traded from Badlar+3.6% early in the year to Badlar+1.6% by the end of 2011. Driven by local economic growth, GDP-linked coupons performed well too; US-dollar denominated bonds yielded 12%, whereas ARS-denominated bonds reported a 22% return. We believe it would be interesting to maintain liquid bonds in the middle of the curve.

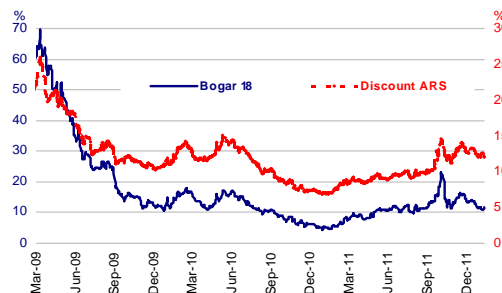
the market. Over the last months, domestic market performance was marked by global events. We hold a very positive view on this market. In our view, it may offer potentially attractive returns.

MBonos Domestic Bonds in MXN



Source: Bloomberg.

Domestic Bonds in ARS



Source: Bloomberg.

Currencies

Brazil

Having depreciated by 0.12% in December, the BRL ended 2011 with 11.2% depreciation. Both uncertainty and volatility were the deciding factors in this market, and we expect that they will continue to prevail in the short to medium-term. In any case, we see a more satisfactory scenario for this currency from the external level, and we expect it will trade close to BRL1.80 per US dollar over the next six months.

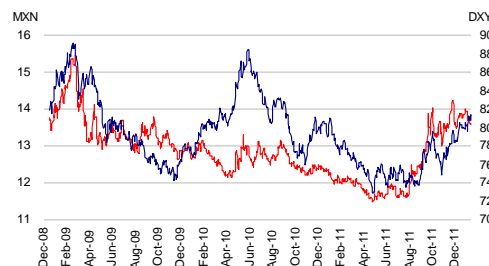
Peru

Having appreciated by 0.7% in December, the Peruvian currency was one of the best performers in 2011 and depreciated by 4.1% depreciation. The Central Bank intervenes in the foreign exchange market actively to prevent currency volatility. Therefore, we consider the currency will keep on trading within a tight range close to current values.

Mexico

In 2011, the Mexican currency weakened against the US dollar by 12.8%, reporting the highest currency depreciation in the region. Being the most liquid currency in the region, the Mexican currency went through high volatility rounds over the year, since it was particularly exposed to the US economic evolution. In addition, since Mexico is a member of certain Business Agreements, the Central Bank could not exert controls to prevent uncertainty scenarios from affecting the currency. We expect the MXN will trade upwards given the improved international situation, and expect a value of MXN13.60 per US dollar over the next six months.

The MXN and the DXY

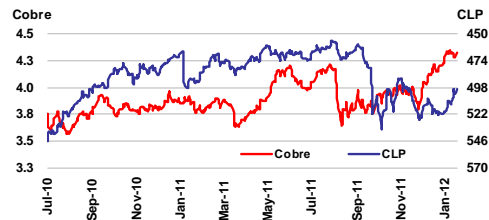


Source: Bloomberg.

Chile

The CLP appreciated by 0.7% in December to reach 11.2% depreciation in 2011. Over the year, market volatility as a result of global uncertainty has had a great impact on the Chilean currency. Therefore, we consider that the currency would still show high volatility in the medium term. We believe the CLP will trade within a range of CLP 490 /530 per US dollar over the next six months.

Copper and CLP



Source: Bloomberg.

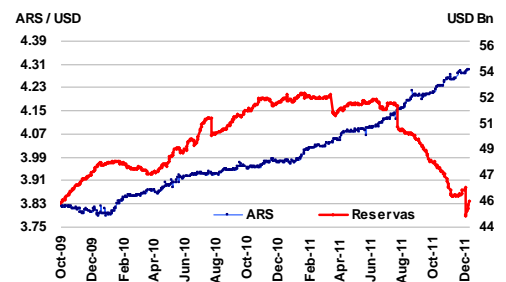
Colombia

In 2011, the Colombian currency, as compared to the other currencies in the region, had a moderate performance and reported a 1.3% depreciation over the year. We expect the foreign exchange rate appreciating trend will continue to be supported by high commodity prices, the interest rate bullish cycle and the inflows expected from foreign direct investment. We think that the COP will trade skewed upwards to reach a COP1865 per US dollar value over the next six months.

Argentina

The Argentine currency ended 2011 reporting 8.2% depreciation in ARS4.30 per US dollar over the year. The Kirchner administration keeps on preventing currency depreciation by applying controls over the foreign exchange market. In December, the BCRA purchased USD2.4 billion. The international reserve level stood at USD46.376 billion, USD5.814 billion below that of 2010 year end. Over the year, the Central Bank was granted loans for around USD 5 billion from international financial institutions, which prevented an even more significant fall of the reserves level. We expect that the currency will trade with a slow and controlled depreciation to reach ARS4.55 per US dollar over the next six months.

Reserves and ARS



Source: Bloomberg.

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