

Regional Investment Perspectives

Regional Investment Perspectives - November 2011

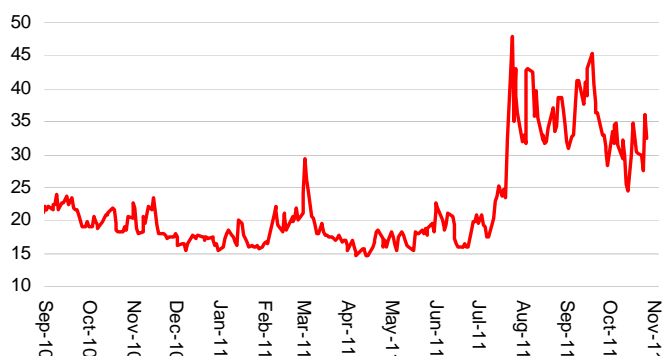
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In Short

Equity markets gained ground in October as a consequence of the agreement reached among EU leaders to reinforce the European Financial Stability Facility for the region and recapitalize European banks. However, the political turmoil in Greece and Italy had an impact on risk aversion levels, which are still high and erratic in performance.

VIX Risk Aversion Index



Source: Bloomberg

Given global slowdown expectations for next year, it is worth mentioning that the fiscal position in Latin American countries, even though lower than that of 2008, is convenient to execute countercyclical policies. This fiscal situation is critical for the region and helps maintain a constructive view of such, despite the global economic situation.

Comparison of fiscal surplus, inflation and growth: 2008 against 2011

	Argentina		Brasil		Chile		Colombia		Mexico		Peru	
	Q2 11	Q3 08	Q2 11	Q3 08	Q2 11	Q3 08	Q2 11	Q3 08	Q2 11	Q3 08	Q2 11	Q3 08
Balance Fiscal Primario (% del PIB)	1.5	3.5	2.8	3.0	1.9	6.4	2.3	-1.3	-0.1	0.8	6.3	3.3
Tasa de Política Monetaria (%)	11.40	12.60	12.25	13.75	5.25	8.25	4.25	10.00	4.50	8.25	4.25	6.50
Inflación (%)	23.1	22.4	6.7	6.3	3.4	9.2	3.2	7.6	3.3	5.5	2.9	6.2
Crecimiento del PIB en el año (%)	8.0	6.8	3.5	5.2	6.4	3.7	4.9	3.5	3.7	1.2	6.4	9.8

Source: HSBC Securities.

Paula Gándara
Regional Senior Investment Analyst
paula.gandara@hsbc.com.ar

Summary of Recommendations for Latin America:

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

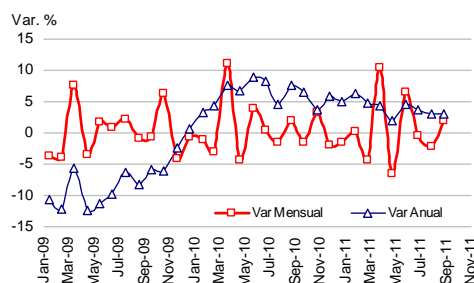
Source: HSBC Asset Management.

Context

Mexico

The latest indicators released show that the economic activity momentum has moderated, in line with the soft recovery in the United States. In 2Q11 the economy grew by 3.3%, below the 4.6% level in 1Q11. Inflation is well contained. In September, General CPI was reported at 3.14%, against 3.42% in August. In addition, core CPI (excluding food and energy) decreased to 3.12%, from 3.22% the previous month. The Central Bank maintained the rate unchanged at 4.50% and we expect the rate to remain at these levels for the next six months; the monetary authority kept its dovish attitude, in line with market expectations.

Mexican Industrial production



Source: Bloomberg

Colombia

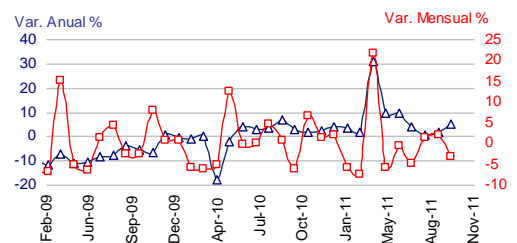
Industrial Production data for August surprised on the upside and rose by 9.5% over the month, against market expectations of 3.3%. In September, the inflation increased by 0.31% and reached 3.73% year-to-date. Inflation forecasts for the year have been revised upwards to 3.50%, from 3.20%. The Central Bank decided to maintain the reference rate at 4.5%. We expect the Central Bank will begin the rate hike restrictive cycle during the first quarter; the rate increase would be 75bps approximately.

Chile

The economy in Chile is slowing down after having grown up to 8.0% over the first semester. However, data released in September was better than expected: industrial production 5.2% and industrial sales 1.1%. As regards economic activity, we believe the risk balance is skewed upwards.

Inflation has been subdued, despite the Chilean currency depreciation early in November. October's CPI was reported at 0.5% monthly and 3.7%, 0.2% above expectations and we expect a 3.4% by December 2011. The last Central Bank minutes clearly stated future rate cuts, especially due to changes in international conditions. We expect the monetary authority will maintain the rate unchanged up to the end of the year and will finally cut +75bps during 1Q2012.

Argentine Economic Activity



Source: Bloomberg.

Argentina

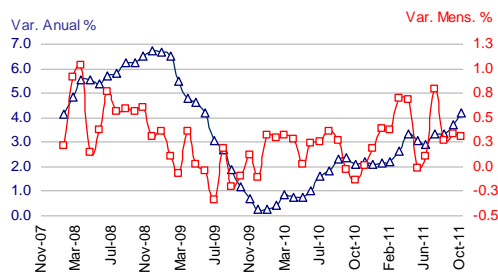
In the presidential elections held by the end of October, Cristina Kirchner was re-elected with 53.9% of the vote, in line with expectations. The newly elected government has announced new foreign exchange control measures, which have caused some skepticism in the market. It also announced that subsidies given to various economic sectors for water, gas and electricity use will be reviewed. In August, economic activity grew by 0.6% m-o-m to reach 8.6% y-o-y and 9.1% y-o-y over the first 8 months of the year.

Equity Markets

Peru

The economic data released were better than expected: In August, GDP growth was 7.5% year on year; both domestic and external demand mainly drove economic growth. In October, CPI for Lima surprised on the upside and increased by 0.31%, taking the 12-month rate to 4.2%, above Central Bank target of 2.0% with -1.0%/+1.0% tolerance. Inflation data released did not change our monetary policy expectations, and we still expect there will be a cut by 75bps over 2012.

Consumer Price Index in Peru

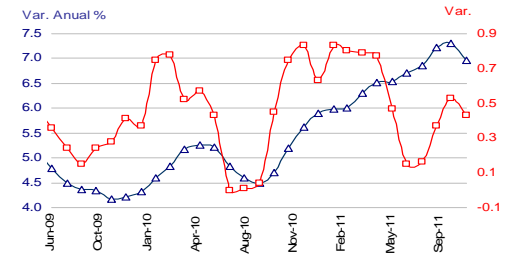


Source: Bloomberg

Brazil

The economy keeps on slowing down. GDP would grow by near 0.0% during the second semester. Growth forecasts for 2011 and 2012 were revised downwards to 3.2% and 3.5% respectively. Inflation would still hover above Central Bank's target for the next months, with an average rise of 0.45% monthly, reaching 6.4% for 2011 and 5.8% for 2012. The Central Bank would maintain interest rate cuts over the next months in order to prevent any adverse impact from global economic slowdown.

Consumer Price Index in Brazil



Source: Bloomberg.

According to MSCI index, the Latin American stock market rose by 14.1% in October, this was higher than expected, as compared to the rest of the world in general and Emerging Markets in particular, which grew by 7.8% and 11.2% respectively. On the other hand, Emerging Asia grew by 10.8%.

Main Stock Market Indices in USD

Region	Índice	Variación %			
		Noviembre	Octubre	YTD	2010
Mundo	MSCI	(1.87)	7.8	(6.4)	8.4
Estados Unidos	S&P500	(0.12)	8.0	(0.5)	11.7
Europa	MSCI	(4.22)	8.9	(11.3)	(0.0)
Mercados Emergentes	MSCI	(1.82)	11.2	(14.7)	16.8
Asia Emergente	MSCI	(1.68)	10.8	(13.2)	17.7
Europa Emergente	MSCI	(2.18)	11.0	(16.6)	14.2
América Latina	MSCI	(2.67)	14.1	(17.1)	11.6

Source: Bloomberg. Data as at November 14th.

Main Latin American Stock Indicators

País	Index	Variación %			
		Mes Actual	Octubre	YTD	2010
Argentina	MERVAL	(7.9)	15.4	(24.0)	51.8
Brasil	IBOV	(0.1)	9.3	(15.9)	1.0
Chile	IPSA	(0.0)	10.9	(12.2)	37.6
Colombia	IGBC	(3.2)	3.0	(16.8)	33.6
Mexico	MEXBOL	2.5	7.3	(3.1)	17.9
Peru	IGBVL	(1.4)	6.5	(16.8)	65.9

Source: Bloomberg. Data as at November 14th.

Argentina

The domestic stock market still trades with poor liquidity as a result of the domestic and global political situation. At present, the corporate earnings reporting period has started, and at the moment of writing, they were in line with expectations. Current price/earnings (PE) ratios are trading at 7.0x, and a 7.1x level is expected for the whole year. Growth for net earnings per share would reach 43.2% this year. We recommend cautious

Brazil

The stock market in Brazil traded strongly in October and grew by 9.3% in the month, although it was not enough to recover the 16.0% fall since January. While we find the Brazilian stock market valuable and fundamentals remain quite supportive, it has shown some pressure downwards given the corporate earnings reports. In addition, global uncertainty might continue impacting negatively on this market performance. Current PE ratios

positions given the domestic and international political situation.

are trading at 9.0x, and a ratio of 8.2x is expected for the whole year. Growth for net earnings per share would reach 10.0% this year.

Chile

IPSA traded positively in October, as a result of improved global forecasts, and grew by 11.0% this month. However, it still trades at 13.2% below the levels recorded early in the year. We believe the market would still be affected by global events. Even though we have a constructive view of this market, given the global scenario it is difficult to recommend a long-term investment.

Colombia

The stock market in Colombia performed well during the month, in line with other Latin American markets. However, the pick-up was not enough to offset the negative rounds and the market still trades below the levels recorded at the beginning of the year. We find selective opportunities in financial and retail sectors. Current PE ratios are trading at 16.0x and a ratio of 20.9x is expected for the whole year. Growth forecasts for net earnings per share would reach 27.5% this year.

Mexico

The stock market in Mexico features attractive PE ratios and strong fundamentals. The corporate earnings reporting period is in process and at the moment of writing, companies have announced some earning reduction in average. Even though PE ratios in this market are high as compared to other Emerging Markets, they have been falling over the last months and now stand at 15.0x and 13.6x for 2011. In addition, growth for net earnings per share would reach 15.7% this year.

Peru

In October the stock market grew by 6.5%, in line with other markets within the region. However, the rise was not enough to offset year-to-date losses and the market still trades at around 16%, below the levels recorded early in the year. We have a constructive view with respect to this market, although future volatility rounds fueled by the current global uncertainty are not to be disregarded.

Bond Markets

In October, domestic markets performed well in general and rose by 2.5%. Latin America returned 6.4% in the month, whereas Asia returned 3.6% and Europe fell 2.4%. Year-to-date, Latin America still posts the highest return levels (16.8%) as compared to other regions; whereas the general indicator posts 14.6%. In October, Latin American markets ended the month up, with Brazil and Colombia leading the rises with 14.4% and 10.3%, respectively.

Main Global Domestic Markets

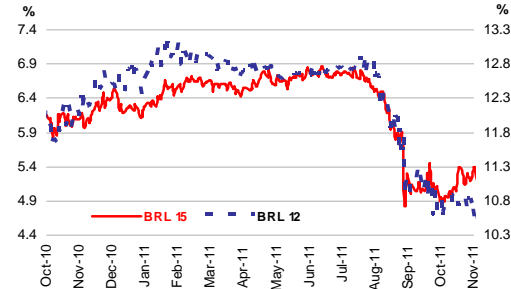
Región	Variación %			
	Noviembre	Octubre	YTD	2010
GBI-EM Global	(2.3)	5.3	2.5	14.6
Asia	(0.4)	1.7	3.6	9.4
Europa	(2.8)	3.9	(2.4)	3.8
América Latina	(2.8)	6.8	6.4	16.8
Brazil	(2.5)	14.4	9.5	19.3
Chile	(2.2)	4.4	0.8	NA
Colombia	(2.4)	10.3	3.7	32.5
Mexico	(2.8)	4.0	0.4	18.6
Peru	0.1	5.7	11.9	5.9

Source: Bloomberg. Data as at November 14th.

Brazil

In our past issues, we recommended inflation-linked bonds given their upward trend. However, we have decided to shift our recommendation to nominal bonds, since the latest CPI data releases were in line with consensus expectations, and economic slowdown expectations increased.

Domestic Bonds in BRL

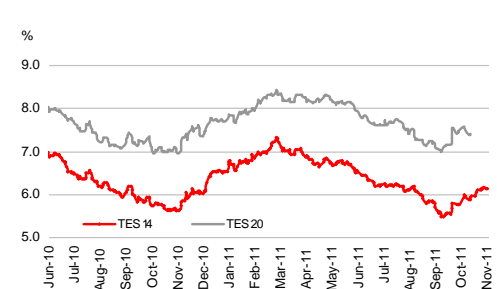


Source: Bloomberg

Colombia

High volatility from global uncertainty had an impact on Colombian fixed income market. In addition, within the domestic market, short-term bonds in particular traded downwards as a result of the restrictive monetary cycle and increased inflationary expectations. We hold a cautious view for this market in the short term.

TES Domestic Bonds in COP



Source: Bloomberg.

Chile

We have a very constructive view of the fixed income market in Chile. Such market rallied over the month up to the last weeks of October, when rates rose slightly. This selling pressure was partly due to pension funds, which decided to sell bonds to get positions in stocks. We think the best scenario for this market is for rates to go back to the levels posted early in September. We believe nominal bonds have better return opportunities than inflation-linked bonds, since inflation is likely to maintain at low levels, even in case of foreign exchange depreciation.

Mexico

In October, despite the high volatility from external events, the bond market in Mexico traded upwards. The yield curve comprised of sovereign bonds flattened by 20bps, as a result of improved longer term bonds. Still with moderate inflation, we find inflation-linked bonds appealing. We believe they will benefit from the expected inflation level: year to date inflation stands at 1.19% in September, and a 3.5% level is expected by December. We recommend a neutral position in the short term, given the international environment, especially the US economic slowdown

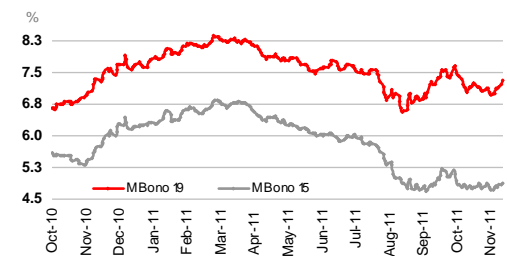
Argentina

After plunging in September, Argentine bonds picked up in October, recovering partially from previous months' losses. The Argentine spread is still under pressure and some points above this year's lowest levels. We recommend holding a position in medium-term liquid bonds.

Peru

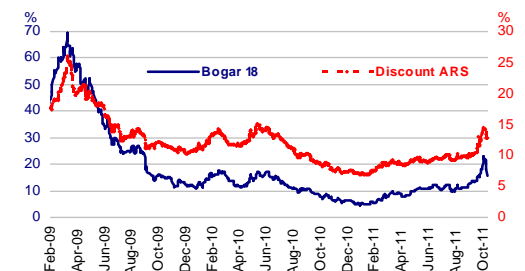
At current price levels, Peruvian sovereign bond expected returns are attractive. We believe that they may come back to the levels recorded in early September, after the newly elected President Humala announced to continue pro-market policies, including Central Bank independency and fiscal policy sustainability.

MBonos Domestic Bonds in MXN



Source: Bloomberg.

Domestic Bonds in ARS



Source: Bloomberg.

Currencies

Latin American currencies performed well in October, except for Argentina that depreciated 0.7%. Brazil was the best performer with 6.8%, followed by Chile with 4.4%. Performance has been mixed from the beginning of the year, with general depreciations and a 3.6% appreciation for Peru and 0.1% for Colombia.

Main Latin American Currencies

País	Nivel Actual	Variación %			
		Noviembre	Octubre	YTD	2010
Argentina	4.27	0.9	0.7	7.5	4.6
Brasil	1.77	3.0	(6.8)	6.4	(4.8)
Chile	502.50	2.5	(4.4)	7.4	(7.8)
Colombia	1,914.15	2.6	(2.7)	(0.1)	(6.3)
Mexico	13.49	3.0	(3.0)	8.8	(5.3)
Peru	2.71	0.0	(2.3)	(3.6)	(2.8)

*Negativo significa apreciación.

Source: Bloomberg. Data as at November 14th.

Brazil

In line with better global expectations, October was a satisfactory month for currencies and the Brazilian currency ended the month with a 4.5% appreciation. We have a positive view with respect to this currency; however, given the general scenario, we believe that global uncertainty would still prevail in the short term. We expect the currency will trade near current levels for the next 6 months.

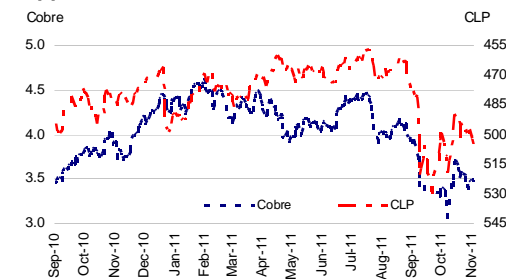
Peru

We have a very constructive approach towards the Peruvian currency. We believe the currency will maintain its appreciating trend, given the strong growth of the country and interest rate differential. In addition, the Peruvian currency is one of the less volatile currencies within the region, since the Central Bank intervenes in the foreign exchange market in order to prevent currency volatility peaks.

Chile

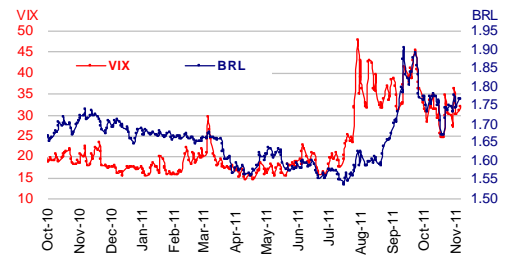
The Chilean currency gained ground in October, given better international situation expectations. We expect the currency will maintain its appreciating trend, supported by interest rate differential and growth. However, volatility rounds may continue, since global uncertainty has not eased.

Copper and CLP



Source: Bloomberg.

The Brazilian currency and VIX



Source: Bloomberg.

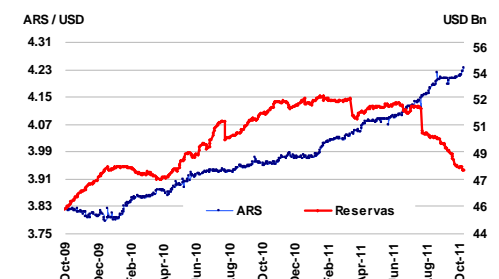
Mexico

We expect the currency will maintain its appreciating trend. We think that the Mexican currency will trade at MXN12.50 per US dollar over the next 6 months, as a result of capital inflow and the Central Bank's poor ability to take interventionist measures in the foreign Exchange market.

Argentina

In October, the Central Bank intervened the Foreign Exchange market by selling USD3.3 billion international reserves. The Central Bank announced foreign exchange control measures that impact both upon Insurance Companies and ordinary citizens. The implied foreign exchange rate ended October at ARS 5 per US dollar, 18.0% above the official level. We have revised exchange rates forecasts upwards for December to ARS 4.28 per US dollar, from ARS 4.20 per US dollar.

Reserves and ARS



Source: Bloomberg.

Colombia

In line with the currencies within the region, the Colombian currency appreciated near 4.0% in October. We expect the currency will find support, among other things, in strong fundamentals for the country, foreign direct investment inflows and interest rate differential.

Asset Management Regional Team

Mario S Felisberto
Regional Chief Investment Officer
mario.s.felisberto@hsbc.com.br

Paula Gándara
Regional Senior Investment Analyst
Chile, Peru
paula.gandara@hsbc.com.ar

Latin America

Argentina

Daniel Cagnoni
Chief Investment Officer Argentina
daniel.cagnoni@hsbc.com.ar

Victoria Boulin
Head of Sales Argentina
victoria.boulin@hsbc.com.ar

Alberto G Inga
Chief Portfolio Manager
alberto.inga@hsbc.com.ar

Brazil

Mario S Felisberto
Chief Investment Officer Brazil
mario.s.felisberto@hsbc.com.br

Camilo Syllós
Head of Sales Brazil
camilo.h.syllos@hsbc.com.br

Eduardo Jarra
Economist
eduardo.j.jarra@hsbc.com.br

Colombia

Alexandra Prieto
Chief Investment Officer Colombia
alexandra.prieto@hsbc.com.co

Monica Contreras
Head of Sales Colombia
monica.contreras@hsbc.com.co

Andrés Gomez
Portfolio Manager
andres.gomez@hsbc.com.co

Mexico

Antonio Dodero
Chief Investment Officer Mexico
antonio.dodero@hsbc.com.mx

Mercedes Reyes
Head of Sales México
mercedes.reyes@hsbc.com.mx

Erick Vega
Portfolio Manager
erick.vega@hsbc.com.mx

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