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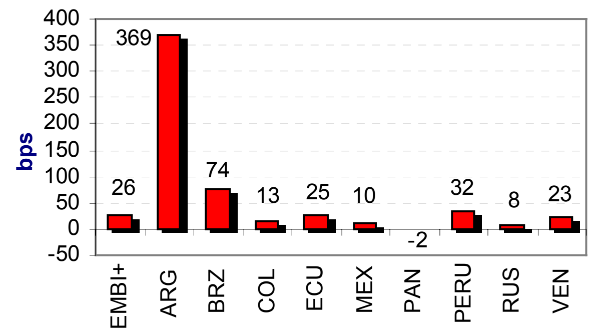
April 26, 2002

Americas Debt Weekly

Key Indicators

	Value	1 wk % change
Dow Jones	9911	-3.4
NASDAQ	1664	-7.4
S&P 500	1076	-4.3
UST 5 yr Yield (%)	4.371	0.6
UST 10 yr Yield (%)	5.056	1.1
3 month LIBOR (%)	1.921	-1.0
6 month LIBOR (%)	2.124	-1.2
EMBI+ Stripped Spread	613	4.4
WTI Oil Price (US$/bbl)	27.11	2.8

EMBI+ Stripped Spread Weekly Change



Last Week's Wrap up

Argentina: The economic downward spiral continued as a "bank holiday" was declared for all banks and financial markets at the beginning of the week, on the heels of the suspension of Scotia Quilmes's operations and widespread fears concerning the stability of the system as a whole. Finance Minister Remes Lenicov resigned Tuesday amidst continued political squabbling over the proposed bank deposit conversion plan, with his replacement Roberto Lavagna, the country's ambassador to the European Union, named on Friday. Also on Friday, banks did reopen for limited activity in hopes of quelling the continued and growing social unrest. The ban on foreign exchange trading was still in place as talks of re-pegging the currency at ARS 2.5-3.5/US$ were abound.

Ecuador: In conjunction with current negotiations with the IMF for a $300 million standby loan, congress voted to impose the necessary spending limits but then overturned earlier agreed upon "pro-IMF" allocations of oil revenues, instead giving full allocation discretion directly to President Noboa. Congress had modified the revenue allocation to 50% for debt reduction, 25% for social and economic projects, and 25% for the oil stabilization fund before overturning this in a last minute vote. The increases in government spending were restricted to 2.5% per year.

Mexico: Economic data for the week generally showed signs of recovery. February retail sales dropped 1.7% from the same month last year, significantly missing the 2% forecasted increase. The March trade balance had its deficit drop to a two-year low of $403 million, primarily due to rising oil prices and the US economic recovery. The economic activity indicator came in better than expected with a 0.6% increase from the same month last year, while the April CPI figure of 0.5% was in line with the central bank's inflation expectations. Outside of the week's economic data, a ruling by the Supreme Court on the privatization of the $10 billion electricity market undermined President Fox's plan to attract more investment.

Jeff Czajkowski
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The Week Ahead

Markets will remain edgy next week, as the results from electoral polls in Brazil, rising social tensions in Argentina, and the sell-off in US equities are likely to set the tone. Overall, the outlook for Emerging Market debt still remains constructive, which leads us to believe that any pullbacks will be interpreted as cautious signals to enter again. However, the toppishness of the market will keep it from making significant headway in the near-term. The Andeans credits – except for Peru - are likely to remain well-supported. Former Peruvian president Alan Garcia is beginning to stir things up a bit by demanding the removal of market-friendly Economy Minister Pedro Pablo Kuczynski from office. And with political noise down and oil prices up (the crude oil price rose to $21.34 p.b. today), local buying is leading Venezuelan debt prices higher. Just exactly one month away from the presidential elections, the Colombian government continues to show its seriousness in managing its debt profile via local TES swaps. Our view of Colombia is favorable, given that markets have already priced in all the negative news (we won't repeat it here!) and that Colombian debt is likely to rise once Uribe is elected. Ecuadorian debt is also likely to see some gains, once the flip-flopping in congress over the allocation of oil revenues from the new pipeline ends and the IMF finally gives its nod of approval. And, of course, Emerging Markets will look toward the U.S. for indications of risk appetite and further evidence of an economic recovery. Watch for next Tuesday's consumer confidence figures, Wednesday's ISM Manufacturing index (formerly known as the NAPM), and Friday's employment report.

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Corporate Commentary Iusacell 1Q02 Financial Results and Outlook

4/25/02

Iusacell - Bond Description

Security	Type	Amt. Out (US$MM)	Maturity Date	Rating Standard	Rating Moody's	Rating Outlook	Rating S&P	Rating Outlook	Coupon	Bid-Ask Mid-Price	Current Yield	YTM	Treasury Spread	Mod. Duration
IUSACEL 06	Euro-Dollar	350.0	12/1/2006	Accumulate	B1	Stable	BB	Stable	14.3	100	14.3	14.2	982.4	3.1

Good Subscriber Growth/Mixed Profit Picture– Sign of Things to Come

CEL announced success in growing it's subscriber base, but revenues declined and profitability performance was mixed due to continued downward pressure on minutes of use (MOUs) and average revenue per user (ARPUs) as a result of: 1) the relative increase in prepaid subscribers versus postpaid as a percentage of the total - evidently aggravated by the impact of the 10% tax applied to cellular telephony starting in January; 2) competitive pressures; and 3) the subdued economic recovery. We were expecting these factors to hold back the company's progress and we expected some price weakness on the company's 14.250% bonds due 12/06 ("Mexican Telecom/Media Bond Relative Value" in ADW 03/22/02).

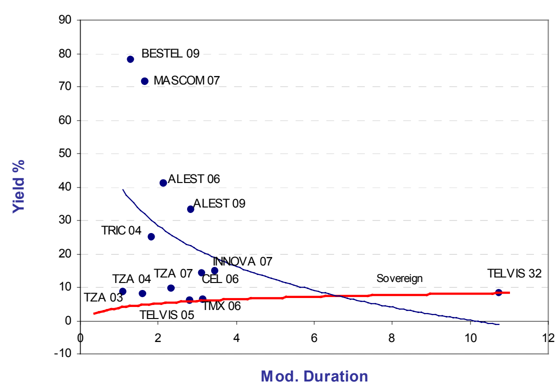
However, the impact of these negative headwinds and the impact of negative news in recent weeks among global Telcos, especially from parent companies **Verizon** and **Vodafone** culminating in poor 1Q02 earnings and guidance released earlier this week, have been worse than we expected. Vodafone and Verizon equities' hit 52-week lows in recent weeks and the default of **BellSouth** subsidiary **BCP** in Brazil and of Telecom Argentina also raised credit concerns across the Latin Telco universe, particularly for subsidiaries of global giants whose cloak of invulnerability has been tarnished.

We suggested in March to accumulate the bonds on weakness and we projected that the bonds would return to the year's highs of 107-108 by mid-year. **We continue to believe that Iusacell benefits from support from Verizon and Vodafone, that these companies remain among the strongest global telcos, and that the 06 bonds, having declined to 99.5-100.5 from 104-105 in March, represent reasonable value. However, the upside may be further off than we originally expected, largely due to the negative headwinds buffeting the industry worldwide. Investors will likely require more patience, as a recovery in the global industry's prospects now will likely only materialize toward late-2002/early-2003.** Hence, we now believe that the return to the year's highs on CEL's 06 bonds is likely to be delayed until late-2002/early-2003, rather than mid-year as we previously believed. The 1 ½ point markdown in the price of the 06 after **the earnings release and conference call highlighted some negative trends in Iusacell's business:**

1) CEL's planned growth in prepaid subscribers to 85% of the total subscriber base, from about 80% currently will automatically lower the company's ARPU to levels closer in line with the industry average from their historical relative premium status. In 1Q02, postpaid subscribers declined by 15% and prepaid subscriber adds rose 22%, but since postpaid ARPUs are approximately 8.5x the prepaid average, blended ARPU fell 17% yoy. The new 10% tax on postpaid cellular services and on prepaid cards in denominations above 220 pesos appears to be aggravating this trend – although CEL officials stated that migration in 1Q02 was little changed from 4Q01 levels around 6,000.

2) The capex budget of just under $250 million will be funded strictly by debt. Some investors and analysts appeared to be surprised by this. However, if the company's revenue and EBITDA projections are on target, the assumption of approximately US$150 million in new debt would leave leverage and interest coverage ratios by year-end close to current levels, according to our calculations.

Mexican Corporate Telecom and Media Yield Curve as of 4/25/02



Additional Negatives Mitigated

3) The company paid down some accrued capex expenditures in 1Q02, causing a deterioration in working capital management and reducing cash flow from operations relative to 4Q 01. However this is partly seasonal in nature, net working asset turnover was higher than 1Q 01, and we expect an improvement on this front in the coming quarters.

4) We had been expecting the company to announce the issue of a credit enhanced local market debt instrument of approximately US$100 million equivalence but officials said that they were still working on financing arrangements and would make an announcement in as early as 30 days. We expect this announcement to provide support for bond prices.

The Good News:

1) Despite the challenging environment, management managed to grow adjusted EBITDA (expensing capitalized postpaid handset costs) margins to 28%, from 26% in 4Q 01 and 23% in 1Q01. Excluding start up regions 1 and 4, and newly acquired region 8 (**Portatel**, where EBITDA margins have already been raised from 13% to 20%), the margin was at 30%. Though EBITDA fell in absolute terms and this margin remains significantly behind that of market dominator **America Movils' (Telcel**) 35.6% margin, the improvement demonstrates a significant effort on the part of management to focus on profitability.

2) Sales and advertising expenses declined by 15% yoy and general and administrative expenses declined by 11% yoy, reducing these to 23% of revenues in 1Q 02 from 25% of revenues in Q101. In addition, cash subscriber acquisition costs were compressed to $237 million from $270 million in 4Q01 and 1Q01, reflecting increased leveraging of Verizon and Vodafone buying power and adjustments to sales force compensation packages.

3) The churn rate fell to 2.7% in 1Q02 from 3.9% in 4Q01 and an average 3.9% for full year 2001. With the reduction in churn, CEL's net additions grew strongly: + 61% compared to 1Q 01. The company spent much of 2001 cleaning up its subscriber base, has launched innovative new products and is poised for growth. CEL stated in its press release that on April 2, 2002 it surpassed the 2 million subscriber benchmark. While impressive, CEL and competitor **Telefonica**, bolstered by its recent acquisition of **Pegaso,** remain way behind America Movil's 17 million subscribers (933,000 net adds in 1Q02) and 75% market share.

4) The company's guidance for 2002 was constructive:

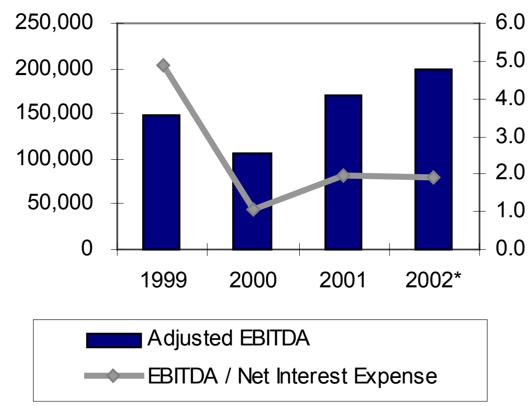
- 600,000-700,000 subscriber additions to bring base to 2.6-2.7 million.
- Revenues of US$750 million, +18% yoy
- EBITDA of US$ 200 million, +24% yoy (27% margin)
- Negative Free Cash flow of US$150 million

Going forward: CEL expects 2003 subscriber base to reach approximately 3.5-3.7 million, revenues of US$930 million-US$950 million, capex of $180 million and free cash flow break even in 2004. We believe that, given the positive outlook for the Mexican economy, these projections fall within a reasonable range of expectations.

Credit Ratios Stable

EBITDA net interest expense remained at 1.8x, identical to the level attained in 4Q01 and marginally above 1Q 01, while debt/annualized EBITDA fell marginally to 5.0x from 5.1x in 4Q 01 and 5.7x in 1Q01. Given the company's guidance on EBITDA and the debt financing of the FCF deficit we estimate that these ratios will remain roughly flat, leaving EBITDA/net interest cover of close to 1.8x-1.9x and debt/EBITDA roughly stable around 4.8x-5.0x.

EBITDA / Net Interest Expense



* EBITDA - Company guidance, interest expense - Standard Research estimate

Additional Risks

Finally, we note the risk to CEL that could result from the next and likely final stage of consolidation of the industry. If one of its competitors purchases **Unefon** (a subsidiary of **TV Azteca**), Iusacell would be relegated last place in terms of subscriber base and would miss out on the opportunity to acquire a company that is specialized in the fastest growing segment in the cellular business. On the other hand, a Iusacell acquisition of Unefon would raise cash requirements since the Salinas group is looking to sell Unefon at high multiples.

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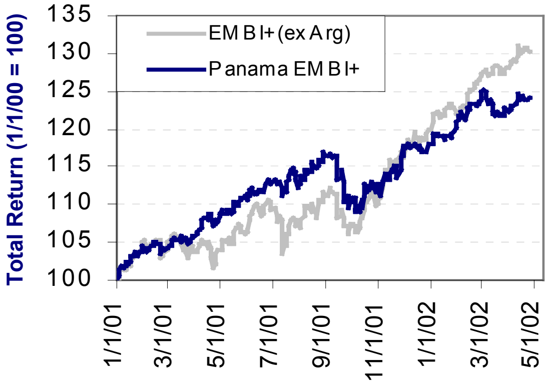
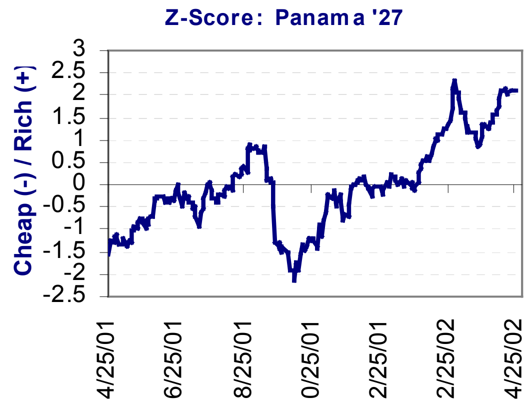
ISSUE OF THE WEEK: *Panama Update*





Since the inauguration of the populist government of Mireya Moscoso in September 1999, Panamanian sovereign debt has consistently underperformed the EMBI+ (ex Argentina). This raises the possibility that the debt may be relatively cheap compared to the asset class. However, our review here shows that the country continues to underachieve and there is little reason to believe that the bonds will start to regain the lost ground for the time being.

On the face of it, Panama (Ba1/BB) should be a good candidate for a ratings upgrade and spread compression. On the positive side:

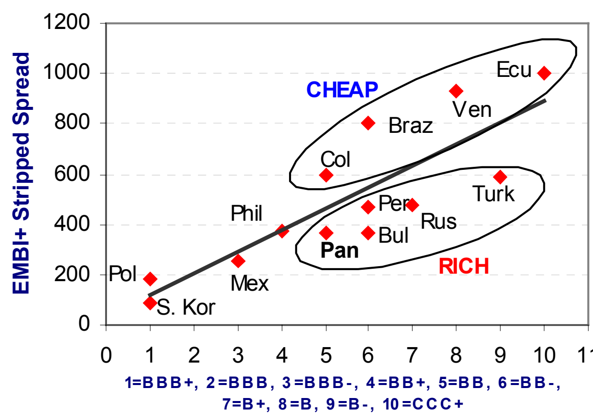
- the economy is dollarized, inflation and the budget deficit are low
- foreign debt ratios are on the high side but are stable and inflated by Panama's offshore banking center status
- foreign equity investment has covered the current account deficit in most years
- there is a stable political democracy with a "National Dialogue" process that includes all the major stakeholders.

However, the country has disappointed under the current administration. The Moscoso government has failed to follow through on the sweeping banking, pension and labor reforms completed in the mid-1990s. Reform has stagnated and a precautionary IMF stand-by agreement expired in March. Talks with the IMF are under way again but nobody expects significant progress anytime soon.

Most disappointing for foreign investors was the failure to permit any part of the $1.25bn Fiduciary Fund (accumulated from privatization) to be used directly to buy back Panamanian external debt. Pressure from the unions, in particular, has forced the government to allow around $200m of the fund for government capex. The decision to apply the fund in these ways raises concern that fiscal discipline, which has already slipped in recent years, will deteriorate further. The ratio of public debt to GDP is over 80% and the prospect of fiscal slippage is likely to push this higher still.

Failure to pursue the reforms initiated by the previous government and to allow debt buy backs out of the Fiduciary Fund mean that Panama has missed a golden opportunity to achieve investment grade status.

The Panama '27 debt has risen significantly since the 9/11 attacks and now looks to exceed fair value. The Z-score above shows that the price is currently two standard deviations above from the one-year mean and appears to have topped out at this level. At this point, the risks are clearly skewed to the downside. On a spread vs. ratings comparison within the EMBI+ universe, Panama's debt looks rich, particularly by comparison with other Latam credits. Currently, the Panamanian EMBI+ stripped spread is trading inside the Total EMBI+ by 255 bps, which suggests that the potential for additional spread compression is minimal at best.



<u>Therefore, we recommend holders of the Panama '27 to take profits now and sell before the bond price weakens. For those who wish to maintain exposure within the "BB" group, the "Sell Panama '27 vs. Buy Colombia '27" – on a dollar for dollar basis – offers a total return pick up of 272 bps with 1.75 reduction in modified duration. The relative yield spread is 56 bps off the one-year mean and is currently peaking at about 295 bps. We suggest an exit from this trade when the spread tightens to 250 bps.</u>

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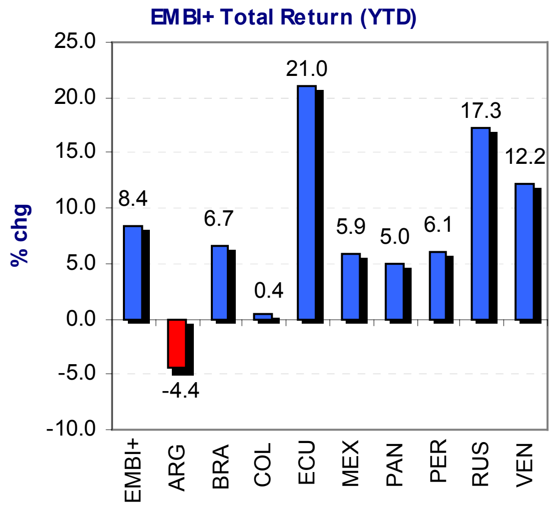
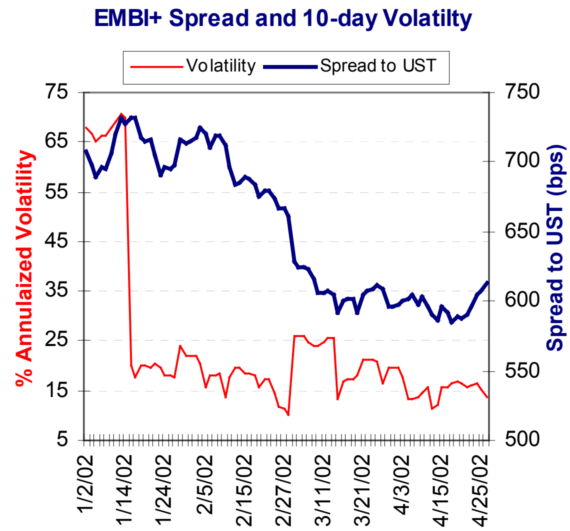
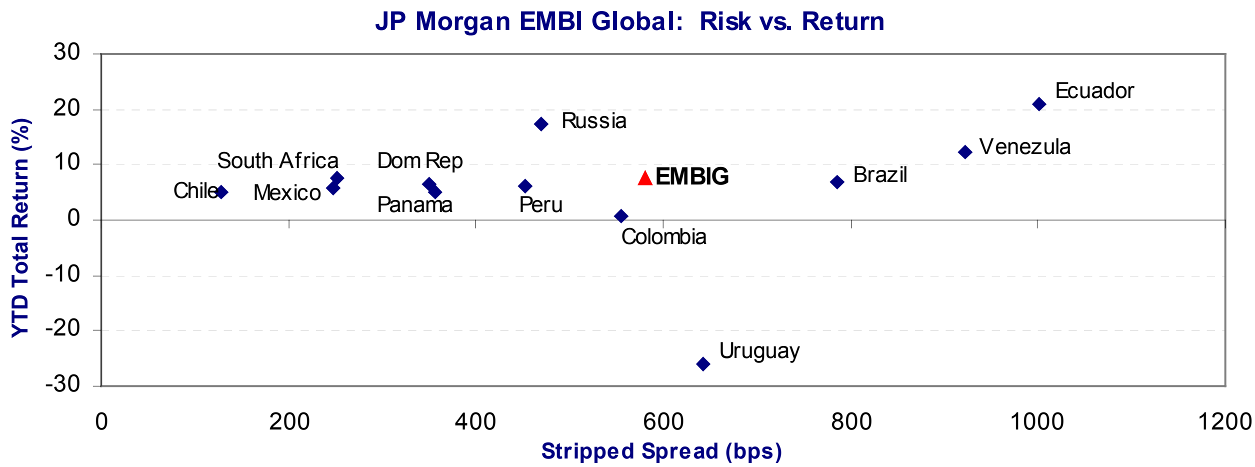
Emerging Market Debt Analytics

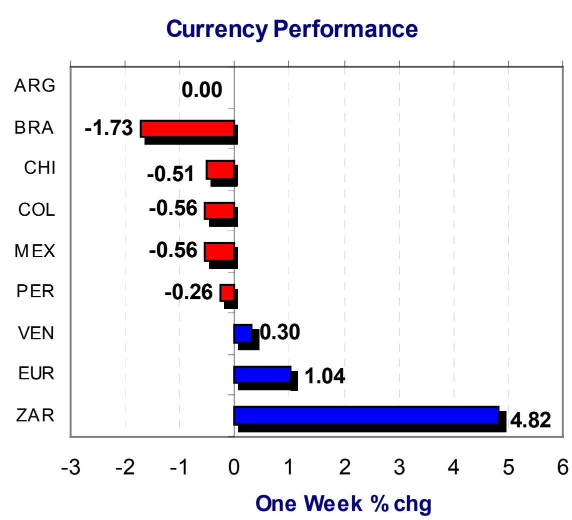




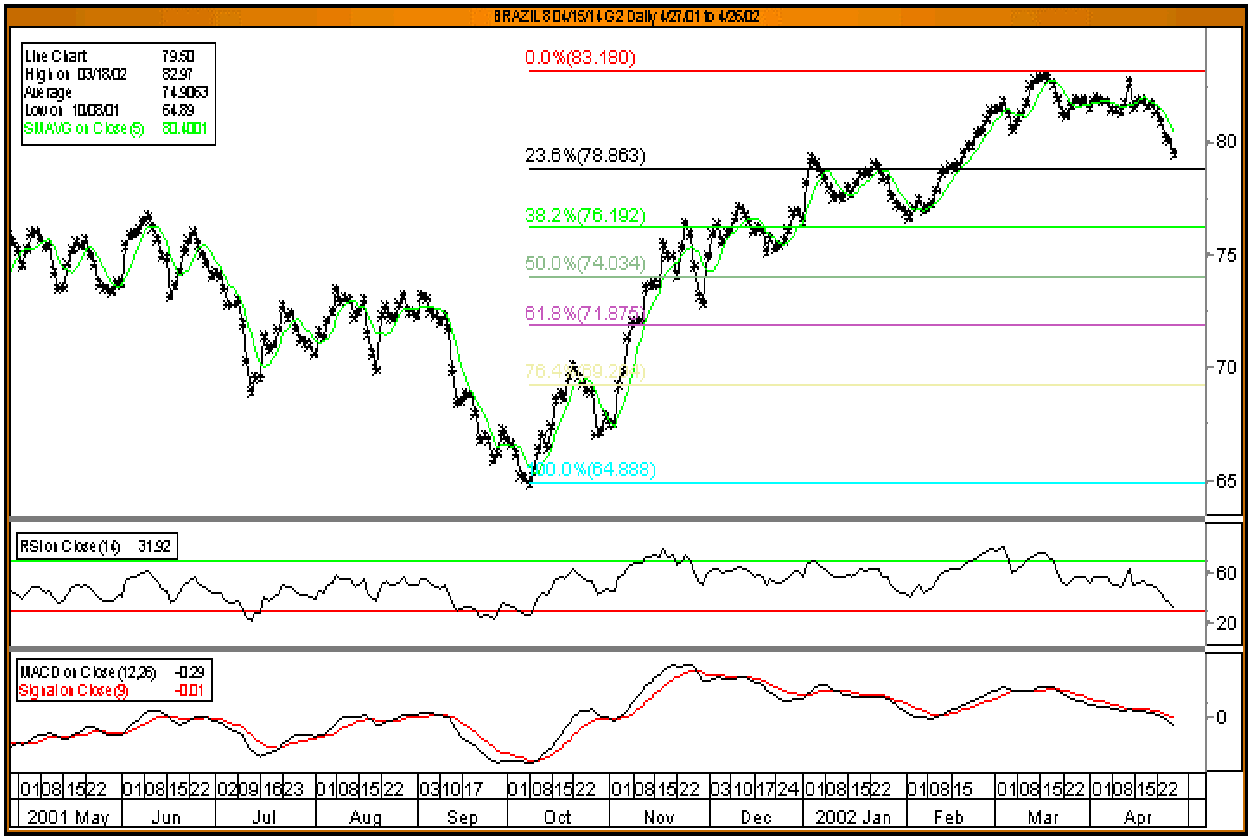


Currency Corner

	4/26/02	YTD % Chg
ARG	3.1200	-67.9
BRA	2.3715	-2.6
CHI	651.1500	1.6
COL	2273.7500	0.2
MEX	9.3250	-1.8
PER	3.4360	0.2
VEN	839.0000	-9.7
EUR	0.9019	1.4
ZAR	10.5850	13.0



Technical Analysis



The Brazil C bond finally broke out of its trading range and is headed toward Fibonacci support near 79. The Relative Strength Index is now flirting with the oversold threshold and by the looks of the MACD, the C bond still has additional downside possibilities ahead. However, the double-top support near 79 is strong, leading us to believe that the C bond is likely to consolidate at this level by next week. A breach of this support will lead to the next test near 76.

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Weekly Pricing and Analytics

26-Apr-02	Close Offer	Weekly Chng Net	Weekly Chng Dir	Strpd. YTM	Mod Dur	Sov. Spread
ARGENTINA						
FRB	27.980	-0.520	↘	136.13	0.60	13257
Arg 08	24.930	-2.840	↓	47.49	2.73	4527
Par	43.500	-2.500	↓	79.03	6.71	995
Arg 27	23.000	-1.000	↓	42.04	2.27	3894
BRAZIL						
EI	90.060	-2.182	↓	10.07	1.95	610
C	79.310	-2.391	↓	12.79	4.52	768
Par	69.000	-0.988	↘	15.04	10.04	397
Braz 08	89.4881	-1.888	↓	11.89	4.31	734
Braz 27	76.310	-2.690	↓	13.34	6.96	791
COLOMBIA						
Col 27	71.778	-0.165	↘	11.94	8.07	647

26-Apr-02	Close Offer	Weekly Chng Net	Weekly Chng Dir	Strpd. YTM	Mod Dur	Sov. Spread
ECUADOR						
Ecu 30	58.500	1.000	↑	14.96	7.40	938
MEXICO						
Par	96.625	0.956	↗	7.65	10.41	131
UMS 26	133.519	0.225	↗	8.25	9.47	281
PERU						
PDI	79.500	-1.427	↓	9.62	5.78	443
RUSSIA						
Rus 30	69.989	0.186	↗	10.28	8.40	475
VENEZUELA						
DCB	81.530	-0.592	↘	13.54	2.28	908
Par	77.000	0.085	↗	16.98	9.14	417
Ven 27	68.890	-0.400	↘	13.50	7.26	808

Source: Bloomberg; Note: All prices and analytics are as of 5:00 p.m., Friday, Nov 30.

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Economic Data Releases

Date	Country	Indicator	Period	Market Forecast	Previous
Mon, April 295	Brazil	CPI – IGP-M Monthly	April	-	0.45%
	Colombia	Trade balance	Feb	-	$39.4 mn
	US	Personal Income	Mar	0.4%	0.6%
	US	Personal Consumption Expenditures	Mar	0.4%	0.6%
Tues, April 30	Chile	Industrial Production	Mar	-	0.9% y/y
	US	Consumer Confidence	Apr	108.0	110.2
	US	Chicago Purchasing Mgr	Apr	55.0	55.7
Wed, May 1	Peru	CPI	Apr	-	-1.08%
	US	Construction Spending	Mar	-0.2%	1.1%
	US	ISM Manufacturing	Apr	54.7	55.6
	US	ISM Prices Paid	Apr	51.3	51.9
Thurs, May 2	Argentina	Government Tax Revenue	Apr	-	ARS$3.07 bn
	Brazil	Sao Paulo Industrial Indicator	May	-	0.1%
	Brazil	Trade Balance (FOB)	Apr	-	$594 mn
	Colombia	CPI (DANE)	Apr	-	5.89% y/y
	Venezuela	CPI	Apr	-	17.6% y/y
	US	Initial Jobless Claims	Apr 27	-	421K
	US	Factory Orders	Mar	0.5%	-0.1%
Fri, May 3	US	Unemployment Rate	Apr	5.8%	5.7%
	US	Avg. Hourly Earnings	Apr	0.3%	0.3%
	US	Non-farm Payrolls	Apr	60K	58K
	US	ISM Non-Manufacturing	Apr	57.2	57.3

Source: Bloomberg; Note: Bloomberg is the data source for all indicators, graphs, charts, tables and analytics in this publication.

Americas Debt Weekly

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