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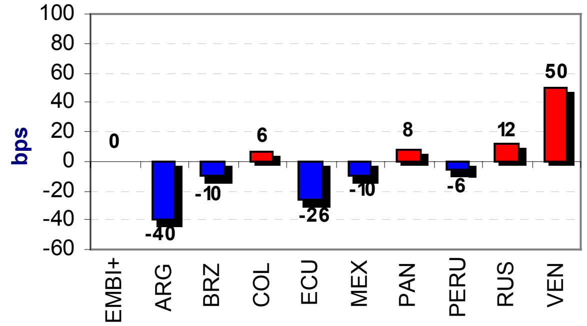
Americas Debt Weekly

Key Indicators

	Value	1 wk % change
Dow Jones	9766	-3.3
NASDAQ	1947	-5.2
S&P 500	1119	-4.1
UST 5 yr Yield (%)	4.412	0.3
UST 10 yr Yield (%)	5.111	0.4
3 month LIBOR (%)	1.895	-5.4
6 month LIBOR (%)	1.960	-6.1
EMBI+ Stripped Spread	781	0.1
WTI Oil Price (US$/bbl)	18.12	-2.3

EMBI+ Stripped Spread Weekly Change



Last Week's Wrap up

Argentina's spotlight was shared by Venezuela this week. In Argentina, FinMin Cavallo returned from his trip to Washington and subsequently announced the elimination of some tax exemptions. The changes were agreed to by the IMF in order to reinstate the program. On the political front, De la Rua's government continued in its efforts to gather consensus among political parties and met with former president Carlos Menem. Daniel Marx, the under-secretary of finance will be resigning today. Miguel Kiguel, president of Banco Hipotecario will now become chief adviser. He is well known in international circles and has the support of the Peronist party. In Venezuela, Monday's strike was considered a success, with 90% adhesion (for more information, see the "*Issue of the Week*"). The escalation of political noise, however, did not have a major impact on the country's debt and the Venezuelan EMBI+ stripped spread widened only 50 bps over the week. In Brazil, inflationary pressures seem to be receding, as the IPCA posted 0.71% m/m in November, down from 0.83% in October. Annual inflation now stands at 7.6%. As the Real continues to appreciate, inflation is expected to continue trending down in December. In Ecuador, the IMF approved December's disbursement of US$95 mn after the country paid its debt to the Paris Club last week. The completion of the IMF's program bodes well for the country's outlook and more forthcoming aid from the World Bank and the IADB. Amid very light trading volume, the decoupling of risk between Argentina and other LatAm countries continued, with the Brazil correlation now also in negative territory. The EMBI+ stripped spread remained stable, tightening only 6 bps to 780 bps over US Treasuries.

Laura Rattner
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The Week Ahead

Amid razor thin trading activity next week, Emerging Market debt in the Americas will remain focused on Argentina's debt payment schedule from now until December 31st – and more importantly, their ability to honor these payments. In fact, Argentine Global Bonds will need to pay about US$168.77 million from now until the end of the year. As investors square their portfolios, take their profits, and close their books for the holiday season, the markets will be vulnerable to heightened volatility from the evolution of events in Argentina, and possibly, in Venezuela. Rising *Chavez Risk* and low Venezuelan Basket oil prices are causing some concern, possibly prompting more selling of Venezuelan debt. The DCB was testing year-to-date lows at 76 at the time this column was being written. Speaking of oil, investors will also focus on the prospects for international oil prices, ahead of OPEC's meeting in Cairo, Egypt on December 28th. A production cut of 1.5 million barrels of oil is on the agenda for the meeting, to become effective at the beginning of 2002. Markets will also be watching the degree of cooperation from Non-OPEC oil producing countries like Russia, Mexico and Norway in the weeks ahead. It appears that markets are a bit tired and looking forward to a breather, resting on technical supports before moving again after January 1st.

Risk appetite is minimal, but given the amount of cash sloshing around worldwide and cheap dollars (thanks to the Fed's rate cuts), and the insouciant expectation that the Argentina default could happen any moment, we expect investors to come back and bid up Emerging Market spread products in the New Year. The recent rise in U.S. Treasury yields also augurs the possibility that the Fed may be at the tail-end of its easing cycle and that the recovery in the US economy may be in the offing.

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Corporate Commentary

GLOBO CABO

Media companies will be in the spotlight again after the approval in the first round of the constitutional amendment regarding the Brazilian Media Bill. Although Globo Cabo could indirectly benefit from this new legislation, any rally in bond prices is expected to be short-lived. Yields should continue to reflect Globo Cabo's high leverage and weak demand due to declining economic activity. While we recognize that the downside is limited by the fact that the company's bond is already trading at distressed levels, we do not recommend speculative trading positions due to the low liquidity of the bonds.

Changing legislation bodes well for financial flexibility, product development and improving the debt structures of media companies.

This week, Brazil's lower house approved the constitutional amendment regarding ownership of Brazilian media companies in the first round of voting. Currently, only Brazilian citizens may own the voting shares, while corporations can own only non-voting shares. In addition, these corporations must be owned by Brazilian citizens, and the ownership of total capital may not exceed 30%.

The Media Bill proposes two major changes to the current legislation:

1. Allowance of foreign ownership of up to 30% of voting and total capital, with a minimum of 70% owned by Brazilian individuals;

2. Brazilian owned corporations may hold up to 100% of total capital.

The second round of voting is expected to occur next week and, if approved, will then have to move through two rounds of voting in the Senate. Final approval is expected some time in March of next year. If approved, these changes should not only help alleviate the heavy debt burden of Brazilian media companies (who are very highly leveraged) through equity participations and/or fresh capital, but could also allow for greater financial flexibility. Additionally, we expect additional benefits might be realized by new product development via partnerships and joint ventures.

While Globo Cabo's operating performance has demonstrated some resilience in a difficult environment, the company's debt load, churn rate and the recent Real depreciation continue to weigh heavily on its cash flow generating capabilities and on profitability.

Globo Cabo's operating results came in better than expected, especially given the 3rd quarter's difficult operating environment in Brazil. This was largely due to significant cost-cutting measures implemented by the company. The company's net income, however, showed the effects of a difficult quarter, coming in below expectations and only 3.7% higher than the previous quarter. Profitability was greatly affected by the 16% currency devaluation in the quarter. Although we expect profitability levels to improve in fiscal 2002, Globo Cabo's high debt levels continue to be a source of concern, as does the recent decrease in the subscriber base. The debt schedule calls for US$250MM in amortizations over the next 12 months, which coupled with the low interest coverage ratios may require a change in the company's capital structure in order to support future debt roll-overs. Additionally, we should mention that the recent strengthening posted by the Brazilian Real should bring some financial relief to Globo Cabo.

Additional cost savings will be difficult, placing a greater degree of pressure on growth.

Going forward, the company intends to keep at least US$50MM in cash and cash equivalent accounts in order to face upcoming debt service payments. Additionally Globo Cabo has decided to keep its CAPEX at minimum levels and below EBITDA in order to preserve cash. In light of this, CAPEX was cut from US$200MM initially budgeted early this year to an actual US$130 MM. Although Globo Cabo has not yet announced CAPEX plans for 2002, the minimum CAPEX required to maintain the network is estimated at US$60MM, which represents 30% of our expectation for 2002 EBITDA. After the extensive cost-cutting measures recently implemented by the company, we do not see further room for additional reduction of SG&A without seriously threatening its revenue stream.

We continue to see upside from potential opportunities with strategic partners.

Globo Cabo is an important distribution channel for the content produced by Organizações Globo. The chairman of Organizações Globo, Mr. Roberto Marinho, has stated on several occasions that Globo Cabo is a strategic asset and has also disclosed that he is considering a strategic partnership for Globo Cabo. Any positive developments on this front we view as a positive catalyst for the Globus 04.

However, Globo Cabo's bond is highly illiquid and is trading at levels of over 3098 bps to US treasuries, reflecting the highly speculative nature of the asset.

Volatility has also been high due to constant speculation over the eventual sale of the company. Until concrete evidence is presented or a bona fide announcement made as per a possible strategic partner, we do not recommend exposure to the Globo Cabo bond. The company's weak fundamentals are expected to be the main driver behind bond price movements baring any positive announcements on strategic investments.

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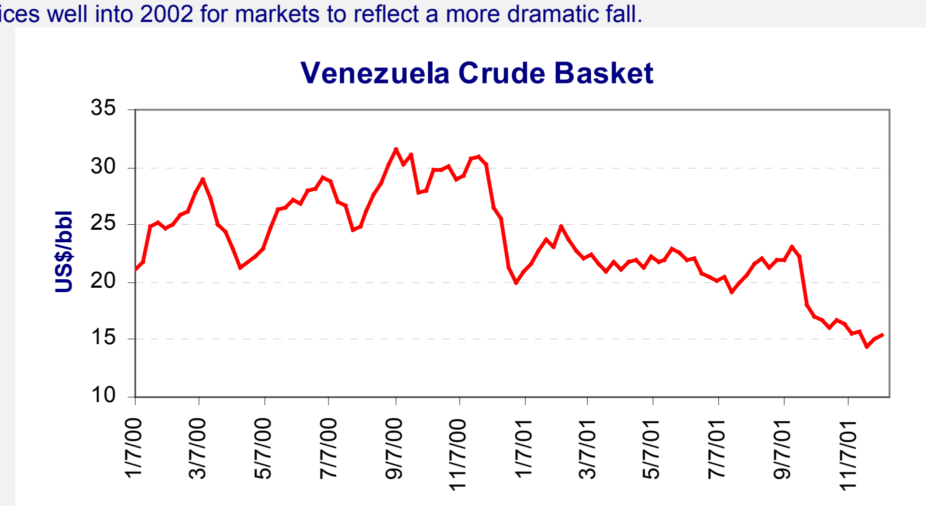
Issue of the Week

Venezuela: After the Strike

On December 10, around ninety percent of the country participated in the strike called by Fedecamaras (a business association) to protest against a package of recently announced decree-laws unilaterally issued by the administration, effectively shutting down the nation for twelve hours. The new laws were passed under the Enabling Law, without consultation with the affected parties. Some of the laws infringe upon private property and civil rights. The overwhelming participation of the population in the strike sent a clear message against the President Chavez's increasingly authoritarian style. The President's response is a continuation and intensification of his confrontational tone, spreading the fear that he may now actually follow through on some of his most radical threats (like declaring a "State of Emergency"). However, in the days following the strike, the National Assembly has opened the dialogue with the different political constituents to amend some of the controversial laws. Despite the outcome of the negotiations, political noise in Venezuela is expected to remain high, as Chavez does not seem likely to scale down his rhetoric and the success of Monday's strike empowers an increasingly coherent and vocal opposition.

Nevertheless, the implications of the political noise for the economy and Venezuela's debt are likely to remain second to declining world oil prices and their impact on the fiscal and external accounts. The recently approved 2002 budget incorporates an average price of Venezuelan crude at U$S18.5/bbl, although prices are likely to be lower. In fact, current prices are already at US$15.34/bbl. However, the country's external debt ratio remains manageable, at around 24% of GDP, while international reserves hover around US$19 bn covering over 10 months of imports. The Venezuelan portion of the EMBI+ has shown a slight widening after the strike, but remains within the levels observed during the last two months. Although debt prices are likely to remain volatile in the medium-term due in large part to *Chavez Risk*, it would take a collapse in or a continuation of weak oil prices well into 2002 for markets to reflect a more dramatic fall.



The economic outlook for next year, however, will probably be adversely affected by Pres. Chavez's confrontations with the private sector, his socialist rhetoric, and the new laws. We have already witnessed an exacerbation of capital flight. By year-end, an estimated US$7 bn will have left the country during the year (about 35% of total reserves including the oil fund). The capital flight may induce higher interest rates, especially if the government intends to continue its policy of moderated depreciation of the currency. (Note: The Bolivar is estimated to be about 51% overvalued.) On the other hand, the Central Bank could allow for a greater devaluation, which would improve the fiscal accounts but increase inflationary pressures. The new decree-laws have the potential of moving Venezuela towards a socialist economy, if applied as written. The government is then likely to remain the main component of aggregate demand, as the incentives for private investment decrease. An increase in government expenditures would be detrimental to the already weak fiscal balance, estimated at –4.9% of GDP for 2001, particularly in a scenario of depressed oil prices.

Bottom Line: Barring a major political event (for example, a successful toppling of Chavez's government), Venezuelan debt prices will continue to be dominated by the evolution of oil prices.

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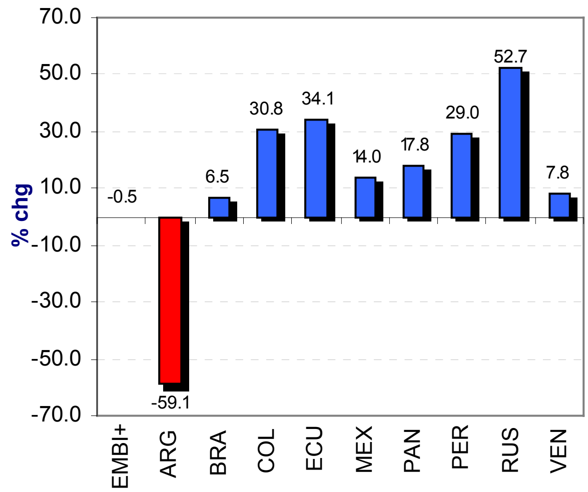
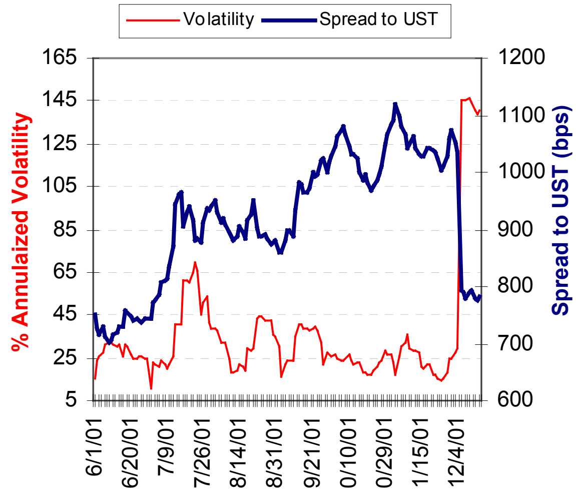
Emerging Market Debt Analytics

EMBI+ Total Return (YTD)



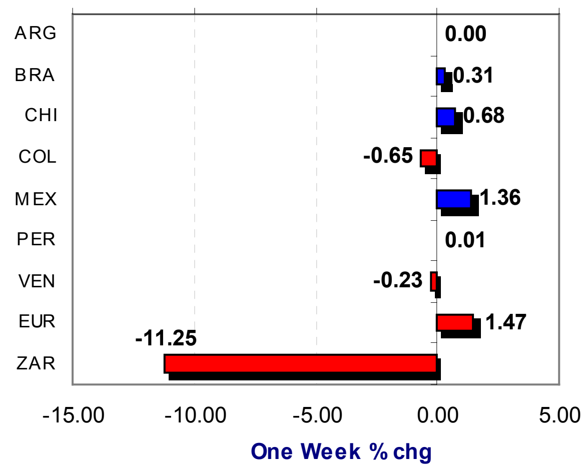
EMBI+ Spread and 10-day Volatilty



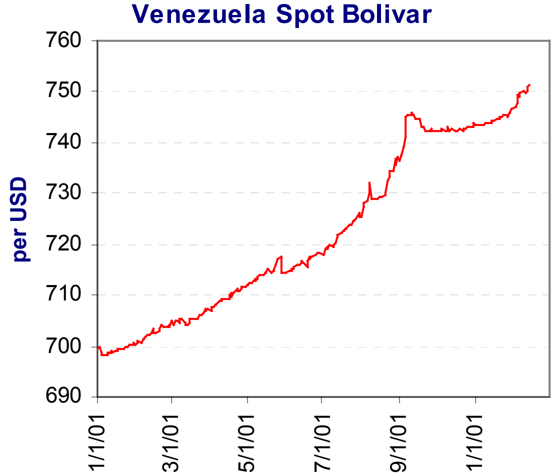
Currency Corner

	12/14/01	YTD % Chg
ARG	1.0000	-0.2
BRA	2.3825	-18.2
CHI	668.5750	-14.2
COL	2325.0000	-3.8
MEX	9.0700	6.1
PER	3.4315	2.7
VEN	751.5100	-6.9
EUR	0.9033	-4.2
S. AFR	12.2530	-38.1

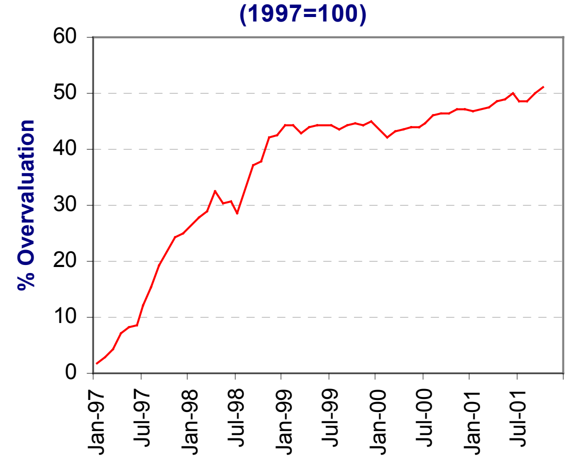
Currency Performance



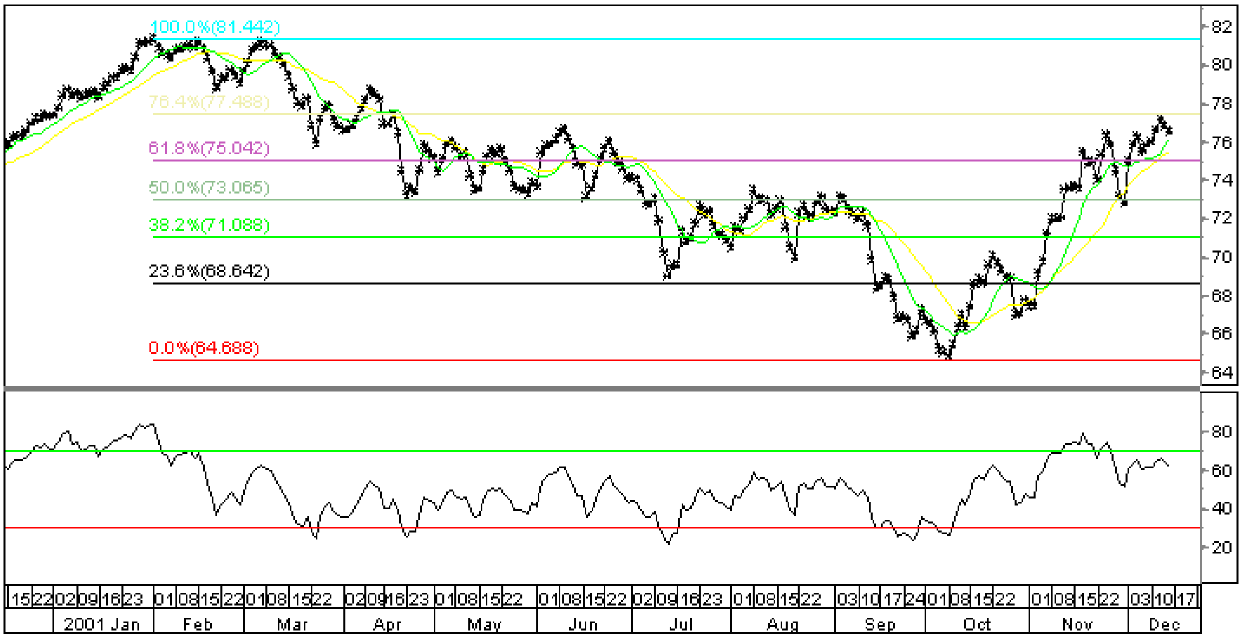
Venezuela Spot Bolivar



Venezuela Real Exchange Rate Valuation (1997=100)



Technical Analysis: Brazil C Bond



Recent weakness in the Brazilian real and profit taking in Brazilian debt capped the recent gains in the C bond at resistance near 77.5 (the 76.4% Fibonacci retracement level as seen above). As volumes thin out to a hair's breadth by the close of the year, we expect the C bond to trade sideways, consolidating between support at 75 and resistance at 77. The RSI continues to asymptotically approach the "overbought" threshold, which leads us to believe that the C bond's upside from now until the end of the year appears limited.

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Weekly Pricing and Analytics

14-Dec-01	Close Offer	Weekly Chng Net	Weekly Chng Dir	Strpd. YTM	Mod Dur	Sov. Spread
ARGENTINA						
FRB	37.550	-2.887	↓	89.00	0.76	8533
Arg 08	31.220	-0.280	↘	38.68	3.39	3442
Par	50.247	0.000	→	34.37	8.11	756
Arg 27	30.000	0.000	→	24.43	3.41	2241
BRAZIL						
EI	87.810	0.222	↗	11.35	1.99	723
C	76.230	0.324	↗	13.38	4.59	822
Par	68.315	0.627	↗	14.88	9.93	406
Braz 08	86.9687	0.743	↗	12.41	4.41	779
Braz 27	73.430	0.749	↗	13.81	7.08	844
COLOMBIA						
Col 27	73.379	0.954	↗	11.67	8.11	623

14-Dec-01	Close Offer	Weekly Chng Net	Weekly Chng Dir	Strpd. YTM	Mod Dur	Sov. Spread
ECUADOR						
Ecu 30	47.550	0.700	↗	17.40	6.41	1204
MEXICO						
Par	93.000	-0.094	↘	8.38	10.28	166
UMS 26	128.343	1.407	↑	8.66	9.57	326
PERU						
PDI	78.300	0.737	↗	9.76	5.87	454
RUSSIA						
Rus 30	56.385	0.586	↗	12.79	7.67	731
VENEZUELA						
DCB	75.920	-2.736	↓	16.09	2.50	1153
Par	73.910	-1.173	↓	17.91	8.93	457
Ven 27	64.120	-2.290	↓	14.42	6.72	908

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

Economic Data Releases

Date	Country	Indicator	Period	Market Forecast	Previous
Mon, Dec 17	Argentina	Prelim. Industrial Prod (y/y)	Nov	-	-8.8%
	Peru	Trade Balance	Oct	-	-US$49 mn
Tues, Dec 18	Brazil	Preview CPI – IGP-M	Dec 12	-	0.16%
	Mexico	Leading Indicators (m/m)	Oct	-	-0.9%
	US	Housing Starts	Nov	1,525K	1,552K
Wed, Dec 19	Brazil	Selic Target Rate		19%	19%
	Mexico	Unemployment	Nov	2.6%	2.93%
	US	Trade Balance	Oct	-US$27.4B	-US$18.7B
	US	Leading Indicators	Nov	0.2%	0.3%
Thurs, Dec 20	Argentina	Quarterly GDP	3Q	0.0%	-0.5%
	Brazil	Current Account (12 months)	Nov	-	-25,373 mn
	Brazil	Government Primary Balance	Nov		BRL2,227 mn
	Mexico	Retail Sales	Oct	-1.0%	-0.7%
	Mexico	Wholesale Sales	Oct	-11.2%	-13.3%
Fri, Dec 21	Argentina	Construction Activity (y/y)	Nov	-	-17.1%
	Argentina	Current Account Balance	3Q		-US$1,006 mn
	Argentina	Total Public Debt	3Q		US$132.14 bn
	US	GDP	3Q F	-1.1%	-1.1%

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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