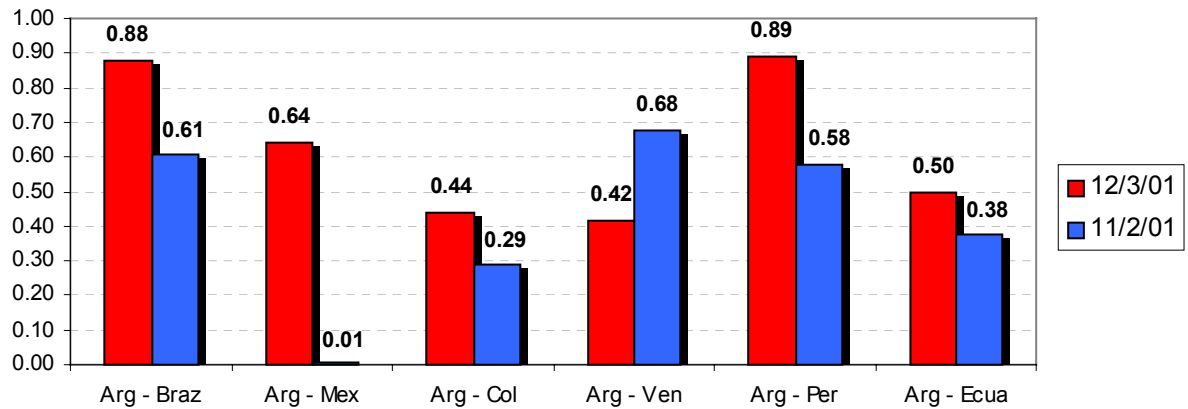




Financial Contagion on the Rise Again – Except in Venezuela

Argentine Contagion: 10-day Rolling EMBI+ Spread Correlations



Argentina's debt crisis is heating up again, catalyzing a rise in EMBI+ spreads over the Latin American region. As expected, when Argentina sneezes, Brazil catches a cold – and as can be seen in the bar chart above, the 10-day spread correlation between the Argentine EMBI+ and the Brazilian EMBI+ has shot up to 88% from 61% on November 2nd. But what has come as a surprise is Peru's strong association with Argentina over the past month. Year to date, the Andean countries (Ecuador, Colombia, Peru, Venezuela) have been largely immune to Argentine market jitters. And for the most part, they still remain so – with the recent exception of Peru. Peru's correlation with Brazil of 89%, way outside its year-to-date norm of about 40%, has peaked and will be likely trending down in the next few days. Because of this correlation overshoot, increasing exposure in Peru represents a diversification play once Peru begins –as we expect - to decouple from Argentina. Speaking of the Andeans, only Venezuela appears to be the least affected from the contagion effects from Argentina. This decoupling has benefited our recent trade idea (Sell Brazil EI – Buy Venezuela DCB). The entry spread difference of 446 bps has tightened 118 bps to 328 bps since this trade idea was presented on November 21st.

Fixed Income Benchmarks:

Month to Date

	Arg FRB	Brz C	Col 09	Ecu 30	Mex 26	Per PDI	Rus 30	Ven DCB	EMBI+
Arg FRB	1.00								
Brz C	0.46	1.00							
Col 09	0.16	0.11	1.00						
Ecu 30	-0.27	-0.15	-0.18	1.00					
Mex 26	0.33	0.53	0.19	-0.10	1.00				
Per PDI	0.22	0.50	-0.10	0.05	0.53	1.00			
Rus 30	0.11	0.25	-0.05	0.15	0.48	0.60	1.00		
Ven DCB	-0.01	0.14	0.33	-0.25	0.47	0.38	0.43	1.00	
EMBI+	0.83	0.65	0.00	-0.36	0.57	0.51	0.34	0.23	1.00

EMBI+ Stripped Spreads:

Month to Date

	EMBI+	ARG	BRAZ	COL	ECU	MEX	PER	PAN	VEN	RUS
EMBI+	1.00									
ARG	0.82	1.00								
BRAZ	0.77	0.48	1.00							
COL	0.36	0.25	0.36	1.00						
ECU	0.58	0.35	0.54	0.11	1.00					
MEX	0.42	0.16	0.49	0.65	0.31	1.00				
PER	0.33	0.28	0.36	0.29	0.24	0.46	1.00			
PAN	0.75	0.47	0.74	0.29	0.71	0.50	0.21	1.00		
VEN	0.37	0.24	0.18	0.15	0.29	0.25	0.19	0.30	1.00	
RUS	0.55	0.20	0.50	0.09	0.72	0.26	-0.12	0.67	0.30	1.00

Latam Currencies:

Month to Date

	ARS	BRL	CLP	COP	MXP	PEN	VEB
ARS	1.00						
BRL	-0.38	1.00					
CLP	-0.23	0.62	1.00				
COP	-0.20	0.17	0.01	1.00			
MXP	-0.45	0.32	0.31	0.06	1.00		
PEN	-0.22	-0.02	-0.03	0.02	0.07	1.00	
VEB	0.68	-0.08	-0.06	-0.02	-0.32	-0.25	1.00

Source: Bloomberg, Standard Miami

A Correlation Analysis Primer

The correlation coefficient “ ρ ” is a unit-free measure of *linear* association between two random variables. In our analysis, the natural log of daily price returns for emerging market fixed income benchmark assets. Correlation coefficients range anywhere between -1 and $+1$, such that a correlation of $+1$ denotes that the two price returns are perfectly linearly related (meaning that they both move in the *same* direction). On the other hand, a correlation of -1 denotes a perfectly negative linear relationship (meaning that they both move in *opposite* directions). Most correlation coefficients in practice fall somewhere between these two extremes. Now if there is no relation whatsoever between the two price returns, meaning that the return distributions are fully independent, the correlation coefficient will be zero. The strength or degree of the correlation coefficient is simply the absolute value of the correlation coefficient, that is $|\rho|$. The larger the absolute value of ρ , the stronger the association of the two returns under study. Keep in mind that the correlation coefficient reflects the magnitude and direction of an association between two random variables. It says *nothing* about causality. Regression analysis, rather, is the proper statistical tool for determining causal relationships between dependent and explanatory (or independent) variables. The impetus behind a correlation analysis is to help investors make efficient asset allocation decisions that can optimize a portfolio’s risk-adjusted return performance. Empirical evidence has demonstrated that correlation coefficients between different markets vary over time. More importantly, the relative independence of price return movements of international assets allows a portfolio manager the opportunity to reduce diversifiable risk and maximize returns. How? By simply choosing assets with low or negative correlations to each other. In this way, international diversification will reduce a portfolio’s volatility to *less* than the average volatility of its individual assets – without sacrificing expected returns.

Alex Saldarriaga
305-349-0507



Contact List

Miami:

Peter Wallin
Tel: 305-349-0500
Fax: 305-349-0559

London:

Fiona Gregory
Tel: 44-20-7929-1222
Fax: 44-20-7815-3099

New York:

Jim Bonfils
Tel: 212-407-5124
Fax: 212-407-5176

Buenos Aires:

Fernando Canzani
Tel: 54-11-4311-3008
Fax: 54-11-4311-8050

Singapore:

Tan Cher Ping
Tel: 65-232-8936
Fax: 65-533-4555

São Paulo:

Fabio Solferini
Tel: 55-11-3167-4413
Fax: 55-11-3167-1511

Bogotá:

Andrea Uribe
Tel: 571-640-0624
Fax: 571-523-3410

Lima:

Luis Saenz
Tel: 511-445-9696
Fax: 511-241-6779

Moscow:

Sharon Thomas
Tel: 7-095-721-3800
Fax: 7-095-721-3801

Hong Kong:

Eric She
Tel: 852-2822-7888
Fax: 852-2822-7999

Emerging Markets Research

www.standardbank.com

Standard Miami (A Branch of Standard New York Securities Inc.)

Jay S. Peirce, CFA
Head of Research
1001 Brickell Bay Drive
Suite 3100
Miami, FL 33131
Tel. (305) 349-0500
Fax. (305) 349-0559

Corporate Credit Research:

Argentina:	
Santiago Cuneo, CFA	5411-4311-3008
Brazil:	
Monalisa Guarda	5511-3167-4413
Adrian Ortega	5511-3167-4413
Mexico, Central America & Caribbean	
Denis Parisien	305-349-0520

Financial Institution Research:

Maria Teresa Beyra	305-349-0509
Carlos Valencia	305-349-0512

Sovereign & Quantitative Research:

Laura E. Rattner	305-349-0514
Alexander Saldarriaga	305-349-0507

THIS RESEARCH REPORT IS NOT AN OFFER TO SELL NOR A SOLICITATION OF AN OFFER TO BUY

The opinions expressed in this report are given in good faith, but are subject to change without notice. Members of the Standard Bank Group, their directors, officers and employees may have either a long or short position in the investments referred to in this document, or in related investments and may effect transaction in any such investments for their own accounts. No liability is accepted whatsoever for any direct or consequential loss arising from the use of this report. If it is being distributed in the United States, such distribution is by Standard New York Securities, Inc. which accepts responsibility for its contents. Any US. Person receiving this report who desires to effect transactions in any security discussed in this report should call or write Standard New York Securities Inc, Citicorp Center, 38th Floor, 153 East 53rd Street, New York, NY 10022, phone (212) 407-5000, fax (212) 407-5025. Any distribution in the United Kingdom is by Standard Bank London Limited ("SBL"), and is available only to market counterparties and non-private customers. You are to rely on your own independent appraisal of and investigations into a) the condition, creditworthiness, affairs, status and nature of the Issuer and b) all other matters and things contemplated by this report. This document has been sent to you for your information and may not be reproduced or redistributed to any other person, nor is it being issued or distributed to persons who are private customers. SBL is a firm regulated by the Securities and Futures Authority and is a member of the International Securities Markets Association. Compliance Reference: PW1103