

The Subprime Crisis and its Impact in Latin America

Felipe Correa Fernandez

Agenda

- Subprime Crisis Overview
 - Causes
- Short Term Impact in Latin America
- Long Term Consequences for Latin America and World Markets
- Conclusion
- Questions

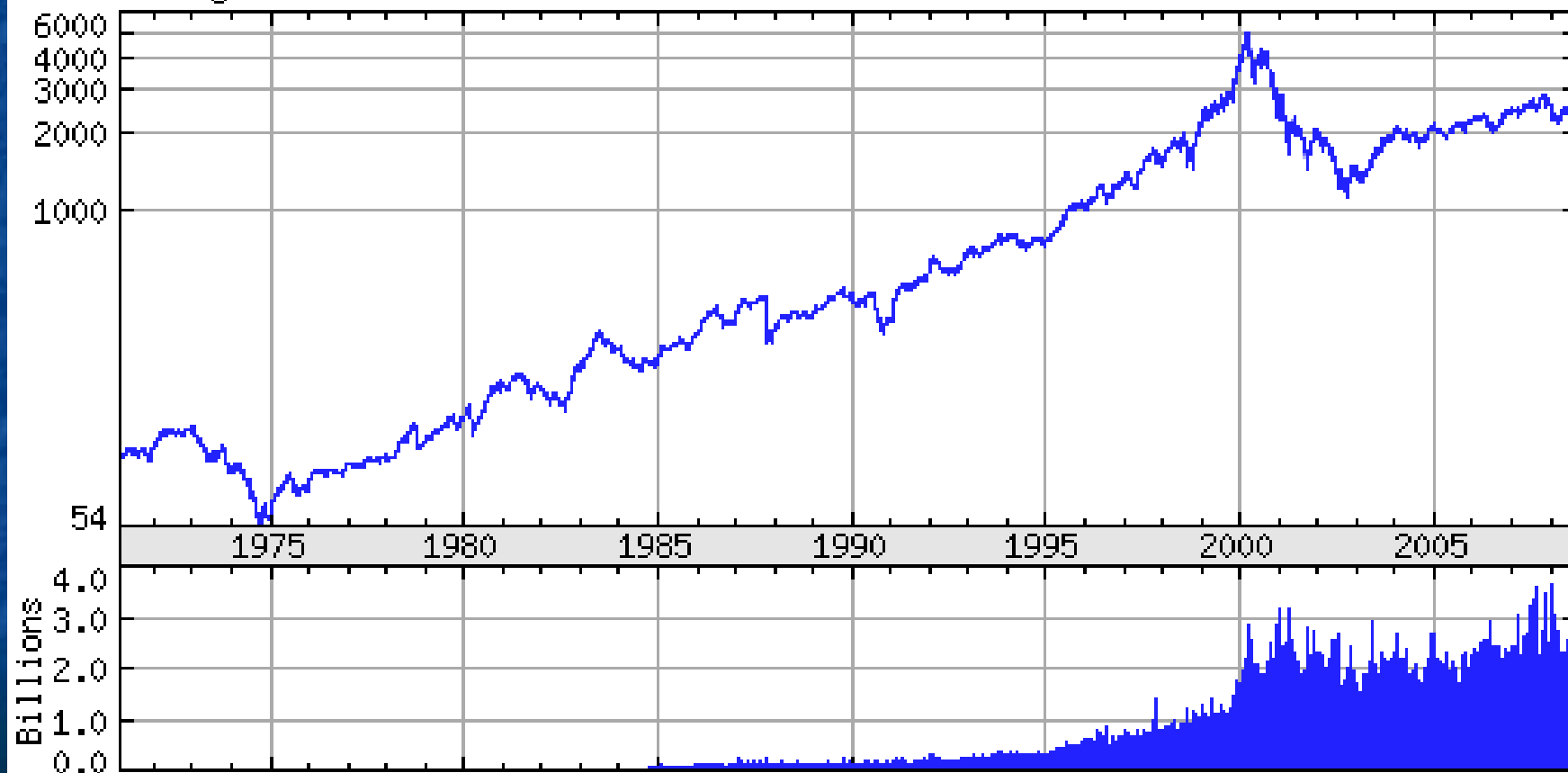
Asset Bubble - Definition

- A spike in asset values within a particular industry, commodity, or asset class.
- Exaggerated expectations of future growth and/or price appreciation.
- Buyers outnumber sellers.
- Usually followed by steep price declines.

Tech Bubble

NAS/NMS COMPOSITE (NASDAQ STOCK

as of 19-Aug-2008



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Commodity Bubble?

Agricultural prices (1997=100, dotted line is average)



Oil Bubble?

CLU8 COMB COMDTY Hide GP - Line Chart Page 1/16
 Range 02/10/06 - 08/08/08 Upper Line Chart Mov. Avgs Currency USD
 Period Daily Lower Contract OI Mov. Avg 15 Events

Last Price	116.62
High on 07/03/08	145.86
Average	82.09
Low on 01/16/07	57.71



Contract Open Interest	0.235m
High on 07/22/08	0.320m
Average	42160
Low on 04/25/06	1000
SMAVG Contract Open Interest(15)	0.295m



Australia 61 2 9777 8600	Brazil 5511 3048 4500	Europe 44 20 7330 7500	Germany 49 69 9204 1210	Hong Kong 852 2977 6000
Japan 81 3 3201 8900	Singapore 65 6212 1000	U.S. 1 212 318 2000	Copyright 2008 Bloomberg Finance L.P. G639-290-0 08-Aug-08 12:34:21	

US Home Prices

GRAB

Index **GP**

S&P/Case-Shiller Composite-20 Home Price Index

SPCS20 INDEX

Hide

GP - Line Chart

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Range

01/31/00

- 05/31/08

Upper

Revised Line

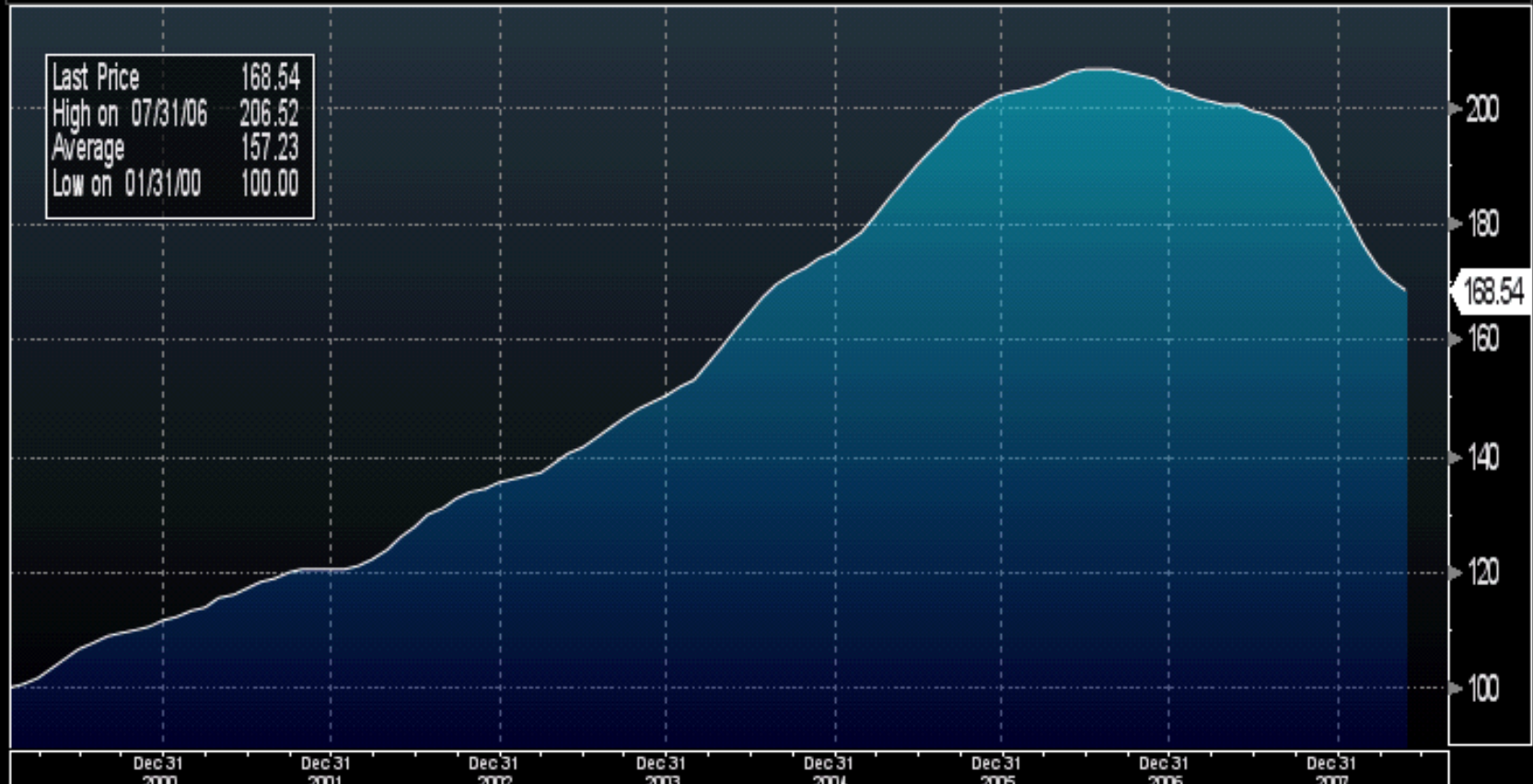
Mov. Avgs

Period

Monthly

Events

Last Price	168.54
High on 07/31/06	206.52
Average	157.23
Low on 01/31/00	100.00

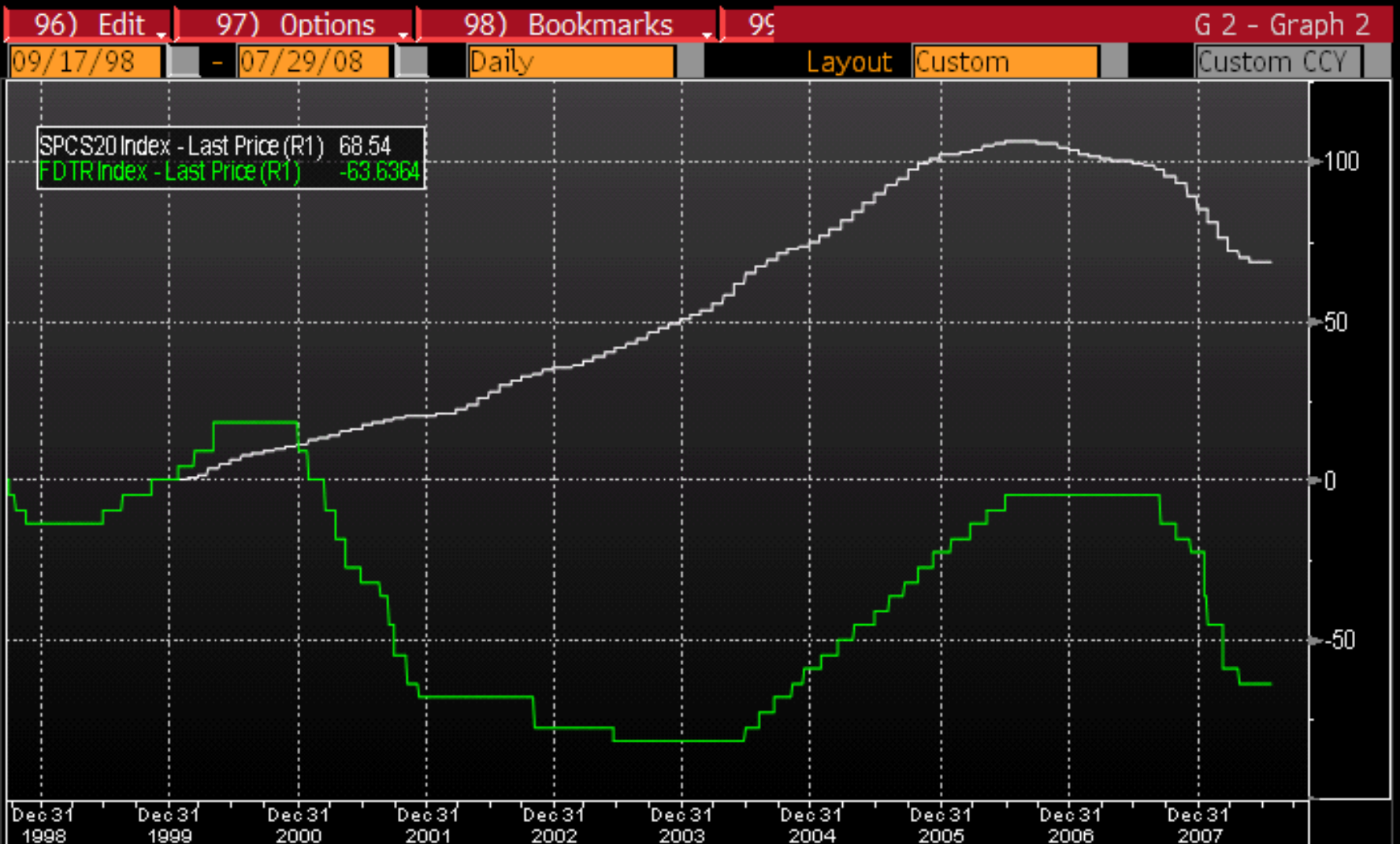


Australia 61	2 9777	8600	Brazil 5511	3048	4500	Europe 44	20 7330	7500	Germany 49	69 9204	1210	Hong Kong 852	2977	6000
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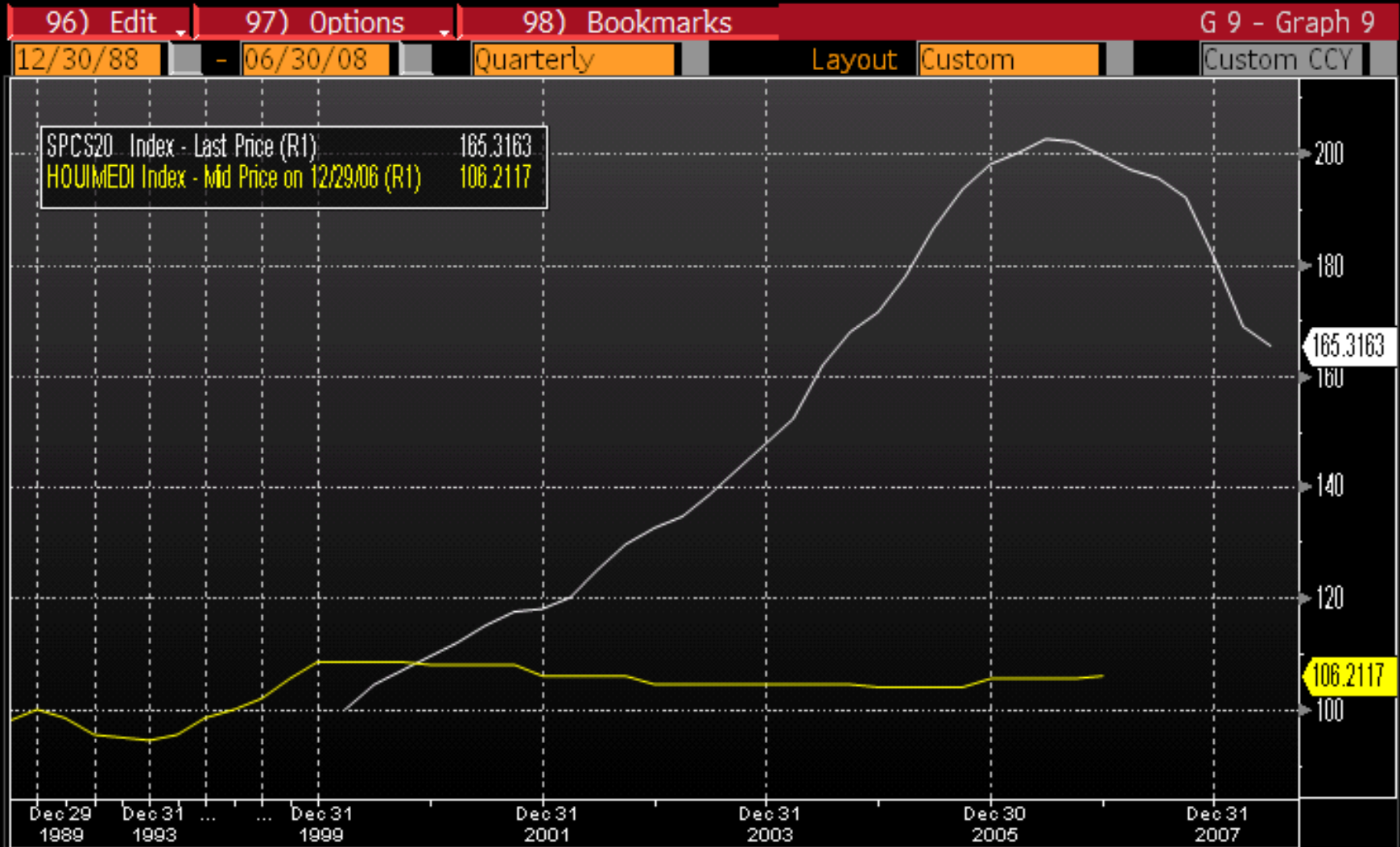
Driving the Housing Bubble:

- Low interest rates
- Excessive cash
 - Excessive lending
- Increased Speculation
- Mortgage Backed Securities (MBS)

Home Prices vs. Fed Fund Rates



Home Prices vs. Median Household Income

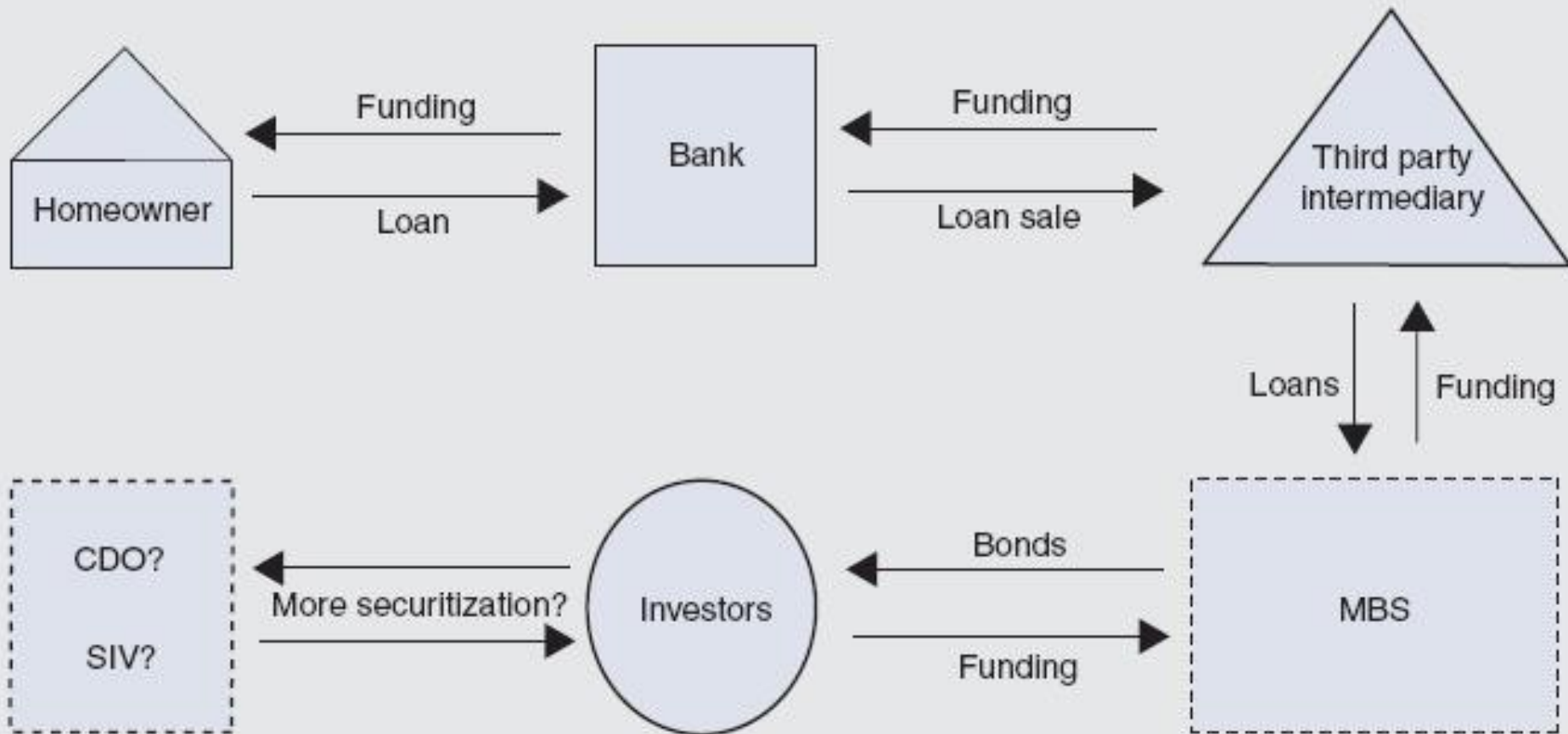


Mortgage Backed Security (MBS)

- First created in 1983 by investment banks
- Set of mortgages: "pool"
- Investors receive payments based on a set of rules with mortgages as collateral
- Bonds are called classes or tranches
- Investors:
 - Banks, hedge funds, insurance companies, pension funds, mutual funds

Mortgage Backed Securities (MBS)

1. Mortgage funding process



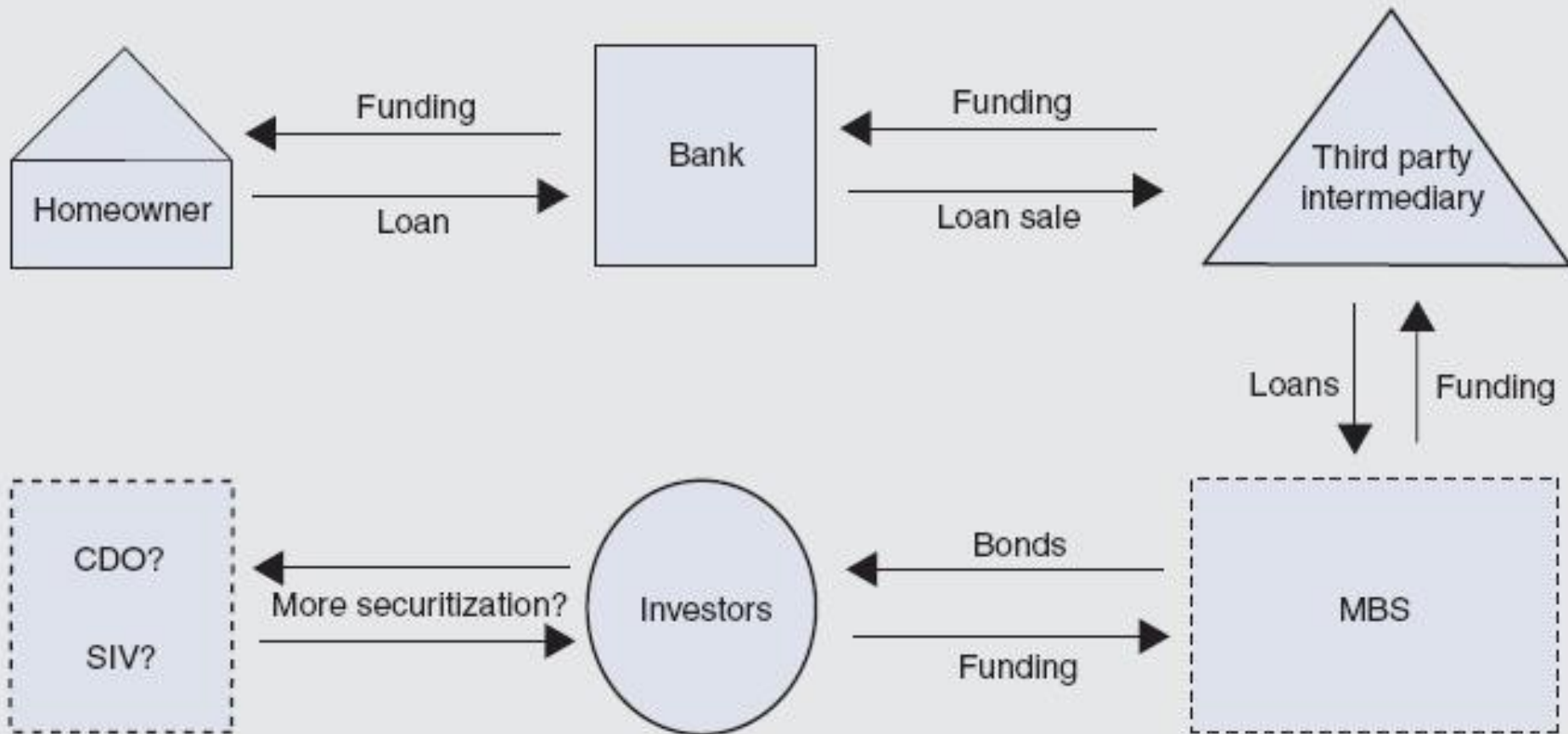
NOTES: MBS means mortgage-backed security. CDO means collateralized debt obligation. SIV means structured investment vehicle.

MBS - Example

- Five 200K mortgages = \$1 million
- Split into one thousand \$1,000 bonds
- Can be divided:
 - Junior/Senior Classes
 - Interest only/principal only

Mortgage Backed Securities (MBS)

1. Mortgage funding process



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MBS Pros and Cons

- Promotes expansion in the financial sector
- Provides liquidity to an illiquid market
- Expands credit broadly
- Diversify risk
- Investment opportunity
- Lack of accountability
- Risky assets labeled as "safe"
- Promoted speculation

US Crisis: Short Term Impact to Latin American Economies

- No direct impact to Real Estate markets
 - Growth driven by expansion of credit
 - Strong economic fundamentals
 - Regulatory frameworks make it difficult for banks to issue/hold MBS's
 - Higher interest rates are expected
- Impact will be reflected on the overall economies

Latin America's Exposure to a US Recession

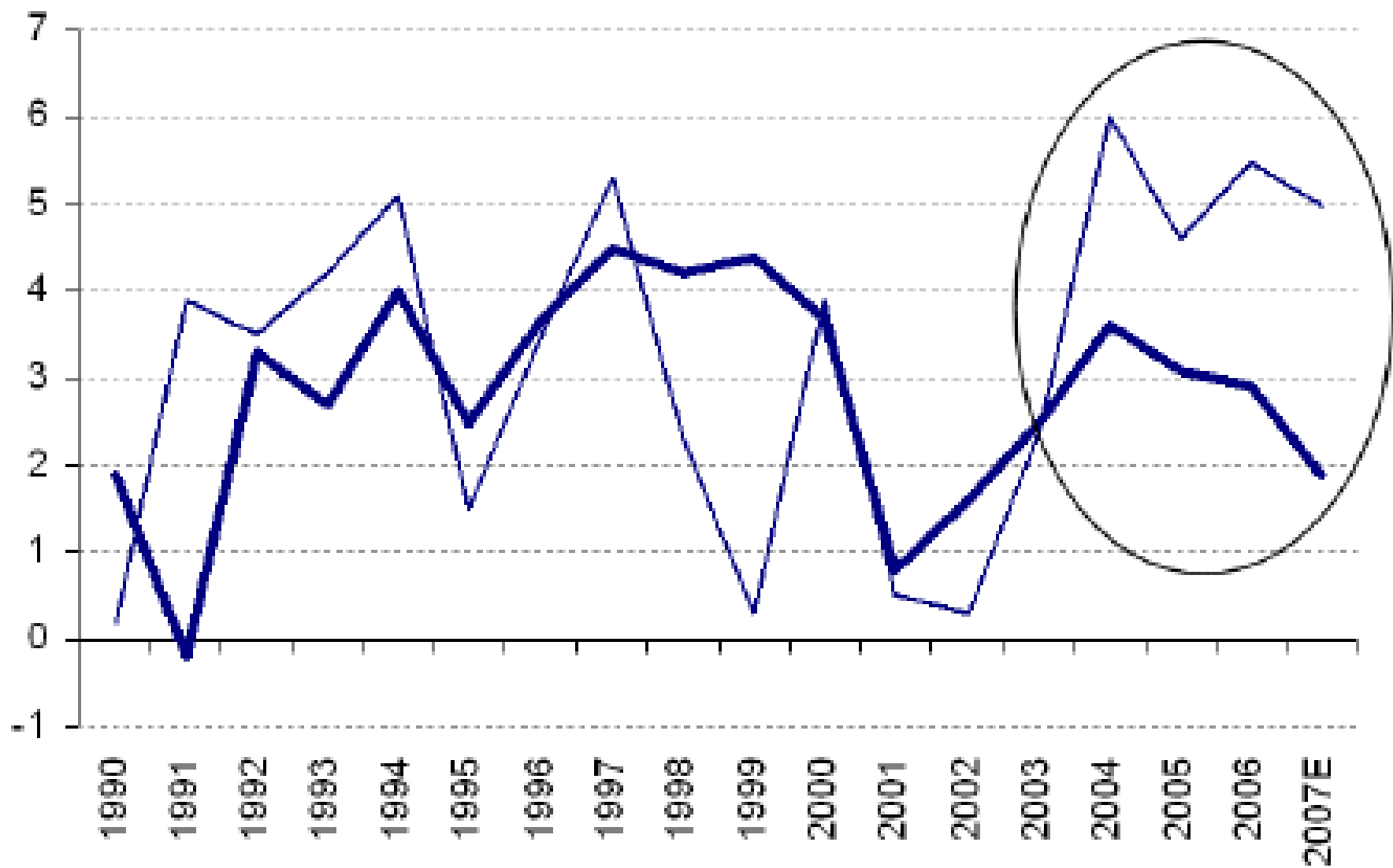
- Not as vulnerable as it used to be
- Strong internal demand
- Rapid economic growth
- S&P: Lower dependence on external capital flows by developing successful capital markets.

GDP Growth US vs. Latin America

(%, y-o-y)

United States

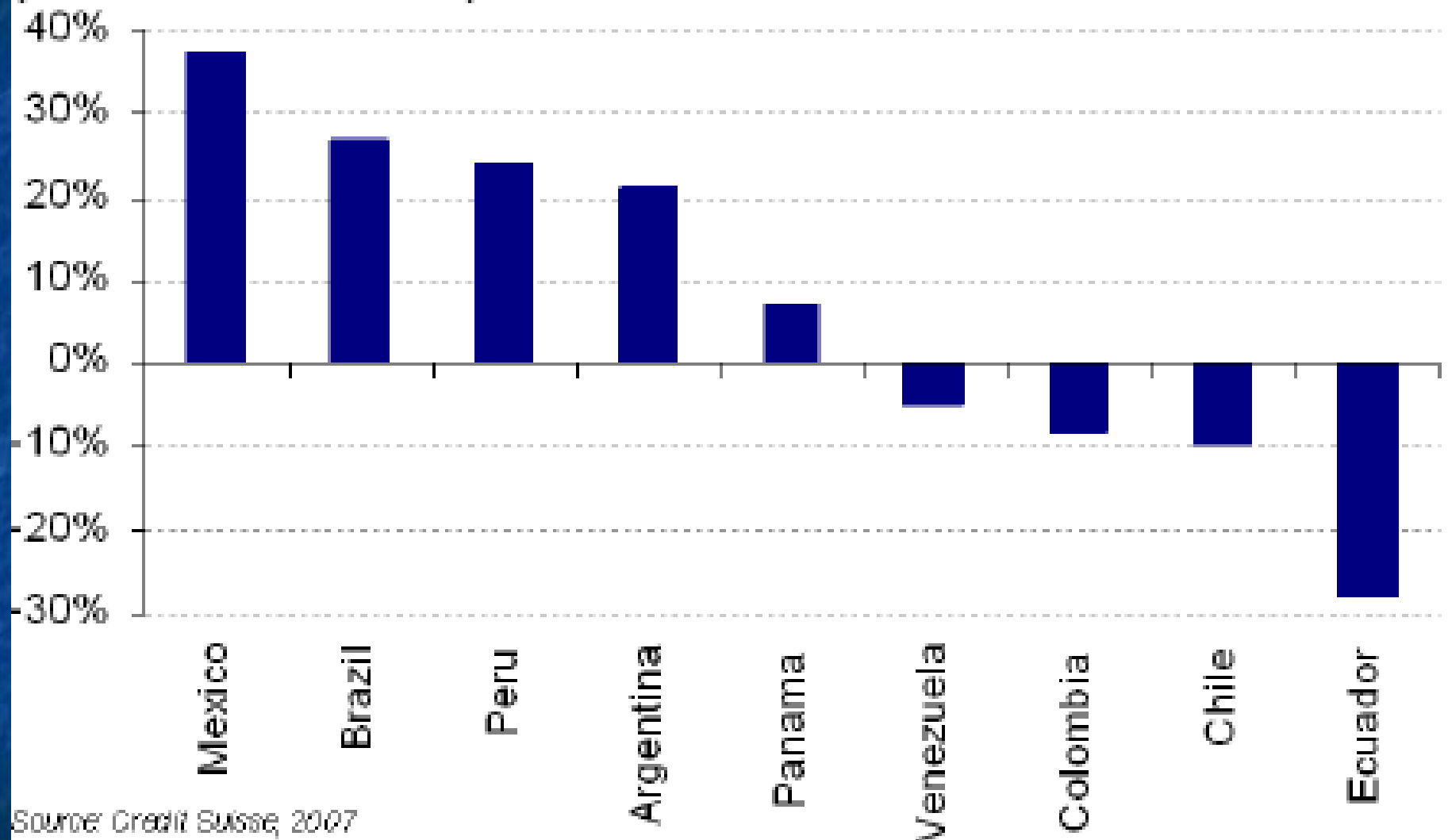
Latin America



Source: International Monetary Fund, World Economic Outlook Database, October 2007

GDP Growth correlation Latin America vs US

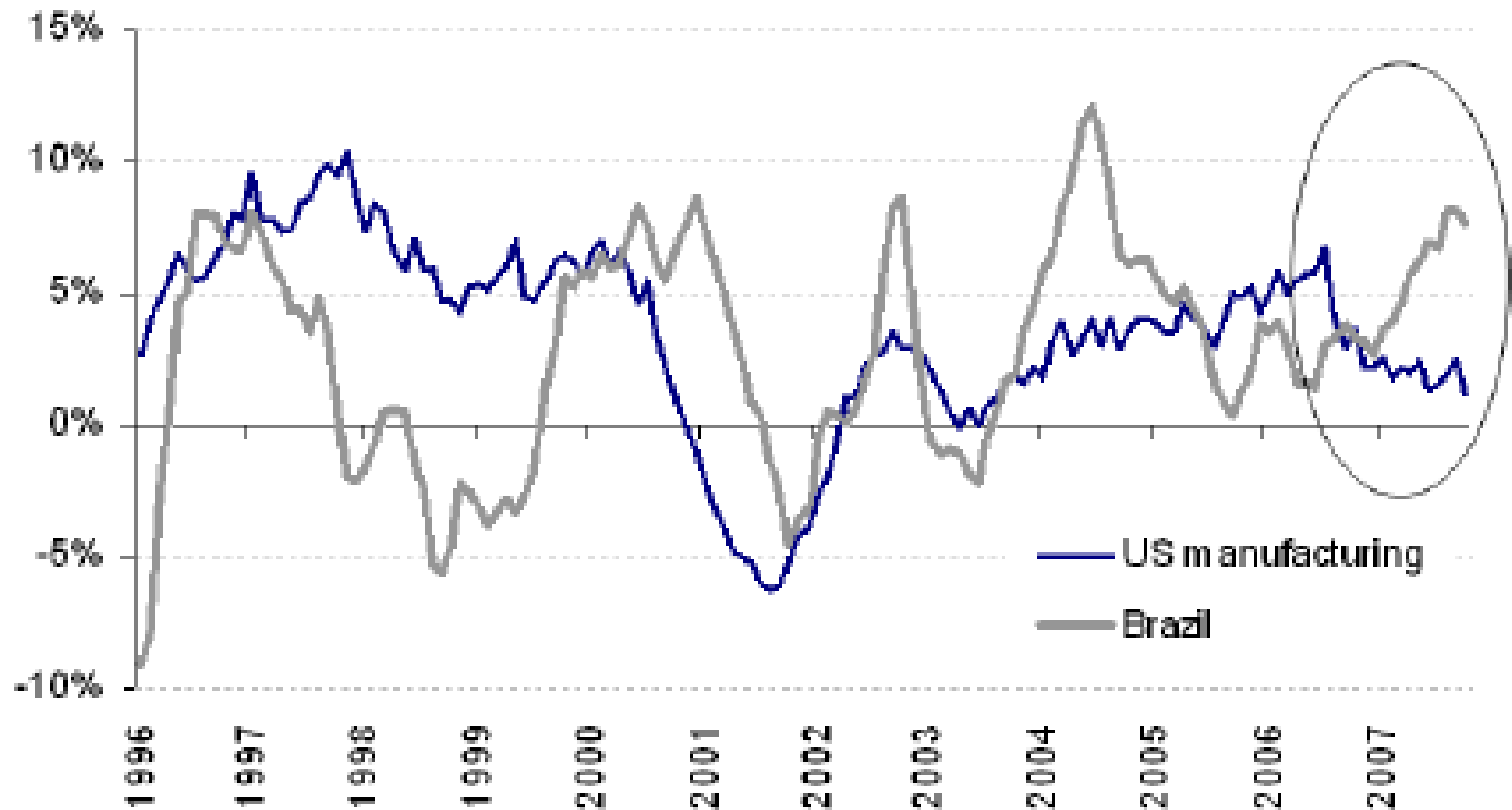
(Period: 1990 - 2006)



Source: Credit Suisse, 2007

US manufacturing and Brazil Industrial Production growth

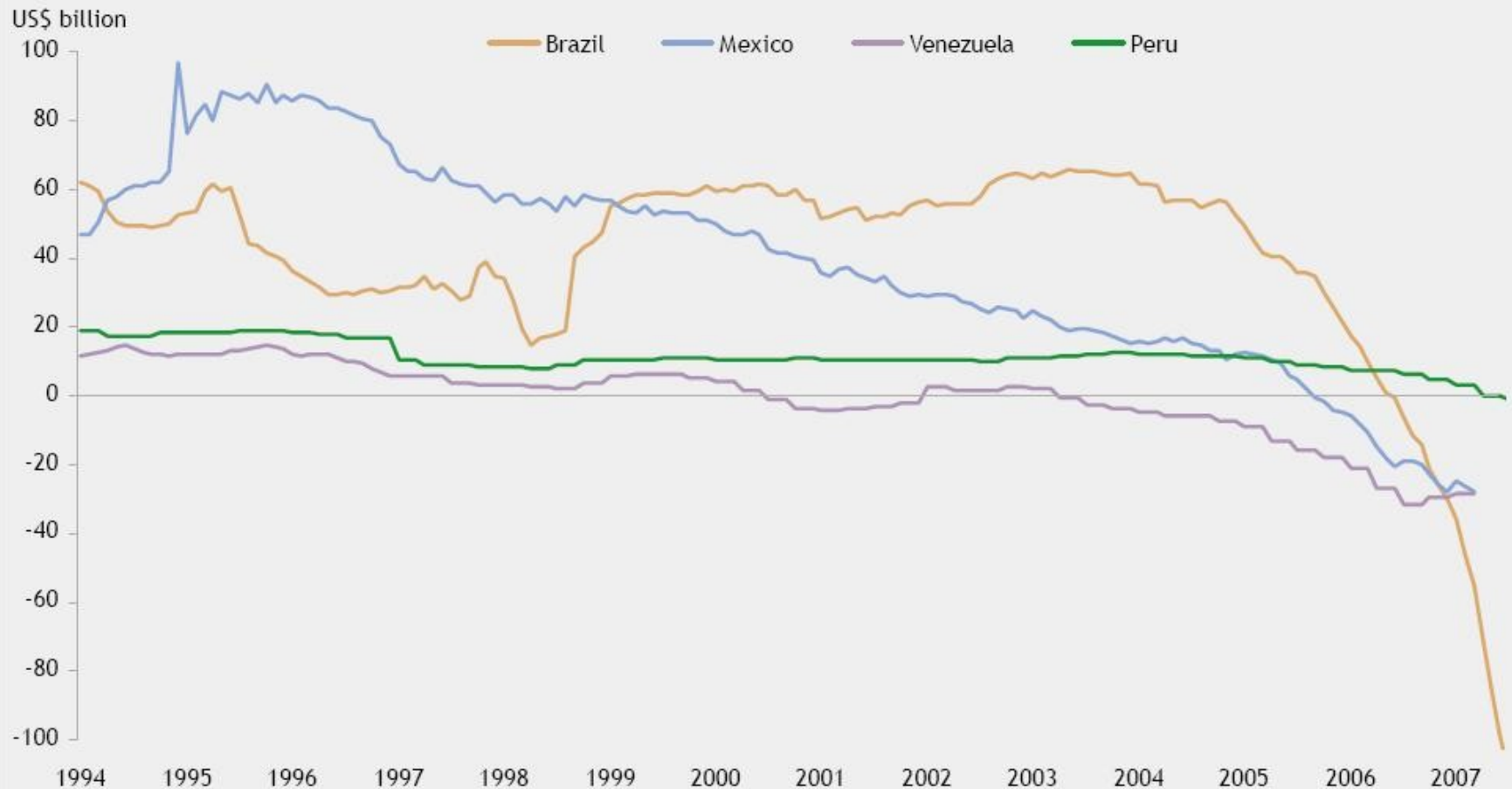
(y-o-y, 3 months moving average for Brazil)



Source: OECD Development Centre based on Financial Thomson Datastream, 2008

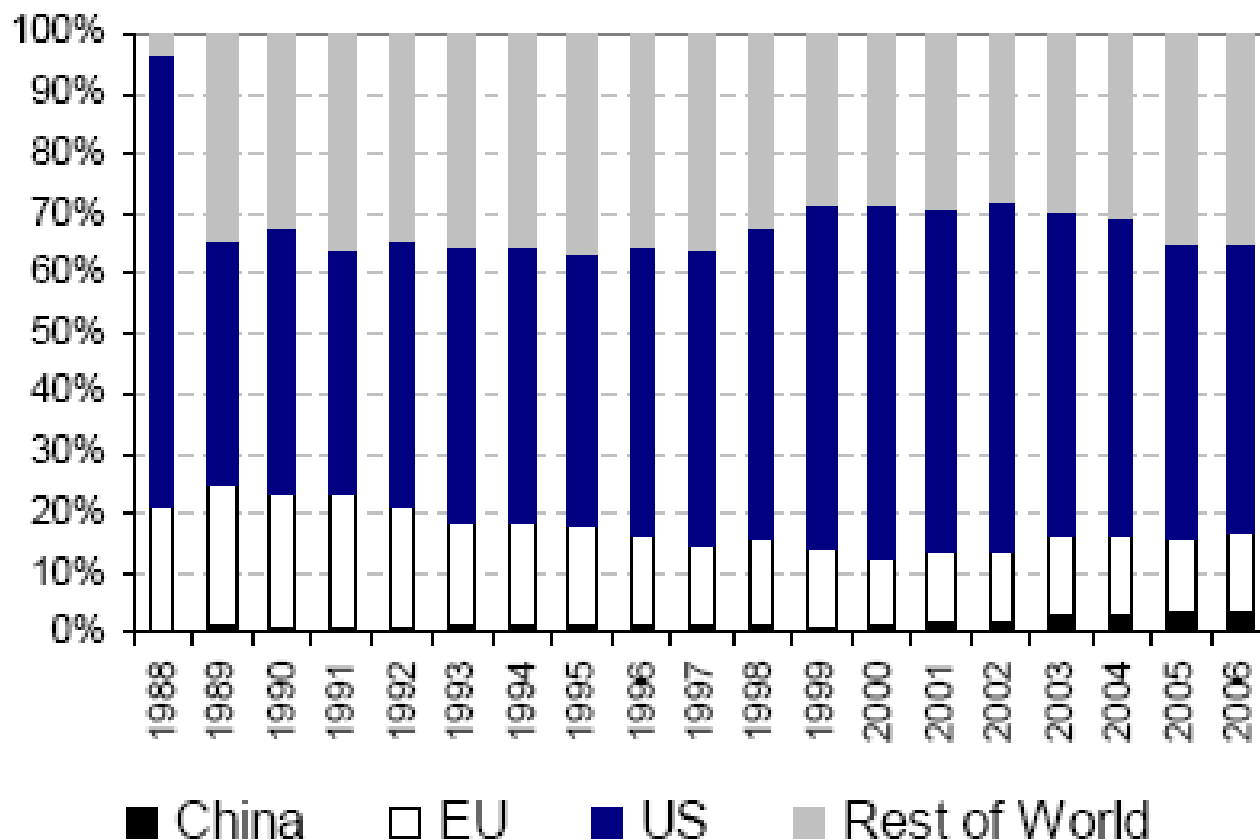
Latin America Becoming a Net Creditor

Brazil, Mexico and Venezuela: Net External Debt



More than 40% of Latin American exports go to the US

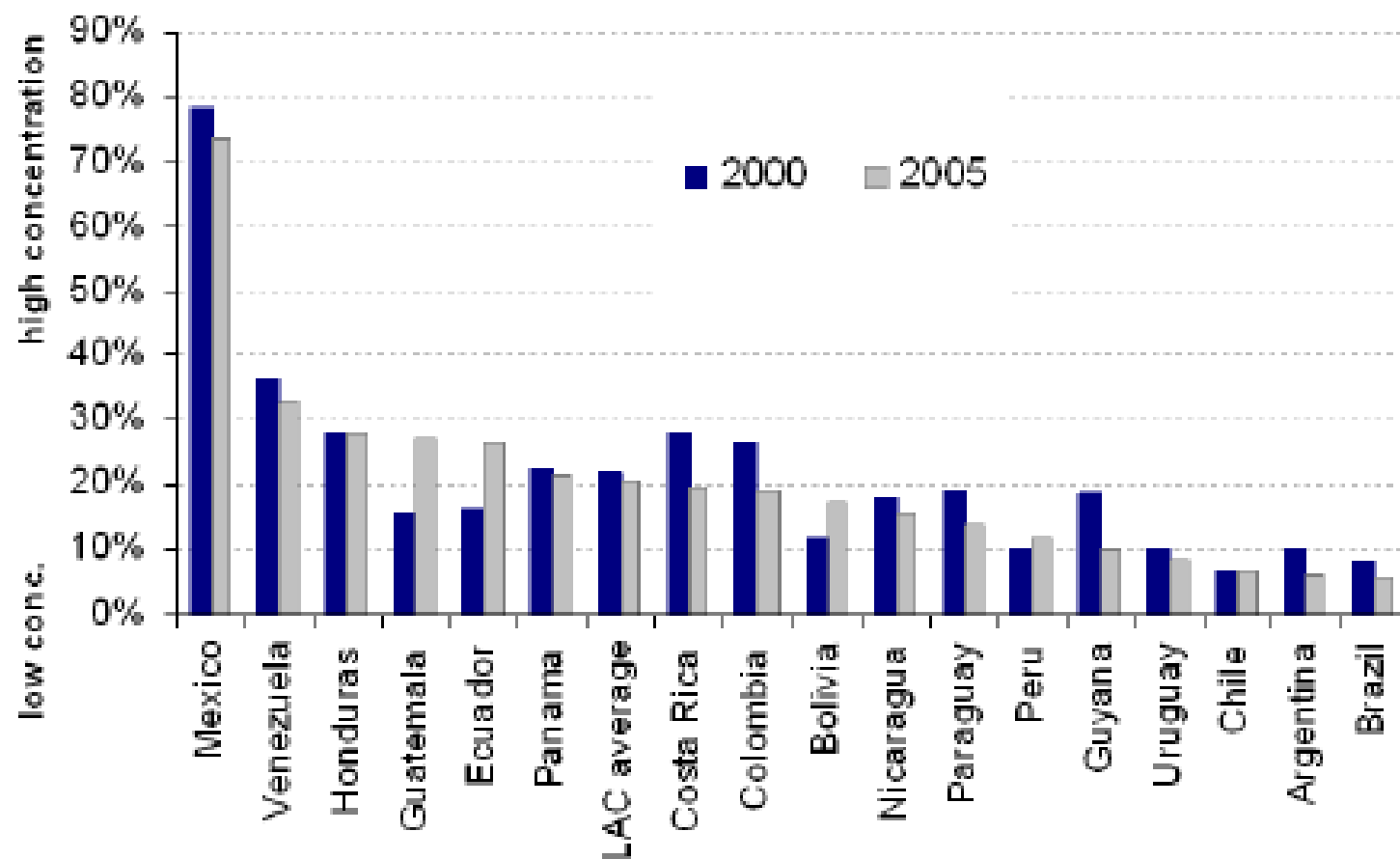
Latin American exports by destination



Source: OECD Development Centre based on WITS data , 2008

But again, it varies considerably from country to country...

Exportation concentration by destination
(Selected Latin American countries)

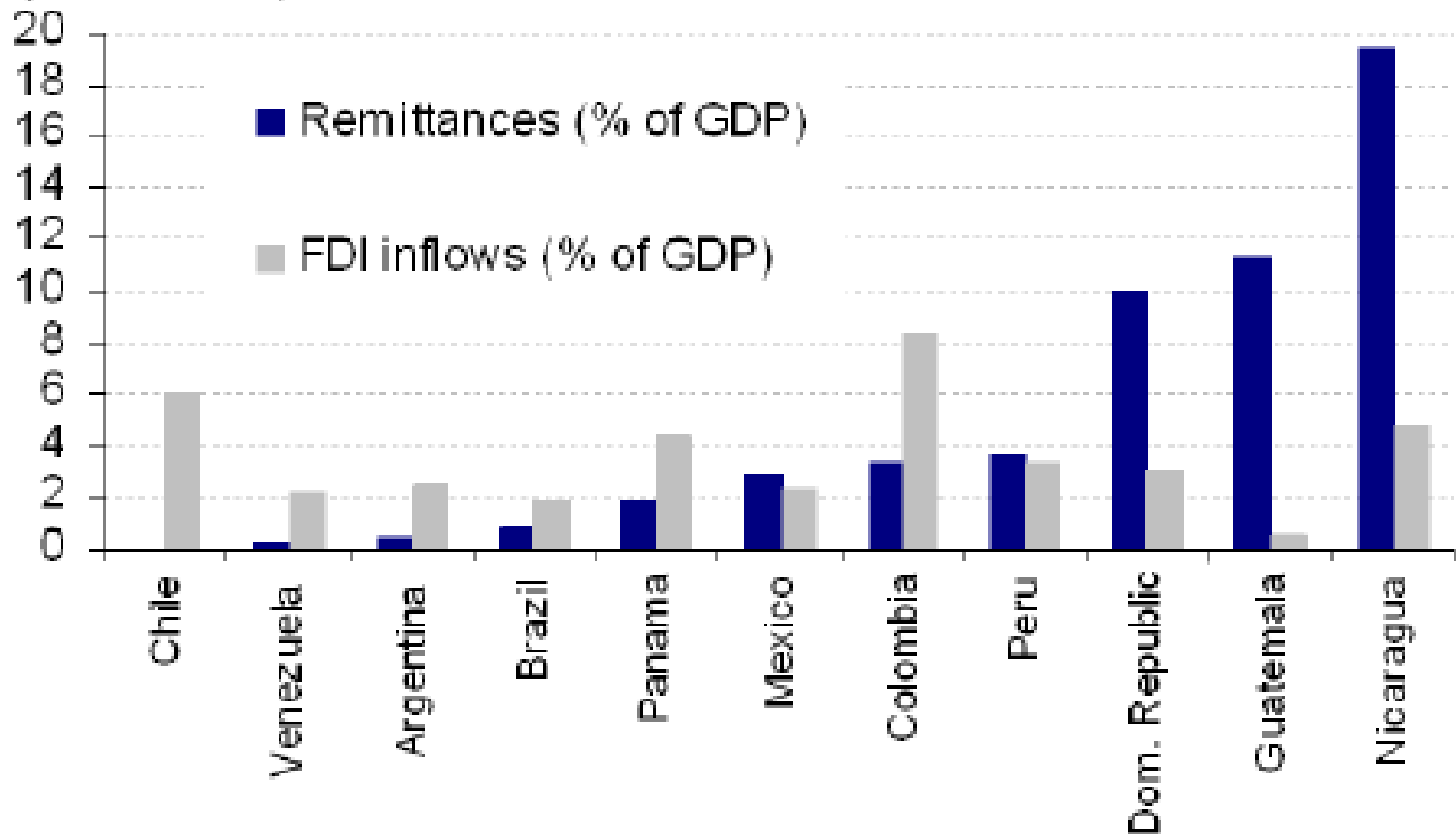


Source: OECD Development Centre, *Latin America Economic Outlook*, 2008

Remittances

Remittances and Foreign Direct Investment

(% of GDP)



Source: IADB, 2008

Long Term Consequences for Latin American and World Markets

Importance of Regulatory Systems in Avoiding Asset Bubbles

- Risks of low regulation
- Accountability throughout the lending process
- Importance of transparency in financial markets
- Risks of loose monetary policies

Need to Continue Strengthening Financial Markets

- Provide governments, corporations and individuals with a stable source of financing
 - promote growth
- Advantages of CMO's
- US crisis should not impede progress of developing sophisticated markets in Latin America

Conclusions

- Key factors behind the US crisis are not present in Latin America today
- A US slowdown will affect Latin America, but to a lesser degree
- CMO's essential to Real Estate markets
 - Adjustments will be required
- US crisis will likely prevent other bubbles around the globe

Questions



Sources

- Bloomberg
- The Economist
- JP Morgan Research
- Organization for Economic Co-operation and Development (OECD) <http://www.oecd.org/dev>
- The Wall Street Journal www.wsj.com
- The World Bank
- Yahoo Finance finance.yahoo.com