



Latin America: Clicks and Mortar

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- Oil and commodities.
- The impact of Nasdaq and technology.

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- Increasing importance of sector versus country.

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Summary

- Latin America has not been in better shape in the last 20 years.
- Economic strengthening with low inflation and a main stream policy backdrop are setting in in most countries.
- Robust global growth is expected to continue bolstering commodities, but we do not expect high oil prices to halt the current global economic expansion.
- Recent sentiment towards technology is overdone. Our US strategy team recommends increasing exposure to the sector to take advantage of the current weakness.
- The US economy is finally cooling, pushing off the likelihood of fed hikes in the near term.
- Portfolio investment will be increasingly driven by internationalization and increasing importance of sectors.



II Investment Outlook

- Global growth, interest rates, and FX views.
- Oil and commodities.
- The impact of Nasdaq and technology.



Global Economic Backdrop

	1999E	2000F	2001F	00Q1F	00Q2F	00Q3F	00Q4F	01Q1F	01Q2F	01Q3F	01Q4F
Real GDP Growth (% , yoy)											
United States	4.2	5.3	4.0	4.8	5.3	2.5	3.8	4.6	4.3	4	3.5
Euroland	2.3	3.7	3.3	1.8	1.9	2.4	3	3.4	3.9	3.8	3.8
Japan	0.2	2.1	3.1	-0.4	0.6	0.9	-0.3	0.7	1.1	2.2	4.5
CPI Inflation (% , yoy)											
United States	2.2	3.4	2.9	3.2	3.2	3.6	3.5	3.3	3	2.7	2.7
Euroland	1.1	2.1	1.5	0.8	1.0	1.1	1.5	2.0	2.1	2.3	2.1
Japan	-0.3	-0.5	0.0	-0.1	-0.3	0.0	-1.0	-0.7	-1.0	-0.3	-0.2
Interest Rates (% , e.o.p)											
Fed Funds	5.3	6.5	7.0	5.9	6.5	6.5	6.5	6.8	7.0	7.0	7.0
UST 10-Year	6.3	6.0	6.3	6.3	6.1	6.0	6.0	6.1	6.4	6.4	6.3
UST 30-Year	6.0	5.9	6.0	6.1	5.9	5.8	5.8	5.8	6.1	6.0	6.0
Euro yield 10-Year	5.5	5.4	5.5	4.1	4.7	5.3	5.5	5.4	5.4	5.4	5.4
Exchange Rates (average)											
US\$/EUR	1.05	0.93	1.21	0.97	0.95	1.02	1.16	1.19	1.22	1.22	1.22
JPY/US\$	113	105	104	106	106	112	97	101	105	105	105



Our Portfolio Strategy Views

	2000	2001 (summer)
S&P 500	1575	1650
EPS Growth	9.9%	7.1% (annual)
Dow Jones	12600	-
Expected Returns (from current level)		
S&P 500	10%	15%
Dow Jones	17%	-



Latin America Economic Outlook

Real GDP Growth

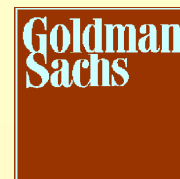
(% of GDP)

	<u>1997</u>	<u>1998</u>	<u>1999E</u>	<u>2000F</u>	<u>2001F</u>
Argentina	8.1	3.9	-3.2	1.4	3.0
Brazil	3.0	0.0	1.0	3.6	4.5
Chile	7.6	3.4	-1.1	5.5	5.5
Colombia	3.4	0.5	-4.5	3.0	4.0
Ecuador	3.4	0.4	-7.3	1.5	5.0
Mexico	6.8	4.8	3.7	6.7	4.8
Panama	4.5	4.1	3.2	2.0	4.0
Peru	6.7	-0.4	1.4	4.5	4.0
Venezuela	6.4	-0.1	-7.2	3.0	3.0

Current Account Balance

(% of GDP)

Argentina	-4.1	-4.8	-4.3	-4.4	-4.9
Brazil	-3.8	-4.3	-4.8	-4.2	-3.2
Chile	-4.9	-5.7	-0.1	-1.3	-3.3
Colombia	-5.7	-5.4	-1.2	-1.6	-3.4
Ecuador	-3.6	-10.9	6.7	3.6	-2.6
Mexico	-1.8	-3.8	-2.9	-3.7	-3.4
Panama	-7.0	-13.3	-13.9	-7.9	-8.5
Peru	-5.5	-6.7	-3.9	-4.8	-6.0
Venezuela	3.9	-2.7	5.2	11.9	7.4



Latin America Economic Outlook

CPI Inflation

(%, e.o.p.)

	1997	1998	1999E	2000F	2001F
Argentina	0.3	0.7	-1.8	0.1	1.0
Brazil	5.2	1.7	8.9	6.3	4.4
Chile	6.0	4.7	2.3	4.0	3.3
Colombia	17.7	16.7	9.2	9.9	8.0
Ecuador	30.7	43.6	60.7	90.0	15.0
Mexico	15.7	18.6	12.3	8.8	7.0
Panama	-0.5	1.4	1.5	2.0	1.5
Peru	6.5	6.0	3.7	3.7	3.5
Venezuela	37.6	29.9	20.0	16.0	15.0

Gross International Reserves

(US\$ billion)

Argentina	29.4	30.4	32.2	33.3	32.9
Brazil	51.7	44.0	35.7	33.0	37.0
Chile	17.8	16.0	14.7	15.0	15.5
Colombia	9.9	8.7	8.1	8.5	9.1
Ecuador	2.2	1.8	1.8	1.6	2.4
Mexico	28.0	30.1	30.7	35.5	36.5
Panama	1.1	0.9	0.8	0.9	1.0
Peru	11.1	10.0	9.0	9.0	9.7
Venezuela	17.8	14.8	15.4	16.0	17.0



Latin America Economic Outlook

	Total External Debt (% of Nominal GDP)				
	1997	1998	1999E	2000F	2001F
Argentina	42.6	47.2	51.1	51.9	53.0
Brazil	24.9	31.2	47.0	41.1	38.0
Chile	35.2	43.4	50.6	51.2	50.8
Colombia	30.4	34.3	38.6	40.4	40.9
Ecuador	75.8	82.1	117.1	107.0	86.6
Mexico	38.8	39.7	34.7	31.8	29.1
Panama	58.7	58.3	58.0	58.2	56.9
Peru	48.3	52.6	55.2	52.5	49.5
Venezuela	37.7	37.9	34.4	28.3	29.2

	Nominal Fiscal Balance (% GDP)				
Argentina	-1.4	-1.3	-2.5	-1.9	-1.1
Brazil	-5.9	-8.1	-10.0	-3.9	-3.2
Chile	2.0	0.4	-1.5	-0.3	0.3
Colombia	-4.1	-3.7	-5.2	-3.2	-2.7
Ecuador	-2.6	-5.6	-4.6	-1.7	0.3
Mexico	-0.5	-1.3	-1.1	-1.0	-0.8
Panama	-0.3	-2.9	-1.4	-1.0	0.0
Peru	0.2	-0.8	-2.9	-2.4	-2.1
Venezuela	2.6	-6.6	-3.2	1.0	0.0

Commodities are expected to stay strong



Index & Sub-Indices	Units	Current Price	Spot Prices	
			2000	2001
GSCI	(100)	237.48	232	218
Commodities				
Energy				
WTI Crude Oil	\$/bbl.	24.51	32.00	25.00
Brent Crude Oil	\$/bbl.	23.60	30.00	23.50
Industrial Metals				
Aluminum	\$/mt	1586	1650	1675
Copper	\$/mt	1983	1950	1800
Nickel	\$/mt	8500	8750	7750
Zinc	\$/mt	1150	1200	1150
Precious Metals				
Gold	\$/oz	277	275	290
Platinum	\$/oz	579	580	500
Silver	\$/oz	495	4.95	5.15
Agricultural				
Chi Wheat	cents/bu	265	255	300
KC Wheat	cents/bu	320	295	330
Corn	cents/bu	198	190	220
Soybeans	cents/bu	491	475	525
Cotton	cents/lb	63	67	72
Sugar	cents/lb	10	10.50	9
Coffee	cents/lb	83	80	105
Cocoa	\$/mt	797	750	775
Orange Juice	cents/lb	71	75	80

All data as of:
9/29/00 Close

Commodities are expected to stay strong



GSCI Commodity Price Index

Dec-69=100





Latin America is relatively well hedged against high oil prices

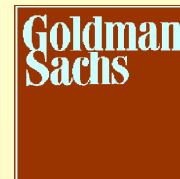
	1%increase in NASDAQ	\$1 increase in WTI
GEMs	0.63	-1.87
Asia	0.71	-3.09
EMEA	0.55	-2.04
Latam	0.59	-0.17



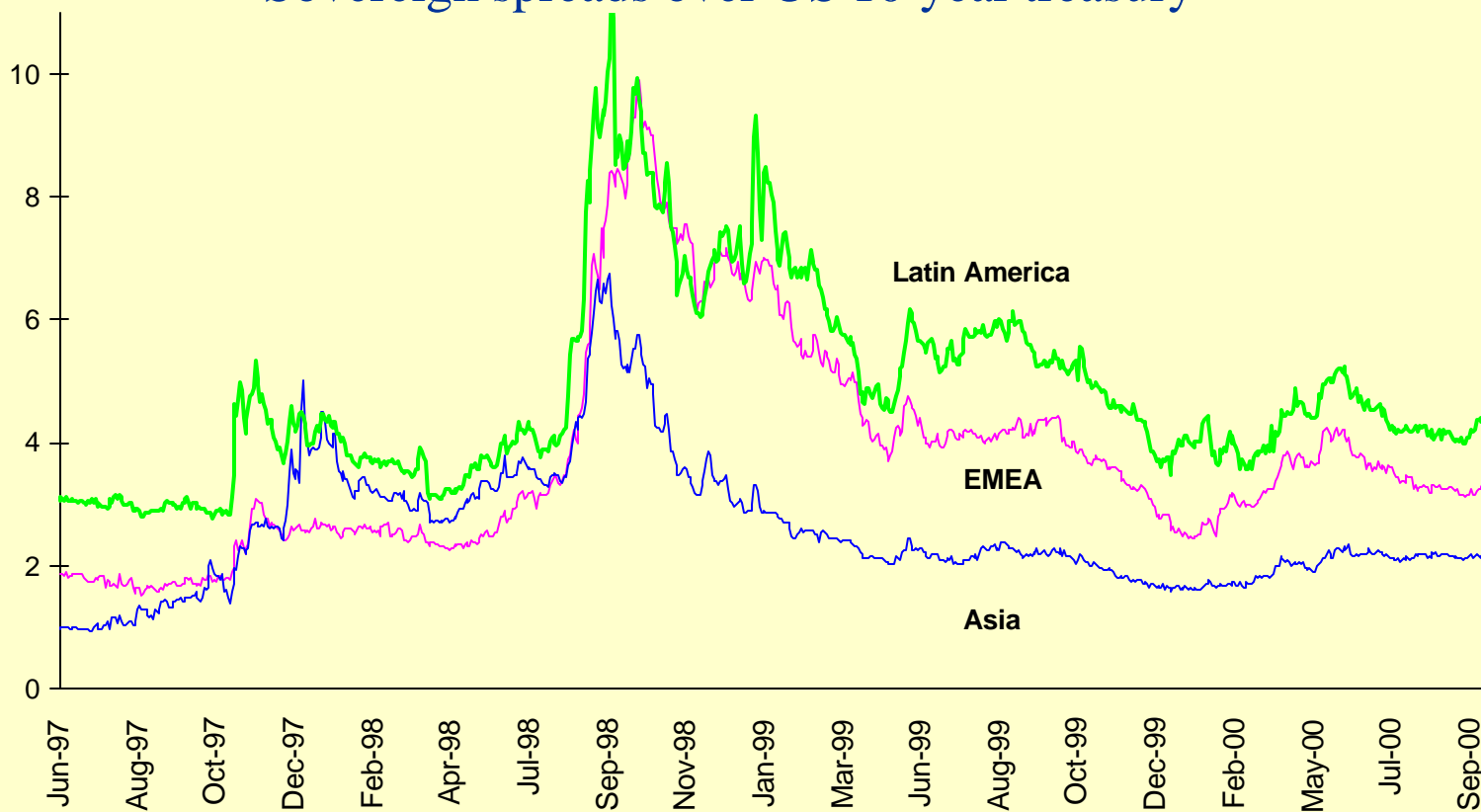
Our Currency Forecasts

	<u>9/29/2000 Spot</u>		<u>3-Month Horizon</u>		<u>6-Month Horizon</u>		<u>12-Month Horizon</u>	
	R-Rate	FX	R-Rate	FX	R-Rate	FX	R-Rate	FX
Argentina	8.29	1	8	1.00	7.5	1.00	7.5	1.00
Brazil	15.6	1.8	18.5	1.80	18.0	1.80	17.0	1.90
Chile	10.7	563.7	10.5	565.00	10.5	565.00	10.5	560
Colombia	13.2	2213	15.5	2100	16.0	2100	16.5	2300
Ecuador	20.3	25000	45.0	25000	40.0	25000	40.0	25000
Mexico	17.7	9.4	17	9.60	16.7	10.00	16.0	10.50
Peru	11.9	3.5	15	3.55	15.5	3.60	16.0	3.70
Venezuela	14.3	691	20	697.00	22.0	727	22.5	780

But the local picture looks good in terms of risk



Sovereign spreads over US 10-year treasury

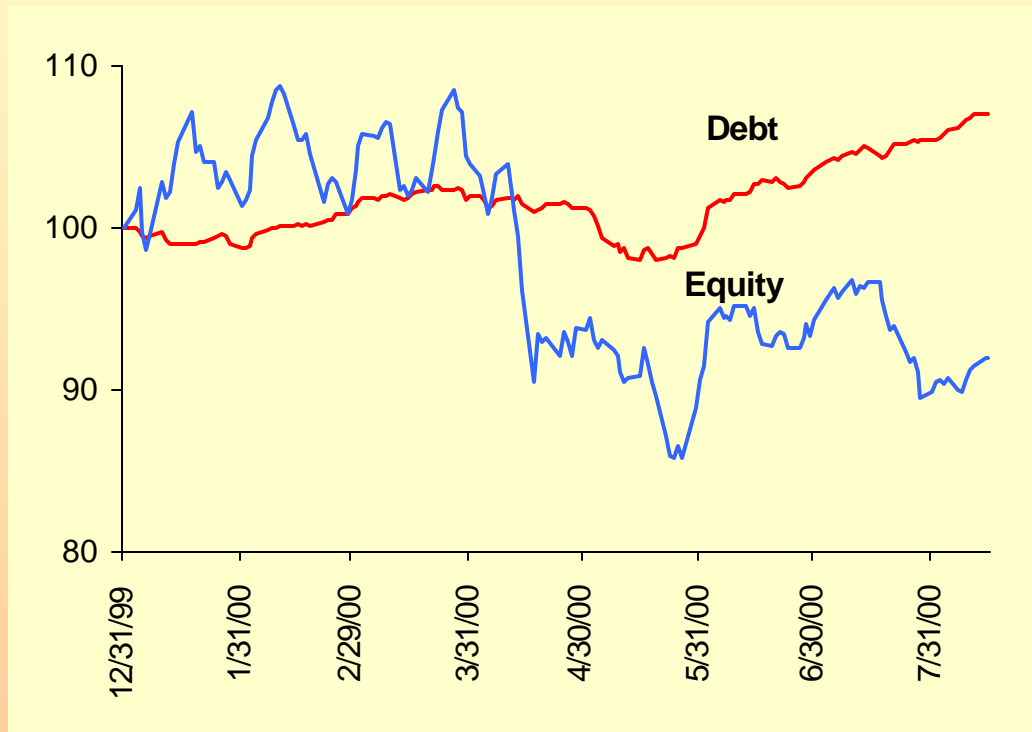




Latam is still very tied to Nasdaq

Correlation with Nasdaq	3 Months	6 Months
Latam	0.74	0.87
EMEA	0.58	0.09
Asia	0.64	0.21
GEMs	0.68	0.37

Markets Appear to be Too Pessimistic on Earnings

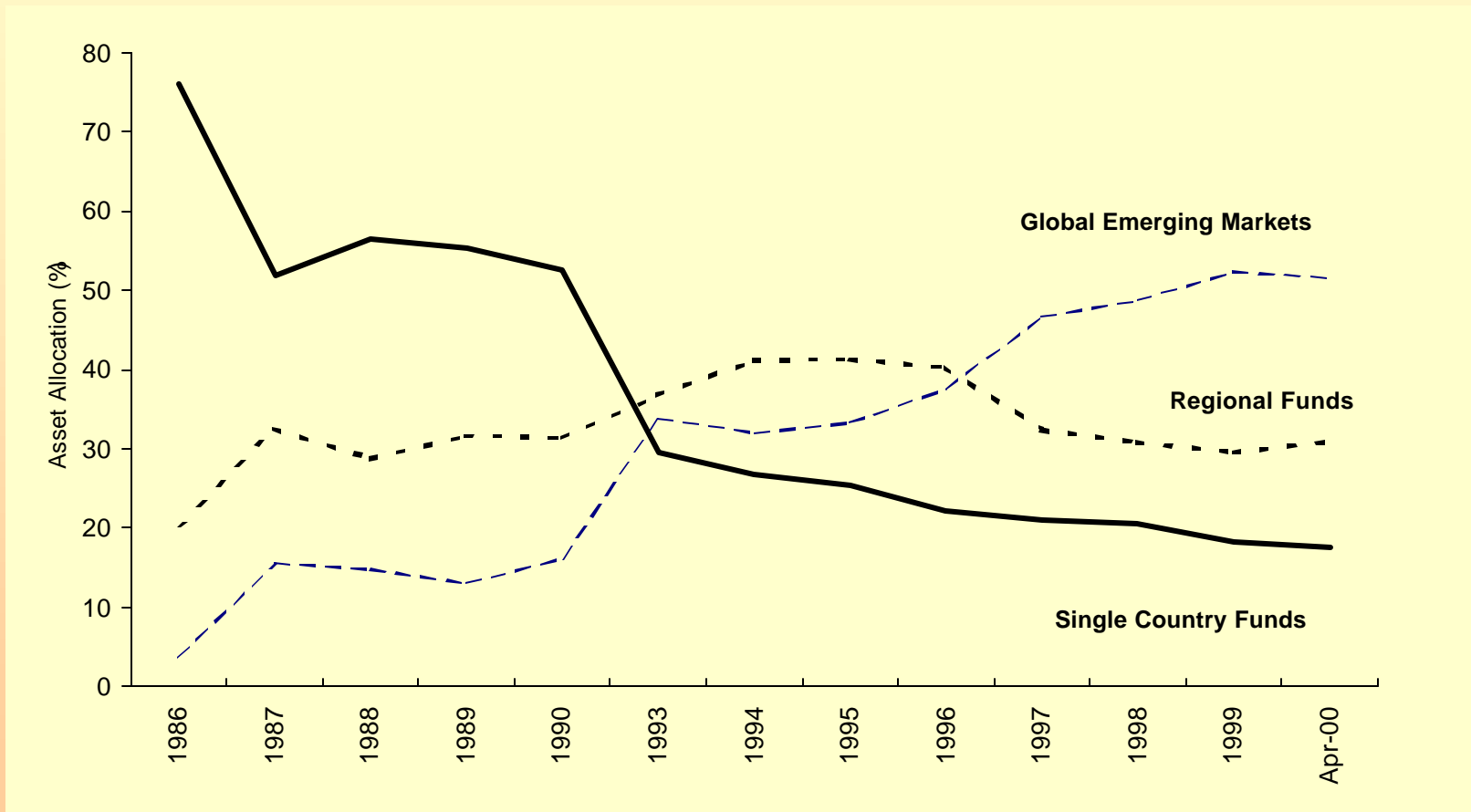


III Structural Trends

- The stock markets are becoming more international and the local markets are declining in importance
- The supply of stocks in Latin America has been shrinking



International investing has become global



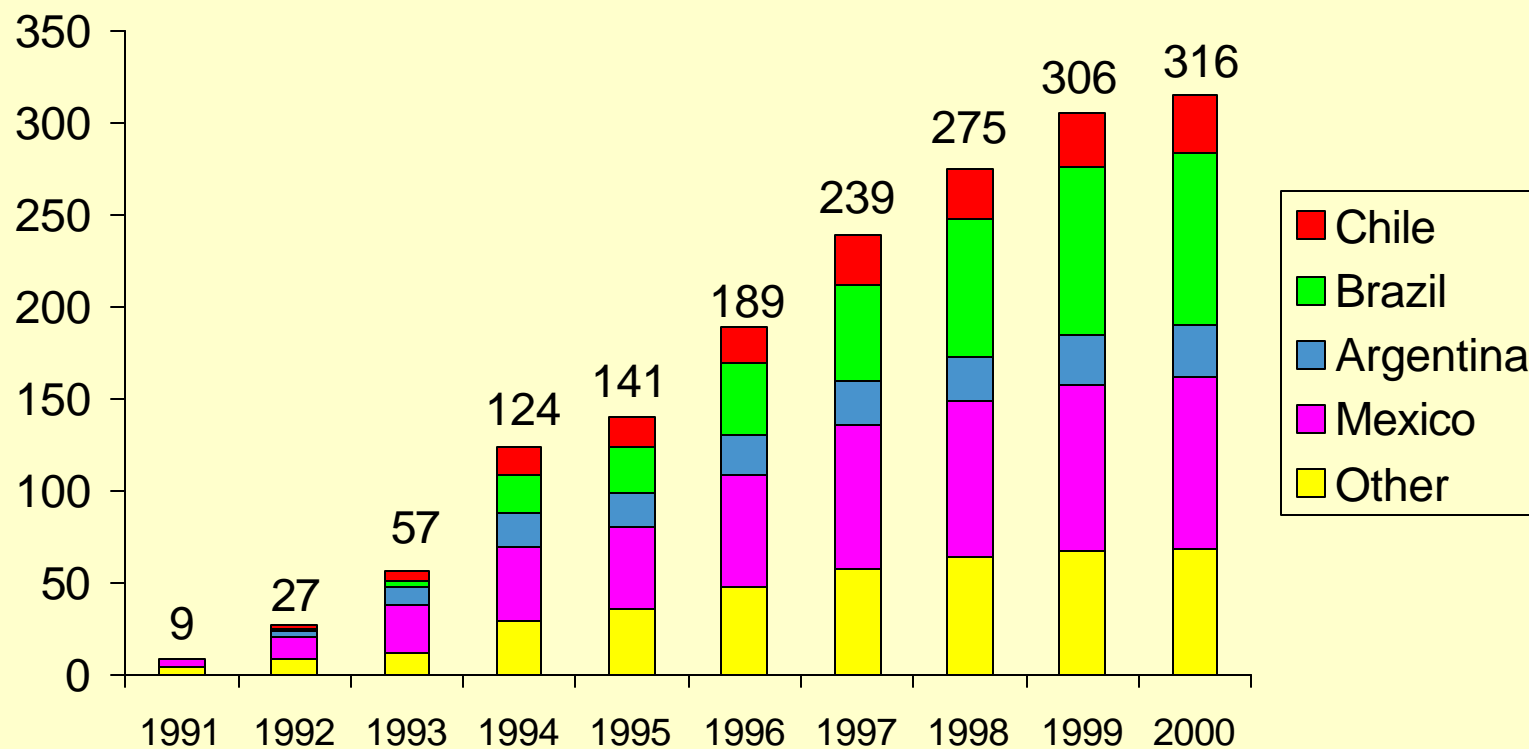


The pool of money suggests much more from gems and international

	(\$US billions)
International Funds	710
GEMs Funds	83
Regional Funds	49
Country Funds	28



ADR programs continue to rise

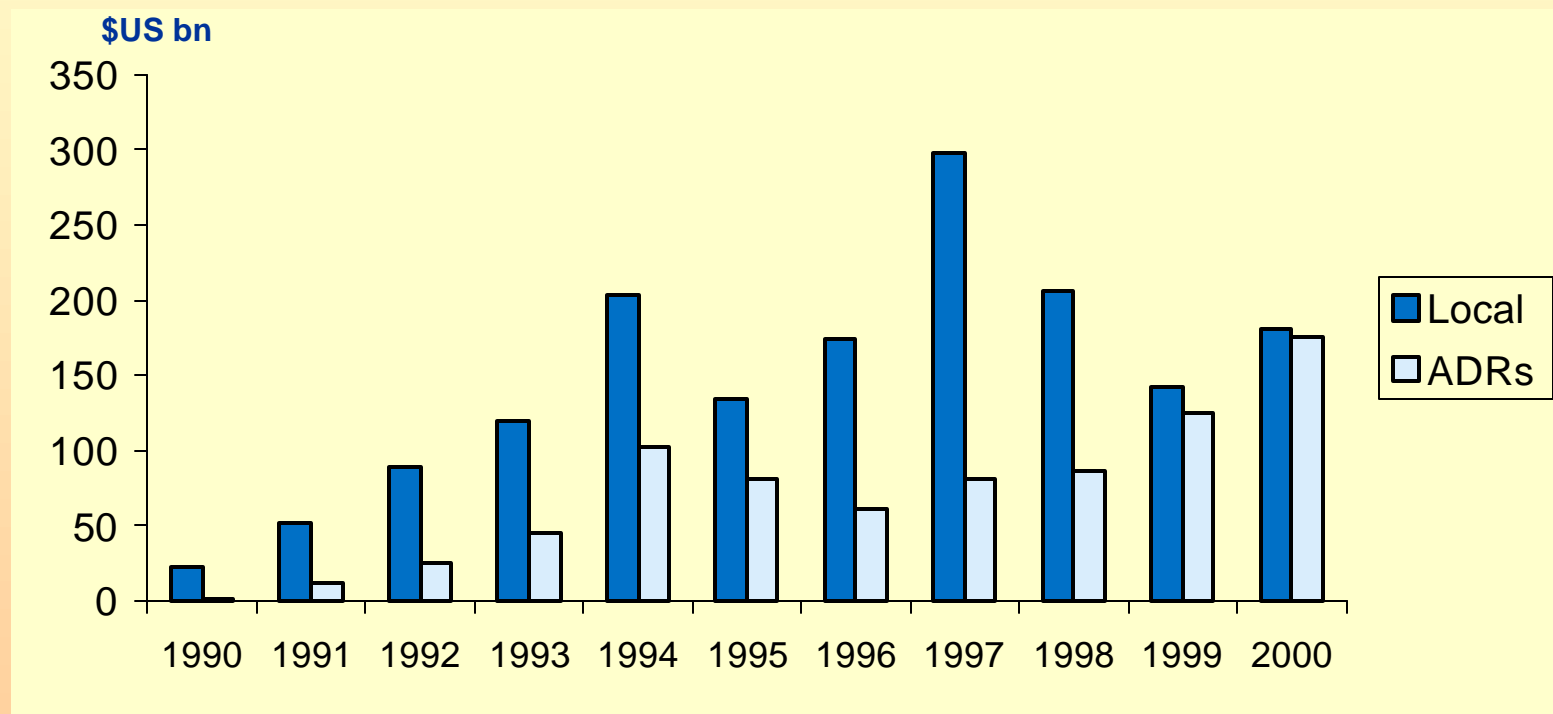


Brazil		1	3	21	25	40	52	75	91	94
Mexico	5	13	26	41	45	61	78	85	91	93
Chile		2	6	15	17	19	27	27	30	32
Argentina		3	10	18	18	21	24	24	27	28
Other	4	8	12	29	36	48	58	64	67	69
	9	27	57	124	141	189	239	275	306	316

As does the importance of trading volume outside of Latin America



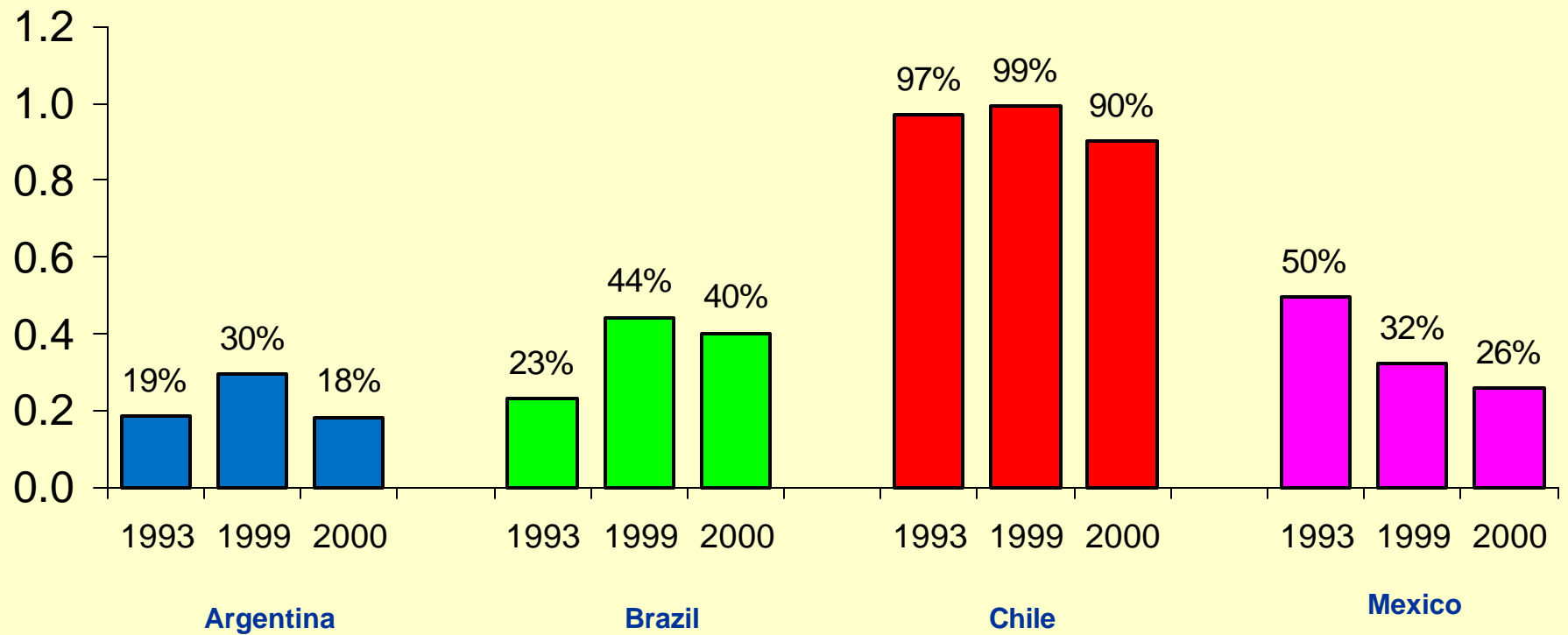
Total Latin America



Local stock market's diminishing role



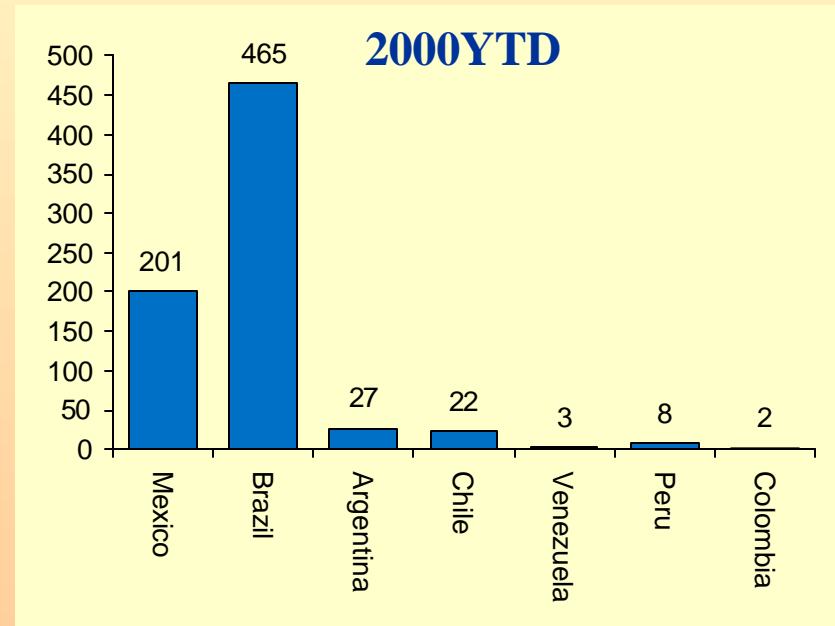
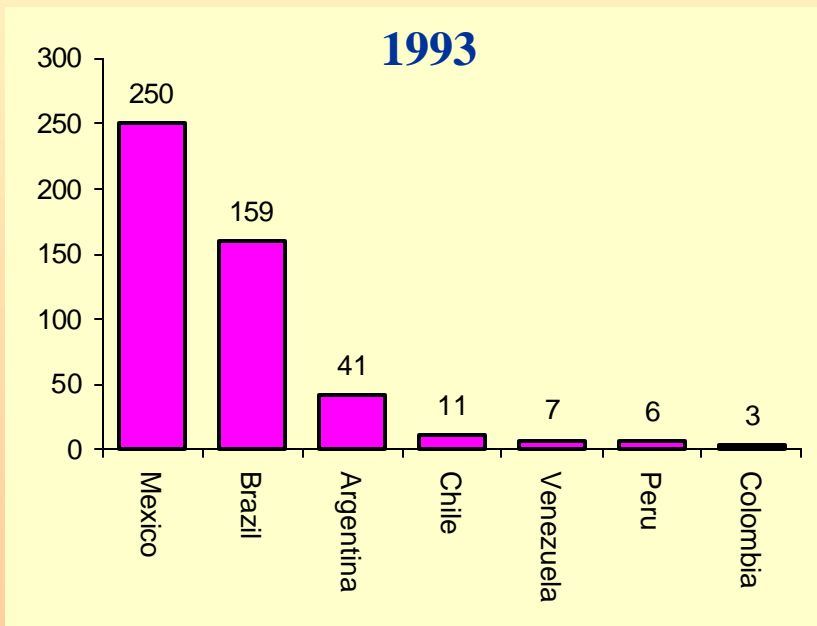
Market capitalization / GDP



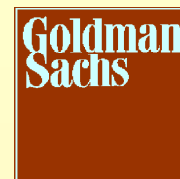
Big is beautiful: a premium for liquidity



Average daily trading volume \$US millions



Supply has not risen rapidly enough to offset decline in liquidity



Equity Offerings				Tenders			
Issuer	Country	\$US MM		Country	\$US MM		
1998				1998			
Jan	Ferrocarril del Pacifico	Chile	6	Dec	Disco	Argentina	332
Mar	GasBAN(Argentina)	Argentina	83				
Apr	Ceramica San Lorenzo	Argentina	18				
Nov	Sociedad de Inversiones Oro	Chile	14				
1999				1999			
May	StarMedia	United States	121	Apr	YPF	Argentina	12,037
Jun	Seminis Inc(Savia SA de CV)	United States	206	May	Cpfl	Brazil	970
Jul	GCO	Argentina	50	Jul	Coelba	Brazil	483
Aug	Iusacell	Mexico	131				
Aug	Distribuidora de Gas Cuyana	Argentina	61				
Oct	Ultrapar	Brazil	202				
Dec	El Sitio	Argentina	131				
2000				2000			
Jan	IMPSAT Fiber Networks Inc	Argentina	196	Jun	TSD	Brazil	2,768
Feb	DTC Direct To Company	Brazil	2	Jun	EDC	Venezuela	1,310
Mar	Inplus SA de CV Sociedad	Mexico	27	Jun	TAR	Argentina	6,798
Mar	Incomun SA de CV Sociedad	Mexico	22	Jun	TDP	Peru	2,868
Mar	Inem SA de CV Sociedad	Mexico	27	Jun	TSP	Brazil	11,900
Mar	Inguber SA de CV Sociedad	Mexico	43	Jul	Banco Rio	Argentina	2,210
Apr	Votorantim Celulose e Papel	Brazil	119	Aug	Cerj	Brazil	1,715
Jun	IdeiasNet	Brazil	18				
Jun	Fondo Lloyd Maximo	Mexico	1,005				
Jul	Embraer	Brazil	389				
Aug	America Online Latin America	United States	200				
Aug	Petroleo Brasileiro	Brazil	3,782				

6,850

43,391



Reasons behind the trends

- The recent crises have increased efforts to diversify.
- Technology has created global industries.
- The convergence of economic policy has reduced the importance of borders.



The Debate

- Correlations among countries have risen in recent years
- Globalization has increased the importance of industries
- Portfolio managers are devoting more resources to the creation of global industry teams and less to countries.
- Is this warranted?



Correlations Among Sectors Are Higher than Correlations Among Countries

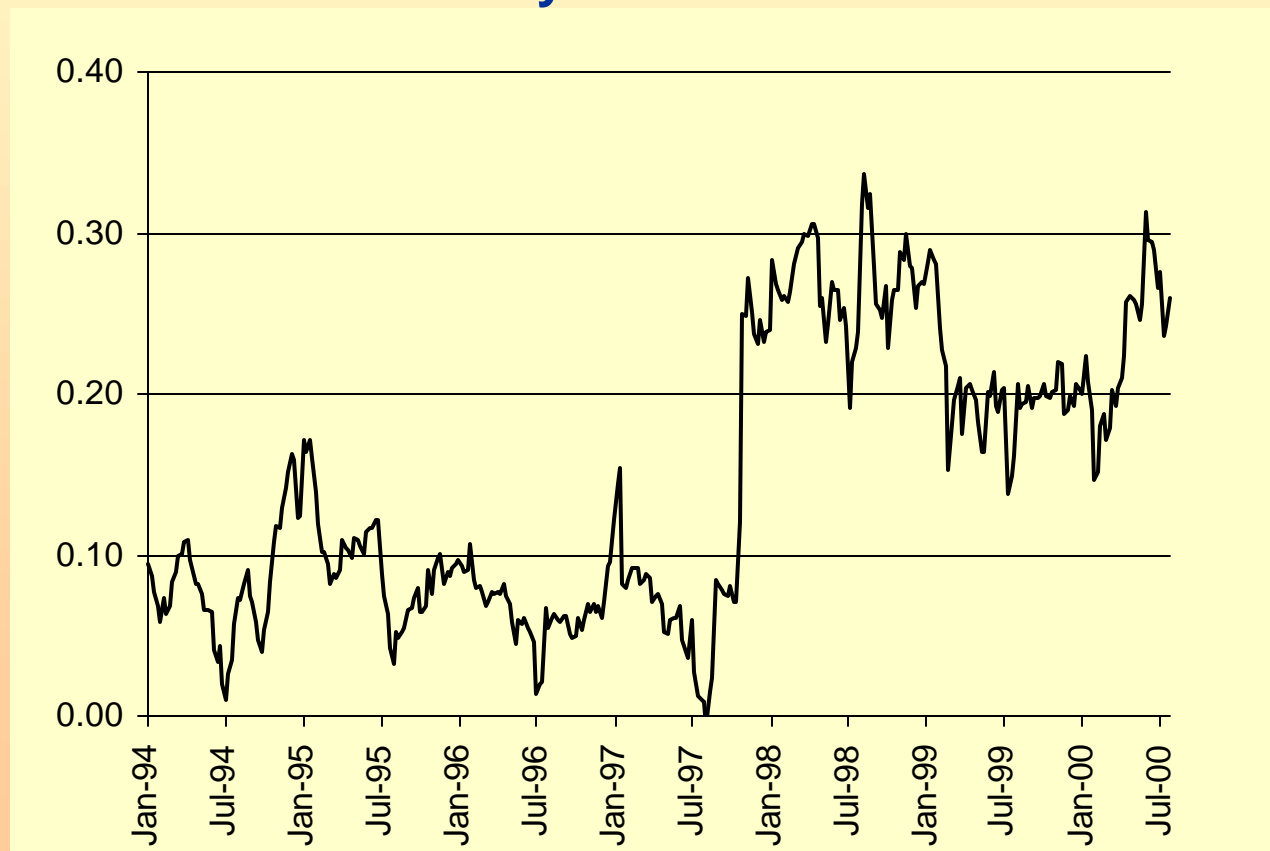
Inter-Sector and Inter-Country Correlations

<u>Sectors</u>		<u>Countries</u>	
Energy	0.48	China	0.15
Materials	0.54	Brazil	0.26
Industrials	0.52	Mexico	0.28
Consumer Discret	0.53	Korea	0.23
Consumer Staples	0.51	Taiwan,China	0.17
Health Care	0.33	India	0.16
Financials	0.55	Malaysia	0.16
Info Technology	0.37	Turkey	0.08
Telecoms	0.51	Israel	0.28
Utilities	0.50	S.Africa	0.24
Average	0.48	Average	0.20

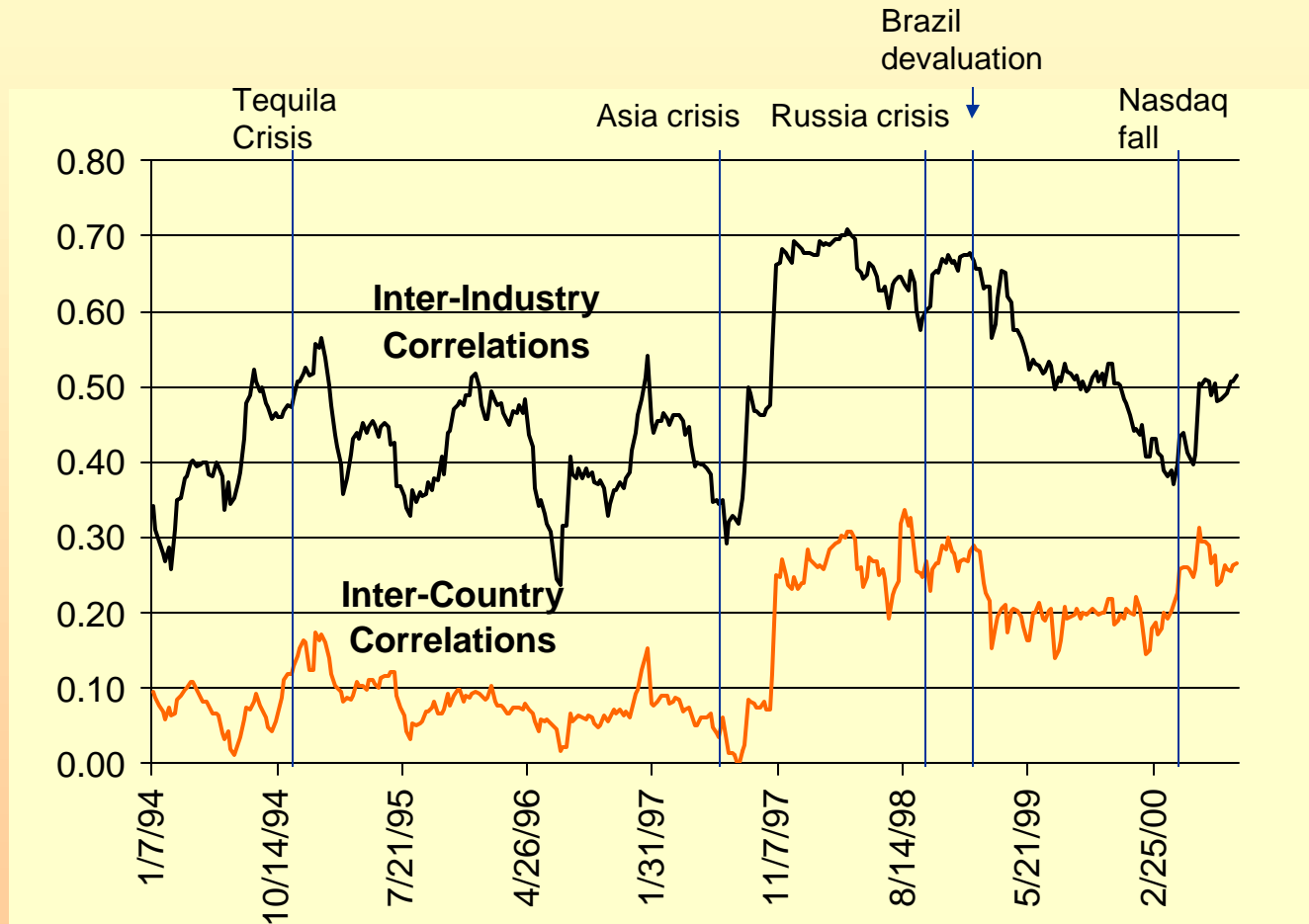


But correlation among emerging markets has been increasing suggesting less benefit from country diversification

Inter-country correlation in GEMs



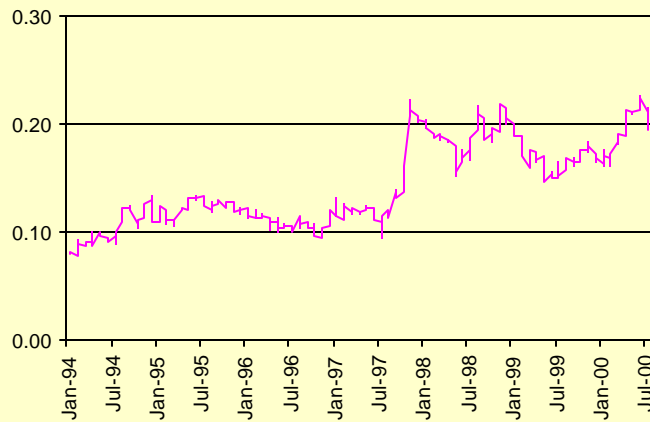
Increased inter-Country correlation is particularly visible during crises



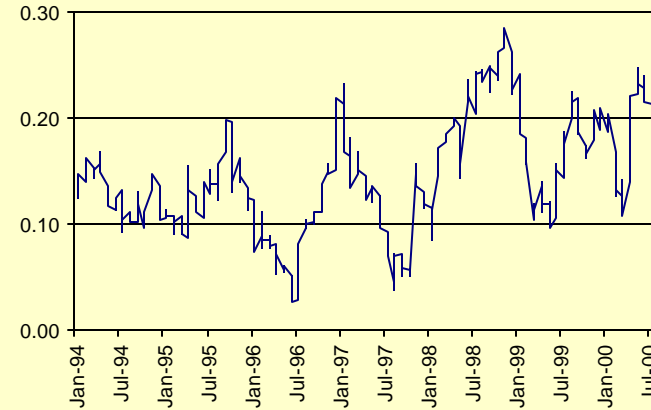


Global industries are being created

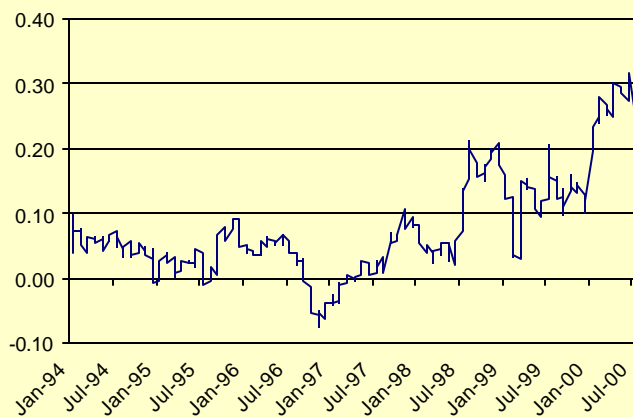
Average of Seven Sectors*



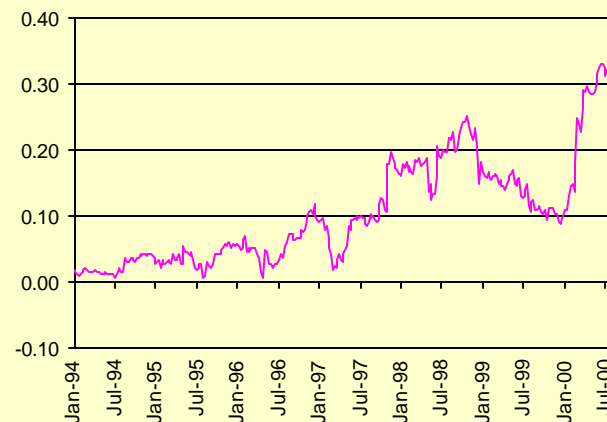
Materials



Telecommunications



Information Technology



*seven sectors are materials, consumer discretionary, consumer staples, financials, information technology, telecoms and utilities



Conclusions

- Latin America faces the best outlook in 20 years.
- Global growth, stable interest rates, and slightly lower oil prices will improve the outlook for 2001.
- Secularly, Latin America will be challenged by globalization of its sectors and a declining importance of the local financial markets.