

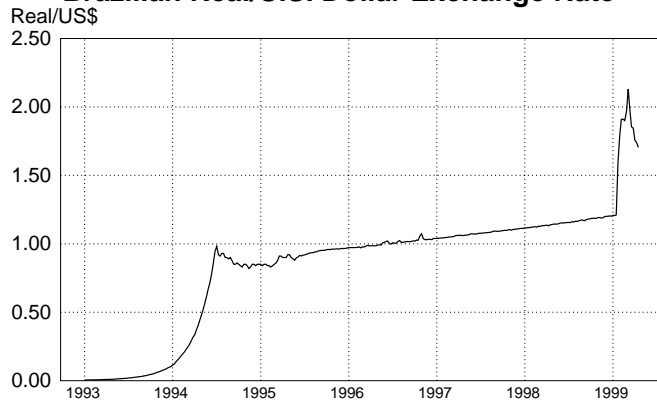
Latin America

Brazilian Real Outlook

We expect the central bank to continue lowering the target Selic rate from 39.5% to around 35.5% at the upcoming Wednesday COPOM meeting. If the rate cut occurs, it will likely be interpreted by the market as a conservative yet consistent central bank move and we do not expect it to have an impact on the spot rate. The range of the latest local expectations on the new target level appears to be between 32% and 37%. Also Wednesday, the parliamentary commission of inquiry (CPI) on alleged insider information in the banking sector at the time of the devaluation is expected to begin—a

process likely to be complicated by a recently-surfaced bribery scandal involving central bank employees. The possible involvement of government employees is likely to increase political noise, although the impact appears to be limited thus far. Finally, the COMGAS privatization (sale of a 65.4% stake) is also scheduled for mid-week and is expected have a favorable outcome. The minimum price set for the stake is R\$1.43 billion, and Merrill Lynch is expecting an approximately 18% premium over that price given the number of bidders and the quality of the company.

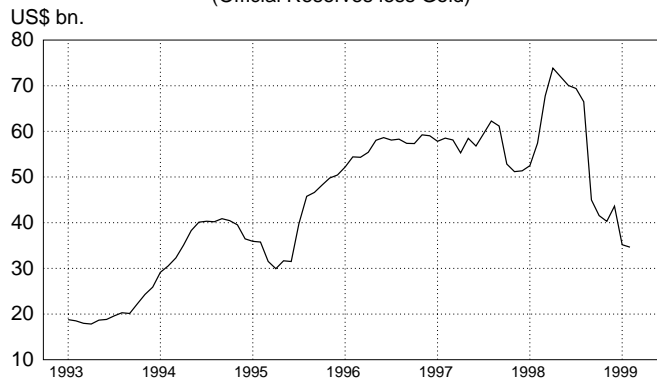
Brazilian Real/U.S. Dollar Exchange Rate



Brazil/U.S. Short-Term Interest-Rate Spread



Brazil's Reserves
(Official Reserves less Gold)



Brazil's Stock Market



Brazil
Key Economic Indicators and Forecasts

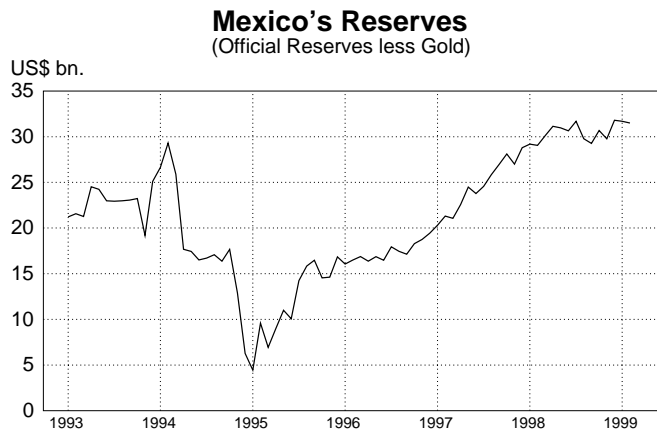
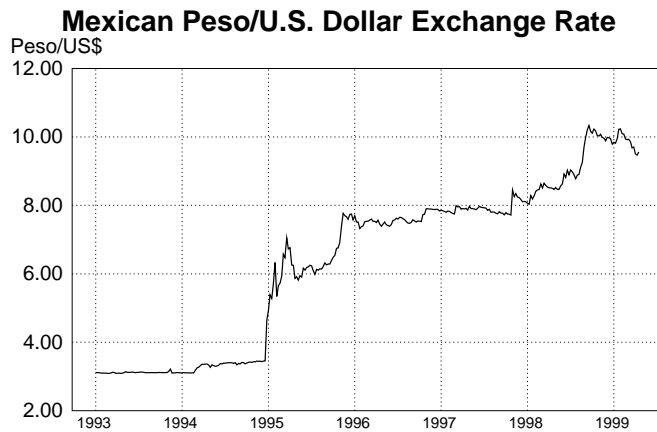
	1991	1992	1993	1994	1995	1996	1997	1998f	1999f	2000f
Real GDP Growth (%)	0.3	-0.8	4.2	6.0	4.2	2.9	3.7	0.2	-4.6	3.4
Inflation Rate (%)	440.9	1008.7	2148.5	2668.6	84.4	10.0	4.8	-1.8	33.0	40.0
Current Acc't Bal (%GDP)	-0.3	1.6	0.0	-0.2	-2.6	-3.1	-4.0	-4.3	-3.4	-3.2
Trade Balance (\$ bn.)	10.6	15.2	14.3	10.9	-3.2	-5.5	-8.4	-6.5	5.5	6.2
Int'l Reserves (\$ bn.)	8.8	23.3	31.7	38.5	51.5	59.7	53.9	46.0	42.0	42.0
Budget Balance (% GDP)	-0.5	-2.0	-1.4	1.1	-4.8	-6.1	-6.1	-7.8	-10.9	-12.0

Source for 1991-1995 Data: *Latin America after a Decade of Reforms*, The Inter-American Development Bank, Sept. 1997.

Mexican Peso Outlook

The peso continued to surprise the market with its unexpected strength last week, trading as strong as MXP9.45/US\$ despite further decreases in rates across the yield curve. Thus, early last week there were moves toward profit taking, though domestic economic news provided little encouragement to do so. An opportunity for profit taking finally came last Friday. A comment in a speech by central bank president Ortiz that he expected the currency to weaken “sooner rather than later” was apparently taken out of context by the media, and, combined with a recent fear of an upcoming reduction in the *corto*, was enough to feed a mild peso sell-off to MXP9.55/US\$ by the end of the week. Yesterday, supported by slightly higher interest rates, the peso strengthened back to MXP9.51/US\$.

We continue to believe that given a consistently improving inflation profile, the *corto* likely *will* be reduced “sooner rather than later”, giving the market another medium-term, interest rate-bullish signal to be priced in. Thus, if the economic news on inflation and trade reflects improving domestic fundamentals, any short-term upset for the peso from a *corto* reduction should be limited and quickly reversed by the central bank, since it would certainly be counterproductive to maintain high short-term interest rates and attract volatile short-term flows. Finally, we note that current nominal rates imply real short-term rates of around 8.5-9.0%—high enough to compensate for the risk of rolling over domestic financial savings in the local fixed income market.



Mexico Key Economic Indicators and Forecasts

	1991	1992	1993	1994	1995	1996	1997	1998f	1999f	2000f
Real GDP Growth (%)	3.6	2.8	0.7	4.5	-6.2	5.1	7.0	4.9	2.3	4.0
Inflation Rate (%)	22.7	15.5	9.7	6.9	35.0	27.7	15.7	18.6	16.0	12.0
Current Acc't Bal(% GDP)	-5.1	-7.3	-5.8	-7.0	-0.2	-0.6	-1.8	-3.8	-2.8	-3.6
Trade Balance (\$ bn.)	-7.3	-15.9	-13.5	-18.5	7.1	6.5	0.6	-7.7	-5.4	-7.9
Int'l Reserves (\$ bn.)	18.0	19.2	25.3	6.3	15.4	19.3	28.4	30.1	28.6	29.0
Budget Balance (% GDP)	1.8	3.4	0.7	-0.1	0.0	-0.1	-0.8	-1.4	-1.5	-1.5

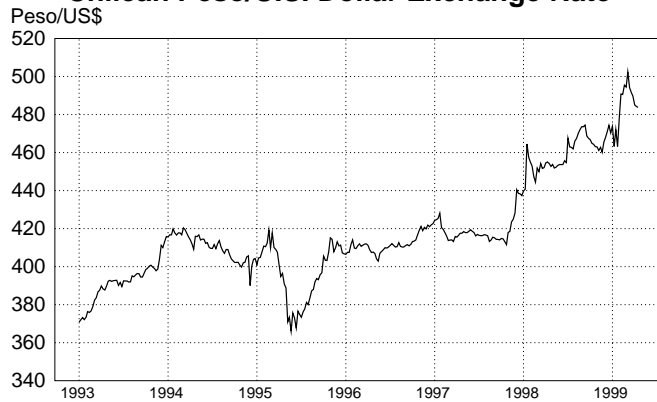
Source for 1991-1995 Data: *Latin America after a Decade of Reforms*, The Inter-American Development Bank, Sept. 1997.

Chilean Peso Outlook

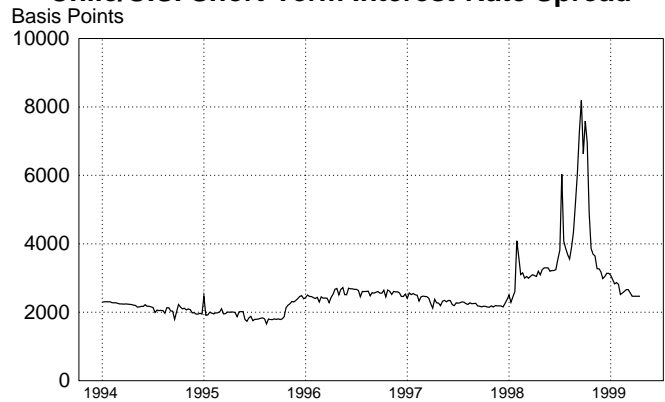
We believe that the peso will continue to be supported by rapidly improving external accounts and strong portfolio inflows. Yields for three-month forwards remain relatively high (13.3%) by Chilean standards, implying expected annualized dollar returns of 19.6%. Further nominal appreciation is likely following 3.4% appreciation over the past month. The central bank surprised the market, both in timing and size, with a 50 basis point cut in the reference interest rate on April 6. Facilitated by an improved outlook for capital and trade accounts, the cut is likely to bring renewed stability to the exchange rate and steady performance on the inflation front.

Substantial recent portfolio inflows, directed primarily at Chilean companies, have increased the expected foreign exchange supply and revived interest in the local equity market (by stemming local pension fund investment in foreign markets), thus solidifying the outlook for the capital account. Similarly, thus far in 1999 monthly trade surpluses have exceeded initial expectations, with imports falling by approximately 30% and exports moving out of negative territory. Local economists believe that the US\$2.5 billion 1998 trade deficit is likely to be halved in 1999. Inflation has remained below the year-end target in the first three months of the year, while a softer labor market indicates that the year-end target of 4.3% will likely be met with ease.

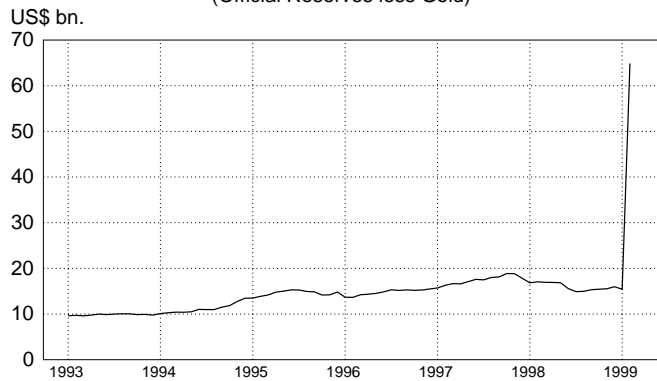
Chilean Peso/U.S. Dollar Exchange Rate



Chile/U.S. Short-Term Interest-Rate Spread



Chile's Reserves
(Official Reserves less Gold)



Chile's Stock Market



Chile
Key Economic Indicators and Forecasts

	1991	1992	1993	1994	1995	1996	1997	1998f	1999f	2000f
Real GDP Growth (%)	7.3	11.0	6.3	4.2	8.5	7.4	6.7	3.5	1.5	4.0
Inflation Rate (%)	22.0	15.4	12.2	12.0	7.9	7.4	6.0	4.7	5.0	4.5
Current Acc't Bal(% GDP)	0.3	-1.6	-4.5	-1.2	0.2	-5.4	-5.2	-6.3	-5.2	-6.0
Trade Balance (\$ bn.)	1.6	0.8	-1.0	0.7	1.4	-1.1	-1.3	-2.5	-2.1	-2.4
Int'l Reserves (\$ bn.)	7.6	9.7	10.2	13.7	14.8	14.6	17.8	15.3	15.1	15.4
Budget Balance (% GDP)	2.2	2.8	2.0	2.0	3.5	1.3	1.7	1.2	0.5	0.5

Source for 1991-1995 Data: *Latin America after a Decade of Reforms*, The Inter-American Development Bank, Sept. 1997.

Colombian Peso Outlook

Over the past month, local yields have continued to fall without affecting the exchange rate. However, a combination of local illiquidity due to the financial transactions tax and an apparent lack of coordination between the monetary authorities and the government on the desired level of the spot rate have resulted in significant intraday peso volatility. The 90-day benchmark DTF deposit rates fell by 394 basis points over the last month alone, to 23.10%, and are now 1,447 basis points off recent highs. We don't believe recent interest rate declines are responsible for last week's exchange rate jump to COP1,600/US\$, and the limited presence of foreigners and very positive inflation performance over the past several months (March inflation was 13.48% year-over-year, the lowest level recorded in a decade) support this belief. Similarly, there are signs that point to possible appreciation pressures for the peso, irrespective of the apparent desire on the part of the

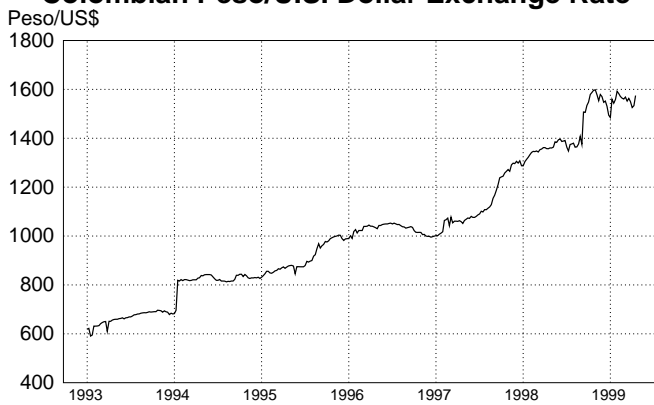
government to see it on the weak side of the band (the midpoint on Monday was COP1,584.29/US\$). For example, diminished import demand, an increased share of external financing of the fiscal deficit, expectations for successful privatizations in 1999 and the oil price recovery are all factors that have a direct impact on the relative supply of foreign exchange in the market. These factors are also partly responsible for the relative ease with which the central bank has lowered interest rates. Hence, while it appears that the authorities may have undermined their own efforts recently, there is little to suggest that a major devaluation is likely, or even warranted, at this stage.

Note: Latin American currency comments by:

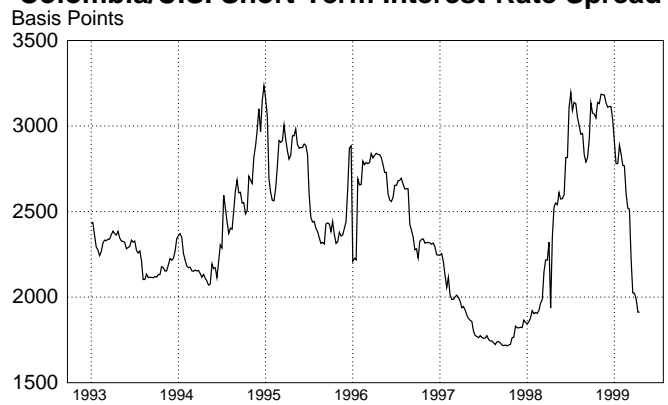
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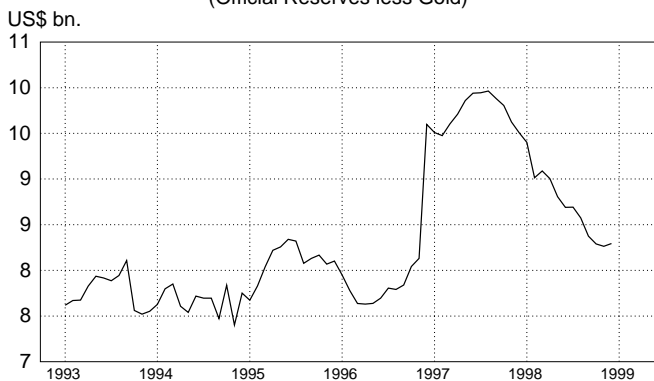
Colombian Peso/U.S. Dollar Exchange Rate



Colombia/U.S. Short-Term Interest-Rate Spread



Colombia's Reserves (Official Reserves less Gold)



Colombia's Stock Market

