



November 8th, 2013

International Credit Markets and Opportunities for Peruvian Issuers

Week in Review

News Headlines

- **The FOMC met expectations last week by announcing that it would maintain its bond buying program after its meeting.** However, the statement was less dovish than expected as it failed to note the economic impact of the government shutdown and even stated that the Fed is seeing signs of the economy recovering, indicating that tapering is likely to be earlier than previously expected
- **Equity markets saw mixed results as blue chip stocks moved slightly up but more volatile stocks such as tech and small cap experienced losses**— the market was quiet in the beginning of the week as traders waited for the FOMC announcement but weak economic news released on Tuesday pushed stocks higher as expectations increased that the Fed would delay tapering. However, after the FOMC meeting stocks declined as the statement led some to believe that tapering would begin earlier than expected
 - The DJIA was up 0.3%, the S&P 500 up 0.1% and the NASDAQ down 0.5%
 - The VIX index ended flat last week at 13.10, although there was a spike mid-week to 13.79 after the FOMC announcement
- **Treasury rates moved higher last week as traders interpreted the FOMC statement as a sign that the Fed is more likely to begin tapering by December.** This sentiment was further confirmed by positive economic news as the Chicago PMI improved to its fastest pace and there was a better than expected ISM manufacturing release on Friday
 - This past week treasury rates ended as follows: the 3-month T-Bill unchanged, the 2-year note up 1 bp, the 7-year note down 14 bp, the 10-year note up 11 bp, and the 30-year bond up 10 bp
- **The outlook on the economy remains mixed as recent economic data has been volatile. Manufacturing data is net negative while the recent ISM releases hint at a recovery and core retail sales are healthy but consumer confidence is weak.** The Fed confirmed that tapering is not on a preset course but instead is data dependent with a 6.5% unemployment rate widely seen as the benchmark for tapering to begin
 - Headline retail sales slipped 0.1% in September but core sales showed broad based gains while consumer confidence fell to 71.2 from 80.2
 - The Markit PMI index showed only 51.8 for final October but the ISM posted a healthy 56.4, giving a mixed message on the state of the economy

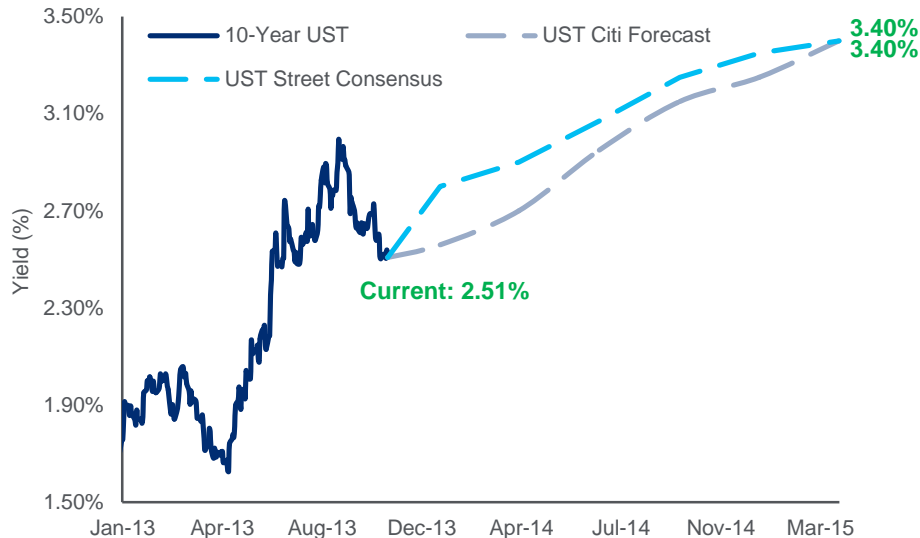
Primary Market Overview

| YTD ISSUANCE | FY '10 | FY '11 | FY '12 | YTD '13 | Same Period in 2012 | Δ YoY % | Weekly Issuance Δ |
|-----------------|--------|--------|---------|---------|------------------------|---------|----------------------|
| LatAm Issuance | \$91.1 | \$94.9 | \$116.2 | \$111.3 | \$102.4 | 8.7% | \$0.70 |
| LatAm Loans | 43.2 | 63.4 | 54.5 | 45.9 | 44.0 | 4.3% | 0.70 |
| EM Issuance | 323.7 | 325.6 | 484.4 | 437.3 | 415.7 | 5.2% | 7.40 |
| US HY Issuance | 207.0 | 246.0 | 320.5 | 267.3 | 270.8 | (1.3%) | 9.98 |
| US IG Issuance | 374.1 | 455.5 | 622.5 | 506.1 | 514.1 | (1.6%) | 16.40 |
| US FIG Issuance | 336.5 | 298.2 | 310.3 | 348.8 | 280.8 | 24.2% | 7.00 |

Equity and Credit Market Backdrop and Forecasts

10-Year Treasury Yield Forecast

Yield forecasts are trailing the recent sell-off in rates amidst an improving environment



Rate Forecasts

Citi forecasts as of October 23, 2013; Bloomberg forecasts as of Oct 10, 2013

| 5-year Treasury | Current | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|-----------------------|---------|-------|-------|-------|-------|-------|-------|
| Citi's Forecast | 1.28% | 1.45% | 1.53% | 1.68% | 1.80% | 1.98% | 2.20% |
| Economists' Consensus | 2.51% | 2.56% | 2.70% | 2.95% | 3.15% | 3.25% | 3.40% |

| 10-year Treasury | Current | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|-----------------------|---------|-------|-------|-------|-------|-------|-------|
| Citi's Forecast | 2.51% | 2.85% | 3.98% | 4.20% | 4.33% | 4.38% | 4.50% |
| Economists' Consensus | 2.51% | 2.80% | 2.90% | 3.07% | 3.25% | 3.35% | 3.40% |

| 30-year Treasury | Current | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|-----------------------|---------|-------|-------|-------|-------|-------|-------|
| Citi's Forecast | 3.65% | 3.85% | 3.98% | 4.20% | 4.33% | 4.38% | 4.50% |
| Economists' Consensus | 3.65% | 3.80% | 3.90% | 4.06% | 4.20% | 4.27% | 4.21% |

| Fed Funds* | Current | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|-----------------------|------------|-------|-------|-------|-------|-------|-------|
| Citi's Forecast | 0.0%-0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% |
| Economists' Consensus | 0.0%-0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% |

| LIBOR | Current | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|-----------------------|---------|-------|-------|-------|-------|-------|-------|
| Citi's Forecast | 0.24% | 0.30% | 0.35% | 0.45% | 0.55% | 0.63% | 0.73% |
| Economists' Consensus | 0.24% | 0.28% | 0.30% | 0.30% | 0.30% | 0.33% | 0.40% |

Long-Term 10Y Forecasts

| | | | | | | |
|-----------------|-------|-------|-------|-------|-------|-------|
| Citi's Forecast | 2.51% | 2.70% | 3.25% | 3.50% | 3.75% | 4.00% |
|-----------------|-------|-------|-------|-------|-------|-------|

Note: Quarterly forecasts are projected period averages; annual forecasts are year end

Treasury Movement Around Key Economic News

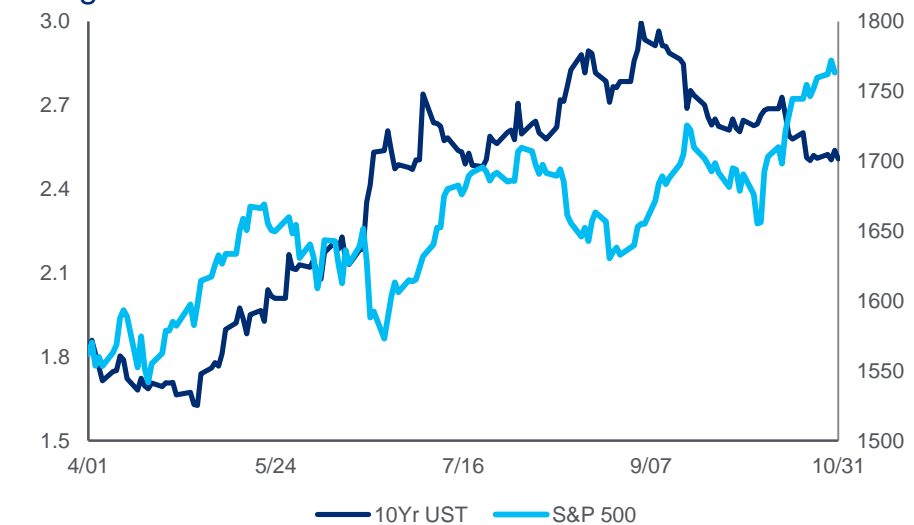
After the Fed announced it would not taper, Rates rallied 20+ bp



Key Events

- 08/15/13: Initial Jobless Claims
- 08/21/13: Fed Minutes Released
- 09/06/13: September Nonfarm Payrolls / Unemployment Rate
- 09/18/13: FOMC Meeting Minutes: No Fed Tapering Imminent
- 10/01/13: Federal Government Shutdown
- 10/09/13: President Obama nominates Janet Yellen for Fed Chairman
- 10/16/13: Congress reaches deal to reopen government and suspend debt ceiling until 2014
- 10/30/13: FOMC Meeting Minutes: No tapering

Equities Reach All-Time Highs On Congressional Budget Resolution



Source: Bloomberg; Citi

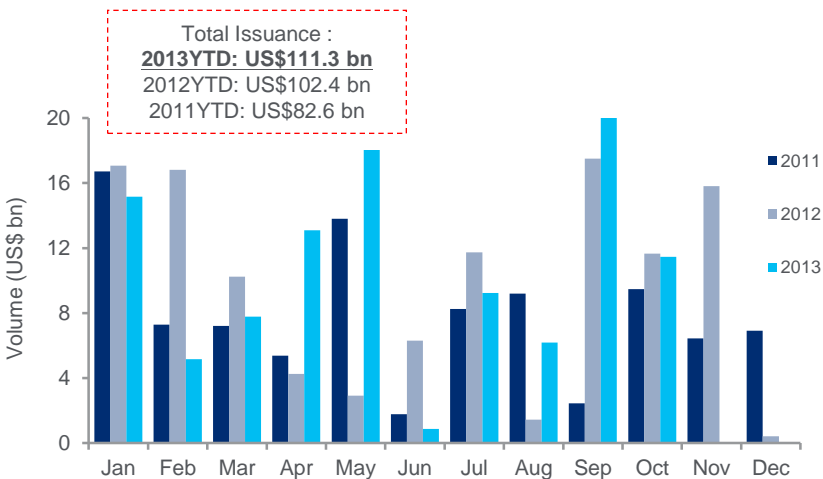
Latin America Markets Update

Latin America credit market sentiment remained strong last week despite the Fed's more hawkish than expected statement at the FOMC meeting as 3 issuers priced \$756.7 mm in new money. With 6 issuers holding investor meetings last week, the LatAm pipeline remains strong.

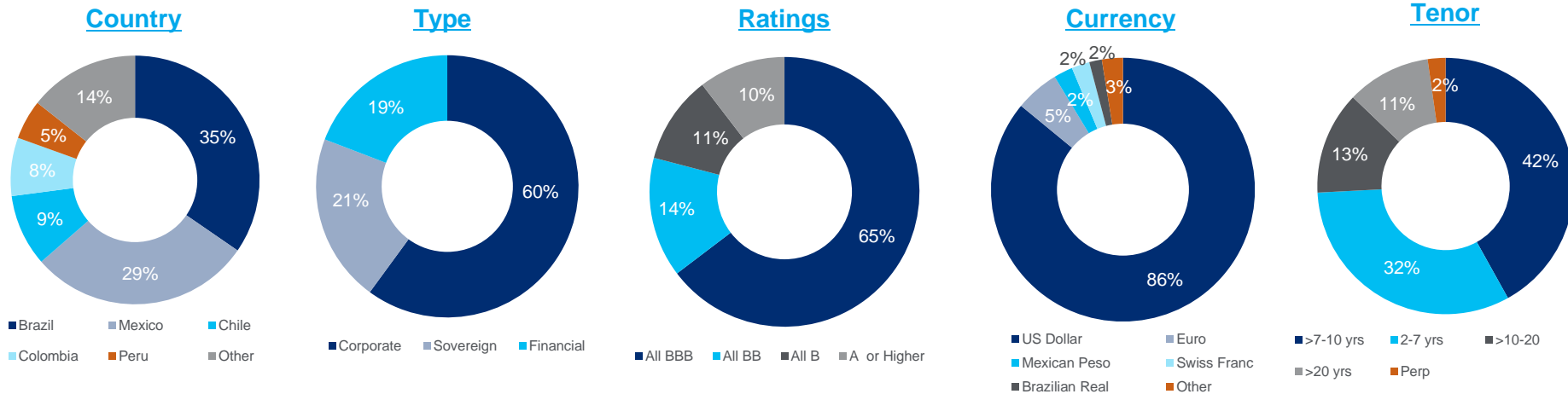
Commentary

- October was a slower month of issuance in Latin America when compared to September due to the partial government shutdown and U.S. debt ceiling crisis when the primary fixed income market was effectively frozen. However, once the situation was resolved market sentiment turned bullish and issuers priced \$11.5 bn of new money, with over 90% of October issuance coming from the last two weeks of the month
 - Issuance last week was \$756.7 bringing LatAm YTD issuance to \$111.3 bn
- A few trends in the current state of the LatAm markets:
 - The first non-US\$ transaction in over a month was priced last week, in 2013YTD 86% of issuance has been in US\$
 - Financial issuance is smaller when compared to 2012 YTD and has been exceeded by sovereign issuance in 2013

Historical LatAm Issuance

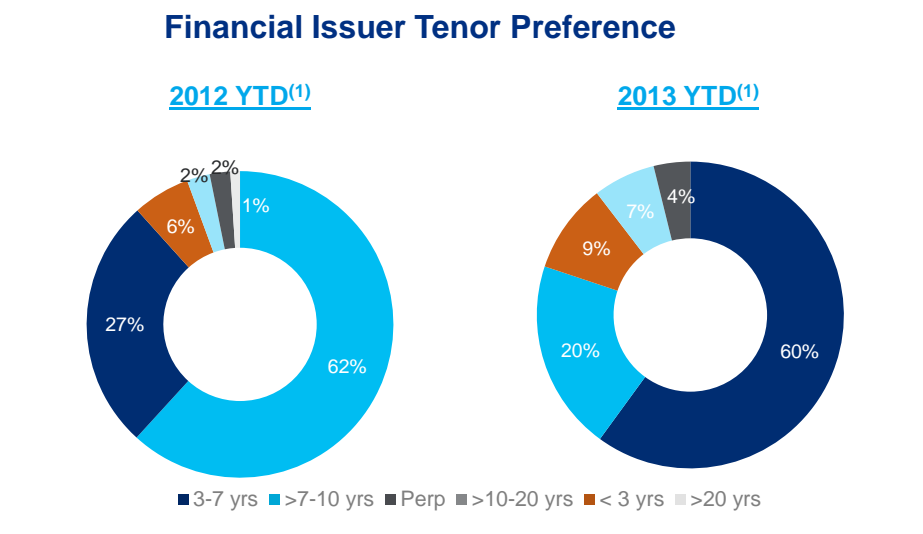
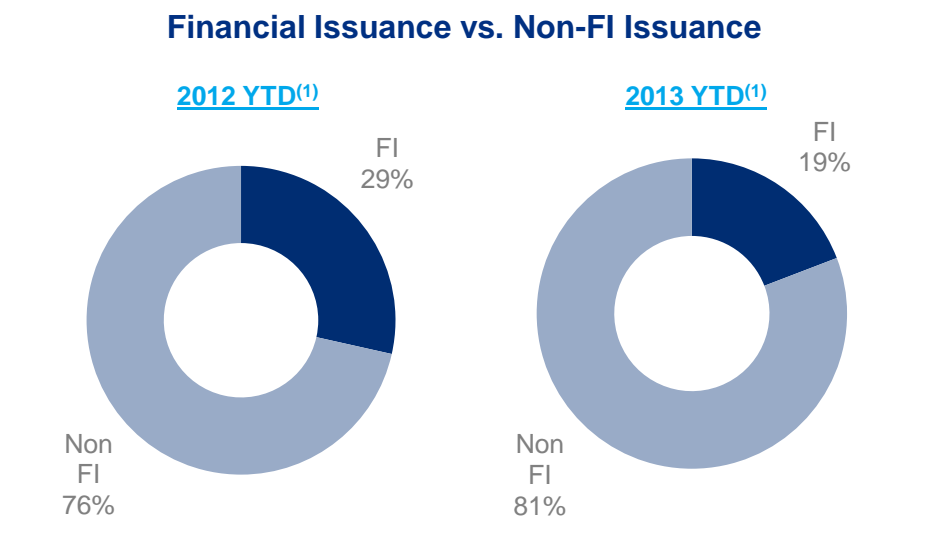
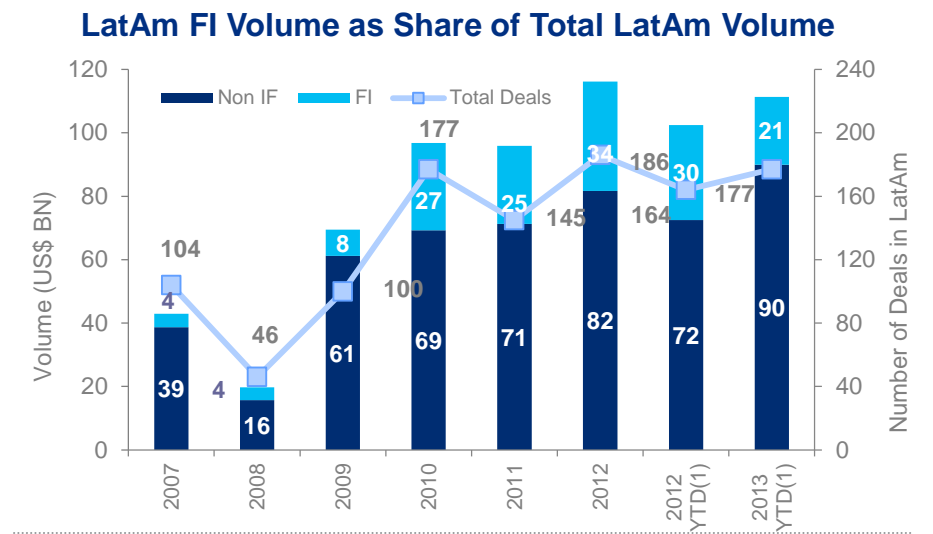


2013YTD Issuance Trends



Latin American Financial Institutions

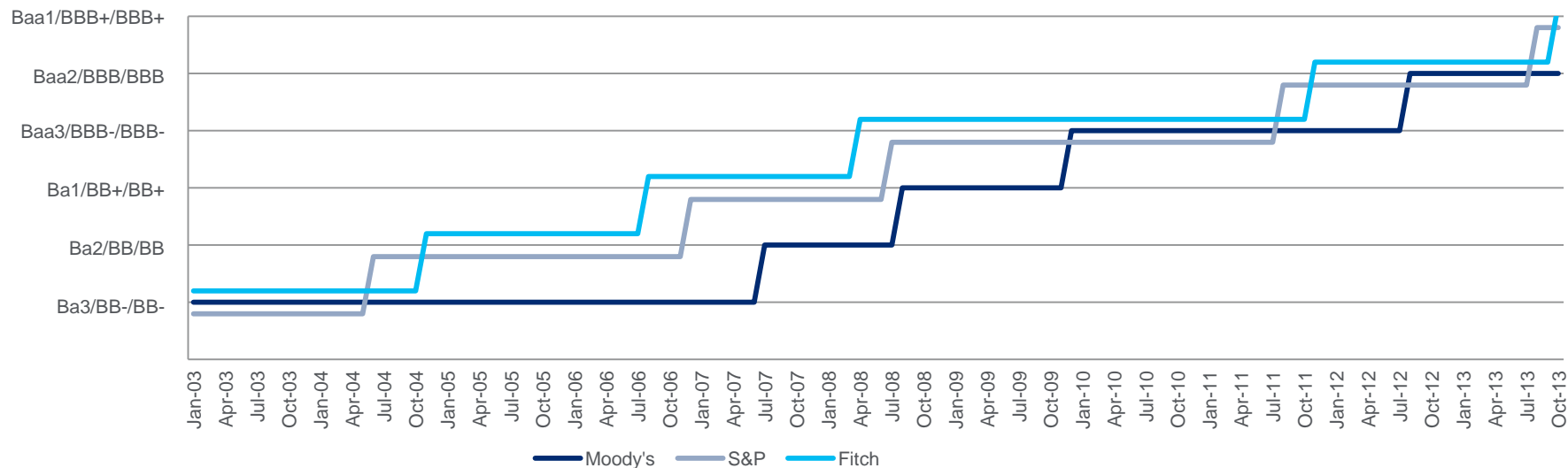
While FI issuance in 2013YTD is lower than 2012YTD, the contrast is rather seen in the type of debt. For 2012YTD a larger portion was in subordinate debt, while the majority this year has been printed as senior debt. Additionally, shorter tenors have been preferred throughout 2013, while in 2012 it was longer dated tenors.



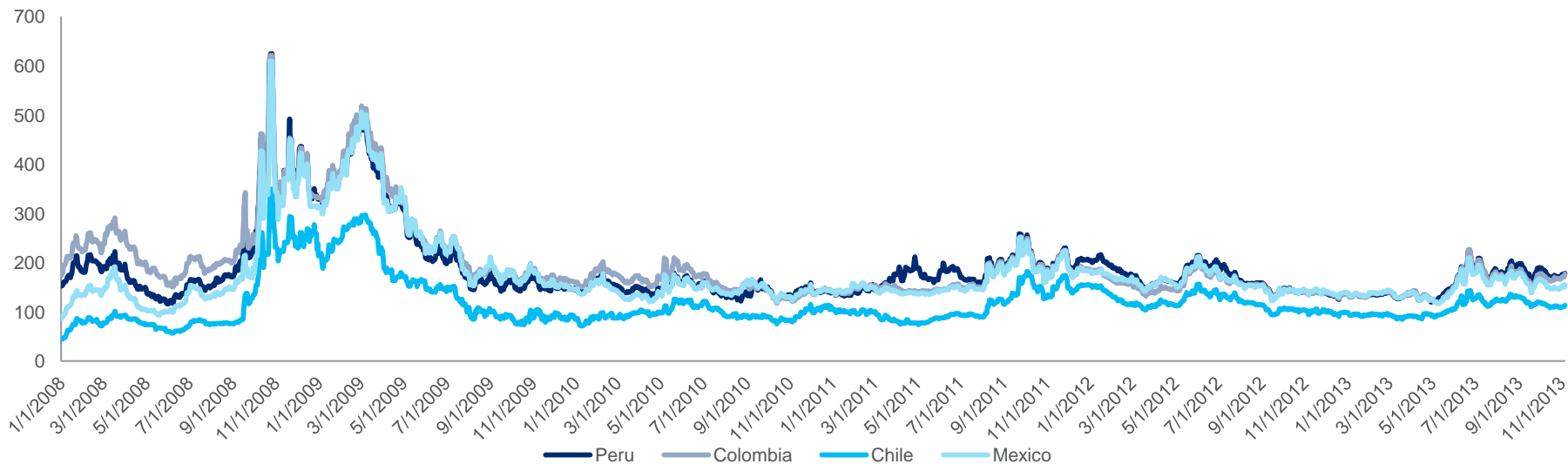
(1) LTM as of November 1, 2013

Rating and CDS Evolution

Peruvian Rating Evolution Since 2003

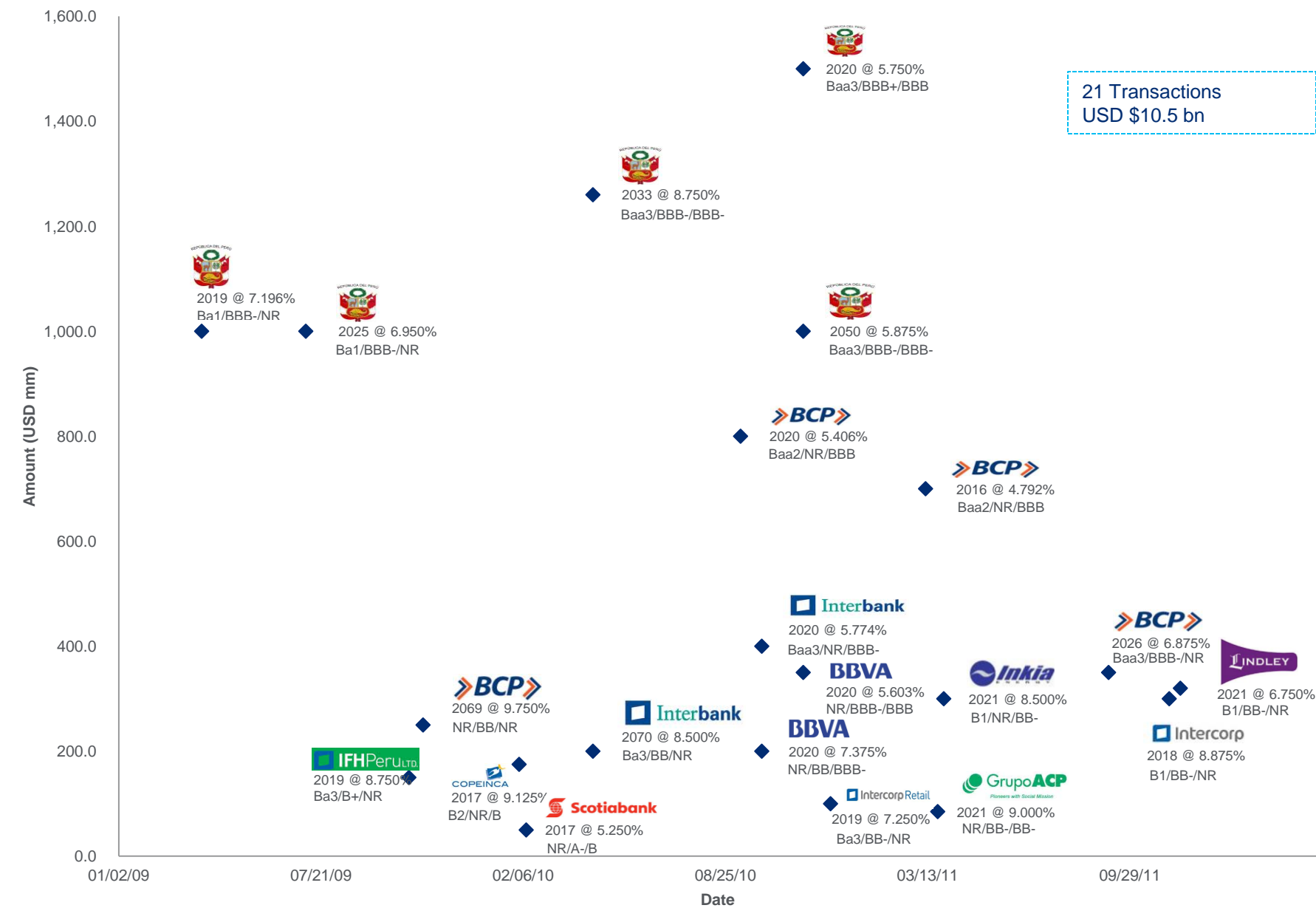


CDS Evolution Since 2008



Source: Bloomberg

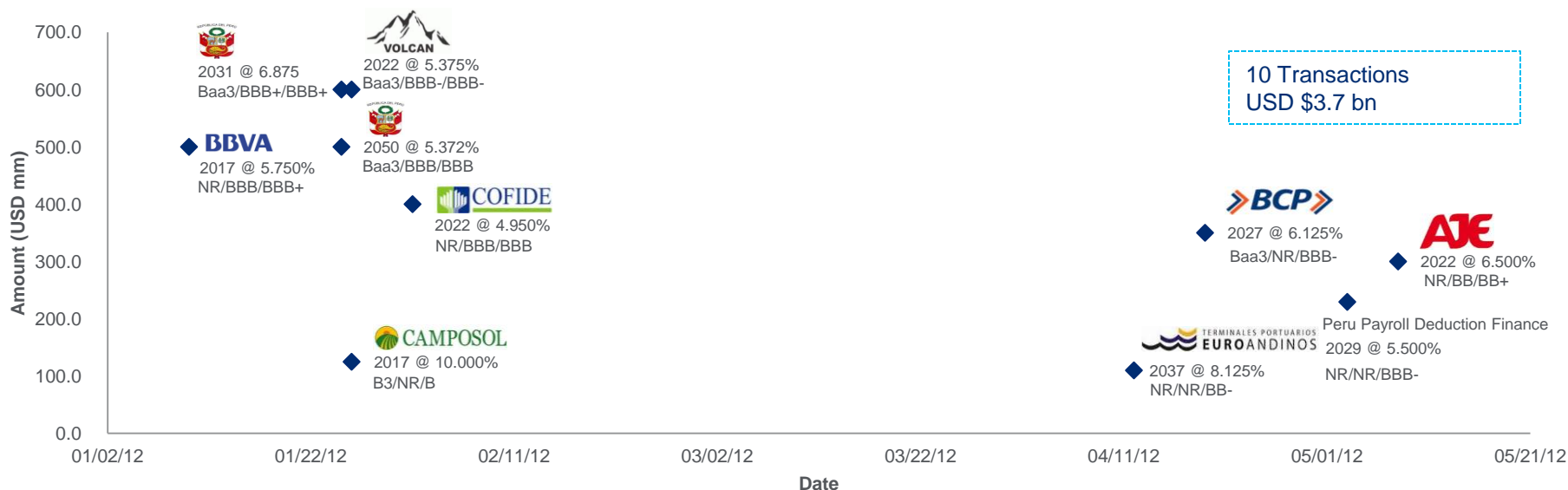
2009 – 2011 Peruvian Bond Issuances



Source: Citi

2012 & 2013 Peruvian Bond Issuances

2012



2013



Source: Citi

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