



Weekly Observatory

July 11th, 2008

Weekly Highlights (July 11th-July 18th, 2008)

Central banks in Chile and Peru raised their reference rates by 50 and 25 basis points, respectively. Both institutions maintain a restrictive bias in monetary policy, which has contributed to the appreciation of their currencies. In both cases, the increases were below market expectations, although in Peru the decision was complemented by an additional increase in reserve requirements. In Venezuela, June inflation data surpassed expectations, while the contrary happened in México and Brazil. With the exception of Argentina and Venezuela, sovereign spreads improved slightly.

1. Argentina

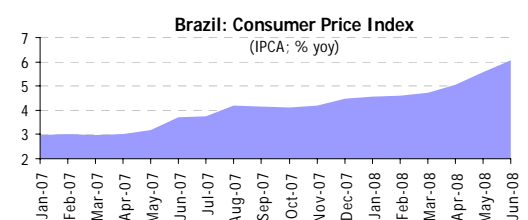
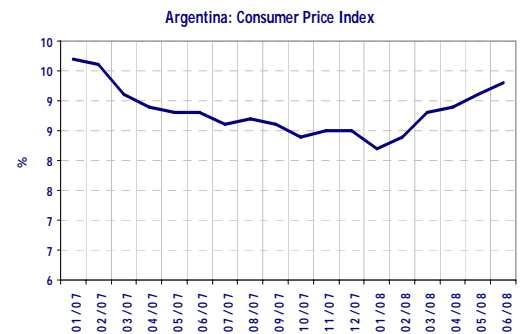
- **Official CPI inflation** in June was the same as the previous month's (0.6%), and 9.3% y/y. In contrast, Food and Beverage prices rose 0.7%, after the low increase registered in May (0.1%) when the framers' strike had been temporarily lifted.
- The **Badlar rate** has shown greater instability, from the peak of early June finally closed by 12.75%.

2. Brazil

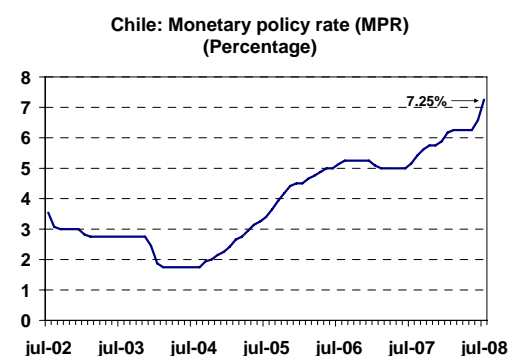
- On Thursday, the IBGE released **inflation data** for **June**. The IPCA index increased 0.74% on a monthly basis, below the market consensus of 0.82%. Despite being below expectations, the current reading is the second highest monthly increase in 2008, placing the yoy rate at 6.06%. Once again, food prices carried most of the responsibility for the surge in prices. But at the same time, core inflation has also moved upwards (0.5% mom), suggesting that price pressures are not limited to food or energy components.

3. Chile

- The Council of the Central Bank of Chile decided to increase by 50 bps the monetary policy rate (MPR) and announced that additional adjustments upwards may be required.
- This tightening bias is not as large as expected: the report says that additional increases will be subject to new information, in particular government spending.

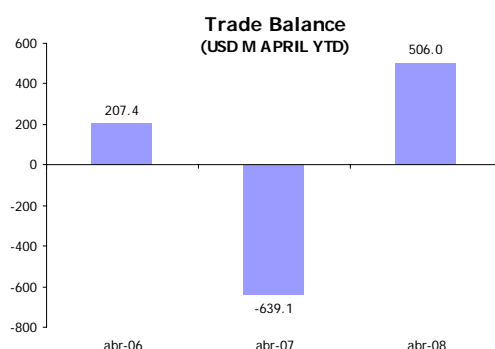


Source: Bloomberg



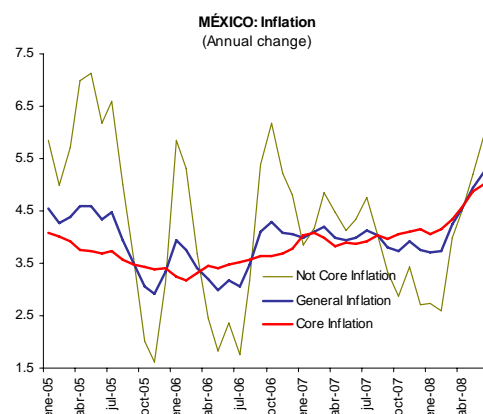
4. Colombia

- Colombia's Industrial Association (ANDI) showed in a survey that **industrial production** grew 1.9% (year to date) in May. The result shows a deceleration compared to the result of the 2007 same period (7.5%). Juan Carlos Villegas, ANDI's director said that the deceleration is the result of a stronger peso and higher interest rates.
- Colombia registered a **trade surplus** of USD 164.3 M in April compared with a USD 173 M surplus in the same month of 2007. April's surplus is the result of a 34.3% growth in exports and a 37.3% growth in imports.



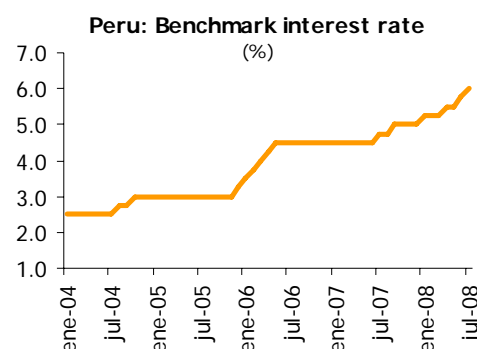
5. Mexico

- The CPI increased at 0.41% monthly rate in June (5.26% yoy); meanwhile core inflation rose 0.45% mom (5.02% yoy). The annual inflation average in the second quarter (4.92%) was close to the upper limit set by the Central Bank. However, processed food, shelter and government managed prices (i.e. natural gas) continue to exert additional upward pressure on inflation.



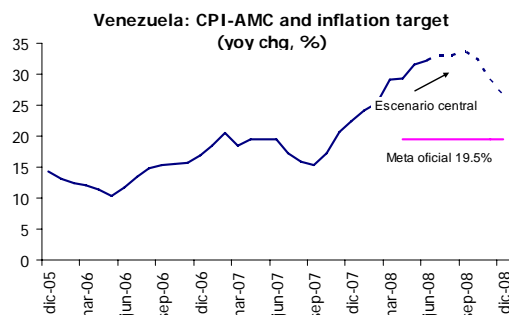
6. Peru

- On July 10, Peru's Central Bank Board raised its policy interest rate by 25bp, from 5,75% to 6,0%. In addition, it increased minimum legal reserve requirements in both soles and US dollars from 8,5% to 9%, while the marginal reserve requirement in US dollars was raised from 45% to 49%. The Central Bank argues that these measures aim at restraining the upsurge in commodity prices (food and oil prices, in particular) from driving inflation expectations upwards, in a context in which aggregate expenditure is rapidly growing.
- We expect GDP to have grown in May between 6,8% and 7,2% yoy. This result includes a downward effect due to the fewer working days in comparison to May 2007 (holidays due to the LAC-EU summit held in Lima). Without this effect, the growth rate would have been close to 10% (similar to this year's monthly average). In other words, economic activity does not seem to be decelerating.



7. Venezuela

- Headline consumer price inflation** decelerated on a monthly basis in June, recording 2.3%, lower than the 1.2 percentage points (pp) of May. Notwithstanding on a y-o-y basis, the inflation continued on the increasing path of the last 9 months, reaching 32.2%. This is much larger than the 2008 official inflation target of 19.5%. Among the most important items, according to their contribution to monthly inflation, Foods and Medical Care Services had the largest surge, 4.1% and 3.9%, respectively. At a national level, the growth of prices also diminished, reporting 2,4% on June, slightly lower (0.8pp) than May.



The latest from markets

Debt and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. Dec 2008
Argentina				
7 day Central Bank rate	8.25	0	75	---
Badlar rate	12.75	386	944	16.00
Brasil				0.00
Official Rate	12.25	0	25	13.50
Andima 1 year bond	14.73	49	380	---
Chile				0.00
Official rate	7.25	50	175	7,00
Swap CLP	7.90	33	265	---
10 year rate	3.35	-20	11	---
Colombia				0.00
Official Rate (BR)	9.75	0	75	9.75
DTF	9.80	-12	142	---
TES jul-2020	12.67	40	279	---
México				0.00
Tipo oficial (Tasa de fondeo bancaria)	7.75	0	48	---
3 months rate	8.10	4	79	6.53
10 years rate	---	---	---	---
Peru				0.00
Official Rate	6,00	25	150	6,25
10 year rate	7,70	51	134	---
Venezuela				0.00
Overnight (daily)	12.97	-607.9	166.16	9.67
CD 28d (official)	13.00	0.00	3.00	13.50
DPF 90d	17.87	28.00	785.00	18.00

Currency Markets

Appreciation of the Chilean peso and the Peruvian Sol against the dollar, after reference rate hikes in both countries. Dollar falls against the euro in response to negative news about the financial sector in the U.S.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008	
America					
Argentina (peso-dollar)		3.02	-0.4	-2.6	3.20
Brazil (Real-dollar)		1.60	-0.6	-14.5	1.70
Colombia (Peso-dollar)		1772	1.7	-9.4	1925.20
Chile (Peso-dollar)		504	-1.4	-2.2	465.00
México (Peso-dollar)		10.32	-0.2	-4.2	10.95
Peru (New sol-dollar)		2.83	-2.1	-10.5	2.70
Venezuela (Bolívar-dollar)		2147	--	0.0	2.20
dollar-Euro		1.59	1.4	15.4	1.48

Emerging Spreads

Country risk in Argentina and Venezuela keeps on increasing, while there are more contained surges. Retail funds post another week of net exit flows from emerging economies.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	311	9	137
EMBI + Latin America	324	17	131
Argentina	651	29	327
Brazil	249	14	91
Colombia	231	8	107
Chile*	185	2	102
México	188	8	96
Perú	212	7	91
Venezuela	625	43	311
EMBI+ Asia	331	4	173
EMBI+ Europe	276	-6	135

Commodity Markets

Oil has exhibited high volatility. A fall early in the week was related to more optimistic expectations with respect to Iran. Later, threats to supply in Brazil and Nigeria made Brent price to rebound.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	146.4	1.4	88.7	103.7
Gold (\$/onza)	963	3.2	44.5	875.0
Copper (c/lb)	382	-2.7	5.4	282.7
Soy (c/bush)	1550	-4.3	85.9	1092.0
Coffee (c/lb)	151	-7.8	25.7	145.0
BBVA-MAP Index	320	3.2	46.0	---
Goldman-Sachs Index	586	-4.1	39.6	---
CRB Index	903	-0.7	41.6	---

Stock Markets

In a context of inflationary risk and low global growth, Latin American stock exchanges remain on the downside. Yet, they register milder falls than last week, with Brazil and Chile recovering.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	1935	-3.6	-15.4
Brazil (Bovespa)	60743	2.3	5.4
Colombia (Ind. General)	9071	-1.7	-17.1
Chile (IGPA)	13642	0.8	-8.6
México (IPC)	27711	-2.2	-14.4
Peru (General Lima)	14854	-1.2	-36.9
Venezuela (IBC)	38078	-3.1	-7.2
USA			
S&P 500	1238	-2.0	-20.3
Nasdaq 100	2232	-0.6	-17.6
Europe			
Londres (FTSE)	5312	-1.9	-20.9
EuroStoxx50	2776	-2.2	-30.4
Ibex35	11467	-2.5	-23.7
Estambul-100	35006	2.1	-32.8
Asia			
Nikkei	13040	-1.5	-28.5
China	2857	7.0	-27.0

Source: JP Morgan. This information reflects our opinion and it has been elaborated with data deemed reliable. But by no means entails a recommendation for buying or selling financial assets

The week ahead

Día	País	Indicador	Período	Previo	Consenso	Comentario
Monday	Venezuela	Reserves	11-jul	33,900 mM\$		upward
Tuesday	Brazil	Retail sales	May	8.70%	10.6	
	Peru	GDP	May	13,3%		6,8% - 7,2%
	Peru	Unemployment	June	7,9%		
	Chile	Exports, Imports				
Wednesday	Venezuela	CD Balance	4-jul	16,177.4 MVEF (+15.7%)		upward
	Venezuela	CD Balance	11-jul	1,717.8 MVEF		
Thursday	Venezuela	Monetary Base	4-jul	63,504.0 MVEF		upward
	Venezuela	Monetary Liquidity	4-jul	159,729.7 MVEF		upward
	Mexico	Industrial Production	May	5.5%	1.7%	1.7
Friday	Mexico	Monetary Policy	July	7.75%	8%	

Macroeconomic Indicators

	GDP (yoy)				Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	1Q 08	4Q 07	3Q 07	2Q 07	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	8.4	9.1	8.8	8.6	9.1	may	8.4	1Q08	6.9	may	32.3	apr	27.9	may	1005	may
Brazil	5.8	6.2	5.6	5.4	6.1	jun	7.9	may	3.6	may	8.7	apr	41.7	jun	2719	jun
Chile	3.0	4.0	3.9	6.2	9.5	jun	8.0	may	-2.4	may	-3.3	may	-15.0	may	993	may
Colombia	4.1	8.4	6.9	8.4	7.2	jun	11.8	may	9.8	apr	1.2	apr	25.3	mar	341	mar
Mexico	2.6	4.2	3.4	2.6	5.3	1QJun	3.2	may	5.5	apr	7.3	apr	9.0	may	-61	may
Peru	9.3	9.7	8.9	8.5	5.7	jun	7.9	may	16.5	apr	n.d.		25.9	apr	400	apr
Venezuela	4.8	8.5	8.7	7.8	32.2	Jun	7.9	may	19.9	abril	40.7	mar	59.4	mar	11105	mar

Sources: Bloomberg, Reuter, and BBVA staff estimates.