



Weekly Observatory

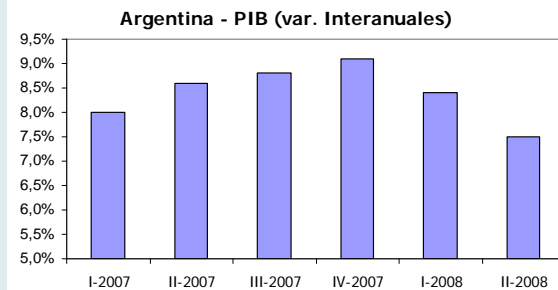
September 19th, 2008

Weekly Highlights (September 19th – September 26th, 2008)

The international financial crisis sends a new round of shockwaves to the region. Country risk experienced a significant upturn, but with significant differences across countries: Venezuela shows the worst behaviour and Chile the best. New activity data in Argentina and Peru shows remarkable dynamism. Banxico maintained the reference rates but does not rule out the possibility of further rise in rates in light of inflation persistence.

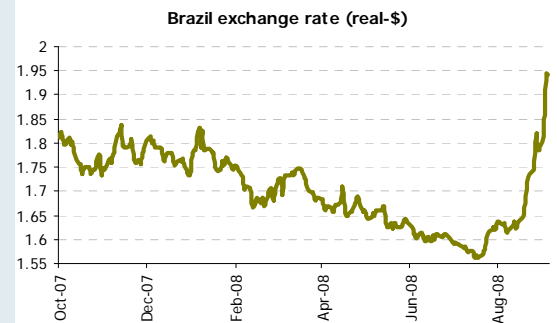
1. Argentina

- August second quarter **PIB** showed an increase of 2.1% in seasonally adjusted series with respect to the previous quarter and 7.5% on yoy basis. With this growth the PIB accumulated 7.8% in the first semester of the year.
- This growth was possible by the impulse of investment (12.4% y/y) and, in a lesser extent with the private consumption (7.5% y/y). With respect to external trade, imports of goods and services showed a good dynamism (22.8% y/y), in contrast with exports which were affected by the farm conflict (export declined 1.8%)
- The **peso** depreciation trend continued this week with the exchange rate increasing by almost 3 cents over last week average.



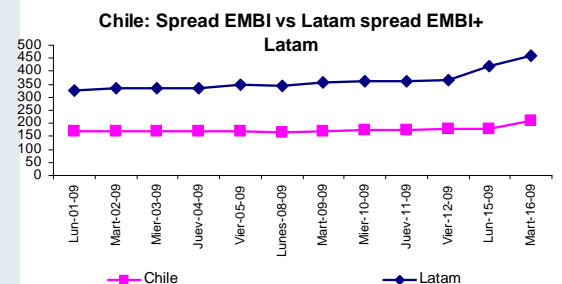
2. Brazil

- Brazilian markets are suffering the consequences of the financial turmoil in global markets. This week BOVESPA lost 7.6% (the Banking sector lost 5%) and the EMBI increased 71 bps. The Real surged to 1.94 against the dollar (8.8% higher than last week's rate). At the end of last week the Central Bank stopped buying dollars after many months of daily interventions and on this Thursday it started selling dollars to provide liquidity to the system. Brazilian companies are facing problems to access short-term credit lines in dollars.



3. Chile

- **Chile's economic performance** since the announcement of Lehman Brothers' bankruptcy, last Monday, Chile's performance has been better than in the rest of the region. In the first two days of the week, the country risk (measured by the EMBI spread) increased 28 base points, against a jump of 93 bp for the Latin American indicator (EMBI+). On the other hand, the Santiago Stock Market had a small decrease, in contrast with most of the markets in the region. This behavior suggests that the market is differencing among countries according to their fundamentals, and Chile has strong monetary and fiscal institutions.



4. Colombia

- In July **exports grew** 44,2% yoy mainly driven by commodities exports. The balance surplus year to July was USD 1877millions compared to the deficit of US\$ 891 millions during the same period of 2007.
- Real industrial production** increased 0,74% yoy in July confirming the slower pace of the economy. Real retail sales grew 4,5% in July showing an improvement during the year.

5. Mexico

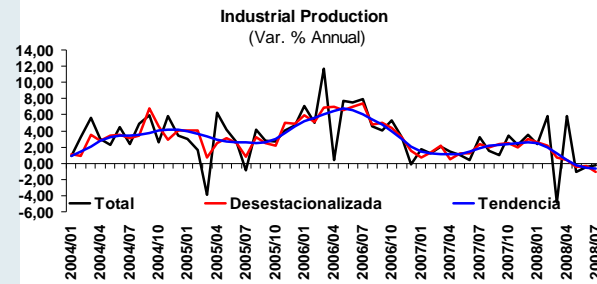
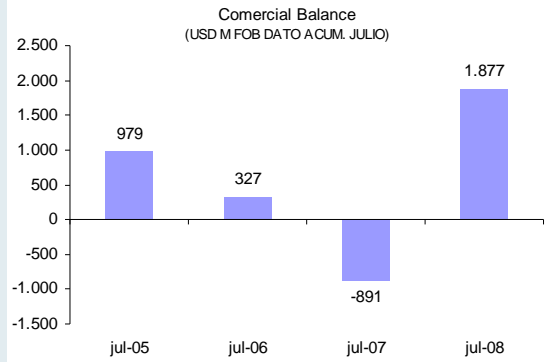
- Banxico kept its overnight rate at 8.25% in September. Last interest rates hikes (75 bp in three months) along with higher short-term inflation outlook seem to set the monetary stance in a neutral zone. Additionally, growth risks gained relative importance to the inflationary ones. However, another monetary tightening cannot be ruled out since inflationary risks are going to persist in the short term.
- Industrial activity fell in June for the third month in a row (-0.2% annually where monthly contractions in all of its components were registered. We maintain the GDP forecast in 2.3% for 2008.

6. Peru

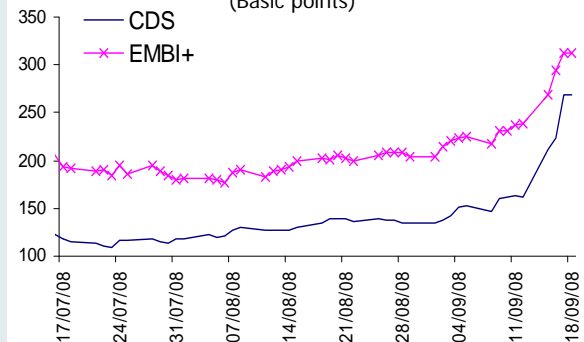
- Monetary Economic activity.** GDP grew 8,3% in July, as expected, thus accumulating a 10,1% expansion in 2008. Nonetheless, we expect this growth rate to moderate in the rest of the year due to a less favorable international scenario and the tightening of the monetary policy stance (both policy interest rate and reserve requirements increases).
- Country risk.** Peru's country risk indicators have risen during the week, reflecting the higher uncertainty in international markets. In this way, the cost of 5 year-CDS increased by 105 bps, while the EMBI+ did it by 75 bps. In this context, in order to moderate high foreign exchange volatility, the Central Bank has sold US\$1,5 billion in September.

7. Venezuela

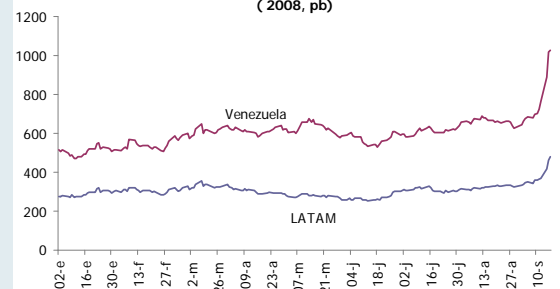
- On Sep 17th the **Embi-Venezuela** broke the 1000bp barrier, the highest in the last five years. Two main factors would explain the markets' negative reaction: market concerns about US-Venezuela bilateral trade relationship, after the Venezuelan government expelled the US ambassador and, also expectations about the economy's external income in this lower oil prices context. We expect the Embi for Venezuela to go down in the next few days, once the Executive branch concretes a repurchasing external debt operation (\$ 2.000 MM).



Peruvian country risk: CDS-5y and EMBI+ (Basic points)



Venezuela. Spread Embi-Vzla and Embi-Latam (2008, pb)



The latest from markets

Bond and Money markets

Mercado	Cierre	Var. Sem.pb	Var. Anual pb	Prev. Dic 2008
Argentina				
Tasa pasivos BC 7 días	8.25	0	50	---
Tasa Badlar	12.19	69	-50	16.00
Brasil				
Tipo oficial	13.75	0	250	15.00
Andima Bono 1 año	14.79	8	354	---
Chile				
Tipo oficial	8.25	0	250	8.75
Swap CLP	8.91	6	316	---
Tipo 10 años	3.38	-19	49	---
Colombia				
Tipo oficial (BR)	10.00	0	75	10.18
DTF	10.10	23	120	---
TES jul-2020	11.59	2	143	---
México				
Tipo oficial (Tasa de fondeo bancaria)	8.25	0	102	8.25
3 months rate	8.34	2	100	8.30
10 years rate	8.66	15	89	8.75
Perú				
Tipo oficial	6,50	0	150	6,75
Tipo 10 años*	8,09	14	173	---
Venezuela				
Overnight-interbancaria (diaria)	5.9	313.4	346.2	9.7
CD 28d (oficial)	13.0	0.0	3.0	13.5
DPF 90d	17.0	-11.0	600.0	18.0

Foreign exchange market

General depreciation on Latin American currencies, especially the Brazilian real and Colombian peso.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3,12	1,2	-0,8	3,2
Brazil (Real-dollar)	1,94	8,8	4,2	1,7
Colombia (Peso-dollar)	2187,50	6,6	7,9	1920,1
Chile (Peso-dollar)	548,25	3,5	6,8	504,0
México (Peso-dollar)	10,73	1,3	-2,1	10,5
Peru (New sol-dollar)	2,98	0,8	-4,3	2,8
Venezuela (Bolívar-dollar)	2147,30	--	0,0	2,2
dollar-Euro	1,42	0,0	0,7	1,4

Emerging Spreads

Widespread increases of country risk, in line with the uncertainty in international markets. Venezuela experienced the largest rise, after escalating tensions with the U.S., and expected reductions in export revenues due to lower oil prices.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	419	85	208
EMBI + Latin America	454	87	222
Argentina	891	127	486
Brazil	339	71	151
Colombia	317	69	150
Chile*	211	31	90
México	269	70	160
Perú	297	59	142
Venezuela	960	196	537
EMBI+ Asia	342	57	143
EMBI+ Europe	385	96	211

Commodity Markets

Volatility reigns in commodities due to turbulences in financial markets. Commodities prices are being driven by the financial environment and not necessarily by fundamentals. Oil prices ranged from US\$ 89 to almost US\$100. The Brent was around US\$ 97 on Friday morning.

Materias primas	Cierre	Var. Sem. %	Var. Anual %	Prev. Dic 2008
Petróleo Brent (\$/b)	96,2	-1,4	21,3	105
Oro (\$/onza)	828	8,1	13,2	875
Cobre (c/lb)	307	-5,6	-14,6	3,1
Soja (c/bush)	1115	-6,3	22,7	1331
Café (c/lb)	145	-2,2	6,8	146
Maíz (c/bush)	531	-3,0	48,2	623,0
Índice Goldman-Sachs	465	-1,2	6,7	---
Índice CRB	603	-1,2	-7,3	---

The week ahead

Día	País	Indicador	Período	Previo	Consenso	Comentario
Lunes						
	Colombia	PIB(YoY)	2T08	4,1%	4,4%	4,3%
	México	Oferta y Demanda de Bienes y Servicios.	IIT08	4.1%	4.4%	3.2%
Martes						
	México	Establecimientos Comerciales	Jul	1.6%	1.7%	2.3%
	Brasil	Confianza del Consumidor	Sep	108,2		
	Venezuela	Desempleo	01-ago	Julio: 7.2%		Estimación agosto 7.1%
Miércoles						
	Argentina	Estimador Mensual Industrial	Agosto	9,3% a/a		4,5% a/a
	México	Inflación	1QSep	0.31%	0.58%	.56%
	México	Balanza Comercial	Ago	-1078,5	-951,5	-1003
Jueves						
	Argentina	Estimador Mensual de Actividad Económica	Julio	6,4% a/a		7,3% a/a
	Colombia	Venta de Vehiculos	Aug	20.686		
	Brasil	Tasa de Desempleo	Aug	8,1%		
Viernes						
	Argentina	Saldo Intercambio Comercial	Agosto	M u\$s 1001		M u\$s 900
	Argentina	Centros de Compra	Agosto	18,7% a/a		
	Perú	Oper Gobierno Central	Agosto	-1,4 mM S/.		

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	2Q 08	1Q 08	4Q 07	3Q 07	2Q 07	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	7,5	8,4	9,1	8,8	8,6	9,0	Ago	8,0	2 T 08	9,2	Jul	31,2	Jul	52,7	Jul	1001	Jul
Brazil		5,9	6,2	5,6	5,4	6,2	Ago	8,1	julio	7,1	julio	11,0	julio	30,8	Ago	2269,0	Ago
Chile	4,3	3,3	4,0	3,9		9,3	Ago	8,4	julio	3,0	julio	2,1	julio	22,2	Ago	17800	Ago
Colombia	-	4,1	8,4	6,9	8,4	7,87	Ago	11,9	Jul	0,7	Jul	4,8	Jul	42,2	Jul	563	Jul
Mexico		2,6	4,2	3,4	2,6	5,39	jul	3,6	jun	-1,2	may	3,4	may	16,0	jun	277	jun
Peru	10,9	9,7	9,8	8,8	8,6	6,3	Ago	8,4	Ago	7,5	jun	n.d.		13,8	Jul	0,3	Jul
Venezuela	7,1	4,9	8,5	8,6		34,5	Ago	7,2	Jul	-2,5	Jun	41,7	Jun	76,2	jun	18.597	jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.