



Weekly Observatory

May 03rd, 2010

Weekly Highlights (26th April – 30th April 2010)

Latin American currencies displayed signs of strength this week despite an increase in both global risk aversion and regional spreads. In Mexico the economic activity surprised to the upside while in Chile the retail sector expanded, providing support to a positive performance of the GDP in spite of a sharp decline in the industrial activity (as a consequence of the earthquake). Positive news regarding the resolution of Argentinean holdouts and also regarding the improvement of credit conditions in Colombia and in Brazil. In the latter, the Central Bank started this week to adjust interest rates upwards as expected while in the former the monetary authority surprised the markets by cutting the interest rates by 50bps.

1. Argentina

- This week Luxembourg's stock exchange and Italy's Consob, the two European financial regulators whose confirmation was pending, approved Argentina's offer to swap USD 20 billion in defaulted bonds. The government announced that the exchange will be launched next week. The swap won support from Italian bondholders. Although they always showed reluctance to accept the conditions of the exchange, their legal representative said yesterday that this is the time to accept the debt offer.
- March trade balance fell to USD 311 million (USD 1 373 million in 2009). Exports grew only 11% yoy affected by some conflicts in the port of Rosario. However, our forecasts will reach 21% in a year of record crop. Imports increased 33% yoy in 1Q10, above our forecast of 31.5% for the whole year, but due to the rebuilding of inventories of intermediate goods and also the low base of the comparison period.

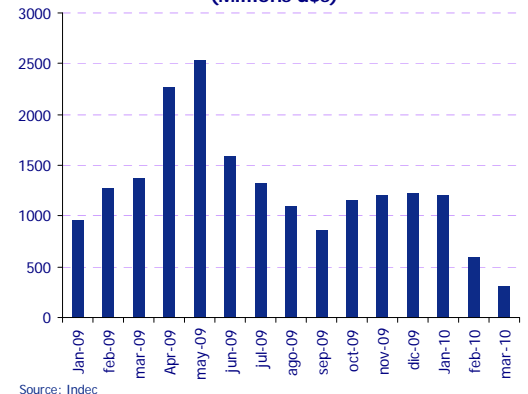
2. Brazil

- The Brazilian Central Bank decided yesterday to adjust interest rates up by 75 bps to 9.50%. Our initial call – as well as market's - was for a 50 bps adjustment. However the fast deterioration of inflation expectations observed in the last weeks and market's increasing concerns that the Central Bank could be becoming more tolerant with inflation seem to have triggered a more energetic decision. This is the first step of the monetary tightening cycle that is expected to continue during the next months.
- The unemployment rate reached 7.6% in March (7.4% in February; 9.0% in March Of 2009). The average unemployment was 7.4%, the lowest figure for the period since this statistics started being released in 2001.
- The credit stock of the economy remained stable at 45% of the GDP in March. In nominal terms, however, it continued expanded firmly (1.1%/m; 16.8%/y). NPL declined from 4.2% in February to 4.0% in March.

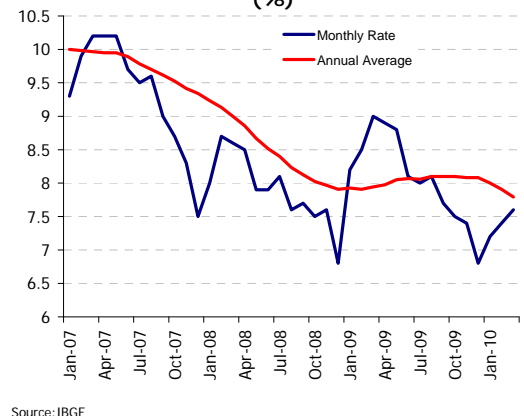
3. Chile

- The earthquake had a huge impact in industrial production which fell - 17.4% yoy and 19.3% in the seasonally adjusted series. However, the retail sector shows a good performance, increasing by 9.3% and 12.3% the supermarket sales and the retail sales respectively. All in all, we expect that growth will reach 1.7% in the first quarter and we keep our estimation of 4% for 2010.
- The government announced several labor initiatives, highlighting a technical body to propose to the government changes in minimum wage. This body will be integrated by three representatives of trade unions, three of the entrepreneurs and six academics.

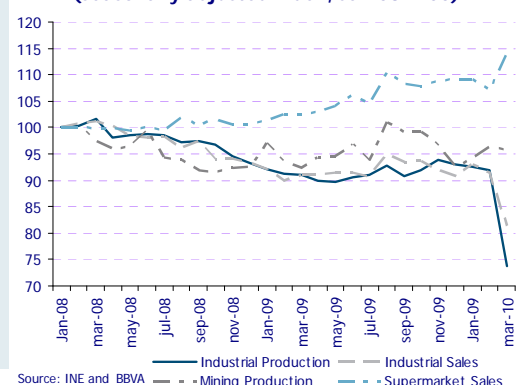
Argentina: Balance Trade
(Millions u\$s)



Brazil: Unemployment Rate
(%)



Chile: Activity Indicators
(seasonally adjusted index, Jan.08=100)



4. Colombia

- The Central Bank cut reference interest rates by 50 bps to 3.0%. The press communiqué says that the good inflation performance and the negative output gap which allow for additional monetary stimulus.
- In March, the total loan portfolio increased 3.3% yoy and completed 5 months of expansion. Mortgage and consumption credit continue its recovery, confirming the improvement in household consumption during the last months. Commercial credit had a better performance. The loan portfolio quality indicator continues to improve, highlighting a better performance of consumption portfolio in the last 9 months.
- The national government made a debt swap with favorable results. Payments for 2010 and 2012 were reduced by 12.0% and 8.3%, respectively, and were deferred for years 2013, 2017, and 2023.

5. Mexico

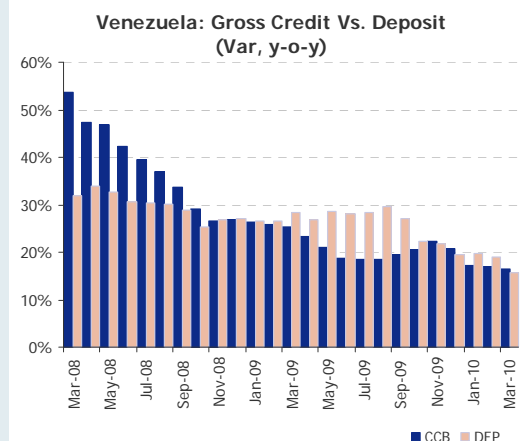
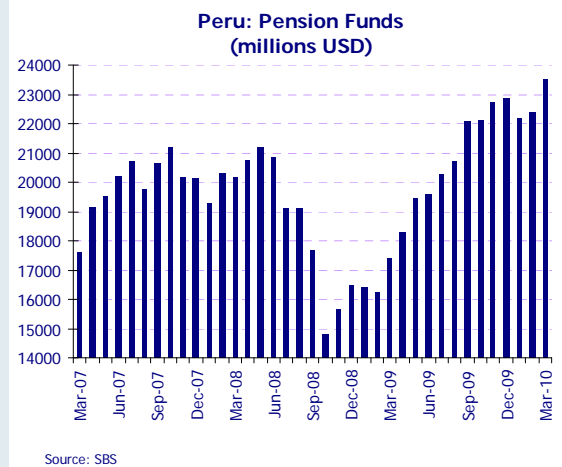
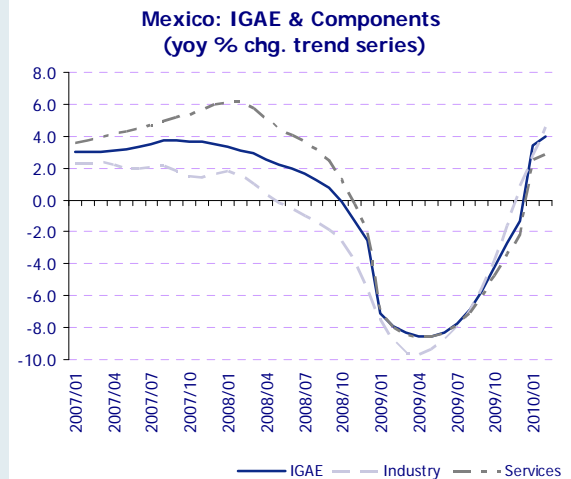
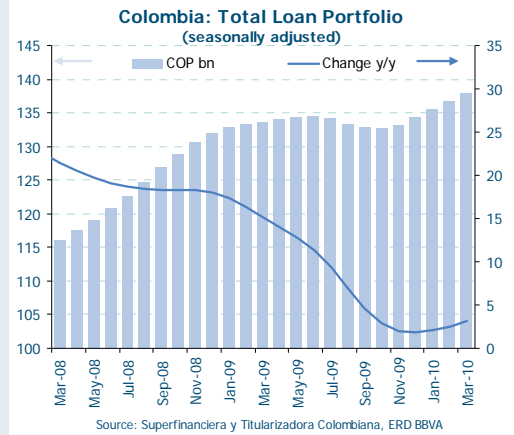
- February's IGAE surprised positively (0.5% m/m actual vs -0.3 m/m estimated) due to highly volatile agriculture sector. Industry is recovering but at a slower pace than in 4Q09, expanding 0.6% mom (4.4% yoy). Manufacturing activities with tight links with the US cycle are still leading the Mexican recovery, however, domestic expenditure expected improvement should help to services sector speed up its recovery. Banxico's inflation report as of 1Q10 improves its forecasted growth from a range between 3.2% and 4.2% to range within 4.0% and 5.0%. In addition, the central bank maintains its inflation path for 2010-11 in a range between 4.75% and 5.25% in 4Q10 and convergence to its inflation objectives since 1Q11. The report also mentioned the economic slack to justify maintaining the monetary pause. This element will be the main determinant behind the beginning of the restrictive cycle around years end. Next week we will have a first clue on 2Q10 indicators through April's Consumer and Manufacturing Indicators and inflation figures.

6. Peru

- The government made some changes to the Fuel Stabilization Fund (FSF). This fund was created in 2004 with the aim of avoiding the excessive volatility of international oil prices translating into domestic fuel prices. In practice, however, the FSF has worked more as a subsidy that has cost the Government around PEN 4,5 billion (1,2% of GDP) since it was created. The first adjustment (for April) represents an increase of 7% in the final fuel price, which would have a direct impact on 2010 inflation of between 0,1pp and 0,2pp.
- The Infrastructure Investment Trust, formed by the Pension Funds Administrators (AFP) with an amount of USD 300 million (1,2% of total funds managed by the AFP), made its first investment in the infrastructure project Huascacocha through the acquisition of debt issued by the concessionaire of the project. The Trust will work as a complement to the Infrastructure Fund, set up last year by the Peruvian Government with USD 400 million with the participation of the AFP, the CAF, and the IDB.

7. Venezuela

- In the first quarter, Gross Credit decreased 2.7% (q/q). The figure represents a nominal increase of 16.4% (y/y) and a contraction of 6.7% (yoy) in real terms. Several sectors have shown positive nominal changes during last year, mainly associated with direct credit portfolios: tourism 49.7% (y/y), mortgage 40.1% (y/y), and agricultural 27.4% (y/y). By contrast, commercial and vehicles loans decreased 13.3% (y/y) and 6.7% (y/y), respectively. The non performing loan rate diminished 70 bp to mark 3.3% in March, although it is still 150 bp greater than 4 year average rate.
- Total deposit increased 2.6% (q/q) and 18.1% (y/y). In real term, deposits fell 5.4% (y/y).
- Central Bank issued a new dollar denominated bonds by USD 50 MM (to firms) and USD 20 MM (to small investors). This is the fourth bond issuance by CB in April, which could suggest a regularization of a weekly intervention about USD 50-60 MM each one.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2010
Argentina				
7 day Central Bank rate	9.00	0	-150	---
Badlar rate	9.25	6	-506	16.00
Brazil				
Official Rate	9.50	75	-175	10.25
Andima 1 year bond	11.58	12	44	---
Chile				
Official rate	0.50	0	-125	2.00
Swap CLP	1.03	-3	-449	---
10 year rate	6.45	0	98	---
Colombia				
Official Rate (BR)	3.00	-50	-400	4.25
DTF	3.89	0	-573	---
TES jul-2020	8.31	2	-156	---
Mexico				
Official Rate (fondeo)	4.50	0	-150	4.50
3 months rate	4.61	1	-107	---
10 years rate	7.42	4	-35	---
Peru				
Tipo oficial	1.25	0	-375	2.00
Tipo 10 años*	6.00	5	69	0.00
Venezuela				
Overnight-interbancaria (diaria)	49.00	-10	-1	6.50
CD 28d (oficial)	6.00	0	-800	6.00
DPF 90d	15.99	29	-2	13.50

Foreign exchange market

Exchange rates displayed some resilience to the increase in both global aversion and local spreads. In the case of the Brazilian Real, the increase of reference interest rates helped to provide support.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2010
America				
Argentina (peso-dollar)	3.87	0.1	4.2	4.16
Brazil (Real-dollar)	1.73	-1.9	-20.5	1.76
Colombia (Peso-dollar)	1959	0.4	-14.6	2070
Chile (Peso-dollar)	519	-0.3	-11.2	500
Mexico (Peso-dollar)	12.20	0.1	-11.7	12.70
Peru (New sol-dollar)	2.84	0.0	-4.7	2.85
Venezuela (Bolívar-dollar)	2.60-4.30	-	-	2.60-4.30
dollar-Euro	1.33	-0.6	0.2	1.22

Emerging Spreads

General expansion in spreads this week, in accordance with the increase in global risk aversion.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	260	17.1	-277
EMBI + Latin America	310	21.4	-281
Argentina	649	28.4	-1120
Brazil	190	13.7	-169
Colombia	185	17.6	-164
Chile*	115	3.4	-184
Mexico	148	14.8	-163
Peru	156	16.3	-152
Venezuela	887	70.8	-428
EMBI+ Asia	190	14.3	-225
EMBI+ Europe	205	10.5	-280

Commodity Markets

The oil price remained relatively stable this week as the impact of better perspectives regarding the US recovery were offset by a higher risk aversion and by a stronger dollar. The copper price, on the other hand, declined 5% this week.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2010
Brent (US\$/Bbl)	87.5	0.2	12.2	74
Gold (US\$/Troy oz)	10	1.3	10.0	---
Copper (US\$/t)	7355	-5.1	-0.3	5181
Soybean (US\$/t)	349	-1.0	-4.8	330
Corn (US\$/t)	128	2.7	-12.5	172
Goldman-Sachs Index	544	-0.2	48.8	---
CRB Index	477	-0.7	28.3	---

Stock Markets

Regional stock markets moved downwards in consequence of increasing concerns regarding the problems in Europe.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2395	-2.1	87.8
Brazil (Bovespa)	67978	-2.2	43.7
Colombia (General Index)	12512	-0.8	50.2
Chile (IGPA)	17986	0.3	40.8
Mexico (IPC)	32861	-2.9	50.1
Peru (Lima General)	15914	-0.4	59.5
Venezuela (IBC)	61316	4.0	38.6
USA			
S&P 500	1207	-0.9	37.5
Nasdaq 100	2512	-0.7	46.1
Europe			
Londres (FTSE)	5618	-1.8	32.4
EuroStoxx50	2563	-2.5	26.5
Ibex35	10441	-4.4	15.5
Estambul-100	58838	0.9	85.9
Asia			
Nikkei	11057	1.3	23.2
China	2862	-4.1	15.5

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Argentina	Salary Index	Mar	17,2% y/y		
	Brazil	Balance of trade	Abr	668M\$		
	Mexico	IMEF	Abr	55.2		
	Peru	Monthly inflation	Abr	0.3%		
	Peru	Annual inflation	Abr	0.76%		
Tuesday						
	Brasil	Industrial production (y/y)	Mar	18.4%	17.8%	
	Mexico	Consumer Confidence	Abr	81.8		83
Wednesday						
	Chile	Imacec (BCCh)	Mar			
	Brazil	Capacity Utilization	Mar	80.4%		
	Chile	Earnings Index (NSI)	Mar			
	Colombia	Inflation	Abr	1.8%		1.9%
	Colombia	Exports	Mar	22.9		
Thursday						
	Brazil	Car Sales	Mar	353,738		
	Peru	Benchmark interest rate	Abr	1.25%		
Friday						
	Chile	Monthly Bulletin Preview (CBCh)	May			
	Chile	Weekly Economic Indicators (CBCh)	Abr			
	Chile	Bond and notes issuance calendar (CBCh)	May			
	Brazil	Inflation(m/m)	Mar	0.52%	0.50%	
	Mexico	Inflation	Abr	0.71%		

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	4Q09	3Q09	2Q09	1Q09	4Q 08	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	2.6	-0.3	-0.8	2.0	4.1	9.7	Mar	8.4	4Q09	10.6	Mar	23.4	Feb	10.6	Mar	311	Mar
Brazil	4.3	-1.2	-1.6	-2.1	0.8	5.2	Mar	7.6	Mar	18.4	Feb	12.3	Feb	33.2	Mar	668	Mar
Chile	2.1	-1.4	-4.5	-2.1	0.7	0.1	Mar	8.5	Feb	-17.4	Mar	-8.9	Mar	31.7	Mar	1365	Mar
Colombia	2.5	-0.2	-0.3	-0.5	-1.0	1.8	Mar	13.4	Feb	3.0	Feb	3.9	Feb	22.9	Feb	233	Feb
Mexico	-2.3	-6.1	-10.0	-7.9	-1.1	5.0	Mar	4.8	Mar	4.4	Feb	2.3	Feb	39.0	Mar	237	Mar
Peru	3.4	-0.6	-1.2	1.9	6.4	0.8	Mar	9.2	Mar	7.2	Feb	n.d.	n.d.	47.2	Feb	798	Feb
Venezuela	-5.8	-4.6	-2.6	0.5	3.5	28.2	Mar	8.7	Mar	-11.6	Dec	19.1	Dec	56.1	Dec	8340	Dec

Sources: Bloomberg, Reuter, and BBVA staff estimates.