



Weekly Observatory

November 7th, 2008

Weekly Highlights (October 31th – November 7th, 2008)

Financial indicators worsen during the week, due to greater economic pessimism worldwide. The appreciation of the main Latin currencies has been partially reversed, leading to a new round central bank interventions. Latest inflation data suggest that the expected moderation of inflation is being delayed in some countries. Thus, confidence indicators (Mexico and Colombia) indicate a future deterioration of activity, although some countries still show a remarkable degree of economic dynamism (Peru and Chile). Among the effects of the crises, we highlight the capital outflow in Brazil, which have reached its highest level since 1999, fostering interventions by the Central Bank (injecting USD 46bln in currency markets). In an additional response to the crisis, Brazil and Chile announced measures to support the business sector (deferment of corporate tax payments and the improvement of credit access, respectively)

1. Argentina

- October's **fiscal revenues rose** 37.5% y/y, below the strong increase recorded in September (43% y/y). Total tax collections were \$24.276 million.
- Income tax rose 40.3% y/y in spite of the increase in personal deductions. Two taxes that registered a slow down compared to September were VAT – 24.4% y/y (42.4% y/y on September) – and export duties – 77.5% y/y after several months of increases over 100%.
- The **peso** stopped depreciating this week. To Wednesday, the exchange rate had decreased by 8 cents over last Friday.

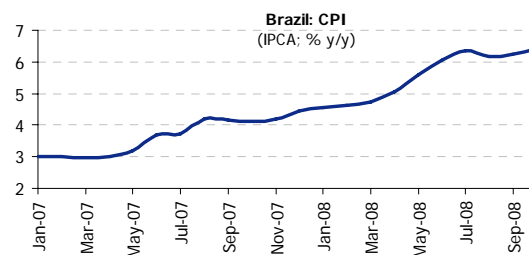
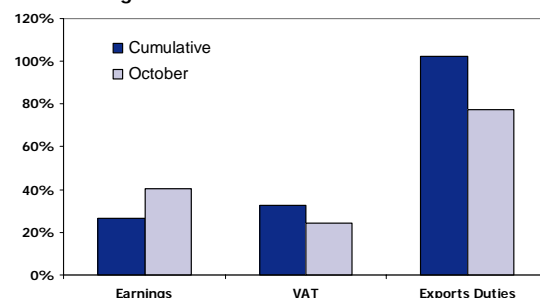
2. Brazil

- The IBGE released the IPCA **inflation** data for October, with a 6.41% interannual rate, in line with consensus (6.40%). The September y/y rate stands well above the target of the Central Bank (4.5%). However,, recent statements by the authorities suggest that they expects a decrease in price tensions due to the current financial crisis.
- **Industrial production** gave a surprise in September, with a y/y rate of 9.8% (against market consensus of 8.6%). Nevertheless, the worsening of financial conditions in Brazil should lead to a deceleration on industrial production growth during the following months.

3. Chile

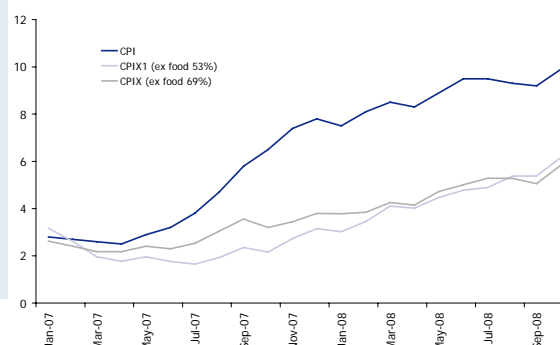
- **CPI inflation** rate rose 0.9% in October. This increase surpassed market expectations. Inflation reached 9.9% in the last twelve months, the largest since September 1994. However, we expect a deceleration for the remaining of the year, with an accumulated inflation of around 0.2% between November and December, closing the year below 9% y/y.
- Also the **monthly economic activity index** (IMACEC) increased 5.5% in September, above market consensus and consistent with our expectation (5%), . This was partially due to 3 working days than in september last year. sectors.

Argentina - Selected Taxes Collection



Source: Bloomberg

Chile: CPI and underlying inflation measures (Var. % y/y)



4. Colombia

- **Inflation** rose by 0.35% in October, above market expectations (-0.02%). Annual inflation accelerated 7,94%. This result was mainly driven by an unusual increase in non tradable goods which should be mostly reverted next month.
- Fedesarrollo's survey for September reported a further decline in consumer confidence (14,8 vs 18,2 in August)
- **Total credit** accelerated its growth pace from 17.9% (y/y) in August to 18.2% (yoy) in September. Commercial loans rose 20.3%, while consumer loans growth rate continued decelerating.

5. Mexico

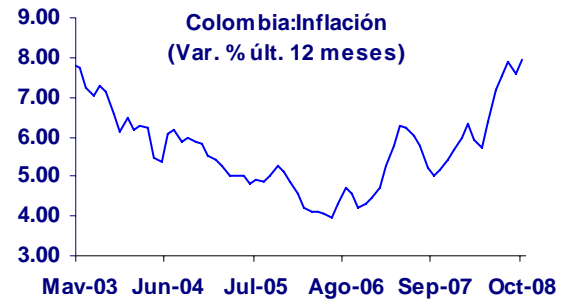
- **CPI and core inflation** in October (0.7 and 0.3% monthly variation respectively) were influenced by hikes in energy prices (Government managed) and farm products. Yet, lower increases in processed food prices and rents could be linked to a cycle of lower GDP growth. Annual inflation figures (5.8% CPI and 5.3% core) were in line with Central Bank outlook.
- Confidence indicators showed last month's increased pessimism. Falls were particularly strong on the investment climate and durable goods acquisitions.

6. Peru

- **Monetary Policy Meeting.** Next Thursday will host the 13th monetary policy meeting, where we expect the Central Bank Board to keep the policy interest rate at 6,50%. Despite the fact that y/y inflation accelerated in October to 6,5% (6,2% in September), we expect inflationary pressures to moderate in the short term, thanks to lower commodities prices.
- **GDP.** We expect economic activity in September to have grown between 9,5% and 9,9%. This result would reflect the favorable performance of non primary sectors, related to local demand. If this result is confirmed, GDP would have grown 9,0% in the third quarter of 2008 (9,9% y/y in 2008 as of 3Q08).

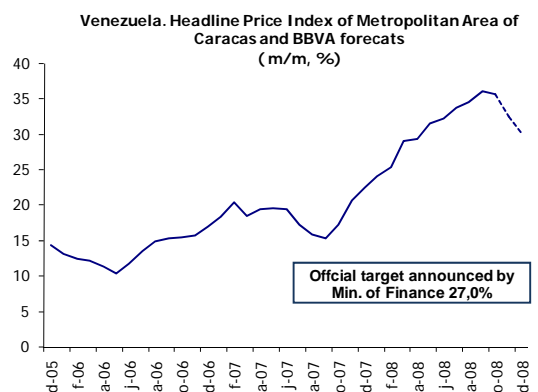
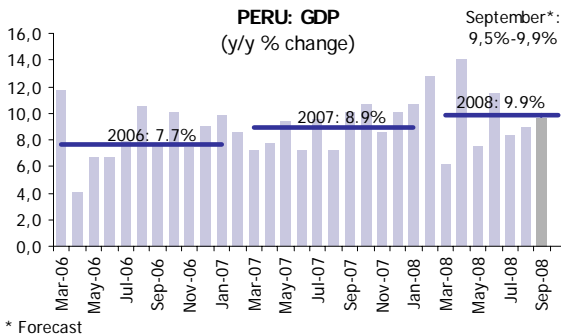
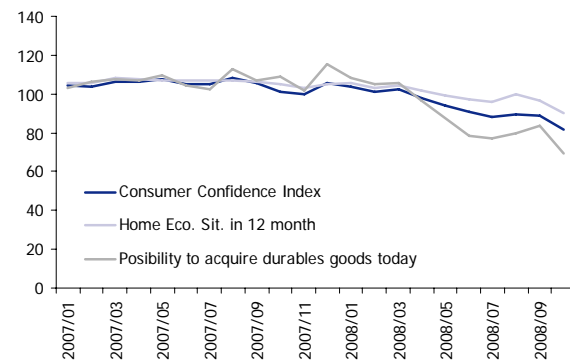
7. Venezuela

- **The benchmark price index**, CPI-Caracas, decelerated on m/m basis by 39 bp, reaching 2,1% in October. On y/y basis headline inflation showed the first slowdown in 12 months (36,6%). Although this lower growth of prices is in accordance with the authorities' announcement, it resulted quite low in order to fulfill the official inflation target of 27% in 2008. Core inflation grew at the smallest rate of the last 14 months (1,2%), what represents a signal of disinflation, shortly. **On a national basis**, price growth reported 2,4% in October and, 24,7% since last December.



Fuente: DANE

México: Índice de Confianza del Consumidor



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. 2008	Dec
Argentina					
Tasa pasivos BC 7 días	12.25	0	400	---	
Badlar	23.88	556	1138	16.00	
Brazil					
Oficial rate	13.75	0	250	14.50	
Andima Bono 1 year	15.46	-81	398	---	
Chile					
Oficial rate	8.25	0	250	8.75	
Swap CLP	8.26	13	229	---	
Tipo 10 year	6.68	0	375	---	
Colombia					
Oficial rate (BR)	10.00	0	75	10.18	
DTF	10.07	-13	138	---	
TES jul-2020	12.95	-22	278	---	
Mexico					
Oficial rate (Tasa de fondeo bancaria)	8.25	0	74	8.25	
3 months rate	7.80	-10	19	8.30	
10 years rate	8.91	14	90	8.75	
Peru					
Oficial rate	6.50	0	150	6.5	
Tipo 10 year*	8.25	-166	209	---	
Venezuela					
Overnight-interbancaria (diaria)	6.5	540.0	-1498.4	9.7	
CD 28d (oficial)	13.0	0.0	3.0	13.5	
DPF 90d	17.6	54.0	610.0	18.0	

Foreign exchange market

Mexican peso and Brazilian real have reverted much of their recovery of last week, giving way to swift interventions by their respective central banks. The Chilean peso appreciated, due to large volume of foreign currency supplied by Pension Funds and local businesses.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3.30	-2.5	5.5	3.10
Brazil (Real-dollar)	2.20	2.0	26.0	1.73
Colombia (Peso-dollar)	2347.48	-1.4	14.5	1920.1
Chile (Peso-dollar)	633.00	-5.6	25.1	504.0
México (Peso-dollar)	13.03	1.9	19.7	10.53
Peru (New sol-dollar)	3.09	0.0	3.2	2.80
Venezuela (Bolívar-dollar)	2147.30	--	0.0	2.15
dollar-Euro	1.28	0.8	-12.5	1.30

Emerging Markets Spreads

Greater risk aversion and pessimism in global financial markets eliminated in some instances the country risk improvement seen early in the week. Argentina registered a significant correction, although it maintains the highest level of risk in the region.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	612	-17	408
EMBI + Latin America	670	7	447
Argentina	1711	-76	1367
Brazil	451	2	266
Colombia	506	-24	341
Chile*	353	-12	238
México	398	49	286
Perú	449	-64	298
Venezuela	1499	34	1100
EMBI+ Asia	507	18	309
EMBI+ Europe	547	-80	377

Commodity Markets

Oil prices continued to fall sharply. Base metals and agricultural goods, however, displayed moderation on their downward trends this week.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	58.4	-10.6	-37.3	84.5
Gold (\$/onza)	740	2.1	-11.1	800
Copper (c/lb)	172	-7.7	-45.9	205
Soy (c/bush)	305	-3.3	-12.8	365
Coffee (c/lb)	126	-2.2	-3.5	122
Corn (c/bush)	135	-4.6	-0.3	170.0
Goldman-Sachs Index	377	2.1	-17.5	---
CRB Index	642	12.0	-14.8	---

Stock Markets

Regional stocks registered losses, although smaller than those in developed markets. Peru and Argentina stand outside this trend with significant increases

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
S&P 500	905	-6.6	-37.8
Nasdaq 100	1609	-6.5	-38.8
Argentina (Merval)	1136	12.4	-50.9
Brazil (Bovespa)	36362	-2.4	-43.5
Colombia (Ind. General)	6874	-4.9	-36.2
Chile (IGPA)	11956	1.4	-17.9
México (IPC)	19651	-3.9	-32.6
Perú (General Lima)	7654	8.5	-61.3
Venezuela (IBC)	35424	-0.6	-8.1
USA			
S&P 500	905	-6.6	-37.8
Nasdaq 100	1609	-6.5	-38.8
Europe			
London (FTSE)	4312	-1.5	-31.6
EuroStoxx50	2238	-4.0	-39.1
Ibex35	9109	-0.1	-42.1
Estambul-100	27306	-1.9	-49.1
Asia			
Nikkei	8583	0.1	-44.9
China	1748	1.1	-67.1

The week ahead

Day	Country	Indicator	Period	Last	Mkt Forecast	BBVA
Monday						
	Venezuela	Unemployment	sep-08	August: 7.1%		septiembre 7.0%
	Brasil	Formal Employment Creation	oct			
Tuesday						
	Argentina	Consumer Prices Index	Oct	0,5% m/m		0,5% m/m
	Argentina	Wholesale Price Index	Oct	0,5% m/m		
	Argentina	Construction Cost Index	Oct	1,4% m/m		
	México	Gross fixed investment	Ago	12.3	5.2	7.2
Wednesday						
	Argentina	Wages Index	Sep	23,3% y/y		
	Venezuela	GDP	3Q. 08	2Q. 08: 7.1%		6,5%
Thursday						
	Chile	Monetary policy meeting	Oct			
	Perú	Monetary Policy Meeting, BCR	Nov	6,50%		0,065
Friday						
	Argentina	Economic Activity Monthly Estimator	Sep	6,4% y/y		7,9% y/y
	Colombia	Comercial Balance	Sep	109.5 M		
	Colombia	Vehicles Sales	Oct	20.321		

Macroeconomic Indicators

	GDP (y/y)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	2Q 08	1Q 08	4Q 07	3Q 07	2Q 07	y/y		(% active pop.)		y/y		y/y		y/y		m USD	
Argentina	7,5	8,2	9,1	8,8	8,6	8,7	Sep	8,0	2 Q 08	5,8	Sep	28,3	Sep	45,0	Sep	1669	Sep
Brazil	6,1	5,9	6,2	5,6	5,4	6,3	sep	7,6	sep	7,1	sep	9,8	aug	17,4	oct	1207,0	oct
Chile	4,3	3,3	4,0	3,9		9,9	oct.	7,8	sept.	3,2	sept.	2,6	sept.	-0,8	sept.	16107	sep
Colombia	3,7	4,5	8,0	6,5	8,0	7,94	Oct	11,3	Sep	-8,8	aug	-0,7	aug	27,6	aug	110	aug
Mexico	2,8	2,6	4,2	3,4	2,6	5,47	sep	3,6	jun	-0,2	jul	1,6	jun	16,0	jun	-2680	Sep
Peru	10,9	9,7	9,8	8,8	8,6	6,50	oct	8,4	aug	5,6	aug	n.d.		25,0	aug	480	aug
Venezuela	7,1	4,9	8,5	8,6	7,6	35,6	oct	7,1	aug	3,6	Jul	32,3	Jul	76,2	jun	18.597	jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.