



# Weekly Observatory

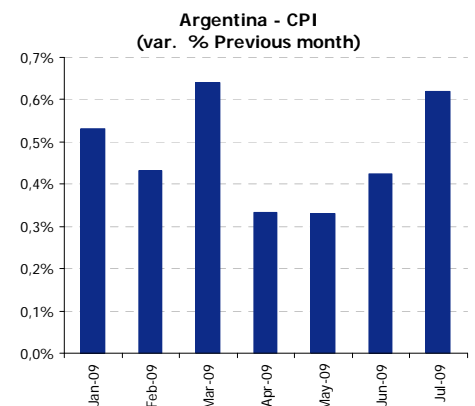
August, 14th, 2009

## Weekly Highlights (10<sup>th</sup> – 14<sup>th</sup> August, 2009)

The release of several demand and activity indicators yield mixed conclusions over the immediacy of economic recovery in the region. In Brazil, auto sales fell, partly due to fiscal effects. An economic survey in Chile registers an additional increase during July. Finally, an apparent stabilization of industrial production decay in Colombia comes along with an improvement of housing confidence proxies.

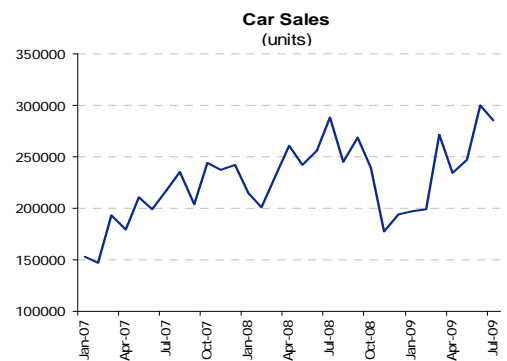
### 1. Argentina

- The government is analyzing a voluntary debt swap to be launched next month that would not be restricted only to bonds adjusted for inflation as it was anticipated. Bonds with a longer-term maturity and yielding Badlar interest rate, like recent issues in the domestic market, will be issued. The aim is to postpone the debt maturities over the next two years. For the present time a new offer will not be done to the holdouts or to the Club of Paris by the debt in cessation of payments.
- During July the official inflation grew 0.6% compared to June and 5.5% y/y, accumulating 3.4% so far this year. The largest hike was registered again in Clothing (1% related with seasonally factors) and communication & transport (1% because of some hikes in long distance transportation), while Foods and Beverages increased 0.5% - the largest chapter increase of the year - highlighting the raise in alcoholic beverages and fruits



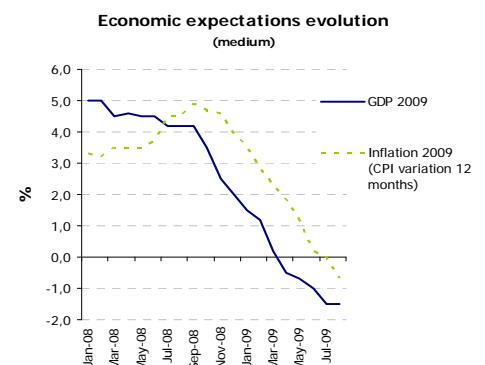
### 2. Brazil

- Car sales dropped 4% m-o-m in July. The good performance of car sales in previous months as well as the uncertainty regarding the renovation of fiscal incentives to the car industry which, according to initial announcements, would end in June (incentives were recently extended till the end of the year), suggest that the drop observed in July is at some extent due to an anticipation of the car purchases. In comparison to July of 2008, car sales dropped only 1%. The positive results of the car industry are among the main drivers of the recovery process of the Brazilian economy.



### 3. Chile

- According to the Survey of Economic Expectations of the Central Bank, analysts maintain the -1.5% GDP growth projection for 2009 (BBVA -1.5%), after ten consecutive downward adjustments. Inflation expectations decline again, and the CPI cumulative variation is expected to be negative in December (-0.7% v/s BBVA -0.8%).
- The Economic Perception Index for July increased for the fourth consecutive time to its highest level in 16 months, recording 41 points (out of 100).



**4. Colombia**

- According to ANDI and Fedesarrollo surveys, during the first semester of the year, industrial production and sales decreased by 6.7% and 5.0% respectively. Besides, ANDI's survey highlights businessmen efforts searching for new external partners to offset lower exports to Ecuador and Venezuela.
- During July, consumer confidence index rose again. Households perceive current economic conditions are improving.

**5. Mexico**

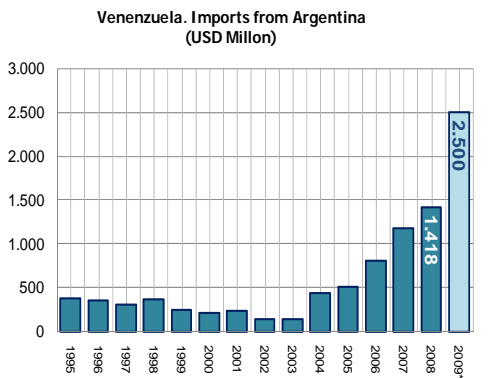
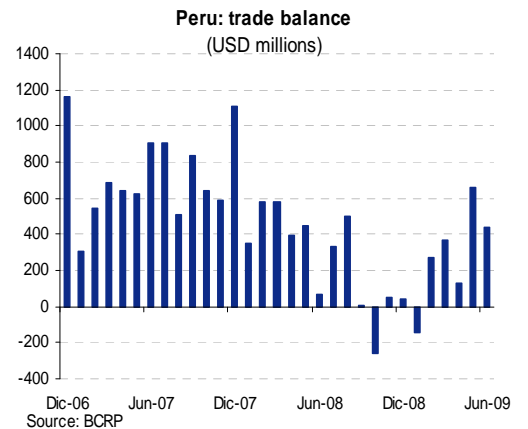
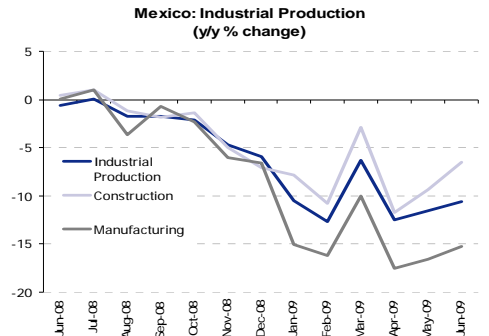
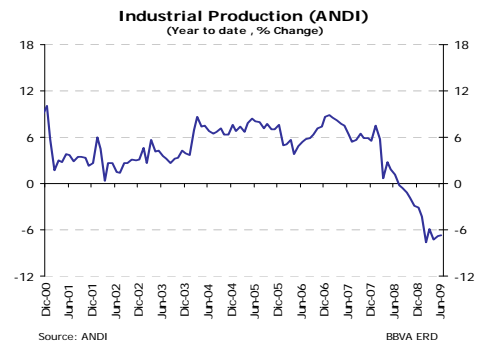
- The Industrial Production for June registered one of the sharpest contractions in history (-10.6% y/y). The most affected components were Construction that fell -6.5% and manufacturing that fell -15.2% consistent with the performance of Industry in the US. We anticipate that Industrial Production will recover gradually through the end of 2009 and the first months of 2010 because of its tight correlation with the US economy.
- Next week the GDP for the second quarter will be published, the perspective is that it will adjust sharply because of the effects of the Influenza pandemic in April and May.

**6. Peru**

- The trade balance showed a surplus of USD 441 million in June and thus accumulated a surplus of USD 1.728 million in the first semester (USD 2.425 million in 1S of 2008). In this first half of the year, exports accumulated a decrease of 29.6% y/y, due mainly to a reduction in the price and export volume of 26.8% and 4%, respectively. Imports also showed a decrease by 29.7% y/y due to lower volume (22.2%) and the fall in the average price of imports (9.5%).
- Additionally, data released for power generation, showed a decrease of 2.7% y/y in July (-2.8% in June). This result is due to a reduction in thermal generation of 13.7% y/y, while the hydraulic generation rose by 7.8% y/y.
- Finally, Standard & Poor's Ratings Services confirmed its 'BBB-' long-term foreign currency and 'BBB+' long-term local currency ratings on Peru, adding that the outlook remains stable. According to the press release, the ratings on Peru are supported by the government's commitment to economic stability and a positive investment climate that will underpin solid growth through 2012, despite the slowdown in 2009.

**7. Venezuela**

- **Trade agreements between Argentina and Venezuela by USD 1,100 MM.** Governments of both countries signed 22 trade agreements, highlighting the import from Argentina of 80,000 tons of cattle and rice, and a quota of 10,000 vehicles for 2009. This trade flow could increment argentine imports up to USD 2,500 MM at the end of the year, after marking USD 1,418 MM in 2008.
- **The Superintendency of Banks increased minimum capital requirement of the banking system.** Since 1H-10, universal banks will be required to hold BsF 170 MM (USD 79.0 MM) as minimum capital amount. Former resolution limited to BsF 40 MM (USD 18.6 MM) the capital requirements. The reform would oblige three low size banks to inject capital in next months.



\*Estimated  
Source: ALADI

## The latest from markets

## Bond and Money markets

| Market                      | End   | Weekly Var. | Yearly Var. Bp | Forecast. Dec 2009 |
|-----------------------------|-------|-------------|----------------|--------------------|
| <b>Argentina</b>            |       |             |                |                    |
| 7 day Central Bank rate     | 10,00 | 0           | 125            | ---                |
| Badlar rate                 | 12,69 | -31,25      | 19             | 17,00              |
| <b>Brazil</b>               |       |             |                |                    |
| Official Rate               | 8,75  | 0           | -425           | 8,50               |
| Andima 1 year bond          | 9,19  | -11         | -538           | ---                |
| <b>Chile</b>                |       |             |                |                    |
| Official rate               | 0,50  | 0           | -675           | 1,50               |
| Swap CLP                    | 0,55  | -1          | -769           | ---                |
| 10 year rate                | 5,52  | -1          | -180           | ---                |
| <b>Colombia</b>             |       |             |                |                    |
| Official Rate (BR)          | 4,50  | 0           | -550           | 6,00               |
| DTF                         | 5,04  | -2          | -469           | ---                |
| TES jul-2020                | 9,10  | 7           | -275           | ---                |
| <b>Mexico</b>               |       |             |                |                    |
| Official Rate (fondeo)      | 4,50  | 0           | -350           | 5,50               |
| 3 months rate               | 4,59  | -25         | -375           | 5,47               |
| 10 years rate               | 8,27  | 11          | -46            | 6,90               |
| <b>Peru</b>                 |       |             |                |                    |
| Official Rate               | 1,3   | 0,0         | -500,0         |                    |
| 10 years*                   | 5,9   | -12,0       | -197,0         |                    |
| <b>Venezuela</b>            |       |             |                |                    |
| Overnight-interbank (daily) | 3,2   | -780,9      | -1530,0        | 5,00               |
| CD 28d (official)           | 6,0   | 0,0         | -800,0         | 6,00               |
| DPF 90d                     | 15,6  | 33,0        | -161,0         | 14,50              |

## Foreign exchange market

Slight movements in Latin American currencies after higher prices in commodity markets.

| Exchange Rate              | End   | Weekly Var. % | Yearly Var. % | Forecast. Dec 2009 |
|----------------------------|-------|---------------|---------------|--------------------|
| <b>America</b>             |       |               |               |                    |
| Argentina (peso-dollar)    | 3,84  | 0,2           | 26,6          | 4,10               |
| Brazil (Real-dollar)       | 1,82  | -0,1          | 11,3          | 2,30               |
| Colombia (Peso-dollar)     | 2007  | -0,1          | 6,8           | 2543,00            |
| Chile (Peso-dollar)        | 545   | 0,3           | 5,7           | 590,00             |
| Mexico (Peso-dollar)       | 12,87 | -0,6          | 26,4          | 13,40              |
| Peru (New sol-dollar)      | 2,94  | 0,0           | -0,3          | 3,30               |
| Venezuela (Bolívar-dollar) | 2147  | 0,0           | 0,0           | 2700,00            |
| dollar-Euro                | 1,43  | 0,7           | -2,7          | 1,25               |

**Emerging Spreads**

Except for Chile, general increases in Latin American country risk, with a sharp increase in the Venezuelan Embi spread.

| EMBI+ sovereign spreads | End  | weekly chg. Bps | Annual chg bps |
|-------------------------|------|-----------------|----------------|
| EMBI+                   | 371  | 23              | 79             |
| EMBI + Latin America    | 399  | 22              | 78             |
| Argentina               | 901  | 26              | 244            |
| Brazil                  | 254  | 16              | 23             |
| Colombia                | 268  | 28              | 51             |
| Chile*                  | 135  | 3               | -40            |
| Mexico                  | 202  | 20              | 28             |
| Peru                    | 246  | 21              | 56             |
| Venezuela               | 1040 | 48              | 358            |
| EMBI+ Asia              | 290  | 19              | 20             |
| EMBI+ Europe            | 354  | 24              | 112            |

**Commodity Markets**

The price of oil fluctuated within the USD 70 - USD 75 range in the last days. The upward impact on the prices of better recovery perspectives and a weaker dollar continue being partially offset by the impact of a weak oil demand and increasing inventories.

| Commodities         | End  | Weekly Var. % | Yearly Var. % | Forecast Dec 2009 |
|---------------------|------|---------------|---------------|-------------------|
| Brent (\$/b)        | 73,9 | 0,4           | -34,3         | 56,3              |
| Gold (\$/onza)      | 957  | 0,2           | 21,5          | 875,0             |
| Copper (c/lb)       | 290  | 3,9           | -14,2         | 165,0             |
| Soy (c/bush)        | 408  | 1,4           | -8,2          | 370,0             |
| Corn (c/bush)       | 116  | 1,8           | -41,2         | 350,0             |
| Goldman-Sachs Index | 470  | 0,3           | -34,2         | ---               |
| CRB Index           | 426  | 1,0           | -18,0         | ---               |

**Stock Markets**

Some increases in Latin American stock exchanges, with Venezuelan markets seeing the biggest increase this week.

| Stock Exchange           | End   | Weekly Var. % | Yearly Var. % |
|--------------------------|-------|---------------|---------------|
| <b>The Americas</b>      |       |               |               |
| Argentina (Merval)       | 1796  | -0,2          | 3,6           |
| Brazil (Bovespa)         | 57048 | 1,28          | 5,2           |
| Colombia (General Index) | 10517 | 0,8           | 17,6          |
| Chile (IGPA)             | 15528 | 0,1           | 12,2          |
| Mexico (IPC)             | 28155 | -0,1          | 3,0           |
| Peru (Lima General)      | 14330 | 3,2           | 22,3          |
| Venezuela (IBC)          | 48183 | 4,4           | 20,7          |
| <b>USA</b>               |       |               |               |
| S&P 500                  | 1013  | 0,2           | -22,0         |
| Nasdaq 100               | 2009  | 0,5           | -18,1         |
| <b>Europe</b>            |       |               |               |
| Londres (FTSE)           | 4775  | 0,9           | -12,5         |
| EuroStoxx50              | 2356  | 0,0           | -18,9         |
| Ibex35                   | 11056 | 1,0           | -5,4          |
| Estambul-100             | 45165 | 0,9           | 7,0           |
| <b>Asia</b>              |       |               |               |
| Nikkei                   | 10597 | 1,8           | -18,6         |
| China                    | 3047  | -6,6          | 24,3          |

## The week ahead

| Day              | Country   | Indicator   | Period    | Last/prev      | Mkt Forecast | BBVA                             |
|------------------|-----------|---|-----------|----------------|--------------|----------------------------------|
| <b>Monday</b>    |           |   |           |                |              |                                  |
|                  | Chile     | Conjuncture Weekly indicator                                  |           |                |              |                                  |
|                  | Perú      | GDP   | June      | May: 0,5%      |              | BBVA:<br>between -<br>2% y -2,4% |
|                  | Perú      | Unemployment  | July      | Previous: 8,5% |              |                                  |
|                  | Brasil    | CAGED formal employment creation                              | July      | 119.495        |              |                                  |
| <b>Tuesday</b>   |           |   |           |                |              |                                  |
|                  | Chile     | Quarterly conjuncture indicator (GDP and Balance of payments) | 2° T 2009 |                |              |                                  |
| <b>Wednesday</b> |           |   |           |                |              |                                  |
|                  | Colombia  | Industrial production   | June      | -6,50%         |              | -6,0%                            |
|                  | Colombia  | Retail sales  | June      | -3,50%         |              | -2,6%                            |
|                  | Brasil    | Income tax  | July      | 54034M         |              |                                  |
| <b>Thursday</b>  |           |   |           |                |              |                                  |
|                  | Argentina | Current account balance                                       | July      | Mu\$s 1528     |              | Mu\$s 1222                       |
|                  | Colombia  | Construction licency  | June      | -28%           |              |                                  |
|                  | México    | PIB   | 2T09      | -8.2           | -10.6        | -10.9                            |
|                  | Brasil    | Unemployment rate   | July      | 8,10%          |              |                                  |
| <b>Friday</b>    |           |   |           |                |              |                                  |
|                  | Argentina | Unemployment rate   | 2T09      | 8,40%          |              | 9,3%                             |
|                  | Argentina | Advance Monthly Industrial Estimator                          | July      | 0,6% a/a       |              | - 1,5% a/a                       |
|                  | México    | Establecimientos Comerciales                                  | Jul       | -8.4           | -8.5         | -7.5                             |
|                  | México    | Decisión Política Monetaria                                   | Ago       | 4.50           | 4.50         | 4.50                             |
|                  | Venezuela | PIB   | II Trim   | I-Trim : 0,3%  |              |                                  |

## Macroeconomic Indicators

|           | GDP (yoy) |      |      |      |      | Inflation |     | Unemployment    |       | Industrial Prod. |     | Sales |      | Exports |     | Trade Balance |     |
|-----------|-----------|------|------|------|------|-----------|-----|-----------------|-------|------------------|-----|-------|------|---------|-----|---------------|-----|
|           | 1Q09      | 4Q08 | 3Q08 | 2Q08 | 1Q08 | yoy       |     | (% active pop.) |       | yoy              |     | yoy   |      | yoy     |     | mUSD          |     |
| Argentina | 2,0       | 4,1  | 6,9  | 7,8  | 0,0  | 5,5       | Jul | 8,4             | 1 T09 | 0,6              | Jun | 13,5  | Jun  | -4,5    | Jun | 1528,0        | Jun |
| Brazil    | -1,8      | 1,3  | 6,8  | 6,2  | 6,1  | 4,5       | Jul | 8,1             | Jun   | -10,9            | Jun | 4,0   | May  | -30,8   | Jul | 2928,0        | Jul |
| Chile     | -2,1      | 0,2  | 4,6  | 4,6  | 3,4  | 0,3       | Jul | 10,7            | Jun   | -8,3             | Jun | -6,6  | Jun  | -30,0   | Jul | 881,0         | Jul |
| Colombia  | -0,6      | -1,0 | 3,3  | 3,7  | 4,2  | 3,3       | Jul | 13,0            | Jul   | -6,5             | May | -3,5  | May  | -18,8   | Jun | 377,9         | Jun |
| Mexico    | -8,2      | -1,6 | 1,7  | 2,9  | 2,6  | 5,4       | Jul | 5,2             | Jun   | -10,6            | Jun | -8,4  | May  | -26,6   | Jun | -209,3        | Jun |
| Peru      | 1,8       | 6,5  | 10,9 | 11,8 | 10,3 | 2,7       | Jul | 8,5             | Jun   | -7,6             | May | n.d.  | n.d. | -25,6   | Jun | 441,0         | Jun |
| Venezuela | 0,3       | 3,2  | 4,1  | 7,3  | 5,0  | 28,3      | Jul | 7,8             | Jun   | 11,4             | Mar | 20,5  | Mar  | -55,5   | Mar | -1442,0       | Mar |

Sources: Bloomberg, Reuter, and BBVA staff estimates.