



Weekly Observatory

September 25th, 2009

Weekly Highlights (21st – 25th September 2009)

This week, South American currencies refrained to weaken despite a significant drop in commodity prices, a moderate dollar appreciation and Central Banks' interventions. The strength of the currencies in the region (with the exception of the Mexican Peso) is at least in part due to the relatively good macroeconomic data coming out from these countries. In Colombia GDP for the second quarter expanded 0.7% in comparison to the first quarter and Brazil was assigned an investment grade by Moody's.

1. Argentina

- Trade surplus for August dropped by 48% y/y as a consequence of a strong reduction on exports, which fell by 40% y/y. Even if exports were affected by port conflicts, it should be taken into account that figures of August 2008 were particularly high because the farm conflict began to be solved at that time. On the other hand, imports continued falling a 37% y/y. Trade balance reached US\$ 1155 million on August and US\$ 12332 million in the first eight months of the year. We consider that our annual trade balance estimation of US\$ 16600 million could be slightly underestimated by US\$ 1000 million, since imports would be below our expectations.

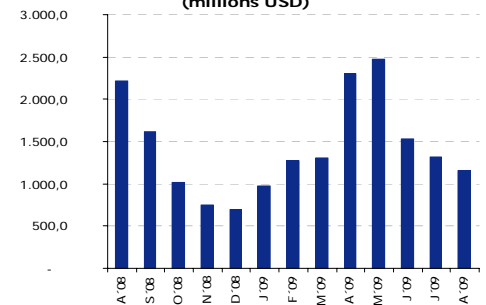
2. Brazil

- The unemployment rate in August came up at 8.1%, in line with market's expectations and slightly higher than in July (8.0%). The current account deficit in August was of USD 821 millions. In 12 months, the deficit now reaches 1.34% of the GDP while foreign direct investments represent 2.75%.
- This week the government announced that financial institutions should soon be authorized to issue debentures to increase their long-term funding and to allow a sound growth of the credit supply that is currently been expected for the next years.
- Moody's upgraded Brazil to investment grade allowing both the Real and the IBOVESPA to reach their record levels in the year in the beginning of the week.

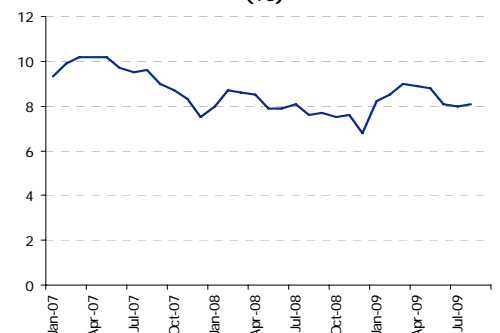
3. Chile

- According to published information by the Capital Goods Corporation, private investment in 2010 is forecasted to reach US\$ 16.617 million, 35% above the forecast for year 2009. Out of this amount, US\$ 8.215 million would be directed towards the energy sector, US\$ 3.738 million in mining and US\$ 2.043 in the real state sector.
- CMPC, one of the main producers of cellulose around the world, announced an agreement with the Brazilian firm Aracruz Celulose e Papel S.A. to buy one of the most important units of Aracruz in US\$ 1.450 million as well as investments that amount to US\$ 1.500 million in order to build a new plant in Brazil. With this transaction, the main firm of the Matte group will improve its ranking worldwide from 8th to 4th place.

Argentina - Current account balance (millions USD)

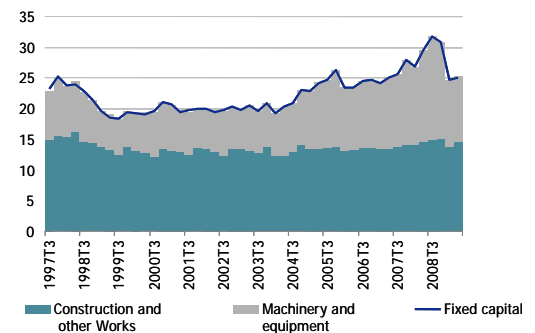


Unemployment Rate (%)



Source: IBGE

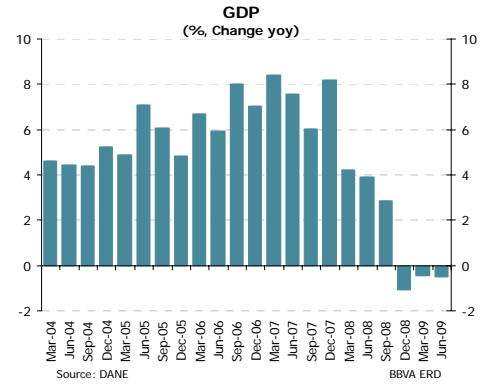
Rate of Investment in Fixed Capital (% GDP)



Source: BCCh and BBVA

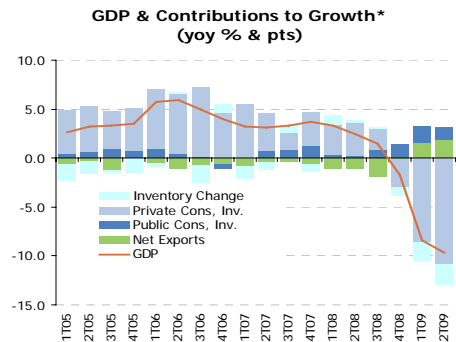
4. Colombia

- During the second quarter of the year, Gross Domestic Product fell -0.5% yoy in line with market expectations but rose 0.7% qoq. On the other hand, growth figures for 1Q09 were revised upwards by DANE (Department of Statistics) from -0.6% to -0.4% yoy due to an improvement in net external demand.
- The Central Bank surprised the market by cutting the official interest rate by 50 bps, citing weak domestic demand, low inflation and the appreciation of the peso as the main reason for this move.
- Industrial production and retail sales continued decreasing during July (6.5% and 3.7% yoy in that order). Nevertheless, the seasonally adjusted series presented the first monthly increase since January 2008 (0.2%) for industrial production while retail sales continued their negative trend.



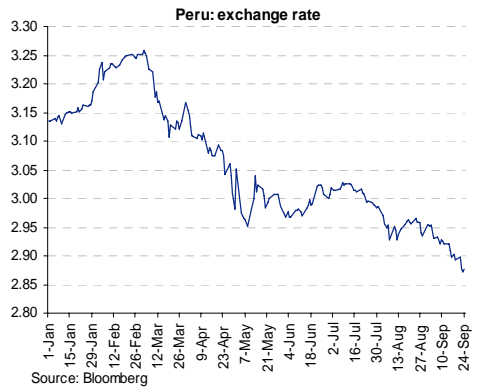
5. Mexico

- Aggregate Demand in 2Q09t contracted -14.8% annually, however, quarterly it slowed its contraction pace from -5.8% in 1Q09 to -1.1% in 2Q09, supported by public consumption and investment, and from net exports. In the mid term the recovery of private consumption will depend on the effects over people's disposable income from the 2010 economic program. September's bi-weekly general inflation reached 0.39% while the core component reached 0.32%, though we don't rule out pressures from agricultural prices, we confirm our perspective that inflation will close 2009 around 4%. The Trade Balance showed a -835 deficit in August, with manufacturing exports excelling by growing 5.8% m/m, boosted by the improved economic environment in the U.S.



6. Peru

- In its September 2009 release, Central Bank's (CB) Inflation Report revised downwards its GDP growth forecast for 2009, from 3,3% (June 2009 report) to a current 1,8%, mainly explained by a lower than expected private investment execution (current forecast for 2009 is -10,3%, below the 2,5% expected in June) and a downward adjustment in exports (from -1,3% to -2,7%). CB has also revised its inflation estimates, from a range between 1,0%-2,0% in June, to a range of 0,0%-1,0% in the current forecast, in a context in which annual inflation rate has showed a faster than expected downward pace, due to the reversal of supply shocks that pressured upwards the prices of fuels and food in 2008.
- In a context of increased downward pressures on the exchange rate (PEN appreciation) CB intervened in the FX market purchasing USD 269 million. It is worth mentioning that this was its first intervention since May 8 (purchase of USD 68 million).



7. Venezuela

- Government has created the Public Banking Corporation. It will coordinate the activity of Public Banks. The new entity will aim to achieve rationalization, optimization, effectiveness and sustainability of the state banks.
- The unemployment rate was 8.0% in August which represents a drop of 50bp in m/m terms, but the trend in the year climbed 90bp on YoY basis.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Forecast. Dec 2009
Argentina					
7 day Central Bank rate	9,50	0	75		---
Badlar rate	12,25	-6,25	-13		16,00
Brazil					
Official Rate	8,75	0	-500		8,50
Andima 1 year bond	9,74	30	-540		---
Chile					
Official rate	0,50	0	-775		0,50
Swap CLP	0,69	-1	-814		---
10 year rate	5,98	0	-147		---
Colombia					
Official Rate (BR)	4,50	0	-550		4,50
DTF	4,94	-5	-516		---
TES jul-2020	9,16	-15	-336		---
Mexico					
Official Rate (fondeo)	4,50	0	-375		5,50
3 months rate	4,62	7	-368		5,47
10 years rate	8,05	-7	-39		6,90
Peru					
Official Rate	1,3	0,0	-500,0		1,00
10 years*	5,6	2,0	-286,0		
Venezuela					
Overnight-interbank (daily)	19,2	1840,0	1320,0		5,00
CD 28d (official)	6,0	0,0	-800,0		6,00
DPF 90d	14,5	-60,0	-296,0		14,50

Foreign exchange market

With the exception of the Mexican Peso, Latin American currencies strengthened despite the sharp correction in commodity prices.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
America				
Argentina (peso-dollar)	3,84	0,0	23,1	4,10
Brazil (Real-dollar)	1,80	-0,4	-2,6	1,88
Colombia (Peso-dollar)	1922	-1,4	-8,8	2252,56
Chile (Peso-dollar)	545	-0,1	1,0	560,00
Mexico (Peso-dollar)	13,51	1,9	25,1	13,10
Peru (New sol-dollar)	2,88	-0,5	-3,2	2,97
Venezuela (Bolívar-dollar)	2147	0,0	0,0	2150,00
dollar-Euro	1,47	-0,3	0,5	1,44

Emerging Spreads

General increases in Latin American country risks, especially in the Argentinean Embi spread (63.9Bps).

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	331	11,4	-42
EMBI + Latin America	362	12,3	-42
Argentina	795	63,9	-19
Brazil	234	10,5	-62
Colombia	246	14,6	-30
Chile*	138	1,0	-62
Mexico	195	0,4	-42
Peru	222	12,8	-53
Venezuela	894	23,2	67
EMBI+ Asia	263	12,8	-58
EMBI+ Europe	302	8,8	-31

Commodity Markets

The oil price fell more than 8% and reached a ten-week low as the expansion of US oil and distillate inventories prompted a closer look into the fundamentals of the oil market which have been clearly loose in the last months. Fears of a weaker recovery in the US also had a negative impact in other commodity prices.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (\$/b)	65,3	-8,5	-37,0	56,3
Gold (\$/onza)	997	-1,1	13,4	875,0
Copper (c/lb)	270	-3,3	-12,7	165,0
Soy (c/bush)	326	1,2	-17,3	370,0
Corn (c/bush)	119	5,7	-39,8	350,0
Goldman-Sachs Index	442	-3,1	-33,6	---
CRB Index	421	-0,5	-12,7	---

Stock Markets

Negative behaviour in Latin American stock markets, following news of a drop in U.S. home sales and the oil price decline

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2006	-0,1	18,5
Brazil (Bovespa)	60046	-1,1	18,2
Colombia (General Index)	10959	0,4	17,1
Chile (IGPA)	15621	0,6	19,1
Mexico (IPC)	28465	-4,9	11,2
Peru (Lima General)	15085	-0,4	29,0
Venezuela (IBC)	52447	-2,1	38,1
USA			
S&P 500	1051	-1,6	-13,4
Nasdaq 100	2108	-1,2	-3,5
Europe			
Londres (FTSE)	5093	-1,6	0,1
EuroStoxx50	2428	-1,9	-10,8
Ibex35	11638	-1,2	2,2
Estambul-100	47509	0,7	30,0
Asia			
Nikkei	10266	-1,0	-13,7
China	2839	-4,2	23,8

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	México	IGAE	July	-8.1	-7.9	
Tuesday						
	Argentina	Sales Survey of Shopping Centers	August	1,4% a/a		
	Argentina	Sales Survey of Supermarkets	August	20,3% a/a		
	Brasil	Central Govt Budget	August	1.44B		
	Brasil	FGV Inflation IGP-M (YoY)	September	-0,7%		
Wednesday						
	Argentina	Public services Survey	August	6,0% a/a		
	Argentina	Synthetic Indicator of construction	August	-7,0% a/a		
	Chile	Weekly Economic Indicators (CBCh)	September			
	Colombia	Unemployment Rate	August	12,8%		12,4%
	México	Inflation report	2T09	NA	NA	NA
	Brasil	Primary fiscal balance	August	3.2B		
	Brasil	Net debt % GDP	August	44,10%		
Thursday						
	Argentina	Salary index	August	19,3% a/a		
	Colombia	Exports	August	-23,5%		
Friday						
	Colombia	IPC (MoM)	September	0,04%		0,2%
	Colombia	IPC (YoY)	September	3,1%		3,5%
	Brasil	Industrial Production YoY	August	-9,9%		

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	2Q09	1Q09	4Q08	3Q 08	2Q 08	yoy	Aug	(% active pop.)	2 T 09	yoy	Jul	yoy	Jul	yoy	Jul	m USD	Aug
Argentina	-0,8	2,0	4,1	6,9		5,9	Aug	8,8	2 T 09	-1,5	Jul	20,3	Jul	-40,0	Aug	1.155	Aug
Brazil	-1,2	-1,8	1,3	6,8	6,2	4,4	Aug	8,1	Jul	-9,9	Jul	5,9	Jul	-29,9	Aug	3.074	Aug
Chile	-4,5	-2,3	0,2	4,6	-1,0	-1,0	Aug	10,8	Jul	-7,4	Jul	-7,0	Jul	-24,7	Aug	884	Aug
Colombia	-0,5	-0,4	-1,1	2,8	3,9	3,1	Aug	12,8	Jul	-6,5	Jul	-3,7	Jul	-23,5	Jul	-131,5	Jul
Mexico	-10,3	-8,0	-1,6	1,7	2,9	5,1	Aug	6,3	Jul	-6,5	Jul	-4,8	Jul	-24,9	Aug	-835	Aug
Peru	-1,1	1,8	6,5	10,9	11,7	1,9	Aug	8,3	Aug	-12,4	Jul	n.d.	n.d.	-25,6	Jul	560	Jul
Venezuela	-2,4	0,5	3,5	3,8	7,2	28,8	Aug	8,0	Jul	-12,4	Jun	-12,0	Jun	-53,6	Jun	3.212	Jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.