



Weekly Observatory

February 26th, 2010

Weekly Highlights (22nd – 26th February 2010)

New improvement in activity rates, with increases in PMI of Peru, industrial production of Colombia, and a positive surprise in the GDP of Mexico. In the external sector, increases are recorded in the trade balance of Argentina and especially of imports in Chile. On the other hand, next Monday the Free Trade Agreement between Peru and China takes effect. In monetary policy, the Central Bank of Brazil announced an increased in the reserve requirements of the banking system, a measurement that should be understood as purely prudential.

1. Argentina

- The trade balance of January 2010 stood at USD 1.216 million, above our forecast (USD 1.039 billion). Exports (+18.6% yoy) confirm the recovery of recent months, led by exports of industrial products, particularly higher sales of automobiles to the Brazilian market. Import growth (+16.2% y o y) also reflects a stronger domestic demand with capital goods and consumer goods leading the increase.
- The public sector primary surplus of January stood at \$ 1033.6 million with a drop of 48% y/y, despite the good performance of current revenues (+17.3% y/y) This is due to the fact that primary spending grew 25% y/y driven by social subsidies (universal benefit for children) and transfers to the electricity and transport sectors. Meanwhile, capital spending shrank by 15% y /y in line with expectations.

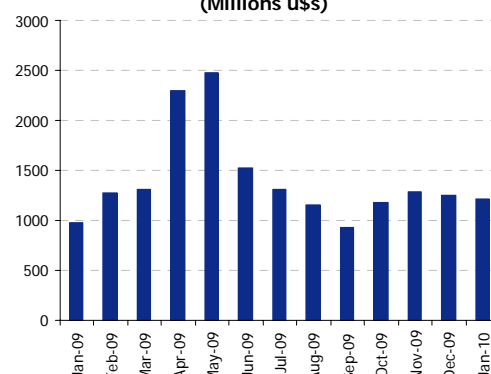
2. Brazil

- The Central Bank announced on Wednesday an increase in the reserve requirements of the banking system. Through this measure the monetary authority will withdraw R\$71bn of the R\$100bn injected in the economy during the crisis. The announcement shows the current concerns with the high liquidity levels in the financial system. According to the Central Bank this measure should be understood as a prudential one and not as counter cyclical move.
- Retail sales dropped -0.4% in December, suggesting a slight moderation of the economic activity. On the other hand, unemployment rate reached 7.2% in January, the lowest rate for the period. Credit rose 0.7% m/m (15.7% y/y) and NPL's remained stable at 4.3%. Both public and external accounts came up better than expected in the first month of the year. The primary surplus of the public sector reached 2.3% due to a significant recovery of revenues. The current account deficit, on the other hand, remained practically stable at -1.56%.

3. Chile

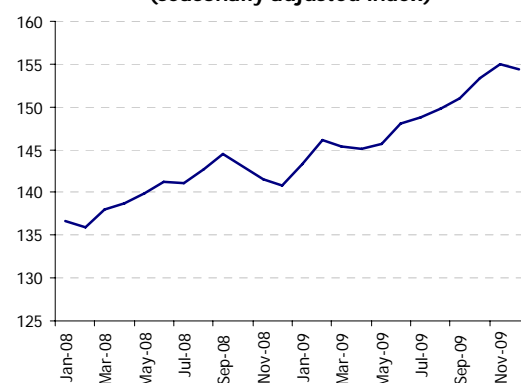
- Imports recorded annual growth of 23%, with all components showing positive growth. In particular, imports of consumer goods increased by 28%, while durable consumer goods increased by 129% y-o-y. Meanwhile, exports maintain its growth pace driven by copper prices.
- Both, imports and exports are recovering at a similar pace. However, with respect to the previous crisis (98-99) imports have shown a stronger recovery on this occasion, while exports remain depressed, in line with international conditions less benign.
- The industry continues to linger, it decreases at 0.4% m/m and 1.1% a/a in January. However, demand remains strong with increases of 7.2% and 9.2%, in retail sales and supermarkets, respectively. Unemployment rate rose 0.1% q/q, to settle at 8.7%

Argentina: Balance Trade
(Millions u\$s)



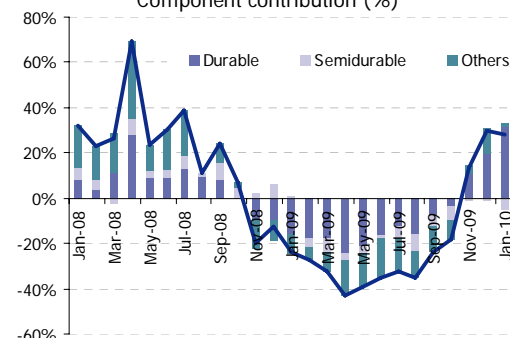
Source: Indec

Brazil: Retail Sales
(seasonally adjusted index)



Source: IBGE

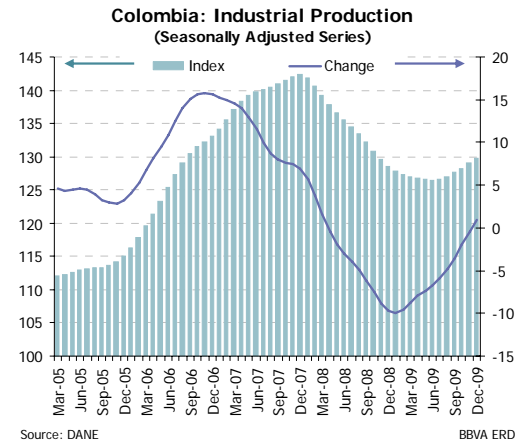
Chile: Imports of Consumer goods
Component contribution (%)



Source: CBCh and BBVA

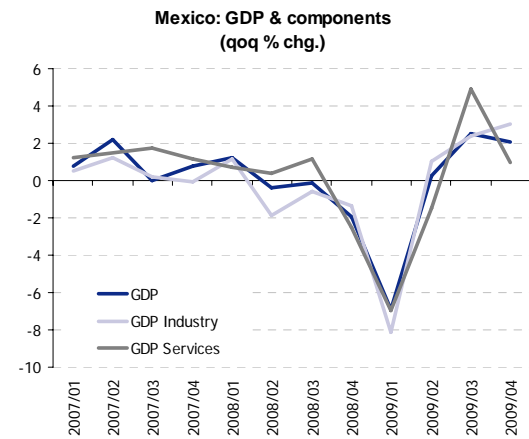
4. Colombia

- In December, industrial production grew 2.0% yoy closing the year with a decrease of 5.3%. The economic activities that presented the biggest recovery in 09Q4 were food production, chemical products and some durable goods for household consumption. When seasonally adjusted, industry completed six consecutive months with mom growths.
- Retail sales increased 2.7% yoy in December completing the first quarter with positive variation since 08Q3 and showing a decrease of 2.7% during 2009. When seasonally adjusted, they achieved eight consecutive months with positive mom growth. The performance of some durable and non durable goods boosted sales.
- The Constitutional Court ruled against holding a referendum on the possibility that Uribe will be presented for a third time consecutive for the presidency. In the face of the ruling, Uribe left in the hands of his former minister's Santos, the responsibility to happen him.



5. Mexico

- GDP growth was higher than expected (2.0% qoq vs 1.4% qoq consensus and 1.1% BBVA), in the 4Q09. Industrial activities lead the expansion (3% qoq) relying on foreign demand improvement. Activities more related with domestic demand show a slightly slower recovery. We expect 3.8% GDP growth in 2010. February's bi-weekly general inflation was lower than expected (0.18% m/m vs. 0.26% m/m BBVA and consensus). This result was due to favorable dynamics in services prices. The Current Account Balance for 2009 was in line with our forecast reaching -0.6% of GDP (vs. -0.5 BBVA) even though a small deficit is a positive outcome, it is consistent with the economic recession suffered during 2009.



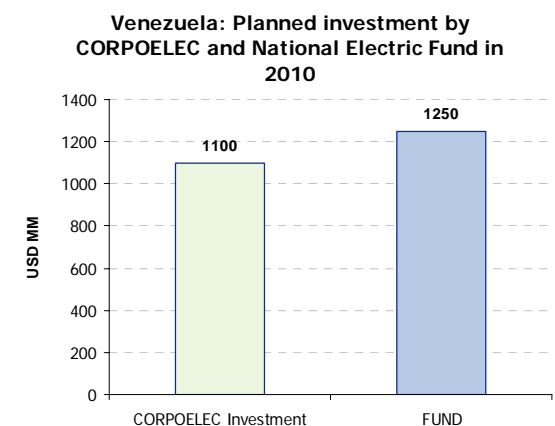
6. Peru

- The Central Bank's Purchasing Managers Index increased 9 points in January, reaching 63 points (over 50 points the economy is expanding). This is the highest recorded level since this variable began to be published (January 2008) and it reflects both a better current economic situation as well as more positive future expectations. Also the Central Government tax revenues increased 17%yoy in real terms in January (2%yoy in December), accelerating its growth rate (positive since last November).
- The Free Trade Agreement (FTA) with China will become effective on next March 1st (China is Peru's second largest trading partner). This implies that 85% of Peruvian exports to that country will have immediate duty free access, increasing to 99% of exports in a ten-year horizon. It is worth mentioning that Peru plans to complete similar trade negotiations with the European Union, Japan, and Korea in the next six months.



7. Venezuela

- Minimum requirements of agricultural portfolio increased in 2010. The minimum percentage of agricultural portfolio that banks will have to lend at the end of the year was increased by 4%, to settle at 25% of the last two years average gross loan portfolio, the measure represents an increase of 63, 6% of the stock in December 2009.
- The National Electric Fund was set with assets of USD 1,000 MM and BsF. 1,100 MM. The latest contribution will be covered by exchange gains, while the financial source for the USD 1.000 MM is not clear enough. With these contributions, the fund would be able to finance 100% of the CORPOELEC projects over 2010.



Source: Gaceta Oficial N° 39371 and own calculations

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	9.44	37.50	-488	16.00
Brazil				
Official Rate	8.75	0	-400	10.25
Andima 1 year bond	10.71	20	-43	---
Chile				
Official rate	0.50	0	-425	2.50
Swap CLP	0.80	3	-472	---
10 year rate	6.32	-8	85	---
Colombia				
Official Rate (BR)	3.50	0	-550	4.25
DTF	3.96	-7	-566	---
TES jul-2020	9.08	-6	-78	---
Mexico				
Official Rate (fondeo)	4.50	0	-325	4.50
3 months rate	4.66	3	-285	---
10 years rate	7.64	5	-84	---
Peru				
Official Rate	1.25	0	-500	2.00
10 years*	6.16	5	-121	0.00
Venezuela				
Overnight-interbank (daily)	2.60	184	-1222	6.50
CD 28d (official)	6.00	0	-800	6.00
DPF 90d	14.64	-58	-272	14.50

Foreign exchange market

Marginal changes in the currencies of the region during the week, except for the appreciation of the Brazilian real and the Colombian peso.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2010
America				
Argentina (peso-dollar)	3.86	0.1	8.3	4.16
Brazil (Real-dollar)	1.82	1.2	-23.6	1.75
Colombia (Peso-dollar)	1943	1.1	-23.6	2070
Chile (Peso-dollar)	530	-0.3	-11.2	525
Mexico (Peso-dollar)	12.80	0.0	-16.1	12.70
Peru (New sol-dollar)	2.85	-0.1	-12.4	2.85
Venezuela (Bolivar-dollar)	2.60-4.30	-	-	2.60-4.30
dollar-Euro	1.36	-0.3	7.1	1.34

Emerging Spreads

Different results for the EMBI + countries in the region, with increases or small changes. Increases are particularly high in Argentina and Venezuela.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	299	9.5	-354
EMBI + Latin America	348	5.7	-336
Argentina	809	24.2	-898
Brazil	215	7.2	-204
Colombia	220	-0.4	-249
Chile*	137	0.5	-222
Mexico	167	-0.2	-198
Peru	185	6.1	-214
Venezuela	988	14.1	-654
EMBI+ Asia	243	6.6	-267
EMBI+ Europe	237	18.1	-428

Commodity Markets

In a week characterized by the lack of significant fundamentals-related news, commodity prices were mainly driven by financial markets movements. Both the appreciation of the dollar and the weakening of equity markets pushed oil and metal prices downwards. Some agriculture commodities prices showed resilience to the tone of the markets and closed the week higher.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2010
Brent (US\$/Bbl)	76.0	-2.8	-2.5	74
Gold (US\$/Troy oz)	10	-1.8	-4.6	---
Copper (US\$/t)	6999	-5.8	-5.1	5181
Soybean (US\$/t)	332	-0.4	-9.5	330
Corn (US\$/t)	132	4.1	-9.6	172
Goldman-Sachs Index	502	4.3	48.7	---
CRB Index	471	2.5	30.3	---

Stock Markets

The countries of the region show descents in the stock markets with the exception of Colombia.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2212	-5.3	117.0
Brazil (Bovespa)	66121	-2.2	73.2
Colombia (General Index)	11670	0.7	49.5
Chile (IGPA)	17641	-1.0	48.5
Mexico (IPC)	31649	-1.6	78.3
Peru (Lima General)	13983	-3.2	109.6
Venezuela (IBC)	56613	-0.3	52.0
USA			
S&P 500	1103	-0.6	50.0
Nasdaq 100	2234	-0.4	62.2
Europe			
Londres (FTSE)	5321	-0.7	38.9
EuroStoxx50	2460	-2.5	39.0
Ibex35	10196	-4.5	33.8
Estambul-100	49401	-7.3	105.6
Asia			
Nikkei	10126	0.0	33.8
China	3052	1.1	46.5

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Argentina	Wage Index	Jan	16,7% a/a		
	Chile	Weekly Situation Indicators (CBCh)	Mar			
	Peru	Monthly inflation	Feb	0.30%		BBVA: 0.2%
	Peru	Year inflation	Feb	0.4%		BBVA: 0.7%
	Brazil	Trade Bal (FOB) - monthly	Jan	-\$166M		
	Brazil	Manufacturing PMI	Feb	57.8		
Tuesday						
	Mexico	Public Finance	Jan	-274.5 BP		
	Brazil	FIPE CPI - Monthly	Feb	1.34%		
Wednesday						
	México	Public Finance	Feb	52.5		
	Brazil	CNI Capacity Utilization	Jan	81.70%		
Thursday						
	Colombia	Exports	Jan	-15.40%		
	Mexico	Consumers Confidence	Feb	82.1		83
	Brasil	Industrial Production(sa)(MoM)	Jan	-0.30%	0.90%	
	Brasil	Sales cars (Anfavea)	Feb			
Friday						
	Chile	Imacec (CBCh)	Jan			
	Chile	Earnings Index (NSI)	Jan			
	Colombia	CPI	Feb	2.10%		2.2%

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	3Q09	2Q09	1Q09	4Q08	3Q 08	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	-0.3	-0.8	2.0	4.1	7.7	7.7	Jan	9.1	3 Q 09	10.3	Jan	15.9	Dec	16.7	Jan	1254.0	Jan
Brazil	-1.2	-1.6	-2.1	0.8	7.1	4.6	Jan	6.8	Jan	18.9	Dec	8.7	Dec	15.6	Jan	-166.0	Jan
Chile	-1.6	-4.7	-2.4	0.2	0.5	-1.3	Jan	8.6	Dec	-0.3	Dec	-1.8	Dec	49.9	Jan	2074.7	Jan
Colombia	-0.2	-0.3	-0.5	-1.0	2.9	2.1	Jan	12.3	Dec	2.0	Dec	2.0	Dec	7.6	Dec	1187.8	Dec
Mexico	-6.2	-10.1	-7.9	-1.6	1.7	4.5	Jan	4.8	Jan	1.6	Dec	-1.5	Dec	22.8	Jan	-245.8	Jan
Peru	-0.4	-1.1	1.8	6.5	10.7	0.4	Jan	7.9	Jan	-2.5	Dec	n.d.	n.d.	25.0	Dec	587.0	Dec
Venezuela	-4.5	-2.4	0.5	3.5	3.8	24.3	Jan	6.6	Dec	-14.3	Sep	17.6	Sep	-48.5	Sep	7550.0	Sep

Sources: Bloomberg, Reuter, and BBVA staff estimates.